



Governance Committee

Tuesday 5th July 2016 at 2.00 pm

Meeting to be held: North Tyneside Council, Quadrant, The Silverlink N, Cobalt Business Park, Newcastle upon Tyne NE27 0BY

www.northeastca.gov.uk

Please note: There will be a 30 minute briefing session (1.30pm – 2.00pm) on “loan criteria” prior to the commencement of the main meeting at 2pm.

AGENDA

Page No

- | | | |
|----|--|------------------|
| 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 of Previous Meeting held on 1 April 2016 | 1 - 6 |
| 4. | North East Local Enterprise Partnership Update | 7 - 32 |
| 5. | North East Combined Authority - The Devolution Agreement | 33 - 66 |
| 6. | External Auditor Progress Report | 67 - 76 |
| 7. | 2015-16 Outturn and Key Financial Statements | 77 - 100 |
| 8. | Annual Governance Statement 2015/16 | 101 - 118 |

9.	Strategic Risks and Opportunities Register	119 - 130
10.	Anti-Fraud and Corruption Policy	131 - 146
11.	Internal Audit Annual Report	147 - 156
12.	Effectiveness of the Governance Committee	157 - 170
13.	Date and Time of Next Meeting	

Tuesday 13 September 2016 at 2.00pm, Newcastle City Council

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To: All Members

North East Combined Authority, Governance Committee

1 April 2016

(2.00 - 3.50 pm)

Meeting held Newcastle City Council, Committee Rooms, Civic Centre, Barras Bridge, Newcastle upon Tyne NE1 8QH

Present:

Councillor: M Scrimshaw (Chair)

Councillors: G Clark, E Bell, A Dale, G Hobson, J O'Shea, M Talbot, H Trueman and S Gardner

35 APOLOGIES FOR ABSENCE

None.

Cllr Talbot was welcomed to the committee.

36 DECLARATIONS OF INTEREST

None.

37 MINUTES OF PREVIOUS MEETING ON 11 SEPTEMBER 2015

Committee discussed the need to distinguish in the minutes between matters discussed that are the responsibility of the LEP and those of the combined authority.

P Woods highlighted that the item 14 related to the external audit of the combined authority, who was the accountable body for the LEP. As such LEP transactions, discussed at item 15, would feature in the combined authority accounts.

RESOLVED:

- i) That the minutes of the meeting be agreed as a correct record, subject to the following amendments, and then be signed by the Chair:
 - Item 14: "Clarification was provided on the grant and loan criteria of the LEP..."
 - Item 15: "The loan and grant amounts administered by the LEP were..."
- ii) A distinction to be provided in future minutes between items that are the responsibility of the LEP and those of the combined authority.

38 **MINUTES OF PREVIOUS MEETING ON 11 DECEMBER 2015 - INQUORATE MEETING**

Committee discussed the potential for the committee to participate in a self-assessment on the committee's effectiveness and its Terms of Reference, taking into account the committee's recent audit focus; and that additional training may be required as a result.

It was confirmed that officers do produce an action list, to manage requests by the committee.

RESOLVED – That:

- i) The minutes of the meeting be agreed as a correct record and be signed by the Chair.
- ii) In respect of minute 23, a copy of the joint representation to DCLG to be circulated to the committee.
- iii) In respect of minute 24, a copy of the Gifts and Hospitality Form be sent to Cllr O'Shea and to be sent out for all future NECA meetings.
- iv) In respect of minute 25, committee to meet 30 minutes prior to the next scheduled meeting, to discuss LEP loan and grant criteria, as requested at the last meeting.
- v) In respect of minute 26, officers to confirm if the suggested inclusion of Durham and Northumberland's transport audit extracts in future reports, has been taken forward.
- vi) In respect of minute 28, a copy of the non-confidential government settlement to be circulated to committee.

39 **ACCOUNTING POLICIES UPDATE 2015/16**

Submitted: Report by the Chief Finance Officer (previously circulated and a copy attached to the official records), which provided members with details of the accounting policies that would be applied in the preparation of the Statement of Accounts for 2015/16.

In discussion, the committee highlighted:

- The need for transparency and for committee to have assurance from the LEP in relation to their governance arrangements. H Golightly be invited to attend the next meeting to discuss this further.

The external auditor confirmed that their handover had included a detailed review of the previous audit report and actions that have been taken. P Slater confirmed that an annual governance statement and self-assessment is provided by the LEP and an audit review of partnerships is scheduled for 2016/17. P Woods confirmed that the LEP had made recent changes to contribute to transparency of decision making, which included publishing non-confidential reports.

- Concern about meeting the revised deadlines for the 2015/16 accounts.

Assurance was given that actions had been put in place to ensure the deadlines would be achieved. However, challenges remain in respect of information provided by other parties ie banks, pension trust. Committee suggested that a letter be sent to the pension administrator to confirm the deadline.

P Woods highlighted that there would be further changes for the 2016/17 accounts and potential changes to the NECA's role in relation to new financial instruments, and offered to provide an outline of these at the next meeting.

- Concern about how the risks associated with the devolution agreement were being examined.

It was confirmed that risks were currently being worked through and that the risk register would need to be updated to include these risks and the wider risks of devolution, linked to potential new services and functions. A revised risk register could be provided to the next meeting along with details of recent format changes.

- That the committee may wish to review how it can respond more quickly and proactively to reflect external changes.

V Geary would liaise with the Chair should an additional meeting be required before the next meeting in July.

RESOLVED – that:

- i) The recommendations in the report be agreed.
- ii) H Golightly be invited to attend the next meeting to discuss LEP operating practices.
- iii) Details of further accounting changes for 2016/17 to be provided at the next meeting.
- iv) Details of the NECA role re: future financial instruments to be provided at the next meeting.
- v) Revised risk register to be provided to the next meeting, highlighting format changes.
- vi) V Geary to liaise with the Chair of the committee, should an additional meeting be required before the next scheduled meeting in July.

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EXTERNAL AUDIT PROGRESS UPDATE

Submitted: report by the External Auditor (previously circulated and a copy attached to the official records), which set out the proposed audit plan in respect of the financial statements of the combined authority for the year ending March 2016.

In presentation, the External Auditor drew attention to: the key stages of external audit; external experts; and the significant risks and key judgement areas, as set out in the report; and the qualifications required by individual auditors.

In relation to cash handling at Tyne Tunnel tolls, which had been previously discussed by committee, it was confirmed that the External Auditor and an internal audit review had not identified any gaps in control.

RESOLVED – That the report be received and noted.

41 **INTERNAL AUDIT PROGRESS REPORT**

Submitted: report by the Audit, Risk and Insurance Service Manager, Newcastle City Council (previously circulated and a copy attached to the official record), which provided: a progress update against the 2015/16 internal audit plan; information on the implementation of audit recommendations; and draft Internal Audit Plan for 2016/17 to 2018/19.

In discussion, committee highlighted:

- In light of recent changes, it would be helpful if committee could have up to date information on the current NECA structure.
- In respect of audits completed, committee agreed that it needed to see details of the recommendations from each audit, if they had been accepted and the date agreed for completion.
- Queries in relation to the Information Governance audit findings and staff training in this area.

It was confirmed that the issue was lack of assurance, rather than an issue of training within constituent authorities not taking place.

- Concerns that the contract between TT2 and Newcastle City Council, in respect of cash collection could not be provided for the audit, although procedural guidance had been in place.

P Slater agreed to provide an update on this at the next meeting.

- Taking into account earlier committee comments seeking LEP assurance, it was proposed that the scope of the internal audit proposed for the LEP included a review of the process, governance and transparency.

P Slater confirmed that the proposed partnership audit in 2016/17 could consider some aspects of this. P Woods proposed to source additional resource that could bring forward the LEP audit into 2016/17.

- Concern about risks as a result of Quality Contract proposals not progressing, including concessionary travel and the proposed Buses Bill. It was agreed that assurance from Nexus should be sought and the matter be added to the risk register for the July scheduled meeting with a report to be received at the September committee meeting.

RESOLVED – That:

- i) That the report be received and the recommendations agreed, subject to amendments discussed.
- ii) An organisational chart for NECA to be circulated to committee.
- iii) In future, committee to be provided with details of audit report recommendations, if they have been accepted and agreed dates for completion.
- iv) An update to be provided at the next meeting on the cash collection audit and the outstanding contract between TT2 and Newcastle City Council.
- v) Scope of the proposed LEP audit in 2017/18 to be amended to include process, governance and transparency; and be brought forward to 2016/17.
- vi) Nexus to be consulted on the risks associated with the impact of not proceeding with the Quality Contract proposals and this matter to be added to the risk register for the July scheduled meeting. Committee to receive an update report at the September scheduled meeting.

42 **ANNUAL GOVERNANCE STATEMENT**

Submitted: report by the Audit, Risk and Insurance Service Manager, Newcastle City Council (previously circulated and a copy attached to the official record), which provided an outline of the framework for production of the 2015/16 Annual Governance Statement.

In discussion P Slater confirmed that partners will be required to complete a detailed form on governance arrangements and agreed to re-circulate the list of key partnerships to committee.

RESOLVED – That the report be received and the recommendations be agreed.

43 **DATE AND TIME OF NEXT MEETING**

Tuesday 5 July, 2:00pm at North Tyneside Council.

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North East Combined Authority Governance Committee

Date: 5 July 2016

Subject: North East Local Enterprise Partnership Update

Report of: Chief Operating Officer, North East Local Enterprise Partnership

Executive Summary

The purpose of this report is to appraise the Governance Committee on the role, operations and funding streams of the North East LEP, and the governance model and assurance framework in place, to provide the context to understand the financial transactions and associated risk.

Recommendations

The Committee is recommended to note the contents of this report.

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1 Background Information

- 1.1 At the last Governance Committee, members requested an update from the North East Local Enterprise Partnership (North East LEP).

This report appraises the Committee on the role, operations and funding streams of the North East LEP, and the governance model and assurance framework in place, to provide the context to understand the financial transactions and associated risk.

2 The North East LEP

2.1 Background

The North East LEP was established in 2011 following an invitation from Government to set up voluntary partnerships to help determine the local economic priorities and lead economic growth and job creation in the North East. The North East LEP covers the 7 local authority areas of Durham, Gateshead, Newcastle, North Tyneside, Northumberland and South Tyneside. It is a business-led partnership between public, private and education leaders.

2.2 Role

The North East LEP leads on the development and driving the delivery of the Strategic Economic Plan, which is a comprehensive document detailing how our local economic ambition can, and will, grow in the coming years.

2.3 The North East Strategic Economic Plan

The North East Strategic Economic Plan (SEP) is the region's road map to economic success. It is the medium-term economic plan for the North East, and is a document intended for all local partners, businesses and people. It details how we will work together with partners, businesses and communities in an innovative, pro-active and cohesive way, to allow the ambitions and potential of the North East's economy to be delivered.

The plan builds on the North East Independent Economic Review led by Lord Adonis in 2013 and sets out clearly how the North East LEP and the North East Combined Authority support economic growth. The SEP focuses on the sectors and areas that make our regional economy tick.

It is divided into 6 themes:

- Business Support and Access to Finance
- Innovation
- Skills
- Employability and Inclusion
- Economic Assets and Infrastructure
- Transport and Digital Connectivity

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Currently the North East LEP leads on the first three themes and the North East Combined Authority (NECA) on the latter three themes.

Like all plans setting out a course of action to reach milestones further down the road, it needs updating to reflect changing times. The original SEP was unveiled back in March 2014, born out of the evidence base of the Adonis Review, but the data that underpinned that is now about 4 years old and based on a period when we were emerging from recession rather than where we are at now. Also, a series of new policy documents will impact our future economic planning and decision-making, for example, a national innovation plan, new national infrastructure commission and an emerging devolution deal.

In the light of the changing economy and policy landscape, the North East LEP Board has agreed with the North East Combined Authority that now is the right time to look again at parts of the SEP, taking into account new evidence of the region's economic position and evolving public policy environment. The SEP 'refresh' is not a rewrite, but a look again at how the North East reaches the ambitious target of creating an extra 100,000 'more and better jobs' by 2024.

Two important pieces of work have been produced to support this 'refresh'.

One is an Economic Analysis paper, which has been independently verified and looks at where we are now, compared to the evidence used in the SEP in 2014 and the next steps the region needs to take. The second is a Progress Review of SEP delivery to date to show what has been done set against the SEP's original plans. Both documents can be found on the North East LEP website www.nelep.co.uk at <http://nelep.co.uk/a-refreshed-sep/>.

2.4 Business Plan 2016 – 2017

The North East LEP Business Plan can be found at <http://nelep.co.uk/wp-content/uploads/2014/10/NEL020-Business-Plan-WEB.pdf>

The plan shows the operational focus for 2016/17. It is divided into 3 cross cutting sections:

- Policy and Strategy
- Ecosystem development
- Invest for growth

The 6 key areas of LEP activity are included into these 3 sections, namely – Strategy and Policy, Innovation, Business Growth, Skills, Enterprise Zones and Funding.

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2.5 Team

The original North East LEP team of 6 staff in 2012 has expanded to 20 core posts plus 4 project delivery posts, which is primarily to oversee delivery of the SEP. This reflects the changing scope of the 39 LEP's nationally from their original scope to set the strategic economic direction for their area and now responsible for providing the leadership to facilitate and drive the SEP's delivery. A key component of this is to secure funding for the North East, and manage funding delivery.

The current LEP staffing structure is set out in appendix 1 for information.

- 2.6 NECA is the Accountable Body for the North East LEP in relation to Government funding. It is therefore essential that the North East LEP and NECA teams work closely together. In particular, it is important to note that the three statutory officers work alongside the North East LEP as they carry out their Accountable Body responsibilities for NECA. NECA's section 73 officer (providing the Chief Finance Officer function), Monitoring Officer (providing the Chief Legal Officer function) and the Head of Paid Service provide oversight on behalf of NECA in relation to the fund management operations.

3 North East LEP Governance

- 3.1 The current North East LEP governance structure is set out in appendix 2.

The North East LEP Board is the only decision making board. It comprises of eighteen members:

- 9 Private Sector members (Including the Private Sector Chair)
- 7 Public Sector members (The 6 Leaders and Elected Mayor)
- 1 Further Education representative
- 1 Higher Education representative

Feeding into the LEP Board are 3 Advisory Boards representing the 3 LEP-led themes of the SEP:

- Innovation Advisory Board
- Business Growth Advisory Board
- Employment and Skills Advisory Board

Each is made up of partners bringing a particular specialism to the group.

Full membership is set out on the North East LEP website.

<http://nelep.co.uk/howeare/>

In addition, there are 2 advisory groups overseeing fund management:

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- Investment Panel – overseeing the North East Investment Fund and Enterprise Zone Income
- Technical Steering Group – overseeing the North East Local Growth Funding

Both of these groups make funding recommendations to the North East LEP Board.

4 North East LEP Funding

4.1 Revenue

The team and operations are funded through a range of income sources.

Appendix 3 contains the 2015/16 outturn position reported to the LEP Board in May 2016 and appendix 4 contains the 2016/17 budget proposition.

Together the two reports:

- Set out the income sources
- Set out the areas of spend and associated budgets
- Demonstrate sound budget control and management.

4.2 Capital

The North East LEP currently manages the following capital programmes:

- The North East Investment Fund – a £55m recycling loan fund targeted at strategic projects that lead to job creation. This is made up of £25m of Growing Places Funding (GPF) and £30m of Regional Growth Fund (RGF).
- The North East Growth Deal (also known as local growth funding) - This is £220m of grant funding for a defined list of projects originally identified by Central Government for the period 2015/2020 during the Growth Deal bid in 2014.
- Enterprise Zone (EZ) Business Rate Income – Government policy sets out that all business rate growth income from EZ sites will be made available to the LEP for strategic economic infrastructure investments. The size of funding is dependent upon business rates received from the 20 EZ sites across the North East during the period 2012/13 – 2037/38 for EZ1 sites and 2017/2042 for EZ2 sites. The North East LEP and NECA have worked with external consultants on the financial modelling and risk attached to this income source, which has informed investment decisions.

4.3 Fund Management Performance

The North East LEP is viewed by Government to have performed highly with regards to meeting spend targets and reporting performance. This is positive as it provides confidence in our ability to deliver and a good track record and position to put us in good stead for future funding allocations

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This is evidenced by the condition attached to the £30m RGF to be invested in full by 31 March 2016. The condition was met and the North East did not lose out on funding from Government, which was not the same for many other parts of England.

The North East LEP has also been noted to be one of the top performing LEPs to deliver against the local growth fund spend targets in 2015/16.

We achieve this by having effective programme management processes in place and close working between the North East LEP, NECA and project sponsors. All project business cases are challenged to ensure value for money is achieved. It is also essential to ensure that robust legal grant funding contracts and / or commercial loan contracts are in place before funding is released for investment. This always involves legal input from NECA.

All funding recipients must complete performance monitoring returns, which are assessed, actioned if required and collated.

5 Assurance Framework and Audits

- 5.1 All LEPs need to produce and submit to Government an Assurance Framework which sets out how the North East LEP and its accountable NECA manage Growth Deal funding. The 2015/16 document can be found at <http://nelep.co.uk/funding/north-east-growth-deal/>.

The North East LEP has been audited twice on its processes and fund management systems.

Firstly by Government which resulted in the following recommendations:

- That a complaints policy is published. This is now available on the North East LEP website <http://nelep.co.uk/north-east-lep-policies/>
- That a policy around Freedom of Information is published. This is now available on the North East LEP website <http://nelep.co.uk/north-east-lep-policies/>
- Confirmation that declarations of interest are a standard item on agenda's and that Board members register of interests are published – these can be viewed here <http://nelep.co.uk/whoweare/board-members/> .
- Further clarity on where the North East LEPs accounts are published. A link from the North East LEP website has been added to the relevant accounts pages on the NECA website. <http://nelep.co.uk/north-east-lep-policies/>
- Further information is published associated with Board meetings. Board papers are now published along with Board minutes <http://nelep.co.uk/whoweare/board-members/>

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All recommendations were promptly complied with.

Secondly, the NECA Internal Audit Team in the Autumn of 2015 selected a number of capital projects to test to ensure that due processes were being followed in the identification, appraisal, determination, award and monitoring of projects receiving aid. There were no issues raised.

6 Next Steps

6.1 The report is for information only.

7 Potential Impact on Objectives

7.1 There is no direct impact on objectives.

8 Finance and Other Resources

8.1 Financial and other resource implications are set out in the body of the report and in the appendices.

9 Legal

9.1 There are no direct legal implications arising from the report.

10 Other Considerations

10.1 Consultation/Community Engagement

No external consultation or community engagement required.

10.2 Human Rights

There are no implications under the Human Rights Act 1998 (or as amended).

10.3 Equalities and Diversity

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

10.4 Risk Management

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

10.5 Crime and Disorder

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

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10.6 Environment and Sustainability

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

11 Background Documents

11.1 None.

12 Links to the Local Transport Plans

12.1 There is no direct link to the Local Transport Plans.

13 Appendices

- 13.1 Appendix 1 – North East LEP Executive Team
Appendix 2 – Current North East LEP & North East Combined Authority Governance
Appendix 3 – North East LEP Board paper 26 May 2016
North East LEP Revenue and Capital Outturn 2015/2016
Appendix 4 – Revenue Budget 2016/17 and 2015/16 Budget Update

14 Contact Officers

14.1 Helen Golightly, Chief Operating Officer, North East LEP. E-mail helen.golightly@northeastlep.co.uk Tel: 0191 338 7435

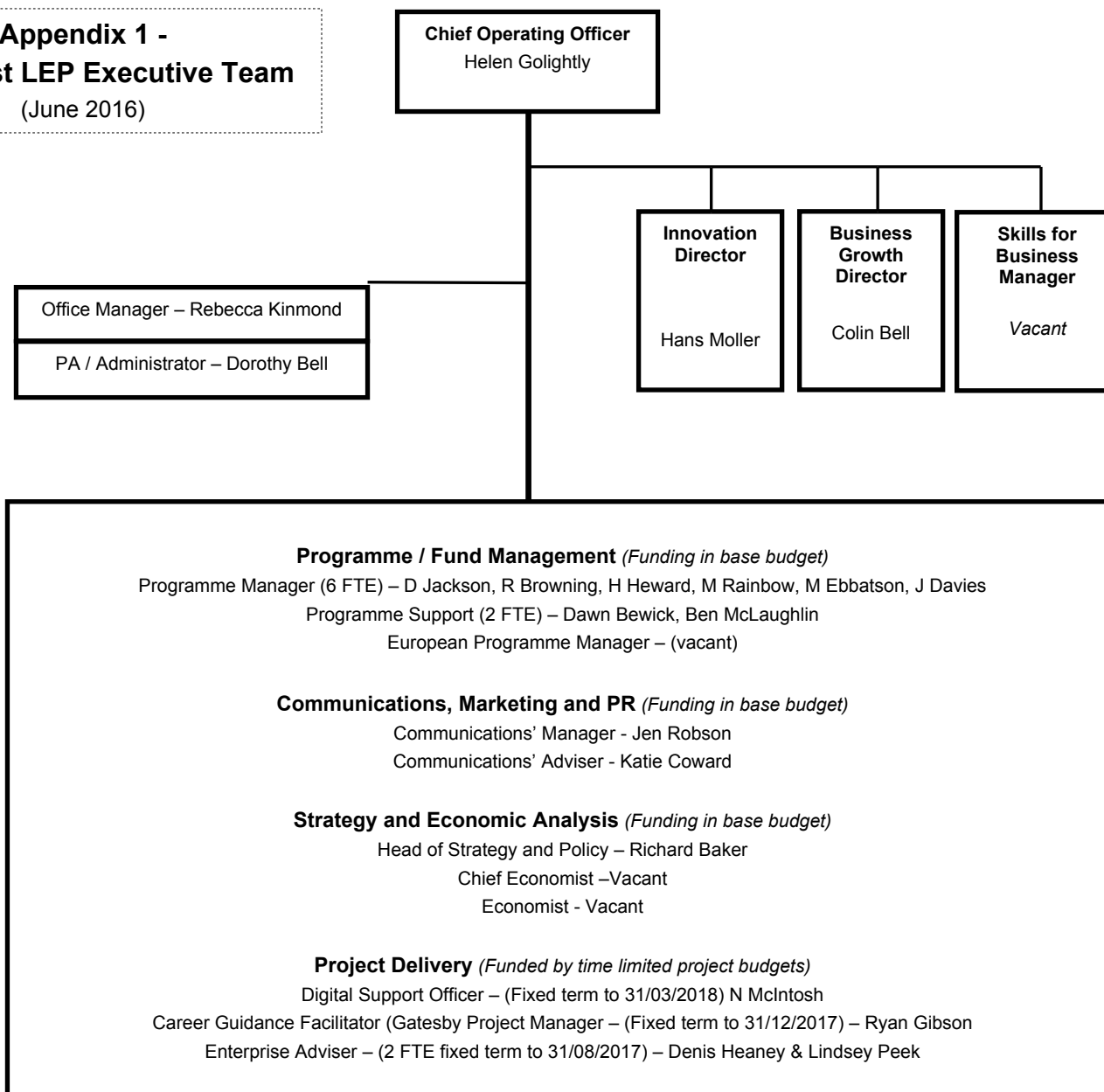
15 Sign off

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

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Appendix 1 - North East LEP Executive Team (June 2016)



NECA Accountable Body Functions for Government Funding

- Head of Paid Service
- Monitoring Officer
- Section 73 Officer

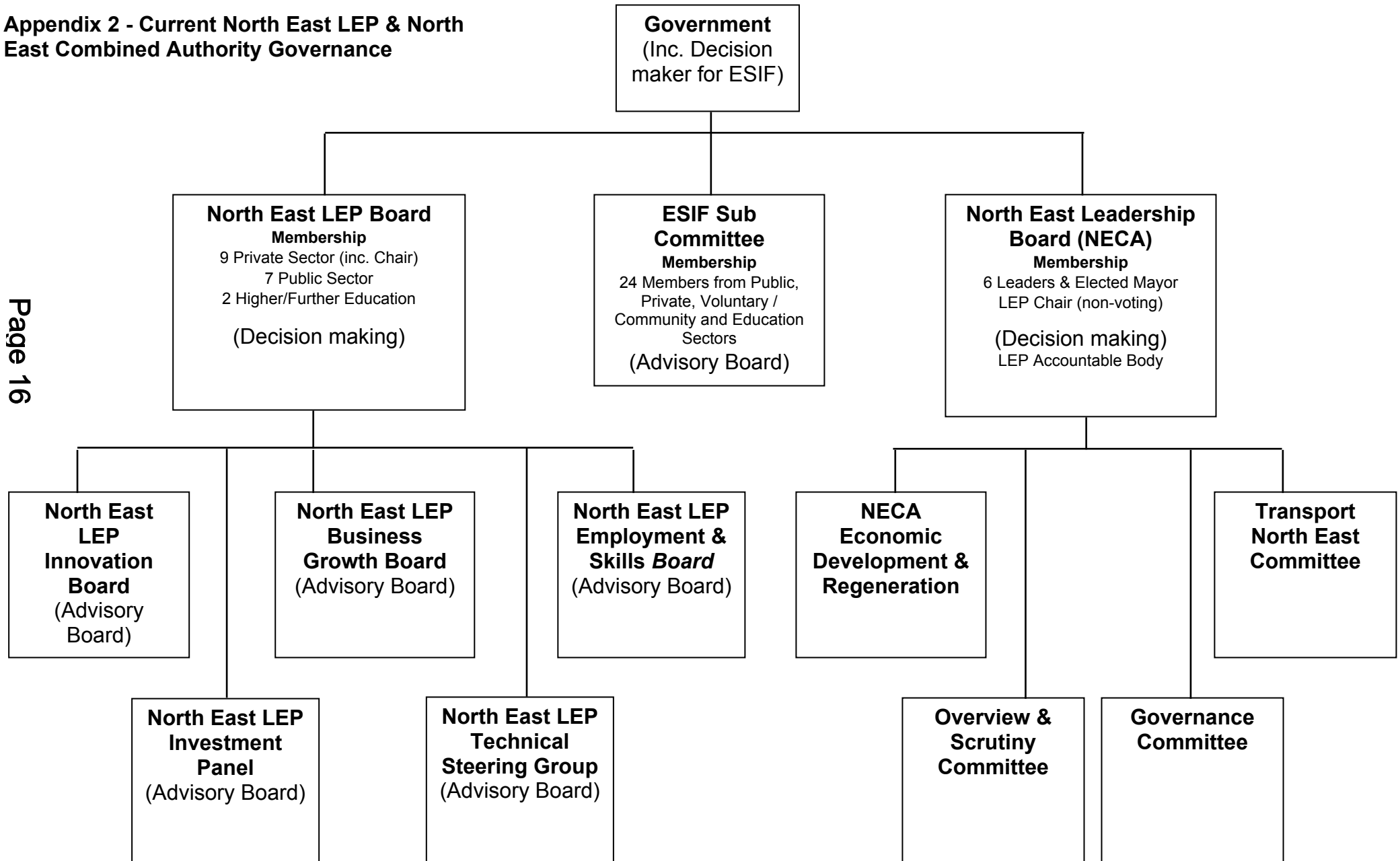
Support Services from Sunderland Council and NECA

Finance
Transactional Finance
HR
Payroll (Newcastle Council)
ICT
Procurement
Secretariat/Admin
Legal
Accountable Body Support
Risk/Insurance

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Appendix 2 - Current North East LEP & North East Combined Authority Governance



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Appendix 3 - North East LEP Board paper 26 May 2016 North East LEP Revenue and Capital Outturn 2015/2016

1. Introduction

- 1.1 The 2015/2016 financial year saw a significant increase in activity following the commencement of the Growth Deal delivery. In addition to the Executive team's economic policy development activity, the North East Investment Fund continued alongside a number of other revenue funded initiatives and the delivery of the first year of the Local Growth Fund capital programme.
- 1.2 Each area of activity is outlined further below with explanatory information on any variances noted. The revised budget position was reported to the North East LEP Board in January 2016.
- 1.3 The first section of the report provides information about the outturn position of the core Revenue Budget and the second section of the report sets out summary information relating to the outturn position of the capital programme for 2015/2016.

2. Recommendation

- 2.1 The North East LEP Board is recommended to note the outturn position for 2015/16.

3. Revenue Expenditure

North East LEP Core Activity

- 3.1 The LEP core budget covers mainstream LEP operational activity and also management of the Local Growth Fund programme. Table 1 below provides a summary of actual spend against the revised budget for the year with supporting notes provided below. Total revenue expenditure mounted to £1.952m, which was £0.245m lower than the revised budget for the year. Income was £2.158m, resulted in a net surplus of £0.206m carried over into 2016/17.

Table 1 – LEP Core Activity

	Original Budget £'000	Revised Budget £'000	Actual Spend £'000	Variance £'000
Expenditure				
Employees	1,400	1,004	946	(58)
Premises	75	90	88	(2)
Communications	100	119	138	19
Transport LGF Monitoring	300	300	282	(18)

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Other Operational Costs	275	484	393	(91)
Inward Investment Contribution	220	200	105	(95)
Gross Expenditure	2,370	2,197	1,952	(245)
Income				
Local Authority Contributions	(250)	(250)	(250)	0
DCLG LEP Grant Funding	(250)	(250)	(250)	0
DCLG SEP Grant	(250)	(250)	(250)	0
Local Growth Fund	(1,039)	(1,086)	(1,068)	18
ERDF Technical Assistance	(190)	0	0	0
City Deal Contribution	(41)	0	0	0
REIP Brought Forward	(100)	(93)	(93)	0
Enterprise Zone Business Rates	(30)	(12)	0	12
Interest on LGF Balances	(220)	(242)	(224)	18
Enterprise Advisor Grant	0	(14)	(3)	11
Misc. Contributions	0	0	(10)	(10)
Gross Income	(2,370)	(2,197)	(2,148)	49
2015/16 Net Budget (Surplus) / Deficit	0	0	(196)	(196)
General Balances carried forward to 2016/17	(240)	(240)	(436)	

- 3.2 Employees - The CEO position has remained vacant since May 2015 and the Skills Development Director post remained vacant for the full financial year. These vacancies coupled, with a phased appointment to new posts and staff costs being met from other available funding streams i.e. the Gatsby Foundation funded project, has resulted in an underspend in year.
- 3.3 Premises – Premises expenditure was broadly in line with the revised budget. The in-year increase, relates to the relocation of the Executive Team to accommodate the increase in personnel within the team.
- 3.4 Communications – The communications budget is £19,000 higher than anticipated. This is reflective of the uplift in LEP activity and the linked increased requirement for PR and media support to respond to interest in the LEP.
- 3.5 Transport LGF Monitoring – The regional transport team have managed the transport element of the LGF programme, a slight underspend of £18,000 has been delivered against the original £300,000 forecast.

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- 3.6 Other Operational Costs – Expenditure included within this area includes general LEP running costs for example IT equipment, travel expenses, recruitment and support services. In addition the SEP themed Boards have required budget allocations to develop their work streams during the year. The expenditure to the end of the financial year is lower than the revised budget mainly as a result of the ‘Schools Challenge’ project not requiring the full allocation in 2015/16.
- 3.7 Inward Investment Contribution – As agreed by the Board, funding to support Regional Inward Investment activity was to be made available over a 3 year period starting 2015/2016. Spend against this allocation in 2015/2016 totalled £105,000, which was match funded by contributions from the constituent authorities in NECA. With the NECA team being increased towards the end of the year, the total expenditure on this activity of £220k was lower than budgeted for. This expenditure was funded by a £10k income contribution and equal contributions of £105k from the LEP budget and £105,000 from the NECA budget. The unallocated resources for 2015/16 in the LEP budget of £95,000 and the balance in the NECA accounts are being carried over to fund activity in 2016/17. The LEP contribution was funded by interest earned on cash balances.
- 3.8 Funding to support the above activities was provided from a number of sources as shown in table 1 above.
- 3.9 Income received was in line with the revised budget for the majority of the funding streams. The drawdown from Local Growth Fund to support programme management activity was marginally lower than forecast and the balancing requirement to draw upon Enterprise Zone Business Rates growth receipts has been needed due to the overall underspend position.
- 3.10 Overall, the LEP Core Activity for 2015/2016 generated an underspend of £196,000. This net underspend is primarily linked to lower staff costs; a lower contribution for inward investment activity being required this year; and the continuation of the Schools Challenge initiative into the 2016/2017 financial year. Funding will be carried forward to meet commitments.

North East Growth Hub

- 3.11 The North East Growth Hub project, funded through the Growth Deal, has developed a digital resource that provides access to business information, knowledge and advice, with peer-to-peer support from local business community and local, regional and national business support providers across the public and private sectors.
- 3.12 Within the financial year, £357,000 of the £500,000 allocation was utilised. The Department for Business, Innovation and Skills (BIS) has provided an extension to the 27th May for defrayment of the remaining balance; this has

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now been fully spent. Table 2 below provides a summary of expenditure against budget.

Table 2 – North East Growth Hub

Budget Area	Budget £'000	Revised Budget £'000	Actual £'000	Variance £'000
Expenditure				
Employees	60	60	67	(7)
Delivery Costs	440	440	290	150
Expenditure Budget	500	500	357	(143)
Income				
Revenue Grant	(500)	(500)	(500)	0
Other – Contributions	0	0	(2)	(2)
Income Budget	(500)	(500)	(502)	(2)
Carry Forward to 16/17	0	0	(145)	(145)

- 3.13 On the 4th February 2016, BIS announced the extension of the Growth Hub initiative. The North East LEP allocation for 2016/2017 has been confirmed at £410,000.

National Careers Pilot – Gatsby Foundation

- 3.14 The pilot programme to be delivered over the period 2015 to 2020 is funded by Lord Sainsbury's Gatsby Foundation. Schools and colleagues within the North East LEP area have been selected to pilot a new national careers guidance framework, designed to encourage the next generation of young people to make fully informed decisions and to begin to equip them with the skills employers need.
- 3.15 This multi-year programme is now underway, with employee and delivery costs incurred during 2015/2016. Start-up payments to schools will be released early in 2016/2017 as the project progresses. The remaining balance at the end of the financial year has been carried forward in to 2016/2017.

Table 3 below provides a summary of expenditure against the revised budget for the year.

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Table 3 – National Careers Pilot – Gatsby Foundation

Budget Area	Budget £'000	Revised Budget £'000	Actual £'000	Variance £'000
Expenditure				
Employees	0	36	67	31
Delivery Costs	0	68	24	(44)
Start Up Fund for Schools	0	96	0	(96)
Expenditure Budget	0	200	91	(109)
Income				
Gatsby Foundation Grant	(0)	(200)	(165)	35
Carry Forward to 16/17	0	0	(74)	(74)

North East Investment Fund (NEIF) - Programme Delivery Budget

- 3.16 The North East Investment Fund (NIEF) comprises funding from the Growing Places Fund and Regional Growth Fund. The activity to support delivery of the programme is funded through revenue allocations provided alongside the initial central government grants.
- 3.17 Following the granting of an extension for the delivery of the Regional Growth Fund into 2015/2016, the RGF revenue allocation balance was also rolled forward.
- 3.18 Activity during the year has allowed the NEIF support costs to be fully allocated; support service costs from Sunderland City Council and external support linked to project appraisal and contracting are broadly in line with budget.
- 3.19 Table 4 below provides a summary of expenditure against budget.

Table 4 – NEIF Coordination

Budget Area	Budget £'000	Revised Budget £'000	Actual £'000	Variance £'000
Expenditure				
Employees	32	0	0	0
Support Services	35	35	25	(10)

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External Support	50	158	144	(14)
Appropriation to NEIF	25	25	69	44
Expenditure Budget	142	218	238	20
Income				
RGF Programmes Management Grant	0	(103)	(103)	0
GPF Programmes Management Grant	(117)	(90)	(66)	24
Interest on NEIF Balances	(25)	(25)	(69)	(44)
Gross Income Budget	(142)	(218)	(238)	(20)
Net Budget (Surplus) / Deficit	0	0	0	0

North East LEP Revenue Balances

- 3.20 Table 5 below shows the North East LEP revenue balances as at 31st March 2016.

Table 5 – Revenue Balances

Budget Area	Opening Balance £	Movement in 2015/2016 £	Closing Balance £
General Reserve	240,221	196,000	436,221
RIEP	92,576	(92,576)	0
GPF Revenue Allocation	131,972	(65,822)	66,150
TOTAL	464,769	37,602	502,371

North East Enterprise Zone

- 3.21 The NE Low Carbon Enterprise Zone is located across four local authority areas; Newcastle, North Tyneside, Northumberland and Sunderland. Business rates growth generated on these designated sites accrues to the benefit of the North East LEP for a 25 year period, 2015/2016 was the third year of the zones life.
- 3.22 Analysis of the business rates generated to date is shown in table 6 below. This funding is available to support future North East LEP activity; primarily additional Enterprise Zone site development works to future enhance this income stream in the coming years.

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Table 6 – NE Enterprise Zone Business Rates Growth

Local Authority Area	Business Rate Growth Receipts (£)			TOTAL to Date (£)
	2013/2014	2014/2015	2015/2016	
Newcastle	311,765	330,041	378,726	1,020,532
North Tyneside	14,316	54,942	117,007	186,265
Northumberland	11,913	28,176	107,225	147,314
Sunderland	695,693	652,913	708,743	2,057,349
Sub Total	1,033,687	1,066,072	1,311,701	3,411,460
NEIF Repayment	0	0	(541,967)	(541,967)
EZ Costs	0	(8,950)	(9,000)	(17,950)
Interest on Bal.	0	3,425	6,900	10,325
TOTAL	1,033,687	1,060,547	767,634	2,861,868

4. Capital Programme

North East Investment Fund and Local Growth Fund

- 4.1 During 2015/2016 the capital programme comprised of the continuation of the North East Investment Fund (NEIF) activity and significantly the commencement of the Local Growth Fund programme.
- 4.2 The initial £55m NEIF, made up of £25m Growing Places and £30m Regional Growth Funding is now fully allocated, with projects supported through loan beginning to make repayments. A proposal to revise the approach for funding Enterprise Zone schemes elsewhere on this agenda would free up resources in the NEIF to be used to fund new projects.
- 4.3 NEIF supported projects progressed during the financial year included; further development of the regions round 1 enterprise zone sites, Centre for Innovation and Growth at Durham University, Vantec's second warehouse development, SME office accommodation in Jesmond and the extension of the NE JEREMIE fund.
- 4.4 The Local Growth Fund programme has delivered over £51m of activity across the SEP themes, compared with an LGF Grant allocation of £53.91m. This represents a significant achievement for year one of the programme. The balance of the funding not applied 2015/2016 will be carried over for use of 2016/2017.
- 4.5 A summary of the capital position to the 31st March 2016 is shown below in table 6.

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Table 6 – Capital Programme Funding Summary

	Growing Places Fund £m	Regional Growth Fund £m	Local Growth Fund £m
Capital Allocation	24.75	29.30	53.91
Prior Year Drawdown	(14.07)	(13.82)	0
2015/16 Drawdown	(10.86)	(17.37)	(45.86)
Funding Switches	5.61	0	(5.61)
Repayments Rec'd	6.68	2.11	0
Interest on Balances	0.39	0.06	0.22
Total	12.50	0.28	2.66

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Appendix 4 – North East Local Enterprise Partnership Board

28th January 2016



ITEM 4: Revenue Budget 2016/17 and 2015/16 Budget Update

1. Introduction

- 1.1 This report provides the Board with a revenue budget monitoring update for the 2015/2016 financial year and the 2016/2017 proposed budget for approval by the North East LEP Board. It contains details of the LEP Core budget and separately details specific revenue initiatives which are being taken forward as part the Strategic Economic Plan (SEP).

2. LEP Core Budget

- 2.1 The Core budget provides the resource to support the delivery of the SEP and the Plan's six themes including coordination of the Local Growth Fund programme, NE Investment Fund and Enterprise Zones.

Table 1 below provides a summary of expenditure and income against the Core budget areas, showing the revised budget position for 2015/2016 and the 2016/2017 proposed budget. The explanatory notes provide further information below focusing on the 2016/2017 budget proposals. The budget position was reported to the North East Combined Authority as the accountable body and no issues were raised.

Table 1 – LEP Core Budget Summary

	2015/16 Budget £'000	2015/16 Revised Budget £'000	2016/17 Proposed Budget £'000
Expenditure			
Employees	1,400	1,004	1,488
Premises	75	90	95
Communications	100	119	295
Transport LGF Monitoring and Evaluation	300	300	400
Other Operational Costs	275	484	615
Inward Investment Contribution	220	200	160

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Gross Expenditure	2,370	2,197	3,053
Income			
LEP Core Grant	(250)	(250)	(250)
Local Authority Match Contributions	(250)	(250)	(250)
LEP Strategy Grant	(250)	(250)	0 *
Local Growth Fund (2.5% Top-Slice)	(1,039)	(1,086)	(1,985)
ESIF Technical Assistance (2014/20)	(190)	0	(182)
City Deal Skills Contribution	(41)	0	0
RIEP Carry Forward	(100)	(93)	0
Enterprise Zone Business Rate Receipts	(30)	(12)	(10)
Interest on LGF Balances	(220)	(242)	(295)
Enterprise Advisor Grant	0	(14)	(31)
NEIF Contribution	0	0	(50)
Gross Income	(2,370)	(2,197)	(3,053)
Net Budget (Surplus) / Deficit	0	0	0

* Confirmation not yet received.

2.2 Employee Costs

2.2.1 The expanded staffing structure agreed as part of the 2015/2016 budget has been appointed to during the current year. At this point a small number of posts remain vacant; these are the Growth Hub Manager and Skills Development Director. The 2016/2017 budget assumes the vacant positions will be filled in advance of April 2016.

2.2.2 The 2015/2016 revised budget position reflects the staggered filling of the staffing structure throughout 2015.

2.3 Premises

2.3.1 This budget contains expenditure in relation to the premises requirements of an increased team. To meet this increased capacity the NELEP team moved to office accommodation at St James Gate in Newcastle, in September 2015. The 2016/2017 budget reflects the full year cost of the new premises arrangement.

2.4 Communications

2.4.1 The successful delivery of the LEP communication strategy is a key aspect of ensuring an efficient and effective North East LEP operation. The proposed

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Communications budget for 2016/2017 represents an increase from prior years; this is to allow the development of the communications activity related to delivering the SEP and the continuation of essential PR & Media support.

2.5 Transport LGF Monitoring and Evaluation

- 2.5.1 The 2016/17 budget provides for an increased contribution to the regional Transport team of £400,000. The team support the development, monitoring and evaluation activity associated with LGF schemes and also develop schemes for future LGF rounds. The increased cost reflects the uplift in activity next year. Costs are currently being managed by Newcastle City Council, with an evidenced recharge to follow at year end.

2.6 Other Operating Costs

- 2.6.1 This budget area totals £615,000 for 2016/2017. An on-going corporate delivery budget of £275,000 is required for general LEP running costs for example IT equipment, travel expenses and support services. In addition the North East LEP led SEP strands, Innovation, Business Support/Access to Finance and Skills, have an operational allocation to ensure delivery and that the necessary progress can be obtained. This budget area is broken down as follows;

Delivery Area	2016/2017 Budget (£'000)
Corporate / General	275
Innovation	150
Strategic Policy & Economic Analysis	40
Business Support/Access to Finance	100
Skills for Business	50
Operating Costs TOTAL	615

2.7 Inward Investment Contribution

- 2.7.1 As previously agreed by the North East LEP Board, funding to support Regional Inward Investment activity was to be made available over a 3 year period starting 2015/2016. The agreed allocation of £160,000 for 2016/2017 is included within the proposed budget.

2.8 Income

- 2.8.1 LEP Core & Strategy Funding – Confirmation of £250,000 Core Support Grant has been received from DCLG. The Local Authority Match Contributions of £250,000 was agreed at the North East Leadership Board meeting held on 19th January 2016, this will be provided in equal 1/7th shares by the 7 constituent Local Authorities.

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- 2.8.2 The £250,000 DCLG Strategy Grant Funding for 2016/17 has not yet been confirmed. This has been raised with the Government Department who advise they are not yet in a position to confirm this grant. The issue has also been raised with LEP Network who lobbies on behalf of all LEPs.
- 2.8.3 Local Growth Fund (LGF) – As previously agreed by the Board, a 2.5% top-slice of the Local Growth Fund allocation is available to support the delivery of the programme. The top-slice amount of £1.985m is proposed to support the 2016/2017 LGF programme delivery.
- 2.8.4 ERDF Technical Assistance – ERDF Technical Assistance funding of up to £0.182m is the latest forecast to be available to support the 2016/2017 revenue budget. This allocation will support EU programme development work within the North East LEP team.

Due to delays with the new EU programme commencing, it has not been possible to draw upon this funding source in the 2015/2016 financial year.

- 2.8.5 Enterprise Zone Business Rate Income – In November 2014, the Board agreed that business rates growth income of up to £0.5m per annum could be utilised to support the revenue budget if required. A small contribution is currently factored in to the 2016/2017 budget and 2015/2016 revised budget.
- 2.8.6 Local Growth Fund Interest – As the annual LGF grant allocation is paid by government in full at the beginning of the financial year, the cash balances held are able to attract sizable interest sums. An estimate of £0.295m is included within the 2016/2017 budget. The forecast interest to be generated from the 2015/2016 balances is £0.242m.
- 2.8.7 Enterprise Advisor - This project which commenced in 2015 aims to create a network of enterprise advisors across the North East to facilitate closer links between schools and the business and enterprise community.

Total funding of £45,000 has been awarded to cover expenditure in 2015 and 2016; this is matched by North East LEP resource. A full time employee to lead the project has recently been appointed.

- 2.8.8 NEIF Contribution – Following the ending of specific revenue funding support provided through the Regional Growth Fund and Growing Places Fund for the management of the funds, an amount of up to £50,000 per annum was approved at the November 2015 Board meeting to be drawn from recycled NEIF funds if required.

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3. Revenue Initiatives

3.1 North East Growth Hub

- 3.1.1 This project has developed a digital resource that provides access to business information, knowledge and advice, with peer-to-peer support from local business community and local, regional and national business support providers across the public and private sectors.
- 3.1.2 Funding of £500,000 has been provided in 2015/2016 to support the coordination of this project, this is currently profiled to be spent in full.
- 3.1.3 The government have recently announced that Growth Hub's will receive revenue funding in 2016/2017 and beyond, but at present have given no indication of the amount. An update will be reported to the Board when further information is available. At present the Growth Hub manager salary budget is prudently included within the Core budget in 2016/2017 given the uncertainty of future funding levels.

Table 2 – North East Growth Hub Budget Summary

	2015/2016 Budget £'000	2015/16 Revised Budget £'000	2016/17 Proposed Budget £'000
Expenditure			
Employees	60	60	Tbc
Delivery Costs	440	440	Tbc
Gross Expenditure	500	500	TBC
Government Grant	(500)	(500)	TBC
Net Budget (Surplus) / Deficit	0	0	TBC

3.2 National Careers Pilot - Gatsby Foundation

- 3.2.1 This pilot programme to be delivered over the period 2015 to 2020 is funded by Lord Sainsbury's Gatsby Foundation. Schools and colleges within the North East LEP area have been selected to pilot a new national careers guidance framework, designed to encourage the next generation of young people to make fully informed decisions and to begin to equip them with the skills employers need.
- 3.2.2 Total funding of £427,750 has been awarded to the North East LEP programme, which is profiled within the grant offer letter as follows; £199,750

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in 2015/2016, £168,000 in 2016/2017, then £60,000 for the period 2018 to 2020 to facilitate reporting requirements.

- 3.2.3 A full time secondment has been appointed to lead the project and work with the 16 chosen schools and colleges is underway.

Table 3 – National Careers Pilot - Summary

	2015/16 Budget £'000	2015/16 Revised Budget £'000	2016/17 Proposed Budget £'000
Expenditure			
Employees	0	36	62
Delivery Costs	0	68	58
Start Up Fund for Schools	0	96	48
Gross Expenditure	0	200	168
Gatsby Foundation Grant	0	(200)	(168)
Net Budget (Surplus) / Deficit	0	0	0

- 3.2.4 In addition to the above delivery budget a separate 'Innovation and Activity fund' of up to £250,000 is available. Pilot schools and colleges will bid in to this fund once eligible projects have been identified.

4. North East Investment Fund Coordination

- 4.1 The North East Investment Fund (NIEF) comprises funding from the Growing Places Fund and Regional Growth Fund. The activity to support delivery of the programme is funded through revenue allocations provided with the initial central government grants.
- 4.2 Following the granting of an extension for the delivery of the Regional Growth Fund in to 2015/2016, the revenue allocation balance was also rolled forward. Total revenue balances remaining to fund 2015/2016 activity total, £0.193m. The NIEF is now fully allocated and work to finalise the requirement loan documentation is coming to a conclusion.
- 4.3 As noted in 2.8.8 above, the lower resource requirement for this activity moving forward will be managed through the Core budget. This will deal with monitoring of existing loans and also the recycling of the fund as repayments begin to increase.

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Table 4 – NEIF Coordination Budget Summary

	2015/2016 Budget £'000	2015/16 Revised Budget £'000	2016/17 Proposed Budget £'000
Expenditure			
Employees	32	0	0
Support Services	35	35	0
Consultants	50	158	0
Appropriation to NEIF	25	25	0
Gross Expenditure	142	218	0
Programme Management Grant	(117)	(193)	0
Interest on NEIF Balances	(25)	(25)	0
Gross Income	142	218	0
Net Budget (Surplus) / Deficit	0	0	0

5. Recommendation

- 5.1 The Board is requested to;
- note the update on the 2015/2016 budget provided within this report;
 - and approve the 2016/2017 budget.
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North East Combined Authority

Governance Committee

Date: 5 July 2016

Subject: North East Combined Authority – The Devolution Agreement

Report of: Head of Paid Service

Executive Summary

The purpose of this report is to update the Governance Committee on progress made with implementation of the proposed Devolution Agreement, and next steps.

Recommendations

The Committee is recommended to note the content of this report.

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1 Background Information

- 1.1 Since the Proposed Agreement was signed in October 2015 there have been continuing discussions with Government on detailed implementation of a devolution deal. On 17 May 2016 the Leadership Board received a report which set out the clarification received from Government on a number of outstanding issues previously identified by the Board. This information is set out in section 2, below.
- 1.2 On the basis of the information they received on 17 May the Leadership Board agreed, with the exception of Gateshead Borough Council, to endorse the proposed Devolution Agreement and to agree to the establishment of the North East Combined Authority as a Mayoral Combined Authority.
- 1.3 At present Gateshead has not consented to the making of an Order providing for the election of a Mayor for the NECA area. In these circumstances the Secretary of State has a duty to make an Order removing Gateshead from NECA. In doing so, the Order must designate Gateshead as a Local Transport Authority and may transfer appropriate transport related functions to Gateshead from NECA as a result.

2 Clarification and Commitment secured in the Devolution Agreement

Local Growth Fund

- 2.1 Ministers have confirmed that this round of Local Growth Fund will be competitive, with the money going to those areas that bring forward the most ambitious proposals. Government suggest that with a Mayoral Combined Authority, the North East will be at an advantage compared to some areas. As a Mayoral Combined Authority, NECA/NELEP would be able to submit a programme level proposition, providing the ability to bring forward dynamic proposals that align with the wider investment strategy through the new Single Pot for the North East. The bid for the next round of LGF is due in July 2016. Plans for the programme bid are in development and it is currently proposed to submit an ambitious bid for up to £150m of LGF funding, including a strong bid for Local Sustainable Transport projects of c £30m.
- 2.2 In regards to the £2 billion of Local Growth Fund monies which are being allocated through the Homes and Community's Agency (HCA)' Home Building Fund, the NECA has sought Government commitment to the North East preparing, in collaboration with private sector developers and the HCA, a 5 year programme to utilise these funds in the area. The Government have clarified that once the prospectus is launched, the HCA will engage on the mechanism of the fund with the NECA and developers.

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Investment Fund

- 2.3 The Government has committed to a thirty-year investment fund with NECA and recognise the ambition of the plans to maximise its impact. The Government have confirmed that the level of funding would not be reduced subject to NECA's investments meeting both Government and the NECA's rigorous assurance and appraisal processes. Funding will be subject to Government's gateway review every five years as described in the deal, however clarification has been received that the early gateway 'reviews' will recognise that the local and national economic impact of the Investment Fund may not yet be observable. As a result, the Panel will use appropriate metrics at each gateway, such as whether investments are being delivered on time and to budget. The panel will have to take into account NECA's specific approach to implementing the investment fund in the North East. This is an improvement of the previous position where input measure were to be applied to only the first review and measures that input measure will be used to measure performance for the first 15 years, reducing risk of the gateway process.
- 2.4 Government has provided the assurance requested on the matter and it is worth noting that the NECA is not the only combined authority that would be receiving an investment fund as part of their Devolution Agreement. In addition, the first year tranche of monies for the investment fund will be available to CAs in the 2016/17 financial years pending ratification of their Agreement.
- 2.5 Our proposals for the Investment fund include ambitious plans to enable additional 'investment activity' over the life of the programme in particular in the first fifteen of the programme. This significant investment activity, estimated to be worth up to £900m, would create considerable additional opportunities to provide access to finance for business growth and economic development across the region. This would help create thousands of additional jobs in the early years of the programme, increasing and accelerating the contribution to job creation and growth that the infrastructure works themselves would bring in the medium to long term. Details of these 'investment' programmes and project pipelines are currently being developed and will be brought forward later this financial year for consideration and approval by NECA.

Sustainable Travel Funding

- 2.6 Government have confirmed that they have placed the £500m of capital for the Access Fund within the competitive element of the Local Growth Fund. Government are expecting the North East's forthcoming LGF proposal to include a package of sustainable transport measures building on the good track record to date. The NECA has already set out a proposal for a devolved sustainable transport allocation for the North East. . It remains our position

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that this should form part of our single pot arrangements, and we will maintain this position while also including capital investment proposals alongside our LGF proposals, which also making a separate request for revenue funding from the Government budget that sits outside of the LGF programme.

Rural Proofing

- 2.7 The Government appreciate that rural areas and communities are important for NECA considering the wide and different geography of the area. Confirmation has been received that the decisions on the prioritisation of spending from the Investment Fund will be North East decisions, supported by the Assurance Framework.

'Skills' Area Based Review (ABR) Process

- 2.8 BIS have agreed to push back the North East's Area Based Review to wave 4 which is September 2016.

Large Scale Transport Infrastructure Projects

- 2.9 Productive discussions have been held with DfT on the two specific transport infrastructure projects mentioned in the Proposed Agreement and DfT have confirmed an outline timetable for both Ashington, Blyth and Tyne Line and investment in the Metro.

Air Passenger Duty

- 2.10 Government agree that the North East has legitimate concerns about the potential impacts of air passenger duty devolution to Scotland on airports in the North East and have confirmed that a formal response will shortly be published to the discussion paper published last year. The Government believe that there are possible solutions that would avoid State aid or other restrictions. However, there remain real uncertainties as to the scale of impacts, not least due to decisions that remain to be made by the incoming Scottish government after their elections in May. Treasury officials are in regular discussions with Newcastle Airport on the airport's congestion charge proposal and will continue this dialogue on how to implement the preferred solution.

Fair Funding

- 2.11 In regards to fair funding the Government have provided the following commitments:
- Local Authorities have been provided with summaries and figures for Revenue Support Grant, Transitional Grant and Rural Services Delivery Grant allocations for the multi-year settlement offer, and the Government has committed to providing the amounts that have already been set out in that settlement.

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- Looking to the future and the introduction of 100% Business Rates Retention, Government have provided assurance that there will be redistribution between councils so that areas have funding adjusted where they currently collect less in local taxes.
- The Fair Funding Review will consider the appropriate funding needs of different types of areas and assurances have been received that the Government intends to fully engage with the North East on this, and places great value on specific circumstances being recognised and accommodated.
- The consultation on the New Homes Bonus closed on 15 March and responses are currently being considered. Government have confirmed they will consider the impact on all parts of the country carefully where they implement the reforms.

3 Further Devolution

- 3.1 The Proposed Agreement sets the framework for ongoing dialogue with Government to transfer more power and resources from Whitehall to the North East. Once the current Proposed Agreement is ratified the Combined Authority and Government can start to progress further opportunities for devolution moving forward. Some of the opportunities open to the North East include but are not limited to:
- Business cases for the relocation of significant government functions from London to the North East;
 - Devolution of funding and assets held by central government which could be devolved to support faster housing and regeneration;
 - Devolution of climate change initiatives, support for investment in energy efficiency and technological development;
 - Measures to implement the Prime Minister's commitment to protect Newcastle Airport from the impact of devolution of Air Passenger Duty to Scotland;
 - Opportunities for joint initiatives between the North East and Scotland, in areas such as tourism, culture, transport and industrial collaboration.
 - Proposals for an appropriate relationship between the functions of a Mayor and future role of the Police and Crime Commissioners, including in relation to fire services, to be developed, subject to local consent and a business case developed jointly by PCCs and council leaders, and in consultation with the Fire and Rescue Authorities.
- 3.2 The Proposed Agreement also sets out a commitment for the NECA and the NHS to jointly establish a Commission for Health and Social Care Integration,

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to establish the scope and basis for integration, deeper collaboration and devolution across the NECA area, in order to improve outcomes and reduce health inequalities. The Commission is established, a public call for evidence will be published imminently and the Commission is due to report back in September 2016.

- 3.3 County Durham is in a unique position within the NECA regarding the police, fire and health and social care as the geographical footprint of these services extends beyond the NECA. Any proposed devolution in these areas will be subject to consent of Durham County Council (and all other Constituent Authorities) and the NECA Leadership Board. Such devolution proposals would be supported by the inclusion of appropriate safeguards in decision making to protect the interests of Durham County Council or other Constituent Authorities in a minority voting position in decision making.

4 Next Steps

- 4.1 Conferring the specific NECA and Mayoral powers will be subject to Orders, all of which will require the consent of all of the constituent authorities and of the NECA Leadership Board. Advice from DCLG has indicated the following timetable:
- Order 1 to deal with the creation of a Mayoral Authority and the initial term of the Elected Mayor was laid in May 2016 and will be implemented by 4 November 2016. It is recommended that the initial term of office for an elected Mayor be for a period of 3 years. This enables subsequent Mayoral elections to continue to coincide with local elections in the NECA area, particularly the Tyne and Wear Authorities, and so continue to be cost effective but will avoid a recurrence of a Mayoral election for the North Tyneside elected Mayor and a regional Mayor coinciding. In addition the initial 3 year term avoids the future coincidence of all-out elections in the County Council areas and the election of a regional Mayor. Further, as part of the proposed Devolution Agreement NECA has been invited to develop a joint business case with Police and Crime Commissioners in consultation with Fire and Rescue Services, regarding their future relationship and role with NECA. The 3 year initial term provides for the synchronisation of future elections of PCCs and the NECA Mayor pending the development and outcome of the proposed business case.
 - Order 2 to address issues relating to the devolution of powers and responsibilities to NECA.
 - Order 2 requires a Governance Review and the development of Scheme which will be consulted on for a minimum of six weeks. The

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Leadership Board will consider the Governance Review and draft Scheme at their meeting on 4th July and, subject to their approval, Consultation on the Scheme would commence on 8th July. Order 2 will need to be laid in October and will need to be in place by the end of December 2016.

- In addition, there will be a number of generic Orders developed which cover all Combined Authorities and Government will be consulting on this during 2016

5 Potential Impact on Objectives

- 5.1 The ratification of the Proposed Agreement will mean that the decisions relating to the powers devolved to the NECA will be made in the North East by the NECA rather than in London and will therefore have a significant impact on the way in which the NECA will meet its objectives.

6 Finance and Other Resources

- 6.1 Devolution will bring additional resources from 2016/17 onwards to the NECA area, which could increase significantly in 2018/19 and future years with the devolution of skills and other funding. These additional resources will be administered by the NECA and the use of these resources will be determined by the NECA Cabinet, which would include the Elected Mayor.
- 6.2 The devolution of additional flexibility and the ability to take decisions locally about the allocation of existing and new resources is also a notable benefit of devolution. The intention is to maximise the benefits of flexibility through the operation of a Single Pot. Flexibilities such as wider borrowing powers if secured would give real benefits in terms of accelerating capital investment and creating opportunities to achieve savings in revenue financing costs, which could be used to increase the level of investment in the NECA area.
- 6.3 In terms of the revenue budget for 2016/17, the budget could increase by the £30 million Investment fund revenue grant. This would be used to fund the costs of implementing the devolution proposals and a combination of capital infrastructure works as well as investment in finance for business and economic development projects aimed at increasing the number of jobs and boosting economic growth in the region.

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7 Legal

- 7.1 Decisions relating to the implementation of the Devolution Agreement are executive decisions and therefore the responsibility of Cabinet of each Constituent Authority and of the NECA Leadership Board.
- 7.2 The Local Democracy, Economic Development and Construction Act 2009 (as amended), enables the creation of Mayoral Combined Authorities. A key principle of the legislation is that changes to the powers and responsibilities of the NECA and the introduction of an elected Mayor can only proceed with the agreement of the Constituent Authorities.
- 7.3 The creation of a Mayoral NECA and devolution of new powers and responsibilities requires new secondary legislation in the form of Orders. Two Orders are currently envisaged, one to provide for an elected Mayor for the NECA and their initial term of office, Order 1, and a further Order devolving new responsibilities to the NECA, and allocating specific decision making responsibilities to the Mayor. Any responsibility which is not specifically allocated to the Mayor remains the responsibility of the Leadership Board which would be renamed the “Cabinet”.
- 7.4 Where a Constituent Authority of NECA fails to consent to the creation of the Mayoral Combined Authority they will become a non-consenting Constituent Authority. In such a case a further Order will be made by the Secretary of State removing that Authority from the NECA. That Order will designate the nonconsenting Authority as a Local Transport Authority and transfer relevant transport responsibilities to that Authority from NECA.
- 7.5 The Proposed Agreement provides that the Mayor will be the Chair of the Cabinet but the Mayor will not have a casting vote. Decisions taken by the NECA Cabinet and decisions that are the responsibility of the Mayor are to be subject to “Call in” by the Overview and Scrutiny Committee, which would be a new power for that Committee. Where a Mayor is not supportive of decision taken by the NECA Cabinet they will also have the power to ask for such a decision to be reconsidered but, if reconfirmed, the matter will proceed without Mayoral support.
- 7.6 Decisions in relation to the responsibilities of the NECA (Cabinet) may, like now, be taken by Committees, sub Committees and Officers if delegated. A Mayor would also have the option to delegate their decision making responsibilities.
- 7.7 The responsibilities of the Mayor not otherwise funded through government grants or contributions by Constituent Authorities, will be funded through a precept, subject to the agreement by the constituent authorities and the NECA

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to the necessary secondary legislation. The budget proposed by the Mayor for their responsibilities may be changed with the agreement of 2/3 of the Constituent Authorities' Leaders/Elected Mayor on the Cabinet. The budget for the remaining responsibilities of the NECA will be funded in accordance with the current arrangements through by government grants, Constituent Authority contributions and appropriate levies.

- 7.8 Not only will the Cabinet have the power to change the Mayor's budget proposals where 2/3 of the Constituent Authorities' Cabinet representatives agree to do so but the Mayor's plans and strategies will also be subject to change if the requisite 2/3 majority is achieved.

8 Other Considerations

8.1 Consultation/Community Engagement

Consultation on devolution proposals has been carried out both by NECA and by the Constituent Authorities. Full details are included in the report attached at Appendix 1.

8.2 Human Rights

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

8.3 Equalities and Diversity

There are no specific equality and diversity implications arising from this report.

8.4 Risk Management

- 8.4.1 The risks, issues and dependencies associated with the Devolution programme are actively identified, analysed and managed by the NECA programme management team. The NECA is the owner of the strategic risk register for Devolution and will ensure that all key risks are aligned with the Constituent Authority strategic risk registers.
- 8.4.2 The identification and analysis of risks is an ongoing process that is undertaken with the various stakeholder groups and the LA7 working groups that have been established to deliver the specific themes of the Devolution Deal. The NECA programme will report on key risks and mitigating actions as part of the fortnightly status reporting to the CEX Group which operates as the Programme Board.

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8.5 Crime and Disorder

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

8.6 Environment and Sustainability

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

9 Background Documents

9.1 The Cities and Local Government Devolution Act 2016

10 Links to the Local Transport Plans

10.1 Should a non-consenting Constituent Authority emerge it will become a Local Transport Authority and will need to establish its own Local Transport Plan and Concessionary Travel Scheme.

11 Appendices

11.1 Appendix 1 - Devolution to the North East: Consultation and Engagement Report – February 2016

12 Contact Officers

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13 Sign off

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

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Appendix 1

Devolution to the North East

Consultation and Engagement Report – February 2016

1. Introduction

In establishing the North East Combined Authority a key driver underpinning the move to strengthened governance arrangements was to position the North East to take on significant devolved powers and resources from central government. Following the Scottish referendum and the negotiation of the Greater Manchester deal in 2014, the Chancellor of the Exchequer issued a challenge to other city-regions to come forward with proposals, demonstrating strong leadership to boost their economy.

In January 2015, the North East Combined Authority agreed initial proposals for devolution in order to accelerate economic growth in the North East. The outline proposals were endorsed as the basis for the Combined Authority to engage with government ministers and other stakeholders, in securing greater devolution of funding, powers and responsibilities.

A series of meetings with local and regional stakeholders as well as MPs and House of Lords members took place in March 2015 to test the initial proposals. The overarching message from responses indicated strong support for devolution to the North East from communities, businesses and partners and broad agreement with the proposed priorities.

The feedback from the initial consultation exercise was used to inform the development of the NECA Statement of Intent, submitted to Government in September 2015 as an expression of interest in the devolution of powers, responsibilities and resources from central Government to the North East.

On 23 October the North East Combined Authority (NECA) Leadership Board signed a proposed agreement for devolution to the North East with the Chancellor and Commercial Secretary. The proposed agreement provides for the transfer of significant powers for employment and skills, transport, housing, planning, business support and investment from central government to the North East. It also paves the way for further devolution over time, and for the reform of public services, including health and social care, to be led by the North East. Final agreement to the devolution proposals is conditional on a range of factors set out in the proposed agreement: the legislative process, the Spending Review, further public consultation, agreement by

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the constituent councils, and formal endorsement by the Leadership Board and Ministers.

Following publication of the proposed agreement, further public consultation on the proposals took place with a further series of meetings organised across the NECA area between November 2015 and January 2016, to continue the conversation about devolution and capture the views of partners, stakeholders and residents on key issues within the proposals. This report summarises the consultation and engagement activity that has taken place in relation to the devolution proposals and the key messages emerging from the feedback.

2. Approach to consultation

Consultation on the proposals took place in two phases – in March 2015 on the initial proposals, then between November 2015 and January 2016 on the proposed devolution agreement. A range of methods has been used to gather views, including local events across the NECA area where participants received a presentation on the proposals, then participated in round table discussions followed by a question and answer session. Participants at these sessions were also provided with individual feedback forms, with an online version also available for completion via the NECA website.

In each phase of activity the consultation exercise and local events were publicised through press releases, on the NECA and individual local authority websites, and on social media, gaining interest from local and national media and helping to raise awareness of the both the North East Combined Authority and the devolution proposals.

The full range of opportunities to gather views included:

- a) A series of local facilitated events across the NECA area
- b) A regional stakeholders event
- c) A trade union event
- d) A Voluntary, Community and Social Enterprise Sector event
- e) Meetings of the NECA Overview and Scrutiny Committee
- f) A meeting of North East MPs and Lords at Westminster
- g) The opportunity to submit comments via the NECA website through an online questionnaire

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As well as the public meetings coordinated centrally by the NECA, the constituent authorities are continuing to gather views locally from residents and stakeholders in their area. The Leaders and the Elected Mayor were also invited to an event hosted by the regional business sector on 3 February 2016 to consider the opportunities presented by the devolution proposals.

The full range of activity enabled engagement with over 750 stakeholders including residents, political representatives, business representatives and members of the voluntary and community sector.

3. Responses

3.1 Consultation on initial proposals – March 2015

Publication of the devolution proposals and the subsequent consultation activity generated a significant level of interest and debate including local and national media interest. 290 people signed in at the local events and others submitted written responses through the NECA website or completed an online feedback form. In addition to the local events, a meeting was held with regional stakeholders in addition to separate meetings at Westminster with North East MPs and members of the House of Lords.

Overall the feedback demonstrated strong support among a wide range of stakeholders from communities, businesses and partners for the principle of devolution to the North East. Respondents felt that the North East loses out under current arrangements and there was broad positive agreement with the 12 individual proposals. Stakeholders were keen that the devolution ask of government should be ambitious and set out the potential for North East growth within the context of supporting national growth.

Further engagement of stakeholders on an ongoing basis was a key theme emerging from each event and a commitment was made to feedback on the outcome of the exercise after the election as well as providing regular updates and further opportunities for discussion. The consultation feedback was shared with stakeholders that attended the events or submitted a written response and was made available on the NECA website. The outcome was also detailed in a report considered by the NECA Leadership Board in June 2015. An overview of the outcomes from the March consultation activity is included in Annex A.

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3.2 Consultation on Proposed Devolution Agreement – November 2015 – January 2016

Six local facilitated events across the NECA area

The second phase of consultation on the devolution proposals commenced in November 2015 with a series of six local events attended by 374 people. Four key questions formed the consultation, however the discussion was cross cutting and the feedback below therefore highlights the key emerging themes, including views on the proposals, suggestions for additionality and some issues to be considered further.

- a) **Governance:** There was wide discussion on governance issues at all events across the region (25 tables). In particular, 20 tables queried the power of the mayor and future governance arrangements of the Combined Authority. Discussions stressed the need for clarity regarding scrutiny and monitoring, the balance of power and decision making both within the Combined Authority and between the NECA and the constituent authorities. This also including ensuring that local authorities do not lose powers the in the future.

Questions were raised about the selection and election of the mayor (13 tables) as well as future cost of the mayor and administrative office (five tables).

It was suggested by 12 tables at four events that governance should be discussed in more detail at future events.

- b) **Finance and Funding:** 20 tables across four events questioned the impact that the £30m per annum funding for 30 years covering seven local authority areas would have. The impact of the comprehensive spending review was raised by four tables.

Suggestions for discussion with government in the future included:

- Tax raising powers (six tables)
- The equity of central government funding to the north east compared to other regions (three tables)

It was suggested that future events should discuss resources and fair funding in more detail.

- c) **Business:** Discussions by eight tables stressed the need to focus on economic growth including encouraging enterprise, inward investment and innovation. 12 tables across four events also discussed the need to have a clear relationship with the North East Local Enterprise Partnership (NELEP).

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- d) **Employment, skills and education:** 35 tables across the region raised specific issues around: the skills shortage, job creation and ensuring a range of employment opportunities exist across the area.

The need to review and reorganise post-16 education and apprenticeships to broaden opportunities was highlighted by four tables. The need to link with pre-16 education providers to ensure they feed into the range of opportunities available was also highlighted (six tables).

- d) **Health and Social Care:** 29 tables across all events discussed the importance of health and social care, stressing a need for further information particularly in relation to government funding and sustainability. The governance of the proposed North East Commission for Health and Social Care Integration was discussed including how the various partners will be able to influence and shape the direction and decisions.

The question of how the inclusion of health and social care in the proposals would improve the quality of health care was raised including how this would be measured.

- e) **Engagement:** 30 tables across all events discussed communications and engagement and stressed the need to raise awareness of the North East Combined Authority amongst the public. It was emphasised that there should be a continued dialogue and messages should be clear, simple and impartial. Suggestions included themed events and reaching out to communities. There was particular emphasis on the need to involve the following groups:

- The voluntary and community sector (19 groups). The need to understand the voluntary sector was stressed to ensure that the sector is able to contribute to delivering the proposals.
- Parish and Town Councils (five groups)
- Young people (three groups)

- f) **Transport:** There was strong support for the inclusion of an integrated transport infrastructure including rural areas and single ticketing with a regional coordinating body. The key link between the transport network and access to work and training was also highlighted.

- g) **Boundaries and Geographical issues:** The boundaries of the Combined Authority were discussed, including the size and diverse needs of the area as well as the urban and rural mix. The fact that the combined authority boundary is

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not coterminous with organisational boundaries such as Fire and Police was highlighted as a particular issue for consideration.

- h) European Funding** The most significant issue raised was in relation to accountability.
- i) Additional Areas:** Participants were asked to identify additional areas to consider in future discussions with Government on extending devolved powers. The key areas identified were culture and tourism, which it was stressed should feature as an element in the current agreement given its key economic role. There were also suggestions that the environment and housing should be included as key themes.
- j) Stakeholder engagement –** Stakeholders were asked what they saw as their role in the implementation of the proposals. A range of issues about engagement, communications and future governance emerged.
 - The need for community engagement
 - The role of the voluntary sector, trade unions and partners such as health, police, fire service, universities.
 - Links to Town and Parish Councils
 - The importance of clear and ongoing communication messages using existing networks

Regional online consultation and comments

92 people used the opportunity to respond to the questions posed at the events through a regional online questionnaire on the NECA website.

The responses were diverse, however strong themes emerged which reflect similar outcomes of the other consultation methods. These include:

- A strong agreement that the proposal could encourage inward investment, enterprise and innovation to support growth
- The need to look at an integrated transport infrastructure including rural areas and single ticketing with a regional coordinating body
- The additional areas suggested for future consideration were culture and tourism as well as the environment.

In relation to governance, there was significant support for ensuring robust scrutiny and monitoring. Also mentioned was the need to clarify the relationships with other

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levels of government such as local authorities, parish or town councils and central government.

The importance of grass roots bottom up engagement was stressed as well as the importance of local consultations.

Overview and Scrutiny Committee – 1 December 2015

The NECA Overview and Scrutiny Committee discussed the proposed agreement with a number of Leaders and the Elected Mayor at their meeting on 1 December 2015. Governance arrangements under a Mayoral Combined Authority were highlighted as a key issue in moving forwards including the ongoing role of Overview and Scrutiny in the new arrangements. Members also emphasised the importance of fiscal devolution to accompany new powers and responsibilities and the need to fully understand the potential implications of the proposals on business rates. A summary of the committee's discussion is attached at Annex B.

Meeting with Trade Unions – 11 January 2016

A positive meeting was held with Trade Union representatives on 11 January 2016, indicating a keen interest for unions to be involved in developments as they progressed and the importance of their relationship with the NECA. Key issues covered by the discussion included the need for accountability and transparency moving forwards, the proposed governance arrangements, and finance and funding issues. Concerns were raised around how the proposals could affect national pay bargaining, and the need to protect local services under new arrangements.

Voluntary, community and social enterprise (VCS) sector – 18 January 2016

An event facilitated by VONNE was held on 18 January 2016, with 62 delegates representing voluntary organisations and groups from across the region. Delegates felt that the proposed agreement covered the issues, barriers and challenges to economic growth facing the north east but that it was difficult to visualise what the interventions and changes would look like. It was recognised that working collaboratively could counter balance budget reductions.

It was emphasised that whilst the proposals must have an economic focus, any economic strategy must be underpinned by a locally focused social strategy. It was highlighted that the VCSE sector could be a conduit to making devolution real for people in communities, helping people to have a voice and co-design/co-produce interventions recognising the assets in communities to design own solutions. The need for continued dialogue, ongoing communications and simple and clear messages was also highlighted. A summary of the feedback is attached at Annex C.

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Engagement with the business sector

The NECA Leadership Board has committed to work with business leaders to determine arrangements for a strengthened role for business within the region, which would reflect any new responsibilities for the combined authority and ensure the private sector is able to influence and advise decision-making in the region. Leaders and the Elected Mayor were invited to an event hosted by the regional business sector on 3 February to consider this further. Whilst formal feedback from the session is still awaited, initial soundings indicate that discussions at the event were extremely positive with attendees supportive of the proposals, eager that the North East takes advantage of the opportunities presented by the devolution agenda and keen that the business community remains involved on an ongoing basis.

4. Conclusions

The North East Combined Authority has undertaken a wide range of consultation and engagement activity over the last year to obtain views on the devolution proposals. This has generated over 750 responses from across a variety of sources including a wide range of public and private sector stakeholders, the voluntary and community sector and members of the public, in addition to consultation activity undertaken at local level.

Responses across the full range of stakeholders have been positive overall, welcoming the opportunities offered by the devolution agenda and the progress made on key areas of priority. Support has been expressed for the issues identified as areas of priority in the outline proposals as they have been translated into the specific proposals in the proposed devolution agreement, with clear views expressed around extending the scope to consider culture, tourism and the environment in any future discussions with Government. Respondents have been keen to obtain more detailed information on the individual proposals as they develop and are particularly interested in how the new governance arrangements will operate in practice following the introduction of an elected mayor.

The consultation process generated a high level of interest across the North East and a clear message across all stakeholders that they want to remain involved as further progress is made. The detailed comments, suggestions and concerns raised in responses will be noted as activity moves towards implementation should the proposed agreement be formally agreed.

5. Constituent Authority Consultation/Engagement

Durham

Following signing of a proposed devolution agreement in October 2015, consultation took place between November 2015 and February 2016 both at regional and local

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authority area. This included providing people with information and the opportunity to consider the content of the proposed agreement, ask questions and make informed comments. Participants were asked for their views on whether the proposed agreement focused on the right issues to drive growth in the North East, if there were any key areas to be included in the next round of discussions with government, how they saw their role in implementing the proposals and what would they want to discuss in more detail at future events.

In addition to the NECA consultation event hosted at County Hall with 172 attendees, over 85 businesses attended the Devolution Business Event held at the Gala Theatre, Durham on 26th January 2016 which included a presentation on the proposals followed by a question and answer session. A broad range of questions covering key areas such as targeted investments, business growth and engagement, skills development, the Mayor and governance arrangements, rurality and the need to ensure that the NECA does not lose sight of the region's wider connectivity and opportunities were highlighted by attendees. The overall tone of the meeting was in support of the agreement with the majority of those who raised questions indicating their enthusiasm for the potential offered by the proposals.

Durham County Council also held a poll of all electors in the County to help inform its Cabinet decision on whether to sign up to the final North East devolution agreement. The response rate was 21.7 % and analysis of the results showed that a clear majority (59.5 %) of those who took part in the poll believed that devolving some power and resources to the North East would be a step in the right direction. Just under half of those who took part in the poll (47.8 %) thought that the NECA Mayor should have limited powers while 40.3 % of people felt the Mayor should have quite a lot of power and influence. In relation to whether the North East should seek further devolved powers if the agreement goes ahead, 42.9 % preferred a cautious approach of waiting to see how things develop.

Gateshead

Gateshead hosted a local facilitated event in November 2015. This followed on from a local event in March 2015 which was part of the earlier consultation on the publication of the initial devolution proposals prior to the proposed devolution agreement. Although engagement focussed on four key questions that formed the basis of the consultation, the discussion with stakeholders was cross-cutting and the feedback from the events was considered by the Authority. The consultation and engagement focussed on governance, finance and funding, business, employment, skills and education and health and social care, transport, boundaries and geography and European funding. The engagement process also identified the need for community engagement with the NECA by ensuring, a role for the voluntary sector, the trade unions, partners such as health providers, the police, fire service and universities and also links to the Town and Parish Councils.

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Gateshead also undertook a survey on the consultation portal of the Authority's website between 4 December and 30 January 2016. There were 81 responses submitted with 62% agreeing with the focus of the proposed agreement. 38% of respondents suggested other areas to consider as part of the devolution agreement. These ranged from a fairer share of funding for Gateshead and the North East, private landlords, economic planning, education and health. 90% of responses were from Gateshead residents, with the remainder coming from business and the VCS sector.

Newcastle upon Tyne

A series of consultation events were held in Newcastle. A meeting of the Authority's Policy Cabinet invited community organisations and residents to explore how devolved forms of decision making to neighbourhoods would support vibrant communities. There was also an event at the Crowne Plaza hotel that attracted 60 representatives from across the public, private and voluntary sector, together with members of the public.

Devolution updates and how to comment on the devolution proposals were also publicised via the Authority's social media channels. An article was also included in the Authority's "City Life" magazine. Discussions also took place with public sector partners, the Voluntary Sector Liaison Group and North East Chamber of Commerce. A well attended business reception hosted by the Leader of Newcastle City Council on 8 December confirmed strong support from business for the proposed Agreement. Meetings of the Overview and Scrutiny Committee, and a seminar open to all Newcastle City Councillors provided opportunities to capture Members' views on the proposed Agreement.

The consultation within Newcastle demonstrated very significant support for the principle of devolution, and for using the current agreement as a platform for further opportunities.

North Tyneside

Consultation on the Proposed Agreement involved a series of locally hosted events. Three main events were held from March to November 2015 and views were sought from representatives from education, business, Trades Unions, the VCS and the business sector. As a result broad support emerged for the implementation of the proposals within the negotiated agreement on devolution.

Northumberland

The County Council held meetings to discuss the proposed Agreement with Northumberland members of North East Chamber of Commerce on 1 December 2015, the Northumberland Voluntary and Community Sector (VCS) Assembly on 9 December 2015 and with Parish and Town councils also on 9 December.

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At each session, participants were asked at the end of the discussion for their overall response as to whether the Devolution Agreement is good news or bad news for the North East. On balance the view given was that devolution should broadly be supported, albeit caveated by the fact that the Government approach was rather unstructured and in danger of leaving places in England behind.

In addition, an online questionnaire was posted on the Council's website and sent direct to those residents who form part of the Northumberland People's Panel. The consultation ran from 5 December 2015 until 15 January 2016. 30. Of the 350 responses, 70% indicated that they thought that it was important for the North East region to take control of issues relating to Adult Skills and Employment; Transport; Health and Social Care; Rural Growth; Business Support and Investment; European Funding; and Housing; 75% indicated that they thought it was important that a focus is given to the Rural Economy and Infrastructure within any agreed devolution deal for the North East; 78% indicated that they thought it was important to take local responsibility for improving the employment and skills offer, with devolved responsibility for adult skills, employment support for harder-to-help claimants; and new partnership arrangements to create opportunities for young people and 73% indicated that they agreed with the proposals to create the UK's first fully joined up transport system, including rail, local highways, metro, buses and ferries across the North East – including the specific references to the reopening of the Ashington to Newcastle passenger railway service and the challenges around rural transport delivery.

South Tyneside

An open stakeholder and resident's consultation event took place on 5 November 2015. The Authority also had a devolution consultation page on its external website to allow residents to express their views directly on the proposals contained in the Devolution Agreement. There was also a discussion with key businesses at the South Tyneside Economic Regeneration Board on 1 December 2015 as well as an event with Trade Union representatives and Leaders on 11 January 2016. The Corporate Director for Economic Regeneration attended all January 2016 Community Area Forum meetings and presented on proposals and received feedback and comments on the proposed areas and content of the Devolution Agreement.

Sunderland

The proposed Devolution Agreement for the North East was discussed at each of the city's five Voluntary and Community Network area meetings, in February 2016. At each session, participants commented on the proposals in the context of potential implications for local communities and the city as a whole. The Council also hosted a business briefing in the city on 12th February, at which approximately 20

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businesses were represented, and also consulted with the Sunderland Trades Union Congress.

A special edition of Community News was delivered to every household in Sunderland on 1st February 2016, outlining the proposed Devolution Agreement and its implications. It included a survey asking for residents' views on the proposals by 17th February. The same information was published on the Council's website with the option to complete the survey on-line. A total of 582 responses were received. Of these, 61% agreed that some strategic decisions about spending to drive economic growth should be made at a more regional level, instead of by central Government.

In answer to what respondents saw as particular advantages or disadvantages of the proposals, the most popular 'advantages' noted were that the devolution deal provides the North East with better opportunities to attract investment and that the local authorities and those who work in the region understand local needs. Of the disadvantages noted, most prominent were the introduction of an Elected Mayor (and the view that the Government is ignoring the previous referendum in the North East); that devolution will create additional tiers of bureaucracy and greater cost, and that the Government is inadequately funding devolution.

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ANNEX A - Consultation on initial proposals – March 2015

The following questions were used to seek their views on the proposed prospectus and to help to identify the areas of focus in discussions with Government.

- Do you think the NECA proposals are the right areas to concentrate on?
- Are there any other areas or themes that should also be included?
- How would you like to be involved in the work of the NECA in future?

The key messages emerging from the engagement exercise are set out below.

Support for the Devolution Proposals

There is strong support for the broad principle of devolution from communities, businesses and partners.

- During facilitated discussions, 37 groups (97%) recorded support for the devolution proposal.
- Participants, in particular businesses, commented that the devolution request to the government needs to be ambitious and clearly set out the potential for growth in the North East that will ultimately support the economic growth of the entire country.
- There is a feeling demonstrated by 18 groups (47%) that an overarching vision should be developed which clearly reflects the ambition for the North East.

Support for the 12 Priorities and comments received

The consultation identified broad positive support for the 12 proposals or 'asks'.

- 27 groups, (71%) agreed that the proposals were correct for the area.
- 17 groups (45%) suggested that that NECA should initially focus only on the 12 priorities, in order to achieve quick wins and demonstrate the ability and capacity to deliver.

Additional Comments regarding the 12 proposed priorities

Although there was broad support for including all 12 proposals, specific priorities were identified as being of particular significance. It was stressed that some of these are key priorities, underpinning the others. Detailed comments about specific proposals are included in Appendix Six, however repeated comments included;

- Proposal 5, 'Investment in our major transport infrastructure' was highlighted across the region as being of key importance as it underpins progress towards the achievement of other growth ambitions. The particular importance of ports was stressed and it was felt that there should be a strong emphasis on ports and rivers as these are a major asset to the North East. There was a

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suggestion by 6 groups (16%) that ports should be included as a separate priority.

- Proposal 9, 'Devolution of skills funding' was also highlighted across the region as being of key importance. It was thought that skills training must reflect the needs of the region and local business to allow the North East to progress. The importance of appropriate local careers advice and apprenticeships was also stressed.
- Proposal 1, 'A North East Investment fund' was also stressed as being of central importance. A suggestion that there should be a regional bank was highlighted in both the facilitated discussions and written responses.

Additional Priorities

Analysis shows despite receiving suggestions from 6 groups (16%) that we should concentrate on the 12 priorities or even phase or combine them; when prompted, all groups went on to suggest additional priorities.

In terms of additional priorities for NECA to include or consider in future, a range of suggestions were recorded as follows:

○ Health, social care and wellbeing	27 groups (71%)
○ Education and Universities	18 groups (47%)
○ Housing	14 groups (37%)
○ Community Safety, including police and fire	9 groups (23%)
○ Climate change and environmental issues	9 groups (23%)
○ Business Rates	9 groups (23%)
○ Technology, communications and infrastructure	7 groups (18%)
○ Strategic and spatial planning and land use	4 groups (10%)
○ Public sector spending and uniformity	3 groups (8%)
○ Job creation for the region	3 groups (8%)
○ Welfare	1 group (3%)
○ Sport	1 group (3%)
○ Early Years	1 group (3%)

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Development Needs and Future Considerations

- Issues of governance were raised frequently across the region by 22 groups (58%) with additional more specific comments about the need to consider and develop;
 - Terms of reference 22 groups (58%)
 - Structures to ensure shared approaches and ownership 20 groups (52%)
 - A clear decision making process 19 groups (50%)
 - Leadership 14 groups (37%)
 - A clear communications plan 12 groups (32%)
 - Underpinning principles 10 groups (26%)
 - Processes to monitor and evidence achievements 4 groups (10%)
 - Clarity of roles 4 groups (10%)
- It was suggested that the Combined Authority should focus initially on those areas where we can build on the successful partnership working in the region such as sustainable energy, given our pioneering work in this field and potential to do more.
- Some groups felt that the approach is worth pursuing if the area will benefit from inward investment to help make the area more sustainable and maximise funds to a fuller potential. 10 groups (26%)

Future Involvement and Consultation

- The principle of engaging a broad range of stakeholders in the development and continued work of the Combined Authority was discussed by participants and suggested by 19 groups (50%).
- Reference was made by all groups to working with existing partnerships and networks, local businesses and the voluntary sector, including;
 - Existing consultation and engagement mechanisms including partnerships and working groups 23 groups (61%)
 - The voluntary sector (local and regional) 19 groups (50%)
 - Local businesses and the business sector 10 groups (26%)
 - Town and Parish Councils 5 groups (13%)
 - Young people and youth organisations 4 groups (10%)
 - Organisations representing protected characteristics 2 groups (5%)

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- 18 groups (47%) expressed the need to ensure that the wider community are kept aware of NECA activities, the devolution proposals and progress, and to be provided with opportunities to have their say and shape proposals in order to ensure buy in at local, area and regional levels.
- The consultation identified a range of considerations and methods for informing, engaging and consulting with communities including;
 - Use of social media, website and emails 11 groups (29%)
 - Clear communications policy and mechanisms 10 groups (26%)
 - Regular update meetings 6 groups (16%)
 - Stakeholder and thematic groups 7 groups (18%)
 - Promotion and marketing to raise awareness 2 groups (5%)
 - Clear and easy to use web site 2 groups (5%)
 - Leaflet drops, bulletins and door knocking 2 groups (5%)
 - Be innovative 1 group (3%)

Areas for consideration

Analysis shows that there were some recurring issues raised during the consultation process that need further consideration, including;

- Although there was general support for devolution, 13 groups (34%) felt that care must be taken to avoid creating bureaucracy. Associated issues that need to be considered include additional costs, staff resources, local access and local influence. Whilst 7 groups (18%) felt that it would be sensible for NECA to have dedicated resources including staff, finance to enable it to achieve these priorities.
- It is necessary to engage and consult on a local and regional basis, it is also important to consider how NECA will engage and work with regional organisations covering a wider geographic and administrative area.
- There was an indication that some areas of work are best planned and delivered at a wider regional level, an example being health care. This did however include a strong feeling that NECA should have a role in ensuring that relevant local needs are met and recognised at both regional and national level.
- The need for the relationship between the NELEP and the Combined Authority to be considered and clearly set out was raised by 7 groups (18%).

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- Concern was raised by 9 groups (24%) about the Government's ongoing and future commitment to devolution due to political uncertainty and change linked to the forthcoming election.
- The need to ensure that the work of NECA addresses the whole of the area equally whether urban, rural or those on the peripheries and to consider the unique issues when planning and delivering on priorities was stressed by 24 groups (63%) across the area.
- It was recognised that Tees Valley is not included in NECA area; however it was raised by 15 groups (39%) that we need to ensure that we work with the Tees Valley area and beyond (Cumbria) to create a stronger voice for the region.
- Some indicated that they would like to see both Combined Authorities come together into one combined authority in the future - 3 groups (8%).
- 4 groups (11%) suggested that we should observe and learn from the experiences of Greater Manchester Combined Authority.

Feedback from the MPs and Lords meetings – 18 March 2015

In addition to the local and regional stakeholder events, meetings were also held with North East MPs and Lords to discuss the proposals and direction of travel. 15 MPs and Lords from the area participated in very positive discussions at each meeting and the Combined Authority was congratulated on its achievements so far.

In each session, all participants were supportive of the broad principle of devolution to the North East and felt there was a need for NECA to be ambitious in its proposals and demonstrate an ability to deliver.

There was strong support for the work of NECA and clear recognition of the importance of maintaining close links with neighbouring areas, including working with the emerging combined authority in Tees Valley and the area's Local Enterprise Partnership. The potential for working with Scotland and Cumbria was also highlighted as an important area for exploration. The need to recognise the diversity of the NECA area was emphasised and in particular ensuring rural issues are addressed within the wider agenda.

The approach to inward investment was also discussed including consideration of how the NECA works with UKTI. The skills agenda was identified as an area of priority with local control and influence of skills provision viewed as essential. It was also felt that more emphasis was needed on joining-up schools, colleges and businesses.

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Suggestions for consideration alongside the initial proposals included looking at any opportunities for the North East to maximise the benefit from surplus government-owned land and assets in the area. It was also suggested that NECA seek greater influence over the distribution of the energy networks in the region. This was felt to be a key factor in attracting foreign investment to particular sites.

The capacity to deliver on such an ambitious agenda was discussed and emphasis placed on the need to be able to prioritise investment across the NECA area through a strategic plan. Both groups were keen to assist and champion the proposals and to maintain an ongoing dialogue with NECA as it enters negotiations with government.

Regional Stakeholder Event held on 9th March 2015

Introduction

The regional event was held at the start of the consultation process and brought together partners from the public, private and voluntary sectors across the region, particularly those with a regional focus.

The format of the event mirrored that of the local events; however, participants suggested changes to the format of the facilitated table discussions which were implemented. Therefore it is not possible to align the outcomes from this event with the following local events.

The main points from the discussions groups were as follows:

- a) It was suggested that all the proposals are interlinked and none are more important than others. Therefore we need to take a holistic approach and through the consultation, ask if they are the right proposals rather than which are the top priorities.
- b) Participants commented that the devolution request to the government needs to be ambitious and focus on what we can achieve not just for the region but also for the UK with devolved powers.
- c) It was suggested that the Combined Authority should build on the successful partnership working in the region such as Rural Growth Network where we have exceeded targets in developing the rural economy by getting women into enterprise and sustainable energy; and potential to do more. This would

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demonstrate our track record as well as benefits of the critical mass and a bigger voice.

- d) Need to build trust and credibility locally and nationally by starting with some quick wins. We have to demonstrate that we have the capacity, resources and skills to deliver.
- e) In order to demonstrate identity and cohesion in the NE, it was suggested that clarity will be needed on roles and how organisations will interact in the future. For example Local Authorities, NECA, the NE LEP, the Tees Valley CA as well as the wider north of England.
- f) It was suggested that the issues of inequalities, deprivation and social inclusion need to remain at the forefront of the debate as it relates to how we present the case to Government.
- g) The proposals should demonstrate the 'social value' and wider benefit so that the general public can understand what they are being asked to support. For example, benefits for the long term unemployed or people with disabilities accessing work.
- h) We need to be mindful about building the evidence for the proposals and what they can achieve. We are very good at collecting information at a Local Authority level but not necessary at a NECA level.
- i) The current proposed powers should be left as they are and we should be asking if there is anything to add at a later date e.g. stage two.
- j) It was suggested that NECA should initially focus only on the 12 proposals, in order to achieve quick wins and demonstrate the ability and capacity to deliver and that any additional priorities should be built into a stage two set of devolution proposals.
- k) Other comments included;
 - More detail will be required around the 12 proposals
 - We should observe and learn from the experiences of Greater Manchester Combined Authority.
 - Need clear leads for all the themes and sectors.
 - We need to identify what would have the largest impact and also what barriers stand in the way of achieving our ambition.
 - Longer term commitment is a priority and should be integral in the ask of Government

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- Need to build in democracy and accountability
- l) In terms of broad future engagement, regional stakeholders suggested the following methods;
- Meetings with business organisations
 - Flow of information
 - Ensure the man in the street can understand the proposals
 - Have detailed discussions to ensure the proposals are robust

NECA Overview and Scrutiny Committee – 24 March 2015

The NECA Overview and Scrutiny Committee were consulted on the Combined Authority's devolution proposals at their meeting on 24 March 2015. There was broad agreement from the Committee to the outline proposals and strong support for the overall principle of devolution.

Suggestions for consideration alongside the initial proposals included establishing a North East Investment Bank, following the example of existing institutions in Germany, and having a joined up approach to strategic planning across the Combined Authority area.

Concerns were expressed about the potential impact that any devolution of health and social care budgets could have at both national and local level, and in particular whether it could result in less provision at a local level. It was felt that there was a risk of the region becoming isolated if other areas pursue devolution deals with Government and the North East does not.

The Committee discussed the need to establish strong public support for the proposals and were concerned that the next iteration of the document must capture the public's imagination. They recognised that more detail was needed, and suggested including some key examples of the difference that having devolved powers and funding could mean within the region. They also discussed the need to address the outcome of the 2004 referendum - explaining how the new proposals differ from that offer - and to address the issue of governance models, including the potential for having an elected mayor.

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ANNEX B

NECA Overview and Scrutiny Committee – 1 December 2015

The NECA Overview and Scrutiny Committee considered the proposed devolution agreement at their meeting on 1 December in discussion with three members of the NECA Leadership Board.

Following discussion on the consultation exercise itself and the different approaches taken by constituent local authorities, members then considered the detail of the proposals. With regard to accountability going forward, it was hoped that the scrutiny arrangements would remain as now. It was recognised that although the agreement was a significant milestone, there was much more work still to be done and the committee discussed the conditions set out in the proposed agreement that needed to be met before formally progressing to the next stage of devolved arrangements, as well as receiving an update on the progress of the Cities and Local Government Devolution Bill through Parliament.

The committee discussed the governance implications and potential views among residents in relation to the principle of self-determination through devolution, but noting that there was likely to be some division and significant concern on an elected mayoral system. The committee noted the position of Government on the inclusion of an Elected Mayor as a mandatory element of the package of devolution proposals and discussed how the Mayor would work with the Leaders of the 7 local authorities as a Cabinet with appropriate checks and balances in place. It was felt that an elected mayor would have a key role in preparing a vision for the North East that all residents could sign up to and that civil society had to play a part in shaping the mayoral vision.

Discussion emphasised the importance of fiscal devolution to help shape the future of the region particularly in relation to transport and potential investment in the Metro, buses, airports and ports.

It was highlighted that a directly elected mayor for the CA area would be a very different model to what was currently known; the role was about skills and investment in the region and it was therefore important to get the constitution right, with Overview and Scrutiny written into the checks and balances processes.

The committee felt that NECA provided an opportunity to increase economic capacity and to operate on a global level and that decisions would be better made locally. Proposed changes to the business rates system were discussed along with the provisions of the Bill that covered a Mayoral precept.

The importance of ongoing consultation with all stakeholders was emphasised and the committee noted that an implementation plan was being developed including consideration of the appropriate capacity to progress the various workstreams related to the devolution agenda and the themes of the proposed agreement.

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ANNEX C

NECA – Proposed Devolution Agreement – Consultation Events

Analysis of VONNE Stakeholder Event held on 18th January 2016

Introduction

The event was held at MEA house with 62 delegates representing voluntary organisations and groups from across the region.

The event opened with a short introduction by Councillor Simon Henig on the aims of the North East Combined Authority, progress made so far, the Devolution Agreement and the next steps including further engagement and consultation with all stakeholders.

Adam Wilkinson – Acting Head of Paid Service then gave a short presentation on the Devolution Agreement followed by Jane Hartley – Chief Executive VONNE on devolution and the role of VONNE in the devolution proposals and delivery.

There was a short question and answers session with the panel and then delegates split into 6 groups to consider four set questions regarding the devolution agreement and the next steps to progress the debate/implementation of the agreement.

A summary of the main points from the discussion groups on each of the questions were as follows:

1. Does the proposed agreement focus on the right issues to drive growth in the North East?

- a) It was felt that the devolution statement covered the issues, barriers and challenges to economic growth facing the north east however, it was difficult to visualise what the interventions/and changes will look like. An action plan/ time line would assist
- b) The inclusion of the Human Capital strand was welcomed however, it was felt the statement overlooked the need to develop human capital at grass roots level. There needed to be more emphasis on capacity building in communities and community development work using an asset based approach
- c) The theme of inequality across the Country; Region, within work force gender, race and age cut across all of the various agenda in the Devolution Statement but across it there was no mention of support for under 16s and it was felt early years intervention was needed to make step change in employment and skills. These had to be given a priority when moving the proposals forward

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- d) The proposals currently have an economic focus rather than a VCSE focus. The reasons for this were understood but any economic strategy must be underpinned by a locally focussed Social Strategy
 - e) There was a need to ensure that those outside of the job market e.g. young, old and those unable to work through mental or physical disability benefitted from the devolution agreement. Need to be in provision for structured approach to apprenticeships not just the traditional focus on higher education for training of young people.
- 2. Devolution is not just about drawing down powers and responsibilities from central Government to the North East Combined Authority – we want to work in partnership with our stakeholders and local communities. What do you see as your role and the sector’s role in the implementation of the proposals?**
- a) It was felt the VCSE sector could be a conduit to “making devolution real for people in communities” helping people to have a voice and co-design/co-produce interventions recognising the assets in communities to design own solutions (community resilience)
 - b) VCSE sector organisations can be a key player in innovating new services – Co-production/Co-Design; sharing best practice – showcasing success through forums, networks and case studies
 - c) VCSE representatives could play a pivotal role as a reference group for devolution initiatives using existing forums e.g. VONNE Health & Well Being and could be a core deliverer of services especially at grass roots level e.g. capacity building, pre employability work etc.
 - d) VCSE involvement in the process could be held back due to lack of capacity and funding
- 3. Which areas of the proposed agreement do you want to discuss in more detail at future engagement events?**
- a) The Health and Social Care Commission – more clarity required about what it is, its role, and principles.
 - b) NECA structures and where VCSE sector fits in.

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- c) The development of an action plan, timeline or road map to guide and communicate devolution developments.
- d) Resource Mapping across the area as a whole so that an overall view of the assets, talents, opportunities and strengths there are across the region
- e) Further discussions around Human Capital Theme with a focus on community capacity building and development with a shift in focus from Joint Strategic Needs Assessment to Asset Based Community Development
- f) Governance structures and how the NECA will work with Tess Valley CA for the benefit of the whole region
- g) Resourcing, including impact of reduced resource allocation to the public sector and existing Local Councils, funding of projects and programmes across borders with adjoining councils and how resources will be allocated post devolution

4. Which areas of the proposed agreement do you want to discuss in more detail at future engagement events?

- a) Unified Procurement Mechanism – There are currently 7 different approaches to the implementation of the Social Value Act in procurement across the NECA Region.
- b) The development of a Community Engagement Plan ensuring hard to reach groups are brought in
- c) The Rural Dimension and Social Enterprise need to be considered and taken into account in future discussions and action planning.
- d) In order to demonstrate identity and cohesion in the NE, it was suggested that clarity will be needed on roles and how organisations will interact in the future. For example Local Authorities, the NECA, the NELEP, the Tees Valley CA as well as the wider north of England.
- e) It was suggested that the issues of inequalities, deprivation and social inclusion need to remain at the forefront of the debate as it relates to how we present the case to Government.

North East Combined Authority Audit Progress Report July 2016



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Our reports are prepared in the context of the Public Sector Audit Appointment Limited's 'Statement of responsibilities of auditors and audited bodies'. Reports and letters prepared by appointed auditors and addressed to the Authority,, its Members, Directors or officers are prepared for the sole use of the audited body and we take no responsibility to any Member, Director or officer in their individual capacity or to any third party.

01 Introduction

The purpose of this report is to update the Governance Committee of the North East Combined Authority (the Authority) on progress in delivering our responsibilities as your external auditors.

We have also highlighted key emerging national issues and developments which may be of interest to Committee Members.

If you require any additional information, please contact us using the contact details at the end of this update.

Finally, please note our website address (www.mazars.co.uk) which sets out the range of work Mazars carries out, both within the UK and abroad. It also details the existing work Mazars does in the public sector.

02 2015/16 audit progress

2015/16 audit

We have now completed our detailed audit planning, in particular we have:

- carried out our initial planning in respect of 2015/16, refreshing our understanding of the business and what we consider are the significant risks of material misstatement in respect of the financial statements and also the Value for Money (VfM) conclusion so as to inform our testing strategy;
- documented a walkthrough of the key financial systems;
- held liaison meetings with your Internal Auditors to both share common knowledge and ensure no duplication;
- held on-going liaison meetings with senior officers; and
- considered key agendas and papers.

Based on our work to date we have no significant matters arising to report to you and there are no changes to our original assessment of significant risks (Opinion and VfM) as set out in our Audit Strategy Memorandum which was presented to the Governance Committee on 1 April 2016.

Work commenced on the Authority's draft 2015/16 Statement of Accounts on 27 June 2016. We plan to include our Audit Completion Report on the agenda of the Governance Committee on 13 September 2016 before we present to the Leadership Board for approval on 20 September 2016.

North East Governance Forum

The forum was established for officers and Members, particularly Chairs and Vice Chairs of Audit Committees, with the aims of:

- promoting good practice in governance;
- facilitating dialogue, debate and sharing of ideas among those providing governance oversight;
- horizon scanning to ensure that the forum is briefed on the latest developments and key topical issues; and
- providing a safe and valued forum for discussion.

The second meeting of our North East Governance Forum took place at Durham County Cricket Club on 16 June 2016, which was attended by Members and officers of the Authority.

The topics discussed on this occasion included:

- Cybercrime and system resilience;
- Risk register benchmarking; and
- Governance round-up.

03 National publications and other updates

This section contains updates on the following:

1. **English devolution deals**, *National Audit Office, April 2016*
2. **Fighting fraud and corruption locally: the local government counter fraud and corruption strategy 2016 to 2019**, *Department for Communities and Local Government, April 2016*
3. **Oversight of audit quality: quarterly compliance reports 2015/16**, *Public Sector Audit Appointments Ltd.*
4. **Supporting the transition**, *Public Sector Audit Appointments Ltd, February 2016*
5. **Results of auditor's work 2014/2015: local government bodies**, *Public Sector Audit Appointments Ltd, December 2015*
6. **Guide to auditor panels**, *Cipfa, December 2015*
7. **Mazars: Public services blog 'Let's talk public services'**

1. English devolution deals, National Audit Office, April 2016

Devolution deals to devolve power from central government to local areas in England offer opportunities to stimulate economic growth and reform public services for local users, but the arrangements are untested and government could do more to provide confidence that these deals will achieve the benefits intended, according to the National Audit Office.

Over the last 18 months, 10 devolution deals have been agreed, outlining the transfer of powers, funding and accountability for policies and functions previously undertaken by central government, in Greater Manchester, Cornwall, Sheffield City Region; the North East; Tees Valley; Liverpool City Region; the West Midlands, East Anglia; Greater Lincolnshire; and the West of England. They are the latest in a range of initiatives and programmes designed to support localism and decentralisation.

HM Treasury and the Cities and Local Growth Unit are responsible for managing the negotiation, agreement and implementation of devolution deals on behalf of central government as a whole. All of the deals include an agreement on devolved responsibility for substantial aspects of transport, business support and further education. Other policy areas included in some of the deals are housing and planning, employment support and health and social care.

The government has announced new additional investment funding of £246.5 million a year alongside the devolution deals announced so far. Over time, the government intends to combine this funding with a number of other funding streams into a 'single pot' to enable more local control over investment decisions, and has announced £2.86 billion of initial allocations over 5 years for the first 6 mayoral devolution deals.

Central government's management approach to brokering devolution deals is designed to support its policy of localism. The government considers that devolution proposals should be led by local areas, and that central government's role should be to respond to these proposals. As a result, the government has decided not to set out a clear statement of what it is trying to achieve through devolution deals.

According to the NAO, however, there are significant accountability implications arising from the deals which central government and local areas will need to develop and clarify. These include the details of how and when powers will be transferred to mayors and how they will be balanced against national parliamentary accountability. The deals agreed so far involve increasingly complex administrative and governance configurations. And as devolution deals are new and experimental, good management and accountability both depend on appropriate and proportionate measures to understand their impact. To improve the chances of success, and provide local areas and the public with greater clarity over the progression of devolution deals, central government should clarify the core purposes of devolution deals as well as who will be responsible and accountable for devolved services and functions, and should ensure it identifies and takes account of risks to devolution deals that arise from ongoing challenges to the financial sustainability of local public services.

<https://www.nao.org.uk/report/english-devolution-deals/>

2. Fighting fraud and corruption locally: the local government counter fraud and corruption strategy 2016 to 2019, Department for Communities and Local Government, April 2016

Fighting Fraud and Corruption Locally is the new counter fraud and corruption strategy for local government. It provides a blueprint for a tougher response to fraud and corruption perpetrated against local authorities. By using this strategy local authorities will develop and maintain a culture in which fraud and corruption are understood to be unacceptable, understand their fraud risk and prevent fraud more effectively, use technology to improve their response, share information and resources more effectively to prevent and detect fraud loss, bring fraudsters account more quickly and efficiently, and improve the recovery of losses. This strategy is aimed at council leaders, chief executives, finance directors, and all those charged with governance in local authorities.

The strategy:

- calls upon local authorities to continue to tackle fraud with the dedication they have shown so far and to step up the fight against fraud in a challenging and rapidly changing environment illustrates the financial benefits that can accrue from fighting fraud more effectively;
- calls upon central government to promote counter fraud activity in local authorities by ensuring the right further financial incentives are in place and helping them break down barriers to improvement updates and builds upon Fighting Fraud Locally 2011 in the light of developments such as The Serious and Organised Crime Strategy and the first UK Anti-Corruption Plan; and
- sets out a new strategic approach that is designed to feed into other areas of counter fraud and corruption work and support and strengthen the ability of the wider public sector to protect itself from the harm that fraud can cause.

<https://www.gov.uk/government/publications/fighting-fraud-and-corruption-locally-2016-to-2019>

3. Oversight of audit quality: quarterly compliance reports 2015/16, Public Sector Audit Appointments Ltd

There are no significant issues arising highlighted in respect of Mazars LLP in the latest quarterly report (quarter 4 of 2015/2016).

<http://www.psaa.co.uk/audit-quality/principal-audits/mazars-audit-quality/>

4. Supporting the transition, Public Sector Audit Appointments Ltd, February 2016

Public Sector Audit Appointments Ltd (PSAA) has published its Corporate Plan for the period to 2018. The Plan sets out how the company will discharge the functions delegated to it by the Secretary of State for Communities and Local Government which include managing audit contracts originally let by the Audit Commission and supporting a smooth transition to the new audit regime introduced by the Local Audit and Accountability Act 2014.

PSAA's work programme involves two parallel strands: ensuring that the existing audit contracts continue to deliver good quality and positive value for audited bodies and effective assurance to the public; and, providing as much support as possible to assist local bodies to prepare for, and be ready to meet, their new responsibilities as the legislation is fully implemented.

The plan was informed by the fact that the timetable for the expiry of the existing audit contracts is now clear. For NHS bodies and smaller local authorities (mainly parishes and internal drainage boards) existing arrangements will cover the audits up to and including 2016/17. For these bodies the new regime will therefore apply to the audits of the financial year 2017/18 and onwards. For principal local authorities and criminal justice bodies the existing arrangements are expected to run for a further year covering the audits up to and including 2017/18. For these bodies the new regime will apply to 2018/19 audits and beyond.

As part of its role in supporting local bodies to prepare for their responsibilities under the new regime, PSAA has set up on its website a dedicated Supporting the transition area containing resources to assist local public bodies in making the transition to the new arrangements.

<http://www.psaa.co.uk/supporting-the-transition/>

A further important aspect of PSAA's work in relation to the new regime will involve working with the Local Government Association and the Improvement and Development Agency to explore the feasibility of PSAA seeking to become a 'sector-led body' with the ability to enter into contracts and appoint auditors to local bodies in the new regime. Further information will be provided on PSAA's website as this work progresses.

5. Results of auditor's work 2014/2015: local government bodies, Public Sector Audit Appointments Ltd, December 2015

This is the first report for local government bodies published by Public Sector Audit appointments Ltd (PSAA), and it summarises the results of auditors' work at 509 principal bodies and 9,755 small bodies for 2014/2015. The report covers the timeliness and quality of financial reporting, auditors' local value for money work, and the extent to which auditors utilised their statutory reporting powers.

The timeliness and quality of financial reporting for 2014/2015 remained broadly consistent with the

previous year for both principal and small bodies. Against a background of financial challenges, the sector is clearly working hard to achieve appropriate standards in its stewardship of resources.

Auditors at 97 per cent of principal bodies were able to issue the opinion on the 2014/2015 accounts by 30 September 2015, with 23 bodies receiving an unqualified audit opinion by 31 July 2015. For the second year in a row there have been no qualified opinions issued to date to principal bodies (at the time of this report being written). The number of qualified conclusions on value for money arrangements remained consistent with the previous year at 4 per cent.

For small bodies, auditors were able to issue their opinion on the annual return by 30 September 2015 at 99 per cent of parish councils and internal drainage boards. This is consistent with the previous year.

<http://www.psaa.co.uk/appointing-auditors/terms-of-appointment/reports-on-the-results-of-auditors-work/>

6. Cipfa: Guide to auditor panels, December 2015

This publication is aimed at those within local authorities who will have a role to play in deciding how and who to appoint as their organisation's local auditors.

It has been commissioned by DCLG, and a working group including DCLG, NAO, Public Sector Audit Appointments Limited (PSAA) and other stakeholders have ensured that the guidance is relevant and specific to authorities.

<http://www.cipfa.org/policy-and-guidance/publications/g/guide-to-auditor-panels-pdf>

7. Mazars: Public services blog 'Let's talk public services'

Mazars has launched a blog 'Let's talk public services' where Mazars' team of auditors and advisors working with UK public service organisations can provide a place in which public service practitioners can exchange experience and ideas relevant to their jobs. The blog can be found here:

<http://blogs.mazars.com/lets-talk-public-services>

04 Contact details

Please let us know if you would like further information on any items in this report.

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North East Combined Authority

Governance Committee

Date: 5 July 2016

Subject: 2015/16 Outturn and Key Financial Statements

Report of: Chief Finance Officer

Executive Summary

The purpose of this report is to provide the Governance Committee with a summary of the North East Combined Authority's financial results for 2015/16, present the draft accounting statements and provide an overview of significant financial matters which occurred during the year.

Recommendations

It is recommended that the Committee receive the report for consideration and comment.

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1 Background Information

- 1.1 This outturn report provides the Governance Committee with a summary of the Authority's financial results for 2015/16, explaining the key accounting statements and presenting an overview of significant financial matters which occurred during the year.
- 1.2 This is the second set of accounts to be produced for the North East Combined Authority, which was established on 15 April 2014 by the Durham, Gateshead, Newcastle upon Tyne, North Tyneside, Northumberland, South Tyneside and Sunderland Combined Authority Order which came into effect on that date. On the same date, the former Tyne and Wear Integrated Transport Authority was dissolved and its assets and liabilities transferred to the new Authority. The North East Combined Authority accounts include a consolidation of the financial results of the North East Local Enterprise Partnership (NELEP), for which it acts as Accountable Body.

2 Principal Financial Results for the Year

2.1 Financial Summary for 2015/16

- 2.1.1 Total revenue expenditure in 2015/16 was £122.37m, and total capital expenditure was £137.5m. This was considerably higher than spending in 2014/15 (£117.011m and £75.553m respectively) due mainly to a significant increase in capital investment funded by Local Growth Fund grant. This includes expenditure in relation to the Tyne Tunnels and for the North East LEP, for which NECA is the accountable body.
- 2.1.2 Revenue spending was kept within the revised budget for the year and capital spending was at a satisfactory level of 93% of the revised capital programme for the year.
- 2.1.3 With the unspent revenue and capital resources being carried over into 2016/17, the level of usable reserves at 31st March 2016 increased to £59.0m from £57.4m at the start of the year.
- 2.1.4 The NECA balance sheet strengthened over the course of the year, with an increase in the level of investments, a reduction in the level of borrowing and an overall increase of £6.9m in the value of Net Assets to £155.6m.

2.2 Revenue Budget Overview

- 2.2.1 The Authority set its revenue budget for 2015/16 at its meeting in January 2015, and revised the budget in January 2016. Expenditure at the year end

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was within the agreed budget, including costs relating to increased levels of activity on Devolution preparations.

Transport - Levy Funded Budget

2.2.2 The transport levies for 2015/16 were the first to be set across the whole NECA area, and were agreed by the Authority in January 2015, along with the grants to Transport Authorities, which make up the majority of the revenue budget.

2.2.3 The detailed outturn against this budget is summarised in the table below:

	2015/16 Revised	2015/16 Outturn	Variance
	£000	£000	£000
Service Level Agreements	250	184	(66)
Training, Travel & Subsistence	3	1	(2)
Members Allowances	5	5	-
Supplies & Services	22	22	-
Audit Fee	13	12	(1)
Contribution to Devolution Activity	110	187	77
Financing Charges	2,159	2,086	(73)
Repayment to Tyne Tunnels Reserves	240	240	-
Interest Income	(5)	-	5
Grant to Durham	16,072	16,072	-
Grant to Northumberland	5,896	5,896	-
Grant to Nexus	64,500	64,500	-
Transport Expenditure	89,265	89,205	(60)
Durham Levy	(16,076)	(16,076)	-
Northumberland Levy	(5,901)	(5,901)	-
Tyne & Wear Levy	(67,200)	(67,200)	-
Transport Budget Income	(89,177)	(89,177)	-
Contribution (to)/from NECA Reserves	87	27	(60)

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NECA Corporate Budget

2.2.4 In 2015/16 a corporate budget of £300k (funded by a contribution of £43k from each constituent council) was agreed to fund the central costs of NECA. During the year, NECA took on additional responsibilities in relation to the accountable body role for the LEP, which is delivering an increased level of Local Growth Fund Activity. It has also had to resource the preparation of a major Devolution bid. This led to increased central costs. In January 2016, the Authority agreed to use reserves, interest on revenue balances and any underspend on other NECA budgets to fund additional dedicated Head of Paid Service capacity and to provide a £500k budget for the development of devolution work stream activity.

2.2.5 Actual expenditure to the year end against the Corporate and Devolution budgets are set out in the table below, along with details of the funding of these costs.

	Actual (£000)
Corporate/Central Costs	
- External Support/Agency Costs	169
- Service Level Agreements/Secondments	259
- Audit fees	12
- Supplies & Services	16
	456
Devolution	
- External Support/Agency Costs	115
- Service Level Agreements/Secondments	12
- Consultancy	120
- Supplies & Services	3
	250
Total Expenditure	706
Funding	
- Contributions from Constituent Authorities	(300)
- Prior Year underspends	(63)
- Interest on balances	(110)
- Contributions from other NECA budgets	(187)
- NECA Corporate Reserve	(46)
Total Funding	(706)

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Inward Investment Activity

- 2.2.6 Each local authority in the area is engaged in activities designed to generate and convert inward investment enquiries. These local arrangements have been supplemented by the creation of the Inward Investment Gateway that is able to provide a considered regional response to potential inward opportunities generated by UKTI and other activities. The work is led by the Director, Invest NE England, supported by a team of two staff employed by the Authority.
- 2.2.7 Contributions from the seven councils totalled £140k, matched by a contribution of £140k from NELEP. This was agreed on a three year basis starting in 2015/16. A one off contribution of £80k was also agreed by the LEP for 2015/16, giving a total budget of £360k.
- 2.2.8 Actual expenditure at the year end against this budget was £211k, with the underspend mainly due to staff not being in post until towards the end of the financial year. Unused contributions have been carried forward to fund activity in 2016/17.

Tyne Tunnels

- 2.2.9 NECA owns the Tyne Tunnels, which link the A19 under the River Tyne between Howdon and Jarrow. There are two tolled vehicle tunnels, and tunnels for both pedestrians and cyclists. The Tunnels are entirely self-financing from the tolls, i.e. there is no call on the levy to support them, and assets and liabilities associated with the tunnels are ringfenced to the Tyne and Wear constituent councils within the Authority. The Tunnels are operated under a contract to a concessionaire company, TT2 Ltd. Tolls on vehicles are used to fund all operational costs and the costs of borrowing undertaken for the completion of the New Tyne Crossing, a major construction project which began in 2008 to provide a new tunnel alongside the existing one. The new tunnel was completed and opened in February 2011, and the old tunnel was then closed for refurbishment. The newly refurbished tunnel opened ahead of schedule in November 2011, to carry two lanes of northbound traffic while the new tunnel carries two lanes of southbound traffic. The Pedestrian and Cycle tunnels are free to users. They are currently undergoing major refurbishment works which are due to be completed in early 2018.
- 2.2.10 In 2015/16 the traffic level was 17.994m vehicles (an increase of 8.5% compared with 2014/15). This corresponded to a total toll income of £28.396m after adjusting for prepayments (compared with £26.116m in 2013/14). There were no increases in tolls during the year; they were maintained at £1.60 for cars and small vans and £3.20 for lorries and large vans (with a ten percent discount for permit holders). A toll increase was implemented in May 2016.

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2.2.11 The Tyne Tunnels are operated as a ringfenced trading account, meaning it is fully funded from tolls income and dedicated tunnel reserves, with no impact on the levy. The position to the year-end is set out in the table below.

	2015/16 Revised	2015/16 Actual	Variance
Income			
Tolls	(27,457)	(28,396)	(939)
Interest / Other Income	(234)	(116)	118
Repayment from TW Transport reserve	(240)	(240)	-
Expenditure			
Contract Payments	21,658	22,033	375
Employees	36	36	-
Pensions	56	52	(4)
Support Services	100	103	3
Supplies & Services	35	35	-
Community Fund	10	10	-
Financing Charges	6,419	6,404	(15)
Premises	-	67	67
Net (Surplus)/Deficit	383	(12)	(395)
Contribution to/(from) reserve	(383)	12	395
Total	-	-	-

2.2.12 The outturn at the year-end shows an improved position from when the revised budget was agreed in January. The major variances were on Tolls income and Contract Payments to the concessionaire, where higher traffic usage of the tunnel led to increase income partially offset by increased payments to TT2 Ltd. Interest and other income was lower than forecast, as lower cash balances have been held during the year, as these were used for the repayment of debt.

2.2.13 Within the Financing Charges budget line, there were substantial savings on interest charges which enabled the setting aside of additional amounts for the repayment of principal, over and above the Minimum Revenue Provision.

2.2.14 Premises costs which had not been included in the budget were incurred in relation to the Tyne Pedestrian and Cycle Tunnels refurbishment project where the NECA took over the site from the original contractor during the year.

2.2.15 The final outturn position was a small surplus of £12k to be added to the Tyne Tunnels reserve. After contributions to the capital programme from the reserve, the remaining level at 31 March 2016 was around £24.3m.

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2.3 NELEP Revenue Budget

Decisions regarding the North East LEP budget are taken by the LEP Board. As Accountable Body, all transactions relating to these budgets are shown in the NECA accounts and subject to external audit.

North East LEP Core Activity

- 2.3.1 The LEP core budget covers mainstream LEP operational activity and also management of the Local Growth Fund programme. The table below provides a summary of actual spend against the revised budget for the year with supporting notes provided below. Total revenue expenditure amounted to £1.952m, which was £0.245m lower than the revised budget for the year. Income was £2.158m, resulting in a net surplus of £0.206m carried over into 2016/17.

	Original Budget £000	Revised Budget £000	Actual Spend £000	Variance £000
Expenditure				
Employees	1,400	1,004	946	(58)
Premises	75	90	88	(2)
Communications	100	119	138	19
Transport LGF Monitoring	300	300	282	(18)
Other Operational Costs	275	484	393	(91)
Inward Investment Contribution	220	200	105	(95)
Gross Expenditure	2,370	2,197	1,952	(245)
Income				
Local Authority Contributions	(250)	(250)	(250)	0
DCLG LEP Grant Funding	(250)	(250)	(250)	0
DCLG SEP Grant	(250)	(250)	(250)	0
Local Growth Fund	(1,039)	(1,086)	(1,068)	18
ERDF Technical Assistance	(190)	0	0	0
City Deal Contribution	(41)	0	0	0
REIP Brought Forward	(100)	(93)	(93)	0
Enterprise Zone Business Rates	(30)	(12)	0	12
Interest on LGF Balances	(220)	(242)	(224)	18
Enterprise Advisor Grant	0	(14)	(3)	11
Misc. Contributions	0	0	(10)	(10)
Gross Income	(2,370)	(2,197)	(2,148)	49
2015/16 Net Budget (Surplus) / Deficit	0	0	(196)	(196)

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General Balances carried forward to 2016/17	(240)	(240)	(436)	
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- 2.3.2 Overall, the LEP Core Activity for 2015/2016 generated an underspend of £196,000. This net underspend is primarily linked to lower staff costs; a lower contribution for inward investment activity being required this year; and the continuation of the Schools Challenge initiative into the 2016/2017 financial year. Funding will be carried forward to meet future commitments.

North East Growth Hub

- 2.3.3 The North East Growth Hub project, funded through the Growth Deal, has developed a digital resource that provides access to business information, knowledge and advice, with peer-to-peer support from local business community and local, regional and national business support providers across the public and private sectors.
- 2.3.4 Within the financial year, £357,000 of the £500,000 allocation was utilised. The Department for Business, Innovation and Skills (BIS) has provided an extension to the 27th May for defrayment of the remaining balance; this has now been fully spent. The table below provides a summary of expenditure against budget.

Budget Area	Budget £000	Revised Budget £000	Actual £000	Variance £000
Expenditure				
Employees	60	60	67	(7)
Delivery Costs	440	440	290	150
Expenditure Budget	500	500	357	(143)
Income				
Revenue Grant	(500)	(500)	(500)	0
Other – Contributions	0	0	(2)	(2)
Income Budget	(500)	(500)	(502)	(2)
Carry Forward to 16/17	0	0	(145)	(145)

- 2.3.5 On the 4th February 2016, BIS announced the extension of the Growth Hub initiative. The North East LEP allocation for 2016/2017 has been confirmed at £410,000.

National Careers Pilot – Gatsby Foundation

- 2.3.6 The pilot programme to be delivered over the period 2015 to 2020 is funded by Lord Sainsbury's Gatsby Foundation. Schools and colleagues within the

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North East LEP area have been selected to pilot a new national careers guidance framework, designed to encourage the next generation of young people to make fully informed decisions and to begin to equip them with the skills employers need. This multi-year programme is now underway, with employee and delivery costs incurred during 2015/2016. Start-up payments to schools will be released early in 2016/2017 as the project progresses. The remaining balance at the end of the financial year has been carried forward in to 2016/2017.

- 2.3.7 The table below provides a summary of expenditure against the revised budget for the year.

Budget Area	Budget £000	Revised Budget £000	Actual £000	Variance £000
Expenditure				
Employees	0	36	67	31
Delivery Costs	0	68	24	(44)
Start Up Fund for Schools	0	96	0	(96)
Expenditure Budget	0	200	91	(109)
Income				
Gatsby Foundation Grant	(0)	(200)	(165)	35
Carry Forward to 16/17	0	0	(74)	(74)

North East Investment Fund (NEIF) - Programme Delivery Budget

- 2.3.8 The North East Investment Fund (NEIF) comprises funding from the Growing Places Fund and Regional Growth Fund. The activity to support delivery of the programme is funded through revenue allocations provided alongside the initial central government grants.
- 2.3.9 Following the granting of an extension for the delivery of the Regional Growth Fund into 2015/2016, the RGF revenue allocation balance was also rolled forward. Activity during the year has allowed the NEIF support costs to be fully allocated; support service costs from Sunderland City Council and external support linked to project appraisal and contracting are broadly in line with budget.

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2.3.10 The table below provides a summary of expenditure against budget.

Budget Area	Budget £000	Revised Budget £000	Actual £000	Variance £000
Expenditure				
Employees	32	0	0	0
Support Services	35	35	25	(10)
External Support	50	158	144	(14)
Appropriation to NEIF	25	25	69	44
Expenditure Budget	142	218	238	20
Income				
RGF Programmes Management Grant	0	(103)	(103)	0
GPF Programmes Management Grant	(117)	(90)	(66)	24
Interest on NEIF Balances	(25)	(25)	(69)	(44)
Gross Income Budget	(142)	(218)	(238)	(20)
Net Budget (Surplus) / Deficit	0	0	0	0

2.4 North East Enterprise Zone

2.4.1 The NE Low Carbon Enterprise Zone is located across four local authority areas; Newcastle, North Tyneside, Northumberland and Sunderland. Business rates growth generated on these designated sites accrues to the benefit of the North East LEP for a 25 year period, 2015/16 was the third year of the zone's life.

2.4.2 Analysis of the business rates generated to date is shown in the table below. This funding is available to support future North East LEP activity; primarily additional Enterprise Zone site development works to future enhance this income stream in the coming years.

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NE Enterprise Zone Business Rates Growth; Expenditure and Surplus

Local Authority Area	Business Rate Growth Receipts (£)			TOTAL to Date (£)
	2013/2014	2014/2015	2015/2016	
Newcastle	311,765	330,041	262,155	903,961
North Tyneside	14,316	54,942	99,975	169,233
Northumberland	11,913	28,176	96,284	136,373
Sunderland	695,693	652,913	745,022	2,093,628
Sub Total	1,033,687	1,066,072	1,203,435	3,303,195
Expenditure				
NEIF Repayment	0	0	(541,967)	(541,967)
Financing Costs	0	0	(424,439)	(424,439)
EZ Costs	0	(8,950)	(9,000)	(17,950)
Interest on Bal.	0	3,425	6,900	10,325
TOTAL Surplus	1,033,687	1,060,547	234,929	2,329,163

- 2.4.3 During 2015/16, NECA and the NELEP received confirmation of a second Enterprise Zone covering 10 areas and 175 hectares, with a start date of April 2017.

2.5 Capital Programme

- 2.5.1 In January 2015, the Authority set a base capital programme of £114m. This was a significant increase on previous years due to the commencement of the Local Growth Fund Programme. The table below summarises the budget and the final capital outturn position at the year end. A final outturn against programme of over 93% compared with the revised budget for the year was achieved.

	Original Budget (£m)	Revised Budget (£m)	Outturn (£m)
Local Growth Fund	53.910	53.910	51.472
Metro ARP	45.271	44.595	42.323
Nexus Non-Metro	1.153	0.342	0.210
Tyne Tunnels	3.100	3.100	1.901
Transport Grants	11.309	12.760	11.070
Total	114.743	114.707	106.976

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2.5.2 Local Growth Fund

The North East Growth Deal announced in July 2014 included funding for a number of transport schemes, including the devolution of Local Major Schemes funding previously agreed. NECA received £53.910m on 10 April 2015, comprising the 2015/16 allocation of the growth deal.

A spend against programme of 95.6% was achieved, which was helped in part by using existing funding freedoms and flexibilities to swap LGF with other funding sources on approved EZ projects and also by the acceleration of projects from future years into year one. Displaced EZ project resources will be made available to support LGF programme commitments in future years.

2.5.3 Metro Asset Renewal Plan

2015/16 was the sixth year of Nexus' eleven year Metro Asset Renewal Plan (ARP), a programme of works to renew the Metro network. Income and expenditure in relation to the programme is reported through Nexus accounts, which are consolidated into the Group accounts of the Authority, and it forms part of the Authority's overall transport capital programme which is reported regularly to the Transport North East committee.

Expenditure at the year end was well within the required limits set by the DfT which give a maximum and minimum funding level to be reached.

2.5.4 Tyne Tunnels

There are two main elements to the Tyne Tunnels capital programme: the refurbishment works of the Pedestrian and Cycle Tunnels which commenced in 2013, and residual costs and works in relation to the major New Tyne Crossing project to construct the new vehicle tunnel. The Tyne Pedestrian and Cyclist Tunnels closed to the public in May 2013 to allow for a full refurbishment, installation of inclined lifts to replace the old wooden escalators, and structural works to be completed.

There will be further slippage against the programme into 2016/17. The main contractor for the refurbishment, GB Building Solutions Limited, entered into administration in March 2015. NECA has assumed project management responsibilities including contracting directly with the specialist sub-contractor for the inclined lift installation, to enable the project to progress to completion.

There are a small number of pieces of work still underway in relation to the New Tyne Crossing: namely the contribution to the Hexham Fish Pass works

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agreed with Northumberland County Council, (which was a requirement of the environmental obligations as part of the project) which has now slipped to 2016/17; provision for outstanding Part 1 Land Compensation Claims; and ongoing work in relation to land transfers with North and South Tyneside. Professional fees and costs associated with this work and work on variations to the Project Agreement were also included within the 2015/16 budget.

These costs are funded from Tyne Tunnels reserves.

2.5.5 Transport Grants

NECA is the responsible body for a number of DfT grants, which are awarded to the Authority and which it pays to the constituent authorities and delivery agencies to deliver transport works and capital investment in the region. Local Transport Plan (LTP) Integrated Transport Block funding is a flexible source of capital funding which is awarded to NECA by the DfT. This grant is provided to NECA's constituent authorities and Nexus, to deliver transport capital schemes, and is paid on a quarterly basis. In the case of Nexus, the grant provides match funding to the Metro Capital grant funding the Metro Asset Renewal Programme.

NECA also acts as accountable body for the North East Smart Ticketing Initiative (NESTI) which is a programme of investment in smart ticketing infrastructure across the wider North East. Capital expenditure of £0.108m during the year has been on the Small Operator Scheme and the Regional Stored Travel Rights system. The works have been funded from the NESTI contributions which are held and managed centrally by NECA. Slippage on the programme will be incorporated into the 2016/17 programme

2.6 North East Investment Fund – Loans and Grants

2.6.1 NECA acts as the Accountable Body for the North East LEP, as described above. The draft accounts for 2015/16 include loans and grants made under the Regional Growth Fund and Growing Places Fund. Decisions on awards are made by the North East LEP Board, with Regional Growth Fund awards also being signed off by the relevant Government Department. Both regimes are subject to specific audit, as well as being audited via the external audit of the NECA accounts. The initial £55m NEIF, made up of £25m Growing Places and £30m Regional Growth Funding is now fully allocated, with projects supported through loan beginning to make repayments. NEIF supported projects progressed during the financial year included; further development of the regions round 1 enterprise zone sites, Centre for Innovation and Growth at Durham University, Vantec's second warehouse development, SME office accommodation in Jesmond and the extension of the NE JEREMIE fund.

2.6.2 The table below provides a summary of grant and loan payments made under both RGF and GPF in 2015/16. More details of grant and loan payments and

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loan repayments from the beginning of the fund to date are set out in Appendix 5.

	Grants paid 2015/16 (£m)	Loans advance d 2015/16 (£m)	Total payment s 2015/16 (£m)
Growing Places Fund	2.719	0.200	2.919
Regional Growth Fund	3.891	11.509	15,401
Contribution to JEREMIE 1 Extension	4.500	-	4.500
Total	11.110	11.709	22.820

- 2.6.3 In addition to the payments made, the accounts for 2015/16 include income in the form of grant repayments from projects which received loans in year and in previous years. These repayments have interest rates ranging up to 11%, and generate returns which can be reinvested in economic development in the NECA area.

	Interest repayment s 2015/16 (£m)	Principal repayment s 2015/16 (£m)	Total repayments 2015/16 (£m)
Growing Places Fund	0.658	3.603	4.261
Regional Growth Fund	0.078	0.885	0.963
Total	0.736	4.488	5.224

2.7 Treasury Management

- 2.7.1 The Balance Sheet at Appendix 3 shows external borrowing of £171.690m at the end of the year, which is split between short term borrowing (interest and principal due to be repaid in less than one year - £3,356m) and long term borrowing (principal repayments due in more than one year - £168.333m). This compares to £198.824m at the end of 2014/15. The decrease is due to the early repayment of some Public Works Loans Board (PWLb) loans which enabled a saving to be made on the revenue budget, and the regular principal repayments made on Equal Instalment of Principal (EIP) loans. The average rate of interest on external borrowing for the year was 4.28% which is comparable with the previous year.

- 2.7.2 The Balance Sheet also shows short term investments held of £89m. These are made up of £38m investments placed on behalf of Nexus (£28m 2014/15), which are offset by a corresponding creditor on the Balance Sheet to

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represent the fact that these investments must be repaid to Nexus on request; and £51m investments for NECA (£0m 2014/15). The increase in NECA investments in 2015/16 compared to the previous year is primarily due to receipt of grant income in advance of payments being made to projects and the need to achieve better investment returns leading to deposits being placed for longer time periods where it is considered safe to do so.

2.8 Pensions

2.8.1 The Authority is an employer in the Tyne and Wear Pension fund which is part of the Local Government Pension Scheme, providing defined benefits based on members' salary and years of service. In accordance with International Accounting Standard 19 (IAS19), the Authority is required to value all pension liabilities that have accumulated at the end of the year consisting of:

- Pension benefits that are being paid out to former employees who have retired;
- Pension benefits earned to date by current employees but not yet paid out.

IAS19 requires all assets of the Pension Fund to be shown at their market value at 31 March. Comparing the value of all future pension payments and the value of investments at 31 March results in an overall surplus or deficit for the Pension Fund.

2.8.2 The majority of the pension liabilities of NECA relate to former TWITA employees. In December 2013, the TWITA took the decision to make a payment to the Pension Fund to clear the majority of the deficit in its scheme. The purpose of this was to reduce the historic deficit before the pension liabilities were transferred to NECA on its establishment, and also to provide a saving in the revenue budget on the regular deficit contribution payments which was far in excess of the lost potential investment income that would have been achieved by holding the cash in reserves.

2.8.3 As a result, the deficit decreased from £8.25m in March 2013 to £0.96m at 31 March 2014 and has further reduced to £0.89m at 31 March 2016. This liability entirely relates to unfunded defined benefit arrangements for the award of discretionary post-employment benefits upon early retirement. Under this type of scheme liabilities are recognised when awards are made, however there are no investment assets built up to meet these and cash has to be generated to meet actual payments as they eventually fall due. These liabilities relate to former Tyne Tunnels employees and as such the annual payments are charged against the Tyne Tunnels account (approximately £52k per annum in 2015/16).

2.8.4 The profile of the NECA Pension Liabilities is changing due to taking on new employees during the year who are active members in the Fund. The impact of this will be reflected in the results of the Triennial Actuarial Valuation at 31 March 2016, which are expected to be received later in the 2016 calendar year.

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2.9 Looking ahead to 2016/17 and beyond

- 2.9.1 On 17 May 2016, the Authority confirmed their support for the proposed devolution agreement for the area, which includes the establishment of an elected mayor. The intention is for a Mayor to be elected for the NECA area in May 2017. One Authority decided not to be part of the Mayoral Combined Authority. Unless they decide to become part of the Mayoral Combined Authority this summer they will be excluded from the Combined Authority as a Non-Consenting Authority. An Order will be laid in October setting out the powers and responsibilities which will be devolved. In moving to a mayoral Combined Authority, there will be changes to the budgets and accounts of the Authority, including more funding being devolved as part of a 'Single Pot'.
- 2.9.2 The constituent councils of the Authority face significant government funding reductions in the coming years. This means there is likely to be pressure for budget reductions and further savings to be delivered by NECA.

3 Key Financial Statements

The full NECA draft accounts are available to download from the NECA website, and will be presented to the Committee once the audit has been completed, at the meeting in September. The core financial statements and selected notes are included in the appendices to this report.

3.1 Movement in Reserves Statement (Appendix 1)

This statement shows the movement in the year on the different reserves held by the Authority, analysed into Usable Reserves (i.e. those which can be applied to fund expenditure) and Unusable Reserves (which cannot). The surplus or deficit on the provision of services line shows the economic cost in accounting terms of providing NECA's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance for the purposes of setting the levy. The net increase or decrease before transfers to earmarked reserves line shows the statutory General Fund Balance before any discretionary transfers to or from earmarked reserves undertaken by the Authority.

The statement shows an increase in usable reserves from £57.4m to £59.0m, as a result of grant and other income being received in advance of being used

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to fund expenditure, and Enterprise Zone business rates growth income building up balances.

3.2 Comprehensive Income and Expenditure Statement (CIES) (Appendix 2)

The Comprehensive Income and Expenditure Statement shows the accounting cost in year of providing services in accordance with generally accepted accounting practice, rather than the amount to be funded from the levy and other sources of income which is set out in the MiRS, as described above.

The CIES for 2015/16 shows a surplus on the provision of services of £6.784m. This surplus has primarily arisen as a result of grant income being credited to the CIES where conditions have been met but they have not yet been used to fund expenditure, and grant income released to the CIES which has been used to fund the issue of NEIF loans (which under accounting practice are not shown in the CIES as they are capital expenditure).

3.3 Balance Sheet (Appendix 3)

The Balance Sheet summarises the Authority's financial position at 31 March each year. The net assets of the Authority (total assets less total liabilities) are matched by the reserves held by the Authority. Reserves are reported in two categories, Usable and Unusable as described above. Unusable Reserves include those which hold unrealised gains and losses (e.g. the Revaluation Reserve) where amounts only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the MiRS line "adjustments between accounting basis and funding basis under regulations".

There has been a significant increase in the level of short term creditors. Part of this increase was as a result of the significant level of accrual claims raised as part of the LGF programme, where claims were made by projects for their eligible expenditure to the year end, and paid by NECA following the year end. Around £43m of the increase relates to cash owed to Newcastle City Council. NECA's banking arrangements have changed during the year so that it receives income into its own account, but payments are still made from Newcastle's account due to NECA using its financial systems. The balance outstanding was reconciled following the year end and settled during April.

3.4 Cash Flow Statement (Appendix 4)

The Cash Flow Statement shows the changes in cash and cash equivalents of the Authority during the reporting period. The statement shows how the Authority generates and uses cash and cash equivalents by classifying cash flows from operating, investing and financing activities. Investing activities

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represent the extent to which cash outflows have been made for resources which are intended to contribute to the Authority's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Authority.

4 Next Steps

- 4.1 The draft accounts are subject to audit by the Authority's external auditors, Mazars, and the final accounts will be presented to the Governance Committee at its meeting on 13 September, prior to approval by the North East Leadership Board on 20 September.

5 Potential Impact on Objectives

- 5.1 There are no direct impacts on objectives as a result of this report. Sound financial stewardship improves the ability of the Authority to meet all of its objectives.

6 Finance and Other Resources

- 6.1 The financial implications are set out in the body of the report.

7 Legal

- 7.1 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.

8 Other Considerations

8.1 Consultation/Community Engagement

There are no community engagement implications arising from this report.

8.2 Human Rights

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

8.3 Equalities and Diversity

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

8.4 Risk Management

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

8.5 Crime and Disorder

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

8.6 **Environment and Sustainability**

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

9 **Background Documents**

10 **Links to the Local Transport Plans**

10.1 There are no links to plans in the policy framework

11 **Appendices**

- 11.1 Appendix 1 – Movement in Reserves Statement
Appendix 2 – Comprehensive Income and Expenditure Statement
Appendix 3 – Balance Sheet
Appendix 4 – Cash Flow Statement
Appendix 5 – NEIF Loans and Grants

12 **Contact Officers**

12.1 Paul Woods, Chief Finance Officer NECA, paul.woods@northeastca.gov.uk,

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13 **Sign off**

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

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APPENDIX 1 – Movement in Reserves Statement

	Note	Usable Reserves				Unusable Reserves	Total Authority Reserves
		General Fund Balance	Earmarked General Fund Reserves	Capital Receipts Reserve	Capital Grants Unapplied		
		£000	£000	£000	£000	£000	£000
Balance at 1 April 2014		-	-	-	-	-	-
Balances transferred on establishment of NECA		(34,946)	(11,753)	(150)	(18,639)	(65,488)	(146,242)
Adjusted opening balance		(34,946)	(11,753)	(150)	(18,639)	(65,488)	(146,242)
Movement in reserves during 2014/15							
Surplus on Provision of Services		(3,616)	-	-	-	(3,616)	(3,616)
Other Comprehensive Income & Expenditure		-	-	-	-	1,149	1,149
Total Comprehensive Income & Expenditure		(3,616)	-	-	-	1,149	(2,467)
Adjustments between accounting basis & funding basis under regulations	1	6,257	-	7,951	(2,528)	11,680	-
Net (Increase)/Decrease before transfers to Earmarked Reserves		2,641	-	7,951	(2,528)	8,064	(2,467)
Transfers (To)/From Earmarked Reserves		(397)	(1,231)	-	1,628	-	-
Increase in 2014/15		2,244	(1,231)	7,951	(900)	8,064	(2,467)
Balance at 31 March 2015 carried forward		(32,702)	(12,984)	(1,050)	(10,688)	(57,424)	(148,709)
Movement in reserves during 2015/16							
Surplus on Provision of Services		(6,784)	-	-	-	(6,784)	(6,784)
Other Comprehensive Income & Expenditure		-	-	-	-	(130)	(130)
Total Comprehensive Income & Expenditure		(6,784)	-	-	-	(130)	(6,914)
Adjustments between accounting basis & funding basis under regulations	1	8,012	-	(2,553)	(300)	5,159	-
Net (Increase)/Decrease before transfers to Earmarked Reserves		1,228	-	(2,553)	(300)	(1,625)	(6,914)
Transfers (To)/From Earmarked Reserves		(3,533)	(70)	3,603	-	-	-
(Increase)/Decrease in 2015/16		(2,305)	(70)	1,050	(300)	(1,625)	(6,914)
Balance at 31 March 2016 carried forward		(35,007)	(13,054)	-	(10,988)	(59,049)	(155,623)

North East Combined Authority

Governance Committee

APPENDIX 2 – Comprehensive Income and Expenditure Statement

2014/15				Note	2015/16		
Gross Expenditure £000	Gross Income £000	Net Expenditure £000			Gross Expenditure £000	Gross Income £000	Net Expenditure £000
209	(490)	(281)	Corporate & Democratic Core		677	(300)	377
			Non Distributed Costs		80	-	80
13,746	(13,128)	618	Planning Services		50,061	(55,414)	(5,353)
115,558	(55,929)	59,629	Highways & Transport Services		148,561	(69,129)	79,432
129,513	(69,547)	59,966	Cost of Services		199,380	(124,843)	74,537
-	-	-	Other Operating Expenditure		-	-	-
8,528	(2,839)	5,689	Financing & Investment Income & Expenditure	2	12,240	(3,181)	9,059
-	(69,271)	(69,271)	Taxation & Non-Specific Grant Income	3	-	(90,380)	(90,380)
		(3,616)	Deficit/(Surplus) on Provision of Services				(6,784)
		1,079	(Surplus)/Deficit on Revaluation of Non Current Assets	10			-
		70	Re-measurements of the defined benefit liability	18			(130)
		1,149	Other Comprehensive Income & Expenditure				(130)
		(2,467)	Total Comprehensive Income & Expenditure Deficit/(Surplus)				(6,914)

North East Combined Authority

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APPENDIX 3 – Balance Sheet

31 March 2015 £000		Note	31 March 2016 £000
361,625	Property, Plant & Equipment	10	359,345
52,669	Long Term Debtors	11	57,008
414,294	Long Term Assets		416,353
28,000	Short Term Investments	11	89,000
11,243	Short Term Debtors	11	19,702
68,531	Cash and Cash Equivalents	14	41,739
107,774	Current Assets		150,441
(28,824)	Short Term Borrowing	11	(3,356)
(43,697)	Short Term Creditors	15	(120,752)
(10,898)	Grants Receipts in Advance	4	(4,955)
(5,092)	New Tyne Crossing - Deferred Income	16	(5,092)
(88,511)	Current Liabilities		(134,156)
(112,030)	New Tyne Crossing - Deferred Income	16	(106,937)
(170,000)	Long Term Borrowing	11	(168,333)
(1,798)	Grants Receipts in Advance	4	(855)
(1,020)	Pension Liability	18	(890)
(284,848)	Long Term Liabilities		(277,016)
148,709	Net Assets		155,622
(57,425)	Usable Reserves	19	(59,049)
(91,284)	Unusable Reserves	21	(96,573)
(148,709)	Total Reserves		(155,622)

North East Combined Authority

Governance Committee

APPENDIX 4 – Cash Flow Statement

2014/15 £000		Note	2015/16 £000	
3,616	Net Surplus/(Deficit) on the provision of services		6,784	
4,128	Adjustments to net surplus or deficit on the provision of services for non cash movements	23	63,311	
(18,669)	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	23	(81,803)	
(10,925)	Net cash flows from Operating Activities		(11,708)	
94,676	Investing Activities	24	12,015	
(15,220)	Financing Activities	25	(27,099)	
68,531	Net (Decrease)/Increase in cash and cash equivalents		(26,792)	
-	Cash and cash equivalents at the beginning of the reporting period	14	68,531	
68,531	Cash and cash equivalents at the end of the reporting period	14	41,739	

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APPENDIX 5 - NORTH EAST INVESTMENT FUND SUMMARY

Type of Organisation	Number issued	TOTAL APPROVED (£)	DRAWDOWN IN 2015/16	LGF SWAPS IN 2015/16	TOTAL DRAWDOWN TO 31/3/16 (£)	PRINCIPAL REPAYMENT IN 2015/16	TOTAL PRINCIPAL REPAYMENT TO 31/3/16 (£)
Enterprise Zone Related Grants							
Local Authorities	3	9,880,445	4,684,468	(4,138,801)	5,722,983	265,485	265,485
Local Authority Controlled Companies	3	3,199,237	1,857,624	(1,471,432)	1,601,429	276,482	276,482
Private Sector	3	7,947,332	3,891,268	-	6,785,711	-	-
SUBTOTAL	9	21,027,014	10,433,360	(5,610,233)	14,110,123	541,967	541,967
Other Grants							
Private Sector	1	4,500,000	4,500,000	-	4,500,000	-	-
Local Authority Controlled Companies	1	3,175,000	1,587,500	-	3,175,000	-	-
SUBTOTAL	2	7,675,000	6,087,500	-	7,675,000	-	-
Loans							
Local Authorities	1	2,500,000	0	0	2,500,000	1,250,000	2,500,000
Private Sector	11	17,157,366	7,505,755	0	16,222,619	3,238,251	4,766,224
Universities	1	10,000,000	4,203,510	0	10,000,000	0	0
SUBTOTAL	13	29,657,366	11,709,265	-	28,722,619	4,488,251	7,266,224
OVERALL TOTAL	24	58,359,380	28,230,125	- 5,610,233	50,507,742	5,030,218	7,808,191

North East Combined Authority

Governance Committee

DATE: 5 July 2016

SUBJECT: Annual Governance Statement 2015/16

REPORT OF: Audit, Risk and Insurance Service Manager (Newcastle City Council)

EXECUTIVE SUMMARY

Members agreed the Assurance Framework for the 2015/16 Annual Governance Statement at their meeting on 1 April 2016. The purpose of this report is to bring the draft Annual Governance Statement to Members to consider its inclusion in the accounts. The Annual Governance Statement is at Appendix 1.

RECOMMENDATION

It is recommended that the Committee agree the draft Annual Governance Statement although this will be subject to review in September 2016 before it is signed by the Head of Paid Service and Leader of the Combined Authority.

North East Combined Authority

Governance Committee

1 Background Information

- 1.1 The 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;
 - Identify significant weaknesses and the actions that have taken place (or will take place) to address them;
 - Report these to the public in the Annual Governance Statement which is part of the Accounts.
- 1.2 An assurance framework was discussed at the April 2016 Governance Committee and evidence has been gathered against this to assess the effectiveness of governance and the internal control environment operating during 2015/16.

2 Evidence

- 2.1 The agreed assurance framework for the Combined Authority is set out below. This table shows the elements making up the framework. This process complies with the Chartered Institute of Public Finance and Accountancy's (CIPFA) recommended practice and will be subject to review by the Authority's external auditors at the time of their audit of the 2015/16 final accounts.

Element of Assurance
Governance Arrangements
Statutory Officers
Members
Internal Audit Activity
Risk Management
Performance Management
External auditor and other external inspectorates
Key Partnerships

- 2.2 **Governance Arrangements** - The Combined Authority has in place a Constitution which was reviewed and approved by the Leadership Board at their annual meeting on 16 June 2015. The Constitution defines the roles and responsibilities of those charged with Governance within the Authority. There are also a number of other key documents including the NECA Order and Operating Agreement in place. This evidence and the information below provides assurance that governance arrangements have been defined.
- 2.3 **Statutory Officers** – The Monitoring Officer and Chief Finance Officer have provided signed assurance statements setting out the mechanisms they have in place and concluding that they can provide assurance that effective

North East Combined Authority

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controls are in place. The signed statements can be found at Appendix 2. In addition to this the Monitoring Officer as the Senior Information Risk Owner (SIRO), has certified an appropriate assurance statement and has overseen the implementation of information governance audit recommendations which has resulted in a more robust control environment. Details of the audit findings and recommendations were reported to the April 2016 Governance Committee.

- 2.4 **Members** – the Governance Committee have reviewed evidence throughout 2015/16 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.
- 2.5 **Internal Audit Activity** – This is considered in more detail in the internal audit annual report elsewhere on this agenda and has been presented to the Governance Committee throughout the year. The opinion based on the internal audit work for 2015/16 is that the control environment was effective and provided a substantial level of assurance.
- 2.6 **Risk Management** – A risk management strategy and policy 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.
- 2.7 **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 weaknesses in the control environment.
- 2.8 **External auditor** – The external auditor Deloitte issued an unqualified opinion on the NECA 2014/15 accounts and an unqualified value for money opinion. External audit (Mazars) will audit the Authority's 2015/16 accounts and further assurance will be given at that point before the accounts are finalised.
- 2.9 **Key Partnerships** – The list of significant partnerships has been updated during 2015/16. This has been used to identify those partnerships where the Authority needs assurance on their control environment to feed into its Annual Governance Statement. Based on evidence from the returned assurance statements, the partnerships have stated that they have effective control environments in place. A list of the significant partnerships are noted at appendix 3.
- 2.10 Nexus is not included in the significant partnership register due to its status as an officer of the Combined Authority, however a separate assurance

North East Combined Authority

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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 in appendix 4.

4. Outcomes of the Review of Assurances

- 4.1 The review highlighted no significant weakness in the internal control environment during 2015/16 or areas which require improvement.

3 Next Steps

- 3.1 The final Annual Governance Statement will be considered once more by the Governance Committee in September 2016 before it is included in the 2015/16 accounts. This is to take into account any significant weaknesses should they arise before the 2015/16 accounts are audited and finalised.
- 3.2 The final Annual Governance Statement will then be signed by the Leader of the Combined Authority and the interim Head of Paid Service.

4 Potential Impact on Objectives

- 4.1 No direct impact on objectives.

5 Finance and Other Resources

- 5.1 This work to develop the Annual Governance Statement has been carried out by Newcastle City Council under the SLA for 2015/16.

6 Legal

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

7 Other Considerations

7.1 Consultation/Community Engagement

No external consultation or community engagement required.

7.2 Human Rights

No implications under the Human Rights Act 1998 (or as amended).

7.3 Equalities and Diversity

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

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7.4 Risk Management

Risk management will be considered as part of the development of the Annual Governance Statement but there are no specific risk implications from the 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 The AGS Framework and completed Partnership Assurance Statements are available.

9 Links to Plans in the Policy Framework

- 9.1 No direct link to the Policy Framework

10 Appendices

- 10.1 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

11 Contact Officers

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

12 Sign off

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

Annual Governance Statement 2015/16

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	Devolution
Section 6	Significant Weaknesses in Governance and Internal Control
Section 7	Conclusion

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 successful track record of joint working we now have an accountable, stable and enabling platform which reinforces and strengthens existing partnership arrangements to collectively drive forward change and enable economic growth. We are able to bring together a democratic mandate with a strong business voice which will enable us to plan for growth in the long term in a global context

The Combined Authority works closely with the Local Enterprise Partnership to deliver the objectives of the Combined Authority and deliver 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 2016 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.

Section 3: The Governance Framework

Our Governance Framework is developing, following the formation of the North East Combined Authority in April 2014 and is maturing with the organisation. As such systems, processes and controls are developing and adapting to meet the needs of the Combined Authority going forward, to ensure we are in the best position to achieve our objectives.

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 officer functions, 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 behavior

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.

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 interim Monitoring Officer (Head of Law and Governance, North Tyneside Council) 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.

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.

Section 4: Annual Review Of Effectiveness Of Governance Framework

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 are considered 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, regularly reported to Audit Committee through regular progress reports, and the Annual Governance Report.
- (d) The activities and operations of the themes (economic development and regeneration, employability and inclusion, and transport) 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 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: Devolution

The Combined Authority has signed a proposed devolution agreement with Government designed to build a stronger economy, generate more and better jobs and improve transport links and skills training throughout the North East. The Authority (members, officers and partners) continue to develop closer working relationships with all stakeholders to develop key regional strategies and delivery plans, working towards the successful delivery of the Devolution agenda. There is continued collaboration between the NELEP and NECA to prioritise and manage resources, assets and funding through a number of investment programmes to support delivery of the Strategic Economic Plan.

The Order and Regulations to establish the North East Mayoral Combined Authority are expected to be made in the Autumn of 2016 with a Mayor elected in May 2017. Consequently the NECA constitution is being revised to reflect new governance structures and devolved powers from Government.

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 2015/16.

Section 7: Conclusion

We consider the governance and internal control environment operating during 2015/16 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.

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

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

Interim Head of Paid Service

Full Name:

Signature:

Date:

Leader of the Authority

Full Name:

Signature:

Date:

North East Combined Authority

Monitoring Officer Assurance Statement for 2015/16

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.

For the North East Combined Authority the Head of Law and Governance (North Tyneside Council) acts as interim Monitoring Officer.

Within the Authority the following processes have been in place during 2015/16 to provide the 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;
- The Monitoring Officer 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 and operating effectively.

Interim Monitoring Officer Signature:



Full Name (in capitals)

VIVIENNE GEARY

Date: 25.05.2016

Senior Information Risk Owner (SIRO) Assurance Statement for 2015/16

The SIRO's role is to support the implementation of international/government standard for information management and security in the Authority. The legislation to support this role is within the following:

- 2008 Data Handling Review (post HMRC data loss)
- ISO/IEC 27001:2005 dated 15 October 2005
- Closely coupled to Government Connect (4.1) Code of Compliance
- 1998 Data Protection Act

The SIRO's responsibilities are listed below:-

- Ultimately accountable for assurance of information security at the Authority
- Champions information security at Senior level
- Provides an annual statement of the security of information assets for the Annual Governance Statement

For the North East Combined Authority 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 2015/16 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.

During the year an Information Governance Audit was undertaken which identified the following weaknesses:

- NECA has not provided appropriate training for staff holding its information
- NECA had not undertaken a risk assessment process to identify where and how authority information is held and potential hazards
- The Freedom of Information requests were not responded to within statutory time period

The weaknesses have now been addressed resulting in a more robust control environment:

- Assurances have been given by each member authority regarding their policies and procedures in place to manage information held and processed by the Combined Authority
- The NECA Information Governance Policy is in place and has been communicated to all employees
- Online learning material has been provided by Newcastle City Council to reinforce messages on information governance and responsibilities
- The system for processing FOI requests is now operating effectively.

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 and operating effectively.

Senior Information Risk Owner

Signature:



Full Name (in capitals) **VIVIANNE GEARY**

Date:

25.05.2016

North East Combined Authority

Chief Finance Officer Assurance Statement for 2015/16

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 2015/16 to provide the Chief Finance Officer with assurance on financial affairs:

- Monitoring of all budgets by appropriate officers;
- Leadership Board received a regular finance update;
- Governance Committee review of budget reports;
- High level financial risk assessment set out in budget report;
- 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.

In additional, my capacity as interim CFO was increased to an average of four days a week (working flexibly over the week) during the year, to take into account the additional workload facing NECA in terms of increased Local Growth Fund grant activity and the preparation for Devolution.

I confirm that based on my own knowledge and the evidence outlined above, the internal control, risk management and governance arrangements in relation to the Authority's financial affairs are in place and operating effectively.

Interim Chief Finance Officer
Signature:

..... P-U Woods
PAUL VERNON WOODS

Date:

..... 31/5/2016

Appendix 3

Partnership Assurance Statement (PAS) 2015/16

(*) 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	Association of Northern Transport Authorities (Working through Rail North to devolve decision making on rail services across the North of England)	Nexus	Yes	Yes	As this Partnership works through Rail North only one Statement has been completed which covers both Partnerships
2	North East Smart Ticketing Initiative (NESTI) 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.	Nexus	Yes	Yes	With the disbandment of the Association of North East Council's (ANEC) current arrangements for Annual Budget Approval are no longer possible. Therefore alternative approval arrangements are being progressed through the Partnership Board.
3	North East Local Enterprise Partnership (NELEP) The enterprise partnership is a business-led, strategic partnership responsible for promoting and developing economic growth in the area.	North East Local Enterprise Partnership	Yes	Yes	A Local Growth Funded project – Coast Road transport improvement requested additional funding to enable the project to proceed. The NELEP Board agree to additional funding of £500k which was met from approved programme allocations.
4	Rail North Limited Working in partnership with the Department for Transport to devolve decision-making on rail services across the North	Nexus	Yes	Yes	The assurance for the Rail North Limited partnership is included within the Association of Northern Transport Authorities statement as noted above.

	of England, grow the region's railway network and manage the new Northern and TransPennine franchises.				
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	None
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.

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 2015/16

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.

As part of its governance review, undertaken during the latter part of 2014/15 and early 2015/16, Nexus' reporting arrangements and accountability to the NECA were strengthened as follows:-

- Nexus' performance against the delivery of its Corporate Business Plan was 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 were reported on a regular basis to the TWSC;
- Nexus reported 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 sought authorisation for key decisions at the TWSC, TNEC and the North East Leadership Board (NELB), as appropriate; and
- Nexus officers attended both the NECA Governance and Overview and Scrutiny Committees as requested during the course of the year in order to explain matters relating to Metro performance and key decisions e.g. in respect of the Quality Contracts Scheme.

Within Nexus the following arrangements have been in place during 2015/16 which enables Nexus to provide further assurance on its governance arrangements:

- Weekly meetings of the Corporate Management Team took place and were minuted, recording all delegated decisions taken in accordance with Nexus' Standing Orders and Financial Regulations;
- The 2015/16 Internal Audit Plan was completed with regular reporting to Nexus' Audit Committee which comprises three members who are independent of Nexus' executive arrangements;
- External Audit provided clean opinions on the 2014/15 statutory accounts (true and fair view and value for money conclusion);
- Effective partnership and contracting arrangements were in place; and
- External scrutiny of the Metro Asset Renewal Plan delivery arrangements by the Department for Transport took place.

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

Director of Finance Signature: **John Fenwick, CPFA**

Date: **11 May 2016**

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North East Combined Authority

Governance Committee

DATE: 5 July 2016

SUBJECT: Strategic Risks 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.

The Strategic Risk Register has been updated to include the strategic risks identified as part of the Devolution Programme.

RECOMMENDATIONS

Governance Committee are asked to:

- Review and where necessary challenge the outcomes of the strategic risk review, as well as highlight additional risks that may need to be considered for inclusion.

North East Combined Authority

Governance Committee

1 Background Information

- 1.1 Since the last report to Governance Committee the Strategic Risk Register has been updated to include the strategic risks identified as part of the Authority's Devolution Programme.
- 1.2 Risk titles and descriptions have also been revisited, incorporating the Devolution Programme, to ensure they accurately describe the current threats and opportunities, and to ensure controls and mitigation plans are effectively targeted. A summary of the new risk descriptions can be found at appendix A.
- 1.3 A new risk relating to governance arrangements in relation to the establishment of a mayoral Combined Authority has been added to the risk register. Details of the risk can be found at appendix A and a full breakdown of the risk and associated controls and mitigation plans can be found at appendix B.
- 1.4 Appendices A and B provide the Committee with details of each risk and opportunity, including direction of travel. The Toolkit at Appendix C is used to determine the risk priority.
- 1.5 The strategic risk register only contains high level risks and opportunities covering the overall Authority. Specific risks relating to themes within the Strategic Economic Plan, continue to be monitored within the themes. Nexus report to the Transport North East (Tyne and Wear) Sub Committee.

2 Proposals

- 2.1 NECA will continue to develop the strategic risk register to record, monitor and report the strategic risks and opportunities to the Governance Committee at 6 monthly intervals, utilising support from officers.

3 Next Steps

- 3.1 Nominated lead officers will further develop the strategic risk register and ensure mitigation activity continues to be delivered.

4 Potential Impact on Objectives

- 4.1 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.

5 Finance and Other Resources

- 5.1 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.

North East Combined Authority

Governance Committee

6 Legal

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

7 Other Considerations

7.1 Consultation/Community Engagement

Following development of the strategic risk register, a risk management agenda item will be added to the Governance Committee's forward plan and the risks and opportunities will be reviewed every 6 months.

7.2 Human Rights

There are no Human Rights implications directly arising from this report

7.3 Equalities and Diversity

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

7.4 Risk Management

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

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 There are no background documents

9 Links to Plans in the Policy Framework

9.1 The Risk Management Policy and Strategy and approach to strategic risk management going forward, will support delivery of the Strategic Economic Plan and Local Transport Plans, by acknowledging the biggest threats to their delivery.

10 Appendices

- Appendix A – 'Risk at a glance' shows the risk priority and direction of travel
- Appendix B – Provides a detailed assessment of the strategic risks and opportunities and future activity to reduce the overall risk exposure
- Appendix C – Risk Analysis Toolkit determines the risk priority

11 Contact Officers

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

North East Combined Authority

Governance Committee

12 Sign off

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

North East Combined Authority

Governance Committee

Risk at a glance		Appendix A
Strategic Risks and Opportunities		
Risk Title & Description	Risk Priority	Direction of Travel
Devolution		
Governance Review - Agreement not reached within agreed timescales As part of the Governance Review if full agreement is not reached to the proposed functions and powers included in the draft Scheme by the statutory deadline, this will impact on the decision to create a mayoral Combined Authority.	Amber 9	New Risk
Risk to the current and future devolution of funding, powers and responsibilities Failure to deliver the Devolution agenda, and secure future negotiations with the Government for delegation of further powers and responsibilities, could occur if the Combined Authority (members, officers, and partners) do not continue to strengthen relationships with all stakeholders to develop key regional strategies and delivery plans.	Amber 8	Improving ↑
Operational		
Lack of Operational Capacity and Clarity of Roles and Responsibilities There is a lack of clarity and shared understanding in the constituent authorities of the roles and responsibilities of staff working on Devolution and supporting the Combined Authority. This may result in duplication of activity and conflicting priorities with existing resources not being fully utilised to effectively support the Combined Authority/Leadership Board in the delivery of the devolution agenda.	Amber 9	Improving ↑
Resources		
Lack of qualified and experienced staff risk the delivery of proposed projects and schemes The Combined Authority is unable to demonstrate to Government and partners that it has the necessary capacity, skills and expertise to successfully deliver all the projects and schemes relating to Devolution, within the constraints of approved funding streams, timeframes, conditions and performance criteria.	Amber 9	Static ↔
Partnerships		
Opportunity to strengthen partnerships The need for effective governance and partnership management, supported by clear and timely communications will provide the opportunity to strengthen existing partnerships in the region and beyond. This will encourage the development of new partnerships across the public and private sector helping to drive forward change and successfully deliver the benefits and outcomes of the Devolution Deal across the region.	Amber 9	Improving ↑

North East Combined Authority

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Appendix B

<p>(New risk) <u>Devolution</u> - Governance Review - Agreement not reached within agreed timescales</p> <p>As part of the Governance Review if full agreement is not reached to the proposed functions and powers included in the draft Scheme by the statutory deadline, this will impact on the decision to create a mayoral Combined Authority.</p>	<p>Risk Owner North East Leadership Board</p> <p>Risk Score Mitigating the risk will ensure that the governance review is completed and Government Timetable is met</p> <p>Amber 8 Likelihood – Low (Risk may occur) Impact – Critical (Stakeholder Consultation cannot be completed by statutory date Mayoral powers could be determined by Government)</p>
<p>Cause(s):</p> <ul style="list-style-type: none"> Agreement is not reached by Leadership Board to the proposed powers to be included in the Draft Scheme within the agreed timescales resulting in stakeholder consultation being delayed Role and powers of Elected Mayor cannot be signed off and included in the Scheme 	
<p>Impact/Consequence(s):</p> <ul style="list-style-type: none"> In the absence of local agreement the Government could decide powers to be devolved to the elected Mayor and powers in the Scheme. The Authority could lose the confidence of local Business Leaders and Partners if there is a major delay to devolution as a result of the Governance review not progressing as expected and within agreed timescales Negative publicity could impact on public confidence in elected mayor/the Combined Authority 	
<p>Controls:</p> <ul style="list-style-type: none"> Devolution Deal for the North East – Each Local Authority has considered the conditions set out in the devolution agreement before consenting to the creation of a Mayoral Authority. On-going meetings and consultation with DCLG Agreed Key Milestones and stage reviews to meet the statutory timetable for the Governance Review and submission of the Order The legal order, to be agreed in June/July, to deal with the creation of a mayoral authority to be followed by a second order, to be laid in October setting out the powers and responsibilities which will be devolved Prior to the second order a Governance Review must also be completed and a draft Scheme will be developed, this will include a period of consultation starting in the summer. 	
<p>Next Steps:</p> <ul style="list-style-type: none"> The Leadership Board at its meeting on 17th May 2016 agreed to submit a formal proposal to government to establish a Mayoral Combined Authority. The election of a Mayor for the North East will take place in May 2017. Chief Executives, in consultation with Leaders, have been given delegated powers to consent to the order creating the combined authority and all other relevant matters to enable the formal establishment of the mayoral authority to proceed up to the approval of the required governance review and scheme detailing the devolution of functions, responsibilities and powers sought by the new mayoral combined authority. The draft Scheme and Governance Review is being developed with an agreed schedule/programme of meetings involving Leaders, Chief Executive's and Economic Directors to ensure that statutory timetable is followed to ensure there is a minimum of 6 weeks stakeholder consultation prior to the submission of the Order for approval/consent. 	

North East Combined Authority

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Appendix B

<p><u>Devolution</u> – Risk to the current and future devolution of funding, powers and responsibilities</p> <p>Failure to deliver the Devolution agenda, and secure future negotiations with the Government for delegation of further powers and responsibilities, could occur if the Combined Authority (members, officers, and partners) do not continue to strengthen relationships with all stakeholders to develop key regional strategies and delivery plans.</p>	<p><u>Risk Owner</u> North East Leadership Board</p> <p><u>Risk Score</u> Mitigating the risk will ensure closer more cooperative working increasing the reputation of the Combined Authority</p> <p>Amber 8 Likelihood – Low (Risk may occur) Impact – Critical (reduce opportunities for future devolution of powers, inability to secure funding opportunities; local and national reputational issues)</p>
<p><u>Cause(s):</u></p> <ul style="list-style-type: none"> • Governance arrangements within the Authority do not meet the expectations of the Government • Delivery and Operational levels of the Combined Authority continue to be developed. There will be a need to ensure governance and delivery arrangements are adequately resourced to prove the Combined Authority's ability to successfully deliver all priorities, avoiding reputational risk • Success of the Combined Authority will rely on the on-going commitment and buy in of all constituent authorities and the working of the Authority with other partners in the region, including the North East Local Enterprise Partnership (NELEP) 	
<p><u>Impact/Consequence(s):</u></p> <ul style="list-style-type: none"> • Government could restrict the level of powers and autonomy if our Governance arrangements are not in line with their expectations • The Authority could lose the confidence of local Business Leaders and Partners if there is a major delay to devolution as a result of challenging National Government governance expectations/arrangements • Any divergence between the Authority's aims and priorities and those of the NELEP may impact adversely on continued Government support and funding and send a contradictory or inconsistent message to our partners 	
<p><u>Controls:</u></p> <ul style="list-style-type: none"> • There is an agreed schedule/programme of meetings involving Leaders, Chief Executive's and Economic Directors that meet on a regular basis • The existing officer working groups and work stream project teams to be refreshed to reflect the change from working towards the Devolution Agreement and Order to the delivery of the Devolution Vision and "Business as Usual". This will provide the opportunity to improve the effectiveness of the use of resources across member Councils enabling more effective allocation of resources to agreed priorities. • There are regular meetings and on-going communications between the Combined Authority's Statutory Officers and the NELEP Board and Officers 	
<p><u>Next Steps:</u></p> <ul style="list-style-type: none"> • Devolution Deal for the North East – Each Local Authority has considered the conditions set out in the devolution agreement before consenting to the creation of a Mayoral Authority. • The Leadership Board at its meeting on 17th May 2016 agreed to submit a formal proposal to government to establish a Mayoral Combined Authority. If approved the election of a Mayor for the North East will take place in May 2017. • An application for Intermediate Body status is being progressed to enable the delegation of powers in relation to ERDF funding. This includes drafting the local strategic fit content of the call documentation and conducting and deciding the assessment and appraisal of the local strategic fit content of the project selection process. • The Strategic Economic Plan will be refreshed during 2016 to ensure its priorities remain current and in line with the Order and the Scheme. 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 	

North East Combined Authority

Governance Committee

Appendix B

<p><u>Operational</u> – <i>Lack of Operational Capacity and Clarity of Roles and Responsibilities</i></p> <p>There is a lack of clarity and shared understanding in the constituent authorities of the roles and responsibilities of staff working on Devolution and supporting the Combined Authority. This may result in duplication of activity and conflicting priorities with existing resources not being fully utilised to effectively support the Combined Authority/Leadership Board in the delivery of the devolution agenda.</p>	<p><u>Risk Owner</u> North East Leadership Board</p> <p><u>Risk Score</u> Mitigating the risk will ensure that existing knowledge and resources are used, reducing potential duplication and maximising the benefits to the Region</p> <p>Amber 9 Likelihood – Medium (risk is likely to occur in a significant number of activities) Impact – Significant (duplication of effort and activities with potential for conflicting priorities and resource allocation)</p>
<p><u>Cause(s):</u></p> <ul style="list-style-type: none"> It has not been possible to formalise the level of resources required and consequently the formal staffing/resourcing structures for the Combined Authority until the formal decision of the Leadership Board on 17th May 2016 to submit a formal proposal to government to establish a Mayoral Combined Authority. The Leadership Board and Chief Executives have not been in a position to formally discuss/approve resources and confirm roles and responsibilities For staff responsible for Combined Authority functions agreed staffing structures have not been formalised and/or communicated, therefore resource plans have not been developed which recognise individual officer disciplines, main responsibilities and resource requirements e.g. budgets Lack of understanding of roles and interdependencies between officers supporting the Combined Authority, priorities and outputs have not therefore been defined 	
<p><u>Impact/Consequence(s):</u></p> <ul style="list-style-type: none"> The lack of clarity or shared understanding of key support functions may impair the Authority's ability to operate effectively and efficiently (lack of clear vision/priorities) Key delivery targets in the Devolution Delivery plan could be missed Negotiations with Government could take longer than planned The lack of effective resource plans may result in reduced capacity to effectively support Statutory Officers discharge their duties confidently Duplication of effort between officers within individual Local Authorities/NECA/NELEP 	
<p><u>Controls:</u></p> <ul style="list-style-type: none"> Service Level Agreements (SLAs) are in place to satisfy some human resources requirements To support the Leadership Board a review of resources has been carried out to identify officer support currently available across each Local Authority. 	
<p><u>Next Steps:</u></p> <ul style="list-style-type: none"> The Leadership Board are considering the resources and officer disciplines required to deliver the devolution agreement to ensure the Authority can function effectively and continue to promote its activity. Recruitment and Selection process for the Managing Director and Director of Resources Following recruitment to these positions effective service planning and priority setting will be carried out 	

North East Combined Authority

Governance Committee

Appendix B

<p><u>Resources</u> – <i>Lack of qualified and experienced staff risk the delivery of proposed projects and schemes</i></p> <p>The Combined Authority is unable to demonstrate to Government and partners that it has the necessary capacity, skills and expertise to successfully deliver all the projects and schemes relating to Devolution, within the constraints of approved funding streams, timeframes, conditions and performance criteria.</p>	<p><u>Risk Owner</u> North East Leadership Board</p> <p><u>Risk Score</u> Mitigating the risk will enable the Combined Authority to improve its credibility as an organisation that has the resources and experience to deliver its vision for Devolution</p> <p>Amber 9 Likelihood – Medium (risk is likely to occur in most circumstances) Impact – Significant (one or more of the Devolution work streams affected with potential impact on current and future delegation of powers)</p>
<p><u>Cause(s):</u></p> <ul style="list-style-type: none"> Delays in the submission date of the formal proposal to Government to establish a Mayoral Combined Authority have meant the start of the recruitment process for the Managing Director and Director of Resources positions could not start until end of May, impacting on the start of the development of staffing structures and resource planning The Combined Authority's budget will not be agreed and signed off until the Order has been confirmed so there is uncertainty around affordability of core staffing required to ensure the Combined Authority operates effectively and can support the delivery of the Devolution agenda. Agreement cannot be reached on the Combined Authority's budget Staff with the necessary skills and expertise in member Councils are not released to support Devolution and enable the transfer of skills, knowledge and expertise to staff working on the delivery of the devolution work streams Lack of agreed service plan, agreed priorities, Devolution delivery timeline and defined outputs 	
<p><u>Impact/Consequence(s):</u></p> <ul style="list-style-type: none"> If the Combined Authority/NELEP are unable to demonstrate their ability to deliver agreed projects and schemes which fully satisfy the Governments funding criteria it may result in difficulties in securing future funding and delegation of further powers and responsibilities to the Region Possible delays in the delivery of agreed outputs/devolution work streams Possibility of projects across all themes competing against each other for funding Removal of delegated activities e.g. IB Status Reputational impact as the Combined Authority is the accountable body (along with the NELEP) 	
<p><u>Controls:</u></p> <ul style="list-style-type: none"> Approval of Service Plan, Devolution Project Plan and the development of effective governance arrangements and project management methodologies will identify risks and issues to enable resources to be managed effectively Delivery against agreed performance indicators/criteria will improve as the NECA organisation (Mayoral combined authority) develops its target operating model and merges with the LEP in its reformed role. 	
<p><u>Next Steps:</u></p> <ul style="list-style-type: none"> Recruitment and Selection process for the Managing Director and Director of Resources Following recruitment to these positions effective service planning and priority setting to be put in place Approval and implementation of staffing structures and resource allocation (budget setting and monitoring) Development of Performance Management framework including agreed high level indicators and "Dash Board" 	

North East Combined Authority

Governance Committee

Appendix B

Partnerships - *Opportunity to strengthen partnerships*

The need for effective governance and partnership management, supported by clear and timely communications will provide the opportunity to strengthen existing partnerships in the region and beyond. This will encourage the development of new partnerships across the public and private sector helping to drive forward change and successfully deliver the benefits and outcomes of the Devolution Deal across the region.

Opportunity Owner

North East Leadership Board

Opportunity Score

The opportunity will bring significant benefits if the Combined Authority increases the opportunities and environment for successful partnerships/joint working

Amber 9

Likelihood – Medium

(risk is likely to occur in most circumstances)

Impact – Significant

(partners do not feel able to commit to joint arrangements/impact on delivery of Devolution and the benefits that can flow from it.)

Benefits

- Strengthening the synergy between the Leadership Board, North East Local Enterprise Partnership (NELEP) and Local Authorities
- Influencing regional approaches to growth
- Providing the legal platform and governance framework to access more devolved powers
- Enabling local leaders to speak with one voice about the future of our functional economic areas
- Improving how we work with Government, business, investors and partners
- Providing a legally constituted and democratically accountable body to channel the delivery of priority programmes and infrastructure projects for the region

Barriers

- The success of the Combined Authority will rely on the on-going commitment and buy in of all member authorities and how NECA works with other partners in the region, including the private sector
- It is important that the Leadership Board share the same vision and commitment to the Combined Authority, ensuring individual plans are aligned
- It is recognised that there are a number of partners, therefore effective and timely communications and consultation is vitally important to reduce reputational impact
- The Leadership Board have the delegated powers to make strategic decisions, however they need to ensure support services are adequately resourced to inform and assist decision making

Controls

- Development and approval of the Partnership Governance Framework including a communications plan will ensure effective dialogue/information exchange and joint working with partners to improve outcomes for the Region
- Programmed and Structured partner engagement plan
- Development of Strategic Partnership Register

Next Steps

- Partners continue to engage through the formal meetings of the Combined Authority, including at Leader, Chief Executive, Economic Director, Chief Legal Officer and Finance Director levels
- Development of a Communications Protocol between partner authorities and an additional agreement between the Combined Authority and the NELEP Communications Teams, to ensure the allocation of resources and responses to enquiries are coordinated.
- 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

NECA Strategic Risk Analysis Toolkit

Action plans must be developed for Red and Amber risks

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

Appendix C

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/Showstopp	<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 committee 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 partners 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
Insignifi	<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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North East Combined Authority

Governance Committee

DATE: 5 July 2016

SUBJECT: Anti-Fraud and Corruption Policy

REPORT OF: Audit, Risk and Insurance Service Manager (Newcastle City Council)

EXECUTIVE SUMMARY

As noted within the Authority's Constitution it is the responsibility of the Governance Committee to consider the effectiveness of risk management arrangements and oversee the anti-fraud and corruption arrangements, seeking assurances from Statutory Officers and Internal audit that the arrangements for the detection of fraud are effective.

Internal Audit on behalf of the Combined Authority will implement the Anti-Fraud and Corruption Policy, and where there is evidence of fraud, misappropriation or theft the Chief Finance Officer will bring the matters to the attention of the Committee.

No fraud has been identified since the North East Combined Authority was established.

RECOMMENDATION

It is recommended that the Committee note their responsibilities within the Authority's Constitution to consider the control environment and anti-fraud and anti-corruption arrangements.

North East Combined Authority

Governance Committee

1 Background Information

- 1.1 The Combined Authority have an agreed Anti-Fraud and Corruption Policy in place to minimise the risk of corruption and theft or other misuse of public money and assets. The Policy is underpinned by staffing policies, internal control systems, and the Authority's Whistleblowing procedures, which provide the framework to detect and report fraudulent activity. The Anti-Fraud and Corruption Policy and Whistleblowing procedures can be found at appendix A.
- 1.2 It is the responsibility of the Governance Committee to oversee implementation of the Policy as necessary, seeking assurances from Statutory Officers and that of Internal Audit that the arrangements for the detection of possible fraud continue to be effective. This responsibility is considered in the production and delivery of the Internal Audit Plan.
- 1.3 Where there is evidence of fraud, misappropriation or theft the Chief Finance Officer is responsible, after consultation with Designated Officers, to bring the matters to the Governance Committee, where the Committee should consider if the supporting governance arrangements, including the Anti-Fraud and Corruption Policy and Whistleblowing procedures remain effective. Internal Audit will investigate all reported frauds and make recommendations to management as appropriate.
- 1.4 To date there have been no incidents of fraud, misappropriation or theft reported.

2 Proposal

- 2.1 Governance Committee to acknowledge the Anti-Fraud and Corruption Policy and their roles in the event of an incident relating to fraud, misappropriation or theft.

3 Next Steps

- 3.1 The regular review of the Constitution will ensure the Anti-Fraud and Corruption Policy is kept under review.

4 Potential Impact on Objectives

- 4.1 No direct impact on objectives.

5 Finance and Other Resources

North East Combined Authority

Governance Committee

5.1 No direct financial implications arising from this report.

6 Legal

6.1 No direct legal implications arising specially from this report.

7 Other Considerations

7.1 Consultation/Community Engagement

No external consultation or community engagement required.

7.2 Human Rights

No implications under the Human Rights Act 1998 (or as amended).

7.3 Equalities and Diversity

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, however the internal control systems, which includes risk management will provide the framework to deter and/or detect potential fraud.

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 The NECA Constitution, which includes the Anti-Fraud and Corruption Policy and Whistleblowing procedures are available on the Authority's website.

[NECA Constitution](#)

9 Links to Plans in the Policy Framework

9.1 No direct link to the Policy Framework

North East Combined Authority

Governance Committee

10 Appendices

- 10.1 Appendix A – Anti-Fraud & Corruption Policy and Whistleblowing Policy & Procedure

11 Contact Officers

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

12 Sign off

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

Anti-Fraud and Corruption Policy

1. The Combined Authority's Commitment

The Combined Authority is committed to sound corporate governance and supports the Seven Principles of Public Life for the conduct of its Members and Officers, namely:

- Selflessness;
- Integrity;
- Objectivity;
- Accountability;
- Openness;
- Honesty; and
- Leadership.

Fraud and corruption cheats the local taxpayers who have the right to expect Members and Officers to perform their functions in an honest and proper manner.

The Combined Authority seeks in the first instance to prevent fraud and corruption and will take all action necessary to identify any occurrences if suspected. If any such instances are detected they will be investigated in a correct and agreed manner. The Combined Authority pledges to pursue the recovery of losses and the suitable punishment of those responsible.

2. Prevention

Prevention will be achieved through:

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

2.1. Officers

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

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

North East Combined Authority

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

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

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

2.2. Members

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

- The Code of Conduct for Members
- The Constitution

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

2.3. Internal Control System

The internal control system comprises the whole network of financial, operational and managerial systems established within the Constituent Authorities to ensure that objectives of the Combined Authority are achieved in the most economical and efficient manner.

The Financial Regulations of the Combined Authority (see Part 5) provide the framework for financial control. Under Financial Regulations Managers are required to ensure that:

- Arrangements, guidelines and procedures for the proper administration of the financial affairs of the Combined Authority are operated in accordance with Financial Regulations;

North East Combined Authority

Governance Committee

The Chief Finance Officer is informed where there has been a failure to comply with Financial Regulations or where amendment or revision of a regulation is considered necessary; and

The Chief Finance Officer is informed as soon as possible of any matters involving, or suspected of involving, irregularity in the use of the Combined Authority resources or assets.

The Audit and Strategic Risk service of the Constituent Authority identified by the Head of Paid Service for this purpose independently monitors the existence, appropriateness and effectiveness of internal controls.

2.4. Liaison

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

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

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

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

2.5. Partners

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

2.6. Strategy

The Audit and Strategic Risk service of the Constituent Authority identified by the Head of Paid Service for this purpose will implement the policy on the Combined Authority's behalf.

3. Detection and Investigation

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

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3.1. Detection

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

The Combined Authority's officers are an important element in its stance on fraud and corruption and they are positively encouraged to raise any concerns that they may have on any issues associated with the Authority's activities. They can do this in the knowledge that such concerns will be treated in confidence and properly investigated. If necessary, a route other than a line manager may be used to raise such concerns.

Examples of possible routes are:

- Audit and Strategic Risk Service
- Chief Finance Officer
- Monitoring Officer

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

If Officers feel unable to raise their concerns through any of the internal routes, then they may wish to raise them through Public Concern at Work (telephone 020 7404 6609), a registered charity whose services are free and strictly confidential. See also Part 6.5 Whistleblowing Policy.

The Code of Conduct requires Officers of the Combined Authority to report any illegality or impropriety to their manager or supervisor. Financial Regulations require the Chief Finance Officer to investigate matters that involve, or may involve, financial irregularity.

3.2. Investigation

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

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

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

- consistent treatment of information about fraud and corruption;
- proper investigation by an independent and experienced audit team;
- the proper implementation of a fraud investigation plan;
- restitution or compensation; and

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- the optimum protection of the Authority's interests.

Where financial impropriety is discovered, referral to the police is a matter for the Chief Finance Officer, in consultation with the relevant officers of the Authority. NECA
In deciding whether to recommend referral the following factors are taken into account:

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

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

There is, of course, a need to ensure that any investigation process is not misused and, therefore, any abuse, such as raising unfounded malicious allegations may be dealt with as a disciplinary matter and may leave the complainant open to an action for defamation. The External Auditor also has powers to investigate independently fraud and corruption and the Combined Authority can make use of these services.

4. Summary

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

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

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

Whistleblowing Policy and Procedure

1. Introduction

The NECA is committed to the highest possible standards of openness, probity and accountability and will not tolerate malpractice or wrongdoing.

The NECA is therefore committed to a policy for confidential reporting of concerns, “whistleblowing”, which seeks to protect individuals who make certain disclosures with regard to any instance of malpractice or wrongdoing and to investigate them in the public interest.

Whistleblowing is when a member of staff raises concerns about the activities of the organisation they work for which are ethically or legally questionable.

The aims of the policy are to:

- Provide for a culture of zero tolerance toward fraud and corruption.
- Encourage officers and others with serious concerns about any aspect of the NECA’s work to feel confident to come forward and voice those concerns.
- Provide ways for officers to raise concerns at an early stage and in the right way and enable them to get feedback on any action taken.
- Ensure that officers know what to do if they are not satisfied with actions taken.
- Provide re-assurance that officers who raise concerns in good faith can do so without fear of reprisals or victimisation.

This policy covers any wrongdoing relating to unlawful conduct, financial malpractice or dangerous working environments.

It is available for use by all Officers of the NECA and Officers of Constituent Authorities providing services to the NECA, its committees, sub-committees and joint committees. It is not to be used where other more appropriate procedures are available. There are existing procedures which enable officers to lodge a grievance relating to their conditions of employment, raise matters of harassment or to make a complaint. This policy covers concerns that fall outside the scope of these existing procedures.

The NECA will seek to ensure that its stance on whistleblowing is widely publicised and that officers have access to appropriate guidance.

2. Whistleblowing Procedures for Officers

Officers are often the first to realise that there may be something seriously wrong within an authority. Normally Officers would be expected to raise any concerns initially with their line manager. However they may feel that expressing their concerns would be disloyal to their colleagues or to the NECA or may also fear harassment or victimisation. It may be easier to ignore these concerns than report what may just be a suspicion of malpractice.

Whistleblowing is the process for raising a concern about suspected wrongdoing, especially in circumstances where the whistleblower feels forced to raise that concern

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outside the normal management reporting line. For instance, the whistleblower may be concerned about the actions of their own line management, or about the failure of their line management to act over suspected wrongdoing on the part of others.

The Whistleblowing policy encourages and enables officers and others with serious concerns about any aspect of the NECA's work or those engaged in work for the NECA to come forward and voice those concerns. It recognises that most cases will need to proceed on a confidential basis. At the same time, the provisions of the Public Interest Disclosure Act 1998 (PIDA) provide protection from harassment and victimisation for officers who raise concerns in good faith.

3. Aims and scope of this Policy

This policy aims to:

- Make you feel confident to raise concerns and to question and act upon concerns about practice.
- Give you avenues to raise your concerns and receive feedback on any action taken.
- Guarantees that you receive a response to your concerns and ensures that you are aware of the process to follow if you are not satisfied.
- Reassure you that you will be protected from possible reprisals or victimisation.

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

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

If you are reluctant to raise such health and safety concerns with your supervisor or manager, or if you have raised them and are concerned about the response, then arrangements exist for you to raise the health and safety concerns with the Head of Paid Service and/or with Health and Safety Representatives from the relevant trade union.

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

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

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

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

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

4. Harassment or Victimisation

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

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

The Combined Authority will fulfil its responsibility to ensure that you are NOT harassed, victimised or otherwise disadvantaged when you raise a concern. Any allegation concerning an Officer who engages in any form of victimisation or harassment against you as a result of your raising a concern will be the subject of a thorough investigation and disciplinary action will be taken if the case is proved.

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

5. Confidentiality

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

6. Anonymous allegations

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

7. Untrue allegations

If you make an allegation in good faith, but it is not confirmed by the investigation, no

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action will be taken against you. If however, you make an allegation maliciously or for personal gain, disciplinary action may be taken against you.

8. How to raise a concern

If you are an officer of the Combined Authority, as a first step, you should raise concerns with your immediate manager or their manager. This depends on the seriousness and sensitivity of the issues involved and who is suspected of the malpractice, for example if you believe that your immediate manager or their managers are involved, you should approach the Monitoring Officer.

The manager receiving notification of concerns under this policy will inform the Monitoring Officer that a confidential report has been received and provide a copy. If the concern relates to financial irregularities or failures of financial controls the manager receiving the report must immediately notify the Chief Finance Officer. Concerns may be raised verbally or in writing. Reports should be sent to your immediate manager or their superior or to the appropriate Chief Officer and a copy sent to the Monitoring Officer.

If you are a contractor, as a first step, you should normally raise concerns with your manager, who will then inform the lead officer who is dealing with the particular contract. If you do not have a manager, you should raise your concerns direct with the lead officer. This depends on the seriousness and sensitivity of the issues involved and who is suspected of the malpractice. For example, if you believe that your manager or the lead officer is involved, you should approach the Monitoring Officer direct. Otherwise, the lead officer receiving notification of concerns under this Policy will inform the Monitoring Officer that a confidential report has been received and provide a copy. If the concern relates to financial irregularities or failures of financial controls the lead officer receiving the report will also immediately notify the Chief Finance Officer.

Concerns may be raised verbally or in writing. A copy of any report you send to your manager or lead officer should also be sent to the Monitoring Officer for monitoring purposes.

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

The earlier you express the concern the easier it will be to take action. Officers and Contractors can get confidential, independent advice from the charity Public Concern at Work on 0207 404 6609. Their website is at www.pcaw.co.uk You may wish to consider discussing your concern with a colleague first and you may find it easier to raise the matter if there are two (or more) of you who have had the same experience or concerns.

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

Concerns can also be raised through your trade union.

9. How the Combined Authority will respond

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

Within **3 working days** of a concern being raised, you will be sent a written response:

- acknowledging that the concern has been received;
- indicating how it is proposed to deal with this matter;
- giving an estimate of how long it will take to provide a final response;
- telling you whether any enquiries have been made; and
- supply you with information on staff support mechanisms.

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

Where appropriate, matters raised may:

- Be investigated by management, internal audit, or through the disciplinary process.
- Be referred to the police or other statutory agencies.
- Be referred to the external auditor.

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

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

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

Where any meeting is arranged, and this can be off-site if you so wish, you can be accompanied by a trade union or professional association representative or a friend. The Combined Authority will take steps to minimise any difficulties which you may experience as a result of raising a concern. For instance, if you are required to give evidence in criminal or disciplinary proceedings the Combined Authority will arrange for you to receive advice about the procedure.

The Combined Authority accepts that you need to be assured that the matter has been properly addressed. Thus, subject to legal constraints, we will inform you of the NECA

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outcomes of any investigation.

10. The Responsible Officer

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

It is the responsibility of any manager/director who receives a whistleblowing report to provide the Monitoring Officer with:

- a copy of the original report immediately;
- the initial written response to the person raising the concern; and
- any further responses.

The Monitoring Officer as soon as possible must also be informed of the outcome(s) of any investigation and any actions instigated as a result.

11. How the matter can be taken further

This policy is intended to provide Officers and Contractors with an avenue within the Combined Authority to raise concerns and hopes any whistleblower would be satisfied with any action taken. If you are not satisfied with the outcome of the confidential report, a request in writing for the investigation and outcome to be reviewed can be made to the Head of Paid Service. If you remain dissatisfied and want to take the matter outside of the Combined Authority, advice is available from trade unions and local Citizens Advice Bureau on the options that are available.

One possibility is that you may wish to rely on your rights under the Public Interest Disclosure Act 1998. This Act gives you protection from victimisation if you make certain disclosures of information in the public interest. The provisions are quite complex and include a list of prescribed persons outside of the Combined Authority who can be contacted in certain circumstances (see The Public Interest Disclosure (Prescribed Persons) (Amendment) Order 2003 www.legislation.hmso.gov.uk). You should seek advice on the effect of the Act from the persons referred to above.

If you do take the matter outside of the Combined Authority, you should ensure that you do not disclose information where you owe a duty of confidentiality to persons other than the Combined Authority (e.g. service users) or where you would commit an offence by making disclosure.

In order to ensure that you do not make any such disclosures it is advisable to check the position with the Monitoring Officer.

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Governance Committee

DATE: 5 July 2016

SUBJECT: Internal Audit Annual Report

REPORT OF: Audit, Risk and Insurance Service Manager

EXECUTIVE SUMMARY

The purpose of this report is to provide Members with:

- A summary of outcomes from the delivery of the 2015/16 internal audit plan
- Information on the implementation of audit recommendations
- An opinion on the effectiveness of NECA's control environment during 2015/16 as required by the Public Sector Internal Audit Standard (PSIAS) 2013.
- A revised 2016/17 internal audit plan.

The Audit, Risk and Insurance Service Manager's Opinion on the overall adequacy and effectiveness of NECA's governance, risk and control framework during 2015/16 was that it was effective and provided a substantial level of assurance.

RECOMMENDATIONS

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

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1 Background Information

Implementation of Outstanding Recommendations

- 1.1 All audits within the 2015/16 plan were complete by the last meeting of the Governance Committee in April 2016.
- 1.2 Management is responsible for implementing all audit recommendations. Internal Audit will follow up all high and medium priority recommendations to verify implementation. This provides assurance that those recommendations which are both fundamental and important to the Authority's system of control are addressed. The current position as regards outstanding recommendations is detailed below:

	Audit and Recommendation	Implementation due date	Progress update
1	Financial Management		
1.1	Formal Service Level Agreements were not in place for 2015/16 services provided to the Combined Authority by member authorities. (Medium)	Chief Finance Officer Original date - September 2015 SLA costs were updated for the 2016/17 Budget.	All providers have updated costs for 2015/16. The Chief Finance Officer will review 2016/17 arrangements with the Head of Paid Service once decisions on devolution have been taken.
1.2	Information is obtained from across the Councils making up the Combined Authority and there is a risk this fragmentation can reduce effectiveness going forward. (Medium)	Chief Finance Officer Original date - September 2015 Revised date for centralising accommodation and finance systems is end of July 2016.	The Head of Paid Service is putting in place more centralised accommodation and finance arrangements. Risks have been mitigated by co-ordination of activity by the Chief Finance Officer.
2	Tyne Tunnel – Cash Collection		
2.1	A signed copy of the contract should be sought from TT2 and retained within Security Services, Newcastle City Council.	Security Services Manager, NCC Original date - April 2016 and revised to July 2016	The document is expected to be signed by Mid July 2016

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3	Major Projects		
3.1	To enable appropriate approval and monitoring of all major projects, the definition of a major project should be established and an overarching register of all major projects undertaken on behalf of the NECA should be held.	1 April 2016 Head of Paid Service/Chief Finance Officer Revised date August 2016	This has been agreed and discussions are in progress to develop a definition and register.
3.2	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 protocols should be agreed and progress monitored against it.	1 April 2016 Head of Paid Service Revised date 1 November 2016	The Devolution Agreement has now been agreed and changes to the arrangements for delivery of NECA responsibilities will emerge through the Governance Review and Scheme which is expected to be agreed by the Leadership Board in early July. A new Constitution for the Mayoral Combined Authority is planned to be issued for consultation in September. Protocols relevant to the new Governance structures will be developed in conjunction with the updated Constitution by November.

2015/16 Overall Opinion of the Chief Audit Executive

- 1.3 This report meets the requirements of Public Sector Internal Audit Standards 2013 to produce an annual report, which are as follows:-

“The Chief Audit Executive (Audit, Risk and Insurance Service Manager) must deliver an annual internal audit opinion and a report that can be used by the organisation to inform its governance statement.

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The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisations framework of governance, risk management and control.”

- 1.4 The Audit, Risk and Insurance Service Manager’s Opinion on the overall adequacy and effectiveness of NECA’s governance, risk and control framework during 2015/16 was that it was effective and provided a substantial level of assurance. No system of control can give absolute assurance against material misstatement or loss and, accordingly, this opinion does not provide such absolute assurance.
- 1.5 Set out below are the Internal Audit reports which have been issued and reported to the Governance Committee during the year. The above opinion is based on evidence from this internal audit work.

Audit	Outcome/Level of Assurance	Committee Reported To
Treasury Management	Moderate	December 2015
Governance of Major Projects	Substantial	December 2015
Tyne Pedestrian and Cyclist Tunnel (Interim Review)	Not applicable as advice only	December 2015
Information Governance	Limited	April 2016
Tyne Tunnel – Cash Collection	Substantial	April 2016
Budget Setting and Monitoring Arrangements	Substantial	April 2016
Concessionary Travel (Nexus)	Full	April 2016
Metro Reinvigoration (Nexus)	Full	April 2016

- 1.6 Internal Audit’s performance in completing audit work in the 2015/16 Plan has been reported to the Governance Committee throughout the year and final performance shows the plan is complete.

Assessment of the Effectiveness of Internal Audit

- 1.7 To comply with the Public Sector Internal Audit Standards (PSIAS), authorities need to undertake an annual review of the effectiveness of Internal Audit and the outcomes of this review should be reported to an appropriate Committee of the Authority, such as the Governance Committee, and feed into the assurance to support the Annual Governance Statement. They must also be externally assessed against the Standard at least once in a 5 year period.
- 1.8 The audits were delivered primarily by Newcastle City Council in 2015/16, although Nexus’s internal audit service undertook 2 pieces of work as part of its audit plan from which the Governance Committee could take assurance. During 2015/16 Newcastle’s audit service was externally assessed against the PSIAS via a peer review and this concluded that:

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“Newcastle City Council’s Internal Audit Service is substantially compliant with the requirements of the Public Sector Internal Audit Standards, and the accompanying CIPFA Local Government Application Note. There are two discrete areas, both of which were introduced for the first time by the Standards, in which some additional actions would secure full compliance.

The external assessment has identified no areas of concern regarding the delivery of the internal audit function, or the ability of the Chief Audit Executive (Audit, Risk and Insurance Service Manager) to form an opinion based on an objective assessment of the Council’s framework of governance, risk management and control.”

- 1.9 Nexus had had a similar external assessment undertaken by Mazars in 2014/15 which also found them to be substantially compliant with the Standard.

Revised Audit Plan 2016/17

- 1.10 At the April 2016 meeting it was requested that an audit proposed in the 2017/18 plan of the North East LEP was moved into 2016/17 and that the scope of the work was amended to also include “process, governance and transparency” arrangements. This has been agreed with Sunderland City Council’s internal audit service who will carry out the audit and is now included in the plan. The revised plan is at Appendix 3 for information and will be kept under review during 2016/17 particularly in relation to the impact of devolution.

2 Next Steps

- 2.1 This work feeds into the Annual Governance Statement for 2015/16.

3 Potential Impact on Objectives

- 3.1 No direct impact on objectives.

4 Finance and Other Resources

- 4.1 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.

5 Legal

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

6 Other Considerations

- 6.1 **Consultation/Community Engagement**

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No external consultation or community engagement required.

6.2 Human Rights

No implications under the Human Rights Act 1998 (or as amended).

6.3 Equalities and Diversity

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

6.4 Risk Management

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.

6.5 Crime and Disorder

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

6.6 Environment and Sustainability

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

7 Background Documents

7.1 Final Internal Audit Reports

8 Links to Plans in the Policy Framework

8.1 No direct link to the Policy Framework.

9 Appendices

9.1 Appendix 1 - Definitions Appendix 2 – Revised 2016/17 audit plan

10 Contact Officers

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

North East Combined Authority

Governance Committee

11 Sign off

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

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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.

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Revised 2016/17 Audit Plan			Appendix 2	
Audit	Delivered by	Audit scope and coverage	Days	Date to report to Governance Committee
Strategic Planning	Newcastle City Council	To assess the adequacy and effectiveness of business planning arrangements and ensure they remain valid in light of potential risks and opportunities as identified in the Combined Authority's risk register.	5	September 2016
Governance	Newcastle City Council	Review of the operation of governance arrangements in place and provide appropriate advice to officers establishing processes for reporting and monitoring.	4	September 2016
North East Local Enterprise Partnership	Sunderland City Council	To review the arrangements for loans and grants to other organisations, specifically in terms of loan repayment, process, governance and transparency.	TBC	December 2016
Financial Management	Newcastle City Council	Audit coverage will include: <ul style="list-style-type: none"> The adequacy of financial arrangements for the overall Combined Authority. Processes in place within Newcastle City Council in relation to Tyne and Wear transport financial systems. 	4	December 2016
Partnerships	Newcastle City Council	To assess whether significant partnership arrangements are effective by considering whether: <ul style="list-style-type: none"> Partnerships clearly align with corporate objectives Formal governance arrangements are in place Performance management arrangements have been established and are monitored. 	8	December 2016
Tyne Tunnel	Newcastle City	Assess the adequacy and effectiveness of contract	4	April 2017

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	Council	monitoring including toll income.		
Concessionary Travel	Nexus	Assurance obtained from Nexus' Internal Audit service to confirm the adequacy and effectiveness of controls in relation to this area.	-	April 2017
Metro Re-Invigoration	Nexus	Assurance obtained from Nexus' Internal Audit service to confirm the adequacy and effectiveness of controls in relation to this area.	-	April 2017
Contingency	Newcastle City Council	Provision to cover emerging risks, fraud investigation and general advice.	5	As required
Governance Committee Support	Newcastle City Council	<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	5	As required

North East Combined Authority

Governance Committee

DATE: 5 July 2016

SUBJECT: Effectiveness of the Governance Committee

REPORT OF: Audit, Risk and Insurance Service Manager (Newcastle City Council)

EXECUTIVE SUMMARY

The report introduces a self-assessment document based on a Chartered Institute of Public Finance and Accountancy (CIPFA) tool to review the effectiveness of an Audit Committee. This document should be seen as the basis for developing a self-assessment tool which can be used by the Governance Committee.

RECOMMENDATION

Members are recommended to consider the content of the document and the timing of its issue.

North East Combined Authority

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1 Background Information

- 1.1 At the April 2016 Governance Committee Members felt it would be helpful to develop a self-assessment tool which could be used to get an understanding of Member's views on the effectiveness of the committee.
- 1.2 Appendix 1 is a document used by Newcastle City Council to consider its Audit Committee's effectiveness and which was issued to both Members and key officers who attend committee meetings. The document is based on CIPFA standards and includes 26 questions across the areas of Audit Committee activity and asks for a rating on the value the committee adds. From the results of this survey Newcastle have devised an action plan to improve effectiveness and will repeat the exercise on an annual basis.
- 1.3 The Governance Committee may like to consider the questionnaire as a guide only and should take into account the following:
- It is designed for an Audit Committee not a Standards Committee, which has a greater remit
 - It has been suggested that it contains too much jargon making it difficult to understand.
- 1.4 Mazars have offered to co-ordinate the process and will assist in the revision of the questionnaire itself as well as compiling the results.

2 Next Steps

- 2.1 Members comments will be used to develop a final questionnaire.
- 2.2 The timing of the issue of the questionnaire should also be agreed and whether this will become an annual process.

3 Potential Impact on Objectives

- 4.1 No direct impact on objectives.

4 Finance and Other Resources

- 4.1 No direct financial implications arising specially from this report

5 Legal

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

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6 Other Considerations

6.1 Consultation/Community Engagement

No external consultation or community engagement required.

6.2 Human Rights

No implications under the Human Rights Act 1998 (or as amended).

6.3 Equalities and Diversity

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

6.4 Risk Management

Risk management will be considered as part of the questionnaire but there are no specific risk implications from the report.

6.5 Crime and Disorder

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

6.6 Environment and Sustainability

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

7 Background Documents

7.1 None

8 Links to Plans in the Policy Framework

8.1 No direct link to the Policy Framework

9 Appendices

9.1 Appendix 1 – Evaluating the Effectiveness of the Audit Committee questionnaire (Newcastle City Council)

10 Contact Officers

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

North East Combined Authority

Governance Committee

11 Sign off

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

Appendix 1

Evaluating the Effectiveness of the Audit Committee

Key used for scoring	Score
Clear evidence is available from a number of sources that the committee is actively supporting improvements across all aspects of this area. The improvements made are clearly identifiable.	5
Clear evidence from some sources that the committee is actively and effectively supporting improvement across some aspects of this area.	4
The committee has had mixed experience in supporting improvement in this area. There is some evidence that demonstrates their impact but there are also significant gaps.	3
There is some evidence that the committee has supported improvements, but the impact of this support is limited.	3
No evidence can be found that the audit committee has supported improvements in this area.	1

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Areas where the Audit Committee can add value by supporting improvement	Examples of how the Audit Committee can add value and provide evidence of effectiveness	Self-evaluation, examples, areas of strength and weakness	Overall assessment score: (Select from Key Above)
Promoting the principles of good governance and their application to decision making.	1. Providing robust review of the AGS and the assurances underpinning it.		
	2. Working with key members/governors to improve their understanding of the AGS and their contribution to it.		
Promoting the principles of good governance and their application to decision making.	3. Supporting reviews/audits of governance arrangements.		

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Page 63 Contributing to the development of an effective control environment.	4. Participating in self-assessments of governance arrangements.		
	5. Working with partner audit committees to review governance arrangements in partnerships.		
	6. Monitoring the implementation of recommendations from auditors.		
	7. Encouraging ownership of the internal control framework by appropriate managers.		
	8. Raising significant concerns over controls with appropriate		

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	senior managers.		
Supporting the establishment of arrangements for the governance of risk and for effective arrangements to manage risks.	9. Reviewing risk management arrangements and their effectiveness, e.g. risk management benchmarking.		
	10. Monitoring improvements.		
	11. Holding risk owners to account for major/strategic risks.		
Advising on the adequacy of the assurance framework and considering whether assurance is deployed efficiently and effectively.	12. Specifying its assurance needs, identifying gaps or overlaps in assurance.		

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Page 165 of 165	13. Seeking to streamline assurance gathering and reporting.		
	14. Reviewing the effectiveness of assurance providers, e.g. internal audit, risk management, external audit.		
Supporting the quality of the internal audit activity, particularly by underpinning its organisational independence.	15. Reviewing the audit charter and functional reporting arrangements.		
	16. Assessing the effectiveness of internal audit arrangements and supporting improvements.		

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Aiding the achievement of the authority's goals and objectives through helping to ensure appropriate governance, risk, control and assurance arrangements.	17. Reviewing major projects and programmes to ensure that governance and assurance arrangements are in place.		
	18. Reviewing the effectiveness of performance management arrangements.		
	19. Is effective in providing robust, focused and constructive challenge to senior managers.		

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Page 167	Supporting the development of robust arrangements for ensuring value for money.	20. Ensuring that assurance on value for money arrangements is included in the assurances received by the audit committee.		
		21. Considering how performance in value for money is evaluated as part of the AGS.		
	Helping the authority to implement the values of good governance, including effective arrangements for countering fraud and corruption risks.	22. Reviewing arrangements against the standards set out in CIPFA's <i>Managing the Risk of Fraud</i> (Red Book 2).		

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Page 168	23. Reviewing fraud risks and the effectiveness of the organisation's strategy to address those risks.		
	24. Assessing the effectiveness of ethical governance arrangements for both staff and governors.		
Promoting effective public reporting to the authority's stakeholders and local community and measures to improve transparency and accountability.	25. Improving how the authority discharges its responsibilities for public reporting; for example, better targeting at the audience, plain English.		

	<p>26. Reviewing whether decision making through partnership organisations remains transparent and publicly accessible and encouraging greater transparency.</p>		
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