

# Tyne & Wear Integrated Transport Authority

## Annual Report & Accounts

for the Financial Year ended  
31 March 2011

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# Section 1

## Tyne & Wear Integrated Transport Authority

### Annual Report





# What is the Tyne and Wear Integrated Transport Authority?



We are a joint authority consisting of members from the five Tyne and Wear District Councils, established by the Local Government Act 1985. From the 9th of February 2009 under the Local Transport Act the former Passenger Transport Authority became the Integrated Transport Authority.

We act as a strategic and policy making authority on local transport issues within Tyne and Wear, and have responsibility for the Tyne Tunnels and delivery of the New Tyne Crossing project.

We comprise 16 elected members appointed by the five District Councils of Tyne and Wear.

## **Our vision for transport in Tyne and Wear is that:**

Tyne and Wear will have a fully integrated and sustainable transport network, allowing everyone the opportunity to achieve their full potential and have a high quality of life. Our strategic networks will support the efficient movement of people and goods within and beyond Tyne and Wear, and a comprehensive network of pedestrian, cycle and passenger transport links will ensure that everyone has access to employment, training, community services and facilities.

The five goals of the transport strategy that we have adopted to meet this vision are:

- To support the economic development, regeneration and competitiveness of Tyne and Wear, improving the efficiency, reliability and integration of transport networks across all modes
- To reduce carbon emissions produced by local transport movements, and to strengthen our networks against the effects of climate change and extreme weather events
- To contribute to healthier and safer communities in Tyne and Wear, with higher levels of physical activity and personal security
- To create a fairer Tyne and Wear, providing everyone with the opportunity to achieve their full potential and access a wide range of employment, training, facilities and services
- To protect, preserve and enhance our natural and built environments, improving quality of life and creating high quality public places



## Chairman's Foreword and Introduction



The Tyne and Wear Integrated Transport Authority can celebrate a year in which we have delivered capital projects which will benefit the economic and social life of our communities for decades to come.

Chief among these is the opening of the Second Tyne Tunnel, the culmination of almost 15 years of work by the ITA to see this vital infrastructure project designed, funded and built. The £265 million second tunnel will play a huge role in driving economic regeneration and tackling social exclusion on both sides of the Tyne, and bring great benefits to the wider region.

We have also seen the start of Phase Two of the *Metro: all change* modernisation programme, funded by the Government despite the great pressure on public spending as a project that will bring, in the words of the Chancellor of the Exchequer, 'substantial economic benefits to North East England'.

Nexus, which owns and manages Metro, has invested £40 million in 2010/11 in modernisation projects, the first stage of up to £385 million which will be invested over the next decade. This has seen the wholesale replacement of track and technology between Chillingham Road and Howdon, and the renewal of structures such as embankments and bridges. Work has also begun to modernise stations, bringing with it brighter, better and safer facilities for passengers, plus improved accessibility.

Refurbishment of the Metrocar fleet has also begun with the first three cars undergoing work as prototypes for this important project to extend their life into the next decade. While Phase Two of *Metro: all change* has begun in earnest, we have also seen important Phase One projects completed. I was particularly proud to attend the opening of the refurbished platform areas at Sunderland station.

This £7 million project by Nexus has transformed the station, used by two million passengers a year not just on Metro, but travelling on national rail services to London and cities and towns in the North.

Sunderland has already won several national awards for innovation in design, confirming its place as a world-class city gateway. The ITA will continue to work with partners to take forward plans to modernise the above-ground station facilities to the same high standard.



Sunderland Station

## Chairman's Foreword and Introduction

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This year has also seen us launch a new brand for smart ticketing on Metro and beyond, in the shape of the Pop card. More than 30,000 young people now carry Pop cards as proof of identity and entitlement to concessionary travel, supported by the ITA. In the coming year cards will be issued to many more Metro passengers alongside the introduction of new ticket machines at Metro stations.

This will form a core part of the North East Smart Ticketing Initiative (NESTI), a partnership between the ITA, all local authorities in North East England and Nexus. The scope of NESTI is bold - to create a single smart ticketing infrastructure for public transport users from the Tees Valley to the Scottish border, and I look forward to seeing this aspiration, which I have long championed, delivered in the years ahead. I want this to tie-in and be integrated with the smart ticketing technology now being introduced by commercial bus companies to give passengers a simple interchange between modes.

Our achievements in local bus travel over the last year are no less significant. Nexus worked with local councils in 2010/11 to carry out its largest ever consultation with local people on the bus services it provides, using local authority funding.

More than 5,000 people took part in consultation online and at events in the community. As a result of this work we launches a network of improved local bus links, complementing commercial services, in Newcastle and North Tyneside in March 2011, and will see further improvements in other districts in the years ahead.

At the same time we continue to examine the way the whole bus network is planned, provided and funded in Tyne and Wear, working with operators to explore the best way to ensure this vital public service meets local needs and is delivered in an efficient and affordable way. We have also seen local improvements to bus infrastructure continued with smaller interchanges at Concord and Hetton refurbished.

We have adopted our third Local Transport Plan which looks ahead to 2021 and sets out our strategic approach for transport across Tyne and Wear. We have established a new vision for transport across Tyne and Wear and have set out three year implementation plans with our district partners, which will be reviewed annually to ensure they are kept up to date.

We have been taking a lead role in supporting the case for a High Speed Rail network to the North East and working with our partners and stakeholders across the region to lobby government on the benefits.

There is great pressure on all public bodies to respond to the current public spending environment and find efficiencies in the services they provide. I am pleased that we have been able to protect frontline local services this year by working closely with local councils, through the years ahead remain challenging in this respect.

We have also been able to maintain child concessionary fares (extended and simplified by the ITA in 2008) at the current levels to play our part in protecting family budgets at this difficult time.

## **Chairman's Foreword and Introduction**

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For a second winter running, public transport had to contend with some of the most severe weather North East England had seen in decades. This tested to the limit the infrastructure, vehicles and professionalism of frontline workers across all modes.

Once again Metro, bus, ferry and rail came through for the people of Tyne and Wear, maintaining vital connections both for regular passengers and those who found themselves unable or unprepared to travel by car. May I take this opportunity to pay tribute to all those who worked so hard to keep their communities on the move whatever the heavens threw at them.

**Councillor David Wood**  
**Chair of Tyne & Wear Integrated Transport Authority**



## Clerk's Foreword



Despite it being a challenging year, we have continued to press forward with our plans for improving transport for everyone across Tyne and Wear. We have had a number of successes and achievements that I touch on a little later. The new Government has introduced a number of new policies, which we have been expecting and have been able to brief and advise our Members. As Clerk to the ITA, I have taken responsibility to ensure that we are on the front foot to anticipate and respond swiftly to changes in national policy and how they may impact on us in Tyne and Wear. I have met directly with senior civil servants from the Department of Transport to develop stronger working relationships with them.

We have seen a number of achievements over the past year. We have seen the opening of the New Tyne Crossing, on time and on budget which is a testament to dedication of those involved in this huge project. Both tunnels will be open to traffic in later this year, providing congestion relief and helping with ambitious regeneration proposals in Tyne and Wear.

The Metro Reinvigoration continues at pace, to ensure that we have a modern and efficient transport system that encourages people to use public transport. We will see the fruits of this major investment over the coming years.

In the past 12 months we have drafted, consulted and adopted our third Local Transport Plan which looks ahead to 2021 and sets out our strategic approach for transport across Tyne and Wear. We have established a new vision for transport across Tyne and Wear and have set out three year implementation plans with our district partners, which will be reviewed annually to ensure they are kept up to date.

We have been taking a lead role in supporting the case for a High Speed Rail network to the North East and working with our partners and stakeholders across the region to lobby government on the benefits.

We have been taking the lead in the development of a high level transport strategy that covers the geography of Durham, Northumberland and Tyne and Wear. This has enabled us to be at the centre of shaping transport policy across this vast area. These proposals place economic growth and quality of life at the heart of what we want to achieve. We have consulted with businesses and other partners on our proposals and the Government has indicated a commitment to work with us to deliver our ambitions. ITA Officers based at Newcastle City Council have continued to provide valuable support and policy advice to Members ranging from financial advice to specific transport policy advice, including undertaking an internal review of how we can be more efficient.

## **Clerk's Foreword**

We have a commitment to sustainable transport and with our partners in Tyne and Wear and Nexus; we are working up a detailed bid for funding from Government to deliver sustainable transport options via the Local Sustainable Transport Fund. We are delivering projects that will make a difference to the travelling public such as: -

- Metro Reinvigoration
- Implementing the Bus Strategy. We are exploring how the whole bus network is planned, provided and funded in Tyne and Wear, and we are exploring ways to provide the best way to ensure local needs are met in an efficient and affordable way. The ITA will be keen to provide challenge to this over the next 2-3 years.
- The NESTI project
- Sunderland Station Improvements
- The Second Tyne Tunnel

ITA Officers will continue to provide the vital advice and support that our Members need to enable them to make decisions. We need to make sure that we continue to look forward, beyond the current financial challenges, to provide a transport system that is accessible and sustainable for all.

**Barry Rowland**  
**Clerk to the ITA**

## Members of the Authority during 2010/11



J McElroy  
**Vice Chair**



S Green



P Maughan



D Wood  
**Chairman**



W Taylor



G Keating  
**Leader of the  
Opposition**



G Stone



D Ord



E Hodson



F Lott



A McMillan



T Hanson  
**Vice Chair**



**South Tyneside Council**



J Blackburn



J Scott  
**Statutory  
Vice Chair**



A Hall



P Wood







## Explanatory Foreword by the Treasurer



### Introduction

The Tyne and Wear Integrated Transport Authority (ITA) manages its affairs to ensure the economic, efficient and effective use of its resources and to safeguard its assets. This is vital if the ITA is to continue to play a leading role in the provision of quality public transport services throughout the Tyne and Wear area.

This task is shared by all members and officers of the Authority. The Treasurer has a particular role in ensuring sound financial stewardship.

This statement of accounts has been prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting in Great Britain which requires that the accounts present a true and fair view of the position of the Authority. Suitable accounting policies have been employed and where necessary prudent judgements and estimates were made which complied with the Code.

The purpose of this foreword is to provide the reader with:

- An understanding of the accounting statements
- A review of the Authority's financial results in 2010/11 and its financial position
- An overview of activities and significant matters which occurred during the year

### Background to the Tyne and Wear Integrated Transport Authority's Finances

The Authority's main source of income is the levy applied to the five constituent local authorities of the ITA based upon population. This provides over 80% of its total income. The other main source of income is derived from the tolls from the Tyne Tunnels.

The major item of ITA expenditure is a revenue grant to Nexus, the Passenger Transport Executive. This supports concessionary travel, the Metro, other bus and rail services, bus infrastructure and the Tyne Ferry.



The lead authority for the ITA is Newcastle City Council. It provides administrative, engineering, financial, legal and other advisory services directly to the Authority.

Further expenditure is incurred by the ITA on financing charges. These relate to principal and interest payments on inherited debts, and grant to Nexus and the Tyne and Wear Districts.

## **Explanatory Foreword by the Treasurer**

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The running costs of the Authority also include additional superannuation contributions in respect of the ITA's obligations for the pensions of former Busways employees.

The ITA also owns and operates the Tyne Tunnels, linking the A19 under the River Tyne between Howdon and Jarrow. There is a tolled vehicle tunnel and tunnels for both pedestrians and cyclists. The Tunnels are entirely self-financing and are operated under a contract to a concessionaire company 'TT2 Ltd'. The Tunnels appear within the accounts as a trading function. Tolls on vehicles are also used to fund the development of the New Tyne Crossing.

The New Tyne Crossing is a major construction project that 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 has now closed for a full refurbishment. Both tunnels are expected to be completed and operational by the start of 2012. The new tunnel will convey two lines of southbound traffic and the existing tunnel, once refurbished, will convey two lanes of northbound traffic.

Further information is given in the New Tyne Crossing review on pages 25 to 29.

### **ITA Accounts**

**The ITA accounts for the financial year 2010/11 are set out in section 2. They consist of the following statements, along with notes to each:**

#### **Movement in Reserves Statement**

This statement shows the movement in the year on the different reserves held by the Authority, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce the levy) and other reserves. The surplus or deficit on the provision of services line shows the true economic cost of providing the ITA's services, more details of which are shown on 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.

#### **Comprehensive Income and Expenditure Account**

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from the levy. The levy position is shown in the Movement in Reserves Statement.

#### **Balance Sheet**

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Authority. The net assets of the Authority (assets less liabilities) are matched by the reserves held by the Authority. Reserves are reported in two categories. The first category is Useable Reserves, i.e. those reserves that the Authority may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use. The second category of reserves is those that the Authority is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example, the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and



## **Explanatory Foreword by the Treasurer**

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reserves that hold timing differences shown in the Movement in Reserves Statement line “adjustments between accounting basis and funding basis under regulations”.

### **Cash Flow Statement**

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. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Authority are funded by way of the levy and grant income or from the recipients of services provided to the Authority. Investing activities 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.

### **Group Accounts**

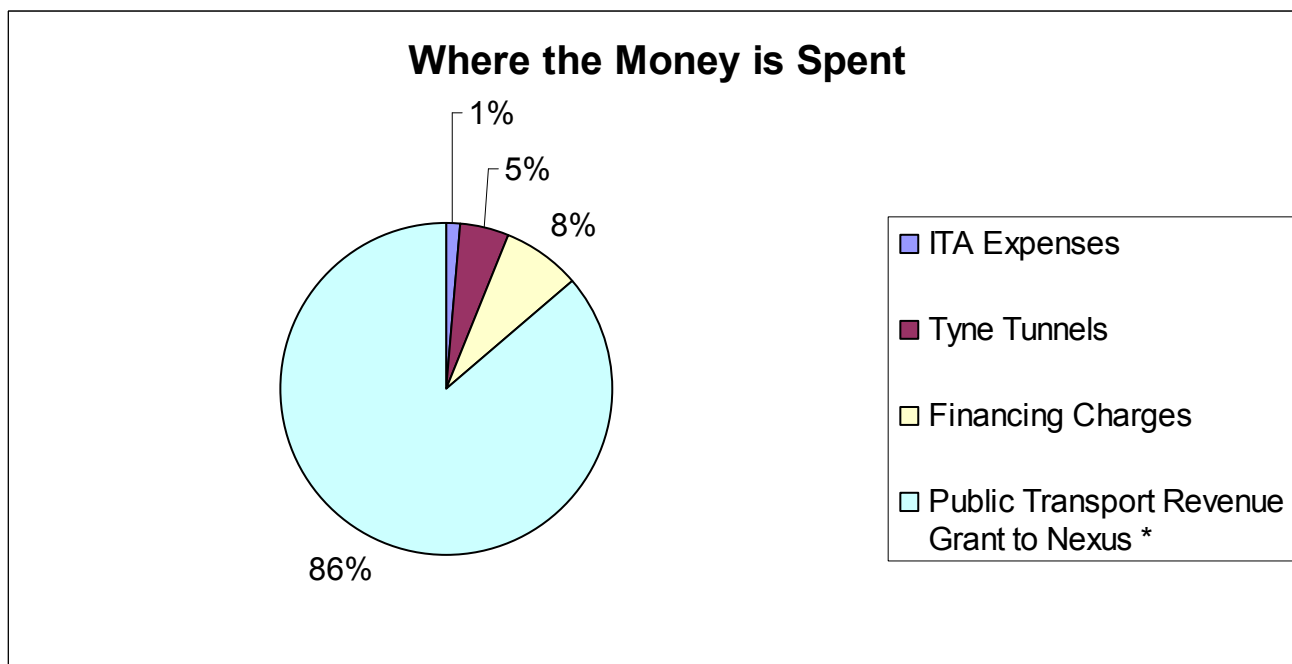
The Group Accounts provide the same information as above, but incorporate the Nexus accounts within the figures. Notes to the Group Accounts provide further detail to items which are materially different in the Group Accounts to the single entity ITA accounts.

# Principal Financial Results for 2010/11

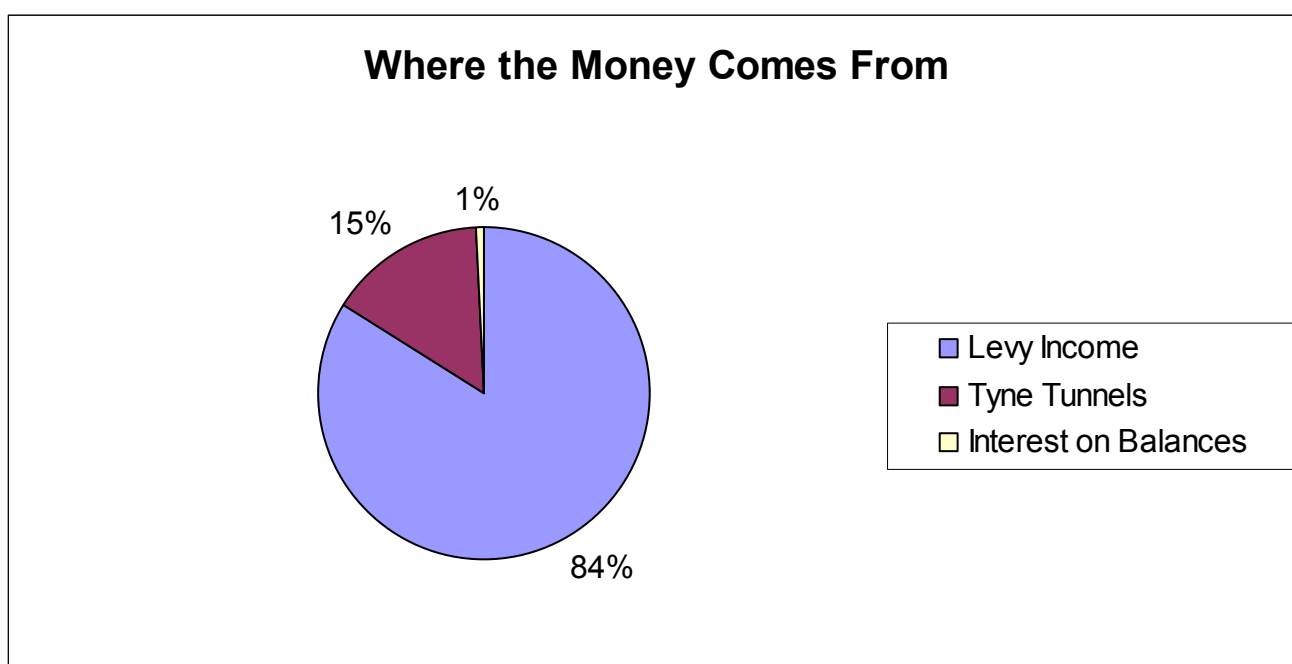


## 1. Revenue Expenditure

The ITA's revenue expenditure in 2010/11 amounted to £79.34m and income amounted to £85.51m. The charts below illustrate where the income comes from and how it is spent:



\* The majority of the ITA's expenditure is a grant to Nexus to enable the provision of public transport services. The level of this grant is reviewed and agreed by the ITA annually.



## Explanatory Foreword by the Treasurer

The following table provides a summary of actual spend against the revised budget for 2010/11, as reported to the meeting of the ITA on 27 January 2011. To provide a comparison across years, the table also shows actual spend for 2009/10.

	2009/10	2010/11		
	Actual £000	Budget £000	Actual £000	Variance £000
<b>ITA Budget</b>				
Expenses of the ITA	562	570	558	(12)
Pensions	510	510	511	1
Financing Charges	2,966	2,809	2,811	2
Interest income	(202)	(60)	(61)	(1)
	<b>3,836</b>	<b>3,829</b>	<b>3,819</b>	<b>(10)</b>
<b>Tyne Tunnels</b>	(8,822)	(6,496)	(6,784)	(288)
<b>Revenue Support to Nexus</b>	67,595	68,555	68,555	-
<b>Net Expenditure</b>	<b>62,609</b>	<b>65,888</b>	<b>65,590</b>	<b>(298)</b>
<b>Less Levy on Tyne &amp; Wear Authorities</b>	(70,646)	(71,706)	(71,706)	-
<b>Expenditure Financed from Earmarked Reserve*</b>	-	-	1,273	1,273
<b>Interest on Earmarked Reserve*</b>	(567)	-	(270)	(270)
<b>Contribution to / (from) Earmarked Reserve*</b>	567	-	(1,003)	(1,003)
<b>Contribution (to) / from General Fund Reserves</b>	<b>(8,037)</b>	<b>(5,818)</b>	<b>(6,116)</b>	<b>(298)</b>

\* Interest on and expenditure met from the earmarked Metro Reinvigoration reserve was not included within budget estimates since this has a nil effect on the levy and the ITA's general fund.

### 2. Analysis of Revenue Expenditure against Budget

The table below compares actual spend with the revised budget forecast presented to the ITA at its meeting of 27 January 2011, providing a more detailed breakdown of the ITA's own retained budget.

Budget Heading	Budget £000	Actual £000	Variance £000
Staffing & Charges for Servicing Officers	349	334	(15)
Audit Fees	37	40	2
Members allowances and expenses	86	83	(3)
Accommodation Charges	6	8	2
Subscriptions	36	36	-
Conferences	1	1	-
Travel expenses and subsistence	3	2	(1)
IT Development	34	42	8
Printing costs and Professional Services	15	10	(5)
Advertising	2	2	-
Pension Deficiency Payments	510	511	1
Financing Charges	2,809	2,811	2
Interests on investments and revenue balances	(60)	(61)	(1)
<b>Total</b>	<b>3,829</b>	<b>3,819</b>	<b>(10)</b>

Overall, spending was within budget with small variations on some individual budget lines. Additional expenditure was incurred on ITA development, relating to one-off costs for the redevelopment of the ITA website. This work has enabled a reduced charge to be negotiated for the ITA website from 2011/12 onwards, which will realise a substantial saving. Savings were made on staffing and charges for servicing officers due to lower pay as you go charges than anticipated in year. Printing costs were lower than budgeted due to a strategy of minimising any unnecessary printing. There were small variations from the budget on Financing Charges, interest on investments in year and interest on revenue balances. However, taking these three related items together, actual net expenditure was £2,750k against a budgeted figure of £2,749k. As part of the Treasury Management strategy, external debt has been repaid and investments reduced. At 31 March 2011, the ITA had no external investments. The average rate of interest paid on loans in the year was 4.40%, and the average rate of interest received on balances was 2.01%.

### 3. Reserves Position

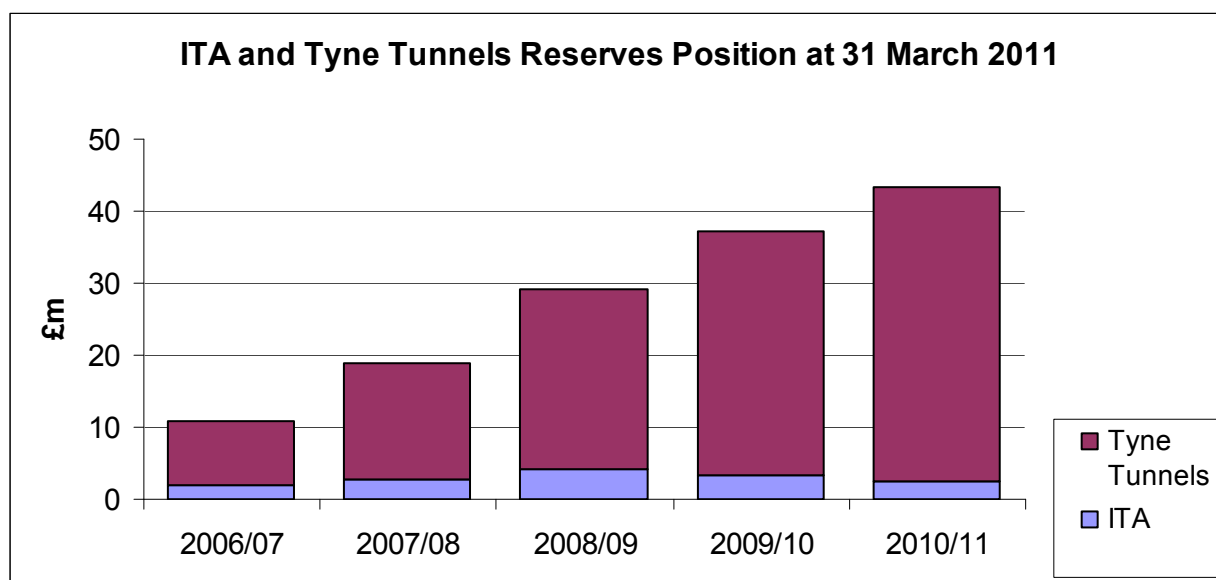
#### Reserves at 31st March 2011

	2009/10	2010/11	Variance
	£000	£000	£000
Earmarked Metro Re-invigoration Reserve	(13,441)	(12,438)	1,003
<b>General Reserves</b>			
Integrated Transport Authority	(3,268)	(2,600)	668
Tyne Tunnel	(33,988)	(40,722)	(6,784)
<b>Total</b>	<b>(50,698)</b>	<b>(55,810)</b>	<b>(5,113)</b>

The balance on the earmarked Metro Reinvigoration reserve was reduced during 2010/11, as funding was drawn down to support capital expenditure incurred by Nexus in the year.

The ITA's unearmarked balances reduced during 2010/11 due to the planned use of reserves to limit the levy increase to 1.5% and to provide funding to Nexus to freeze Gold Card prices. The amount used was considerably less than originally budgeted: £668k compared with an original budget of £781k and a revised forecast of £678k.

Tyne Tunnel balances continue to be built up for the financing of the New Tyne Crossing project. The opening balance has been restated to reflect the revised accounting treatment adopted for the New Tyne Crossing model, which has led to the reversal of certain accounting adjustments made in the 2009/10 accounts. The chart below displays the position on the unearmarked reserves over the past five years. This shows Tyne Tunnel balances increasing, while the ITA's unearmarked balance has decreased as reserves are used to support expenditure to minimise increases to the levy on Tyne and Wear Authorities.





### 4. Capital Expenditure

Capital Expenditure has been incurred in 2010/11 in relation to the New Tyne Crossing Project and the refurbishment of the Tyne Pedestrian and Cycle Tunnel.

The following table compares capital expenditure in year against the budgeted figures:

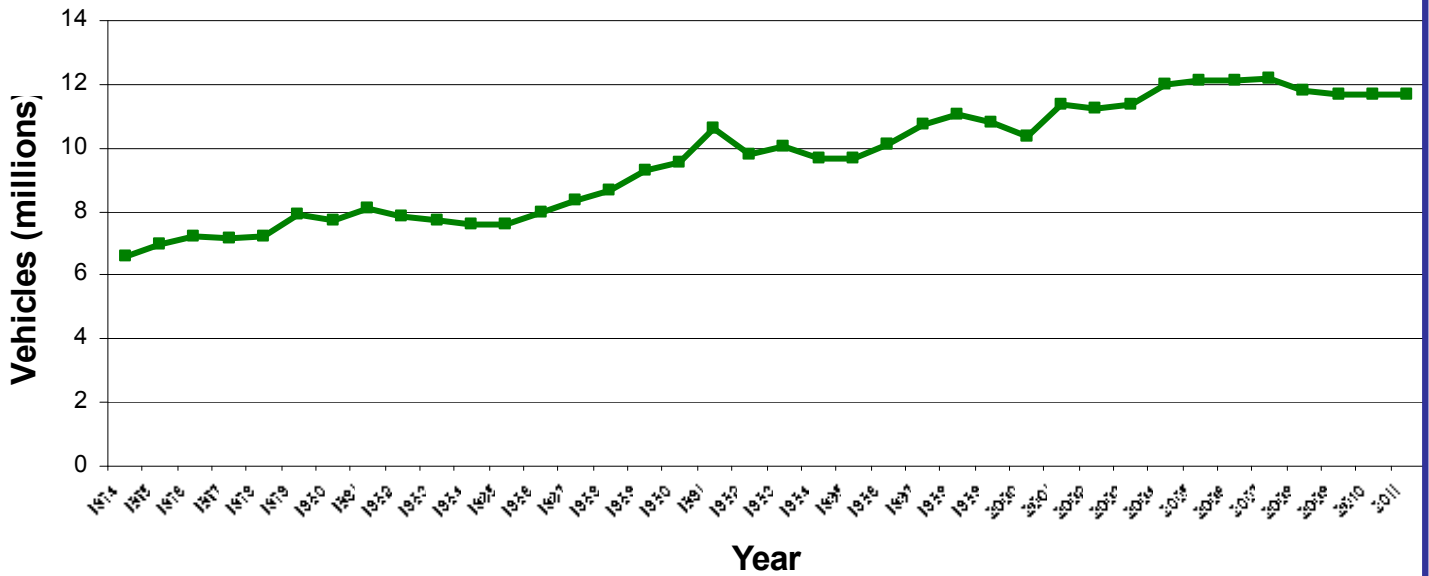
Budget Heading	Budget £000	Actual £000	Variance £000
<b>New Tyne Crossing</b>			
Environmental improvements	330	464	134
Land	253	221	(32)
Professional fees	1,057	1,374	317
Construction Milestone Payments	37,800	37,800	-
<b>Tyne Pedestrian and Cycle Tunnel</b>			
Lift replacement	520	460	(60)
Pedestrian tunnel	575	50	(525)
<b>Total Capital Programme</b>	<b>40,535</b>	<b>40,369</b>	<b>(166)</b>

Overall capital expenditure in year was in line with the budget (less than 1% variance). Variances on individual items are due to rephasing and realignment of the Pedestrian and Cycle Tunnel works, and changes to timing of spend on Environmental Monitoring and Professional Fees. Some Professional Fees relating to the TPCT are included within the Professional Fees line under the New Tyne Crossing.

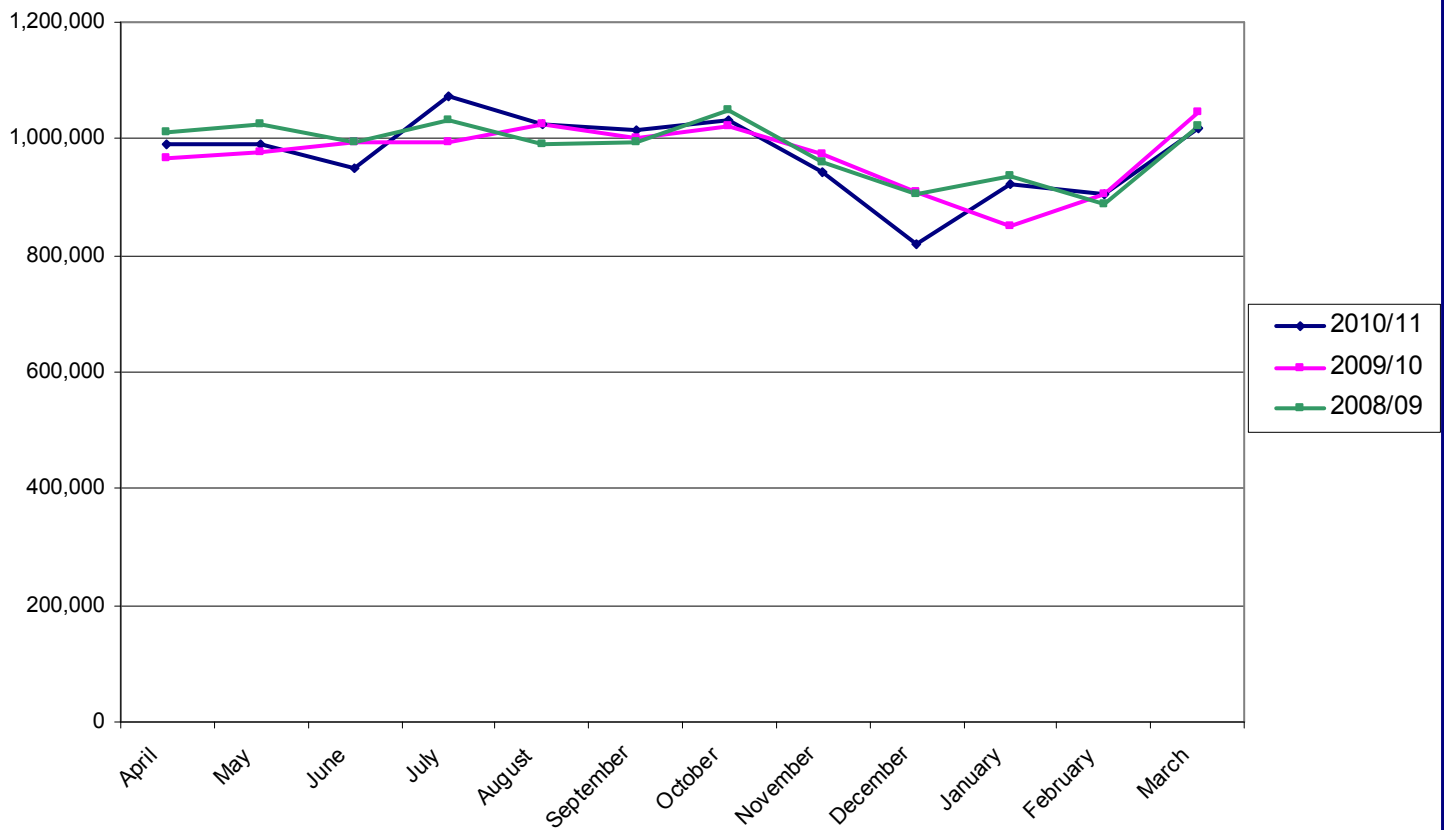
### 5. Tyne Tunnels

The vehicle tunnel has been open for more than forty years, with traffic numbers having increased substantially since then. In 2010/11 the traffic level was 11.6m vehicles, corresponding to toll income of £13.176m after adjusting for prepayments (compared with £13.180m in 2009/10). The toll levels were last increased in January 2008 (to £1.20 for cars) with traffic flows largely levelling off over the last few years (see graphs below). The toll income is being used to fund both the running costs of the tunnels and the development of the New Tyne Crossing.

**Traffic Flows 1974 to 2011**



**Monthly Traffic Flows (2008/09 to 2010/11)**



## Explanatory Foreword by the Treasurer

In February 2008, the Tunnels were passed over to TT2 Limited who will run the operation for thirty years. They are also managing the construction of the New Tyne Crossing which was completed in February 2011, and the refurbishment of the existing Tunnel, which is due for completion in December 2011. The table below details expenditure within the ring fenced Tyne Tunnels trading account, and compares it against the comparative figures for 2009/10 and the budget forecast.

	<b>2009/10 Actual (£000)</b>	<b>2010/11 Budget (£000)</b>	<b>2010/11 Actual (£000)</b>	<b>Variance (£000)</b>
Employees	35	33	33	-
Pensions	588	588	592	4
Premises, Supplies and Services and Other Expenses	67	59	88	29
Support Services	143	173	161	(12)
NTC Community Fund	3	10	2	(8)
Financing Charges	1,753	3,444	3,119	(325)
Capital Expenditure financed from Revenue	21	-	-	-
Usage Payments	2,859	2,962	2,915	(47)
Toll Income	(13,180)	(13,260)	(13,176)	84
Other Income	(15)	-	(1)	(1)
Interest on Investments and Tunnel Balances	(1,096)	(505)	(569)	(64)
NESTI	-	-	52	52
<b>Total Tunnel Operating Costs</b>	<b>(8,822)</b>	<b>(6,496)</b>	<b>(6,784)</b>	<b>(298)</b>

There was a small overspend on Other Expenses, primarily due to requirement for the provision of a shuttle bus service as a result of lifts and escalators in the pedestrian tunnel being out of operation. Financing charges have increased as additional borrowing has been taken on in order to meet the capital construction payments to the contractor as the New Tyne Crossing project progresses. Due to careful treasury management practices, financing charges were under budget overall and some additional income was achieved on investments and balances in year. Tolls income received was within one percent of the budget estimate, although very slightly down on the 2009/10 figure. As a result of lower traffic than budgeted, the usage payment made to TT2 was also less than the forecast figure.

The figures for 2009/10 have been restated due to the reversal of the provision created for NESTI, as the accounting treatment for this item has been revised.

### 6. Pension Liabilities

The ITA is a member of the Tyne and Wear Pension Fund, which is part of the Local Government Pension Scheme. This is a scheme which provides defined benefits based on members' final pensionable salary. In the ITA's accounts, a liability for future pension costs is recognised on the Balance Sheet, and pension contributions are shown in the Comprehensive Income and Expenditure Statement.

The figure presented within the annual accounts is prepared on an International Accounting Standard (IAS 19) basis. Under IAS 19, the ITA is required to disclose the total value of all pension payments that have accumulated (including deferred pensions) at the 31 March each year. This value is made up of:

- The total cost of pensions that are being paid out to former employees who have retired;
- The total sum of the pension entitlements earned to date for current employees.

The standard also requires all investments (assets) of the Pension Fund to be shown at their market value at 31 March each year. In reality, the value of such investments fluctuates in value on a day-to-day basis but this is ignored for the purpose of the accounting standard. Comparing the value of all future pension payments and the value of investments as at 31 March results in either an overall surplus or deficit for the Pension Fund. This is called the IAS 19 surplus or deficit.

In 2010/11, the actuaries have estimated that the IAS 19 deficit is £4.28m. This compares with an equivalent figure in the 2009/10 accounts of £15.39m. There are two main reasons for this significant decrease. The majority of the ITA's pension liabilities now relate to former Busways employees, where the ITA is liable to pay pension increases on periods of service before 1989. This means that the ITA's overall pension deficit is particularly sensitive to changes in assumptions for future pension increases. As part of the emergency budget in June 2010, the Chancellor announced that from April 2011, increases to public sector pensions would be linked to the Consumer Price Index (CPI) rather than the Retail Price Index (RPI). Over the long term, CPI increases are expected to be lower than RPI increases, and therefore the defined benefit obligations on the Balance Sheet have been reduced.

In addition to this change, the pension liability was also reduced substantially as a result of changes to the estimation method used by the actuaries, Aon Hewitt. In carrying out the IAS 19 valuation this year, the estimate of liabilities has been found to have been too high in previous years and has been reduced accordingly in the 2010/11 disclosure.



### 7. Changes in Accounting Policies and Practices

#### Move to International Financial Reporting Standards

2010/11 is the first year that the ITA has been required to prepare its final accounts on an International Financial Reporting Standards (IFRS) basis. Previously, in line with all local authorities, the ITA's accounts were prepared in accordance with UK accounting standards and the Statement of Recommended Practice (SORP). The accounts are now prepared in accordance with the IFRS-based Code of Practice on Local Authority Accounting.

The move to IFRS has been made because it is seen as best practice and allows for international comparisons to be made. Although IFRS has been developed for the private sector, where there are specific public sector reasons to diverge from IFRS, International Public Sector Accounting Standards (IPSAS) are followed instead.

On first time adoption, IFRS requires the previous SORP based 2009/10 accounts and 2008/09 balance sheet to be restated to an IFRS basis to provide comparative figures.

The significant changes arising as a result of the move to IFRS can be summarised as follows:

- **Financial Statements**

The main change as a result of IFRS to affect the ITA accounts is in the format of the Financial Statements. The accounts will look quite different to previous years, with some statements replaced and others modified.

The Income and Expenditure Account and the Statement of Recognised Gains and Losses have been consolidated into one Comprehensive Income and Expenditure Statement. The Statement of Movement on General Fund Balance has been replaced by the Movement in Reserves Statement. There are some format changes to the Balance Sheet, with lines simplified. Most notably, reserves are now presented as 'Usable' and 'Unusable' Reserves, with the breakdown of these being provided in the Notes to the Accounts. The Cash Flow Statement has also been simplified, with fewer lines. There are significant changes to the Notes to the Accounts, with some additional disclosures required and format changes.

- **Capital Grants and Contributions**

Guidance for the treatment of capital grants and contributions has changed. Under IFRS, grants and contributions are recognised in the Comprehensive Income and Expenditure Statement when any conditions attached to them (which might result in their repayment or return) have been met.

Where the conditions have not yet been met, grants and contributions are held on the Balance Sheet as Receipts in Advance. Where conditions have been met but the grants or contributions have not yet been applied to finance expenditure, they are held on the Balance Sheet as Capital Grants and Contributions Unapplied, a new category of Usable Reserve.



- **Segmental Reporting**

Under IFRS, there is a new requirement to present the Authority's income and expenditure in a separate note to the accounts based on the format in which it is presented to management (for example, in revenue budget monitoring reports), rather than the Accounting Code of Practice (ACOP) basis specified for the Comprehensive Income and Expenditure Statement. This needs to be reconciled to the Comprehensive Income and Expenditure Statement, and is included within the ITA accounts as Note 22. For the ITA, the two reportable segments are the Tyne Tunnels Trading Account and ITA Expenses.

- **Leases**

There are other changes arising from the move to IFRS which have been carefully considered, but which have not affected the ITA's accounts this year. For example, the guidance for classifying leases between finance and operating leases has changed under IFRS, with eight classification tests introduced. All ITA leases have been reviewed against the new tests, and the classification as operating leases judged still appropriate.

- **Property, Plant and Equipment**

Under IFRS, fixed assets are known as 'Property, Plant and Equipment'. IFRS has an increased emphasis on component accounting compared with the SORP. This recognises that an asset may include different components with different useful economic lives and should be depreciated and valued separately where these components are significant. For the ITA, this means that the new tunnel has been valued on this basis. It is considered that the new tunnel has an economic life of 120 years. Various components such as Mechanical and Electrical Services and the toll plaza may have an economic life of 20 years and have been separately itemised within the valuation, but they form less than 20% of the overall valuation and therefore are not considered to be significant components.

### **Accounts and Audit Regulations 2011**

The Accounts and Audit Regulations 2011 were amended in March and apply to the 2010/11 Statement of Accounts. The main change is the removal of the requirement for the Statement of Accounts to be formally approved by the ITA before 30 June, although they must still be signed by the ITA Treasurer by that date and published on the ITA website. Formal approval must now be given by Committee by 30 September.

This change has been introduced to align the approval process more closely with procedures applying elsewhere in the public and private sectors. It will mean that the ITA is now asked to formally approve the accounts after, rather than before, the findings of the audit are known.

### **Accounting for the New Tyne Crossing model**

In 2009/10, a number of restatements were made to the accounts in relation to the way the New Tyne Crossing model was accounted for, under the guidelines set out in International Financial Reporting Interpretation Committee (IFRIC) 12.



## **Explanatory Foreword by the Treasurer**

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Although there was no cash change in the actual value of payments made to TT2, this treatment had a detrimental effect on the Tyne Tunnel reserves position shown in the accounts.

During 2010/11, the accounting treatment has been reviewed in conjunction with the ITA's external auditors and with advice from PWC, who created the original model. As a result of this review, an alternative accounting treatment has been determined to be more appropriate. There are no cash changes to the actual arrangement with TT2, the changes are purely in the way the project is accounted for.

The review has concluded that the ITA has no long-term obligation to transfer economic resources to the concessionaire, TT2, since TT2 revenue is in substance transferred directly to it. The ITA therefore does not need to recognise a long term liability to finance the project assets, rather it should recognise as revenue the amounts it is allocated under the provisions of the Payment Mechanism.

To do this, a deferred credit balance has been recognised on the Balance Sheet, and this will be written down to the Comprehensive Income and Expenditure Statement over the life of the service concession, to reflect the ITA's discharge of its obligation to allow the concessionaire to earn revenue from the Tunnel.

Since the write down of the deferred income balance is not true cash income to the Tyne Tunnels, it is written out through the Movement in Reserves Statement, so that there is no impact on the General Fund.

### **8. North East Smart Ticketing Initiative**

In 2009/10, the ITA agreed to take the role of Lead Authority in developing and implementing the NESTI programme on behalf of the twelve Local Authorities in the North East. The Authorities entered into a collaboration agreement in October 2010, in order to agree appropriate governance arrangements and to provide the necessary resources to support the project.

The objective of the NESTI project is to establish a smart ticketing infrastructure across the North East. NESTI will support the acquisition of smart ticket machines on buses and Metro stations and a smart back-office (called an ITSO HOPS) available for use by any participating local authority to make its Concessionary Travel Scheme smart. The programme will also explore further improvements including an 'e-purse' or 'stored travel rights' product which allows customers to pay as they travel using a smartcard, and will ultimately interface with other smartcard schemes. In its role as Lead Authority, the ITA will administer a budget of £10million and as accountable body is responsible for reporting progress bi-annually to the Association of North East Councils on behalf of the partner organisations, as required under the terms of the collaboration agreement. Nexus, in its role as the body responsible for delivering ITA policy for public transport, acts as project manager for NESTI.

The majority of the contributions (£7.2million) from the twelve local authorities were received in 2009/10 when, with the agreement of the local authorities, the funding was applied to capital works on the New Tyne Crossing.

## **Explanatory Foreword by the Treasurer**

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There is a liability on the 2009/10 Balance Sheet of £5.5m representing Grants and Contributions Receipts in Advance, as the conditions under which they were made by the North East Authorities, i.e. to spend the equivalent amount on the NESTI project, have not yet been met. The balance of £1.7m represents grant made directly to the ITA from Department for Transport, where the conditions have been met.

The remainder of the £10m was received in 2010/11. These contributions are also held on the ITA's balance sheet within Grants and Contributions Receipts in Advance.

### **9. Metro Reinvigoration**

In prior years, the Government awarded Metro around £580m to modernise and operate the Tyne and Wear Metro and thereby secure the future of the system.

The Operating Concession (a contract let by Nexus to DB Regio Tyne and Wear Ltd for the operation and maintenance of trains and station and the refurbishment of the Metrocar train fleet) commenced on 1 April 2010. Overall, performance has been good and customer satisfaction has improved. Nexus owns all Metro assets and sets strict standards for train frequency, punctuality, cleanliness, information and security. Fares continue to be set by the ITA.

The capital grant from Government combined with local expenditure means that Nexus can invest almost £400m modernising the system over the next 11 years. Nexus has delivered the first year of the investment plan and, at £39m, this represents the highest level of investment ever in the Metro system since it was built. Much of this was expended during the major line closure that took place during March 2011. In addition, the Ticketing and Gating project to replace the existing Metro ticket machines with machines capable of selling 'smart' tickets backed by online purchase and the installation of gates at thirteen stations continues apace. The modernisation of Sunderland and Haymarket stations was completed and the installation of a new footbridge and lifts at Benton is well advanced.

### **10. Looking ahead to 2011/12 and beyond**

The main issues facing the ITA in the next few years are:

- Managing the regional fund for smart ticketing on behalf of the North East Smart Ticketing Initiative
- The need to actively manage investments and debt to minimise risk and deliver net financing costs within budget
- To work closely with Nexus to achieve the required reductions in the levy on Tyne and Wear districts while minimising the impact on services wherever possible
- To continue to improve so we deliver even better value for money for the districts and local taxpayers that fund the ITA



# New Tyne Crossing

## Project Review of Progress

The concession contract was signed on 23 November 2007 and the staff and operation of the Tyne Tunnels transferred to TT2 Ltd on 1 February 2008. The Financial year 2010/11 was the third full year of the contract which has a 30 year term.



### Operations

The traffic volumes at the tunnel reduced by approximately 0.04% compared to 2009/10. The reduction was less than that forecast by TT2 Ltd and also less than the average reduction on other cross Tyne routes and on the national road network in the region. This is encouraging for the Concessionaire, particularly since the period includes the poor weather conditions in November and December 2010, which had a significantly greater impact on traffic volumes than in January 2010; significantly more than the 0.04% differential. The journey time monitoring system continued to provide accurate information for drivers up to 25 February 2011 when it was decommissioned for transfer to the new vehicle tunnel.

The switchover of traffic from the existing tunnel to the new tunnel over the weekend of 25-27 February took a short time for traffic patterns to 'settle'. The opening of the new tunnel also attracted a significantly higher traffic volume on Saturday 26 and Sunday 27 February 2011 - up by nearly 40% on average weekend figures for February.

The new tunnel operates under a more automated control system than the old tunnel. The control room plays a much more significant role in the operation as a consequence. Operational procedures have changed accordingly and staff numbers have been reduced to reflect the changes as envisaged by the Project Agreement. TT2 report that staff morale is high and approval of the facilities incorporated into the office refurbishment is unanimous; the canteen is transformed and equipped with a recreational area and TT2 have introduced and installed a fully equipped fitness room for staff to use.

The performance of TT2 is monitored on a daily basis by the TWITA's Monitoring Officer who is based on site at the Tyne Tunnel. There was no requirement to apply any penalty deductions and TT2's operational performance is classed as VERY GOOD over the year. This is the third consecutive year TT2 has achieved this rating.

There has been no modification to the toll charge regime - cars £1.20, HGVs £1.50 and motorcycles £0.20 with a 10% discount for permit account holders. The next toll increase is not scheduled until the New Tyne Crossing is complete and users realise the benefit in service.



## New Tyne Crossing Review

### Construction

Construction of the £260m (2007 prices) scheme began in April 2008 when the site was passed to TT2 and their contractor Bouygues TP. By the beginning of the 2010/11 year, the main civil engineering works were advanced, including the placement of the 4 immersed tubes under the river. Significant progress has been made over the year but particularly:

- Main civil engineering works to the new tunnel were completed - including backfilling operations.
- The new tolls plaza for south bound / bi-directional traffic was completed.
- The approach road to the new toll plaza and the new tunnel portal (north) were completed.
- The north service building and the south extract / service building were completed.
- The mechanical and electrical systems (including the control systems and the fixed fire suppression system) to the new tunnel were installed, tested and commissioned.
- Rock armouring protection to the immersed tubes was placed.
- Reinstatement works to highways and landscape areas over the new tunnels commenced.
- Works to the complicated south junction progressed sufficiently to allow local traffic to use the new loop road to access the tunnel.
- Refurbishment of the Tyne Tunnel Offices, garages and workshops was completed.

An emergency exercise was carried out on 12 February 2011 to test the new equipment and the emergency procedures. All the emergency services and the Tyne and Wear Emergency Planning Unit were involved. The exercise had a positive outcome and satisfied the Independent Certifier in his procedures for signing off 'Permission to Use' the new tunnel. This was actually achieved on 25 February 2011 and traffic was first directed into the new tunnel at 00:01 on 26 February 2011.



Work on the refurbishment of the existing tunnel began on the 28 February 2011. The contractor is working with two work trains in series on the installation of the new wall to the escape passage. It is also being progressed on a continuous shift system to maximise production.

Work commenced on the foundations for the major structure required in the Stothard Street area to bridge the existing sun-visor section of tunnel to create usable open space and enhance the environmental conditions for the local community.

Work continues on the refurbishment of the existing support structures under the A185/A19/Tyne Tunnel junction area. Traffic is managed through the junction by TT2's operational staff under temporary traffic management regimes.

### **Environmental Monitoring**

The regime of river monitoring required by the Environment Agency was taken over from TWITA by the contractor in April 2008. The dredging, backfilling and rock armour placement works were all complete by the end of April 2010. Consequently, the fish tracking and water quality monitoring were concluded in November 2010. Fish counting/recording and smolt trapping/recording is continuing at Riding Mill in accordance with the Agreement with the Environment Agency. It is worthy of note that there was no discernable impact on the fishery as a result of the New Tyne Crossing river works - fish numbers since have been very good and in fact higher than in 2009.

Progress has also been made on the feasibility studies associated with the potential provision of a fish pass at Hexham Bridge. This work is necessary to comply with the requirements set out in the 2003 EA and TROOA Agreements.

### **Tyne Pedestrian and Cyclist Tunnels (TCPT)**

The TCPT form part of the New Tyne Crossing project. TT2 are responsible for their routine maintenance. As the TPCT approaches its 60th Anniversary on 24 July 2011 many of the elements of the tunnels are in need of refurbishment. This is particularly the case for the mechanical and electrical systems - vertical lifts, escalators (which are the original 1951 equipment) and lighting. Approvals have been given by TWITA for a total budget of £6.55m for a programme of refurbishment. The vertical lifts were modernised in 2010 and the major package of works is planned for 2012. All works to the TPCT require Listed Building Consent as they are Grade II listed.

### Communications

The communication plan set out in the tender documentation was implemented over April-June 2008. The Strategic Partnering Forum meets on a quarterly basis. It is chaired by the Managing Director of TT2 Ltd and brings together the major stakeholders to address strategic and cross river issues. The North and South Partnering fora, which are chaired by local elected representatives and consider local issues related to the construction activities have also continued to meet throughout 2010/11. Information dissemination is effected by the media, newsletters, drop-in sessions at venues adjacent to the site, schools liaison, web-sites (construction and operator) and presentations. A 24 hour phone line is still in place to receive calls for assistance, information, compliments and complaints. The communications effort is directed by a Strategic Communications Group. In financial year 2010/11, TT2 reported 176 claims and 282 compliments.

There were two substantial events in 2010/11, both of which attracted significant media attention. These were:

1. New tunnel walk through on 2 July 2010 which involved the Mayor of North Tyneside, the Leader of South Tyneside, the Chair of TWITA, local MPs, local Councillors from North and South Tyneside Councils and adjacent community representatives. The event marked the first walk through in the new vehicle tunnel.
2. Commissioning of the new vehicle tunnel at midnight on 25 February 2011. This involved the Mayor of North Tyneside, the Leader of South Tyneside Council, the Chair and Members of TWITA, the Contractor, TT2 staff and TWITA officers. The Civic Leaders were the first to be driven through the tunnel in two Nissan Leaf (electric) vehicles. The vehicles were kindly supplied by Nissan.



Walkthrough event, July 2010





Aerial view North Jan 2011



Aerial view South Jan 2011

### Programme

The current key target delivery dates are:

Open refurbished existing tunnel	December 2011
Completion certificate to be issued	December 2011

Construction activity is progressing satisfactorily to achieve these project milestones, which are ahead of the original published schedule whereby both tunnels were expected to be fully operational in early 2012.

### Land

The entire site was occupied by the contractors throughout 2010/11. The General Vesting Declaration Powers under the River Tyne (Tunnels) Order 2005 were successfully applied to acquire the sub-soil now occupied by the new tunnel. Arrangements for the hand back of land, adoption of new highways and hand back of reinstated highways made good progress.

### Acknowledgement

Some of the photographs are reproduced with the kind permission of the main contractor

**Paul Fenwick**  
**New Tyne Crossing Project Director**





## Scrutiny Advisory Committee - A Review of 2010/11

“... Giving Advice  
and Holding to  
Account ...”

The Scrutiny Committee was established in 2003. Members are appointed annually by the five Tyne & Wear Districts. Each District appoints two Councillors. To ensure independent advice - and visible separation between scrutiny and those being scrutinised - Councillors are not members of the ITA. The Scrutiny Committee appoints its own Chair and Vice Chair and agrees its own work programme. The role of the committee can best be described as giving advice and holding to account.

Six meetings were held in 2010/11 at venues across Tyne and Wear. There was also a walking tour of the new Tyne Tunnel and representatives attended conferences on rail and scrutiny practice.

The committee moved from themed meetings around national policy goals to more timely scrutiny of issues in the ITA's own forward plan. Regular review enabled the committee to take account of the balance of the work programme, new and emerging issues, changing scrutiny priorities and discussion at meetings. It also provided a response to comment, made through Standards and Audit Committee, about the focus of the committee.

Scrutiny Committee attendance, an issue in 2009/10, was less of a problem in 2010/11 given the ITA agreed Councils can now appoint substitutes. Unfortunately, one Councillor has been unable to attend any meeting since appointment in 2009. Another Council appointed one of its executive-side Cabinet members. Officers are pro-actively engaging Districts concerned to address these issues in seeking appointments for 2011/12.

Set out below is a summary of the work of the Scrutiny Committee in 2010/11. The Centre for Public Scrutiny's four principles of good scrutiny have been used to guide this report as they are the key national benchmark. The principles are to:

...provide critical friend challenge to executive policy and decision-makers

...enable the voice and concerns of the public and its communities to be heard

...carry out scrutiny by 'independent minded governors' who lead and own the scrutiny process

...drive improvement in public services

## Scrutiny Committee

Principle	Evidence
To provide critical friend challenge to executive policy-makers and decision-makers	<ul style="list-style-type: none"> <li>In recognition of the need for more timely comment, the committee adopted a new way of working with agenda items based on the ITA's forward plan providing, wherever possible, pre-decision scrutiny</li> <li>The committee reviewed the effectiveness of Super Routes</li> <li>The committee commenced work looking at how the Highways Agency and others assess the non-financial risks of decisions not to proceeding with major capital schemes such as A19 junctions</li> <li>The committee submitted reports to the ITA on: a) the need for clarity in its part in bringing high speed rail to the North East and b) on feedback to LTP3 consultations</li> <li>The committee studied, in some detail, reasons for low occupancy for the Northumberland Park Metro Park and Ride car park</li> </ul>
To enable the voice and concerns of the public and its communities to be heard	<ul style="list-style-type: none"> <li>The committee highlighted the need for additional (face to face) consultation on draft Local Transport Plan (LTP) 3 priorities. A welcome increase in responses was noted with face to face eventually making up 37% of all responses</li> <li>The committee considered how equalities were integrated into the developing LTP3 given public transport is key to promoting social inclusion</li> <li>The committee considered whether mobility scooters could be provided with a safe return to the Metro network</li> <li>The committee reviewed and commented on the forward plan of the Nexus Consultation Panel</li> <li>As representatives of local communities, committee members sought assurances about the frequency and reliability of a number of local bus services</li> </ul>
To carry out scrutiny by 'independent minded governors' who lead and own the scrutiny process	<ul style="list-style-type: none"> <li>The committee amended the start time of its meetings to ensure arrangements were convenient for all its members</li> <li>The committee received two detailed briefings from the Deputy Clerk and Treasurer on the ITA's budget context</li> <li>The committee used its own budget to attend a national conference discussing latest developments in the rail industry and reported back to Councillors</li> <li>The committee walked the new Tyne Tunnel commenting about the size of the project that had been delivered with the minimum of disruption</li> </ul>

## Scrutiny Committee

Principle	Evidence
To drive improvement in public services	<ul style="list-style-type: none"> <li>A broad range of developing policy areas were considered including: <ul style="list-style-type: none"> <li>NESTI - the North East Smart Ticketing Initiative where it was hoped there could be a shared system with rail</li> <li>Three Nexus Strategies (Park and Ride, Ferry Services and Safety and Security)</li> <li>LTP3</li> </ul> </li> <li>The committee Chair and Vice-Chair were invited to comment as part of the review of the ITA's Risk Register</li> <li>Discussion took place on opportunities available from water buses as part of an integrated transport system</li> </ul>

### Membership of the Scrutiny Committee 2010/11



**Councillor  
Graeme Miller**  
[Chairman]  
Sunderland



**Councillor  
David Tate**  
Sunderland



**Councillor  
Tom Graham**  
Gateshead



**Councillor  
Lawrence Hunter**  
Newcastle



**Councillor  
Mike Lynch**  
Newcastle



**Councillor  
David Charlton**  
North Tyneside



**Councillor  
Julia Macauley**  
North Tyneside



**Councillor  
Malcolm Graham**  
Gateshead



**Councillor  
Bob Watters**  
South Tyneside



**Councillor  
Richard Porthouse**  
South Tyneside



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



The composition of the Committee has remained largely unchanged in recent years. This has enabled the members to develop a detailed understanding of the Committee's terms of reference, bearing in mind the similar roles they also undertake in a similar capacity elsewhere.

Although the Committee had intended to be represented at the Standards for England Annual Assembly, the event was cancelled following the Government's announcement that its planned Decentralisation and Localism Bill would include proposals for the abolition of the Standards Board regime. The relevant Bill (now called the Localism Bill) was presented to Parliament in December 2010. The Committee monitored progress of the Bill during the course of the year. The Committee noted the Localism Bill, whilst proposing to abolish the statutory code of conduct and the duty to have a standards committee, will still impose a duty upon the Authority to promote and maintain high standards of conduct. The Committee will be following the progress of the Localism Bill with interest and recognises that as the legislative changes come closer and clearer, the Authority will need to decide what voluntary arrangements it wishes to adopt to replace the existing statutory regime. A report to the Authority on the issue is proposed for the Autumn. The development of any such arrangements will represent part of the Committee's work programme for 2011/12.

In line with CIPFA guidance, members undertook a self-assessment of the Committee's overall effectiveness and it was recognised that an action plan would need to be developed once members' own skills and training needs had been analysed.

The Committee endorsed the annual report of the Head of Audit and Strategic Risk whose unqualified Opinion was that the Authority's control systems were adequate and satisfactory. In line with the CIPFA Code of Practice, the Committee also monitored the performance of the Internal Audit function, the outcome of audits contained in the Annual Plan and clients' responses to individual recommendations.

The Committee were kept informed of the work of the external auditor, noting that the Audit Commission (whose role in future would be undertaken by Deloitte) had issued an unqualified Opinion in their annual report for 2009/10.

As in previous years, the Committee considered the Authority's annual report and accounts along with the Annual Governance Statement and Local Code of Corporate Governance, neither document having identified areas of significant weakness.

The Committee also considered the revenue budget monitor as a standard item which presented an opportunity for members to forward any comments direct to the Authority.

## Standards and Audit Committee Review

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Other items considered during the year included the new draft accounting policies under the IFRS model along with the Internal Audit strategic plan for the period to 2013/14. The Committee also kept under review the Authority's strategic risk register, noting that the direction of travel for two of the Financial risks (relating to Joint Service Budget priorities and funding for Concessionary Fares), had deteriorated over the course of the year, reflecting the pressure on public sector expenditure nationally.

For the future, members noted that as part of the ITA budget review, the Committee's cycle had been reduced from 4 meetings to 3 and the work programme was adjusted accordingly.

### Independent Members



**Mr. M. Scrimshaw  
(Chairman)**



**Ms. E. Green**



**Mr. A Atkinson**



**Mr. G. Clark**

### ITA Members



**Councillor J. S.  
Green**



**Councillor J.  
Blackburn**



**Councillor A.  
Macmillan**



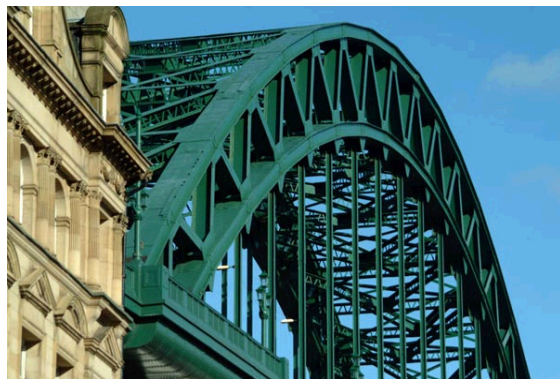
**Councillor G.  
Stone**



**Councillor P.  
Wood**



# Statement of Responsibilities for the Statement of Accounts



## The Authority's Responsibilities

The Authority is required:

- To make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Authority, that officer is the Deputy Clerk and Treasurer.
- To manage its affairs to secure economic, efficient and effective use of resources, and to safeguard its assets.
- To approve the statement of accounts by 30 September 2011.

Signed .....

**Councillor D. Wood, Chair of the Tyne & Wear Integrated Transport Authority**

**Date: 22 September 2011**

## The Treasurer's Responsibilities

The Treasurer is responsible for the preparation of the Authority's Statement of Accounts which, in terms of the CIPFA / LASAAC Code of Practice on Local Authority Accounting in Great Britain ('the Code'), is required to give a true and fair view of the financial position of the Authority at the accounting date and its income and expenditure for the year ended 31 March 2011.

In preparing this statement of accounts, the Treasurer has:

- Selected suitable accounting policies and then applied them consistently
- Made judgements and estimates that were reasonable and prudent
- Complied with the Code


The Treasurer has also:

- Kept proper accounting records which were up to date
- Taken reasonable steps for the prevention and detection of fraud and other irregularities

## Treasurer's Certificate

I hereby certify that the Statement of Accounts for the year ended 31 March 2011, required by the Accounts and Audit Regulations 2011 are set out in the following pages.

I further certify that the Statement of Accounts gives a true and fair view of the financial position of the Authority at 31 March 2011 and its income and expenditure for the year ended 31 March 2011.

Signed .....

<b>P. V. Woods, Deputy Clerk and Treasurer</b>
<b>Date: 22 September 2011</b>



An aerial photograph of an industrial and residential area. In the background, a wide river flows horizontally. To the left of the river, there are several large industrial buildings and storage tanks. In the center, there is a residential area with rows of houses. To the right, a complex road system with multiple roundabouts and overpasses is visible. In the foreground, there are more residential buildings, a railway line, and a large area of trees. The text "Section 2" is overlaid in the upper right quadrant.

# Section 2

## Tyne & Wear Integrated Transport Authority

Accounts for the year ended  
31 March 2011





## Movement in Reserves Statement

	General Fund Balance £000	Earmarked General Fund Reserves £000	Capital Grants Unapplied £000	Total Usable Reserves £000	Unusable Reserves £000	Total Reserves £000
<b>Balance at 31 March 2009</b>	<b>(29,219)</b>	<b>(12,875)</b>	<b>-</b>	<b>(42,094)</b>	<b>(63,129)</b>	<b>(105,223)</b>
<u>Movement in reserves during 2009-2010</u>						
(Surplus) / Deficit on Provision of Services	(10,360)	-	-	(10,360)	-	(10,360)
Other Comprehensive Income & Expenditure	-	-	-	-	1,650	1,650
<b>Total Comprehensive Income &amp; Expenditure</b>	<b>(10,360)</b>	<b>-</b>	<b>-</b>	<b>(10,360)</b>	<b>1,650</b>	<b>(8,710)</b>
Adjustments between accounting basis & funding basis under regulations (Note 4)	1,756	-	-	1,756	(1,756)	-
<b>Net (Increase) / Decrease before transfers to Earmarked Reserves</b>	<b>(8,604)</b>	<b>-</b>	<b>-</b>	<b>(8,604)</b>	<b>(106)</b>	<b>(8,710)</b>
Transfers (to) / from Earmarked Reserves (Note 5)	566	(566)	-	-	-	-
<b>(Increase) / Decrease in 2009/10</b>	<b>(8,038)</b>	<b>(566)</b>	<b>-</b>	<b>(8,604)</b>	<b>(106)</b>	<b>(8,710)</b>
<b>Balance at 31 March 2010 carried forward</b>	<b>(37,257)</b>	<b>(13,441)</b>	<b>-</b>	<b>(50,698)</b>	<b>(63,235)</b>	<b>(113,933)</b>
<u>Movement in reserves during 2010/11</u>						
(Surplus) / Deficit on Provision of Services	2,197	-	-	2,197	-	2,197
Other Comprehensive Income & Expenditure	-	-	-	-	(4,691)	(4,691)
<b>Total Comprehensive Income &amp; Expenditure</b>	<b>2,197</b>	<b>-</b>	<b>-</b>	<b>2,197</b>	<b>(4,691)</b>	<b>(2,494)</b>
Adjustments between accounting basis & funding basis under regulations (Note 4)	(7,309)	-	(288)	(7,597)	7,597	-
<b>Net (Increase) / Decrease before transfers to Earmarked Reserves</b>	<b>(5,112)</b>	<b>-</b>	<b>(288)</b>	<b>(5,400)</b>	<b>2,906</b>	<b>(2,494)</b>
Transfers (to) / from Earmarked Reserves (Note 5)	(1,003)	1,003	-	-	-	-
<b>(Increase) / Decrease in 2010-2011</b>	<b>(6,115)</b>	<b>1,003</b>	<b>(288)</b>	<b>(5,400)</b>	<b>2,906</b>	<b>(2,494)</b>
<b>Balance at 31 March 2011 carried forward</b>	<b>(43,372)</b>	<b>(12,438)</b>	<b>(288)</b>	<b>(56,098)</b>	<b>(60,329)</b>	<b>(116,427)</b>

## Comprehensive Income and Expenditure Statement

← 2009/10 →				← 2010/11 →		
Gross Expenditure	Gross Income	Net Expenditure		Gross Expenditure	Gross Income	Net Expenditure
£000	£000	£000		£000	£000	£000
609	(47)	562	Corporate & Democratic Core Highways & Transport Services	556	-	556
4,695	(14,878)	(10,183)	- Tyne Tunnels	19,673	(13,780)	5,893
73,685	(6,090)	67,595	- Other Highways & Transport Services	74,413	(4,821)	69,592
-	-	-	Non-distributed Costs *	(5,510)	-	(5,510)
<b>78,989</b>	<b>(21,015)</b>	<b>57,974</b>	<b>Cost of Services</b> (note 32)	<b>89,132</b>	<b>(18,601)</b>	<b>70,531</b>
8,458	(6,146)	2,312	Financing & Investment Income & Expenditure (note 6)	6,592	(3,221)	3,371
-	(70,646)	(70,646)	Taxation & Non-Specific Grant Income (note 7)	-	(71,706)	(71,706)
	<b>(10,360)</b>		<b>(Surplus) / Deficit on Provision of Services</b>			<b>2,197</b>
	-	-	Surplus/(Deficit) on Revaluation of Fixed Assets			(121)
	1,650		Actuarial Losses / (Gains) on Pension Fund Assets & Liabilities (note 29)			(4,570)
	<b>1,650</b>		<b>Other Comprehensive Income &amp; Expenditure</b>			<b>(4,691)</b>
	<b>(8,710)</b>		<b>Total Comprehensive Income &amp; Expenditure</b>			<b>(2,494)</b>

\* Non-distributed Costs relates to a negative past service cost adjustment required as part of accounting for pensions under IAS 19.



## Balance Sheet

1 April 2009 £000	31 March 2010 £000		Notes	31 March 2011 £000
130,828	162,254	Property, Plant & Equipment	8	352,772
54,254	52,165	Long Term Debtors	10	51,178
<b>185,082</b>	<b>214,419</b>	<b>Long Term Assets</b>		<b>403,950</b>
126,263	44,966	Short Term Investments	9	-
7,547	7,889	Short Term Debtors	11	6,692
25,667	18,862	Cash and Cash Equivalents	12	45,832
<b>159,477</b>	<b>71,717</b>	<b>Current Assets</b>		<b>52,524</b>
(38,142)	(1,438)	Short Term Borrowing	9	(36,426)
(3,988)	(4,320)	Short Term Creditors	13	(4,908)
-	-	New Tyne Crossing - Deferred Income	27	(51,980)
<b>(42,130)</b>	<b>(5,758)</b>	<b>Current Liabilities</b>		<b>(93,314)</b>
-	-	New Tyne Crossing - Deferred Income	27	(113,579)
-	(5,495)	Grants and Contributions Receipts in Advance	14	(8,317)
(183,365)	(145,560)	Long Term Borrowing	9	(120,560)
(13,841)	(15,390)	Other Long Term Liabilities	9	(4,277)
<b>(197,206)</b>	<b>(166,445)</b>	<b>Long Term Liabilities</b>		<b>(246,733)</b>
<b>105,223</b>	<b>113,933</b>	<b>Net Assets</b>		<b>116,427</b>
(42,094)	(50,697)	Usable Reserves	15	(56,098)
(63,129)	(63,236)	Unusable Reserves	16	(60,329)
<b>(105,223)</b>	<b>(113,933)</b>			<b>(116,427)</b>

## Treasurer's Certificate

I certify that the accounts set out on pages 41 to 89 present a true and fair view of the financial position of the Tyne and Wear Integrated Transport Authority as at 31 March 2011.

Signed



Deputy Clerk and Treasurer

Date: 22 September 2011

## Cash Flow Statement

2009/10 £000		Notes	2010/11 £000
(10,360)	Net (surplus) or deficit on the provision of services		2,197
(83,306)	Adjustments to net surplus or deficit on the provision of services for non cash movements		(55,484)
2,439	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities		51,081
<u>(91,227)</u>	Net cash flows from Operating Activities	17	<u>(2,206)</u>
24,032	Investing activities	18	(14,764)
74,000	Financing activities	19	(10,000)
6,805	Net increase or decrease in cash and cash equivalents		(26,970)
<u>(25,667)</u>	Cash and cash equivalents at the beginning of the reporting period		<u>(18,862)</u>
<u>(18,862)</u>	Cash and cash equivalents at the end of the reporting period		<u>(45,832)</u>

### **Note 1: Prior Year Adjustments and Transition to IFRS**

The Statement of Accounts for 2010/11 is the first to be prepared on an IFRS basis. Adoption of the IFRS-based Code has resulted in the restatement of various balances and transactions, with the result that some amounts presented in the financial statements are different from the equivalent figures presented in the Statement of Accounts for 2009/10. The following tables explain the material differences between the amounts presented in the 2009/10 financial statements and the equivalent amounts presented in the 2010/11 financial statements.

#### **Leases**

The Authority has no leases where the classification has changed following the introduction of the Code. All leases have been reviewed under the new tests and the classification as operating leases is still deemed appropriate.

#### **Accumulated Absences**

Short-term accumulating compensated absences refers to benefits that employees receive as part of their contract of employment, entitlement to which is built up as they provide services to the Authority. Under the Code, the cost of providing holidays and similar benefits is required to be recognised when employees render service that increases their entitlement to future compensated absences. For the ITA, which only has one employee, the amounts are immaterial and so no accrual is required.

#### **Government Grants**

The changes in the accounting treatment for grants under IFRS has necessitated a change to the prior year accounting for NESTI. The contributions from other partners are required to be shown as Contributions Receipts in Advance, as the conditions under which they were made have not yet been met. There is no change in the accounting for the grant received by the ITA direct from the Department for Transport.

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### **Note 2: Critical Judgements in Applying Accounting Policies**

In applying the accounting policies set out at the end of these accounts, the Authority has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

#### **Leases**

Judgements have been made about whether leases are classified as operating or finance leases. This has an impact on the way they are accounted for: where a lease is classified as a finance lease, an asset and a finance lease liability must be recognised. Under an operating lease, payments are charged to the Comprehensive Income and Expenditure Account and no liability is recognised. The Authority has a number of leases, which have all been reviewed by Property Surveyors against the criteria for determining their classification. All have been classified as operating leases.

#### **Service Concession Arrangements**

The Local Government Accounting Code of Practice requires arrangements where private sector contractors provide a service for a period using a dedicated asset to be assessed under an application of the principles within IFRIC 12. There are two criteria used to determine whether arrangements fall under the scope of IFRIC 12:

## Notes to the Accounts

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### Note 2 (Continued)

- The public sector entity controls or regulates the services that the operator must provide with the infrastructure, to whom it must provide them, and at what price; and
- The public sector entity controls, through ownership, beneficial entitlement or otherwise, any significant residual interest in the infrastructure at the end of the service arrangement.

For arrangements falling under the scope of IFRIC 12, the public sector entity will recognise the cost of the Property, Plant and Equipment underlying the service concession as a tangible fixed asset. The New Tyne Crossing concession has been judged to meet both of the IFRIC 12 criteria and, accordingly, the cost of the new Tunnel is recorded as an addition to its Property, Plant and Equipment.

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### Note 3: Assumptions Made About the Future and Other Sources of Estimation Uncertainty

The Statement of Accounts contains estimated figures that are based on assumptions made by the Authority about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Authority's Balance Sheet at 31 March 2011 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainty	Effect if Actual Results Differ From Assumptions
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Authority with expert advice about the assumptions to be applied.	<p>The effects on the net pensions liability of changes in individual assumptions can be measured. For instance, a 0.5% increase in the discount rate assumption would result in a decrease in the pension liability of £1.3m.</p> <p>However, the assumptions interact in complex ways. During 2010/11, the Council's actuaries advised that the net pensions liability for funded LGPS benefits had decreased by £4.78m as a result of estimates being corrected as a result of experience and decreased by £0.32m attributable to updating of the assumptions.</p>

## Note 4: Adjustments between Accounting Basis and Funding Basis under Regulations

This note details the adjustments that are made to the total comprehensive income and expenditure recognised by the Authority in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Authority to meet future capital and revenue expenditure.

	Usable Reserves		
	General Fund Balance	Capital Grants Unapplied	Movement in Unusable Reserves
	£000	£000	£000
<b>2010/11</b>			
<b>Adjustments involving the Capital Adjustment Account:</b>			
<u>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:</u>			
Charges for depreciation and impairment of non current assets	(3,552)	-	3,552
Revaluation losses on Property Plant and Equipment	(12,922)	-	12,922
Write down of New Tyne Crossing deferred income balance	603	-	(603)
Capital grants and contributions applied	4,533	-	(4,533)
Revenue expenditure funded from capital under statute	(5,806)	-	5,806
<u>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</u>			
Statutory provision for the financing of capital investment	1,732	-	(1,732)
Capital expenditure charged against the General Fund	1,273	-	(1,273)
<b>Adjustments involving the Capital Grants Unapplied Account:</b>			
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	288	(288)	-
Application of grants to capital financing transferred to the Capital Adjustment Account	-	-	-
<b>Adjustments involving the Financial Instruments Adjustment Account:</b>			
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	(1)	-	1
<b>Adjustments involving the Pensions Reserve:</b>			
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 29)	5,440	-	(5,440)
Employer's pensions contributions and direct payments to pensioners payable in the year	1,103	-	(1,103)
<b>Total Adjustments</b>	<b>(7,309)</b>	<b>(288)</b>	<b>7,597</b>

## Notes to the Accounts

### Note 4 (Continued)

2009/10 Comparative Figures	Usable Reserves		
	General Fund Balance	Capital Grants Unapplied	Movement in Unusable Reserves
	£000	£000	£000
<b>Adjustments involving the Capital Adjustment Account:</b>			
<u>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:</u>			
Charges for depreciation and impairment of non current assets	(1,591)	-	1,591
Revaluation losses on Property Plant and Equipment	-	-	-
Capital grants and contributions applied	(7,179)	-	7,179
Revenue expenditure funded from capital under statute	(6,090)	-	6,090
<u>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</u>			
Statutory provision for the financing of capital investment	1,804	-	(1,804)
Capital expenditure charged against the General Fund	7,199	-	(7,199)
<b>Adjustments involving the Capital Grants Unapplied Account:</b>			
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	-	-	-
Application of grants to capital financing transferred to the Capital Adjustment Account	7,774	-	(7,774)
<b>Adjustments involving the Financial Instruments Adjustment Account:</b>			
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	(262)	-	262
<b>Adjustments involving the Pensions Reserve:</b>			
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 29)	(1,000)	-	1,000
Employer's pensions contributions and direct payments to pensioners payable in the year	1,101	-	(1,101)
<b>Total Adjustments</b>	<b>1,756</b>	<b>-</b>	<b>(1,756)</b>



## Notes to the Accounts

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### Note 5: Transfers to / from Earmarked Reserves

This note sets out the balances in earmarked reserves set aside to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund expenditure in 2010/11.

	Balance at 1 April 2009	Transfers Out 2009/10	Transfers In 2009/10	Balance at 31 March 2010	Transfers Out 2010/11	Transfers In 2010/11	Balance at 31 March 2011
	£000	£000	£000	£000	£000	£000	£000
Metro Reinivoration Reserve	(12,875)	-	(566)	(13,441)	1,273	(270)	(12,438)
<b>Total</b>	<b>(12,875)</b>	<b>-</b>	<b>(566)</b>	<b>(13,441)</b>	<b>1,273</b>	<b>(270)</b>	<b>(12,438)</b>

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### Note 6: Financing and Investment Income and Expenditure

2009/10		2010/11
£000		£000
7,458	Interest payable and similar charges	6,522
1,000	Pensions interest cost and expected return on pensions assets	70
(6,146)	Interest receivable and similar income	(3,221)
<b>2,312</b>		<b>3,371</b>

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### Note 7: Taxation and non-specific Grant Income

2009/10		2010/11
£000		£000
(70,646)	Levy on Tyne and Wear Authorities	(71,706)
<b>(70,646)</b>		<b>(71,706)</b>

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## Notes to the Accounts

### Note 8: Property, Plant and Equipment

#### Movements in 2010/11:

	Other Land and Buildings £000	Vehicles, Plant, furniture & Equipment £000	Infrastructure Assets £000	Assets Under Construction	Total Property, Plant and Equipment £000
<b>Cost or Valuation</b>					
<u>At 1 April 2010</u>	12,135	2,487	116,422	43,991	175,035
Additions	-	466	206,404		206,870
Donations	-	-			-
Transfer from Asset Under Construction			43,991	(43,991)	-
Revaluation increases/(decreases) recognised in the Revaluation Reserve	-	121			121
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	-	-	(12,922)		(12,922)
Derecognition - Disposals	-	-			-
Derecognition - Other	-	-			-
Assets reclassified (to)/from Held for Sale	-	-			-
Other movements in Cost or Valuation	-	-			-
<u>At 31 March 2011</u>	12,135	3,074	353,895	-	369,104
<b>Accumulated Depreciation and Impairment</b>					
<u>At 1 April 2010</u>	-	(370)	(12,410)	-	(12,780)
Depreciation charge	-	(80)	(3,472)	-	(3,552)
<u>At 31 March 2011</u>	-	(450)	(15,882)	-	(16,332)
<b>Net Book Value</b>					
At 31 March 2011	12,135	2,624	338,013	-	352,772
At 31 March 2010	12,135	2,117	104,012	43,991	162,255
<b>Comparative Movements in 2009/10:</b>					
<b>Cost or Valuation</b>					
<u>At 1 April 2009</u>	12,135	2,487	116,402	10,995	142,019
Additions	-	-	20	32,996	33,016
Revaluation increases/(decreases) recognised in the Revaluation Reserve	-	-	-	-	-
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	-	-	-	-	-
Other movements in Cost or Valuation	-	-	-	-	-
<u>At 31 March 2010</u>	12,135	2,487	116,422	43,991	175,035
<b>Accumulated Depreciation and Impairment</b>					
<u>At 1 April 2009</u>	-	(295)	(10,895)	-	(11,190)
Depreciation charge	-	(75)	(1,515)	-	(1,590)
<u>At 31 March 2010</u>	-	(370)	(12,410)	-	(12,780)

## Notes to the Accounts

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### Note 8 (Continued)

#### Depreciation

The following useful lives and depreciation rates have been used in the calculation of depreciation:

- Vehicles, Plant, Furniture and Equipment - 30 years
- Infrastructure - 120 years
- Land and Buildings category is not depreciated, since this relates to land only which has no finite useful life

#### Revaluations

The Authority carries out a rolling programme that ensures that all Property, Plant and Equipment required to be measured at fair value is revalued at least every five years. All valuations were carried out internally. Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. Valuation of Vehicles, Plant, Furniture and Equipment relate to assets transferred to the use of TT2 Ltd. as part of the New Tyne Crossing contract. These valuations are based on records held by TT2.

The significant assumptions applied in estimating the fair values are:

- That no high alumina cement, concrete or calcium chloride additive or other potentially deleterious material was used in the construction of the property and that none has been subsequently incorporated.
- The property is not subject to any unusual or especially onerous restrictions, encumbrances or outgoings and that good title can be shown.
- The property and its value are unaffected by any matters which would be revealed by a local search or inspection of any register and the use and occupation are both lawful.
- Inspection of those parts which have not been inspected would not cause the Appointed Valuer to alter the opinion of value.
- The land and properties are not contaminated.
- The land and buildings are fully equipped with fixed plant and equipment.
- The Tyne and Wear Integrated Transport Authority continues to maintain and repair all buildings and structures in a proper manner.

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### Note 9: Financial Instruments

The following categories of financial instrument are carried on the Balance Sheet:

01 April 2009		31 March 2010	31 March 2011
£000		£000	£000
	<b>Short Term Investments:</b>		
126,263	Bank deposits	44,966	-
<b>126,263</b>		<b>44,966</b>	-
	<b>Long Term Debtors:</b>		
53,914	Loans to Nexus	51,825	51,178
<b>53,914</b>		<b>51,825</b>	<b>51,178</b>
	<b>Short Term Debtors:</b>		
7,547	Short term debtors:	7,889	6,692
<b>7,547</b>		<b>7,889</b>	<b>6,692</b>

## Notes to the Accounts

### Note 9 (Continued)

01 April 2009		31 March 2010	31 March 2011
£000	Borrowings:	£000	£000
(38,142)	Short term borrowing	(1,438)	(36,426)
(183,365)	Financial liabilities at amortised cost - long term borrowing	(145,560)	(120,560)
<b>(221,507)</b>		<b>(146,998)</b>	<b>(156,986)</b>
<b>Other Long Term Liabilities:</b>			
(13,841)	Pensions Liability	(15,390)	(4,277)
<b>(13,841)</b>		<b>(15,390)</b>	<b>(4,277)</b>
<b>Short Term Creditors:</b>			
(3,988)	Short Term Creditors	(4,320)	(4,908)
<b>(3,988)</b>		<b>(4,320)</b>	<b>(4,908)</b>

### Income, Expense, Gains and Losses

Financial liabilities, financial assets represented by loans and receivables and long-term debtors and creditors are carried on the Balance Sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments, using the following assumptions:

- PWLB (Public Works Loan Board) interest rates for new fixed rate borrowing in the appropriate maturity bands as at 31 March 2011
- No early repayment or impairment is recognised
- Where an instrument will mature in the next 12 months, carrying amount is assumed to approximate to fair value
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.

The fair values are calculated as follows:

### Financial Liabilities

31 March 2010		31 March 2011	
Carrying amount	Fair value	Carrying amount	Fair value
£000	£000	£000	£000
(56,560)	(60,154)	(31,560)	(35,129)
(89,000)	(91,094)	(89,000)	(95,974)
<b>(145,560)</b>	<b>(151,248)</b>	<b>(120,560)</b>	<b>(131,103)</b>
<b>Total</b>			

### Financial Assets

31 March 2010		31 March 2011	
Carrying amount	Fair value	Carrying amount	Fair value
£000	£000	£000	£000
51,825	51,825	51,178	51,178
<b>51,825</b>	<b>51,825</b>	<b>51,178</b>	<b>51,178</b>
<b>Total</b>			

## Notes to the Accounts

### Note 9 (Continued)

The fair value differs from the carrying value as fair value is assessed is according to market rates relating to the outstanding life of the loan. Carrying amount relates to the actual interest rate applicable to the loan outstanding. The fair value differences for financial instruments relates to the fact that the Authority has loans at fixed rates that result in it paying a higher interest charge than if it had taken out variable rate loans.

### Note 10: Long Term Debtors

This mainly represents loans to Nexus to finance capital expenditure on works relating to Metro operations, special needs transport and bus stations.

01 April 2009	31 March 2010		31 March 2011
£000	£000		£000
54,654	51,825	Loans to Nexus	51,178
340	340	Prepayments (New Tyne Crossing)	-
<b>54,994</b>	<b>52,165</b>	<b>Closing Balance 31 March</b>	<b>51,178</b>

### Note 11: Short Term Debtors

01 April 2009	31 March 2010		31 March 2011
£000	£000		£000
		<b>Central Government Bodies:</b>	
522	495	Tax to be recovered	464
		<b>Other bodies:</b>	
6,701	6,407	Loans to Nexus	6,174
324	987	Other entities and individuals	55
<b>7,547</b>	<b>7,889</b>	<b>Total</b>	<b>6,692</b>

### Note 12: Cash and Cash Equivalents

The balance of Cash and Cash Equivalents is made up of the following elements:

01 April 2009	31 March 2010		31 March 2011
£000	£000		£000
-	-	Cash held by the Authority	-
25,667	18,862	Bank current accounts *	45,832
-	-	Short-term deposits with building societies	-
<b>25,667</b>	<b>18,862</b>	<b>Total Cash and Cash Equivalents</b>	<b>45,832</b>

\* ITA cash was held at the year end in the Newcastle City Council District Account.

## Notes to the Accounts

### Note 13: Short Term Creditors

01 April 2009	31 March 2010		31 March 2011
£000	£000		£000
		<b>Other local authorities:</b>	
(184)	(26)	Other local authorities	(34)
(949)	(1,309)	Other local authorities - LTP claims	(333)
		<b>Other bodies:</b>	
(1,429)	(1,783)	Payments due to Nexus	(2,887)
(296)	(274)	Payments due to TT2 Ltd.	(560)
(591)	(593)	Deferred Income (prepaid Tunnel permits)	(663)
(66)	(74)	Accrued payments to pension fund	(73)
(283)	(243)	New Tyne Crossing Advisors	(317)
(190)	(18)	Other entities and individuals	(42)
<b>(3,988)</b>	<b>(4,320)</b>	<b>Total</b>	<b>(4,908)</b>

### Note 14: Grants and Contributions Receipts in Advance

2009/10		2010/11
£000		£000
(5,495)	NESTI Contributions from Local Authorities	(8,317)
<b>(5,495)</b>	<b>Balance at 31 March</b>	<b>(8,317)</b>

### NESTI

In 2009/10 and 2010/11 contributions were made by North East Councils to fund the North East Smart Ticketing Initiative (NESTI), for which the ITA is the Lead Authority. These contributions were made as a result of an additional £10m grant from the Department for Transport being provided. Nexus, in its role as the body responsible for delivering ITA policy for public transport, acts as project manager for NESTI, drawing down upon the funds as required. The bulk of the expenditure is expected in 2011/12 and future years.

The ITA itself received £1.683m of grant directly from the Department for Transport, which is not included within these figures but is also available to meet expenditure on NESTI, bringing the total available to £10m.



## Notes to the Accounts

### Note 15: Usable Reserves

01 April 2009	31 March 2010		31 March 2011
£000	£000		£000
		General Fund Reserves	
(4,053)	(3,268)	- ITA General Fund	(2,600)
(25,166)	(33,988)	- Tyne Tunnels General Fund	(40,772)
(29,219)	(37,256)	Total General Fund Reserves	(43,372)
(12,875)	(13,441)	Earmarked Metro Reinvigoration Reserve	(12,438)
-	-	Capital Grants and Contributions Unapplied	(288)
(42,094)	(50,697)	<b>Total Usable Reserves</b>	<b>(56,098)</b>

#### ITA General Fund

This represents the unearmarked, usable balances held by the ITA.

2009/10		2010/11
£000		£000
(4,053)	Balance at 1 April	(3,268)
785	Drawn down to support expenditure in year	668
(3,268)	<b>Balance at 31 March</b>	<b>(2,600)</b>

#### Tyne Tunnels General Fund

This reserve represents the balances of the ringfenced Tyne Tunnels trading account.

2009/10		2010/11
£000		£000
(25,166)	Balance at 1 April	(33,988)
(8,822)	Transfer to reserves	(6,784)
(33,988)	<b>Balance at 31 March</b>	<b>(40,772)</b>

#### Earmarked Metro Reinvigoration Reserve

This is an earmarked reserve which holds amounts ringfenced for expenditure on Metro Reinvigoration

2009/10		2010/11
£000		£000
(12,875)	Balance at 1 April	(13,441)
(566)	Interest on reserve	(270)
-	Draw down to support expenditure in year	1,273
(13,441)	<b>Balance at 31 March</b>	<b>(12,438)</b>

#### Capital Grants and Contributions Unapplied Reserve

This reserve holds the balance of grants and contributions where the conditions have been met, but they have not yet been applied to capital financing.

2009/10		2010/11
£000		£000
-	Balance at 1 April	-
-	Grants and Contributions with conditions met but not yet applied to fund capital expenditure.	(288)
-	<b>Balance at 31 March</b>	<b>(288)</b>

## Notes to the Accounts

### Note 16: Unusable Reserves

01 April 2009	31 March 2010		31 March 2011
£000	£000		£000
(10,449)	(10,449)	Revaluation Reserve	(10,570)
(66,562)	(68,480)	Capital Adjustment Account	(54,340)
41	303	Financial Instruments Adjustment Account	304
13,841	15,390	Pensions Reserve	4,277
<b>(63,129)</b>	<b>(63,236)</b>	<b>Total Unusable Reserves</b>	<b>(60,329)</b>

### Revaluation Reserve

The Revaluation Reserve contains the gains made by the Authority arising from increases in the value of its Property, Plant and Equipment. The balance is reduced when assets with accumulated gains are:

- Revalued downwards or impaired and the gains are lost;
- Used in the provision of services and the gains are consumed through depreciation; or
- Disposed of and the gains are realised.

The Reserve contains only revaluation gains accumulated since 1 April 2007, the date that the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

2009/10		2010/11
£000		£000
(10,449)	Balance at 1 April	(10,449)
-	Upward revaluation of assets	(121)
<b>(10,449)</b>	<b>Balance at 31 March</b>	<b>(10,570)</b>

### Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the Authority as finance for the costs of acquisition, construction and enhancement.

The Account also contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the Authority. The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

Note 4 provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

## Notes to the Accounts

### Note 16 (Continued)

2009/10 £000		2010/11 £000
(66,562)	Balance at 1 April	(68,480)
	<b>Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:</b>	
1,590	Charges for depreciation and impairment of non current assets	3,552
-	Revaluation losses on Property, Plant and Equipment	12,922
-	Write down of NTC deferred income balance	(602)
6,091	Revenue expenditure funded from capital under statute	5,806
<b>(58,881)</b>		<b>(46,802)</b>
	<b>Capital financing applied in the year:</b>	
(7,774)	Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	(4,533)
-	Application of grants to capital financing from the Capital Grants Unapplied Account	-
(1,804)	Statutory provision for the financing of capital investment charged against the General Fund	(1,732)
(21)	Capital expenditure charged against the General Fund	(1,273)
<b>(9,599)</b>		<b>(7,538)</b>
<b>(68,480)</b>	<b>Balance at 31 March</b>	<b>(54,340)</b>

### Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions. It provides a balancing mechanism between the different rates at which gains and losses (e.g. premiums on the early repayment of debt) are recognised under the Code and are required by statute to be met from the General Fund.

2009/10 £000		2010/11 £000
41	Balance at 1 April	303
318	Premiums incurred in the year and charged to the Comprehensive Income and Expenditure Statement	56
(56)	Proportion of premiums incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements	(55)
<b>303</b>	<b>Balance at 31 March</b>	<b>304</b>

**Note 16 (Continued)**

**Pensions Reserve**

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions. The Authority accounts for post-employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Authority makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a shortfall in the benefits earned by past and current employees and the resources the Authority has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

<b>2009/10</b>		<b>2010/11</b>
<b>£000</b>		<b>£000</b>
13,841	Balance at 1 April	15,390
1,650	Actuarial (gains) or losses on pensions assets and liabilities	(4,570)
1,000	Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	(5,440)
(1,101)	Employer's pensions contributions and direct payments to pensioners payable in the year	(1,103)
<b>15,390</b>	<b>Balance at 31 March</b>	<b>4,277</b>

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**Note 17: Cash Flow Statement: Operating Activities**

The cash flows for operating activities include the following items:

<b>2009/10</b>		<b>2010/11</b>
<b>£000</b>		<b>£000</b>
6,146	Interest received	3,221
(8,458)	Interest paid	(6,522)
<b>(2,312)</b>	<b>Total</b>	<b>(3,301)</b>

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## Notes to the Accounts

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### Note 18: Cash Flow Statement: Investing Activities

2009/10		2010/11
£000		£000
33,287	Purchase of property, plant and equipment, investment property and intangible assets	39,463
-	Other payments for investing activities	1,490
(160)	Proceeds from short-term and long-term investments	(44,988)
(9,095)	Other receipts from investing activities	(10,729)
<b>24,032</b>	<b>Net cash flows from investing activities</b>	<b>(14,764)</b>

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### Note 19: Cash Flow Statement: Financing Activities

2009/10		2010/11
£000		£000
-	Cash receipts of short and long-term borrowing	(20,000)
74,000	Repayments of short and long-term borrowing	10,000
<b>74,000</b>	<b>Net cash flows from financing activities</b>	<b>(10,000)</b>

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### Note 20: Members' Allowances

The Authority paid the following amounts to members the during the year:

2009/10		2010/11
£000		£000
86	Allowances	83
<b>86</b>	<b>Total</b>	<b>83</b>

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### Note 21: External Audit Costs

2009/10		2010/11
£000		£000
47	Fees payable with regard to external audit services carried out by the appointed auditor for the year	37
<b>47</b>	<b>Total</b>	<b>37</b>

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## Notes to the Accounts

### Note 22: Amounts Reported for Resource Allocation

The analysis of income and expenditure on the face of the Comprehensive Income and Expenditure Statement is that specified by the Best Value Accounting Code of Practice. However, decisions about resource allocation are taken by the Authority on the basis of budget reports analysed across functions. These reports are prepared on a different basis from the accounting policies used in the financial statements. In particular, no charges are made in relation to capital expenditure (whereas depreciation, revaluation and impairment losses in excess of the balance on the Revaluation Reserve and amortisation are charged to services in the Comprehensive Income and Expenditure Statement; and the cost of retirement benefits is based on cash flows (payment of Employers' pension contributions and deficit payments) rather than the current service cost of benefits accrued in the year.

#### Income and Expenditure

	ITA	Tyne Tunnels	Total
	£000	£000	£000
<b>2010/11</b>			
Fees, charges & other service income	-	(13,177)	(13,177)
Interest	(61)	(569)	(630)
<b>Total Income</b>	<b>(61)</b>	<b>(13,746)</b>	<b>(13,807)</b>
Employee expenses (including pensions)	511	626	1,137
Other service expenses	188	3,054	3,243
Support service recharges	368	163	531
Capital Payments	1,407	325	1,732
Interest Payments	1,406	2,794	4,200
Public Transport Revenue Grant to Nexus	68,555	-	68,555
<b>Total Expenditure</b>	<b>72,435</b>	<b>6,962</b>	<b>79,397</b>
<b>Net Expenditure</b>	<b>72,374</b>	<b>(6,784)</b>	<b>65,590</b>

#### Income and Expenditure

	ITA	Tyne Tunnels	Total
	£000	£000	£000
<b>2009/10 Comparative Figures</b>			
Fees, charges & other service income	(47)	(13,195)	(13,242)
Interest	(202)	(1,096)	(1,298)
<b>Total Income</b>	<b>(249)</b>	<b>(14,291)</b>	<b>(14,540)</b>
Employee expenses	510	623	1,133
Other service expenses	282	2,929	3,211
Support service recharges	327	143	470
Capital Payments	1,465	360	1,825
Interest Payments	1,501	1,414	2,915
Public Transport Revenue Grant to Nexus	67,595	-	67,595
<b>Total Expenditure</b>	<b>71,680</b>	<b>5,469</b>	<b>77,149</b>
<b>Net Expenditure</b>	<b>71,431</b>	<b>(8,822)</b>	<b>62,609</b>



## Notes to the Accounts

### Note 22 (Continued)

	Analysis by function £000	Services and Support Services not in Analysis £000	Amounts not reported to management for decision making £000	Amounts not included in CIES £000	Cost of Services £000	Corporate Amounts £000	Total £000
<b>2010/11</b>							
Fees, charges & other service income	(13,177)	-	-	-	(13,177)	-	(13,177)
Interest and investment income	(630)	-	-	630	-	(3,221)	(3,221)
Levy income	-	-	-	-	-	(71,706)	(71,706)
	-	(4,821)	(603)	-	(5,424)	-	(5,424)
Government grants and contributions							
<b>Total Income</b>	<b>(13,807)</b>	<b>(4,821)</b>	<b>(603)</b>	<b>630</b>	<b>(18,601)</b>	<b>(74,927)</b>	<b>(93,528)</b>
Employee expenses	1,137	-	(5,510)	(1,103)	(5,476)	-	(5,476)
Other service expenses	3,243	3,630	-	-	6,873	-	6,873
Support Service recharges	531	-	-	-	531	-	531
Capital Payments	1,732	4,585	14,065	(1,732)	18,650	-	18,650
Interest Payments	4,200	-	-	(4,200)	0	6,592	6,592
Public Transport Revenue Grant to Nexus	68,555	-	-	-	68,555	-	68,555
<b>Total expenditure</b>	<b>79,397</b>	<b>8,215</b>	<b>8,555</b>	<b>(7,035)</b>	<b>89,132</b>	<b>6,592</b>	<b>95,724</b>
<b>Surplus or deficit on the provision of services</b>	<b>65,590</b>	<b>3,394</b>	<b>7,952</b>	<b>(6,405)</b>	<b>70,531</b>	<b>(68,335)</b>	<b>2,197</b>
<b>2009/10 Comparative Figures</b>							
Fees, charges & other service income	(13,242)	-	-	-	(13,242)	-	(13,242)
Interest and investment income	(1,298)	-	-	1,298	-	(6,146)	(6,146)
Levy income	-	-	-	-	-	(70,646)	(70,646)
	-	(6,090)	(1,683)	-	(7,773)	-	(7,773)
Government grants and contributions							
<b>Total Income</b>	<b>(14,540)</b>	<b>(6,090)</b>	<b>(1,683)</b>	<b>1,298</b>	<b>(21,015)</b>	<b>(76,792)</b>	<b>(97,807)</b>
Employee expenses	1,133	-	-	(1,099)	34	-	34
Other service expenses	3,211	-	-	-	3,211	-	3,211
Support Service recharges	470	-	-	-	470	-	470
Capital Payments	1,825	6,090	1,590	(1,825)	7,680	-	7,680
Interest Payments	2,915	-	-	(2,915)	-	8,458	8,458
Public Transport Revenue Grant to Nexus	67,595	-	-	-	67,595	-	67,595
<b>Total expenditure</b>	<b>77,149</b>	<b>6,090</b>	<b>1,590</b>	<b>(5,839)</b>	<b>78,990</b>	<b>8,458</b>	<b>87,448</b>
<b>Surplus or deficit on the provision of services</b>	<b>62,609</b>	<b>-</b>	<b>(93)</b>	<b>(4,541)</b>	<b>57,974</b>	<b>(68,334)</b>	<b>(10,360)</b>

## Notes to the Accounts

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### Note 23: Grant Income

The Authority credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2010/11:

	2009/10 £000	2010/11 £000
<b>Credited to Services</b>		
LTP Grant	(6,102)	(4,821)

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### Note 24: Related Parties

The Authority is required to disclose material transactions with related parties - bodies or individuals that have the potential to control or influence the Authority or to be controlled or influenced by the Authority. Disclosure of these transactions allows readers to assess the extent to which the Authority might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Authority.

Central government has effective control over the general operations of the Authority - it is responsible for providing the statutory framework within which the Authority operates, provides funding in the form of grants and prescribes the terms of many of the transactions that the Authority has with other parties (e.g. Authorities contributing to the Levy). Grants received from government departments are set out in the subjective analysis in Note 22 on reporting for resource allocation decisions.

Members of the Authority have direct control over the Authority's financial and operating policies and are required to disclose all pecuniary and non-financial interests which could conflict with those of the Authority. No such disclosures were made in 2010/11.

Under the Officer's Code, officers must declare any potential contractual or financial interest in the work of the Authority. There were no such declarations during the year.

Other Public Bodies [subject to common control by central government]

The Authority has a direct relationship with the Passenger Transport Executive (Nexus). The ITA sets the policy which is then delivered by Nexus.

The Clerk to the ITA, Deputy Clerk and Treasurer and the Director of Strategic Housing, Planning and Transportation are Non-Executive Directors of Nexus and also officers of Newcastle City Council.

The table below sets out all expenditure paid to and income received from any related parties in 2010/11, including amounts accrued at the year end:

## Notes to the Accounts

### Note 24 (continued)

Related Party Transactions	2009/10 £000	2010/11		£000
		£000	£000	
		Paid / Received in year	Accrued at year end	Total
<b>Receipts</b>				
<u>Levy on Tyne and Wear Councils</u>				
Gateshead MBC	(12,354)	(12,500)	-	(12,500)
Newcastle City Council	(17,613)	(17,943)	-	(17,943)
North Tyneside MBC	(12,710)	(12,939)	-	(12,939)
South Tyneside MBC	(9,792)	(9,942)	-	(9,942)
City of Sunderland Council	(18,177)	(18,382)	-	(18,382)
	<b>(70,646)</b>	<b>(71,706)</b>	-	<b>(71,706)</b>
<u>Newcastle City Council</u>				
Interest on Revenue Balance	(1,231)	(805)	-	(805)
<u>Nexus</u>				
Loans from ITA - Principal	(2,249)	-	(2,159)	(2,159)
Loans from ITA - Interest	(2,474)	-	(2,321)	(2,321)
	<b>(4,723)</b>	-	<b>(4,480)</b>	<b>(4,480)</b>
<b>Payments</b>				
<u>LTP Grant Payments</u>				
Gateshead MBC	575	178	35	213
Newcastle City Council	736	487	97	584
North Tyneside MBC	333	147	37	184
South Tyneside MBC	415	91	11	102
City of Sunderland Council	162	55	54	109
	<b>2,221</b>	<b>958</b>	<b>234</b>	<b>1,192</b>
<u>Newcastle City Council</u>				
Provision of Support Services	753	774	-	774
<u>Nexus</u>				
Revenue Support Grant	67,595	68,555	-	68,555
LTP Grant for Capital Expenditure	3,542	3,270	71	3,341
Grant for Metro Re-invigoration	-	-	1,273	1,273
Loan to fund Capital Expenditure	-	-	1,491	1,491
	<b>71,137</b>	<b>71,825</b>	<b>2,764</b>	<b>74,589</b>
<u>Tyne &amp; Wear Superannuation Fund</u>				
Employers Contributions	1,101	1,030	73	1,103

## Notes to the Accounts

### Note 24 (Continued)

#### Contributions to NESTI

Newcastle City Council	(924)	-	-	-
South Tyneside Council	(472)	-	-	-
Durham County Council	(1,497)	-	-	-
Gateshead MBC	(769)	-	-	-
Northumberland County Council	(904)	-	-	-
City of Sunderland Council	(928)	-	-	-
North Tyneside Council	-	(594)	-	(594)
Hartlepool Council	-	(304)	-	(304)
Stockton BC	-	(575)	-	(575)
Middlesborough Council	-	(509)	-	(509)
Redcar & Cleveland	-	(399)	-	(399)
Darlington Borough Council	-	(441)	-	(441)
	<b>(5,495)</b>	<b>(2,822)</b>	-	<b>(2,822)</b>

### Note 25: Capital Expenditure and Capital Financing

The total amount of capital expenditure incurred in the year is shown in the table below (including the value of assets acquired under PPP contracts), together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Authority the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Authority that has yet to be financed. The CFR is analysed in the second part of this note.

	<b>2009/10</b>	<b>2010/11</b>
	<b>£000</b>	<b>£000</b>
Opening Capital Financing Requirement	110,417	132,181
Capital investment:		
- Property, Plant and Equipment	33,016	40,369
- Revenue Expenditure Funded from Capital under Statute	6,091	5,806
- Loans to Other Public Bodies	-	1,491
Sources of finance:		
- Government grants and other contributions	(13,269)	(4,533)
Sums set aside from revenue:		
- Direct revenue contributions	-	(1,273)
- MRP/loans fund principal	(4,074)	(3,891)
<b>Closing Capital Financing Requirement</b>	<b>132,181</b>	<b>170,150</b>
Explanation of movements in year:		
- Increase in underlying need to borrow (unsupported by government financial assistance)	21,764	37,969
<b>Increase/(decrease) in Capital Financing Requirement</b>	<b>21,764</b>	<b>37,969</b>

## Notes to the Accounts

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### Note 26: Leases

#### Operating Leases

The Authority has a number of operating leases of land and buildings for the New Tyne Tunnel construction.

The future minimum lease payments due under non-cancellable leases in future years are:

	<b>31 March 2010</b>	<b>31 March 2011</b>
	<b>£000</b>	<b>£000</b>
Not later than one year	67	49
Later than one year and not later than five years	143	-
Later than five years	-	-
	<b>210</b>	<b>49</b>

The expenditure charged to the accounts during the year in relation to these leases was:

	<b>2009/10</b>	<b>2010/11</b>
	<b>£000</b>	<b>£000</b>
Minimum lease payments	129	179
	<b>129</b>	<b>179</b>

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### Note 27: Private Finance Initiatives and Similar Contracts

In November 2007, the ITA entered into a 30 year contract with TT2 Ltd. to construct a second vehicle tunnel, refurbish the existing tunnel and operate both vehicle tunnels alongside the pedestrian and cycle tunnel for a period of 30 years.

In 2010/11 the payment under the contract was £40.714m (£2.914m for usage payments and capital payments of £37.800m). In 2009/10 this was £34.259m.

The payment under the contract in 2011/12 is estimated to be £52.436m (£5.809m for usage payments and capital payments of £46.627m).

The second tunnel was opened on 25 February 2011 and is include on the ITA's balance sheet (at an estimated value of £232.9m).

The contribution by TT2 will be recognised as a deferred income balance (estimated value £163m) which will be written down over the remaining life of the contract.

Note 27 (Continued)

	Payment for Services £000	Deferred Income release £000	Total £000
Payable in 2011/12	5,809	(5,353)	456
Payable within two to five years	30,291	(20,762)	9,529
Payable within six to ten years	54,563	(25,953)	28,610
Payable within eleven to fifteen years	59,867	(25,953)	33,914
Payable within sixteen to twenty years	74,769	(25,953)	48,816
Payable within twenty-one to twenty-five years	83,967	(25,953)	58,014
Payable within twenty-six to thirty years	32,923	(8,536)	24,387
<b>Total</b>	<b>342,189</b>	<b>(138,463)</b>	<b>203,726</b>

Although the payments made to the contractor are described as unitary payments, they have been calculated to compensate the contractor for the fair value of the services they provide, the capital expenditure incurred and interest payable whilst the capital expenditure remains to be reimbursed. The table below shows the capital payments that the Authority will pay to the contractor as part of the Public Private Partnership agreement.

Note 28: Impairments

During 2010/11 the Authority has recognised an impairment loss of £12.9m in relation to the New Tyne Crossing being revalued on the recognition of the asset on the Balance Sheet.



### Note 29: Defined Benefit Pension Schemes

The Authority participates in two post employment schemes:

- The Tyne and Wear Pension Fund, administered locally by South Tyneside Council - this is a funded defined benefit final salary scheme, meaning that the Authority and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.
- Arrangements for the award of discretionary post retirement benefits upon early retirement - this is an unfunded defined benefit arrangement, under which liabilities are recognised when awards are made. However, there are no investment assets built up to meet these pensions liabilities, and cash has to be generated to meet actual pension payments as they eventually fall due.

The table below summarises the net position on the pension liabilities shown on the Balance Sheet over the past five years:

<b>Financial Year</b>	<b>2006/07</b>	<b>2007/08</b>	<b>2008/09</b>	<b>2009/10</b>	<b>2010/11</b>
Total assets	24,690	18,270	15,440	21,690	22,650
Total liabilities	(33,280)	(28,740)	(29,280)	(37,080)	(26,920)
<b>Net Pension Liability</b>	<b>(8,590)</b>	<b>(10,470)</b>	<b>(13,840)</b>	<b>(15,390)</b>	<b>(4,270)</b>

The net pension liability has decreased significantly in 2010/11. There are two main reasons for this decrease:

- The decision by the Chancellor that from April 2011, increases to public sector pensions would be linked to the Consumer Price Index (CPI) rather than the Retail Price Index (RPI). Over the long term, CPI increases are expected to be lower than RPI increases, and therefore the defined benefit obligations on the Balance Sheet have been reduced
- Changes to the estimation method by the actuaries, Aon Hewitt. In carrying out the IAS 19 valuation this year, the estimate of liabilities has been found to have been too high in previous years and has been reduced accordingly in the 2010/11 disclosure.

### Transactions Relating to Post-Employment Benefits

We recognise the cost of retirement benefits in the reported cost of services when they are earned, rather than when the benefits are eventually paid as pensions. However, the charge we are required to make against the levy is based on the cash payable in the year, so the real cost of post employment / retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and General Fund Balance via the Movement in Reserves Statement during the year:

## Notes to the Accounts

### Note 29 (Continued)

	Local Government Pension Scheme		Discretionary Benefits Arrangements	
	£000	£000	£000	£000
	2009/10	2010/11	2009/10	2010/11
Comprehensive Income and Expenditure Statement				
Cost of Services:				
- Past service costs	-	(5,510)		(110)
Financing and Investment Income and Expenditure:				
- Interest cost	1,920	1,720	50	40
- Expected return on scheme assets	(970)	(1,580)	-	-
Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	<b>950</b>	<b>(5,370)</b>	<b>50</b>	<b>(70)</b>
Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement:				
- Actuarial (gains) and losses	1,500	(5,630)	150	-
Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	<b>2,450</b>	<b>(11,000)</b>	<b>150</b>	<b>(70)</b>

	Local Government Pension Scheme		Discretionary Benefits Arrangements	
	£000	£000	£000	£000
	2009/10	2010/11	2009/10	2010/11
Movement in Reserves Statement:				
- Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post employment benefits in accordance with the Code	(950)	5,370	(50)	70
Actual amount charged against the General Fund Balance for pensions in the year:				
- Employers' contributions payable to scheme	1,052	1,051	-	-
- Retirement benefits payable to pensioners	-	-	49	52

## Note 29 (Continued)

### Assets and Liabilities in Relation to Post-employment Benefits

Reconciliation of present value of the scheme liabilities (defined benefit obligation):

	<b>Local Government Pension Scheme</b>		<b>Discretionary Benefits</b>	
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
	<b>2009/10</b>	<b>2010/11</b>	<b>2009/10</b>	<b>2010/11</b>
Opening balance at 1 April	28,520	36,170	760	910
Interest cost	1,920	1,720	50	40
Actuarial (gains) and losses	6,320	(5,100)	150	-
Benefits paid	(590)	(1,150)	(50)	(50)
Past service costs	-	(5,510)	-	(110)
<b>Closing balance at 31 March</b>	<b>36,170</b>	<b>26,130</b>	<b>910</b>	<b>790</b>

Reconciliation of fair value of the scheme (plan) assets:

	<b>Local Government Pension Scheme</b>	
	<b>£000</b>	<b>£000</b>
	<b>2009/10</b>	<b>2010/11</b>
Opening balance at 1 April	15,440	21,690
Expected return on assets	970	1,580
Actuarial gains and (losses)	4,820	(530)
Employer contributions	1,050	1,060
Contributions by scheme participants	-	-
Benefits paid	(590)	(1,150)
Entity combinations	-	-
Settlements	-	-
<b>Closing balance at 31 March</b>	<b>21,690</b>	<b>22,650</b>

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the Balance Sheet date.

Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets.

## Note 29 (Continued)

### Scheme History

	2006/07	2007/08	2008/09	2009/10	2010/11
	£000	£000	£000	£000	£000
<b>Present value of liabilities:</b>					
Local Government Pension Scheme	(32,430)	(27,970)	(28,520)	(36,170)	(26,130)
Discretionary Benefits	(850)	(770)	(760)	(910)	(790)
<b>Fair value of assets in the LGPS</b>	24,690	18,270	15,440	21,690	22,650
<b>Surplus/(deficit) in the scheme:</b>	(8,590)	(10,470)	(13,840)	(15,390)	(4,270)
Local Government Pension Scheme	(7,740)	(9,700)	(13,080)	(14,480)	(3,480)
Discretionary Benefits	(850)	(770)	(760)	(910)	(790)
<b>Total</b>	(8,590)	(10,470)	(13,840)	(15,390)	(4,270)

The liabilities show the underlying commitment that the Authority has in the long run to pay post-employment (retirement) benefits. The total liability of £35.26m has a substantial impact on the net worth of the Authority as recorded in the Balance Sheet, resulting in a negative overall balance of £4.28m. However, statutory arrangements for funding the deficit mean that the financial position of the Authority remains healthy:

- The deficit on the local government scheme will be made good by increased contributions over the remaining working life of employees (i.e. before payments fall due) as assessed by the scheme actuary
- Finance is only required to be raised to cover discretionary benefits when the pensions are actually paid.

The total contribution expected to be made to the Local Government Pension Scheme by the Authority in the year to 31 March 2012 is £0.89m. In addition, strain on the fund contributions may be required. Expected contributions for the discretionary benefits scheme in the year to 31 March 2012 are £0.04m.

### Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected credit method, an estimate of the pensions that will be payable in future years dependent upon assumptions about mortality rates, salary levels etc. Both the Local Government Pension Scheme and the discretionary benefits liabilities have been assessed by Aon Hewitt, an independent firm of actuaries, estimates for the pension fund being based on the latest full valuation of the scheme as at 31 March 2010.

## Notes to the Accounts

### Note 29 (Continued)

The principal assumptions used by the actuary have been:

	<b>Local Government Pension Scheme</b>		<b>Discretionary Benefits</b>	
	<b>2009/10</b>	<b>2010/11</b>	<b>2009/10</b>	<b>2010/11</b>
Mortality assumptions:				
Longevity at 65 for current pensioners:				
Men	21.5	20.0	21.5	20.0
Women	22.9	23.7	22.9	23.7
RPI Inflation	3.55%	3.35%	3.55%	3.35%
CPI Inflation	n/a	2.45%	n/a	2.45%
Rate of increase in salaries	4.05%	3.85%	n/a	n/a

The Discretionary Benefits arrangements have no assets to cover its liabilities. The Local Government Pension Scheme's assets consist of the following categories, by proportion of the total assets held:

	<b>31 March 2010</b>		<b>31 March 2011</b>	
	<b>Long-term expected rate of return (%) p.a.)</b>	<b>Asset split (%)</b>	<b>Long-term expected rate of return (%) p.a.)</b>	<b>Asset split (%)</b>
Equities	8.0	67.8	8.4	68.0
Property	8.5	7.4	7.9	8.1
Government Bonds	4.5	9.3	4.4	7.0
Corporate Bonds	5.5	11.4	5.1	11.7
Cash	0.7	1.3	1.5	1.2
Other	8.0	2.8	8.4	4.0
<b>Total</b>	<b>7.3</b>	<b>100.0</b>	<b>7.6</b>	<b>100.0</b>

### History of Experience Gains and Losses

The actuarial gains identified as movements on the Pensions Reserve in 2010/11 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31 March 2011:

	<b>2006/07</b>	<b>2007/08</b>	<b>2008/09</b>	<b>2009/10</b>	<b>2010/11</b>
	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
Differences between the expected and actual return	(0.6)	(3.5)	(30.1)	22.2	(2.3)
Experience gains and losses on liabilities	(0.4)	(13.1)	(0.8)	1.6	18.3

### Note 30 - Contingent Liabilities

TWITA has a contingent liability in relation to any gains or losses in the LGPS transferred assets and liabilities that were transferred to TT2 on 1 February 2008 and relate to membership accrued before that date. The project agreement provides that should there be a shortfall in the TT2 fund at the actuarial valuation, which can be attributed to pre-2008 benefits, TWITA will be required to reimburse the shortfall. At the most recent valuation the TT2 fund was found to be in surplus, therefore no reimbursement is currently due. The next valuation will be in 2014.

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### Note 31: Nature and Extent of Risks Arising from Financial Instruments

The Authority's activities expose it to a variety of financial risks:

- Credit risk: the possibility that other parties might fail to pay amounts due to the Authority
- Liquidity risk: the possibility that the Authority might not have funds available to meet its commitments to make payments
- Market risk: the possibility that financial loss might arise for the Authority as a result of changes in such measures as interest rates and stock market movements

The Authority's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund services. Risk management is carried out by a central treasury team, under policies approved by the Authority in the Treasury Management Policy. The policy provides written principles for overall risk management, as well as written policies covering specific areas such as interest rate risk, credit risk and the investment of surplus cash.

#### Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Authority's customers. This risk is minimised through the Treasury Management Policy, which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria. The Treasury Management Policy also imposes a maximum sum to be invested with a financial institution located within each category. The credit criteria in respect of financial assets held by the Authority are detailed fully in the Annual Treasury Management Strategy Statement which is agreed by the ITA.

Customers for goods and services are assessed, taking into account their financial position, past experience and other factors, with individual credit limits being set in accordance with internal ratings in accordance with parameters set by the Authority. The Authority has very low risk of default from its customers for goods and services, since these are predominantly other local authorities and other public bodies such as Nexus.



### Note 31 (Continued)

The Authority's maximum exposure to credit risk in relation to its investments in banks and building societies cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of recoverability applies to all of the Authority's deposits, but there was no evidence at the 31 March 2011 that this was likely to crystallise.

### Liquidity Risk

The Authority has a comprehensive cash flow management system that seeks to ensure that cash is available as needed. If unexpected movements happen, the Authority has ready access to borrowings from the money markets and the Public Works Loans Board. There is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments. Instead, the risk is that the Authority will be bound to replenish a significant proportion of its borrowings at a time of unfavourable interest rates. The Authority sets limits on the proportion of its fixed rate borrowing during specified periods. The strategy is to ensure that maturing loans may be replaced through a combination of careful planning of new loans taken out and (where it is economic to do so) making early repayments. The maturity analysis of financial liabilities is as follows:

	<b>31 March 2010</b>	<b>31 March 2011</b>
	<b>£000</b>	<b>£000</b>
Less than one year	-	35,056
Between one and two years	15,013	-
Between two and five years	3,402	3,402
More than five years*	128,583	118,528
	<b>146,998</b>	<b>156,986</b>

All trade and other payables are due to be paid in less than one year.

### Market Risk

#### Interest Rate Risk

The Authority is exposed to risk in terms of its exposure to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Authority. For instance, a rise in interest rates would have the following effects:

- Borrowings at variable rates - the interest expense charged to the Surplus or Deficit on the Provision of Services will rise
- Borrowings at fixed rates - the fair value of the liabilities will fall
- Investments at variable rates - the interest income credited to the Surplus or Deficit on the Provision of Services will fall
- Investments at fixed rates - the fair value of the assets will fall

### Note 31 (Continued)

Borrowings are not carried at fair value, so nominal gains and losses on fixed rate borrowings would not impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Surplus or Deficit on the Provision of Services and affect the General Fund Balance. Movements in the fair value of fixed rate investments that have a quoted market price will be reflected in Other Comprehensive Income and Expenditure.

The Authority has a number of strategies for managing interest rate risk. Policy is to ensure that the level of its borrowings in variable rate loans does not expose the portfolio to excessive movements in interest rates. During periods of falling interest rates, and where economic circumstances make it favourable, fixed rate loans will be repaid early to limit exposure to losses. The risk of loss is ameliorated by the fact that a proportion of government grant payable on financing costs will normally move with prevailing interest rates or the Authority's cost of borrowing and provide compensation for a proportion of any higher costs.

The Treasury Management team has an active strategy for assessing interest rate exposure that feeds into the setting of the annual budget and which is used to update the budget quarterly during the year. This allows any adverse changes to be accommodated. The analysis will also advise whether new borrowing taken out is fixed or variable.

According to this investment strategy, at 31 March 2011, if interest rates had been 1% higher with all other variables held constant, the financial effect would be:

	£000
Increase in interest payable on variable rate borrowings	65
Increase in interest receivable on variable rate investments	(32)
Increase in government grant receivable for financing costs	-
Impact on Surplus or Deficit on the Provision of Services	33
Decrease in fair value of fixed rate investment assets	-
Impact on Other Comprehensive Income and Expenditure	-

A decrease in the fair value of fixed rate borrowings liabilities would have no impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure.

The impact of a 1% fall in interest rates would be as above but with the movements being reversed.

### Foreign Exchange Risk

The Authority has no financial assets or liabilities denominated in foreign currencies and thus has no exposure to loss arising from movements in exchange rates.

### Note 32: Reconciliation between Explanatory Foreword and Comprehensive Income and Expenditure Statement

This note provides a reconciliation between the expenditure against budget for 2010/11 reported in the Explanatory Foreword and the Cost of Services and Surplus or Deficit on the Provision of Services reported in the Comprehensive Income and Expenditure Statement. The reconciliation is split between amounts attributable to the ringfenced Tyne Tunnels General Fund reserve and the unearmarked ITA General Fund reserve.

2010/11

	ITA	Tyne Tunnels	Total
	£000	£000	£000
<b>Net Cost of Services</b>	<b>64,638</b>	<b>5,893</b>	<b>70,531</b>
Financing and Investment Income & Expenditure	1,095	2,277	3,372
Taxation & Non-specific Grant Income	(71,706)	-	(71,706)
<b>Surplus/Deficit on Provision of Services</b>	<b>(5,973)</b>	<b>8,170</b>	<b>2,197</b>
Depreciation charges - Tyne Tunnels	-	(3,552)	(3,552)
Impairment / Downwards revaluation - New Tyne Crossing	-	(12,922)	(12,922)
Write down of New Tyne Crossing Deferred Income	-	603	603
LTP Capital Grants applied to finance Capital Expenditure	4,533	-	4,533
LTP Capital Grants not yet applied to finance Capital	288	-	288
Revenue Expenditure Funded from Capital Under Statute	(5,806)	-	(5,806)
Reversal of items relating to retirement benefits in CIES	5,440	-	5,440
Employers pension contributions and direct payments to pensioners payable in year	511	592	1,103
Statutory provision for financing of capital investment	1,407	325	1,732
Capital expenditure charged against the General Fund	1,273	-	1,273
Transfer to/from Earmarked reserves	(1,003)	-	(1,003)
<b>Movement in Reserves / Explanatory Foreword basis</b>	<b>668</b>	<b>(6,784)</b>	<b>(6,116)</b>

### **1. General Principles**

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

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

### **2. Accruals of Income and Expenditure**

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

### **3. Cash and Cash Equivalents**

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

### **4. Exceptional Items**

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

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

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

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

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

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

### **6. Charges to Revenue for Non-Current Assets**

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

### **7. Employee Costs**

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

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

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

### **8. Pensions**

The ITA participates in the Local Government Pension Scheme, which provides members with defined benefits relating to pay and service. Its pension obligations relate primarily to former employees.

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

## Accounting Policies

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

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

- Quoted securities at current bid price
- Unquoted securities based on professional estimate
- Unitised securities at current bid price
- Property at market value

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

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



In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Authority to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

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

### **9. Events After the Balance Sheet Date**

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

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

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

### **10. Financial Instruments**

#### **Financial Liabilities**

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

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

## Accounting Policies

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

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

### Financial Assets

Financial assets are classified into two types:

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

### Loans and Receivables

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

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

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

### Available-for-Sale Assets

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

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

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

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

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

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

### 11. Government Grants & Contributions

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

- The Authority will comply with the conditions attached to the payments
- The grants or contributions will be received.

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

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

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

## 12. Leases

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

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

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

### Operating Leases

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

### Property, Plant & Equipment

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

### Recognition

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

### Measurement

Assets are initially measured at cost, comprising:

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

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

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

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

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

## Accounting Policies

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

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

Assets included in the Balance Sheet at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum every five years. This work is carried out on behalf of the Authority by the Property Services Division of the lead authority. The first such revaluation took place in 1999/00, with the most recent revaluation completed during 2010/11. These revaluations are detailed within the Notes to the Core Financial Statements.

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

Where decreases in value are identified, they are accounted for by:

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

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

### De Minimis Levels

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

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



## Accounting Policies

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### Impairment

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

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

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

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

### Depreciation

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

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

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

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

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

## Accounting Policies

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

### Componentisation

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

### Disposals

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

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

## 14. Public Private Partnership (PPP) Contracts

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

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

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

- The public sector entity ('grantor') controls or regulates the services that the operator must provide with the infrastructure, to whom it must provide them, and at what price
- The grantor controls, through ownership, beneficial entitlement or otherwise, any significant residual interest in the infrastructure at the end of the service arrangement

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

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

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

- In each month TWITA pays a Shadow Toll to the Operator; this being a fixed amount per vehicle adjusted for changes in RPI
- Throughout the Term, Formula Tolls for each vehicle type are defined to equal the corresponding vehicle type Shadow Tolls
- The Formula Tolls are the initially-defined sequence of tolls to be charged to users and collected by TWITA. If TWITA varies a Real Toll from its corresponding Formula Toll, the Operator is compensated for the effect of this adjustment on demand

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

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

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

## 15. Provisions

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

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

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

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

### **16. Contingent Liabilities**

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

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

### **17. Reserves**

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

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

### **18. Revenue Expenditure Funded from Capital Under Statute**

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

### 19. VAT

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

### 20. Overheads

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

### 21. Tyne Tunnel Income

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

### 22. Group Accounts

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

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

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

#### **Local Government Pension Scheme**

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

#### **Value Added Tax**

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





# Section 3

## Tyne & Wear Integrated Transport Authority

Group Accounts for the year  
ended 31 March 2011





## Group Movement in Reserves Statement

	General Fund Balance	Earmarked General Fund Reserves	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Reserves	Authority Share of Nexus	Total Group Reserves
	£000	£000		£000	£000	£000	£000	£000
<b>Balance at 31 March 2009</b>	<b>(29,219)</b>	<b>(12,875)</b>	-	<b>(42,094)</b>	<b>(63,129)</b>	<b>(105,223)</b>	<b>(270,837)</b>	<b>(376,060)</b>
<u>Movement in reserves during 2009/10</u>								
Surplus or (deficit) on provision of services	(10,360)	-	-	(10,360)	-	(10,360)	(20,787)	(31,147)
Other Comprehensive Income and Expenditure	-	-	-	-	1,650	1,650	17,320	18,970
<b>Total Comprehensive Income and Expenditure</b>	<b>(10,360)</b>	<b>-</b>	<b>-</b>	<b>(10,360)</b>	<b>1,650</b>	<b>(8,710)</b>	<b>(3,467)</b>	<b>(12,177)</b>
Adjustments between accounting basis and funding basis under regulations	1,756	-	-	1,756	(1,756)	-	-	-
<b>Net Increase/Decrease before Transfers to Earmarked Reserves</b>	<b>(8,604)</b>	<b>-</b>	<b>-</b>	<b>(8,604)</b>	<b>(106)</b>	<b>(8,710)</b>	<b>(3,467)</b>	<b>(12,177)</b>
Transfer to/from Earmarked Reserves	566	(566)	-	-	-	-	-	-
<b>Increase/Decrease in 2009/10</b>	<b>(8,038)</b>	<b>(566)</b>	<b>-</b>	<b>(8,604)</b>	<b>(106)</b>	<b>(8,710)</b>	<b>(3,467)</b>	<b>(12,177)</b>
<b>Balance at 31 March 2010 carried forward</b>	<b>(37,257)</b>	<b>(13,441)</b>	<b>-</b>	<b>(50,698)</b>	<b>(63,235)</b>	<b>(113,933)</b>	<b>(274,304)</b>	<b>(388,237)</b>
				-				
<u>Movement in Reserves during 2010/11</u>				-				
Surplus or (deficit) on provision of services	2,197	-	-	2,197	-	2,197	(77,007)	(74,810)
Other Comprehensive Income and Expenditure	-	-	-	-	(4,691)	(4,691)	(1,900)	(6,591)
<b>Total Comprehensive Income and Expenditure</b>	<b>2,197</b>	<b>-</b>	<b>-</b>	<b>2,197</b>	<b>(4,691)</b>	<b>(2,494)</b>	<b>(78,907)</b>	<b>(81,401)</b>
Adjustments between accounting basis and funding basis under regulations	(4,899)	-	(288)	(5,187)	5,187	-	-	-
<b>Net Increase/Decrease before Transfers to Earmarked Reserves</b>	<b>(2,702)</b>	<b>-</b>	<b>(288)</b>	<b>(2,990)</b>	<b>496</b>	<b>(2,494)</b>	<b>(78,907)</b>	<b>(81,401)</b>
Transfer to/from Earmarked Reserves	(1,003)	1,003	-	-	-	-	-	-
<b>Increase/Decrease in Year</b>	<b>(3,705)</b>	<b>1,003</b>	<b>(288)</b>	<b>(2,990)</b>	<b>496</b>	<b>(2,494)</b>	<b>(78,907)</b>	<b>(81,401)</b>
<b>Balance at 31 March 2011 carried forward</b>	<b>(40,962)</b>	<b>(12,438)</b>	<b>(288)</b>	<b>(53,688)</b>	<b>(62,739)</b>	<b>(116,427)</b>	<b>(353,211)</b>	<b>(469,638)</b>

## Group Comprehensive Income and Expenditure Statement

2009/10			2010/11		
Gross Expenditure	Gross Income	Net Expenditure	Gross Expenditure	Gross Income	Net Expenditure
		£000		£000	£000
159,011	(57,401)	101,610	Highways and Transport Services		
4,695	(14,878)	(10,183)	- Other Highways and Transport Services	154,297	(54,323)
1,657	(401)	1,256	- Tyne Tunnels	19,673	(13,780)
2,538	(47)	2,491	Planning & Development	1,752	(334)
(1,023)	-	(1,023)	Corporate and Democratic Core	2,624	-
			Non-Distributed costs	(39,185)	-
<b>166,878</b>	<b>(72,727)</b>	<b>94,151</b>	<b>Cost of Services (Note 2)</b>	<b>139,159</b>	<b>(68,436)</b>
			Other Operating Expenditure		
20,441	(11,465)	8,976	Financing and Investment Income and Expenditure	15,973	(10,345)
203	(134,477)	(134,274)	Taxation and Non-Specific Grant Income	1,212	(152,373)
		<b>(31,147)</b>	<b>(Surplus) or Deficit on Provision of Services</b>		<b>(74,810)</b>
		-	- Surplus or deficit on revaluation of fixed assets		(121)
		-	- Surplus or deficit on revaluation of available for sale financial assets		-
		18,970	Actuarial gains / losses on pension assets / liabilities		(6,470)
		<b>18,970</b>	<b>Other Comprehensive Income and Expenditure</b>		<b>(6,591)</b>
		<b>(12,177)</b>	<b>Total Comprehensive Income and Expenditure</b>		<b>(81,401)</b>



## Group Balance Sheet

1 April 2009 £000	31 March 2010 £000		Group Notes	31 March 2011 £000
486,877	530,475	Property, Plant & Equipment	6	752,582
891	1,546	Intangible Assets	7	1,272
-	-	Assets Held for Sale		82
1	1	Long Term Investments		1
340	340	Long Term Debtors		-
<b>488,109</b>	<b>532,362</b>	<b>Long Term Assets</b>		<b>753,937</b>
126,263	44,966	Short Term Investments		-
3,165	3,444	Inventories		1,353
16,944	18,984	Short Term Debtors	4	24,049
64,499	66,563	Cash and Cash Equivalents	8	101,636
<b>210,871</b>	<b>133,957</b>	<b>Current Assets</b>		<b>127,038</b>
(42,683)	(5,847)	Short Term Borrowing	13	(36,426)
(15,034)	(22,852)	Short Term Creditors	5	(31,762)
-	(187)	Bank Overdraft	8	-
-	-	New Tyne Crossing Deferred Income		(51,980)
<b>(57,717)</b>	<b>(28,886)</b>	<b>Current Liabilities</b>		<b>(120,168)</b>
-	(5,495)	Grants and Contributions Receipts in Advance		(9,254)
(1,813)	(844)	Provisions		(1,320)
(183,365)	(145,560)	Long Term Borrowing	13	(120,560)
(76,871)	(93,940)	Other Long Term Liabilities	17	(41,887)
(3,154)	(3,357)	Deferred Tax Liability	12	(4,569)
-	-	New Tyne Crossing Deferred Income		(113,579)
<b>(265,203)</b>	<b>(249,196)</b>	<b>Long Term Liabilities</b>		<b>(291,169)</b>
<b>376,060</b>	<b>388,237</b>	<b>Net Assets</b>		<b>469,638</b>
(65,242)	(76,784)	Usable Reserves	10	(87,211)
(310,818)	(311,453)	Unusable Reserves	11	(382,427)
<b>(376,060)</b>	<b>(388,237)</b>	<b>Total Reserves</b>		<b>(469,638)</b>

### Treasurer's Certificate

I certify that the accounts set out on pages 93 to 111 present a true and fair view of the financial position of the Tyne and Wear Integrated Transport Authority as at 31 March 2011.

Signed



Deputy Clerk and Treasurer

Date: 22 September 2011

## Group Cash Flow Statement

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2009/10		2010/11
£000		£000
(31,350)	Net (surplus) or deficit on the provision of services	(76,022)
(85,347)	Adjustments to net surplus or deficit on the provision of services for	(57,479)
7,019	Adjustments for items included in the net surplus or deficit on the	118,949
(109,678)	Net cash flows from Operating Activities (Note 14)	(14,552)
30,084	Investing activities (Note 15)	(15,131)
77,717	Financing activities (Note 16)	(5,577)
(1,877)	Net increase or decrease in cash and cash equivalents	(35,260)
(64,499)	Cash and cash equivalents at the beginning of the reporting period	(66,376)
<b>(66,376)</b>	<b>Cash and cash equivalents at the end of the reporting period</b>	<b>(101,636)</b>

## Notes to the Group Accounts

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### Group Note 1: Group Accounts

Under the Code of Practice for Local Authority Accounting 2010/11, authorities with interests in subsidiaries, associates and/or joint ventures (jointly controlled entities) shall prepare Group Accounts in addition to their single entity financial statements, unless their interest is considered not material.

Nexus is the only subsidiary for the Tyne and Wear Integrated Transport Authority, and the group accounts have been prepared on a consolidation basis. In 2010/11, Passenger Transport Executives (including Nexus) have a legal requirement under the Accounting and Audit Regulations 2011 to produce their single entity accounts on an IFRS basis in accordance with the Code of Practice 2010/11. The accounting policies adopted by Nexus are therefore now aligned with those of TWITA, with the following minor differences:

#### Deferred Tax

TWITA does not require a policy on Deferred Tax. Deferred taxation (which arises from the differences in the timing of the recognition of items, principally depreciation, in the accounts and by the tax authorities) has been calculated by Nexus on the liability method. Deferred tax is provided on timing differences which will probably reverse, at the rates of tax likely to be in force at the time of reversal.

#### Property, Plant, Equipment and Intangible Assets

Nexus uses the following estimated useful lives for each class of assets:

Freehold buildings	40 years
Short leasehold buildings	over the lease term
Infrastructure assets	20 to 50 years
Plant and equipment	5 to 30 years
Vehicles	5 to 10 years
Marine Vessels	30 years
Intangibles	5 to 10 years

Useful lives used by the ITA can be found on p. 84 of the single entity accounts.

Nexus' policy is to commence depreciation on assets with effect from the month following capitalisation, whereas the ITA charges a full year of depreciation in the year of acquisition.

Nexus carries out annual reviews of the estimated remaining life and current carrying amount of assets, ensuring that significant assets with a life greater than five years are reviewed annually. The ITA has a rolling five-year programme of revaluations, as set out on p. 83.

Where Group Accounts are required, authorities must produce the main financial statements and the disclosure notes which add value to the understanding of the accounts. Disclosure notes have been produced to add more detail where the Group Accounts are materially different from the single entity accounts.

Copies of the single entity accounts for Nexus are available from [www.nexus.org.uk](http://www.nexus.org.uk)



## Notes to the Group Accounts

### Group Note 2: Analysis of Cost of Services

The table below shows a detailed analysis of the figures included in Cost of Services in the Group Comprehensive Income and Expenditure Statement

<b>2010/11</b>	<b>Gross Expenditure £000</b>	<b>Gross Income £000</b>	<b>Net Expenditure £000</b>
Nexus Rail	73,154	(42,518)	30,636
Ferry	1,432	(493)	939
Rail Franchise	4,328	(1)	4,327
Supported bus services	16,902	(5,971)	10,931
Bus Infrastructure	3,333	(551)	2,782
Promotion and Information	4,496	(1,322)	3,174
Concessionary Travel	49,460	(1,988)	47,472
Tyne Tunnel	19,673	(13,780)	5,893
Tyne & Wear LTP	1,190	(1,478)	(288)
<b>Highways &amp; Transport</b>	<b>173,969</b>	<b>(68,102)</b>	<b>105,867</b>
Planning	1,752	(334)	1,418
Corporate costs	2,623	-	2,623
Non distributed costs	5,635	-	5,635
Pensions - Additional service cost	(44,820)	-	(44,820)
<b>Cost of Services in CIES</b>	<b>139,159</b>	<b>(68,436)</b>	<b>70,723</b>

### 2009/10 Comparative Figures

	<b>Gross Expenditure £000</b>	<b>Gross Income £000</b>	<b>Net Expenditure £000</b>
Nexus Rail	76,958	(43,792)	33,166
Ferry	1,451	(408)	1,043
Rail Franchise	4,355	-	4,355
Supported bus services	15,747	(5,701)	10,046
Bus Infrastructure	3,657	(452)	3,205
Promotion and Information	4,275	(1,491)	2,784
Concessionary Travel	49,027	(2,016)	47,011
Tyne Tunnel	4,695	(14,878)	(10,183)
Tyne & Wear LTP	3,541	(3,541)	-
<b>Highways &amp; Transport</b>	<b>163,706</b>	<b>(72,279)</b>	<b>91,427</b>
Planning	1,657	(401)	1,256
Corporate costs	2,538	(47)	2,491
Non distributed costs	5,437	-	5,437
Pensions - Additional service cost	(6,460)	-	(6,460)
	<b>166,878</b>	<b>(72,727)</b>	<b>94,151</b>

## Notes to the Group Accounts

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### Group Note 3: Integrated Transport Authority Lead Officers

The ITA is principally advised by three senior officers employed by the lead Authority. These officers are also non-executive directors of Nexus:

<b>Responsibility</b>	<b>Title</b>	<b>Officer</b>
Policy / Legal / Administration	Clerk	Barry Rowland
Financial Advice	Deputy Clerk and Treasurer	Paul Woods
Engineering	Director of Strategic Housing, Planning and Transportation	Harvey Emms

The Nexus Board comprises the above officers and the following Nexus Directors:

<b>Director General</b>	Bernard Garner
<b>Director of Finance and Resources</b>	John Fenwick
<b>Director of Rail and Infrastructure</b>	Ken Mackay
<b>Director of Customer Services</b>	Tobyn Hughes

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### Group Note 4: Short Term Debtors

<b>01 April 2009</b>	<b>31 March 2010</b>		<b>31 March 2011</b>
<b>£000</b>	<b>£000</b>		<b>£000</b>
9,611	11,971	Central government bodies	19,541
536	451	Other local authorities	371
17	23	NHS bodies	26
152	142	Public corporations and trading funds	120
6,628	6,397	Other entities and individuals	3,991
<b>16,944</b>	<b>18,984</b>	<b>Total</b>	<b>24,049</b>

## Notes to the Group Accounts

### Group Note 5: Short Term Creditors

01 April 2009 31 March 2010

31 March 2011

£000	£000		£000
(612)	(2,017)	Central government bodies	(1,029)
(184)	(26)	Other local authorities	(34)
(949)	(1,309)	Other local authorities - LTP claims	(333)
-	-	NHS Bodies	(1)
(274)	(239)	Public Corporations	(239)
		<b>Other entities and individuals</b>	
(296)	(274)	Payments due to TT2 Ltd.	(560)
(591)	(593)	Prepayments	(663)
(66)	(74)	Accrued payments to pension fund	(73)
(283)	(243)	New Tyne Crossing Advisors	(317)
(11,779)	(18,077)	Other entities and individuals	(28,514)
<b>(15,034)</b>	<b>(22,852)</b>	<b>Total</b>	<b>(31,762)</b>

### Group Note 6: Property, Plant and Equipment

Movements in 2010/11:

	Other Land and Buildings	Vehicles, Plant, furniture & Equipment	Infrastructure Assets	Assets Under Construction	Total Property, Plant and Equipment
	£000	£000	£000	£000	£000
<b>Cost or Valuation</b>					
<u>At 1 April 2010</u>	16,965	31,444	604,442	60,655	<b>713,506</b>
Additions	-	466	206,404	48,629	<b>255,499</b>
Revaluation increases/(decreases) recognised in the Revaluation Reserve	-	121	-	-	<b>121</b>
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	-	-	(12,922)	-	<b>(12,922)</b>
Disposals	-	(252)	-	-	<b>(252)</b>
	-	(390)	(237)	-	<b>(627)</b>
Transfers to assets held for sale					
Transfers from assets under construction	-	1,066	68,135	(69,201)	-
<u>At 31 March 2011</u>	<b>16,965</b>	<b>32,455</b>	<b>865,822</b>	<b>40,083</b>	<b>955,325</b>
<b>Accumulated Depreciation and Impairment</b>					
<u>At 1 April 2010</u>	(2,397)	(21,163)	(159,470)	-	<b>(183,030)</b>
Depreciation charge	(159)	(1,831)	(18,507)	-	<b>(20,497)</b>
Transfer to assets held for sale	-	340	205	-	<b>545</b>
Disposals	-	239	-	-	<b>239</b>
<u>At 31 March 2011</u>	<b>(2,556)</b>	<b>(22,415)</b>	<b>(177,772)</b>	<b>-</b>	<b>(202,743)</b>
<b>Net Book Value</b>					
<u>At 31 March 2011</u>	<b>14,409</b>	<b>10,040</b>	<b>688,050</b>	<b>40,083</b>	<b>752,582</b>
At 31 March 2010	14,568	10,281	444,972	60,655	<b>530,476</b>

## Notes to the Group Accounts

### Group Note 6 (Continued)

	Other Land and Buildings £000	Vehicles, Plant, furniture & Equipment £000	Infrastructure Assets £000	Assets Under Construction £000	Total Property, Plant and Equipment £000
<b>Comparative Movements in 2009/10:</b>					
<b>Cost or Valuation</b>					
<u>At 1 April 2009</u>	16,965	30,892	583,606	21,688	<b>653,151</b>
Additions	-	-	20	61,343	<b>61,363</b>
Transfers from assets under construction	-	695	20,816	(22,376)	<b>(865)</b>
Disposals	-	(143)	-	-	<b>(143)</b>
<b>At 31 March 2010</b>	<b>16,965</b>	<b>31,444</b>	<b>604,442</b>	<b>60,655</b>	<b>713,506</b>
<b>Accumulated Depreciation and Impairment</b>					
<u>At 1 April 2009</u>	(2,157)	(19,674)	(144,442)	-	<b>(166,273)</b>
Depreciation charge	(240)	(1,632)	(15,028)	-	<b>(16,900)</b>
Disposals	-	143	-	-	<b>143</b>
<b>At 31 March 2010</b>	<b>(2,397)</b>	<b>(21,163)</b>	<b>(159,470)</b>	<b>-</b>	<b>(183,030)</b>

### Group Note 7: Intangible Assets

All intangible assets in the Group Accounts relate to assets held by Nexus.  
The movement on Intangible Asset balances during the year is as follows:

	2009/10 £000	2010/11 £000
Balance at start of year:		
Gross carrying amounts	1,089	1,954
Accumulated amortisation	(198)	(408)
Net carrying amount at start of year	891	1,546
Additions:		
Transfers from assets under construction	865	-
Amortisation for the period	(210)	(274)
Net carrying amount at end of year	1,546	1,272
Comprising:		
Gross carrying amounts	1,954	1,954
Accumulated amortisation	(408)	(682)
<b>Total</b>	<b>1,546</b>	<b>1,272</b>

## Notes to the Group Accounts

### Group Note 8: Cash and Cash Equivalents

The balance of Cash and Cash Equivalents is made up of the following elements:

01 April 2009	31 March 2010		31 March 2011
£000	£000		£000
26,341	19,427	Bank current accounts	46,336
38,158	47,136	Short-term deposits with building societies	55,300
-	(187)	Bank overdraft	-
<b>64,499</b>	<b>66,376</b>	<b>Total Cash and Cash Equivalents</b>	<b>101,636</b>

### Group Note 9: Grant Income Credited to Comprehensive Income and Expenditure Statement

The Group Comprehensive Income and Expenditure Statement includes the following grants, contributions and donations in 2010/11:

	2009/10	2010/11
	£000	£000
<b>Credited to Services</b>		
LTP Grant	(6,102)	(4,821)
DfT Grant for Smart Ticketing (NESTI)	(1,683)	-
Metro Rail	(20,693)	(25,300)
Metro Reinvigoration	(2,747)	-
Concessionary Travel	(5,502)	(5,672)
Heavy Rail	(4,344)	(4,364)
Other grants	(326)	(557)
<b>Capital Grants</b>		
Nexus capital grants	(30,219)	(44,774)
<b>Total</b>	<b>(71,616)</b>	<b>(85,488)</b>

### Group Note 10: Breakdown of Unusable Reserves

01 April 2009	31 March 2010		31 March 2011
£000	£000		£000
(10,449)	(10,449)	Revaluation Reserve	(10,570)
(66,562)	(68,480)	Capital Adjustment Account	(54,340)
41	303	Financial Instruments Adjustment Account	304
76,871	93,940	Pensions Reserve	41,887
(260,849)	(279,739)	Nexus Grant Deferred Account	(314,638)
(49,870)	(47,028)	Nexus Unusable Capital Reserve	(45,070)
<b>(310,818)</b>	<b>(311,453)</b>	<b>Total Unusable Reserves</b>	<b>(382,427)</b>

## Notes to the Group Accounts

### Group Note 10 (continued)

#### Pension Reserve

2009/10		2010/11
£000		£000
76,871	Balance at 1 April	93,940
18,970	Actuarial (gains) or losses on pensions assets and liabilities	(6,470)
(10,380)	Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	(51,620)
8,479	Employer's pensions contributions and direct payments to pensioners payable in the year	6,037
<b>93,940</b>	<b>Balance at 31 March</b>	<b>41,887</b>

#### Nexus Grant Deferred Account

2009/10		2010/11
£000		£000
(260,849)	Balance at 1 April	(279,739)
11,329	Capital Grants released	11,148
(30,219)	Capital Grants Applied	(46,047)
<b>(279,739)</b>	<b>Balance at 31 March</b>	<b>(314,638)</b>

#### Nexus Unusable Capital Reserve

2009/10		2010/11
£000		£000
(49,870)	Balance at 1 April	(47,028)
464	Adjustment	(210)
(1,055)	Additions	(1,361)
3,433	Depreciation	3,529
<b>(47,028)</b>	<b>Balance at 31 March</b>	<b>(45,070)</b>

## Notes to the Group Accounts

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### Group Note 11: Breakdown of Usable Reserves

01 April 2009	31 March 2010		31 March 2011
£000	£000		£000
(4,053)	(3,268)	ITA General Fund	(2,600)
(25,166)	(33,988)	Tyne Tunnels General Fund	(40,772)
(12,875)	(13,441)	Metro Reinvigoration Reserve	(12,438)
-	-	Capital Grants and Contributions Unapplied	(288)
(12,347)	(12,349)	Nexus Revenue Reserves	(15,417)
(10,801)	(13,738)	Nexus Capital Reserves	(15,696)
<b>(65,242)</b>	<b>(76,784)</b>	<b>Total Usable Reserves</b>	<b>(87,211)</b>

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### Group Note 12: Deferred Taxation

Deferred Taxation in the Group Accounts relates wholly to Nexus.

The Balance Sheet figure comprises:

01 April 2009	31 March 2010		31 March 2011
£000	£000		£000
(3,570)	(3,674)	Excess of Capital Allowances over depreciation	(4,764)
(1,816)	(1,816)	Roll over relief on capital gains	(1,687)
406	307	Other timing differences	187
1,826	1,826	Tax effect of losses	1,695
<b>(3,154)</b>	<b>(3,357)</b>		<b>(4,569)</b>

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## Notes to the Group Accounts

### Group Note 13: Financial Instruments

The following categories of financial instrument are carried on the Group Balance Sheet:

01 April 2009 £000	31 March 2010 £000		31 March 2011 £000
		<b>Short Term Investments:</b>	
126,263	44,966	Bank deposits	-
<b>126,263</b>	<b>44,966</b>		<b>-</b>
		<b>Short Term Debtors:</b>	
16,944	18,894	Short Term Debtors	24,049
<b>16,944</b>	<b>18,894</b>		<b>24,049</b>
		<b>Borrowings:</b>	
(42,683)	(5,847)	Short term borrowing	(36,426)
(183,365)	(145,560)	Financial liabilities at amortised cost - long term borrowing	(120,560)
<b>(226,048)</b>	<b>(151,407)</b>		<b>(156,986)</b>
		<b>Other Long Term Liabilities:</b>	
(76,871)	(93,940)	Pensions Liability	(41,887)
<b>(76,871)</b>	<b>(93,940)</b>		<b>(41,887)</b>
		<b>Short Term Creditors:</b>	
(15,034)	(22,852)	Short Term Creditors	(31,762)
<b>(15,034)</b>	<b>(22,852)</b>		<b>(31,762)</b>

### Group Note 14: Cash Flow Statement: Operating Activities

The cash flows for operating activities include the following items:

2009/10 £000		2010/11 £000
4,105	Interest received	1,195
(12,369)	Interest paid	(6,483)

**Group Note 15: Cash Flow Statement - Investing Activities**

<b>Total</b>		<b>Total</b>
<b>2009/10</b>		<b>2010/11</b>
<b>£000</b>		<b>£000</b>
61,288	Purchase of property, plant and equipment, investment property and intangible assets	79,097
-	Purchase of short-term and long-term investments	
-	Other payments for investing activities	1,490
(17)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(65)
(160)	Proceeds from short-term and long-term investments	(44,988)
(31,026)	Other receipts from investing activities	(50,665)
<b>30,084</b>	<b>Net cash flows from investing activities</b>	<b>(15,131)</b>

**Group Note 16: Cash Flow Statement - Financing Activities**

<b>2009/10</b>		<b>2010/11</b>
<b>£000</b>		<b>£000</b>
(1,186)	Cash receipts of short and long-term borrowing	(20,301)
-	Other receipts from financing activities	-
76,291	Repayments of short and long-term borrowing	12,250
2,612	Other payments for financing activities	2,474
<b>77,717</b>	<b>Net cash flows from financing activities</b>	<b>(5,577)</b>

**Group Note 17: Defined Benefit Pension Schemes**

**Participation in the Pension Scheme**

TWITA and Nexus both participate in the Tyne and Wear Pension Fund (the Fund), administered locally by South Tyneside Council, which is part of the Local Government Pension Scheme (LGPS). This is a funded defined benefit final salary scheme, meaning that the Authority and employees pay contributions into a fund, calculated at a level intended to balance the pension liabilities with investment assets.

In addition, there are arrangements for the award of discretionary post retirement benefits upon early retirement - this is an unfunded defined benefit arrangement, under which liabilities are recognised when awards are made. However, there are no investment assets built up to meet these pension liabilities, and cash has to be generated to meet actual pension payments as they eventually fall due.

## Notes to the Group Accounts

### Group Note 17 (continued)

In 2010/11 the pension deficits for both the ITA and Nexus decreased significantly, with adjustments required through the Comprehensive Income and Expenditure Statement for 'negative past service' costs. This primarily relates to the change from RPI to CPI as a measure of future pension indexation, as announced by the Government in 2010. In addition, there have been changes to Nexus' pension liabilities as a result of the transfer of staff to DB Regio, the Metro Concessionaire.

### Summary of Pension Scheme Liability

	31 March 2011			31 March 2010			31 March 2009		
	ITA	Nexus	Group	ITA	Nexus	Group	ITA	Nexus	Group
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Funded Benefits	(3.5)	(32.3)	(35.8)	(14.5)	(72.8)	(87.3)	(13.1)	(56.0)	(69.1)
Unfunded Benefits	(0.8)	(5.3)	(6.1)	(0.9)	(5.8)	(6.7)	(0.8)	(7.0)	(7.8)
Net pension liability	<b>(4.3)</b>	<b>(37.6)</b>	<b>(41.9)</b>	<b>(15.4)</b>	<b>(78.6)</b>	<b>(93.9)</b>	<b>(13.8)</b>	<b>(63.0)</b>	<b>(76.9)</b>

### Principal Mortality and Financial Assumptions

The principal assumptions used by the actuary are:

	Local Government Pension Scheme				Discretionary Benefits			
	2009/10		2010/11		2009/10		2010/11	
	ITA	Nexus	ITA	Nexus	ITA	Nexus	ITA	Nexus
Mortality assumptions:								
Longevity at 65 for current pensioners:								
Men	20.0	20.0	21.5	21.5	20.0	20.0	21.5	21.5
Women	22.9	22.9	23.7	23.7	22.9	22.9	23.7	23.7
Financial assumptions:								
RPI Inflation	3.6%	3.9%	3.4%	3.7%	3.6%	3.8%	3.4%	3.6%
CPI Inflation	n/a	n/a	2.5%	2.8%	n/a	n/a	2.5%	2.7%
Rate of increase in salaries	4.1%	5.4%	3.9%	5.2%	n/a	n/a	n/a	n/a
Rate of increase in pensions	2.5%	3.9%	3.6%	2.8%	3.6%	3.8%	2.5%	2.7%
Rate for discounting scheme liabilities	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%

## Notes to the Group Accounts

### Group Note 17 (Continued)

#### LGPS Funded Benefits

##### Expected return on assets

The approximate split of assets for the Fund as a whole (based on data supplied by the Fund Administering Authority) is shown in the table below. Also shown are the assumed rates of return adopted by the Employer for the purposes of IAS19.

	31 March 2010		31 March 2011	
	Long-term expected rate of return (%) p.a.)	Asset split (%)	Long-term expected rate of return (%) p.a.)	Asset split (%)
Equities	8.0	67.8	8.4	68.0
Property	8.5	7.4	7.9	8.1
Government Bonds	4.5	9.3	4.4	7.0
Corporate Bonds	5.5	11.4	5.1	11.7
Cash	0.7	1.3	1.5	1.2
Other	8.0	2.8	8.4	4.0
<b>Total</b>	<b>7.3</b>	<b>100.0</b>	<b>7.6</b>	<b>100.0</b>

##### Reconciliation of funded status to Balance Sheet

	31 March 2011			31 March 2010			31 March 2009		
	ITA £m	Nexus £m	Group £m	ITA £m	Nexus £m	Group £m	ITA £m	Nexus £m	Group £m
Fair value of assets	22.7	132.8	155.5	21.7	166.4	188.1	15.4	117.3	132.7
Present value of funded defined benefit obligation	(26.1)	(165.1)	(191.3)	(36.2)	(239.2)	(275.4)	(28.5)	(173.3)	(201.8)
<b>Pension liability recognised on Balance Sheet</b>	<b>(3.5)</b>	<b>(32.3)</b>	<b>(35.8)</b>	<b>(14.5)</b>	<b>(72.8)</b>	<b>(87.3)</b>	<b>(13.1)</b>	<b>(56.0)</b>	<b>(69.1)</b>

##### Charges to the Surplus or Deficit on the Provision of Services

	2010/11			2009/10		
	ITA £m	Nexus £m	Group £m	ITA £m	Nexus £m	Group £m
Current service cost	-	3.58	3.58	-	3.79	3.79
Past service cost (credit)	(5.51)	(16.35)	(21.86)	-	0.01	0.01
Interest cost	1.72	9.13	10.85	1.92	11.57	13.49
Expected return on assets	(1.58)	(9.15)	(10.73)	(0.97)	(7.36)	(8.33)
Settlement cost (credit)	-	(17.35)	(17.35)	-	-	-
<b>Expense recognised</b>	<b>(5.37)</b>	<b>(30.14)</b>	<b>(35.51)</b>	<b>0.95</b>	<b>8.01</b>	<b>8.96</b>

## Notes to the Group Accounts

### Group Note 17 (Continued)

#### Changes to the present value of defined benefit obligation during the accounting period

	2010/11			2009/10		
	ITA £m	Nexus £m	Group £m	ITA £m	Nexus £m	Group £m
Opening defined benefit obligation	(36.17)	(239.22)	(275.39)	(28.52)	(173.28)	(201.80)
Current service cost	-	(3.58)	(3.58)	-	(3.79)	(3.79)
Interest cost	(1.72)	(9.13)	(10.85)	(1.92)	(11.57)	(13.49)
Contribution by participants	-	(1.14)	(1.14)	-	(1.70)	(1.70)
Actuarial (gains) / losses on liabilities	5.10	4.67	9.77	(6.32)	(55.45)	(61.77)
Net benefits paid out	1.15	7.59	8.74	0.59	6.58	7.17
Past service cost	5.51	16.35	21.86	-	(0.01)	(0.01)
Settlements	-	59.32	59.32	-	-	-
Closing defined benefit obligation	(26.13)	(165.14)	(191.27)	(36.17)	(239.22)	(275.39)

#### Changes to the fair value of assets during the accounting period

	2010/11			2009/10		
	ITA £m	Nexus £m	Group £m	ITA £m	Nexus £m	Group £m
Opening fair value of assets	21.69	166.44	188.13	15.44	117.26	132.70
Expected return on assets	1.58	9.15	10.73	0.97	7.36	8.33
Actuarial gains / (losses) on assets	(0.53)	(2.69)	(3.22)	4.82	36.98	41.80
Contributions by the employer	1.06	8.32	9.38	1.05	9.72	10.77
Contributions by the participants	-	1.14	1.14	-	1.70	1.70
Net benefits paid out	(1.15)	(7.59)	(8.74)	(0.59)	(6.58)	(7.17)
Business combinations	-	-	-	-	-	-
Settlements	-	(41.97)	(41.97)	-	-	-
Closing fair value of assets	22.65	132.80	155.45	21.69	166.44	188.13

#### Changes to the fair value of assets during the accounting period

	2010/11			2009/10		
	ITA £m	Nexus £m	Group £m	ITA £m	Nexus £m	Group £m
Expected return on assets	1.58	9.15	10.73	0.97	7.36	8.33
Actuarial gain / (loss) on assets	(0.53)	(2.69)	(3.22)	4.82	36.98	41.80
Actual return on assets	1.05	6.46	7.51	5.79	44.34	50.13

## Notes to the Group Accounts

### Group Note 17 (Continued)

#### History of asset values, present value of defined benefit obligation and deficit

	31 March 2011 Group £m	31 March 2010 Group £m	31 March 2009 Group £m	31 March 2008 Group £m	31 March 2007 Group £m
Fair value of assets	155.45	188.13	132.70	157.22	167.51
Present value of liabilities	(191.27)	(275.39)	(201.80)	(192.70)	(219.74)
<b>Deficit</b>	<b>(35.82)</b>	<b>(87.26)</b>	<b>(69.10)</b>	<b>(35.48)</b>	<b>(52.23)</b>

#### Unfunded Benefits

##### Reconciliation of Balance Sheet

	31 March 2011			31 March 2010			31 March 2009		
	ITA £m	Nexus £m	Group £m	ITA £m	Nexus £m	Group £m	ITA £m	Nexus £m	Group £m
Present value of funded defined benefit obligation	(0.79)	(5.27)	(6.06)	(0.91)	(5.77)	(6.68)	(0.76)	(7.01)	(7.77)
<b>Pension liability recognised on Balance Sheet</b>	<b>(0.79)</b>	<b>(5.27)</b>	<b>(6.06)</b>	<b>(0.91)</b>	<b>(5.77)</b>	<b>(6.68)</b>	<b>(0.76)</b>	<b>(7.01)</b>	<b>(7.77)</b>

#### Charges to the Surplus or Deficit on the Provision of Services

	2010/11			2009/10		
	ITA £m	Nexus £m	Group £m	ITA £m	Nexus £m	Group £m
Current service cost	-	-	-	-	-	-
Past service cost (credit)	(0.11)	(0.37)	(0.48)	-	0.05	0.05
Interest cost	0.04	0.29	0.33	0.05	0.45	0.50
Expected return on assets	-	-	-	-	-	-
Settlement cost (credit)	-	-	-	-	-	-
<b>Expense recognised</b>	<b>(0.07)</b>	<b>(0.08)</b>	<b>(0.15)</b>	<b>0.05</b>	<b>0.50</b>	<b>0.55</b>

Group Note 17 (Continued)

Changes to the present value of unfunded defined benefit obligation during the accounting period

	2010/11			2009/10		
	ITA £m	Nexus £m	Group £m	ITA £m	Nexus £m	Group £m
Opening defined benefit obligation	(0.91)	(5.77)	(6.68)	(0.76)	(7.01)	(7.77)
Current service cost	-	-	-	-	-	-
Interest cost	(0.04)	(0.29)	(0.33)	(0.05)	(0.45)	(0.50)
Actuarial gains / (losses) on liabilities	-	(0.08)	(0.08)	(0.15)	1.15	1.00
Net benefits paid out	0.05	0.50	0.55	0.05	0.54	0.59
Past service cost	0.11	0.37	0.48	-	-	-
Settlements	-	-	-	-	-	-
Closing defined benefit obligation	(0.79)	(5.27)	(6.06)	(0.91)	(5.77)	(6.68)

History of present value of liabilities and deficit

	31 March 2011	31 March 2010	31 March 2009	31 March 2008	31 March 2007
	Group £m	Group £m	Group £m	Group £m	Group £m
Present value of liabilities	(6.06)	(6.68)	(7.77)	(7.74)	(8.45)
Deficit	(6.06)	(6.68)	(7.77)	(7.74)	(8.45)



## Glossary of Terms

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Abbreviations	The symbol “k” following a figure represents £ thousand. The symbol “m” following a figure represents £ million.
Accruals	Income and expenditure are recognised as they are earned or incurred, not as money is received or paid.
Accounting policies	Those principles, bases, conventions, rules and practices applied by an entity that specify how the effects of transactions and other events are to be reflected in its financial statements.
Actuarial gains or losses (Pensions)	For a defined benefit pension scheme, the changes in actuarial deficits or surpluses that arise either because events have not coincided with the actuarial assumptions made for the last valuation (experience gains or losses), or the actuarial assumptions themselves have changed.
Amortise	To write off gradually and systematically a given amount of money within a specific number of time periods.
Assets	Items of worth which are measurable in terms of money.
Assets Held for Sale	Those assets, primarily long-term assets, that the Authority wishes to dispose of through sale to others.
Balances	The total level of surplus funds the Authority has accumulated over the years.
Budgets	A statement of the Authority’s forecast expenditure, that is, net revenue expenditure for the year.
Capital Expenditure	Expenditure on the acquisition of a fixed asset or expenditure which adds to and not merely maintains the value of an existing fixed asset.
Capital Adjustment Account	The account accumulates (on the debit side) the write down of the historical cost of fixed assets as they are consumed by depreciation and impairments or written off on disposal. It accumulates (on the credit side) the resources that have been set aside to finance capital expenditure. The same process applies to capital expenditure that is only capital by statutory definition (revenue expenditure funded from capital under statute). The balance on the account represents timing differences between the amount of the historical cost of fixed assets that has been consumed and the amount that has been financed in accordance with statutory requirements.

## Glossary of Terms

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Capital Receipts	Monies received from the disposal of land and other fixed assets, and from the repayment of grants and loans made by the Authority.
Code of Practice on Local Authority Accounting in the UK	The Code specifies the principles and practices of accounting to give a “true and fair” view of the financial position and transactions of a local authority.
Comprehensive Income and Expenditure Account	This account summarises the resources that have been generated and consumed in providing services and managing the Authority during the financial year.
Consistency	The principle that the accounting treatment of like items within an accounting period and from one period to the next is the same.
Contingent Asset	A contingent asset is a possible asset arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Authority’s control.
Contingent Liability	A contingent liability is either (i) a possible obligation arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Authority’s control, or (ii) a present obligation from past events where it is not probable that a transfer of economic benefits will be required or the amount of the obligation cannot be measured with sufficient reliability.
Contingent Rent	The portion of the lease payments that is not fixed in amount but is based on the future amount of a factor that changes other than with the passage of time, e.g. future price indices, future market rates of interest.
Corporate and Democratic Core	The corporate and democratic core comprises all activities which local authorities engage in specifically because they are elected, multi-purpose authorities.
Creditors	An amount owed by the Authority for work done, goods received or services rendered, but for which payment has not been made.
Current Service Cost (Pensions)	The increase in the present value of a defined benefit scheme’s liabilities expected to arise from employee service in the current period.

## Glossary of Terms

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Curtailment (Pensions)	For a defined benefit pension scheme an event that reduces the expected years of future service of present employees or reduces for a number of employees the accrual of defined benefits for some or all of their future service. Examples include termination of employee's service through redundancy or amendment of the terms affecting future benefits.
Debtors	Monies owed to the Authority but not received at the balance sheet date.
Defined Benefit Scheme (Pensions)	A pension or other retirement scheme other than a defined contribution scheme. Usually, the scheme rules define the benefits independently of the contributions payable, and the benefits are not directly related to the investments of the scheme. The scheme may be funded or unfunded.
Depreciation	The measure of the wearing out, consumption or other reduction in the useful economic life of an asset.
Earmarked Reserve	A sum set aside for a specific purpose.
Emoluments	Payments received in cash and benefits for employment.
Events after the Balance Sheet Date	Events after the balance sheet date are those events, favourable and unfavourable, that occur between the balance sheet date and the date when the Statement of Accounts is authorised for issue.
Expected Rate of Return on Pensions Assets	This is an actuarially calculated estimate of the return on the scheme's investment assets during the year.
Fair Value	The fair value of an asset is the price at which it could be exchanged in an arm's length transaction less, where applicable, any grants receivable towards the purchase or use of the assets.
Fees and Charges	Income arising from the provision of services.
Finance Lease	A lease that transfers substantially all of the risks and rewards of ownership of a fixed asset to the lessee. The payments usually cover the full cost of the asset together with a return for the cost of finance.

## Glossary of Terms

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Financial Instrument	Document (such as a cheque, draft, bond, share, bill of exchange, futures or options contract) that has a monetary value or evidences a legally enforceable (binding) agreement between two or more parties regarding a right to payment of money.
Financial Instruments Adjustment Account	The reserve records the accumulated difference between the financing costs included in the Comprehensive Income and Expenditure Account and the accumulated financing costs required in accordance with regulations to be charged to the General Fund Balance.
General Fund	The total services of the Authority, the net cost of which is met by the levy, Government Grants and toll income.
Going Concern	The concept that the Authority will remain in operational existence for the foreseeable future, in particular that the revenue accounts and balance sheet assume no intention to curtail significantly the scale of operations.
Impairment	A reduction in the value of a fixed asset below its carrying amount on the balance sheet resulting from causes such as obsolescence or physical damage.
Intangible Assets	An asset that is not physical in nature, e.g. software licences.
Interest Cost (Pensions)	For a defined benefit scheme, the expected increase during the period in the present value of the scheme liabilities because the benefits are one period closer to settlement.
Investment Properties	Interest in land and buildings where construction work and development has been completed and the asset is held for its investment potential, any rental income being negotiated at arms length.
Liabilities	Any amounts owed to individuals or organisations which will have to be paid at some time in the future.
Liquid Resources	Current asset investments that are readily disposable by the Authority without disrupting its business and are either readily convertible to known amounts of cash at or close to the carrying amount or traded in an active market.
Materiality	An item is material if its omission, non-disclosure or mis-statement in the financial statements could be expected to lead to a distortion of the view given by the financial statements.

## Glossary of Terms

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Minimum Revenue Provision (MRP)	An amount charged by the Authority to the Comprehensive Income & Expenditure Account, for debt redemption or for the discharge of other credit liabilities.
Movement in Reserves Statement	The statement shows the movement in the year on the different reserves held by the Authority.
Net Book Value	The amount at which fixed assets are included in the balance sheet being the historical cost or current value less the cumulative amounts provided for depreciation.
Net Debt	The Authority's borrowings less cash and liquid resources.
Operating Leases	Leases other than a finance lease.
Property, Plant & Equipment (PPE)	Assets that yield benefits to the Authority and the services that it provides for a period of more than one year. Examples include land, buildings and vehicles.
Provisions	These are sums set aside to meet liabilities or losses which have been incurred but where the amount and/or timing of such costs are uncertain.
Prudence	This accounting concept requires that revenue is not anticipated until realisation can be assessed with reasonable certainty. Provision is made for all known liabilities whether the amount is certain or can only be estimated in the light of information available.
Public Works Loan Board	This is a Government agency which provides loans to local authorities at favourable rates.
Related Party Transactions	A related party transaction is the transfer of assets or liabilities or the performance of services by, to or for a related party irrespective of whether a charge is made. An example could be the purchase, sale, lease, rental or hire of assets between related parties.
Reserves	These are sums set aside to meet possible future liabilities where there is no certainty about whether or not these liabilities will be incurred.
Residual Value	The net realisable value of an asset at the end of its useful life. Residual values are based on prices prevailing at the date of the acquisition (or revaluation) of the asset and do not take account of expected future price changes.

## Glossary of Terms

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Revaluation Reserve	The reserve records the accumulated gains on the fixed assets held by the council arising from increases in value as a result of inflation or other factors.
Revenue Expenditure	Expenditure on providing day-to-day services, for example employee cost and premises costs.
Revenue Expenditure Funded from Capital under Statute	Expenditure which may be properly incurred, but which does not result in an asset owned by the Authority.
Unusable Reserves	The Authority cannot use this category of reserves to provide services. Includes reserves that hold unrealised gains and losses (e.g. revaluation reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line "adjustments between accounting basis and funding basis under regulation".
Usable Reserves	Those reserves that the Authority may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use.
Useful Life	The period over which the Authority will derive benefits from the use of a fixed asset.

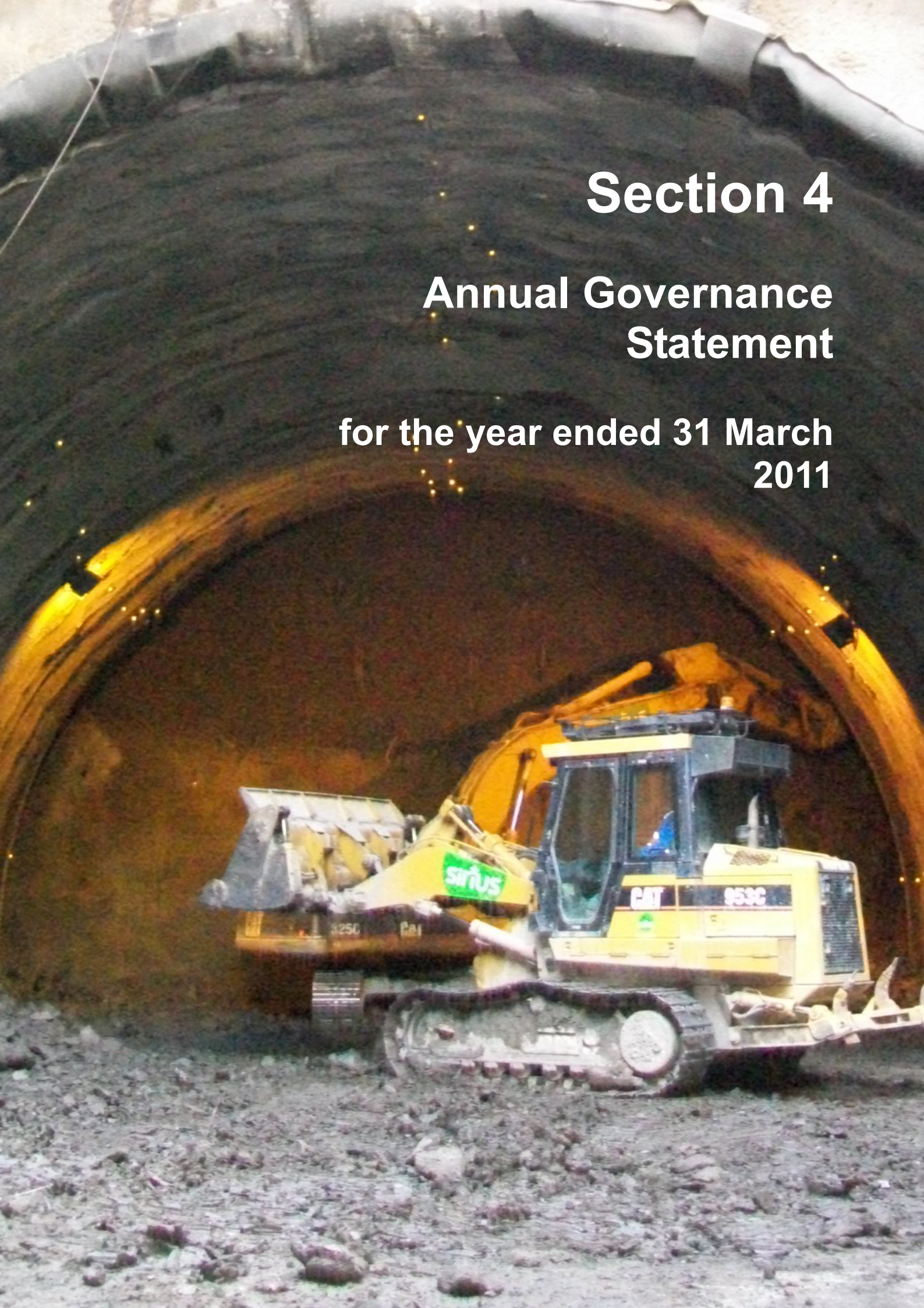




# Section 4

## Annual Governance Statement

for the year ended 31 March  
2011







# ANNUAL GOVERNANCE STATEMENT

## 2010/11

### SECTION 1: SCOPE OF RESPONSIBILITY

The Tyne and Wear Integrated Transport Authority (ITA) is responsible for ensuring that its 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. The ITA also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness. The ITA also has a general power of promoting well-being within its area that was introduced by the Local Transport Act 2008.

In discharging this overall responsibility, the ITA is 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 (i) we have adopted a Local Code of Corporate Governance ("Local Code"), which is consistent with the principles of the *CIPFA/SOLACE Framework Delivering Good Governance in Local Government*. A copy is available on our website at [www.twita.gov.uk](http://www.twita.gov.uk). The Local Code evidences our commitment to achieving good governance and demonstrates how we comply with the governance standards recommended by CIPFA. It has been updated and approved as part of this review.

In relation to (ii) the ITA 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 policies, 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 policies, aims and objectives; and
- b. to evaluate the likelihood of those risks being realised, the impact should they be realised, and to manage them efficiently, effectively and economically.

### SECTION 2: THE PURPOSE OF THE GOVERNANCE FRAMEWORK

In addition to the above, the ITA's Governance Framework comprises the systems and processes, culture and values, through which the ITA is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the ITA to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost effective services.

## Annual Governance Statement

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The governance framework has been in place at the ITA for the year ended 31 March 2011 and up to the date of approval of the Annual Report and Accounts.

This Annual Governance Statement explains how we have complied with the Local Code and also meets the requirements of Regulation 4(2) of the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendment) (England) Regulations 2006 in relation to the publication of a “statement on internal control”.

### **SECTION 3: THE GOVERNANCE FRAMEWORK**

The main features our Governance Framework are described in our Local Code and are summarised below.

#### **CORE PRINCIPLE 1: FOCUSING ON OUR PURPOSE AND OUTCOMES FOR RESIDENTS**

##### ***Identifying and communicating the ITA’s vision of its purpose and intended outcomes for residents and service users***

The ITA’s priorities were set out in the Passenger Transport Policy Statement, published every three years. With the ITA having overall responsibility for the Tyne and Wear Local Transport Plan 2011-2021, we have sought to include our vision and policies within our LTP. The LTP sets out the ITA’s policies, priorities and implementation plan for action in the coming years.

We consulted with our Members, residents and businesses during 2010 on the vision and objectives which helped inform our adopted vision and objectives.

There is a policy work programme enabling us to secure effective and forward looking decision making, the work programme for the current year will be presented to ITA Members in July 2011.

The ITA has produced a short summary outlining its vision and new direction of travel, explaining the progress of the former PTA into becoming the ITA.

##### ***Reviewing the ITA’s vision and the implications for its governance arrangements***

We are assisted by the work of our internal and external auditors, in helping to identify strengths and weaknesses in our performance, governance and internal control.

In 2009 we aligned our key output measures closely to the National Indicators used for Local Area Agreements and members will be informed of progress annually. The Passenger Transport Policy Statement will change in nature and will be incorporated into the broader ITA vision.

We have been working with colleagues in Nexus and across Tyne and Wear to implement the opportunities presented by the Local Transport Act 2008 and the transition to the Integrated Transport Authority. We have established 3 ITA Member Working Groups to help the ITA discharge its broader remit. These are the LTP Working Group, the Equality and Diversity Working Group and the Bus Strategy Working Group. In addition Members have established a Metro Sub Committee, these have been embedded now.

We have been closely involved in the review of transport governance across the Tyne and Wear City Region which has strengthened the role of the ITA in developing transport strategy and policy at the City Region level, and looking forward to the emerging North

## Annual Governance Statement

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East Local Enterprise Partnership.

The role of Standards and Audit Committee has been further embedded over the last year. The Scrutiny Committee has an agreed annual work programme which has been implemented. The Scrutiny Committee moved from themed meetings around national policy goals to more timely scrutiny of issues in the ITA's own forward plan. Regular review enabled the Committee to take account of the balance of the work programme, new and emerging issues, changing scrutiny priorities and discussion at meetings. We have undertaken a partnership governance review of the Local Transport Plan.

### ***Measuring the quality of services for users, for ensuring they are delivered in accordance with the ITA's objectives and for ensuring that they represent the best use of resources***

We measure value for money through the annual financial plan process which reviews services and identifies specific actions required to improve value for money which are then built into our budget.

We measure value for money by an annual self-assessment that we submit to our external auditors. This assesses how well we manage and use our financial resources in broad theme areas, considering Key Lines of Enquiry (KLOE) as specified by the Audit Commission. The two theme areas and the specific KLOE which will be considered in 2010/11 are:

- Managing finances
  - ◇ Financial planning and financial health
  - ◇ Understanding costs and achieving efficiencies
  - ◇ Financial reporting
- Governing the business
  - ◇ Risk management and internal control

Service level agreements with the Lead Authority (Newcastle City Council) are in place, and regularly monitored to ensure value for money is being achieved. These are reviewed and updated annually.

Performance measurement and management information includes our key output measures linking to the set of National Indicators and local performance indicators. Targeting for all indicators includes analysis of past performance, comparative performance, priorities identified through consultation and financial plans, and checks on achievability. These will be reviewed over the next year to align with the LTP measures. Nexus provide a Business Intelligence report to ITA Members regarding information, which highlights issues such as number of people using public transport, type of ticket purchased etc.

Performance is reported to the ITA

Performance against the capital programme is also monitored on a regular basis, with quarterly reports taken to the ITA. There is also regular monitoring of the Financial Strategy.

## **CORE PRINCIPLE 2: MEMBERS AND OFFICERS HAVE CLEARLY DEFINED ROLES AND RESPONSIBILITIES**

***Defining and documenting the roles and responsibilities of the ITA, scrutiny and officer functions, with clear delegation arrangements and protocols for effective communication***

The roles and responsibilities of members are clear set out in the ITA's constitutions, and are reviewed annually.

There is a clear scheme of delegation to officers.

The roles of Scrutiny and Standards and Audit Committees are set out within their Terms of Reference. The role of Standards and Audit Committee was reviewed in 2008/09 and the new terms of reference embedded within the ITA.

Membership of the ITA Scrutiny Committee is reviewed to ensure it provided effective measures to hold the ITA to account.

## **CORE PRINCIPLE 3: WE PROMOTE HIGH STANDARDS OF CONDUCT AND BEHAVIOUR**

***Developing, communicating and embedding codes of conduct, defining the standards of behaviour for members and staff***

There is a Code of Conduct for Members and Code of Conduct for Employees.

The Standards and Audit Committee deals with issues of conduct and promotes high standards among officers and members.

There is a Register of Interests and Register of Gifts and Hospitality for both members and officers.

## **CORE PRINCIPLE 4: TRANSPARENT DECISION MAKING SUBJECT TO SCRUTINY AND RISK MANAGEMENT**

***Reviewing and updating standing orders, standing financial instructions, a scheme of delegation and supporting procedure notes/manuals, which clearly define how decisions are taken and the processes and controls required to manage risks***

The ITA's constitution and scheme of delegation are reviewed annually in May.

Standing Orders were reviewed in May 2009, Financial Regulations have been reviewed and considered by members in May 2010. Officers undertook the annual review of the ITA's corporate governance arrangements, to ensure that the relevant documents remain up to date, and reported to the ITA in May 2011.

## Annual Governance Statement

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Policy and decision making is undertaken by the ITA and its advisory groups. Officers from the ITA, the districts and Nexus have developed transport policies for the Local Transport Plan (2011-2021).

The ITA has developed and maintains an effective scrutiny function which encourages constructive challenge and enhances overall performance. The Scrutiny Committee consists of members who are not ITA Members, so are able to provide independent scrutiny. Scrutiny Committee membership is made up of two Councillors from each of the Tyne & Wear Districts, for equality of representation.

The ITA has a Risk Management Framework in place and maintains a register of its strategic risks as well as project risks related to the New Tyne Crossing Project. The ITA uses the risk management resources available within the Lead Authority as required.

The ITA purchases appropriate levels of insurance to minimise financial risks, and self-insures wherever possible.

### ***Undertaking the core functions of an audit committee, as identified in CIPFA's Audit Committees - Practical Guidance for Local Authorities***

We have established a Standards and Audit Committee which is independent of the ITA and scrutiny functions. It includes an independent chair and independent members to whom training is provided.

### ***Ensuring compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful***

The Clerk, Deputy Clerk & Treasurer (S73 of the 1985 Act), Monitoring Officer and other senior managers are responsible for advising the ITA and associated committees on legal, financial and other policy considerations.

The ITA is subject to internal and external audit and inspection regimes. The ITA has an internal audit service provided by the Lead Authority.

The ITA also has a Standards & Audit Committee, whose terms of reference ensure probity and further scrutiny of ITA activities.

### ***Whistle-blowing and for receiving and investigating complaints from the public***

The ITA has an agreed whistle-blowing policy.

There is a corporate complaints procedure in place via the Lead Authority, with Nexus having separate procedures in place for managing complaints.

## **CORE PRINCIPLE 5: DEVELOPING THE CAPACITY AND CAPABILITY OF MEMBERS TO BE EFFECTIVE**

### ***Identifying the development needs of members and senior officers in relation to their strategic roles, supported by appropriate training***

## Annual Governance Statement

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The ITA provides members with training and there is induction training for new members.

The ITA also holds a number of policy seminars with Nexus throughout the year to enhance member training and understanding.

ITA Members also undertake site visits, where they are able to see progress in action at first hand. For example, site visits have taken place to the Tyne Tunnel, Haymarket Metro development and Sunderland Station development.

### **CORE PRINCIPLE 6: ENGAGING WITH LOCAL PEOPLE AND STAKEHOLDERS**

***Establishing clear channels of communication with all sections of the community and other stakeholders, ensuring accountability and encouraging open consultation***

Meetings are held in public

The consultation and involvement strategy sets out how Nexus on behalf of the ITA are engaging with their partners and stakeholders. The ITA has reviewed and refreshed its website to ensure it is easier to use and with more up to date information. The ITA website contains all Committee papers so that the public can access them and we have incorporated a feedback mechanism. The Nexus website encourages people to submit questions and offer feedback.

Incorporating good governance arrangements in respect of partnerships and other group working as identified by the Audit Commission's report on the governance of partnerships (Governing Partnerships: Bridging the Accountability Gap, Audit Commission, 2005.) and reflecting these in the Authority's overall governance arrangements

The ITA takes a lead on the development of the LTP, in partnership with the other districts and Nexus.

We have strengthened partnerships with city region colleagues through the Transport Governance Review with ITA officers playing a significant role in the development of an emerging City Region Transport Strategy. We continue to work with and liaise with individual Local Strategic Partnerships in the districts to raise the profile of the ITA.

Nexus establishes and monitors its objectives and performance through the Passenger Transport Policy Statement and its Annual Performance Plan and 3 year business plan.

Nexus establishes and monitors its objectives and performance through performance plans and accounts.

The ITA has a partnership with TT2 Ltd to operate the existing Tyne Tunnel and the construction of a New Tyne Crossing.

The NESTI partnership is made up from all local authorities across the North East in order to provide a smart ticketing transport infrastructure across the region. The ITA is leading on this. A collaboration agreement between the ITA and other authorities was entered into in October 2010 and runs for a five year period; the ITA leads on the development of this initiative. The ITA Policy lead chairs the NESTI Board meetings.



### **SECTION 4: ANNUAL REVIEW OF EFFECTIVENESS OF GOVERNANCE FRAMEWORK**

The ITA has responsibility for conducting, at least annually, a review of the effectiveness of the Governance Framework including the system of internal control. The review is led by the ITA Officer Co-ordination Group and the outcomes are reviewed by the Standards and Audit Committee before being considered and approved by the ITA.

The review is informed by :

- a. The executive managers within the ITA who have responsibility for the development and maintenance of the governance environment
- b. The views of our internal auditors which are regularly reported to Standards and Audit Committee through regular progress reports and through the Annual Internal Audit Opinion.
- c. An annual review of the effectiveness of our Internal Audit arrangements (as required by Regulation 6 of the Accounts and Audit (Amendment) (England) Regulations 2006).
- d. The views of our external auditors, regularly reported to Standards and Audit Committee through regular progress reports and through the Annual Audit and Inspection Letter, Annual Governance Report and through regular meetings with officers.
- e. The independent views of inspection agencies.
- f. The governance and internal control arrangements of our significant partnerships, contractors and group arrangements:
  - The Local Transport Plan Partnership (responsible for delivering the Local Transport Plan)
  - Nexus (the passenger transport executive responsible for the planning, provision and promotion of public transport). The ITA has appropriate representation within Nexus which provides an ongoing source of assurance
  - TT2 Ltd (responsible for the construction and effective operation of the Tyne Tunnels and New Tyne Crossing) and internal arrangements in place to support and monitor the contract.
- g. The Value for Money Self-Assessment which assesses our performance and the services we provide
- h. The ITA's Strategic Risk Register, which captures the most significant risks associated with the delivery of the ITA's objectives
- i. The Lead Authority's own annual review of its Governance Framework
- j. The views of members through the ongoing work of the Standards and Audit Committee and the ITA
- k. The work of the ITA Officer Co-Ordination Group - this group consists of Lead Authority officers who meet monthly to monitor ongoing performance issues and governance arrangements

## **SECTION 5: SIGNIFICANT GOVERNANCE ISSUES**

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 and that significant risks impacting on the achievement of the ITA's objectives have been mitigated.

**The review did not highlight any issues as significant weaknesses in governance or internal control during 2010/11:**

## **SECTION 6: SIGNIFICANT IMPROVEMENTS NEEDED TO GOVERNANCE AND INTERNAL CONTROL**

The review also identifies issues that may need significant improvement but which do not constitute "significant weaknesses" in our governance and internal control arrangements. These are:

**Business Continuity, Planning and Testing:** this is linked to the Lead Authority's arrangements –

### **Summary**

Following an audit of the function in 2010 and a recent interim check in 2011 it has been judged that reasonable progress is being made to implement the audit recommendations with most recommendations either fully or partially implemented. Those that have not yet been started are dependant on other recommendations being completed first.

### **Issues**

The move to embed ownership of the plans and arrangements in each of the Directorates continues with close working taking place between the Business Continuity officers and the co-ordinators in the Directorates. This network has been expanded to include other relevant colleagues from across the council e.g. ICT, HR, Risk Management, Insurance etc. This has been helped by simplifying the process and working to put in place cross-cutting strategic arrangements that will support the Council in the event of a Business Continuity incident occurring. This has been done against a back-drop of unprecedented change for the organisation which has made gathering data challenging. The review of the Resilience function across Tyne and Wear has also created some uncertainty about the how the central function will be filled in the future. The resolution of this is imminent.

### **2011/12 Actions**

Continue to embed arrangements in the directorates

Agree strategic arrangements with BMG and Directors

Development and agreement of Resilience Strategy

## **Annual Governance Statement**

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Decision needed about going for accreditation for BS 25999

Finalise arrangements for resources in the BC post

Develop and implement training and awareness programme for wider council staff

Develop and implement an exercise programme for Business Continuity arranges

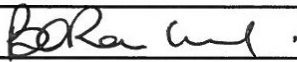

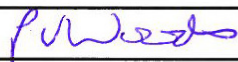
### SECTION 7: CONCLUSION

We consider the governance and internal control environment operating during 2010/11 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. A number of weaknesses and issues have been identified and these are set out in Section 5 above. Implementing the action plans is a priority.

Systems are in place to continually review and improve the governance and internal control environment. A number of additional mid-year checks will be undertaken to provide assurance that improvements are being implemented and that the assessment is improving.

The annual review has shown that, with the exception of those items listed in Section 5, the arrangements are in place and operating as planned.

**We have been advised on the implications of the review by the ITA Officer Co-ordination Group. We propose over the coming year to improve our governance and internal control arrangements as noted in this statement and are satisfied that this will address the need for the required level of improvement. We will monitor the implementation and operation of the improvements, as part of our next annual review.**

		
<b>Barry Rowland</b> Clerk	<b>Councillor David Wood</b> Chair of the ITA	<b>Paul Woods</b> Treasurer and Deputy Clerk
<b>Date:</b> 26/09/11	<b>Date:</b> 22/09/11	<b>Date:</b> 26/9/2011