

Tyne & Wear Integrated Transport Authority

Annual Report & Accounts

for the Financial Year ended
31 March 2012

Prepared by:

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Contents	Pages
Section 1	
What is the Tyne and Wear Integrated Transport Authority?	1
Chairman's Foreword and Introduction	3-4
Clerk's Foreword	5-6
Authority Members during 2011/12	7
Explanatory Foreword by the Treasurer	9-18
New Tyne Crossing Review	19-22
Scrutiny Advisory Committee - A Review of 2011/12	23-24
Standards and Audit Committee - A Review of 2011/12	25-26
Statement of Responsibilities for the Statement of Accounts	27-28
Section 2	
Integrated Transport Authority Accounts and Disclosures	
The accounts consist of the primary financial statements required by statute, and corresponding disclosure notes to provide further detail	
Movement in Reserves Statement	31-32
Comprehensive Income & Expenditure Statement	33
Balance Sheet	34
Cash Flow Statement	35
Notes to the Financial Statements	36-84
SECTION 3	
Group Accounts	
The accounts consist of the primary financial statements required by statute, and corresponding disclosure notes to provide further detail where this is not available from the Single Entity Accounts	
Group Movement in Reserves Statement	87-88
Group Comprehensive Income & Expenditure Statement	89
Group Balance Sheet	90
Group Cash Flow Statement	91
Notes to the Group Accounts	92-107
Glossary of Terms	108-112

Contents	Pages
Section 4	
Annual Governance Statement	113-123
Section 5	
Independent Auditors' Report to the Members of the Tyne & Wear Integrated Transport Authority	125-127

Section 1

Tyne & Wear Integrated Transport Authority

Annual Report 2011/12



What is the Tyne and Wear Integrated Transport Authority?



We are a joint authority consisting of 16 elected members appointed by the five Tyne and Wear District Councils, established by the Local Government Act 1985. From 9 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.

Our vision for transport in Tyne and Wear

Our vision 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 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 2011/12



This Annual Report of the Tyne and Wear Integrated Transport Authority's finances offers an opportunity to reflect on the past year and consider the future of transport services in Tyne and Wear within the context of current economic uncertainties.

Last year the ITA agreed its ten year strategy, containing our three key objectives: to support economic development and regeneration; to address climate change; and to support safe and sustainable communities. This year we can celebrate delivering on these objectives through various projects that benefit the economic and social life of our communities, while also reducing carbon emissions.

The opening of the award winning New Tyne Crossing has now been reinforced with the refurbishment of the original Tyne Tunnel. This is the culmination of almost 15 years of work by the ITA that has seen this vital infrastructure project designed, funded and built. Our work in delivering this project has seen us win numerous awards, and brought jobs and economic benefits to Tyne and Wear.

These benefits have been seen in the supply chains and impetus the construction brought the area. We have also received significant levels of compliments on the improvement this new link across the river brings to the movement of goods and services and an improved ability for people to access employment and opportunities.

This isn't the only reason for celebration this year. The government also announced funding for a new bridge in Sunderland – due to be delivered by 2015. Funding was also secured to get designs ready so that the Silverlink junction on the A19 could be upgraded. As one of only six schemes across the UK to get this type of funding it means we are strongly placed to get further improvements at Silverlink from 2015. The past year also saw the ten year anniversary of the opening of the Metro line extension to Sunderland and the fortieth anniversary of Nexus owning and operating the cross-Tyne Shields Ferry service.

Meanwhile, passengers of the Metro of all ages had various reasons to celebrate. There were no increases in the cost of Metro Gold Cards and child concessionary tickets and, if renewed online, the annual MetroSaver was also frozen. Where fare increases were necessary we capped them at a lower level than initially proposed following lobbying to win additional support from the government. We also enabled up to 12,000 teenagers to access much cheaper Metro travel after the eligibility for the current 16-18 Metro Student Card was extended to those in vocational training and apprenticeships.

The operators of the Metro, DB Regio Tyne and Wear (DBTW) also had cause for celebration after winning the prestigious 'Operator of the Year' accolade at the 2011 Light Rail Awards. As part of our Metro modernisation programme, new ticketing machines have been installed in around half

Chairman's Foreword and Introduction

of all stations, a number of stations have been upgraded, new tracks have been laid, and new Metro cars are running on the network. When we consider that this programme of improvements will continue in the coming years – alongside smart ticketing being introduced from next year, Metro passengers have a lot to look forward to.

There are some people with a keen interest in the Metro that don't have much to look forward to in the next year though. Following our efforts in lobbying for recognition of the dangers and problems associated with metal theft we have seen motions brought forward in the House of Commons, Crimestoppers are now leading a pilot project in the area while police support – including helicopters – all align with our efforts. We are determined to reduce the impact of metal theft on the travelling public, and also on those families who are affected by the injuries that can be caused (invariably to young people) by decisions to help criminal gangs steal metal from electrified sites.

2011/12 has also seen improvements for bus users – both in this year and with work we have done to prepare for the future. New 'Green' Buses have come into service in both Newcastle and Sunderland. Meanwhile, we have also asked Nexus to examine the potential for changes to the way bus services are planned, delivered, and funded. In 2012/13 we will be considering the potential benefits offered by changing the current system to be a Quality Contracts, or Quality Partnerships scheme.

We have also secured almost £5m funding to implement further improvements to bus services in the next two years. This funding will be spent on various initiatives but particularly focused on ensuring that the most important junctions in Tyne and Wear can all be controlled from our central Urban Traffic Management Control (UTMC) centre. This UTMC centre was launched in February 2012 and has ensured we have better control of the road network than ever before.

It is not just with intelligent technology that we are trying to improve the road network. We are also using 'smarter choices' initiatives to help people change their travel behaviour to incorporate healthy and sustainable travel modes. We have secured just under £5m to focus on helping young people and their parents / carers travel to school sustainably. On publication of this annual report we are also awaiting confirmation of an additional £5m to focus on enabling people to access employment areas by sustainable travel.

There is great pressure on all public bodies to respond to the current public spending environment and find efficiencies in the services they provide. By working closely with local councils and partners the ITA has been able to protect frontline local services while delivering a reduction in the Levy to local authorities. As outlined above we have also been consistently successful in accessing funding despite a competitive environment.

The Tyne and Wear Integrated Transport Authority was named the ITA of the year – for the first time – at the 2011 National Transport Awards ceremony in London. Given the nature and range of the successes outlined in this foreword, matched by the professionalism and quality of the services given by our front and back line services we have every reason to look forward with optimism – despite the economic pressures we undoubtedly face in the years ahead.

Councillor David Wood
Chair of Tyne & Wear Integrated Transport Authority

Clerk's Foreword

2011/12



In his introduction, the Chair of the ITA has outlined many of the improvements we have delivered in the past year. Without repeating the details outlined in the introduction, I do echo the sentiment that despite the challenges we have faced we have moved to improve the transport network. This has been achieved not just in physical improvements that the public will instantly recognise, such as the New Tyne Crossing, but also in the shape of progress made on longstanding issues, such as receiving design money to ready the Silverlink junction for future works.

Despite the financial pressures facing the ITA, we have approached the last year with a clear focus on improving transport for everyone across Tyne and Wear. The ITA is acutely aware that transport plays a crucial role in enabling people to enjoy safe and sustainable communities and by contributing to the economic growth and regeneration of the area it helps people to access jobs and businesses to create them.

I would like to pay tribute to all the staff who have delivered these services. It is a difficult and uncertain time for them considering the impact financial cuts have had, but it is to their credit that the quality of service offered has not been affected by this.

For some of the projects we have delivered, the public will easily be able to understand the work involved. The Tunnels and other capital works like the Metro Asset Renewal programme and road improvements are highly visible in terms of the work that goes into them. The people involved in delivering these improvements can be seen building and improving the physical transport infrastructure of our region.

Meanwhile, work goes on to plan, prioritise and secure funding for future work. Whenever there is an announcement that outlines benefits secured for the future, dedicated specialist staff have worked together to achieve this. This type of work is less visible to the public, but is equally important to ensure we receive finance in a competitive funding environment.

As Clerk to the ITA, I ensure Tyne and Wear is on the front foot to anticipate and respond swiftly to changes in national circumstances including policy and governance. I also undertake a wider role as the lead Chief Executive for transport for the seven local authorities in the North East - and also, where appropriate, on issues that affect our neighbours in the Tees Valley. This has enabled the region to adapt to changing circumstances while maintaining a consistent view across the area.

In the past year the government has announced its intention to devolve local major scheme funding from 2015 onwards, while also offering the opportunity (and associated risks) of local government having a larger and controlling stake in certain rail operations. We are well placed to consider and act on these opportunities through the actions we have taken over the last year.

Clerk's Foreword

As we move into the new financial year, I am confident that the work we have undertaken in 2011/12 will lead to future successes. Despite the challenges we face, I relish the opportunity to enable Tyne and Wear to emerge stronger, leaner and more resilient.

Barry Rowland

Clerk to the Tyne & Wear Integrated Transport Authority until 31 August 2012

Members of the Authority during 2011/12



J. McElroy
(Vice Chair)



S. Green



P. Maughan



D. Wood
(Chairman)



H. Murison



G. Keating



J. Stokel-Walker



F. Lott



E. Hodson



B. Burdis



A. McMillan



T. Hanson
(Vice Chair)



J. Blackburn



A. Emerson
(Statutory
Vice Chair)



A. Hall



P. Wood
(Leader of
Opposition)



Explanatory Foreword by the Treasurer



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.

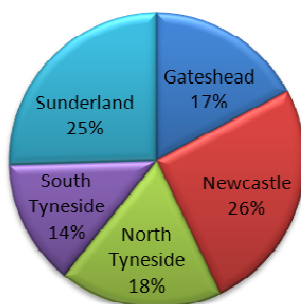
The purpose of this foreword is to provide the reader with:

- An understanding of the accounting statements
- A review of the Authority's financial results in 2011/12 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 tolls paid by users of the Tyne Tunnels, which are used to fund the operation of the Tunnels and the financing of the New Tyne Crossing project.

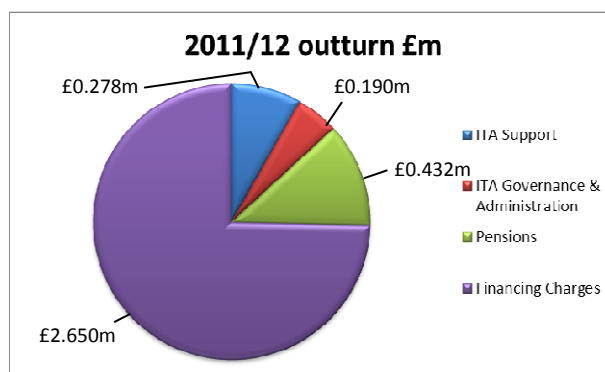
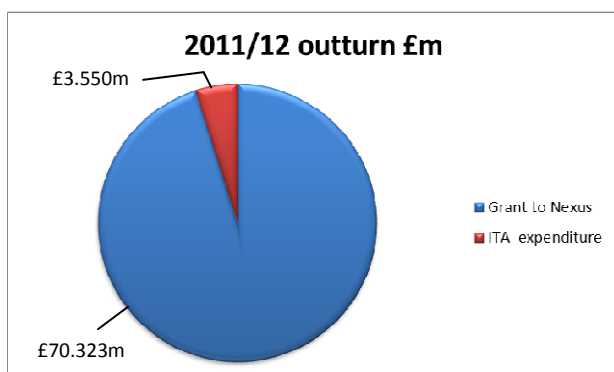
The levy for 2011/12 amounted to £73.792m, distributed between the Districts as set out in the chart below:



District	Levy 2011/12 (£m)
Gateshead	12.726
Newcastle	18.962
North Tyneside	13.152
South Tyneside	10.164
Sunderland	18.788
Total	73.792

Explanatory Foreword by the Treasurer

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



Expenditure for the year on the ITA's retained element of the levy was £3.550m against a budget of £3.568m.

The lead authority for the ITA is Newcastle City Council. It provides administrative, engineering, financial, legal and other advisory services directly to the Authority under a Service Level Agreement. Further expenditure is incurred by the ITA on costs relating to governance and administration, financing charges relating to principal and interest payments on inherited debts and grant to Nexus and the Tyne and Wear Districts, and superannuation contributions in respect of the ITA's obligations for the pensions of former employees.

The ITA owns the Tyne Tunnels which link the A19 under the River Tyne between Howdon and Jarrow. There are two tolled vehicle tunnels, and tunnels for both pedestrians and cyclists. The Tunnels are entirely self-financing from the tolls, i.e. there is no call on the levy to support them. The Tunnels are operated under a contract to a concessionaire company TT2 Ltd and appear within the accounts as a trading function. Tolls on vehicles are also used to fund the works required for 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 was closed for refurbishment. The newly refurbished tunnel opened ahead of schedule in November 2011, so for the first time there are two vehicle tunnels available. The new tunnel carries two lanes of southbound traffic and the existing tunnel carries two lanes of northbound traffic.

Further information about the project is given in the New Tyne Crossing review on pages 19 to 22.

Explanatory Foreword by the Treasurer

Analysis of Revenue Expenditure Against Budget - ITA

The table below compares actual spend against budget for 2011/12 and shows actual figures for 2010/11 to provide comparison across years.

Budget Heading	2010/11 Actual £000	2011/12 Budget £000	2011/12 Actual £000	Variance £000
Service Level Agreement and staffing charges	332	290	278	(12)
Audit Fees	40	30	30	-
Members Allowances and Expenses	83	86	80	(6)
Accommodation Charges	8	6	6	-
Local Government Association Subscription	36	32	31	(1)
Conferences	1	1	4	3
Travel Expenses and Subsistence	2	3	3	-
Scrutiny Committee	2	5	2	(3)
Website SLA	42	22	22	-
Printing Costs and Professional Services	10	15	9	(6)
Advertising	2	5	3	(2)
Payments to Pension Fund	511	432	432	-
Financing Charges	2,811	2,681	2,733	52
Interest on investments and revenue balances	(61)	(40)	(83)	(43)
Total ITA Operating Expenses	3,819	3,568	3,550	(18)
Grant to Nexus	68,555	70,323	70,323	-
Total ITA Expenditure	72,374	73,891	73,873	(18)
Expenditure Financed from Earmarked Reserve	1,273	-	-	-
Nexus Grant returned to hold in Earmarked Reserve	-	-	(1,720)	(1,720)
Interest on Earmarked Reserve	(270)	-	(199)	(199)
Transfer to / (from) Earmarked Reserve	(1,003)	-	1,919	1,919
Levy Income	(71,706)	(73,792)	(73,792)	-
Transfer from ITA General Fund Reserve	668	99	81	(18)

Overall spending for 2011/12 was within budget, with small variations on some individual budget lines. Savings were made on the Service Level Agreement with the lead authority, on Members Allowances and Expenses and Printing Costs. Financing charges (interest charges and principal repayments) were higher than budgeted, but this was largely offset by higher than budgeted interest on revenue balances and investments.

At 31 March 2012, the ITA had £23m of investments with external financial institutions, which are held on behalf of Nexus. There is a further £5m debtor with the Newcastle City Council for

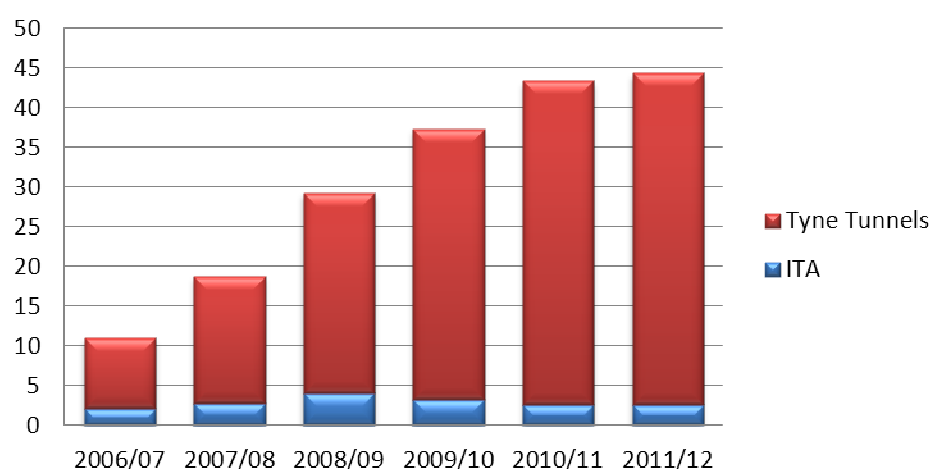
Explanatory Foreword by the Treasurer

monies held at the year end in the lead authority's name which are owed to the ITA and repayable to Nexus. The ITA's own cash balances are invested with the lead authority, Newcastle City Council, providing an extremely low-risk return on balances. The average rate of interest paid on loans in the year was 4.4% and the average interest received on balances was 1.6%.

Reserves

	2010/11 £000	2011/12 £000	Movement £000
General Fund			
ITA	(2,600)	(2,519)	81
Tyne Tunnels	(40,772)	(41,757)	(985)
Earmarked Reserves			
Metro Reinvigoration	(12,438)	(14,357)	(1,919)
Total	(55,810)	(58,633)	(2,823)

The chart below shows the level of ITA and Tyne Tunnels reserves over the period 2006/07 to 2011/12.



In line with the three-year Medium Term Financial Strategy, some use of reserves has been made to support ITA expenditure while significant reductions have been made to the levy. There was less use of ITA reserves than in 2010/11 (£0.081m compared with £0.668m) and the actual amount required was lower than budgeted.

Tyne Tunnel reserves continue to be built up as part of the long-term financing model for the New Tyne Crossing project.

Capital Expenditure

Capital Expenditure has been incurred in 2011/12 in relation to the New Tyne Crossing Project and the refurbishment of the Tyne Pedestrian and Cycle Tunnel. There has been further capital expenditure on payment of capital grants to the Tyne and Wear Districts and Nexus.

Explanatory Foreword by the Treasurer

	2010/11 Actual £000	2011/12 Budget £000	2011/12 Actual £000	2011/12 Variance £000
New Tyne Crossing				
Construction Milestone Payments	37,800	45,377	45,377	-
Environmental Milestone Payments	-	1,250	1,250	-
Environmental Improvements	464	263	136	(127)
Land / Property	221	413	194	(219)
Professional Fees	1,374	998	1,176	178
Tyne Pedestrian and Cycle Tunnel Refurbishment	510	325	423	98
Total Tunnels Capital Programme	40,369	48,626	48,555	71
Local Transport Plan				
Integrated Transport Block Grant to Districts*	-	9,452	9,452	-
Public Transport Schemes Allocation	4,533	4,320	1,610	(2,710)
Total LTP	4,533	13,772	11,062	(2,710)
Local Sustainable Transport Fund*				
Capital Grants to Districts	-	210	198	(12)
North East Smart Ticketing Initiative				
Capital Payments to Nexus	52	4,794	1,776	(3,018)

* Prior to 2011/12, Integrated Transport Block grant was paid directly by DfT to the Tyne and Wear Districts. The Local Sustainable Transport Fund is a new grant from 2011/12 onwards.

In addition to the capital expenditure shown within the ITA's own accounts, Nexus have also invested £37.8m in the Metro Asset Renewal Plan and Metro Ticketing and Gating programmes. A total capital outturn of around £100m has been achieved in 2011/12, representing the highest level of capital investment in the ITA's history.

New Tyne Crossing

The key milestone delivered in the year was the opening of the fully refurbished original Tunnel ahead of schedule on 21 November 2011, making two road tunnels available for the first time. Outturn spend on the New Tyne Crossing capital programme was £48.555m against the revised budget of £48.626m. This is all to be funded by Prudential Borrowing in line with the long-term financing model for the New Tyne Crossing. The majority of the capital spend is made up of the final capital construction payments to TT2 totalling £45.377m and environmental milestone payments of £1.250m. Further expenditure has been incurred on environmental monitoring and professional fees.

Initial works and professional fees relating to the refurbishment of the Tyne Pedestrian and Cycle Tunnels totalling £0.423m have been incurred in 2011/12. The contract for the refurbishment works

Explanatory Foreword by the Treasurer

is expected to be awarded in the summer of 2012, with the majority of the capital spend programmed for 2012/13 and 2013/14.

Local Transport Plan Integrated Transport Block

LTP Integrated Transport Block funding is now awarded directly to the ITA by DfT. The ITA allocates this funding between the five Tyne and Wear districts and Nexus. A proportion of the total allocation is ringfenced to provide support to the Metro Asset Renewal Programme and other public transport related schemes.

In 2011/12, £2.710m of the funding was returned to the ITA by Nexus, representing the Metro ARP contribution which was not required since a decision was made by DfT to fund 100% of the works. This funding will be used to meet the increased local contribution to the works in 2012/13.

Local Sustainable Transport Fund – Schools Go Smarter

During 2011/12, the ITA was awarded £1.500m capital and £3.404m revenue grant by the DfT under its LSTF funding stream. The “Schools Go Smarter” programme aims to make a real impact on congestion by developing attractive and practical alternatives to car use to be used by schoolchildren and their parents so they are encouraged to adopt active and low carbon ways to get to and from school. The 2011/12 approved capital budget was £0.210m, with an outturn spend of £0.198m. Revenue spend of £0.228m was also incurred against a budget of £0.232m. The unused funding has been carried forward to the new financial year and no funding has been lost.

North East Smart Ticketing Initiative (NESTI)

In 2009/10, the ITA agreed to take on 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 ITA holds the funding on behalf of the authorities. The remaining budget of £8.114m is shown on the ITA’s balance sheet as Grants Received in Advance (see Note 14 to the accounts, p.48).

The objective of NESTI 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 (known as an ITSO HOPS) available for use by any participating local authority to make its Concessionary Travel Scheme smart.

The outturn for 2011/12 is £1.776m against an approved budget of £4.794m. The reduced expenditure requirement is mainly as a result of £0.306m savings made in relation to grant funding of bus operators for the installation of their smart ticketing equipment, and £2.545m slippage into 2012/13 in relation to the Metro Ticketing and Gating project where NESTI will provide funding for station validators when deployed next year.

Main highlights during the year include the successful implementation and transfer of all travel concession authorities to the regional HOPS (the back office system that supports NESTI) and the establishment of legally binding agreements with bus operators which places certain obligations on the bus operators to participate in NESTI in return for grant funding.

Explanatory Foreword by the Treasurer

Analysis of Revenue Expenditure against Budget - Tyne Tunnels

The vehicle tunnel has been open for more than forty years, with traffic numbers having increased substantially since then. In 2011/12 the traffic level was 12.5m vehicles, corresponding to a total toll income of £14.886m after adjusting for prepayments (compared with £13.176m in 2010/11). In line with the financing strategy for the New Tyne Crossing, tolls were increased on 1 January 2012 to £1.40 for cars and small vans and £2.00 for lorries and large vans (with a ten percent discount for permit holders).

In February 2008, the Tunnels were passed over to TT2 Ltd who will operate them as concessionaire until 2037. TT2 Ltd also managed the construction of the new Tunnel completed in February 2011 and the refurbishment of the existing Tunnel, completed in November 2011.

The table below details expenditure within the ringfenced Tyne Tunnels trading account and compares it against actual outturn for 2010/11 and the budget for 2011/12.

	2010/11 Actual £000	2011/12 Budget £000	2011/12 Actual £000	Variance £000
Employees	33	33	34	1
Pensions	592	499	499	-
Supplies and Services and Other Expenses	88	45	45	-
Support Services	161	145	145	-
Community Fund	2	20	18	(2)
Financing Charges	3,119	5,833	5,530	(303)
Toll Income	(13,176)	(14,995)	(14,886)	109
Usage Payments	2,915	5,807	6,522	715
Other Income	(1)	-	(4)	(4)
Interest on Investments and Tunnel Balances	(569)	(338)	(774)	(436)
Total Tunnels Operating Costs	(6,836)	(2,951)	(2,871)	80
NESTI Expenditure financed from Tunnel Reserves	52	5,203	1,886	(3,317)
Surplus transferred to Tyne Tunnels General Fund Reserve	(6,784)	2,252	(985)	(3,237)

Although there were variances on some individual items, the overall surplus was largely in line with the budgeted position. The net surplus on Tunnels Operating costs was £2.871m, against the original budget of £2.951m surplus. £1.886m of expenditure on NESTI has been financed in year from Tunnel Reserves. This reflects the fact that in 2009/10, grant was received by the twelve North East Local Authorities, Nexus and the ITA and this grant was applied to finance capital expenditure on the New Tyne Crossing in that year. An equivalent amount (£7.178m) of capital and revenue expenditure is therefore to be funded from Tunnel Reserves. The remaining surplus against the Tyne Tunnels General Fund is £0.985m.

Explanatory Foreword by the Treasurer

The extent of the surplus is significantly less than in 2010/11, which reflects the fact that payments to the Concessionaire, TT2 Ltd, have increased on the opening of both Tunnels as construction work has been completed. Financing charges have also increased significantly, as a result of the additional prudential borrowing being taken out to meet the capital construction payments.

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 charged against the General Fund (i.e. funded from the levy or tolls).

The figure presented in the Comprehensive Income and Expenditure Statement is different to the actual contributions charged against the General Fund. This is because it is prepared on an International Accounting Standard 19 (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 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 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 at 31 March results in an overall surplus or deficit for the Pension Fund. This is called the IAS 19 surplus or deficit.

At 31 March 2012, actuaries have estimated that the IAS 19 deficit is £6.730m. This compares with an equivalent figure in the 2010/11 accounts of £4.277m. There are two main reasons for this increase. The first is the change in the discount rate used in the calculation of the present value of the future payments required, from 5.5% at 31 March 2011 to 4.6% at 31 March 2012. This discount rate is required for IAS 19 purposes to be based on the yield on high quality long term corporate bonds, which have fallen since 31 March 2011. A lower discount rate results in a higher present value being placed on the future cashflows, and the liability has therefore increased.

The second factor in the increase in the overall liability shown on the balance sheet is asset performance. Market conditions have meant that returns on assets at 31 March 2012 are lower than those assumed at 31 March 2011, resulting in an increase in the deficit.

The IAS 19 deficit has to be disclosed in the accounts, but there will be no change to the actual contributions due to be paid to the Pension Fund in 2012/13. These contributions are calculated following the detailed triennial Pension Fund valuation, the next valuation date being 31 March 2013. The IAS 19 valuation is only a snapshot at a given point in time, whereas the detailed triennial valuation assesses the ongoing financial position of the Pension Fund, and is used to review contribution rates to the Fund from employers to ensure that existing assets and future contributions will be sufficient to meet future pension payments.

Explanatory Foreword by the Treasurer

Looking ahead to 2012/13 and beyond

The public sector financial environment continues to be extremely challenging. In recognition of the considerable financial pressures facing the Districts, the ITA has agreed a further 5% reduction in the levy for 2012/13, in addition to the 5% reduction already put in place in 2011/12.

This financial strategy involves the use of ITA and Nexus reserves in the short term, while further efficiency savings and savings relating to the cost of bus services are identified and delivered. This includes considering options of Quality Partnerships and Quality Contracts approaches.

There is a further challenge for the ITA around the level of funding provided for concessionary fares. The ITA will be lobbying government in 2012/13 to try to ensure that funding for 2013/14 and beyond adequately reflects the costs of funding the statutory concessionary travel scheme.

Despite the difficult financial environment, there are still opportunities for the ITA to bid for external funding to expand its activities and achieve its objectives. For example, the ITA was notified at the end of 2011/12 that it had been successful in its bid for around £5m of DfT funding under the Better Bus Areas Fund. This grant will be used to fund a package of measures in 2012/13 and 2013/14, aimed at improving reliability on key bus corridors and at junctions that cater for 22,000 buses a day, supplemented by a number of supporting measures that target areas which will more generally improve confidence in bus services.

A revised bid for further LSTF funding was submitted to DfT in August 2012. This funding, if the bid is successful, will be used to support a package of works aimed at promoting economic growth and reducing transport-related barriers to accessing employment. A decision is anticipated in September 2012.



Explanatory Foreword by the Treasurer

ITA Accounts

The ITA Accounts for 2011/12 are set out in section 2. These consist of the following statements, along with notes to each:

Movement in Reserves Statement

This statement shows the movement in 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 Unusable Reserves. The surplus or deficit on the provision of services line shows the true economic cost in accounting terms of providing the ITA's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance for the purposes of setting the levy. The net increase or decrease before transfers to earmarked reserves line shows the statutory General Fund Balance before any discretionary transfers to or from earmarked reserves undertaken by the Authority.

Comprehensive Income and Expenditure Statement

This statement shows the accounting cost in year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from the levy. Integrated Transport Authorities raise a levy to cover expenditure in accordance with regulations; this may be different from the accounting cost. 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: Usable Reserves (i.e. those which the Authority may use to provide services, subject to the need to maintain a prudent level) and Unusable Reserves (i.e. those which the Authority is not able to use to provide services). This category of reserves includes those that hold unrealised gains and losses (e.g. the 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".

Cash Flow Statement

The Cash Flow Statement shows the change 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 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.

New Tyne Crossing

Project Review of

2011/12

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. Financial year 2011/12 was the fourth full year of the contract which has a thirty year term. It was also the year in which the New Tyne Crossing objectives were realised with the commissioning of the refurbished 1967 tunnel.

Operations

The traffic volumes using the new tunnel (bi-directional flow) were very similar to those in the previous financial year. On average the weekday flow was 35,500 and unlike 2010/11 there was very little disruption due to bad weather.

The refurbishment of the 1967 tunnel was completed and reopened to traffic on the morning of 21 November 2011. Since then there has been a rapid increase in traffic using the tunnels and continuous growth since, to an average weekday flow of 45,000 vehicles per day to the end of March 2012. Journey times have reduced dramatically and are now more consistent.

The tunnels systems are now automated and all are overseen from the new Control Room in the tunnel offices. Staff numbers have reduced to reflect the new arrangements and this has been achieved by natural wastage, early retirement and voluntary redundancies.

The performance of TT2 is monitored on a daily basis by the ITA's Monitoring Officer who is based at the Tyne Tunnel. There was no requirement to apply any penalty deductions and TT2's operational performance for the year is classed as 'very good'. This is the fourth consecutive year TT2 has achieved this rating.

There was a modification to the toll charge regime using the Transitional Tolling powers in the River Tyne (Tunnels) Order 2005. The Tolls were raised to £1.40 for cars and to £2.00 for HGVs from 1 January 2012. This was the first increase since 1 January 2008 and was in line with the toll strategy approved by the ITA on 27 September 2007. From 1 September 2011, the toll of £0.20 for motorcycles was removed following a resolution by the ITA on 25 August 2011. The tolls for cars and HGVs are subject to a 10% discount for permit account holders.

Construction

Construction of the £260m (2007 prices) scheme began in April 2008 when the site was passed to TT2 and their main contractor Bouygues TP. By the beginning of the 2011/12 financial year, the new tunnel had been commissioned and the traffic had been switched from the 'old' tunnel to allow the major refurbishment work to proceed.

The refurbishment work included:

New Tyne Crossing Review

- Installation of an escape passage throughout the entire length of the tunnel.
- Installation of new drainage, Mechanical and Electrical and monitoring (SCADA) systems.
- Installation of new passive fire protection to the main structure of the tunnel.
- Installation of a fixed fire protection system.
- Construction of new structure to replace the sun visor at the south portal.
- Modification of the north portal structure.
- Installation of new tolls plaza on the site of the old toll booths.



In addition to the refurbishment works, the construction works to the south junction in Jarrow continued and the landscaping works throughout the site were undertaken.

An emergency exercise was successfully staged and completed on 8 November 2011. This involved all the emergency services and the local Council Emergency Planning Officers. The Independent Certifier signed the 'Permission to Use' certificate on 21 November 2011. This was nearly 2 weeks ahead of the target date of 3 December 2011.

Environmental Monitoring

In accordance with the Agreement with the Environment Agency, monitoring of fish numbers and condition and smolt trapping/recording at Riding Mill continued throughout the year. This obligation on the ITA terminated on 31 March 2012.

Work has continued to develop the potential fish pass at Hexham Bridge. The Tyne Rivers Trust are delivering this in compliance with the Agreements between the Tyne Riparian Owners and Occupiers Association and the Environment Agency. The detailed designs and planning application documents are in preparation but the programme for construction has not been fixed as yet.

Tyne Pedestrian and Cyclist Tunnels (TPCT)

The ITA approved a budget of £6m in July 2010 for major refurbishment to the TPCT. Planning documents required for Listed Building Consent were prepared in 2010/11 and submitted to the Local Planning Authorities in April 2011. Consent was given in October 2011 and was accompanied by a number of Conditions. These Conditions will be discharged once the tender documents are returned and/or works are underway. The most onerous of the Conditions related to the proposed installation of inclined lifts. This Condition was discharged in February 2012 following selection of a preferred supplier in November 2011. Detailed design has since been developed and a short list of main contractors selected for invitations to submit a tender. Works on the refurbishment are expected to commence in Autumn 2012 and involve a total closure of the tunnels for up to 12 months. A shuttle bus is planned to maintain the transport link between 6am and 8pm daily.



Communications

The Strategic Partnering Forum and the North and South Partnering Forums continued to meet until November 2011. They were seen as being useful for the local communities to raise construction related issues. Information dissemination also continued through 2011/12 via newsletters, drop in sessions (until November 2011), schools liaison and the websites. The 24 hour help line still operates to deal with calls for assistance, information, complaints and compliments. The communications effort was directed by the Strategic Communications Group until November 2011. In the financial year 2011/12, TT2 report 147 complaints and 284 compliments.

There was one substantial event in 2011/12 which attracted significant attention. This was the Commissioning of the refurbished tunnel and 4 lanes at the Tyne Tunnel becoming available for the first time. This took place at 10:00am on 21 November 2011 and was attended by the Chair and Members of the ITA, the Leader of South Tyneside Council and the Mayor of North Tyneside Council. TT2, the Contractor Bouygues TP and ITA officers were also in attendance. The first 10 vehicles in each direction received a gold Permit to mark the occasion.

New Tyne Crossing Review

Land

Over the period April-December 2011, the entire site area in Jarrow was landscaped and most handed over to the local authority for use as Public Open Space. Highways affected by the works were all handed back to the appropriate highways authorities with the exception of the Bilton Hall Bridge on the A19.

Official Opening

The ITA was pleased to welcome Her Majesty the Queen accompanied by His Royal Highness The Duke of Edinburgh to mark the official opening of the second vehicular Tyne Tunnel on 18 July 2012. The Royal Party visited the south side of the Tyne Tunnels, in Jarrow, where The Queen started a wheelchair race, and met with designers and representatives of local communities, before planting a tree. The Royal party met ITA officers, Tyne Tunnels staff and others involved in the project before the Queen delivered a speech and unveiled a plaque marking the occasion.

Councillor David Wood, Chairman of the TWITA, said: "It is a great honour to welcome Her Majesty The Queen, accompanied by His Royal Highness The Duke of Edinburgh, to officially open the second Tyne Tunnel. Although both tunnels have been operational for a few months now, this formal opening ceremony completes the process and we are absolutely delighted that The Queen is able to perform this function, having opened the first road tunnel back in October 1967."

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 2011/12

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

The Scrutiny Committee was established in 2003. Members are appointed annually by the five Tyne and Wear Districts. Each District appoints two Councillors. To ensure independent advice - and visible separation between scrutiny and those being scrutinised - the Councillors appointed 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.

As part of the new arrangements, four meetings were held at quarterly intervals during 2011/12 at different venues across Tyne and Wear. The committee continued the previous year's arrangement of scrutiny of issues in the ITA's own forward plan. However, the reduction in meetings had the obvious effect of reducing the work programme of the committee. 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.

Appointments to the Chair and Vice-Chair roles were made at the first meeting of the committee in July 2011 and a draft work programme was agreed. With the addition of the appointment of substitutes, attendance at the Scrutiny Committee was on average 65% across the four committee meetings.

Set out below is a summary of the work of the Scrutiny Committee in 2011/12. 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 |

Principle

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

Evidence

- The committee continued to base agenda items on the ITA's forward plan providing, wherever possible, pre-decision scrutiny
- New meeting dates were agreed to enable sufficient time to feed committee outcomes to the ITA
- The committee discussed the local employment opportunities afforded by major works across the ITA area
- The committee discussed the potential for a North East

Scrutiny Committee

	Rail Academy and the opportunities this afforded for the future workforce
To enable the voice and concerns of the public and its communities to be heard	<ul style="list-style-type: none">• The committee raised the issue of the provision of shuttle buses from the Tyne Pedestrian and Cycle Tunnels (both sides) to the local metro stations as part of an integrated travel system• The committee discussed the classification and determination of priority lanes. Comments made will be considered in a future review of priority lanes
To carry out scrutiny by 'independent minded governors' who lead and own the scrutiny process	<ul style="list-style-type: none">• The committee agreed meeting times and venues to make arrangements convenient for all members• The committee agreed to single item agendas to support more in-depth scrutiny of key issues• The committee visited the new Tyne Tunnel
To drive improvement in public services	<ul style="list-style-type: none">• A broad range of developing service areas were considered including:<ul style="list-style-type: none">• the implementation of Urban Traffic Management Control• progress in implementing the North East Smart Ticketing Initiative (NESTI) and future plans for this• The committee considered the impact of metal cable theft on commuters and the actions taken to minimise disruption and further occurrences

Membership of the Scrutiny Committee 2011/12



David Tate (Chair)
Sunderland



Muriel Green
North Tyneside



Tom Graham
Gateshead



Richard Porterhouse
South Tyneside



George Pattison
Newcastle



Neville Padgett
(Vice Chair)
Sunderland



Les Birkenfied
North Tyneside



Malcolm Graham
Gateshead



Bob Watters
South Tyneside



Ian Preston
Newcastle

ITA Standards & Audit Committee - A Review of 2011/12



Two new members were appointed at the 2011 annual meeting, but the independent membership of the Committee was unchanged. Such little changeover in recent years has enabled the Members to become very familiar with the Committee's work programme.

The Committee's cycle of meetings was changed from 4 to 3 for 2011/12 as part of that year's budget reductions. The work programme was amended accordingly and the Committee's Annual Report needs to be considered in that light.

The Committee monitored the progress of the Localism Bill so far as its provisions relating to standards of conduct were concerned. The Bill received Royal Assent in November 2011. The Localism Act 2011 requires fundamental changes to the Authority's Standards regime and the Committee had an initial discussion on the potential new arrangements in February 2012 but, at that time, the Government had still to publish its Regulations under the Act. It is anticipated that a new standards system needs to be in place by 1 July 2012, and this will represent one of the Committee's main priorities over the coming months. The Committee will then ensure that the new provisions are closely monitored and any recommendations reported to the Authority at the appropriate time.

During the year the Committee monitored the work of Deloitte who had taken over from the Audit Commission as the Authority's external auditor from 2010/11. At their first meeting in the municipal year, the Committee considered Deloitte's proposed audit plan and at subsequent meetings considered the results of the annual audit, along with the Annual Audit and Inspection Letter, both of which had been positive and had not identified any significant concerns.

As in previous years, the Committee monitored the performance of the Internal Audit function and in particular, the outcome of individual audits as well as the annual report of the Head of Audit and Strategic Risk which had concluded that the Authority's control systems were satisfactory.

The Committee also considered the Authority's annual report and accounts. Members also discussed the Annual Governance Statement and Local Code of Corporate Governance, neither document having identified any significant weaknesses. In line with CIPFA Guidance, Members also considered the results of the annual self-assessment of the Committee's effectiveness and the outcome of the Authority's value for money self-assessment.

Other items considered during the year included the Authority's Strategic Risk Register and Treasury Management Strategy, along with the revenue budget report which gave Members an opportunity to monitor the Authority's financial performance on an ongoing basis.

Standards and Audit Committee Review

Membership of the Standards and Audit Committee 2011/12

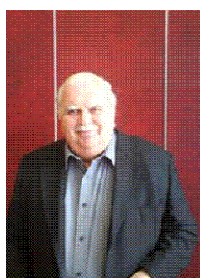
Independent Members



M. Scrimshaw
(Chair)



A. Atkinson



G. Clark



E. Green

ITA Members



J. Blackburn
(Sunderland)



J.S. Green
(Gateshead)



A. Hall
(Sunderland)

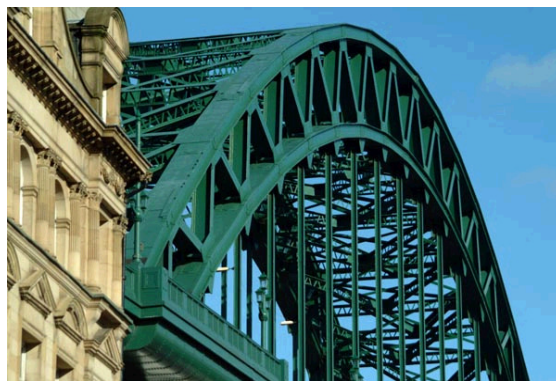


J. McElroy
(Gateshead)



P. Wood
(Sunderland)

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 Treasurer & Deputy Clerk.
- 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 2012.

Signed

Councillor D. Wood, Chair of the ITA

Date: 27 September 2012

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 2012.

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 2012, 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 2012 and its income and expenditure for the year ended 31 March 2012.

Signed

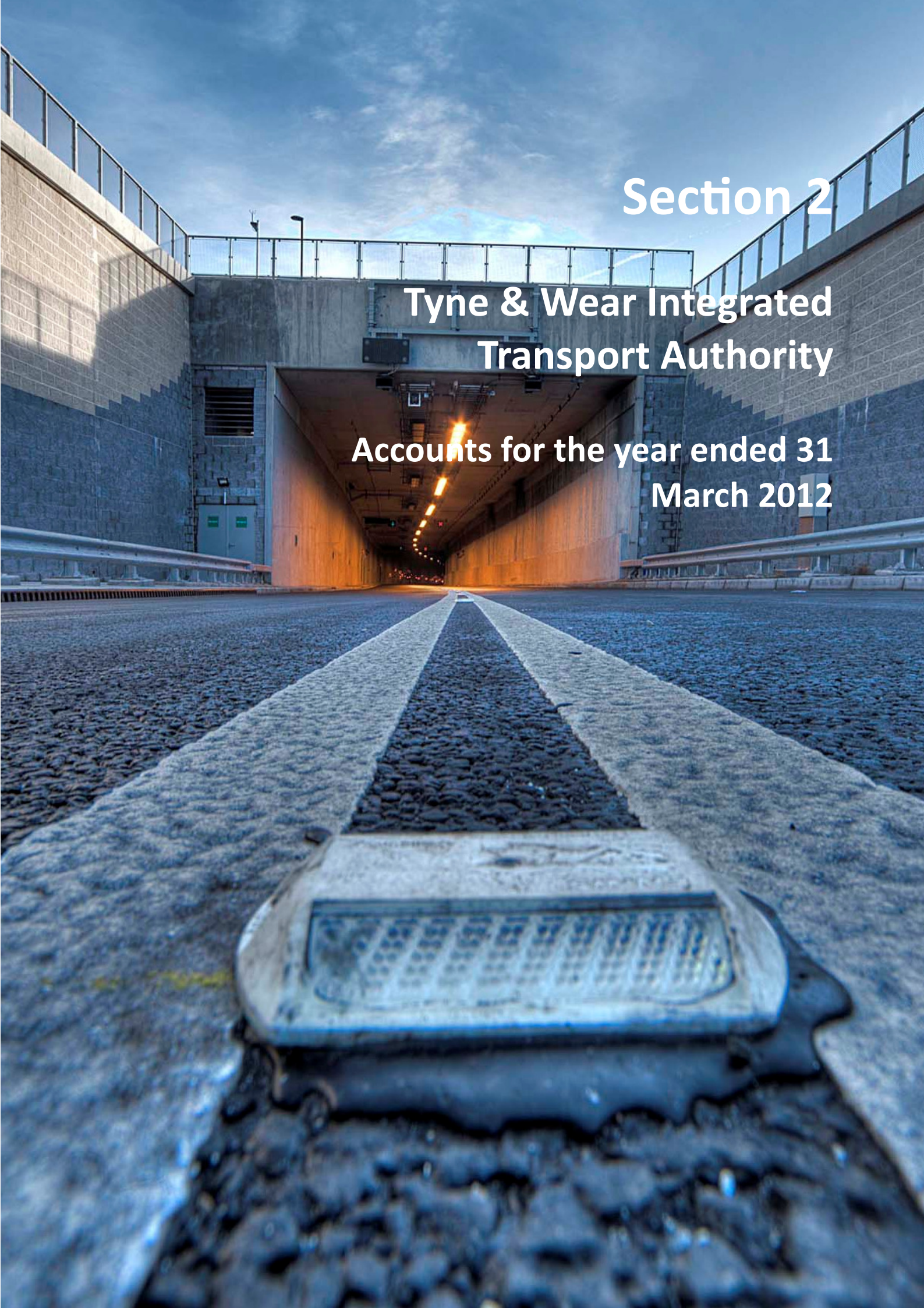
P. V. Woods, Treasurer

Date: 27 September 2012

Section 2

Tyne & Wear Integrated Transport Authority

Accounts for the year ended 31
March 2012



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 'unusable reserves' which can not be used in this way. The surplus or deficit on provision of services line shows the economic cost in accounting terms of providing the ITA's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance for the purposes of setting the levy. The net increase or decrease before transfers to earmarked reserves line shows the statutory General Fund balance before any discretionary transfers to or from earmarked reserves undertaken by the Authority.

	General Fund	Earmarked Reserves	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Reserves
	£000	£000	£000	£000	£000	£000
Balance at 1 April 2011	(43,372)	(12,438)	(288)	(56,098)	(60,329)	(116,427)
<u>Movement in Reserves During 2011/12</u>						
(Surplus) / Deficit on Provision of Services	(5,132)	-	-	(5,132)	-	(5,132)
Other Comprehensive Income and Expenditure		-	-	-	3,063	3,063
Total Comprehensive Income and Expenditure	(5,132)	-	-	(5,132)	3,063	(2,069)
Adjustments between Accounting Basis and Funding Basis Under Regulations (Note 4)	2,308	-	288	2,596	(2,596)	-
Net (Increase) / Decrease before transfers to Earmarked Reserves	(2,824)	-	288	(2,536)	467	(2,069)
Transfers (to) / from Earmarked Reserves (Note 5)	1,919	(1,919)	-	-	-	-
(Increase) / Decrease in 2011/12	(905)	(1,919)	288	(2,536)	467	(2,069)
Balance at 31 March 2012 carried forward	(44,277)	(14,357)	-	(58,634)	(59,862)	(118,496)

Movement in Reserves Statement

Comparative Figures for 2010/11

	General Fund	Earmarked Reserves	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Reserves
	£000	£000	£000	£000	£000	£000
Balance at 1 April 2010	(37,257)	(13,441)	-	(50,698)	(63,235)	(113,933)
<u>Movement in Reserves During 2010/11</u>						
(Surplus) / Deficit on Provision of Services	2,197	-	-	2,197	-	2,197
Other Comprehensive Income and Expenditure	-	-	-	-	(4,691)	(4,691)
Total Comprehensive Income and Expenditure	2,197	-	-	2,197	(4,691)	(2,494)
Adjustments between Accounting Basis and Funding Basis Under Regulations (Note 4)	(7,309)	-	(288)	(7,597)	7,597	-
Net (Increase) / Decrease before transfers to Earmarked Reserves	(5,112)	-	(288)	(5,400)	2,906	(2,494)
Transfers (to) / from Earmarked Reserves (Note 5)	(1,003)	1,003	-	-	-	-
(Increase) / Decrease in 2010/11	(6,115)	1,003	(288)	(5,400)	2,906	(2,494)
Balance at 31 March 2011 carried forward	(43,372)	(12,438)	(288)	(56,098)	(60,329)	(116,427)

Comprehensive Income and Expenditure Statement

This statement shows the economic cost in year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from the levy. Integrated Transport Authorities raise a levy to cover expenditure in accordance with regulations; this may be different from the accounting cost. The levy position is shown in the Movement in Reserves Statement.

← 2010/11 →				← 2011/12 →		
Gross Expenditure	Gross Income	Net Expenditure		Gross Expenditure	Gross Income	Net Expenditure
£000	£000	£000		£000	£000	£000
556	-	556	Corporate and Democratic Highways and Transport	453	-	453
19,673	(13,780)	5,893	- Tyne Tunnels *	13,328	(20,519)	(7,191)
74,413	(4,821)	69,592	- Other Highways and Transport Services	82,028	(11,453)	70,575
(5,510)	-	(5,510)	Non-Distributed Costs **	-	-	-
89,132	(18,601)	70,531	Cost of Services	95,809	(31,972)	63,837
6,592	(3,221)	3,371	Financing and Investment Income and Expenditure (note 6)	8,412	(3,588)	4,824
-	(71,706)	(71,706)	Taxation and Non-Specific Grant Income (note 7)	-	(73,792)	(73,792)
		2,197	(Surplus) / Deficit on Provision of Services			(5,132)
		(121)	Surplus / (Deficit) on Revaluation of Fixed Assets (Note 8)			(597)
		(4,570)	Actuarial (Gains) / Losses on Pension Fund Assets and Liabilities (note 29)			3,660
		(4,691)	Other Comprehensive Income and Expenditure			3,063
		(2,494)	Total Comprehensive Income and Expenditure			(2,069)

* Significant differences between financial years on the Tyne Tunnels can be explained as follows: The expenditure figure in 2010/11 included a large impairment in relation to the valuation of the new tunnel, which was not present in 2011/12. The Tyne Tunnels income figure in 2011/12 includes the release of deferred income to the CIES as the deferred credit balance held on the balance sheet for the New Tyne Crossing asset is amortised. The equivalent figure in 2010/11 was much lower due to the new tunnel having been open for only one month of the financial year.

** The credit on Non-Distributed Costs in 2010/11 related to an adjustment for pension liabilities arising as a result of the change of indexation on public sector pensions from RPI to CPI.

Balance Sheet

The Balance Sheet shows the value at the Balance Sheet date of the assets and liabilities of the Authority. The Net Assets (Assets less Liabilities) are matched by Reserves. Reserves are reported in two categories: Usable (i.e. those the Authority may use to provide services subject to any statutory limitations on their use) and Unusable (those the Authority may not use to provide services). This category includes reserve that hold unrealised gains and losses (e.g. the 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”.

31 March 2011 £000		Notes	31 March 2012 £000
352,772	Property, Plant and Equipment	8	368,344
51,178	Long Term Debtors	9, 10	49,104
403,950	Long Term Assets		417,448
-	Short Term Investments	9	23,000
6,692	Short Term Debtors	9, 11	11,842
45,832	Cash and Cash Equivalents	12	66,454
52,524	Current Assets		101,296
(36,426)	Short Term Borrowing	9	(4,726)
(4,908)	Short Term Creditors	9, 13	(35,030)
(51,980)	New Tyne Crossing - Deferred Income	28	(5,501)
(203)	Grants and Contributions Receipts in Advance	14	(8,637)
(93,517)	Current Liabilities		(53,893)
(113,580)	New Tyne Crossing - Deferred Income	28	(127,331)
(8,114)	Grants and Contributions Receipts in Advance	14	(6,734)
(120,560)	Long Term Borrowing	9	(205,560)
(4,277)	Other Long Term Liabilities	9, 29	(6,730)
(246,531)	Long Term Liabilities		(346,355)
116,427	Net Assets		118,496
(56,098)	Usable Reserves	15	(58,633)
(60,328)	Unusable Reserves	16	(59,863)
(116,427)			(118,496)

Treasurer's Certificate

I certify that the accounts set out on pages 31 to 84 present a true and fair view of the financial position of the Tyne and Wear Integrated Transport Authority as at 31 March 2012.

Signed

Treasurer

Date:

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 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.

2010/11 £000		Notes	2011/12 £000
2,197	Net (surplus) or deficit on the provision of services		(5,132)
(55,484)	Adjustments to net surplus or deficit on the provision of services for non cash movements	18	(2,181)
51,081	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	18	11,236
(2,206)	Net cash flows from Operating Activities		3,923
(14,764)	Investing activities	19	28,183
(10,000)	Financing activities	20	(52,728)
(26,970)	Net increase or decrease in cash and cash equivalents		(20,622)
(18,862)	Cash and cash equivalents at the beginning of the reporting period		(45,832)
(45,832)	Cash and cash equivalents at the end of the reporting period	12	(66,454)

Notes to the Accounts

Note 1: Accounting Standards Issued but Not Yet Adopted

The Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 (the Code) has introduced a change in accounting policy in relation to the treatment of IFRS 7 Financial Instruments: Disclosures (Transfers of financial assets), which will need to be adopted fully by the Council in the 2012/13 financial statements.

The 2012/13 Code states that the change in practice around Financial Instruments does not require a restated (third) balance sheet for the start of the earliest comparable period in the 2012/13 Statement of Accounts.

Changes from the 2011/12 Code

The 2012/13 Code includes the amendments to IFRS 7 Financial Instruments: Disclosures (Transfers of Financial Assets). It replaces the previous requirements with detailed disclosures that are designed to assist users of the financial statements to evaluate the risk of exposures relating to transfers of financial assets. Such transfers are not common transactions for local authorities and the ITA has not entered into any transactions covered by the changes in the 2011/12 financial year.

Note 2: Critical Judgements in Applying Accounting Policies

In applying the accounting policies set out in 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 Statement 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 Authority 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

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
- 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 and refurbishment of the existing Tunnel are recorded as additions to its Property, Plant and Equipment.

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 2012 for which there is a 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.	The effects on the net pension liability for funded LGPS benefits of changes in individual assumptions can be measured. For instance, a 0.5% increase in the discount rate assumptions would result in a decrease in the pension liability of £1.2m. However, the assumptions interact in complex ways. During 2011/12, the Authority's actuaries advised that the net pensions liability for funded LGPS benefits had increased by £0.84m as a result of estimates being corrected as a result of experience and increased by £1.38m attributable to updating of the assumptions.

Notes to the Accounts

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.

2011/12

	Usable Reserves		
	General Fund Balance	Capital Grants Unapplied	Movement in Unusable Reserves
	£000	£000	£000
Adjustments involving the Capital Adjustment Account:			
<u>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:</u>			
Charges for depreciation and impairment of non current assets	(6,481)	-	6,481
Write down of New Tyne Crossing deferred income balance	5,628	-	(5,628)
Capital grants and contributions applied	11,175	-	(11,175)
Revenue expenditure funded from capital under statute	(13,119)	-	13,119
<u>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</u>			
Statutory provision for the financing of capital investment	2,061	-	(2,061)
Capital expenditure charged against the General Fund	1,776	-	(1,776)

Notes to the Accounts

Note 4 (Continued)

	Usable Reserves		
	General Fund Balance	Capital Grants Unapplied	Movement in Unusable Reserves
	£000	£000	£000
Adjustments involving the Capital Grants Unapplied Account:			
Application of grants to capital financing transferred to the Capital Adjustment Account		288	(288)
Adjustments involving the Financial Instruments Adjustment Account:			
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	61	-	(61)
Adjustments involving the Pensions Reserve:			
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 29)	260	-	(260)
Employer's pensions contributions and direct payments to pensioners payable in the year	947	-	(947)
Total Adjustments	2,308	288	(2,596)

Comparative Figures for 2010/11

	Usable Reserves		
	General Fund Balance	Capital Grants Unapplied	Movement in Unusable Reserves
	£000	£000	£000
Adjustments involving the Capital Adjustment Account:			
<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)

Notes to the Accounts

Note 4 (Continued)

	General Fund Balance	Capital Grants Unapplied	Movement in Unusable Reserves
	£000	£000	£000
Adjustments involving Capital Grants Unapplied Account:			
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	288	(288)	-
Adjustments involving the Financial Instruments Adjustment Account:			
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
Adjustments involving the Pensions Reserve:			
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)
Total Adjustments	(7,309)	(288)	7,597

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 2011/12, with comparative figures for 2010/11.

	Balance at 01/04/10 £000	Transfers Out 2010/11 £000	Transfers In 2010/11 £000	Balance at 31/03/11 £000	Transfers Out 2011/12 £000	Transfers In 2011/12 £000	Balance at 31/03/12 £000
Metro Reinvigoration Reserve	(13,441)	1,273	(270)	(12,438)	-	(1,919)	(14,357)
Total	(13,441)	1,273	(270)	(12,438)	-	(1,919)	(14,357)

Notes to the Accounts

Note 6: Financing and Investment Income and Expenditure

2010/11	2011/12
£000	£000
6,522 Interest payable and similar charges	8,412
70 Pensions interest cost and expected return on pensions assets	(260)
(3,221) Interest receivable and similar income	(3,328)
3,371	4,824

Note 7: Taxation and non-specific Grant Income

2010/11	2011/12
£000	£000
(71,706) Levy on Tyne and Wear Authorities	(73,792)
(71,706)	(73,792)

Note 8: Property, Plant and Equipment

	Land	Vehicles, Plant, Furniture & Equipment	Infrastructure Assets	Assets Under Construction / Work in Progress	Total Property, Plant and Equipment
	£000	£000	£000	£000	£000
Cost or Valuation					
<u>At 1 April 2011</u>	12,135	3,074	353,895	-	369,104
Additions	-	-	21,499	423	21,922
Revaluation increases/(decreases) recognised in the Revaluation Reserve	-	597	-	-	597
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	-	-	(2,627)	-	(2,627)
Other movements in Cost or Valuation	-	(466)	-	-	(466)
<u>At 31 March 2012</u>	12,135	3,205	372,767	423	388,530
Accumulated Depreciation and Impairment					
<u>At 1 April 2011</u>	-	(450)	(15,882)	-	(16,332)
Depreciation charge	-	(92)	(3,762)	-	(3,854)
<u>At 31 March 2012</u>	-	(542)	(19,644)	-	(20,186)
Net Book Value					
At 31 March 2012	12,135	2,663	353,123	423	368,344
At 31 March 2011	12,135	2,624	338,013	-	352,772

Notes to the Accounts

Note 8 (Continued)

Comparative Figures for 2010/11

	Land	Vehicles, Plant, Furniture & Equipment	Infrastructure Assets	Assets Under Construction / Work in Progress	Total Property, Plant and Equipment
	£000	£000	£000	£000	£000
Cost or Valuation					
<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)
<u>At 31 March 2011</u>	12,135	3,074	353,895	-	369,104
Accumulated Depreciation and Impairment					
<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)
Net Book Value					
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

Notes to the Accounts

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. This class of assets relates to plant, machinery and other equipment and fittings that were transferred to TT2 Ltd at the commencement of the 30 year contract for the operation of the Tyne Tunnels. These assets are defined as “handback assets” in the Project Agreement, as they (or their equivalent replacements) must be returned to the ITA at the end of the contract
- Vehicle Tunnels (Infrastructure) - 120 years
- Pedestrian and Cycle Tunnels (Infrastructure) - 40-120 years
- Land - This category is not depreciated as it 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 by surveyors from the Lead Authority, Newcastle City Council. Valuations of land and buildings and Infrastructure 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. Valuations of Vehicles, Plant and Equipment relate to assets transferred to the use of TT2 Ltd as described above. The valuations are based on records held by TT2 Ltd.

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

Notes to the Accounts

Note 9: Financial Instruments

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

31 March 2011		31 March 2012
£000		£000
	Short Term Investments:	
-	Bank deposits	23,000
	Long Term Debtors:	
51,178	Loans to Nexus	49,104
	Short Term Debtors:	
6,692	Short term debtors:	11,842
31 March 2011		31 March 2012
£000	Borrowings:	£000
(36,426)	Short term borrowing	(4,726)
(120,560)	Financial liabilities at amortised cost - long term borrowing	(205,560)
<u>(156,986)</u>		<u>(210,286)</u>
	Other Long Term Liabilities:	
(4,277)	Pensions Liability	(6,730)
	Short Term Creditors:	
(4,908)	Short Term Creditors	(35,030)

The short-term investment shown 31 March 2012 relates to investments placed on behalf of Nexus by the ITA. Prior to 2011/12, this service was provided by Newcastle City Council. The increase in short term debtors is largely due to a £5m debtor with Newcastle City Council for monies invested on behalf of Nexus at the balance sheet date. A corresponding creditor is shown under short-term creditors to recognise the fact that the total £28m must be repaid to Nexus on their request.

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 instrument, using the following assumptions:

- Public Works Loan Board (PWLb) interest rates for new fixed borrowing in the appropriate maturity bands as at 31 March 2012
- 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.
- Estimated ranges of interest rates at 31 March 2012 of 0.62% to 10.125% for loans from the PWLB and 4.07% to 4.94% for other loans receivable and payable, based on new lending rates for equivalent loans at that date

Notes to the Accounts

Note 9 (Continued)

The gains and losses recognised in the Comprehensive Income and Expenditure Statement in relation to financial instruments are made up as follows:

2010/11			2011/12		
Financial Liabilities (amortised cost) £000	Financial Assets: Loans and Receivables £000	Total £000	Financial Liabilities (amortised cost) £000	Financial Assets: Loans and Receivables £000	Total £000
6,522		6,522	8,412		8,412
		Interest expense			
		Total expense in			
		Surplus/Deficit on			
6,522	-	6,522	8,412	-	8,412
-	(3,221)	(3,221)	-	(3,328)	(3,328)
		Interest income			
		Total income in			
		Surplus/Deficit on			
-	(3,221)	(3,221)	-	(3,328)	(3,328)
		Provision of Services			
6,522	(3,221)	3,301	8,412	(3,328)	5,084
		Net (gain)/loss for the year			

Borrowings and investments disclosed in the Balance Sheet are shown at amortised cost. For most of the Authority's borrowings, this means that the amount presented is the outstanding principal repayable plus accrued interest.

The fair value of borrowings and investments disclosed below is assessed by calculating the net present value of the cash flows that take place over the remaining life of the instruments. The fair value is higher than the carrying amount because the Authority's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the rates applicable to similar loans in the market at the Balance Sheet date. This commitment to pay interest above current market rate increases the amount that the Authority would have to pay (in terms of premiums etc.) if the lender requested or agreed to early repayment of the loans.

For financial instruments with a maturity of twelve months or less the fair value is taken to be the invoiced or billed amount.

For the long term debtor with Nexus, the fair value has been determined to be equal to the carrying value.

Notes to the Accounts

Note 9 (Continued)

Financial Liabilities

31 March 2011		31 March 2012	
Carrying amount £000	Fair value £000	Carrying amount £000	Fair value £000
Short Term Borrowing			
(35,417)	(35,417)	(3,700)	(3,700)
(1,009)	(1,009)	(1,026)	(1,026)
(36,426)	(36,426)	(4,726)	(4,726)
Long Term Borrowing			
(31,560)	(35,129)	(116,560)	(141,249)
(89,000)	(95,974)	(89,000)	(117,094)
(120,560)	(131,103)	(205,560)	(258,343)
(156,986)	(167,529)	(210,286)	(263,069)

Financial Assets

31 March 2011		31 March 2012	
Carrying amount £000	Fair value £000	Carrying amount £000	Fair value £000
51,178	51,178	49,104	49,104
51,178	51,178	49,104	49,104

Note 10: Long Term Debtors

The long term debtor represents loans to Nexus made in previous years, to finance capital expenditure on works relating to Metro operations, special needs transport and bus stations.

31 March 2011 £000		31 March 2012 £000
51,178	Loans to Nexus	49,104
51,178	Closing Balance 31 March	49,104

Notes to the Accounts

Note 11: Short Term Debtors

31 March 2011		31 March 2012
£000		£000
464	Central Government Bodies	454
-	Other Local Authorities	5,289
6,228	Other entities and individuals	6,099
6,692	Total	11,842

Within 'Other entities and individuals', £6,174k relates to Nexus at 31/03/11 and £6,043k relates to Nexus at 31/03/12.

Note 12: Cash and Cash Equivalents

31 March 2011		31 March 2012
£000		£000
45,832	Bank current accounts	66,454
45,832	Total Cash and Cash Equivalents	66,454

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

Note 13: Short Term Creditors

31 March 2011		31 March 2012
£000		£000
-	Central government bodies	(50)
(367)	Other local authorities	(883)
(4,541)	Other bodies	(34,097)
(4,908)	Total	(35,030)
'Other bodies' can be broken down as follows:		
(2,887)	Nexus	(30,573)
(560)	TT2 Ltd	(2,599)
(663)	Prepaid Tunnels Permits	(653)
(73)	Accrued payments to pension fund	(78)
(317)	New Tyne Crossing Professional Advisors	(137)
(42)	Other entities and individuals	(57)
(4,541)		(34,097)

The significant increase in short term creditors due to Nexus reflects the fact that the ITA is holding £23m of investments on Nexus' behalf, which are shown as short term investments, and an additional £5m debtor with Newcastle City Council for Nexus funds placed in their name. The creditor is shown to recognise that the total £28m must be repaid to Nexus on their request.

The majority of the increase in TT2 creditors is due to the February and March 2012 usage payments, which were not due to be paid until after 31 March 2012. These were significantly higher than in 2010/11 due to the increase in TT2's share of toll income following the opening of both Tunnels.

Notes to the Accounts

Note 14: Grants and Contributions Received in Advance

2010/11 £000		2011/12 £000
(8,317)	NESTI Contributions from Local Authorities	(8,114)
-	Local Sustainable Transport Fund (DfT)	(4,478)
-	Local Transport Plan (DfT)	(2,779)
(8,317)	Balance at 31 March	(15,371)
(203)	Shown as Short-Term Liability on Balance Sheet	(8,637)
(8,114)	Shown as Long-Term Liability on Balance Sheet	(6,734)
(8,317)		(15,371)

Grants and Contributions Received in Advance have been split between long term and short term liabilities based on the budget for 2012/13.

Note 15: Usable Reserves

Summary

31 March 2011 £000		31 March 2012 £000
	General Fund Reserves	
(2,600)	- ITA General Fund	(2,519)
(40,772)	- Tyne Tunnels General Fund	(41,757)
(43,372)	Total General Fund Reserves	(44,276)
(12,438)	Earmarked Metro Reinvigoration Reserve	(14,357)
(288)	Capital Grants and Contributions Unapplied	-
(56,098)	Total Usable Reserves	(58,633)

ITA General Fund

This represents the unearmarked balances of the ITA which can be used to support ITA expenditure or allow for a reduction in the levy on Tyne and Wear authorities.

2010/11 £000		2011/12 £000
(3,268)	Balance at 1 April	(2,600)
668	Drawn down to support expenditure in year	81
(2,600)	Balance at 31 March	(2,519)

Tyne Tunnels General Fund

This reserve represents the balances of the ringfenced Tyne Tunnels trading account. It is shown separately from the ITA General Fund as it is used to support Tyne Tunnels activity only, and is separate from levy-funded activities undertaken by the ITA.

Notes to the Accounts

Note 15 (Continued)

2010/11	2011/12
£000	£000
(33,988) Balance at 1 April	(40,772)
(6,836) Surplus on Tyne Tunnels trading account	(2,871)
52 NESTI expenditure funded by Tyne Tunnels reserves	1,886
(40,772) Balance at 31 March	(41,757)

Earmarked Metro Reinvigoration Reserve

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

2010/11	2011/12
£000	£000
(13,441) Balance at 1 April	(12,438)
(270) Interest on reserve	(199)
1,273 Draw down to support expenditure in year	-
- Funds set aside to be used for future years	(1,720)
(12,438) Balance at 31 March	(14,357)

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.

2010/11	2011/12
£000	£000
- Balance at 1 April	(288)
(288) Grants and Contributions with conditions met but not yet applied to fund capital expenditure	-
- Grants and Contributions applied to fund capital expenditure transferred to Capital Adjustment Account	288
(288) Balance at 31 March	-

Note 16: Unusable Reserves

31 March 2011	31 March 2012
£000	£000
(10,570) Revaluation Reserve	(11,167)
(54,340) Capital Adjustment Account	(55,669)
304 Financial Instruments Adjustment Account	243
4,277 Pensions Reserve	6,730
(60,329) Total Unusable Reserves	(59,863)

Notes to the Accounts

Note 16 (Continued)

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.

2010/11		2011/12
£000		£000
(10,449)	Balance at 1 April	(10,570)
(121)	Upward revaluation of assets	(597)
(10,570)	Balance at 31 March	(11,167)

Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements 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 amortisation 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)

2010/11 £000		2011/12 £000
(68,480)	Balance at 1 April	(54,340)
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:	
3,552	Charges for depreciation and impairment of non current assets	6,481
12,922	Revaluation losses on Property, Plant and Equipment	-
(602)	Write down New Tyne Crossing deferred income balance	(5,628)
5,806	Revenue expenditure funded from capital under statute	13,119
-	Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	-
(46,802)		(40,368)
	Capital financing applied in the year:	
(4,533)	Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	(11,175)
-	Application of grants to capital financing from the Capital Grants Unapplied Account	(288)
(1,732)	Statutory provision for the financing of capital investment charged against the General Fund	(2,062)
(1,273)	Capital expenditure charged against the General Fund	(1,776)
(54,340)	Balance at 31 March	(55,669)

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.

Notes to the Accounts

Note 16 (Continued)

2010/11 £000	2011/12 £000
303 Balance at 1 April	304
56 Premiums incurred in the year and charged to the Comprehensive Income and Expenditure Statement	-
(55) Proportion of premiums incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements	(61)
304 Balance at 31 March	243

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.

2010/11 £000	2011/12 £000
15,390 Balance at 1 April	4,277
(4,570) Actuarial (gains) or losses on pensions assets and liabilities	3,660
(5,440) 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	(260)
(1,103) Employer's pensions contributions and direct payments to pensioners payable in the year	(947)
4,277 Balance at 31 March	6,730

Notes to the Accounts

Note 17: Cash Flow Statement: Operating Activities

The cash flows for operating activities includes the following items relating to interest paid and received:

2010/11		2011/12
£000		£000
3,221	Interest received	3,328
(6,522)	Interest paid	(8,412)

Note 18: Cash Flow Statement: Adjustments to Net Surplus or Deficit on the Provision of Services for non-cash movements and items that are Investing or Financing Activities

2010/11		2011/12
£000		£000
2,197	Surplus or deficit on the provision of services	(5,132)
	Adjustments to Surplus or Deficit on Provision of Services for Non-Cash Movements	
(3,552)	Depreciation	(3,854)
(12,922)	Impairment and Downward Valuations	(2,627)
3,609	(Increase) / Decrease in Creditors	(2,855)
(4,799)	Increase / (Decrease) in Debtors	320
6,543	Movement in Pension Liability	1,207
(44,966)	Carrying amount of long term and short term investments sold	-
603	Other non-cash items charged to the net surplus or deficit on the provision of services	5,628
(55,484)		(2,181)
	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	
6,092	Capital grants credited to surplus / deficit on provision of services	11,175
44,988	Proceeds from the sale of long term and short term investments	-
1	Other adjustments for items that are financing or investing activities	61
51,081		11,236
(2,206)	Net cash flow from operating activities	3,923

Notes to the Accounts

Note 19: Cash Flow Statement: Investing Activities

2010/11		2011/12
£000		£000
39,463	Purchase of property, plant and equipment, investment property and intangible assets	48,555
-	Purchase of short-term and long-term investments	30,000
1,490	Other payments for investing activities	(18,192)
(44,988)	Proceeds from short-term and long-term investments	(30,106)
(10,729)	Other receipts from investing activities	(2,074)
(14,764)	Net cash flows from investing activities	28,183

Note 20: Cash Flows from Financing Activities

2010/11		2011/12
£000		£000
(20,000)	Cash receipts of short and long-term borrowing	(89,000)
10,000	Repayments of short and long-term borrowing	36,333
-	Other payments for financing activities	(61)
(10,000)	Net cash flows from financing activities	(52,728)

Note 21: Members' Allowances

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

2010/11		2011/12
£000		£000
83	Allowances	80
83	Total	80

Note 22: External Audit Costs

2010/11		2011/12
£000		£000
37	Fees payable with regard to external audit services carried out by the appointed auditor for the year	33
(2)	Rebate on audit fee received from Audit Commission	(3)
35	Total	30

Notes to the Accounts

Note 23: 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 Service Reporting Code of Practice (SeRCOP). However, decisions about resource allocation are taken by the Authority on the basis of budget reports analysed across functions - i.e. split between costs relating to the ITA and costs relating to the Tyne Tunnels. 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.

	ITA	Tyne Tunnels	Total
	£000	£000	£000
2011/12			
Fees, charges & other service income	-	(14,890)	(14,890)
Interest	(83)	(775)	(858)
Levy income	(73,792)	-	(73,792)
Total Income	(73,875)	(15,665)	(89,540)
Employee expenses (including pensions)	432	533	965
Other service expenses	183	6,585	6,769
Support service recharges	284	146	430
Capital Payments	1,351	711	2,062
Interest Payments	1,382	4,819	6,201
Public Transport Revenue Grant to Nexus	70,323	-	70,323
NESTI Expenditure met from Tyne Tunnels reserves	-	1,886	1,886
Total Expenditure	73,956	14,680	88,636
Net Expenditure	81	(985)	(904)

Notes to the Accounts

Note 23 (Continued)

Reconciliation to Subjective Analysis

This reconciliation shows how the figures in the analysis of income and expenditure by function relate to a subjective analysis of the Surplus or Deficit on the Provision of Services included in the Comprehensive Income and Expenditure Statement.

	2011/12
	£000
Net Expenditure in the Analysis reported to Management	(904)
Amounts in the Comprehensive Income and Expenditure Statement not reported to Management in the Analysis	1,077
Amounts included in the Analysis not included in the Comprehensive Income and Expenditure Statement Cost of Services	63,664
Cost of Services in Comprehensive Income and Expenditure Statement	63,837

	Analysis by function	Amounts not reported to management for decision making	Amounts not included in CIES Cost of Services	Cost of Services	Corporate Amounts	Total
2011/12	£000	£000	£000	£000	£000	£000
Fees, charges & other service income	(14,890)	-	-	(14,890)	-	(14,890)
New Tyne Crossing	-	(5,628)	-	(5,628)	-	(5,628)
Deferred Income Release						
Interest and investment income	(858)	-	858	-	(3,588)	(3,588)
Levy income	(73,792)	-	73,792	-	(73,792)	(73,792)
Government grants and contributions	-	(11,453)	-	(11,453)	-	(11,453)
Total Income	(89,540)	(17,081)	74,650	(31,971)	(77,380)	(109,351)
Employee expenses	965	-	(947)	18	-	18
Other service expenses	8,655	-	-	8,655	-	8,655
Support Service	430	-	-	430	-	430
Capital Payments	2,062	18,158	(3,838)	16,382	-	16,382
Interest Payments	6,201	-	(6,201)	-	8,412	8,412
Public Transport Revenue	70,323	-	-	70,323	-	70,323
Grant to Nexus						
Total expenditure	88,636	18,158	(10,986)	95,808	8,412	104,220
Surplus or deficit on the provision of services	(904)	1,077	63,664	63,837	(68,968)	(5,131)

Notes to the Accounts

Note 23 (Continued)

Comparative Figures for 2010/11

Reconciliation to Subjective Analysis

Income and Expenditure reported to Management

	ITA	Tyne Tunnels	Total
2010/11 comparative figures			
	£000	£000	£000
Fees, charges & other service income	-	(13,177)	(13,177)
Interest	(61)	(569)	(630)
Levy income	(71,706)	-	(71,706)
Total Income	(71,767)	(13,746)	(85,513)
Employee expenses (including pensions)	511	626	1,137
Other service expenses	188	3,054	3,242
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
Total Expenditure	72,435	6,962	79,397
Net Expenditure	668	(6,784)	(6,116)

Reconciliation to Subjective Analysis

	2010/11 £000
Net Expenditure in the Analysis reported to Management	(6,116)
Amounts in the Comprehensive Income and Expenditure Statement not reported to Management in the Analysis	11,346
Amounts included in the Analysis not included in the Comprehensive Income and Expenditure Statement Cost of Services	65,301
Cost of Services in Comprehensive Income and Expenditure Statement	70,531

Notes to the Accounts

Note 23 (Continued)

Comparative Figures for 2010/11

	Analysis by function	Amounts not reported to management for decision making	Amounts not included in CIES Cost of Services	Cost of Services	Corporate Amounts	Total
	£000	£000	£000	£000	£000	£000
Fees, charges & other service income	(13,177)	-	-	(13,177)	-	(13,177)
New Tyne Crossing	-	(603)	-	(603)	-	(603)
Deferred Income Release						
Interest and investment	(630)	-	630	-	(3,221)	(3,221)
Levy income	(71,706)	-	71,706	-	(71,706)	(71,706)
Government grants and contributions	-	(4,821)	-	(4,821)	-	(4,821)
Total Income	(85,513)	(5,424)	72,336	(18,601)	(74,927)	(93,528)
Employee expenses	1,137	(5,510)	(1,103)	(5,476)	-	(5,476)
Other service expenses	3,242	3,630	-	6,872	-	6,872
Support Service	531	-	-	531	-	531
Capital Payments	1,732	18,650	(1,732)	18,650	-	18,650
Interest Payments	4,200	-	(4,200)	-	6,592	6,592
Public Transport Revenue	68,555	-	-	68,555	-	68,555
Grant to Nexus						
Total expenditure	79,397	16,770	(7,035)	89,132	6,592	95,724
Surplus or deficit on the provision of services	(6,116)	11,346	65,301	70,531	(68,335)	2,196

Note 24: Grant Income

The Authority credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2011/12:

2010/11 £000		2011/12 £000
	Credited to Services	
(4,821)	Local Transport Plan	(10,774)
-	Local Sustainable Transport Fund	(426)
-	Supporting Community Transport Fund	(50)
-	NESTI	(202)
(4,821)		(11,452)

Notes to the Accounts

Note 25: 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 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 23 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 2011/12.

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, Treasurer & Deputy Clerk and the Director of 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 2011/12, including amounts accrued at the year end.

	2010/11 £000	2011/12 £000	£000
	Paid / Received in year	Paid / Received in year	Accrued at year end
Receipts			
<u>Levy on Tyne and Wear Councils</u>			
Gateshead Council	(12,500)	(12,726)	-
Newcastle City Council	(17,943)	(18,962)	-
North Tyneside Council	(12,939)	(13,152)	-
South Tyneside Council	(9,942)	(10,164)	-
Sunderland City Council	(18,382)	(18,788)	-
	(71,706)	(73,792)	-
<u>Newcastle City Council (NCC)</u>			
Interest on Revenue Balances	(805)	(931)	-
Investments held on behalf of Nexus by NCC	-	-	(5,000)

Notes to the Accounts

Note 25 (Continued)

	2010/11 £000	2011/12 £000	£000
	Paid / Received in year	Paid / Received in year	Accrued at year end
Receipts			
<u>Nexus</u>			
Loans from ITA - Principal	(2,159)	-	(2,138)
Loans from ITA - Interest	(2,321)	-	(1,817)
	<u>(4,480)</u>	<u>-</u>	<u>(3,955)</u>
Contributions to NESTI *			
Darlington Borough Council	(441)	-	(358)
Durham County Council	-	-	(1,214)
Gateshead Council	-	-	(624)
Hartlepool Borough Council	(304)	-	(247)
Middlesbrough Borough Council	(509)	-	(413)
Newcastle City Council	-	-	(750)
North Tyneside Council	(594)	-	(482)
Northumberland County Council	-	-	(734)
Redcar & Cleveland Borough Council	(399)	-	(324)
South Tyneside Council	-	-	(383)
Stockton-on-Tees Borough Council	(575)	-	(466)
Sunderland City Council	-	-	(753)
	<u>(2,822)</u>	<u>-</u>	<u>(6,748)</u>

* A pro-rata allocation according to original contributions has been used to split the total NESTI contributions held on the ITA's Balance Sheet at the year end. The list excludes £1.366m which relates to the ITA's own share of the contributions.

	2010/11 £000	2011/12 £000	£000
	Paid / Received in year	Paid / Received in year	Accrued at year end
Payments			
<u>Specific Grants</u>			
Gateshead Council	213	2,050	82
Newcastle City Council	584	2,727	-
North Tyneside Council	184	1,552	188
South Tyneside Council	102	1,235	82
Sunderland City Council	109	2,377	297
	<u>1,192</u>	<u>9,940</u>	<u>649</u>

Newcastle City Council
Provision of Support Services

774

874

-

Notes to the Accounts

Note 25 (Continued)

	2010/11 £000	2011/12 £000	£000
	Paid / Received in year	Paid / Received in year	Accrued at year end
<u>Nexus</u>			
Revenue Support Grant	68,555	70,323	-
Specific Grants	3,341	94	2,572
Grant for Metro Re-invigoration	1,273	-	-
Loan to fund Capital Expenditure	1,491	-	-
	74,660	70,417	2,572
<u>Tyne & Wear Superannuation Fund</u>			
Employers Contributions	1,103	940	-

Note 26: Capital Expenditure and Capital Financing

The total amount of capital expenditure incurred in the year is shown in the table below, 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.

2010/11 £000		2011/12 £000
132,181	Opening Capital Financing Requirement	170,150
	Capital investment:	
40,369	- Property, Plant and Equipment	48,555
5,806	- Revenue Expenditure Funded from Capital under Statute	13,119
1,491	- Loans to Other Public Bodies	-
	Sources of finance:	
(4,533)	- Government grants and other contributions	(11,463)
	Sums set aside from revenue:	
(1,273)	- Direct revenue contributions	(1,776)
(1,732)	- MRP/loans fund principal	(2,062)
(2,159)	- Nexus borrowing repayment	(2,137)
170,150	Closing Capital Financing Requirement	214,386
	Explanation of movements in year:	
37,969	- Increase in underlying need to borrow (unsupported by government financial assistance)	44,236
37,969	Increase/(decrease) in Capital Financing Requirement	44,236

Notes to the Accounts

Note 27: Leases

Operating Leases: The Authority has a number of operating leases of land and buildings for the New Tyne Crossing construction. The future minimum lease payments due under non-cancellable leases in future years are:

31 March 2011	31 March 2012
£000	£000
49 Not later than one year	25
- Later than one year and not later than five years	-
- Later than five years	-
49	25

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

2010/11	2011/12
£000	£000
179 Minimum lease payments	120
179	120

Note 28: 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 to operate both vehicle tunnels, alongside the pedestrian and cycle tunnel. The ITA receives the total toll income, and pays a proportion of this to TT2 Ltd as a monthly usage payment. In 2011/12, the payment under the contract was £53.149m (£6.522m for usage payments and capital payments of £46.627m). In 2010/11 this was £40.714m. The payment under the contract in 2012/13 is estimated to be £14.031m, all related to usage payments. The second tunnel was opened on 25 February 2011, and the refurbished original tunnel opened on 21 November 2011. Both are included on the ITA's balance sheet.

The contribution by TT2 is recognised as a deferred income balance (with a 2011/12 closing value of £132.832m) which will be written down over the remaining life of the contract, by crediting the Comprehensive Income and Expenditure Statement (CIES).

	31 March 2011	31 March 2012
	£000	£000
Shown as Short Term Liability on Balance Sheet	(51,980)	(5,501)
Shown as Long Term Liability on Balance Sheet	(113,580)	(127,331)
Total New Tyne Crossing Deferred Income Balance	(165,560)	(132,832)
Released to CIES in year	(603)	(5,628)

The amount credited to the CIES was significantly lower in 2010/11 than 2011/12 due to the fact that the new Tunnel was only open for six weeks of the 2010/11 financial year.

The amount shown as a Short Term Liability at 31 March 2011 was significantly higher than the current year as this included £46.627m capital milestone payments due to be made to the operator in 2011/12. No further capital milestone payments are due in future years.

Notes to the Accounts

Note 28 (Continued)

	Estimated TT2 Payment of Toll Income £000	Deferred Income release £000
Payable in 2012/13	14,031	(5,501)
Payable within two to five years	78,659	(20,373)
Payable within six to ten years	129,756	(25,466)
Payable within eleven to fifteen years	164,084	(25,466)
Payable within sixteen to twenty years	197,174	(25,466)
Payable within twenty-one to twenty-five years	228,723	(25,466)
Payable within twenty-six to thirty years	28,343	(5,093)
Total	840,771	(132,832)

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 pension 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 pension 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:

Financial Year	2007/08	2008/09	2009/10	2010/11	2011/12
Total assets	18,270	15,440	21,690	22,650	22,800
Total liabilities	(28,740)	(29,280)	(37,080)	(26,920)	(29,530)
Net Pension Liability	(10,470)	(13,840)	(15,390)	(4,270)	(6,730)

The net pension liability has increased in 2011/12, and there are two main reasons for this:

- The first is the change in the discount rate used in the calculation of the present value of the future payments required, from 5.5% at 31 March 2011 to 4.6% at 31 March 2012. This discount rate is required for IAS 19 purposes to be based on the yield on high quality long term corporate bonds, which have fallen since 31 March 2011. A lower discount rate results in a higher present value being placed on the future cashflows, and the liability has therefore increased.
- The second factor is asset performance. Market conditions have meant that returns on assets at 31 March 2012 are lower than those assumed at 31 March 2011, resulting in an increase in the deficit.

Notes to the Accounts

Note 29 (Continued)

Assets and Liabilities in Relation to Post-Employment Benefits

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

	Local Government Pension Scheme		Discretionary Benefits	
	£000	£000	£000	£000
	2010/11	2011/12	2010/11	2011/12
Opening balance at 1 April	36,170	26,130	910	790
Interest cost	1,720	1,410	40	40
Actuarial (gains) and losses	(5,100)	2,220	-	120
Benefits paid	(1,150)	(1,130)	(50)	(50)
Past service costs	(5,510)	-	(110)	-
Closing balance at 31 March	26,130	28,630	790	900

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

	Local Government Pension Scheme	
	£000	£000
	2010/11	2011/12
Opening balance at 1 April	21,690	22,650
Expected return on assets	1,580	1,710
Actuarial gains and (losses)	(530)	(1,320)
Employer contributions	1,060	890
Contributions by scheme participants	-	-
Benefits paid	(1,150)	(1,130)
Entity combinations	-	-
Settlements	-	-
Closing balance at 31 March	22,650	22,800

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.

Notes to the Accounts

Note 29 (Continued)

Scheme History

	2007/08	2008/09	2009/10	2010/11	2011/12
	£000	£000	£000	£000	£000
Present value of liabilities:					
Local Government Pension Scheme	(27,970)	(28,520)	(36,170)	(26,130)	(28,630)
Discretionary Benefits	(770)	(760)	(910)	(790)	(900)
Fair value of assets in the LGPS	18,270	15,440	21,690	22,650	22,800
Surplus/(deficit) in the scheme:	(10,470)	(13,840)	(15,390)	(4,270)	(6,730)
Local Government Pension Scheme	(9,700)	(13,080)	(14,480)	(3,480)	(5,830)
Discretionary Benefits	(770)	(760)	(910)	(790)	(900)
Total	(10,470)	(13,840)	(15,390)	(4,270)	(6,730)

The liabilities show the underlying commitment that the Authority has in the long run to pay post-employment (retirement) benefits. The total liability of £29.53m has a substantial impact on the net worth of the Authority as recorded in the Balance Sheet, resulting in an overall net worth of £118.496m. 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 2013 is £0.93m. Expected contributions for the Discretionary Benefits scheme in the year to 31 March 2012 are £0.05m.

Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels etc. Both the Local Government Pension Scheme and 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.

The principal assumptions used by the actuary have been:

Notes to the Accounts

Note 29 (Continued)

	Local Government Pension Scheme		Discretionary Benefits	
	2010/11	2011/12	2010/11	2010/11
Mortality assumptions:				
Longevity at 65 for current pensioners:				
Men	21.5	21.6	21.5	21.6
Women	23.7	23.8	23.7	23.8
RPI Inflation	3.35%	3.15%	3.35%	3.15%
CPI Inflation	2.45%	2.15%	2.45%	2.15%
Rate of increase in salaries	3.85%	3.65%	n/a	n/a
Rate of increase in pensions	2.45%	2.15%	2.45%	2.15%
Rate for discounting scheme liabilities	5.50%	4.60%	5.50%	4.60%

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

	31 March 2011		31 March 2012	
	Long-term expected rate of return (%) p.a.)	Asset split (%)	Long-term expected rate of return (%) p.a.)	Asset split (%)
Equities	8.4	68.0	8.1	68.5
Property	7.9	8.1	7.6	9.2
Government Bonds	4.4	7.0	3.1	7.1
Corporate Bonds	5.1	11.7	3.7	11.6
Cash	1.5	1.2	1.8	1.9
Other	8.4	4.0	8.1	1.7
Total	7.6	100.0	7.1	100.0

History of Experience Gains and Losses

The actuarial gains identified as movements on the Pensions Reserve in 2011/12 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31 March 2012:

	2008/09	2009/10	2010/11	2011/12
	%	%	%	%
Differences between the expected and actual return on asset	(30.1)	22.2	(2.3)	(5.8)
Experience gains and losses on liabilities	(0.8)	1.6	18.3	(2.9)

Notes to the Accounts

Note 30: Contingent Liabilities

The ITA has a contingent liability in relation to any gains or losses in the Local Government Pension Scheme transferred assets and liabilities that were transferred to TT2 Ltd 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 Ltd fund at the actuarial valuation, which can be attributed to pre-2008 benefits, the ITA will be required to reimburse the shortfall. At the most recent valuation the TT2 Ltd fund was found to be in surplus, therefore no reimbursement is currently due. The next valuation will be in 2014.

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 Treasury Management officers 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, within individual credit limits being set in accordance with internal ratings within parameters set by the Authority. The Authority has a very low risk of default from its customers for goods and services, since these are predominantly other local authorities or other public bodies such as Nexus.

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 applied to all of the Authority's deposits, but there was no evidence at 31

Notes to the Accounts

Note 31 (Continued)

March 2012 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:

	31 March 2011 £000	31 March 2012 £000
Less than one year	(35,056)	(4,726)
Between one and two years	-	(7,260)
Between two and five years	(3,402)	(5,333)
More than five years	(118,528)	(192,967)
	(156,986)	(210,286)

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 example, 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 rise
- Investments at fixed rates - the fair value of the assets will fall

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.

Notes to the Accounts

Note 31 (Continued)

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 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.

	£000
Increase in interest payable on variable rate borrowings	84
Increase in interest receivable on variable rate investments	(31)
Increase in government grant receivable for financing costs	-
Impact on Surplus or Deficit on the Provision of Services	53
Decrease in fair value of fixed rate investment assets	-
Impact on Other Comprehensive Income and Expenditure	-

According to this investment strategy, at 31 March 2012 if interest rates had been 1% higher with all other variables held constant, the financial effect would be:

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.

Notes to the Accounts

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

This note provides a reconciliation between the expenditure against budget for 2011/12 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 the amounts attributable to the ringfenced Tyne Tunnels General Fund reserves and the unearmarked ITA General Fund reserve.

	ITA £000	Tyne Tunnels £000	Total £000
Net Cost of Services	70,999	(7,162)	63,837
Financing and Investment Income & Expenditure	827	3,997	4,824
Taxation & Non-specific Grant Income	(73,792)	-	(73,792)
Surplus/Deficit on Provision of Services	(1,966)	(3,165)	(5,131)
Depreciation and Impairment	-	(6,481)	(6,481)
Write down of New Tyne Crossing Deferred Income	-	5,628	5,628
Capital Grants applied to finance Capital Expenditure	11,174	-	11,174
Revenue Expenditure Funded from Capital Under Statute	(13,119)	-	(13,119)
Reversal of items relating to retirement benefits in CIES	260	-	260
Employers' pension contributions and direct payments to pensioners payable in year	448	499	947
Statutory provision for financing of capital investment	1,351	711	2,062
Capital expenditure charged against the General Fund	-	1,776	1,776
Transfer to/from Earmarked reserves	1,919	-	1,919
Financial Instruments Adjustment	14	47	61
Movement in Reserves / Explanatory Foreword basis	81	(985)	(904)

Notes to the Accounts

Note 33: Accounting Policies

1. General Principles

The Statement of Accounts summarises the Authority's transactions for the 2011/12 financial year and its position at the year-end of 31 March 2012. The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit (England) Regulations, which those Regulations require to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 (the Code) and the Service Reporting Code of Practice for Local Authorities 2011/12, supported by International Financial Reporting Standards (IFRS).

The accounting convention adopted in the Statement of Accounts is principally historic 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

Where 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

Notes to the Accounts - Accounting Policies

opening balances and comparative amounts for the prior period as if the new policy had always been applied.

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

6. Charges to Revenue for Non-Current Assets

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

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

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

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

7. Employee Costs

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

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

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

8. Pensions

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

The relevant fund is the Tyne and Wear Pension Fund administered by South Tyneside

Notes to the Accounts - Accounting Policies

Metropolitan Borough Council, from whom a copy of the annual report may be obtained. The Fund website may be visited at www.twpf.info.

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

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

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

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

- a. **Current service cost** - the increase in liabilities as a result of years of service earned this year - allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked;
- b. **Past service cost** - the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years - debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non-Distributed Costs;
- c. **Interest cost** - the expected increase in the present value of liabilities during the year as they move one year closer to being paid - debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;
- d. **Expected return on assets** - the annual investment return on the fund assets attributable to the Authority, based on an average of the expected long-term return - 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 pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions - debited to the Pensions Reserve; and
- 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

Notes to the Accounts - Accounting Policies

payable by 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 Note 27.

9. Events After the Balance Sheet Date

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

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

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

10. Financial Instruments

Financial Liabilities

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

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

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

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread

Notes to the Accounts - Accounting Policies

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

Financial Assets

Financial assets are classified into two types:

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

Loans and Receivables

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

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

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

Available for Sale Assets

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

Notes to the Accounts - Accounting Policies

- 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 and Contributions

The provisions relating to Grants and Contributions apply to both revenue and capital grants and contributions. Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Authority when there is reasonable assurance that:

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

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

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation

Notes to the Accounts - Accounting Policies

and Non-Specific Grant Income (non-ringfenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

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

12. Leases

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

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

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

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

(a) The Authority as Lessee

Operating Leases

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

(b) The Authority as Lessor

Operating Leases

Where the Authority grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

Notes to the Accounts - Accounting Policies

13. Property, Plant and Equipment

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

Recognition

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

Measurement

Assets are initially measured at cost, comprising:

- The purchase price;

- Any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management; and

- The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

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

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

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

- Infrastructure, community assets and assets under construction – depreciated historical cost;

- All other assets – fair value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

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

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

Notes to the Accounts - Accounting Policies

Assets included in the Balance Sheet at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum every five years. This work is carried out on behalf of the Authority by the Property Services Division of the lead authority. The first such revaluation took place in 1999/00, with the most recent revaluation completed during 2011/12. These revaluations are detailed within the Notes to the Core Financial Statements.

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

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

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

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

De Minimis Levels

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

Impairment

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

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

Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains); and

Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Notes to the Accounts - Accounting Policies

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

Depreciation

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

Depreciation on all Property, Plant and Equipment assets is calculated by taking the asset value at 31 March 2012, divided by remaining life expectancy. Depreciation is therefore charged in the year of acquisition, but not the year of disposal.

Depreciation on vehicles and plant is based on a thirty year useful economic life, since this class of asset relates to assets which were transferred to the concessionaire, TT2 Ltd at the commencement of the thirty year contract. These assets (or their equivalent replacements) are to be returned to the ITA at the end of the contract.

The Tyne Vehicle Tunnels are depreciated over a 120 year useful life and the Tyne Pedestrian and Cycle Tunnels over a 40-120 year.

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 historic cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Where an item of Property, Plant and Equipment assets has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately. In the most recent valuations of the Tyne Tunnels, it was assessed that although Mechanical and Electrical Service and the Toll Plaza have an economic life of 20 years, these formed less than 20% of the overall valuation and have not therefore been classed as significant components.

Disposals

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

14. Public Private Partnership (PPP) Contracts

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

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

Notes to the Accounts - Accounting Policies

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

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

In most arrangements within the scope of the Application, the grantor will account for the arrangement's financing by recording and measuring a long term liability in accordance with IAS17. This treatment reflects an obligation to pay the operator for the full value of the asset along with the operator's cost of finance. However in the New Tyne Crossing Project, TT2 Ltd. (the Operator) receives a defined proportion of the total toll revenue and uses this to meet its cost of constructing and operating the new tunnel and the existing tunnel. The ITA may therefore have no long term obligation to transfer economic resources to TT2 Ltd. and hence should not recognise a liability.

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

- In each month the ITA 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 the ITA. If the ITA varies a Real Toll from its corresponding Formula Toll, the Operator is compensated for the effect of this adjustment on demand.

The ITA 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 the ITA has no long-term obligation to transfer economic resources to the Operator, since the Operator revenue is in substance transferred directly to it. The ITA therefore should not recognise a long term liability to finance the project assets.

In relation to such an arrangement, the Code and the accompanying guidance do not provide clear guidance. However, the guidance notes accompanying the Code suggest that the credit that matches the asset should be a deferred income balance. 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

Notes to the Accounts - Accounting Policies

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 as been charged as expenditure to the

Notes to the Accounts - Accounting Policies

relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Authority has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reversed out the amounts charged so that there is no impact on the levy.

19. VAT

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

20. Overheads

The costs of central support services e.g. Finance and Legal Services have been allocated to 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 the New Tyne Crossing project in accordance with estimated work done on each area.

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 2011/12 to produce Group Accounts to include services provided to Council Tax payers in Tyne and Wear by organisations other than the Authority itself in which the Authority has an interest.

Although there has been no definitive ruling by CIPFA or central government in relation to Integrated Transport Authorities and Passenger Transport Executives, it is recognised that the accounts of Nexus fall within the definition of a subsidiary. As such, group accounts have been prepared 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 2011/12 accounts, the ITA has fully complied with the requirements of the Code, providing Group figures for the 2011/12 accounts and comparators for 2010/11. From 2010/11, Passenger Transport Executives have been required to produce their accounts under International Financial Reporting Standards, and as if the proper practices in relation to accounts applicable to a local authority were, so far as appropriate, applicable to an Executive. The group financial statements are prepared in accordance with the policies set out in the Statement of Accounting Policies above.



Section 3

Tyne & Wear Integrated Transport Authority

Group Accounts for the year ended 31
March 2012



Group Movement in Reserves Statement

	ITA Usable Reserves £000	ITA Unusable Reserves £000	Total ITA Reserves £000	Authority Share of Nexus £000	Total Group Reserves £000
Balance at 1 April 2011	(56,098)	(60,329)	(116,427)	(353,211)	(469,638)
<u>Movement in reserves during 2011/12</u>					
Surplus or (deficit) on provision of services	(5,132)	-	(5,132)	(36,825)	(41,957)
Other Comprehensive Income and Expenditure	-	3,063	3,063	23,648	26,711
Total Comprehensive Income and Expenditure	(5,132)	3,063	(2,069)	(13,177)	(15,246)
Adjustments between accounting basis and funding basis under regulations	2,596	(2,596)	-	-	-
Net Increase/Decrease before Transfers to Earmarked Reserves	(2,536)	467	(2,069)	(13,177)	(15,246)
Transfer to/from Earmarked Reserves	-	-	-	-	-
Increase/Decrease in 2011/12	(2,536)	467	(2,069)	(13,177)	(15,246)
Balance at 31 March 2012 carried forward	(58,634)	(59,862)	(118,496)	(366,388)	(484,884)

Analysis of Usable and Unusable Reserves

	Balance at 31 March 2012 carried forward		
	Usable Reserves £000	Unusable Reserves £000	Total Group Reserves £000
ITA	(58,634)	(59,862)	(118,496)
Nexus	(35,497)	(330,891)	(366,388)
Total	(94,131)	(390,753)	(484,884)

Group Movement in Reserves Statement

Comparative Figures for 2010/11

	ITA Usable Reserves £000	ITA Unusable Reserves £000	Total ITA Reserves £000	Authority Share of Nexus £000	Total Group Reserves £000
Balance at 1 April 2010	(50,698)	(63,235)	(113,933)	(274,304)	(388,237)
<u>Movement in reserves during 2010/11</u>					
Surplus or (deficit) on provision of services	2,197	-	2,197	(77,007)	(74,810)
Other Comprehensive Income and Expenditure	-	(4,691)	(4,691)	(1,900)	(6,591)
Total Comprehensive Income and Expenditure	2,197	(4,691)	(2,494)	(78,907)	(81,401)
Adjustments between accounting basis and funding basis under regulations	(7,597)	7,597	-	-	-
Net Increase/Decrease before Transfers to Earmarked Reserves	(5,400)	2,906	(2,494)	(78,907)	(81,401)
Transfer to/from Earmarked Reserves	-	-	-	-	-
Increase/Decrease in 2010/11	(5,400)	2,906	(2,494)	(78,907)	(81,401)
Balance at 31 March 2011 carried forward	(56,098)	(60,329)	(116,427)	(353,211)	(469,638)

Analysis of Usable and Unusable Reserves

	Balance at 31 March 2011 carried forward		
	Usable Reserves £000	Unusable Reserves £000	Total Group Reserves £000
ITA	(56,098)	(60,329)	(116,427)
Nexus	(31,113)	(322,098)	(353,211)
Total	(87,211)	(382,427)	(469,638)

Group Comprehensive Income and Expenditure Statement

The 2010/11 figures have been restated as a result of a prior period adjustment made to the Nexus single entity accounts. Further details are provided in Group Accounts Note 22 on p. 107.

← 2010/11 (restated) →				← 2011/12 →		
Gross Expenditure	Gross Income	Net Expenditure		Gross Expenditure	Gross Income	Net Expenditure
£000	£000	£000		£000	£000	£000
2,631	-	2,631	Corporate and Democratic Core	2,442	-	2,442
			Highways and Transport			-
19,673	(13,780)	5,893	- Tyne Tunnels	13,328	(20,519)	(7,191)
159,642	(93,892)	65,750	- Other Highways and Transport Services	165,608	(94,394)	71,214
(5,375)	-	(5,375)	Non-Distributed Costs	147	-	147
(34,070)	-	(34,070)	Pensions - Exceptional Item	-	-	-
142,501	(107,672)	34,829	Cost of Services	181,525	(114,913)	66,612
9,144	(3,516)	5,628	Financing and Investment Income and Expenditure (Note 3)	8,830	(3,061)	5,769
	(116,480)		Non-Specific Grant Income (Note 5)			(114,338)
	(76,022)		(Surplus) / Deficit on Provision of Services			(41,957)
		1,212	Taxation Charge for the Year			608
	(121)		Surplus / (Deficit) on Revaluation of Fixed Assets (Note 6)			(597)
	(6,470)		Actuarial (Gains) / Losses on Pension Fund Assets and Liabilities (Note 14)			26,700
	(5,379)		Other Comprehensive Income and Expenditure			26,711
	(81,401)		Total Comprehensive Income and Expenditure			(15,246)

Group Balance Sheet

31 March 2011 £000	Notes	31 March 2012 £000
752,582 Property, Plant and Equipment	6	790,800
1,272 Intangible Assets	7	2,190
82 Assets held for Sale		-
1 Long Term Investments	8	1
753,937 Long Term Assets		792,991
- Short Term Investments	8	23,000
1,353 Inventories		1,432
24,049 Short Term Debtors	9	26,664
101,636 Cash and Cash Equivalents	10	95,772
127,038 Current Assets		146,868
(36,426) Short Term Borrowing	8	(4,726)
(31,762) Short Term Creditors	11	(27,608)
(51,980) New Tyne Crossing - Deferred Income		(5,501)
(203) Grants and Contributions Receipts in Advance	12	(8,637)
(120,371) Current Liabilities		(46,472)
(113,579) New Tyne Crossing - Deferred Income		(127,331)
(1,320) Provisions	13	(845)
(9,051) Grants and Contributions Receipts in Advance	12	(7,670)
(120,560) Long Term Borrowing	8	(205,560)
(41,887) Other Long Term Liabilities	14	(61,920)
(4,569) Deferred Tax Liability	15	(5,177)
(290,966) Long Term Liabilities		(408,503)
469,638 Net Assets		484,884
(87,211) Usable Reserves	16	(94,131)
(382,427) Unusable Reserves	17	(390,753)
(469,638)		(484,884)

Treasurer's Certificate

I certify that the accounts set out on pages 87 to 107 present a true and fair view of the financial position of the Tyne and Wear Integrated Transport Authority as at 31 March 2012

Signed

Treasurer

Date:

Group Cash Flow Statement

2010/11 Restated £000	Notes	2011/12 £000
(76,022)	Net (surplus) or deficit on the provision of services	(41,957)
(33,671)	Adjustments to net surplus or deficit on the provision of services for non cash movements	(1,688)
95,141	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	50,017
<u>(14,552)</u>	Net cash flows from Operating Activities	<u>6,371</u>
(15,131)	Investing activities	50,252
(5,577)	Financing activities	(50,760)
(35,260)	Net increase or decrease in cash and cash equivalents	5,864
(66,376)	Cash and cash equivalents at the beginning of the reporting period	(101,636)
<u>(101,636)</u>	Cash and cash equivalents at the end of the reporting period	<u>(95,772)</u>

Details of the prior year restatement are given in Group Accounts Note 22, p. 107.

Group Notes to the Accounts

Group Note 1: Group Accounts

Under the Code of Practice for Local Authority Accounting 2011/12, 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. From 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. The accounting policies adopted by Nexus are now largely aligned with those of the ITA, with the following minor differences:

Deferred Tax

The ITA 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 and 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. 43 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. 43.

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

Group Notes to the Accounts

Group Note 2: 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:

Responsibility	Title	Officer
Policy / Legal / Administration	Clerk (to 31 August 2012*)	Barry Rowland
Financial Advice	Treasurer & Deputy Clerk	Paul Woods
Engineering	Director of Housing, Planning and Transportation	Harvey Emms

* Following the departure of Barry Rowland from the lead authority, Paul Woods is deputising as Clerk until such time as a formal Acting Clerk or new permanent Clerk to the Authority is appointed.

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

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

Group Note 3: Financing and Investment Income and Expenditure

2010/11		2011/12
£000		£000
6,483	Interest payable and similar charges	8,830
2,661	Pensions interest cost and expected return on pensions assets	(1,080)
(3,516)	Interest receivable and similar income	(1,981)
<u>5,628</u>		<u>5,769</u>

Group Note 4: Grant Income Credited to Services

The following grants and contributions were credited to the Surplus or Deficit on the Provision of Services:

2010/11		2011/12
£000		£000
-	Local Sustainable Transport Fund	(426)
(4,821)	Local Transport Plan	(10,774)
-	North East Smart Ticketing Initiative	(202)
(25,300)	Metro Rail Grant	(24,746)
(5,672)	Concessionary Travel Grant	-
(4,364)	Heavy Rail Grant	(4,637)
(557)	Other Grants	(70)
<u>(40,714)</u>	Total	<u>(40,855)</u>

Group Notes to the Accounts

Group Note 5: Non-Specific Grant Income

The following amounts are included within the CIES line 'Non-Specific Grant Income':

2010/11		2011/12
£000		£000
(71,706)	Levy on Tyne and Wear Authorities	(73,792)
(44,774)	Nexus Capital Grants	(40,546)
(116,480)		(114,338)

Group Note 6: Property, Plant and Equipment

	Other Land and Buildings	Vehicles, Plant, Furniture & Equipment	Infrastructure Assets	Assets Under Construction	Total Property, Plant and Equipment
	£000	£000	£000	£000	£000
Cost or Valuation					
<u>At 1 April 2011</u>	16,965	32,455	865,822	40,083	955,325
Additions	-	-	21,499	42,188	63,687
Revaluation increases/(decreases) recognised in the Revaluation Reserve	-	597	-	-	597
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	-	-	(2,627)	-	(2,627)
Disposals	-	(147)	(58)	-	(205)
Derecognition - Other	(222)	(1,968)	(10)	-	(2,200)
Transfers from assets under construction	-	901	24,166	(25,067)	-
Assets reclassified	(3,772)	(3,108)	6,258	(722)	(1,344)
Other movements in cost or valuation	-	(466)	-	-	(466)
<u>At 31 March 2012</u>	<u>12,971</u>	<u>28,264</u>	<u>915,050</u>	<u>56,482</u>	<u>1,012,767</u>

Accumulated Depreciation and Impairment

<u>At 1 April 2011</u>	(2,556)	(22,415)	(177,772)	-	(202,743)
Depreciation charge	(140)	(1,241)	(20,349)	-	(21,730)
Derecognition - disposals	-	100	35	-	135
Derecognition - other	222	1,968	10	-	2,200
Assets reclassified	2,044	1,306	(3,179)	-	171
<u>At 31 March 2012</u>	<u>(430)</u>	<u>(20,282)</u>	<u>(201,255)</u>	<u>-</u>	<u>(221,967)</u>

Net Book Value

At 31 March 2012	12,541	7,982	713,795	56,482	790,800
At 31 March 2011	14,409	10,040	688,050	40,083	752,582

Group Notes to the Accounts

Group Note 6 (Continued)

Comparative Figures for 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
Cost or Valuation					
<u>At 1 April 2010</u>	16,965	31,444	604,442	60,655	713,506
Additions	-	466	206,404	48,629	255,499
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)
Disposals	-	(252)	-	-	(252)
Transfers to assets held for sale	-	(390)	(237)	-	(627)
Transfers from assets under construction	-	1,066	68,135	(69,201)	-
<u>At 31 March 2011</u>	16,965	32,455	865,822	40,083	955,325
Accumulated Depreciation and Impairment					
<u>At 1 April 2010</u>	(2,397)	(21,163)	(159,470)	-	(183,030)
Depreciation charge	(159)	(1,831)	(18,507)	-	(20,497)
Transfer to assets held for sale	-	340	205	-	545
Disposals	-	239	-	-	239
<u>At 31 March 2011</u>	(2,556)	(22,415)	(177,772)	-	(202,743)
Net Book Value					
<u>At 31 March 2011</u>	14,409	10,040	688,050	40,083	752,582
<u>At 31 March 2010</u>	14,568	10,281	444,972	60,655	530,476

Group Notes to the Accounts

Group Note 7: Intangible Assets

2010/11		2011/12
£000		£000
Cost or Valuation		
1,954	At 1 April	1,954
Additions:		
-	Transfers from assets under construction	722
-	Assets reclassified	622
-	Derecognition - other	(283)
1,954	At 31 March	3,015
Depreciation and Impairment		
408	Accumulated at 1 April	682
274	Depreciation provided during the period	256
-	Assets reclassified	170
-	Derecognition - other	(283)
682	Accumulated at 31 March	825
Net Book Value		
1,546	At 31 March 2011	1,272
1,272	At 31 March 2012	2,190

Group Note 8: Financial Instruments

31 March 2011		31 March 2012
£000		£000
Long Term Investments:		
1	Unquoted Equity Investment at cost	1
Short Term Investments:		
-	Bank deposits	23,000
Short Term Debtors:		
24,049	Short Term Debtors	26,664
Borrowing:		
(36,426)	Short term borrowing	(4,726)
(120,560)	Financial liabilities at amortised cost - long term borrowing	(205,560)
(156,986)		(210,286)
Other Long Term Liabilities:		
(41,887)	Pensions Liability	(61,920)
Short Term Creditors:		
(31,762)	Short Term Creditors	(27,608)

Group Notes to the Accounts

Group Note 9: Short Term Debtors

31 March 2011		31 March 2012
£000		£000
19,541	Central government bodies	20,058
371	Other local authorities	5,829
26	NHS bodies	-
120	Public corporations and trading funds	73
3,991	Other entities and individuals	704
24,049	Total	26,664

Group Note 10: Cash and Cash Equivalents

31 March 2011		31 March 2012
£000		£000
46,336	Cash at bank and in hand	67,312
55,300	Short-term deposits with building societies	28,460
101,636	Total Cash and Cash Equivalents	95,772

Group Note 11: Short Term Creditors

31 March 2011		31 March 2012
£000		£000
(1,029)	Central government bodies	(1,076)
(367)	Other local authorities	(4,115)
(1)	NHS Bodies	(3)
(239)	Public Corporations	(7)
(30,126)	Other entities and individuals	(22,407)
(31,762)	Total	(27,608)

Group Note 12: Grants and Contributions Receipts in Advance

The Authority has received a number of grants and contributions that have yet to be recognised as income in the Comprehensive Income and Expenditure Statement as they have conditions attached to them that will require the monies to be returned to the giver if they are not fulfilled.

31 March 2011		31 March 2012
£000		£000
-	Local Transport Plan	(2,779)
-	Local Sustainable Transport Fund	(4,478)
(8,317)	North East Smart Ticketing Initiative	(8,114)
(937)	Other	(936)
(9,254)	Total	(16,307)
(203)	Shown as Short Term Liability on Balance Sheet	(8,637)
(9,051)	Shown as Long Term Liability on Balance Sheet	(7,670)
(9,254)		(16,307)

Group Notes to the Accounts

Group Note 13: Provisions

Provisions in the Group Accounts relate wholly to Nexus.

Provisions are established to meet liabilities or losses that are likely or certain to be incurred, but where the amounts or timings are uncertain. Provisions during the year can be analysed as follows:

	Insurance Excess (1)	Employment Related (2)	Capital Expenditure (3)	Total
	£000	£000	£000	£000
At 31 March 2011	(365)	(388)	(567)	(1,320)
Additional Provisions Made	(91)	(27)	(251)	(369)
Utilised during the year	192	415	91	698
Unused amounts reversed	-	-	146	146
At 31 March 2012	(264)	-	(581)	(845)

- (1) Public liability claims for minor accidents to the public, and Employer's liability claims for work related illnesses received for incidents prior to the year end.
 - (2) Costs for certain employment related obligations and benefits.
 - (3) Claims for additional costs associated with the Nexus capital programme.
-

Group Note 14: Defined Benefit Pension Scheme

Participation in the Pension Scheme

The ITA 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.

In 2011/12, the pension deficits for both the ITA and Nexus have increased as a result of a change in the discount rate used by the actuaries in the calculation of the present value of the future payments required, from 5.5% at 31 March 2011 to 4.6% at 31 March 2012. A lower discount rate results in a higher present value being placed on the future cashflows, and the liability has therefore increased. A further factor in the increase in the overall liability shown on the balance sheet is asset performance. Market conditions have meant that returns on assets at 31 March 2012 are lower than those assumed at 31 March 2011, resulting in an increase in the net deficit.

Group Notes to the Accounts

Group Note 14 (Continued)

Principal Mortality and Financial Assumptions

The principal assumptions used by the actuary are:

	Local Government Pension Scheme				Discretionary Benefits			
	2010/11		2011/12		2010/11		2011/12	
	ITA Nexus		ITA Nexus		ITA Nexus		ITA Nexus	
Mortality assumptions:								
Longevity at 65 for current pensioners:								
Men (years)	21.5	21.5	21.6	21.6	21.5	21.5	21.6	21.6
Women (years)	23.7	23.7	23.8	23.8	23.7	23.7	23.8	23.8
Financial assumptions:								
RPI Inflation	3.4%	3.7%	3.2%	3.5%	3.4%	3.6%	3.2%	3.4%
CPI Inflation	2.5%	2.8%	2.2%	2.5%	2.5%	2.7%	2.2%	2.4%
Rate of increase in salaries	3.9%	5.2%	3.7%	5.0%	n/a	n/a	n/a	n/a
Rate of increase in pensions	3.6%	2.8%	2.2%	2.5%	2.5%	2.7%	2.2%	2.4%
Rate for discounting scheme liabilities	5.5%	5.5%	4.6%	4.7%	5.5%	5.5%	4.6%	4.6%

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 IAS 19.

	31 March 2011		31 March 2012	
	Long-term expected rate of return (% p.a.)	Asset split (%)	Long-term expected rate of return (% p.a.)	Asset split (%)
Equities	8.4	68.0	8.1	68.5
Property	7.9	8.1	7.6	9.2
Government Bonds	4.4	7.0	3.1	7.1
Corporate Bonds	5.1	11.7	3.7	11.6
Cash	1.5	1.2	1.8	1.9
Other	8.4	4.0	8.1	1.7
Total	7.6	100.0	7.1	100.0

Group Notes to the Accounts

Group Note 14 (Continued)

Summary of Funded and Unfunded Liabilities

	31 March 2012			31 March 2011		
	ITA £000	Nexus £000	Group £000	ITA £000	Nexus £000	Group £000
Funded Benefits	(5,830)	(49,960)	(55,790)	(3,480)	(32,340)	(35,820)
Unfunded Benefits	(900)	(5,230)	(6,130)	(790)	(5,270)	(6,060)
Net pension liability	(6,730)	(55,190)	(61,920)	(4,270)	(37,610)	(41,880)

Reconciliation of Funded Status to Balance Sheet

31 March 2011				31 March 2012		
ITA £000	Nexus £000	Group £000		ITA £000	Nexus £000	Group £000
22,650	132,800	155,450	Fair value of assets	22,800	136,240	159,040
(26,130)	(165,140)	(191,270)	Present value of funded defined benefit obligation	(28,630)	(186,200)	(214,830)
(3,480)	(32,340)	(35,820)	Pension liability recognised on Balance Sheet	(5,830)	(49,960)	(55,790)

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

2010/11				2011/12		
ITA £000	Nexus £000	Group £000		ITA £000	Nexus £000	Group £000
(36,170)	(239,220)	(275,390)	Opening defined benefit obligation	(26,130)	(165,140)	(191,270)
-	(3,580)	(3,580)	Current service cost	-	(2,980)	(2,980)
(1,720)	(9,130)	(10,850)	Interest cost	(1,410)	(9,000)	(10,410)
-	(1,140)	(1,140)	Contribution by participants	-	(1,040)	(1,040)
5,100	4,670	9,770	Actuarial (gains) / losses on liabilities	(2,220)	(15,040)	(17,260)
1,150	7,590	8,740	Net benefits paid out	1,130	7,110	8,240
5,510	16,350	21,860	Past service cost	-	(110)	(110)
-	59,320	59,320	Settlements	-	-	-
(26,130)	(165,140)	(191,270)	Closing defined benefit obligation	(28,630)	(186,200)	(214,830)

Group Notes to the Accounts

Group Note 14 (Continued)

Charges to the Surplus or Deficit on the Provision of Services

2010/11			2011/12		
ITA £000	Nexus £000	Group £000	ITA £000	Nexus £000	Group £000
-	3,580	3,580	-	2,980	2,980
(5,510)	(16,350)	(21,860)	-	110.00	110
1,720	9,130	10,850	1,410	9,000	10,410
(1,580)	(9,150)	(10,730)	(1,710)	(10,100)	(11,810)
-	(17,350)	(17,350)	-	-	-
(5,370)	(30,140)	(35,510)	(300)	1,990	1,690
Expense recognised					

Analysis of Amounts Recognised in Other Comprehensive Income and Expenditure

2010/11			2011/12		
ITA £000	Nexus £000	Group £000	ITA £000	Nexus £000	Group £000
4,570	1,980	6,550	(3,540)	(22,880)	(26,420)
-	-	-	-	-	-
Adjustment in respect of paragraph 58					
4,570	1,980	6,550	(3,540)	(22,880)	(26,420)
Total gains / (losses)					

Changes to the fair value of assets during the accounting period

2010/11			2011/12		
ITA £000	Nexus £000	Group £000	ITA £000	Nexus £000	Group £000
21,690	166,440	188,130	22,650	132,800	155,450
1,580	9,150	10,730	1,710	10,100	11,810
(530)	(2,690)	(3,220)	(1,320)	(7,840)	(9,160)
Actuarial gains / (losses) on assets					
1,060	8,320	9,380	890	7,250	8,140
-	1,140	1,140	-	1,040	1,040
Contributions by the participants					
(1,150)	(7,590)	(8,740)	(1,130)	(7,110)	(8,240)
-	(41,970)	(41,970)	-	-	-
Settlements					
22,650	132,800	155,450	22,800	136,240	159,040
Closing fair value of assets					

Group Notes to the Accounts

Group Note 14 (Continued)

Actual return on assets

2010/11			2011/12		
ITA £000	Nexus £000	Group £000	ITA £000	Nexus £000	Group £000
1,580	9,150	10,730	1,710	10,100	11,810
(530)	(2,690)	(3,220)	(1,320)	(7,840)	(9,160)
1,050	6,460	7,510	390	2,260	2,650
Expected return on assets			Expected return on assets		
Actuarial gain / (loss) on assets			Actuarial gain / (loss) on assets		
Actual return on assets			Actual return on assets		

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

	31 March 2012 Group £000	31 March 2011 Group £000	31 March 2010 Group £000	31 March 2009 Group £000	31 March 2008 Group £000
Fair value of assets	159,040	155,450	188,130	132,700	157,220
Present value of liabilities	(214,830)	(191,270)	(275,390)	(201,800)	(192,700)
Deficit	(55,790)	(35,820)	(87,260)	(69,100)	(35,480)

Unfunded Benefits

Reconciliation of Balance Sheet

31 March 2011			31 March 2012		
ITA £000	Nexus £000	Group £000	ITA £000	Nexus £000	Group £000
(790)	(5,270)	(6,060)	(900)	(5,230)	(6,130)
Present value of unfunded defined benefit obligation			Present value of unfunded defined benefit obligation		
(790)	(5,270)	(6,060)	(900)	(5,230)	(6,130)
Pension liability recognised on Balance Sheet			Pension liability recognised on Balance Sheet		

Group Notes to the Accounts

Group Note 14 (Continued) - Unfunded Benefits

Charges to the Surplus or Deficit on the Provision of Services

2010/11			2011/12		
ITA £000	Nexus £000	Group £000	ITA £000	Nexus £000	Group £000
(110)	(370)	(480)	-	-	-
40	290	330	40	280	320
(70)	(80)	(150)	40	280	320
Past service cost					
Interest cost					
Expense recognised					

Analysis of amounts recognised in Other Comprehensive Income and Expenditure

2010/11			2011/12		
ITA £000	Nexus £000	Group £000	ITA £000	Nexus £000	Group £000
-	(80)	(80)	(120)	(160)	(280)
-	(80)	(80)	(120)	(160)	(280)
Total actuarial gains / (losses)					
Total gains / (losses)					

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

2010/11			2011/12		
ITA £000	Nexus £000	Group £000	ITA £000	Nexus £000	Group £000
(910)	(5,770)	(6,680)	(790)	(5,270)	(6,060)
(40)	(290)	(330)	(40)	(280)	(320)
-	(80)	(80)	(120)	(160)	(280)
50	500	550	50	480	530
110	370	480	-	-	-
(790)	(5,270)	(6,060)	(900)	(5,230)	(6,130)
Opening defined benefit obligation					
Interest cost					
Actuarial (gains) / losses on liabilities					
Net benefits paid out					
Past service cost					
Closing defined benefit obligation					

History of present value of liabilities and deficit

	31 March 2012 Group £000	31 March 2011 Group £000	31 March 2010 Group £000	31 March 2009 Group £000	31 March 2008 Group £000
Present value of liabilities	(6,130)	(6,060)	(6,680)	(7,770)	(7,740)
Deficit	(6,130)	(6,060)	(6,680)	(7,770)	(7,740)

Group Notes to the Accounts

Group Note 15: Deferred Tax Liability

Deferred Taxation in the Group Accounts relates wholly to Nexus.

The Balance Sheet figure comprises:

31 March 2011		31 March 2012
£000		£000
(4,764)	Excess of Capital Allowances over depreciation	(5,312)
(1,687)	Roll over relief on capital gains	(1,557)
187	Other timing differences	127
1,695	Tax effect of losses	1,565
(4,569)		(5,177)

Group Note 16: Usable Reserves

31 March 2011		31 March 2012
£000		£000
(2,600)	ITA General Fund	(2,519)
(40,772)	Tyne Tunnels General Fund	(41,757)
(12,438)	Metro Reinvigoration Reserve	(14,357)
(288)	Capital Grants and Contributions Unapplied	-
(15,417)	Nexus Revenue Reserves	(17,737)
(15,696)	Nexus Capital Reserves	(17,761)
(87,211)	Total Usable Reserves	(94,131)

Group Note 17: Unusable Reserves

31 March 2011		31 March 2012
£000		£000
(10,570)	Revaluation Reserve	(11,167)
(54,340)	Capital Adjustment Account	(55,669)
304	Financial Instruments Adjustment Account	243
41,887	Pensions Reserve	61,920
(314,638)	Nexus Grant Deferred Account	(343,074)
(45,070)	Nexus Unusable Capital Reserve	(43,006)
(382,427)	Total Unusable Reserves	(390,753)

Details of movements on the Revaluation Reserve, Capital Adjustment Account and Financial Instruments Adjustment Account are shown on p.49 of the ITA single entity accounts. These reserves relate to the ITA only.

Group Notes to the Accounts

Group Note 17 (Continued)

Pensions Reserve

2010/11		2011/12
£000		£000
93,940	Balance at 1 April	41,887
(6,470)	Actuarial (gains) or losses on pensions assets and liabilities	26,700
(51,620)	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	(1,080)
6,037	Employer's pensions contributions and direct payments to pensioners payable in the year	(5,587)
41,887	Balance at 31 March	61,920

Nexus Grant Deferred Reserve

This reserve reflects the unamortised value of grants received to fund capital expenditure

2010/11		2011/12
£000		£000
(279,739)	Balance at 1 April	(314,638)
11,148	Capital Grants Released	12,829
(46,047)	Capital Grants Applied	(41,266)
(314,638)	Balance at 31 March	(343,075)

Nexus Unusable Capital Reserve

This reserve reflects reserves utilised to fund capital expenditure

2010/11		2011/12
£000		£000
(47,028)	Balance at 1 April	(45,070)
(210)	Adjustment	40
(1,361)	Additions	(1,053)
3,529	Depreciation	3,117
(45,070)	Balance at 31 March	(42,966)

Group Notes to the Accounts

Group Note 18: Cash Flow Statement - Operating Activities

The cash flows for operating activities includes the following items relating to interest paid and received:

2010/11		2011/12
£000		£000
1,195	Interest received	1,981
(6,483)	Interest paid	(8,830)

Group Note 19: Cash Flow Statement - Adjustments to Net Surplus or Deficit on the Provision of Services for non-cash movements and items that are investing and financing activities

2010/11		2011/12
£000		£000
(76,022)	Surplus or deficit on the provision of services	(41,957)
	Adjustments to Surplus or Deficit on Provision of Services for Non-Cash Movements	
(19,566)	Depreciation	(21,986)
(12,922)	Impairment and Downward Valuations	(2,626)
52	Gain on disposal of non-current assets	5
7,064	(Increase) / Decrease in Creditors	4,300
(6,222)	Increase / (Decrease) in Debtors	1,328
(2,091)	Increase / Decrease in Inventories	(3)
45,583	Movement in Pension Liability	6,667
(44,966)	Carrying amount of long term and short term investments sold	-
(603)	Other non-cash items charged to the net surplus or deficit on the provision of services	5,627
(33,671)		(6,688)
	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	
52,140	Capital grants credited to surplus / deficit on provision of services	51,721
44,988	Proceeds from the sale of long term and short term investments	-
(1,987)	Other adjustments for items that are financing or investing activities	(1,704)
95,141		50,017
(14,552)	Net cash flow from operating activities	1,372

Group Notes to the Accounts

Group Note 20: Cash Flow Statement - Cash Flows from Investing Activities

Total		Total
2010/11		2011/12
£000		£000
79,097	Purchase of property, plant and equipment, investment property and intangible assets	88,152
-	Purchase of short-term and long-term investments	58,000
1,490	Other payments for investing activities	101
(65)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	-
(44,988)	Proceeds from short-term and long-term investments	(30,106)
(50,665)	Other receipts from investing activities	(60,895)
(15,131)	Net cash flows from investing activities	55,252

Group Note 21: Cash Flow Statement - Cash Flows from Financing Activities

2010/11		2011/12
£000		£000
(20,301)	Cash receipts of short and long-term borrowing	(89,000)
-	Other receipts from financing activities	(2,277)
12,250	Repayments of short and long-term borrowing	36,418
2,474	Other payments for financing activities	4,099
(5,577)	Net cash flows from financing activities	(50,760)

Group Note 22: Prior Year Restatements

1. The Group Comprehensive Income and Expenditure Statement for 2010/11 has been restated to take account of the following adjustments made to Nexus' accounts:

- (i) Revenue grants totalling £35.89m which are deemed to be specific to services provided, previously included as Non-Specific Grant Income, have been reclassified as income relating to Highways and Transport Services.
- (ii) £5.24m previously included in the statement as "Pensions—Exceptional Item" has been reallocated as follows:

	£000
Exceptional item as originally stated	39,310
Reallocated to:	
Highways and Transport Services	254
Corporate Costs	6
Non-Distributed Costs	(5,500)
	(5,240)
	34,070

2. The Group Cash Flow Statement has been restated to comply with the requirements of the 2011/12 Code. Items totalling £23.808m have been reclassified from 'Adjustments to net surplus or deficit on the provision of services for non cash movements' to 'Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities'.

Glossary of Terms

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.
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.
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.

Glossary of Terms

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.
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.
Earmarked Reserve	The measure of the wearing out, consumption or other reduction in the useful economic life of an asset.
Emoluments	Payments received in cash and benefits for employment.

Glossary of Terms

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 Pension 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.
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 licenses.
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.

Glossary of Terms

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 misstatement in the financial statements could be expected to lead to a distortion of the view given by the financial statements.
Minimum Revenue Provision (MRP)	An amount charged by the Authority to the Comprehensive Income and 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 and Equipment (PPE)	Assets that yield benefits to the Authority and the services 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 service 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 future possible 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

Revaluation Reserve	The reserve records the accumulated gains on the fixed assets held by the Authority 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.

An aerial photograph of a highway interchange. In the foreground, a multi-lane highway leads to a toll plaza with several lanes. A sign above the toll lanes reads 'WIDE LOADS'. To the left of the toll plaza, there is a small white building and a yellow truck. The highway continues to the right, curving around a green area. In the background, there is a residential area with red brick houses and a roundabout.

Section 4

Tyne & Wear Integrated Transport Authority

Annual Governance Statement for
the Year ended 31 March 2012

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.

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 addition to the Local Code, the authority's financial management arrangements conform with the governance requirements of the *CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010)* as set out in the Application Note to Delivering Good Governance in Local Government: A Framework.

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

The governance framework has been in place at the ITA for the year ended 31 March 2012 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 while also being flexible enough to be able to react to emerging changes. This is strengthened by the existence of bi-monthly policy seminars for Members.

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.

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 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.

The ITA was closely involved in the review of transport governance across the Tyne and Wear City Region. This strengthened the role of the ITA in developing transport strategy and policy at the City Region level. More recently, the ITA has been working closely with the newly established North East Local Enterprise Partnership on transport-related issues—including on the establishment of Local Transport Bodies to establish the Devolution of future Local Major Transport Schemes from 2015 onwards.

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

Annual Governance Statement

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.

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.

In previous years, the ITA completed an annual Value for Money (VFM) self-assessment that was submitted to our external auditors. This assessed 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.

From 2011/12 onwards, the Audit Commission has revised the approach to the auditor's local VFM work at certain types of body including integrated transport authorities. Auditors will now apply a lighter-touch approach to their local VFM work and will meet their VFM duty by:

- reviewing the annual governance statement;
- reviewing the results of the work of other relevant regulatory bodies or inspectorates;
- undertaking other local risk-based work as appropriate.

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

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

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.

The main non-financial performance reporting undertaken by the ITA relates to LTP3, which is the main strategy document of the ITA, covering all forms of transport in Tyne and Wear, and is underpinned by the first in a series of three year delivery plans (2011-14) setting out how the strategy will be put into effect at a local level.

The LTP3 Delivery Plan Chapter 5 (Monitoring) sets out the Performance Management Framework, based on monitoring the 12 main policies identified in the LTP3 strategy. Updated baseline measurements and targets were reported to the ITA in May 2012, and will be reviewed and monitored on a regular basis, with performance reported to the ITA and the ITA LTP Working Group.

Annual Governance Statement

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 clearly set out in the ITA's constitution, 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.

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 Registers 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.

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 2012.

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

Annual Governance Statement

Scrutiny Advisory 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 procedure for receiving and investigating complaints from the public

The ITA has an agreed whistle-blowing policy which is kept up to date and reviewed by Standards and Audit Committee. The policy is available via the ITA website.

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

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. An ITA away day took place in June, which included

Annual Governance Statement

presentations on a number of different areas of ITA work—to provide an introductory overview for all members. The intention is to repeat this every six months, with members asked to suggest topics which they would like to examine in more depth.

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 in recent years to the Tyne Tunnel, Haymarket Metro development, Sunderland Station development, the fitting of the new Metro cars as part of the reinvigoration programme, and London Docklands Light Railway—to examine future generation light rail trains.

ITA Members undertake an annual visit to examine relevant transport developments. The October 2011 visit was to view transport developments promoted by Transport for London and Docklands Light Railway. Schemes and policies considered included tendering for bus route networks, rolling out smartcard technology and future smartcard developments and technology developments in light rail operations. These issues are all very relevant to the ITA in respect of future transport policy, including the planning of next generation Metro, the implementation and roll out of Ticketing & Gating and the NESTI regional smartcard project and the delivery of better buses.

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, and all Committee papers are available on the ITA's website. The ITA has reviewed and refreshed its website during 2011/12 to ensure it is easier to use and with more up to date information. A feedback mechanism has been incorporated into the website, to encourage users to get in touch on any subject.

The consultation and involvement strategy sets out how Nexus on behalf of the ITA are engaging with their partners and stakeholders. The Nexus website encourages people to submit questions and offer feedback.

LTP3 was subject to a period of public consultation with feedback received through a myriad of channels including the website, social media, face-to-face interviews and letters. Comments received were used to finalise the document.

A round of informal preliminary stakeholder engagement took place on the Bus Strategy Delivery Project in January and February 2012. In summary, 234 people attended councillor and stakeholder meetings and 111 written responses were received. Feedback from this process will be used to inform the development of the refreshed Bus Strategy, which will include formal consultation once proposals have been developed.

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

Annual Governance Statement

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

The ITA is now working closely with the newly-established North East Local Enterprise Partnership on transport issues. A Local Transport Body has been established, made up of the seven Leaders and Elected Mayor of the local authorities in the North East. The Chair of the ITA is invited to this meeting as an observer. The officer group that provides support to the Local Transport Body is Chaired by the Clerk of the ITA, in his role as the lead Chief Executive for transport in the north east.

Partnership arrangements are in place for the Local Sustainable Transport Fund Schools Go Smarter programme, which includes a Programme Board made up of representatives of each of the Tyne and Wear Districts, Nexus, the ITA, and other delivery partners. A task-and-finish group has been established for delivery of the Better Bus Areas programme, made up of officers from the ITA, Districts, Nexus and the major bus operators.

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

The ITA has a partnership with TT2 Ltd to operate the Tyne Tunnels.

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. 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, reported to Standards and Audit Committee through regular progress reports and through the Annual Audit and Inspection Letter, Annual Governance Report and through meetings with officers.

Annual Governance Statement

- 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 ITA's Strategic Risk Register, which captures the most significant risks associated with delivery of the ITA's objectives
- h) The Lead Authority's own annual review of its Governance Framework
- i) The views of members through the ongoing work of the Standards and Audit Committee and the ITA
- j) 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 2011/12.

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.

The review did not highlight any governance or internal control issues as requiring significant improvement during 2011/12.

Annual Governance Statement

SECTION 7: CONCLUSION

We consider the governance and internal control environment operating during 2011/12 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.

Systems are in place to continually review and improve the governance and internal control environment.

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

We have been advised on the implications of the review by the ITA Officer Co-ordination Group.

Councillor David Wood
Chair of the ITA
Date:

Paul Woods
Treasurer and Deputy Clerk
Date:

Independent Auditors' Report to the Members of the Tyne & Wear Integrated Transport Authority

Opinion on the financial statements

We have audited the financial statements of the Tyne & Wear Integrated Transport Authority for the year ended 31 March 2012 under the Audit Commission Act 1998. The financial statements comprise the Authority and Group Movement in Reserves Statement, the Authority and Group Balance Sheet, the Authority and Group Cash Flow Statement, the Authority related notes 1 to 33, and the Group related notes 1 to 22. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

This report is made solely to the members of the Tyne & Wear Integrated Transport Authority in accordance with Part II of the Audit Commission Act 1998, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and of Audited Bodies published by the Audit Commission in March 2010. Our audit work has been undertaken so that we might state to the Authority those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Treasurer and auditor

As explained more fully in the Statement of the Accounting Officer's Responsibilities, the Treasurer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority and Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Authority and Group; and the overall presentation of the financial statements. We read all the financial and non-financial information in the explanatory foreword and the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of the Tyne & Wear Integrated Transport Authority as at 31 March 2012 and of its expenditure and income for the year then ended;

Independent Auditors' Report to the Members of the Tyne & Wear Integrated Transport Authority

- give a true and fair view of the financial position of the Group as at 31 March 2012 and of its income and expenditure for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

Opinion on other matters

In our opinion, the information given in the explanatory foreword and the annual report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- we designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects.

Other matter on which we are required to conclude

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are also required by the Audit Commission's Code of Audit Practice to report any matters that prevent us being satisfied that the audited body has put in place such arrangements.

We have undertaken our audit in accordance with the Code of Audit Practice and, having regard to the guidance issued by the Audit Commission in October 2011, we have considered the results of the following:

- our review of the annual governance statement;
- the work of other relevant regulatory bodies or inspectorates, to the extent the results of the work have an impact on our responsibilities; and
- our locally determined risk-based work.

As a result, we have concluded that there are no matters to report.

Independent Auditors' Report to the Members of the Tyne & Wear Integrated Transport Authority

Certificate

We certify that we have completed the audit of the Authority and Group accounts of the Tyne & Wear Integrated Transport Authority in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

David Wilkinson FCA CF
Engagement Lead
For and on behalf of Deloitte LLP
Appointed Auditor
Newcastle-upon-Tyne, United Kingdom
September 2012