Tyne and Wear Integrated Transport Authority

Meeting to be held: Committee Room, Civic Centre, Newcastle upon Tyne, NE99 2BN on Thursday 22 September 2011 at 10.00 am

(Labour Group pre-meeting at 9:00am) (Opposition Group pre-meeting at 9:30am)

Membership: D Wood (Chair), Blackburn, Burdis, Emerson, Green, Hall, Hanson, Hodson, Keating, Lott, Maughan, McElroy, McMillan, Murison, Stokel-Walker and P Wood

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

ITA papers are available on the ITA website at www.twita.gov.uk

Members are reminded to sign the attendance list

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

Tyne and Wear Integrated Transport Authority

28 July 2011
(10.00 - 11.30 am)

Civic Centre, Newcastle upon Tyne, NE99 2BN

Present:

Councillor: D Wood (Chair)

Councillors: Blackburn, Burdis, Emerson, Green, Hall, Hanson, Hodson, Keating, Lott, Maughan, McElroy, Murison, Stokel-Walker and P Wood

In attendance:

Newcastle City Council:
P Woods - Deputy Clerk and Treasurer (ITA)
R Gill - Policy Manager (ITA)
P Fenwick - New Tyne Crossing Project Director
E Goodman - Senior Accountant (ITA)
J Anderson - Transport Policy
V Miller - Democratic Services
N Whitefield - Press Office

Nexus:
B Garner - Director General
J Fenwick - Director of Finance and Resources
T Hughes - Director of Customer Services
L Robinson - Public Affairs Manager
H Matthews - Head of Business Development
K Farrage - Business Development Officer

Also:
J Leighton - Youth Council
G Jellett - Tyne and Wear Public Transport Users' Group
B Price - Sunderland Labour Party

26. **APOLOGIES FOR ABSENCE**

An apology for absence was received from Councillor McMillan.

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

Councillors D Wood, Emerson, Lott, Blackburn, Hanson, Hodson and P Wood declared a personal interest as holders of a concessionary travel pass.

28. MINUTES OF THE PREVIOUS MEETING

The minutes of the previous meeting held on 26 May 2011 were approved as a correct record and signed by the Chair.

Matters Arising

(a) Appointments to Committees and Working Groups 2011-2012

Standards and Audit Committee

(Minute 8 (b) refers)

RESOLVED – That Councillor S Green be appointed as member of the Standards and Audit Committee for 2011-2012.

Metro Sub-Committee

(Minute 8 (d) refers)

RESOLVED – That Councillor S Green be appointed as substitute member of the Metro Sub-Committee for 2011-2012.

Tyne Tunnels Working Group

(Minute 8 (h) refers)

RESOLVED – That Councillor P Wood be appointed as member of the Tyne Tunnels Working Group for 2011-2012.

(b) Local Sustainable Transport Fund

(Minute 21 refers)

R Gill was pleased to update the meeting that the application for the Key Components bid had been successful and the bid had been approved in full.

Officers were drawing up the details of the project. Consideration would be given to the inclusion of an activity to increase the use of the yellow school bus, as exemplified by Centro.

In relation to the main bid, the Department for Transport had delayed the submission date. Information on the new timetable was awaited.

More information on the Local Sustainable Transport Fund would be provided to members at the special meeting of the ITA scheduled for 9.30 am on 25 August 2011. Members were reminded about the importance of their attendance at this meeting.

29. OUTTURN AND DRAFT FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR 2010/11

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

P Woods presented the report which provided members with a summary of the Authority's financial position for 2010-2011 in advance of the submission of the full Accounts to the Authority in September 2011. A copy of the draft Accounts could be made available to members on request.

P Woods also provided the details of the minor amendments suggested by the ITA Standards and Audit Committee on 8 July 2011 and also clarified a number of points in relation to the financial reporting.

RESOLVED – That the report be noted.

30. REVENUE BUDGET MONITORING REPORT TO JUNE 2011

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

P Woods introduced the report which provided members with the budget monitoring information for the period 1 April to 30 June 2011.

RESOLVED – That the report be noted.

31. 2011/12 METRO ARP AND MAJOR PROJECT CAPITAL PROGRAMME - FIRST QUARTERLY REVIEW

Submitted: A report by the Director of Finance and Resources of Nexus (previously circulated and copy attached to Official Minutes).

J Fenwick presented the report which advised members on the overall performance of the 2011-2012 Metro and Major Projects Capital Programme and sought members' approval to increase the level of the programme to £54,725,000. During the discussion, J Fenwick and P Woods provided clarification on how the financing of the programme was planned to ensure its deliverability and to cover for natural slippages and delays.

RESOLVED – That:

(i) approval be given to the revised new level of £54,725,000 of the Metro and Major Projects Capital Programme, as detailed in Appendix A;

(ii) the report and the overall performance position of the 2011-2012 Metro and Major Projects Capital Programme be noted.

32. **NON-METRO CAPITAL PROGRAMME UPDATE**

Submitted: A joint report by the Deputy Clerk and Treasurer and Director of Finance and Resources of Nexus (previously circulated and copy attached to Official Minutes).

J Fenwick presented the report which updated the Authority on the progress on the Non-Metro Capital Programme and sought members' approval of the changes to the schemes, which were detailed in Appendix B.

RESOLVED – That:

(i) the report and progress of the Non-Metro Capital Programme be noted;
(ii) the approval be given to the scheme changes as detailed in Appendix B.

33. **HIGH SPEED RAIL CONSULTATION: ITA / NEXUS RESPONSE**

Submitted: A joint report by the Clerk and Director of Finance and Resources of Nexus (previously circulated and copy attached to Official Minutes).

B Garner presented the proposed joint response of the ITA and Nexus to the Department for Transport on the consultation on High Speed Rail. Members debated the matter.

RESOLVED – That the joint response subject to the outlined below amendment and addition be endorsed.

Amendment

The fifth paragraph of the response to Question 3 should be amended to read:
"It is vital that the high-speed line should link directly into the existing High Speed 1 line (London St Pancras-Channel Tunnel), to widen access to markets by enabling direct journeys to continental European destinations without changing in London. The alternative, where all passengers would have to change in London, would produce a disconnected network which would offer substantially fewer economic advantages for only a limited cost saving".

Addition

The response should include a proposal that the high speed line should link to the Durham coast line.

34. **RAIL DEVOLUTION**

Submitted: A report by the Director General of Nexus (previously circulated and copy attached to Official Minutes).

B Garner presented the report which informed members about the potential devolution of local rail services. The subject would be discussed at future meetings, including Policy Seminars. It was noted that at this point there was no clarity about funding. Members commented on the importance of the ITA's involvement in the process and the development of services and routes.

RESOLVED – That:

(i) the report be noted;

(ii) members be kept informed and involved.

35. **GOLD CARDS**

Submitted: A report by the Director General of Nexus (previously circulated and copy attached to Official Minutes).

J Fenwick presented the report which updated members on the sale of Gold Cards and the recommended position in relation to the hours of use of the Card.

RESOLVED – That the report and the recommended position in relation to the hours of use of Gold Cards be noted.

36. **NEW TYNE CROSSING CONSTRUCTION UPDATE**

Submitted:

(i) A report by the New Tyne Crossing Project Director (previously circulated and copy attached to Official Minutes);

(ii) A brochure with information on the construction progress (with the permission of the Chair, due to the timescales involved circulated at the meeting and copy attached to Official Minutes).

P Fenwick presented the report which outlined the progress made on the construction of the New Tyne Crossing, refurbishment of the existing vehicle tunnel and developments in relation to the Pedestrian and Cyclist Tunnel. Members were informed about the recent updates: the project was on target; the works on the south junction approach to the Tyne Tunnels continued.

The Chair congratulated P Fenwick and his colleagues on the recent event at the Pedestrian and Cyclist Tunnel.

RESOLVED – That the report and updates be noted.

37. **TYNE AND WEAR YOUTH TRANSPORT GROUP**

Submitted: A report by the Director General of Nexus (previously circulated and copy attached to Official Minutes).

T Hughes introduced the report which informed members about the proposed activities of the recently formed Tyne and Wear Youth Transport Group (the Group). J Leighton spoke about the work of the Group and the key issues that mattered to young people in relation to transport which was always high on their agenda. She took the opportunity to comment on High Speed Rail, explaining that the extension of High Speed Rail to the North East would help the retention of young people in the area.

Members welcomed the opportunity to engage with young people. Members were invited to the meetings of the Group. Perhaps, representatives from the bus operating companies could also be invited to those meetings.

RESOLVED – That the report be noted.

38. **ISSUES AND OPPORTUNITIES FOR THE YEAR AHEAD AND ITA POLICY WORK PROGRAMME**

Submitted: A joint report by the Clerk and Director General of Nexus (previously circulated and copy attached to Official Minutes).

R Gill presented the proposed work programme for 2011-2012 which was a relatively flexible and evolving document.

As an additional point, P Woods reminded members that, as part of the yearly budget setting process, officers would soon start to work on the next year's budget options. Members would be informed about the dates of informal discussions and briefings which would be prepared for them. The Chair asked for members to be informed about the dates and details as early as possible.

RESOLVED – That the report and update be noted.

39. **DATE AND TIME OF THE NEXT MEETING**

A special meeting of the Authority would be held on Thursday, 25 August 2011.

The next ordinary meeting of the Authority would be held on Thursday 22 September 2011 at 10am.

40. **EXCLUSION OF PRESS AND PUBLIC**

RESOLVED – That the press and public be excluded from the remainder of the meeting on the following grounds:

Agenda item:	**Reason:**
16. Confidential Minutes of the Previous Meeting	Paragraph 3 of Part 1 of Schedule 12 A to the Local Government Act 1972
17. Negotiated Concessionary Travel Settlement with Operators	Paragraph 3 of Part 1 of Schedule 12 A to the Local Government Act 1972

Tyne and Wear Integrated Transport Authority

25 August 2011
(9.30 - 9.55 am)

Present:

Councillor: D Wood (Chair)

Councillors: Blackburn, Burdis, Emerson, Green, Hall, Hanson, Keating, Lott, Maughan, McElroy and Stokel-Walker

In Attendance:

B Rowland	- Clerk, Newcastle City Council
P Woods	- Deputy Clerk and Treasurer (ITA), Newcastle City Council
S R Ovens	- Legal Advisor (ITA) , Newcastle City Council
R Gill	- Policy Manager (ITA), Newcastle City Council
P Fenwick	- New Tyne Crossing Project Director, Newcastle City Council
J Miller	- Democratic Services, Newcastle City Council

Also:

G Jellett	- Tyne and Wear Public Transport User's Group

43. **APOLOGIES FOR ABSENCE**

Apologies for absence were received from Councillors Hodson, McMillan, Murison and P Wood.

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

Councillors D Wood, Emerson, Lott, Blackburn and Hanson declared a personal interest as holders of a concessionary travel pass.

45. **PROPOSED MODIFICATION TO THE RIVER TYNE (TUNNELS) ORDER 2005**

Submitted: Report of NTC Project Director and Legal Advisor to the Authority (previously circulated and copy attached to Official Minutes).

P Fenwick introduced the report which asked the Authority to formally resolve to apply for an Order to modify the River Tyne (Tunnels) Order 2005 to extend the date by which the Concession Toll must be set from 25 August 2012 to 25 August 2013.

RESOLVED – That:

(i) the Project Director be authorised to apply to the Secretary of State for Transport for an Order under the Transport and Works Act 1992 (“the 1992 Act”) to modify the 2005 Order so as to require the Authority in setting a Concession Toll under paragraph 4 of Schedule 14 to the 2005 Order to do so by 25 August 2013 instead of by 25 August 2012;

(ii) the Project Director be authorised to take all necessary steps to secure the making of the proposed Order and to arrange for the preparation of all the necessary documentation required to support the application for the Proposed Order;

(iii) the Clerk be authorised to publish special notice of a further meeting of the Authority to take place after the Proposed Order has been applied for at which the decision to make this application must be confirmed.

46. **MODIFICATION OF TOLLS AT THE TYNE TUNNEL**

Submitted: Report by New Tyne Crossing Project Director/Treasurer to Tyne and Wear Integrated Transport Authority (previously circulated and copy attached to Official Minutes).

P Fenwick introduced the report which considered the potential for the Authority to implement it’s stated policy on tolls for motor-cycles in advance of setting the Concession Toll (in accordance with the River Tyne (Tunnels) Order 2005 – the ‘Order’).The report also proposed to increase the tolls at the Tyne Tunnel from 1 January 2012 in line with the toll strategy agreed on 27 September 2007.

RESOLVED: That the Authority:

(i) agree to implement a zero toll for motorcycles from 1 January 2012 and to do this by using the first option in 4.2 of the report i.e. by a formal revision of the toll as part of an application to the Secretary of State for the approval of the new tolling levels;

(ii) approve the increase in tolls for cars (class 2 vehicles) from £1.20 to £1.40 and for HGVs (class 3 vehicles from £1.50 to to £2.00) with effect from 1 January 2012 but subject to it not being implemented until the date when the New Tyne Project is fully commissioned and users are able to enjoy the additional capacity, if such a date is after 1 January 2012;

(iii) authorise the Project Director to publish relevant notices and submit the necessary documentation to the Secretary of State, as prescribed in the River Tyne (Tunnels) Order 2005 (Schedule 14 , Part 1) and as described in paragraph 9 of the report.

47. **LOCAL SUSTAINABLE TRANSPORT FUND**

Submitted: Report by Joint Transport Steering Group (previously circulated and copy attached to Official Minutes)

R Gill introduced the report which updated Members on the Tyne and Wear ITA bids to the Local Sustainable Transport Fund (LSTF). The guidance had now been issued. He advised that a revised downwards budget had not been given; this would be subject to negotiation with the Department for Transport.

The Chair commented that the concerns regarding the governance structure for the LSTF Key Components had now been addressed.

RESOLVED - That:

(i) the report be noted;

(ii) the governance/delivery structure for the Key Components (KC) BID be confirmed;

(iii) the outline work programme for 2011/12 for the LSTF KC be approved;

(iv) the development of the business case for the large project be approved.

48. **DATE AND TIME OF THE NEXT MEETING**

The next ordinary meeting would be held on Thursday 22 September 2011 at 10am.

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Tyne and Wear Integrated Transport Authority

DATE: **22 September 2011**

TITLE: **2010/11 Audit of the Annual Report and Accounts**

REPORT OF: **Deloitte LLP**

Not confidential

District Implications - all

1. Summary / Purpose of Report

1.1 The purpose of this report is to provide the ITA with a copy of the external auditors report on the 2010/11 Audit. It provides opinions on the ITA's Annual Report and Accounts and Group Accounts, and the Authority's Value for Money arrangements during 2010/11.

2. Recommendations

2.1 The committee is recommended to receive, comment on and note the contents of the report.

3. Introduction / Background

3.1 Deloitte have reviewed the Authority's Annual Report and Accounts for 2010/11 and anticipate issuing an unqualified audit opinion.

3.2 The Audit Commission intend to issue an unqualified conclusion stating that the Authority had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources.

4. Further comments by the:

- **Clerk** none
- **Treasurer** none
- **Legal Advisor** none

- **Director General** none

5. Background Papers

List of Background Papers held by Deloitte

6. Contact Officer (s)

9.1 Celia Craig, Director, Assurance & Advisory, Deloitte LLP

Deloitte.

Tyne and Wear Integrated Transport Authority

Report to the Integrated Transport Authority on the 2011 audit

Final report

September 2011

Contents

Executive summary

We have pleasure in setting out in this document our report to the Standards and Audit Committee of Tyne & Wear Integrated Transport Authority ("TWITA") for the year ended 31 March 2011 for discussion at the meeting scheduled for 16 September 2011. This report summarises the principal matters that have arisen from our audit for the year ended 31 March 2011. The main audit visit took place during July and August and we are satisfied with the way that the audit has progressed. We would like to thank those officers involved in the audit.

This summary is not intended to be exhaustive but highlights the most significant matters to which we would like to bring your attention. It should, therefore, be read in conjunction with the report and the appendices thereto.

Description	Detail
Completion of the audit and the auditor's report	
The status of the audit is as expected at this stage of the timetable agreed in our audit plan. We will report to you orally in respect of any modifications to the findings or opinions contained in this report that arise on completion of these matters. We anticipate issuing an unqualified audit opinion, however this is dependent upon the successful completion of the following outstanding items: • completion of Value for Money conclusion review; • review of group accounts following audit adjustments and additional disclosures; • completion of final review procedures; • receipt of management letter; • receipt of legal letters; • receipt of loan confirmations from Dresdner and Dexia; • receipt of letters of comfort in relation to NESTI; • Whole of Government Accounts review; • receipt of PwC letter of assurance regarding the Tyne and Wear Pension Fund; and • subsequent events review.	

Executive summary (continued)

Description	Detail
Key findings on audit risks	
The key audit risks which we identified as part of our overall audit strategy and our findings are: **1.** changes in accounting policies and implementation of IFRS: *prior year figures have been correctly reworked and current year changes to accounting policies correctly adopted;* **2.** accounting for NESTI funding: *adjustments have been processed to the current and prior year accounts to more accurately reflect the substance of funding flows between the Local Authorities and TWITA;* 3. valuation of pension liabilities: *no issues have been noted in relation to the valuation;* 4. bad debt recovery and provisioning: *the bad debt provision at the balance sheet date appears reasonable;* 5. revenue recognition: *appropriate cut-off and recording procedures have been applied;* 6. group reporting: *additional group disclosures are required in the notes to the accounts and these are currently outstanding;* 7. management override of controls: *no issues of management override were noted in the testing performed; and* 8. accounting for the New Tyne Crossing: *a number of adjustments have been raised on this.* Further detail of our findings are provided within Section 2.	Page 6
Identified misstatements and disclosure deficiencies	
Audit materiality was assessed at £3,600,000. This is an update from our audit planning report, where we initially assessed materiality on an income basis however we subsequently determined that due to the nature of the operations of the Authority, a net asset basis was more appropriate. We have proposed adjustments to reclassify deferred income totalling £51.9m from long to short term liabilities and to reduce the release of deferred income by £2.4m to reflect income for the 5 weeks that the new tunnel had been operational rather than the six months previously released. Further details are provided in Appendix 1. In addition, a number of disclosure adjustments have been made, including additional disclosure notes in the group accounts. There are no identified uncorrected misstatements in the year.	Pages 8 & 9

Executive summary (continued)

Description	Detail
Deloitte Insights	
During our audits of both the Integrated Transport Authority and Newcastle City Council (as host of the ITA) we identified two recommendations for potential improvement in controls. In relation to the ITA, we have raised a recommendation on the accounting treatment of creditor payments which occur at or around the year end. We have also raised a recommendation to improve the Council's documentation of bank reconciliations that may be relevant to the ITA. Further details can be found in Section 3.	Page 10
Other matters for communication	
Our reporting requirements in respect of independence matters, including fees, are covered in Section 4.	Page 11
We have also reported on our work in relation to the value for money criteria in Section 5. At this stage we anticipate issuing an unqualified VFM conclusion.	Page 13

1. Scope of work and approach

We have conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISA (UK and Ireland)") as adopted by the UK Auditing Practices Board ("APB") and the Code of Audit Practice. Our audit objectives are set out in our "Briefing on audit matters" document, which was circulated with our planning report.

The audit opinion we intend to issue will reflect the financial reporting framework required of Local Authorities and as set out in the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 based on International Financial Reporting Standards.

For the 2011 financial statements, we have used the draft financial statements net assets as the benchmark for our materiality assessment as this statistic, in our view, represents the most appropriate measure of the scale of the organisation and, therefore, best reflects the context within which any misstatements should be considered. In accordance with our established methodology we have calculated a monetary indicator of materiality by applying a sliding scale factor to the draft net assets figure. For the current year final materiality has been calculated to be £3,600,000.

This assessment takes into account our knowledge of the organisation, our assessment of audit risks and the reporting requirements for the financial statements. The concept of materiality and its application to the audit approach are set out in our "Briefing on audit matters" document.

The extent of our procedures is not based on materiality alone but also on local considerations of the quality of systems and controls in preventing material misstatement in the financial statements, and the level at which known and likely misstatements are tolerated by you in the preparation of the financial statements.

2. Key audit risks

Changes in accounting policies and implementation of IFRS	
Background	The financial statements of all integrated transport authorities are required to comply with the accounting requirements of the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 based on International Financial Reporting Standards ("IFRS"). There are various changes, required as a consequence of the transition to IFRS, which will affect balances in the accounts such as leases, fixed assets, deferred grants and employee benefits. The comparative figures for the years ended 31 March 2009 and 2010 are required to be retrospectively reworked on this new basis and the financial statements will include a prior period restatement in respect of this change in the accounting framework. There is a risk that some of the changes in the accounting framework may be overlooked or misinterpreted.
Deloitte response	We have liaised with management to understand the process through which the transition from the SORP to the Code is being managed. We have reviewed the revised accounting policies against the Code to ensure compliance and tested the restatement of the comparatives under the Code. At our visit in March/April, we reviewed the restatement of certain of the balances, in particular in relation to plant property and equipment reclassifications and reserves. Overall results were satisfactory and the only adjustment required related to the funding flows associated with NESTI (see below).

Accounting for North East Smart Ticketing Funding (NESTI)	
Background	In 2009/10, the Department for Transport (DfT) provided the North East Local Authorities with an additional £10m to its capital block allocation. This was pooled with the Authority in order to provide funding for the NESTI project and legal agreements put in place. No restrictions were attached by the grantpayer other than the monies were to be used on capital projects in 2009/10. As the spend on NESTI was due to be incurred over a number of years, an informal "variation to the agreement" was agreed and the initial funding was spent on the development of the Tyne Tunnel 2 with the condition attached by the Local Authorities that the equivalent amounts would be spent by TWITA on NESTI. During 2009/10, TWITA received £1.7m directly from the DfT and £5.5m was received from the Local Authorities. The remaining £2.8m was received from the remaining Authorities in 2010/11. Accounting for this transaction in 2009/10 was determined in agreement with the Audit Commission and involved the release of the grant funding and establishment of a provision for £7.2m to cover the commitment to incur NESTI spend.
Deloitte response	The provision of £7.2m in 2009/10 does not comply with International Accounting Standard (IAS) 37 "Provisions, contingent liabilities and contingent assets". The substance of the transaction detailed above requires the retention of the grant funding from the Local Authorities in liabilities on the balance sheet as the condition to spend the equivalent amounts on NESTI has not yet been met. A prior year adjustment was therefore processed to reverse the provision and reflect the grant received in advance within liabilities. Further details of the entries are given in Appendix 1. The legal agreements should be formally updated to reflect the funding flows subsequently agreed.

2. Key audit risks (continued)

Valuation of pension liabilities

Background

In the current climate the choice of pension inflation, discount and yield assumptions will be both difficult and judgemental. Small and apparently insignificant changes to these key assumptions can have material consequences for the actuarial assessment of the liability included within the financial statements of the Authority. During the 2010/11 the Tyne and Wear Pension Fund went through a triennial valuation which also impacted on the key assumptions and resulted in a significant decrease in the pension deficit.

Deloitte response

We have used our in-house pension and actuarial department to review these assumptions for reasonableness based upon prevailing market factors. Overall they have noted that all of the assumptions are within an acceptable range and are believed to have been set in accordance with generally accepted actuarial principles and are compliant with IAS 19. They do however note that the proposed assumption of 8.4% p.a. for expected return on equities was relatively high, particularly when compared to gilt yields of a similar duration to the liabilities, although still reasonable.

In addition, we have sought assurance from PricewaterhouseCoopers (PwC) in their role as auditors of the Tyne and Wear Pension Fund, particularly in relation to the existence of pension assets. This work is still ongoing and a verbal update will be provided to the Authority on the findings.

Bad debt recovery and provisioning

Background

In the current climate there is likely to be more pressure on the Authority's debtors' financial resources and their ability to make payments as they fall due. It therefore follows that there is likely to be a higher level of unpaid debts at the balance sheet date and potentially more bad and/or doubtful debts occurring.

Deloitte response

We have reviewed the make up of the year end debtors balance, and note that the balance relates primarily to Nexus. Consequently no issues have been noted around recoverability.

2. Key audit risks (continued)

Revenue recognition	
Background	International Standards on Auditing (UK and Ireland) 240, “The auditor’s responsibility to consider fraud in an audit of financial statements”, requires auditors to perform certain audit procedures related specifically to fraud risk, and requires a presumption that revenue recognition is a key audit risk. For the Authority we consider that the specific revenue recognition risk relates to levy and toll income.
Deloitte response	We have reviewed the levy and toll income to ensure that the revenue from these has been recognised within the correct period. This involved agreement to funding letters between TWITA and the local authorities, as well as agreeing to cash takings. No issues in relation to cut off have been identified in relation to levy and toll income, however it was noted that the release of deferred income to the comprehensive income and expenditure statement in relation to the concessionary arrangements with TT2 Limited for the Tyne Tunnel 2 has been recognised as six months of income, whereas the new tunnel had only been operational circa 5 weeks. Whilst this does not impact the cash income of the ITA, it has resulted in an accounting adjustment of £2,410,248 to recognise income in the correct period (see Appendix 1).

Group reporting	
Background	Group accounts are prepared under merger accounting for the ITA and Nexus accounts. Consolidation can be technical and complex, which therefore results in increased risk of error, heightened by the implementation of IFRS in the year.
Deloitte response	We have reviewed the consolidation of the Nexus and ITA accounts, and have performed a review of the work performed by the Audit Commission as external auditors of Nexus. We have not identified any issues in relation to the merger accounting, however noted that a number of notes as prescribed by the CIPFA “Group Accounts in Local Authorities” manual had not been included in the initial draft of the ITA Group Accounts. The Authority has now updated the accounts to include the appropriate disclosures although our review of these is currently outstanding.

2. Key audit risks (continued)

Management override of controls	
Background	International Standards on Auditing (UK and Ireland) require auditors to presume that there is a risk of fraud in relation to management override of controls, and to perform specific procedures to address this risk.
Deloitte response	We have obtained an understanding of the business rationale of significant transactions within the entity, and have considered the possibility of management overrides throughout our testing. We have tested a sample of journals posted during the year, to assess the business rationale for their posting and any indications these are not in the normal line of business. No issues have been identified during the course of our audit.

Accounting for the New Tyne Crossing	
Background	The new Tyne Tunnel Crossing requires complex accounting arrangements similar to a PFI scheme to be put in place. There is therefore a risk that the accounts are materially misstated as a result.
Deloitte response	We have reviewed the accounting advice provided by PwC in relation to the accounting process, and sought guidance from our technical experts regarding the policies of not discounting, capitalising borrowing costs, the calculation of deferred income, valuation of the tunnel and the possibility of an agency relationship. We have found that the release of the deferred income had been incorrectly applied in the model, and being released over a full 6 month period, despite the new Tyne Tunnel being in use for five weeks only (see revenue recognition above). We also noted that £51.9m of deferred income should be reclassified as short term, representing £46.6m capital contributions due to be paid in 2011/12 plus £5.3m of deferred income being released.

3. Accounting and internal control systems

Control observation and Deloitte insight

During the course of our audit we identified a number of control observations, the most significant of which are detailed below.

Year end BACS payments not included in creditors	
Description	Whilst carrying our testing of year end creditors, it was noted that a BACS payment run made at year end had been netted off creditors as at 31 March 2011, but did not leave the bank until April 2011, therefore understating the creditors balance at year end and leading to incorrect financial reporting. The payment run totalled £81,000, which is below the threshold for reporting misstatements, however had the payment been of greater magnitude, this could have resulted in a material error in the year end balance.
Recommendation	The Authority should seek to implement processes whereby creditors should not be removed from the liabilities listing until they have physically been paid, to avoid any understatement of the balance and allow for clarity of what creditors belong to whom. As a minimum, timing differences which arise at the year end should be incorporated into the bank reconciliation process.
Management response	This has arisen due to the fact that it takes three working days for payments to physically leave the bank account following a BACS run. A small number of payments were as a result included in the creditors listing for Newcastle City Council, rather than TWITA. The likelihood of a material error in the year end balance arising is small, due to the low volume of payments made by TWITA. However, an additional review will be implemented in future years to ensure that any such items are identified and creditors are allocated to TWITA where appropriate.

The below item relates to a control finding on the audit of Newcastle City Council, reported in their report to the Audit Committee, which you may wish to consider.

Bank reconciliations containing offsetting items	
Description	From work performed on the cash section it was noted that the bank reconciliation contained significant numbers of offsetting additive and subtractive items. As these items offset each other there was nil impact, however the existence of these cleared items on the bank reconciliation raises the risk that issues will be overlooked due to the volume of information included.
Recommendation	Management of TWITA should keep this issue under review and ensure that the bank reconciliations are sufficiently clear.
Management response	Monitoring of bank accounts is carried out on a daily basis and reconciliations are produced weekly. All uncleared items are investigated and any uncleared item outstanding for more than four weeks is reported to Financial Systems Improvement Board for management action. A review of reconciliations will be undertaken in 2011/12 with a view to improve clarity of these statements.

4. Other matters for communication

As part of our obligations under International Standards on Auditing (UK & Ireland), we are required to report to you on the matters listed below.

Confirmation	We confirm that we comply with APB Revised Ethical Standards for Auditors and that, in our professional judgement, we are independent and our objectivity of the audit engagement partner and audit staff is not compromised. If the Standards and Audit Committee wishes to discuss matters relating to our independence, we would be happy to arrange this.
Non-audit services	In our opinion there are no inconsistencies between APB Revised Ethical Standards for Auditors and the Authority's policy for the supply of non audit services or of any apparent breach of that policy. We have not provided any non-audit services in the year.
Fees	Fees for the audit are £37,400. No other fees have been paid to Deloitte during the year.
Liaison with internal audit	Following an assessment of the independence and competence of the Internal Audit department, we reviewed the findings of Internal Audit to inform the risk assessment and consider the impact on our audit approach as deemed appropriate. No adjustments were made to the audit approach as a result of our review of the work of Internal Audit.
Written representations	A copy of the representation letter to be signed on behalf of the Standards and Audit Committee is included at Appendix 2.

4. Other matters for communication (continued)

We also bring to your attention other regulatory matters which are relevant to the Authority:

Bribery Act 2010

Background

The public sector falls within the scope of the Bribery Act 2010, which came into force on 1st July 2011. Specifically, public sector organisations, including the Authority can commit offences in these sections of the Act:

- Section 1 – bribing another person;
- Section 2 – offences relating to being bribed; and
- Section 6 – bribing a foreign public official.

If a public sector organisation commits any of those offences then senior officers can be personally liable if it was committed with their consent or connivance. On conviction under the Act an individual may be sentenced to up to 10 years in prison. An organisation may be subject to an unlimited fine.

The new offence of a commercial organisation failing to prevent bribery (set out in Section 7) only applies to incorporated companies and partnerships that carry on a business in the UK. However, bodies created by statute as corporate bodies could fall within the scope of the offence.

Most of the commentary on the Act has focused on the new Section 7 offence, and in particular on the defence available to an organisation if it can show that it had in place 'adequate procedures' designed to prevent bribery. The Government published guidance for consultation on what will constitute adequate procedures for the purposes of the Act.

Unfortunately, this guidance does not consider the definition of a commercial organisation set out in the Act. In light of this lack of clarity, public sector organisations that believe they could fall within the definition should consider how the draft guidance could be adapted to reflect their own organisational structures and practices.

Impact

Most public authorities already have bribery procedures in place and while this will help in the prevention and detection of bribery in the public sector and where it works alongside the private sector, it will not make public body staff immune to involvement in situations where bribery may occur. Clearly, the public sector will be expected to play its part in reporting any suspicious activity in the private sector.

The Bribery Act should be considered by the Authority as part of the corporate risk assessment, and the Code of Conduct should be revised to incorporate it. Additionally, to ensure that the Authority is prepared for the Act, it should where appropriate:

- update procurement documentation and precedent contracts to refer to the new provisions; and
- consider making changes to procurement practices. For example it would be embarrassing for the Authority if a contractor was found to have committed an offence relating to services provided to or on behalf of a public authority. An explicit right to terminate a contract in these circumstances would show that the Authority had tried to prevent such actions and was able to deal with the breaches effectively.

5. Value for money (VFM) conclusion

Under the Code of Audit Practice 2008 (the Code), auditors are required to include a positive conclusion in their statutory audit report as to whether they are satisfied that the audited body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. The scope of these arrangements is defined in the Code as comprising corporate performance management arrangements and financial management arrangements. This conclusion is given within our audit report on the Authority's accounts.

The conclusion is limited to an assessment of four criteria specified by the Audit Commission under the Use of Resources (UoR) methodology. The UoR assessment consists of judgements against 10 key lines of enquiry (KLOE) which focus on financial management but link to the strategic management of the Authority. The KLOE cover a range of topics including how financial management is integrated with strategy and corporate management, supports priorities and delivers value for money. Assessments are carried out annually, as part of the external audit. For Integrated Transport Authorities, the Commission has specified that four of the 10 KLOE will be considered for 2010/11:

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

Where, in our judgement, there are gaps in the arrangements which are significant enough, we qualify our conclusion in relation to particular criteria, either on an 'except for' basis (i.e. the Authority has put in place proper arrangements except for…..) or in the form of an 'adverse' conclusion (i.e. the Authority has not put in place arrangements in that…). Based on the guidance we have received from the Audit Commission, where qualified, our report refers only to the criteria which we conclude have not been met, without providing further details.

For the purposes of the conclusion required by the Code, auditors are required to apply a yes/no assessment to the applicable Code criteria, i.e. the audited body either has proper arrangements in place or not.

The VFM conclusion

For 2010/11, as at the time of writing this report, we have assessed TWITA, on the above criteria, as having proper arrangements in place. We will update on this verbally at the Committee meeting on 16 September and confirm whether we will be issuing an unqualified conclusion, as is currently anticipated.

6. Annual Governance Statement (AGS)

In June 2007, CIPFA in conjunction with the Society of Local Authority Chief Executives ("SOLACE") published 'Delivering Good Governance in Local Government: A Framework'. This framework replaced the previous CIPFA/SOLACE framework 'Corporate Governance in Local Government – A Keystone for Community Governance: A Framework' which was published in 2001.

The framework introduced, from 2007/08, an integrated Annual Governance Statement ("AGS"). The AGS covers all significant corporate systems, processes and controls, spanning the whole range of an Authority's activities, including in particular those designed to ensure that:

- the Authority's policies are implemented in practice;
- high quality services are delivered efficiently and effectively;
- the Authority's values and ethical standards are met;
- laws and regulations are complied with;
- required processes are adhered to;
- financial statements and other published performance information are accurate and reliable; and
- human, financial, environmental and other resources are managed efficiently and effectively.

Our review is directed at:

- considering the completeness of the disclosures in the governance statement and whether it complies with proper practice as specified by CIPFA; and
- identifying any inconsistencies between the disclosure and the information that we are aware of from our work on the financial statements and other work relating to the Code of Audit Practice.

We have reviewed the Authority's AGS in line with the requirements above. We have concluded that the AGS includes all appropriate disclosures and is consistent with our understanding of the Authority's governance arrangements and internal controls derived from our audit work.

7. Responsibility statement

The Audit Commission published a ‘Statement of responsibilities of auditors and of audited bodies’ alongside the Code of Audit Practice. The purpose of this statement is to assist auditors and audit bodies by summarising, in the context of the usual conduct of the audit, the different responsibilities of auditors and of the audited body in certain areas. The statement also highlights the limits on what the auditor can reasonably be expected to do.

Our report has been prepared on the basis of, and our work carried out in accordance with, the Code and the Statement of Responsibilities, copies of which have been provided to the Authority by the Audit Commission.

This report should be read in conjunction with the "Briefing on audit matters" circulated to you with the planning report and sets out those audit matters of governance interest which came to our attention during the audit. While our report may include suggestions for improving accounting procedures, internal controls and other aspects of your business arising out of our audit, we emphasise that our consideration of the Authority’s system of internal control was conducted solely for the purpose of our audit having regard to our responsibilities under Auditing Standards and the Code of Audit Practice. We make these suggestions in the context of our audit but they do not in any way modify our audit opinion, which relates to the financial statements as a whole. Equally, we would need to perform a more extensive study if you wanted us to make a comprehensive review for weaknesses in existing systems and present detailed recommendations to improve them.

This report has been prepared for the Authority, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose. It should not be made available to any other parties without our prior written consent.

If you intend to publish or distribute financial information electronically or in other documents, you are responsible for ensuring that any such publication properly presents the financial information and any report by us thereon, and for the controls over and security of the website. You are also responsible for establishing and controlling the process for electronically distributing accounts and other information.

Deloitte LLP

Deloitte LLP

Chartered Accountants
Newcastle upon Tyne
September 2011

Appendix 1: Audit adjustments

Uncorrected misstatements

There are no identified uncorrected misstatements.

Corrected misstatements

The following misstatements were identified during the course of our review and have been corrected by management:

		Credit/ (charge) to current year income statement £'000	Increase/ (decrease) in net assets £'000	Increase/ (decrease) in prior year reserves £'000
Factual misstatement				
Incorrect apportioning of deferred income	Page 8	(2,410)	(2,410)	
Deferred income to reclassify from long to short term - £5,256k	Page 9	-	-	-
Capital payments in deferred income to reclassify from long to short term - £18,150k	Page 9	-	-	-
Adjustments in relation to NESTI accounting	Page 6			
- reversal of provision in prior year			7,178	7,178
- recognition of grant received in advance in prior year			(5,495)	(5,495)
- recognition of grant received in advance in current year		(2,822)	(2,822)	
Judgemental misstatement				
None				
Total		(4,830)	(3,147)	1,683

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As stated in our Planning report, we only report to you uncorrected misstatements that are not clearly trivial. This has been determined to be greater than £180,000.

Appendix 2: Draft Management Representation letter

We ask that the Standards and Audit Committee notes the format of the letter below, and recommends and recommends the Chief Financial Officer can sign the letter on behalf of the Authority.

Deloitte LLP
1 Trinity Gardens,
Broad Chare,
Newcastle upon Tyne,
NE1 2HF

Our Ref: ***DPW/TWITA***

Tyne & Wear Integrated Transport Authority – Audit of the annual accounts for the year ended 31 March 2011

This representation letter is provided in connection with your audit of the financial statements of Tyne & Wear Integrated Transport Authority ("TWITA") for the year ended 31 March 2011 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view of the financial position of the entity as of 31 March 2011 and the results of its operations, other recognised gains and losses and its cash flows for the year then ended in accordance with the applicable accounting framework.

We acknowledge our responsibilities for preparing financial statements for the Authority which present a true and fair view and for making accurate representations to you.

We confirm, to the best of our knowledge and belief, the following representations:

Financial statements

1. We understand and have fulfilled our responsibilities for the preparation of the financial statements in accordance with the applicable financial reporting framework which give a true and fair view, as set out in the terms of the audit engagement letter.

2. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

3. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of IAS24 "Related party disclosures"

Appendix 2: Draft Management Representation letter (continued)

4. All events subsequent to the date of the financial statements and for which the applicable financial reporting framework requires adjustment of or disclosure have been adjusted or disclosed.

5. The effects of uncorrected misstatements and disclosure deficiencies are immaterial, both individually and in aggregate, to the financial statements as a whole. A list of the uncorrected misstatements and disclosure deficiencies is detailed in Appendix 1 to the Report to the Standards and Audit Committee.

6. We confirm that the financial statements have been prepared on the going concern basis. We are not aware of any material uncertainties related to events or conditions that may cast significant doubt upon the Authority's ability to continue as a going concern. We confirm the completeness of the information provided regarding events and conditions relating to going concern at the date of approval of the financial statements, including our plans for future actions.

<u>Information provided</u>

We have provided you with:

7. Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;

8. Additional information that you have requested from us for the purpose of the audit.

9. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

10. All transactions have been recorded and are reflected in the financial statements and the underlying accounting records.

11. We acknowledge our responsibilities for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

12. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

13. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Authority and involves:

i.) management;

ii.) Members of the Authority

iii.) employees who have significant roles in internal control; or

iv.) others where the fraud could have a material effect on the financial statements.

Appendix 2: Draft Management Representation letter (continued)

14. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

15. We are not aware of any instances of non-compliance, or suspected non-compliance, with laws, regulations and contractual agreements whose effects should be considered when preparing financial statements.

16. We have disclosed to you the identity of TWITA's related parties and all the related party relationships and transactions of which we are aware.

17. No claims in connection with litigation have been or are expected to be received.

18. We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities reflected in the financial statements.

19. We have considered the uncorrected misstatements and disclosure deficiencies detailed in the report to the Standards and Audit Committee. We believe that no adjustment is required to be made in respect of any of these items as they are individually and in aggregate immaterial having regard to the financial statements taken as a whole.

20. Where required, the value at which assets and liabilities are recorded in the balance sheet is, in the opinion of the Members, the fair value. We are responsible for the reasonableness of any significant assumptions underlying the valuation, including consideration of whether they appropriately reflect our intent and ability to carry out specific courses of action on behalf of TWITA. Any significant changes in those values since the balance sheet date have been disclosed to you.

21. There have been no irregularities involving members or employees who have a significant role in the accounting and internal control systems or that could have a material effect on the financial statements.

22. The financial statements are free from material misstatement.

23. There have been no events since the balance sheet date which require adjustment of or a disclosure in the financial statements or notes thereto. Should further material events occur, which may necessitate revision of the figures included in the annual accounts or inclusion of a note thereto, we will advise you accordingly.

24. We recognise that we are responsible for ensuring that the statement of accounts as published on the website properly presents the financial information and your auditors' report and for the controls over, and security of, the website. We also recognise that we are responsible for establishing and controlling the process for electronically distributing annual reports and other information.

Appendix 2: Draft Management Representation letter (continued)

25. We confirm that:

- all retirement benefits and schemes, including UK, foreign, funded or unfunded, approved or unapproved, contractual or implicit have been identified and properly accounted for;
- all settlements and curtailments have been identified and properly accounted for;
- all events which relate to the determination of pension liabilities have been brought to the actuary's attention;
- the actuarial assumptions underlying the valuation of the scheme liabilities accord with the Members' best estimates of the future events that will affect the cost of retirement benefits and are consistent with our knowledge of the business;
- the actuary's calculations have been based on complete and up to date member data as far as appropriate regarding the adopted methodology; and
- the amounts included in the financial statements derived from the work of the actuary are appropriate.

26. All known material liabilities have been properly included in the annual accounts and all material contingent liabilities have been disclosed.

We confirm that the above representations are made on the basis of adequate enquiries of management and staff (and where appropriate, inspection of evidence) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

Yours faithfully

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Chief Financial Officer, Signed on behalf of Tyne & Wear Integrated Transport Authority

Date __________________________

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Tyne and Wear Integrated Transport Authority

DATE:	**22 September 2011**
TITLE:	**Annual Report and Accounts 2010/11**
REPORT OF:	**Deputy Clerk and Treasurer, ITA**
	Not confidential
	District Implications - all

1. Summary / Purpose of Report

1.1 At it meeting on 28 July, the Authority reviewed the key financial statements and a report highlighting key points from the draft 2010/11 accounts. The 2010/11 audit programme is now largely complete and Deloitte as the external auditor expect to give their opinion before the end of September. As a result of the audit, the amended Annual Report and Accounts for 2010/11 is now presented for consideration and approval by the ITA. Should there be any further amendments between the publication of this report and the meeting, revised figures will be circulated.

2. Recommendations

2.1 The committee is recommended to:

i. Receive, review and approve the letter of representation (Appendix 1)

ii. Receive, review and approve the amended ITA and Group Accounts for 2010/11

iii. Authorise the Chair to sign the amended ITA and Group Accounts.

3. Introduction / Background

3.1 In line with Part II of the Audit Commission Act 1998, included with the audited accounts is the Independent Auditor's opinion on the financial statements. This is contained within the external audit report which is also on this agenda. This report highlights and comments on that opinion.

3.2 The accounts are being considered by the ITA's Standards and Audit Committee on 16 September. Any relevant comments arising from that Committee will be verbally provided to the ITA for consideration with this report.

4. Independent Auditors Opinion

4.1 The external auditors anticipate issuing an unqualified audit opinion, dependent upon the successful completion of a number of outstanding items which are set out in their report.

5. Adjustments to financial statements

We have agreed the following amendments to the accounts with the auditors:

5.1 **North East Smart Ticketing Initiative (NESTI)**

2009/10 restatement

In 2009/10, £7.2m of monies for NESTI were applied to finance capital construction works on the New Tyne Crossing. This allowed the grant conditions under which the monies were made available to the region to be met. A provision was raised in the accounts to reflect the fact that the ITA was committed to making the same amount, £7.2m, available to meet expenditure on NESTI as it was incurred.

Under International Financial Reporting Standards, the treatment of Government Grants and Contributions has changed, and so the accounting treatment for NESTI has been reviewed. The creation of the provision has been reversed.

This has led to a restatement of Tyne Tunnel reserves in 2009/10 to reverse the creation of the £7.2m provision. The reserve has increased by £7.2m, but this is largely offset by the £5.5m Grants and Contributions Receipts in Advance liability on the Balance Sheet.

£1.7m of the £10m allocation relates to the ITA's share of the additional Department for Transport funding. This is therefore not required to be held in Grants and Contributions Receipts in Advance, but rather will be met from Tyne Tunnel reserves (reflecting the fact that the initial grant award was applied to New Tyne Crossing capital works).

2010/11

£2.8m of contributions received from North East Authorities in 2010/11 were held in the Grants and Contributions Unapplied account in the draft accounts. This has been changed so that these are now held as the Grants and Contributions Receipts in Advance, a liability on the Balance Sheet. This is to reflect the fact that these contributions have not yet been applied to finance the NESTI project, so the conditions under which they were provided have not yet been met. The majority of the expenditure is expected in 2011/12 and 2012/13.

These adjustments have no impact on the level of resources available to support the NESTI project, which still stands at £10m.

5.2 **New Tyne Crossing Financial Model**

An adjustment has been made to the release of the deferred income balance to the Comprehensive Income and Expenditure Statement (CIES). The initial calculation in the Financial Model had been on the basis of a full six month period, when the new Tunnel only came into use in February 2011. An adjustment of £2.4m has been made to the final CIES.

In addition, the deferred income balance has been split on the Balance Sheet between long term and short term elements, to reflect the fact that part of this balance will be released to the CIES in 2011/12.

There is no impact on the level of reserves available as a result of these adjustments, and no change to the actual payments made to TT2 Ltd. under the contract.

5.3 **Group Accounts**

Additional notes to the Group Accounts have been included in the amended version. These will provide additional detail to users of the accounts and are in line with guidance from CIPFA on Group disclosures.

5.4 **Summary**

All of the amendments identified are of a highly technical nature and do not have an impact on the level of resources available to the authority.

6. Arrangements to secure economy, efficiency and effectiveness in the use of resources

6.1 As part of the Annual Governance Report the external auditors assess the Authority's arrangements to secure economy, efficiency and effectiveness in the use of resources, commonly referred to as the Value For Money assessment..

The conclusion for 2010/11 is assessed using four criteria specified by the Audit Commission:

1] Planning its finances effectively to deliver its strategic priorities and secure sound financial health;

2] Having a sound understanding of its costs and performance and achieving efficiencies in its activities;

3] Timely and reliable financial reporting that meets the needs of internal users, stakeholders and local people;

4] Managing its risks and maintaining a sound system of internal control.

6.2 At the time of writing their report, the external auditors have assessed TWITA as having proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources and anticipate issuing an unqualified VFM opinion.

7. Further comments by the:

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

8. Background Papers

List of background papers: - held by Eleanor Goodman.

9. Contact Officer (s)

9.1 Eleanor Goodman, Senior Accountant 0191 277 7518

Tyne & Wear Integrated Transport Authority

Annual Report & Accounts

for the Financial Year ended 31 March 2011

Prepared by:	Marilyn France	ITA Accountant
	Eleanor Goodman	ITA Accountant
	Paul Woods	ITA Treasurer

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Section 1

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

SECTION 3

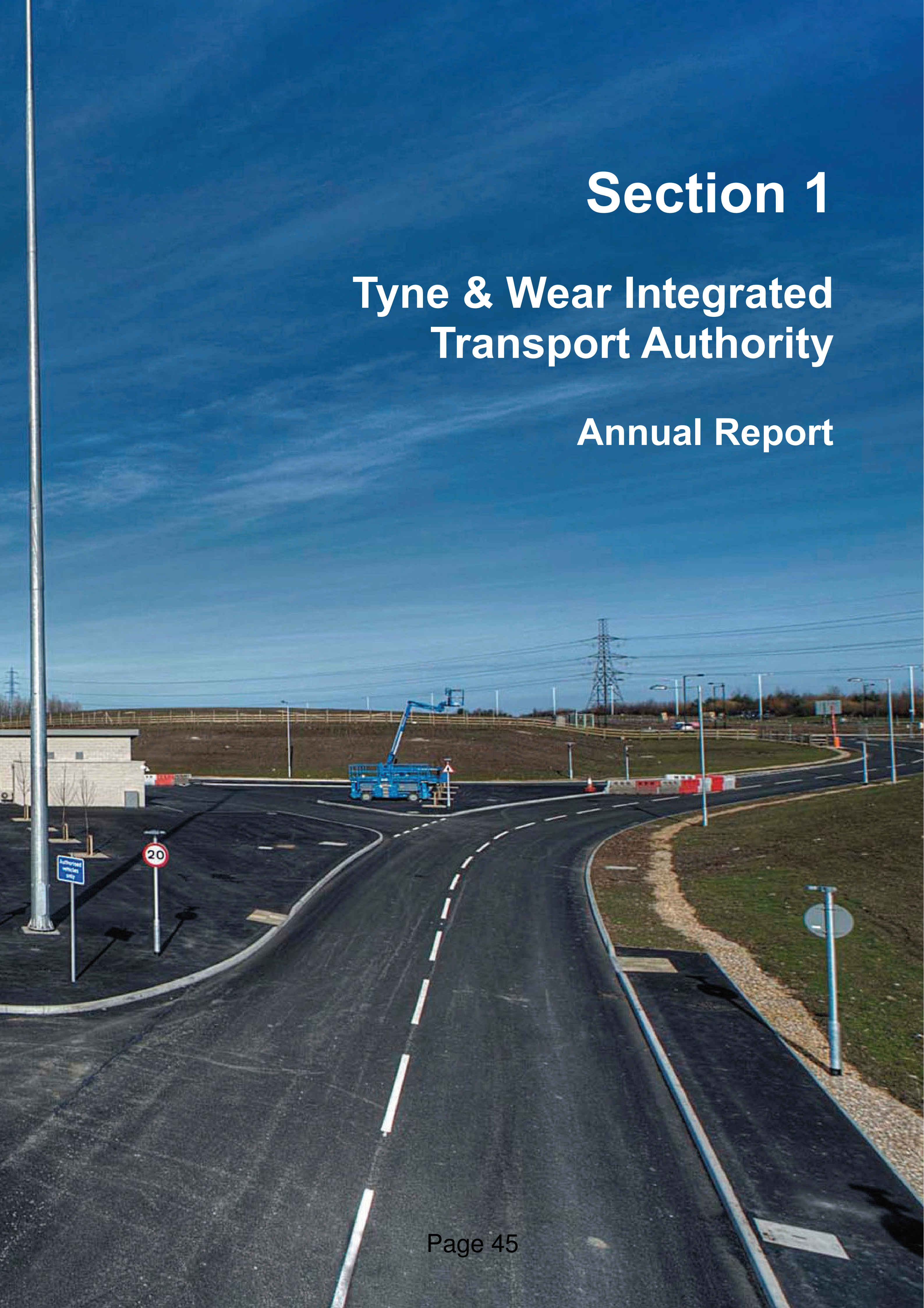
Group Accounts
The accounts consist of the primary financial statements required by statute, and corresponding disclosure notes to provide further detail where this is not available from the Single Entity Accounts

Contents	Pages

Section 1

Tyne & Wear Integrated Transport Authority

Annual Report



What is the Tyne and Wear Integrated Transport Authority?

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

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

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

Our vision for transport in Tyne and Wear is that:

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

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

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

Chairman's Foreword and Introduction

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

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

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

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

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

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

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

Sunderland Station

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

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

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

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

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

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

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

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

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

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

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

Councillor David Wood
Chair of Tyne & Wear Integrated Transport Authority

Clerk's Foreword

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

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

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

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

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

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

Clerk's Foreword

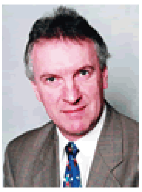
We have a commitment to sustainable transport and with our partners in Tyne and Wear and Nexus; we are working up a detailed bid for funding from Government to deliver sustainable transport options via the Local Sustainable Transport Fund. We are delivering projects that will make a difference to the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

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

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

Barry Rowland
Clerk to the ITA

Members of the Authority during 2010/11



J McElroy
Vice Chair

S Green

P Maughan

D Wood
Chairman

W Taylor

G Keating
Leader of the Opposition

G Stone

D Ord

E Hodson

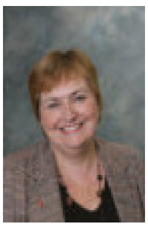
F Lott

A McMillan

T Hanson
Vice Chair

J Blackburn

J Scott
Statutory Vice Chair



A Hall

P Wood

Explanatory Foreword by the Treasurer

Introduction

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

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

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

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

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

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

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

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

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

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

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

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

The New Tyne Crossing is a major construction project that began in 2008, to provide a new tunnel alongside the existing one. The new tunnel was completed and opened in February 2011, and the old tunnel has now closed for a full refurbishment. Both tunnels are expected to be completed and operational by the start of 2012. The new tunnel will convey two lines of southbound traffic and the existing tunnel, once refurbished, will convey two lanes of northbound traffic.

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

ITA Accounts

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

Movement in Reserves Statement
This statement shows the movement in the year on the different reserves held by the Authority, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce the levy) and other reserves. The surplus or deficit on the provision of services line shows the true economic cost of providing the ITA's services, more details of which are shown on in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance for the purposes of setting the levy. The net increase or decrease before transfers to earmarked reserves line shows the statutory General Fund balance before any discretionary transfers to or from earmarked reserves undertaken by the Authority.

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

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

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

Cash Flow Statement

The Cash Flow Statement shows the changes in cash and cash equivalents of the Authority during the reporting period. The statement shows how the Authority generates and uses cash and cash equivalents by classifying cash flows from operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Authority are funded by way of the levy and grant income or from the recipients of services provided to the Authority. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Authority's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Authority.

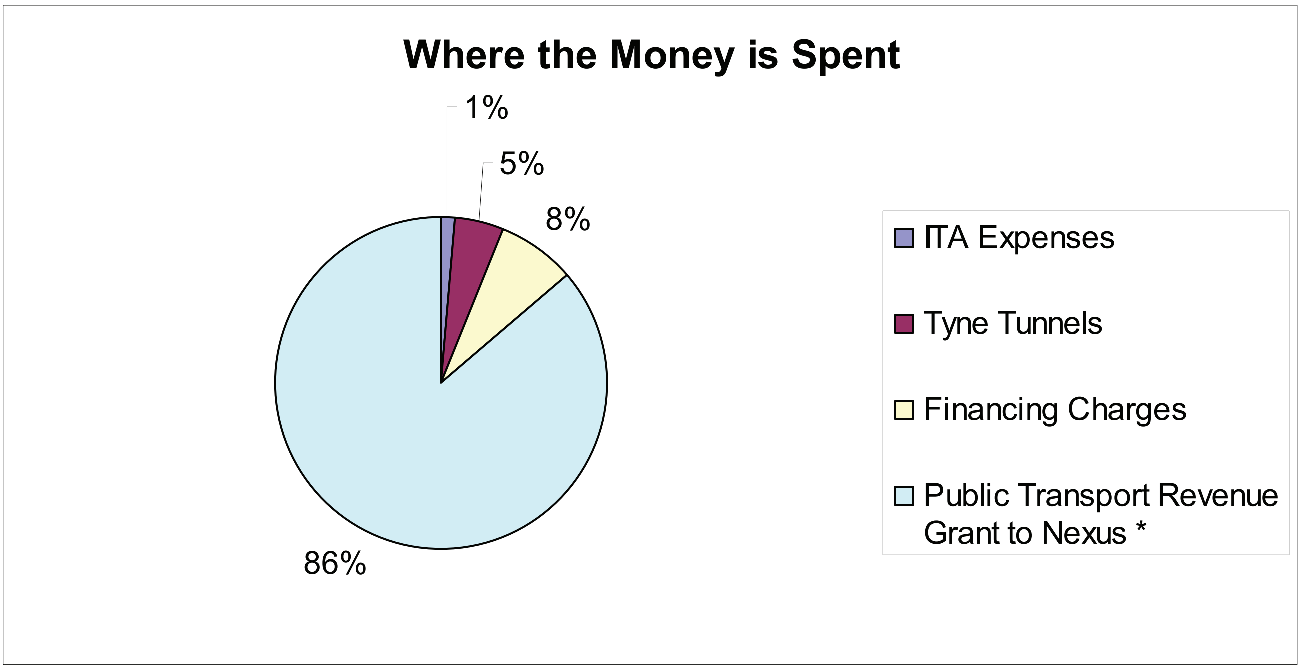
Group Accounts

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

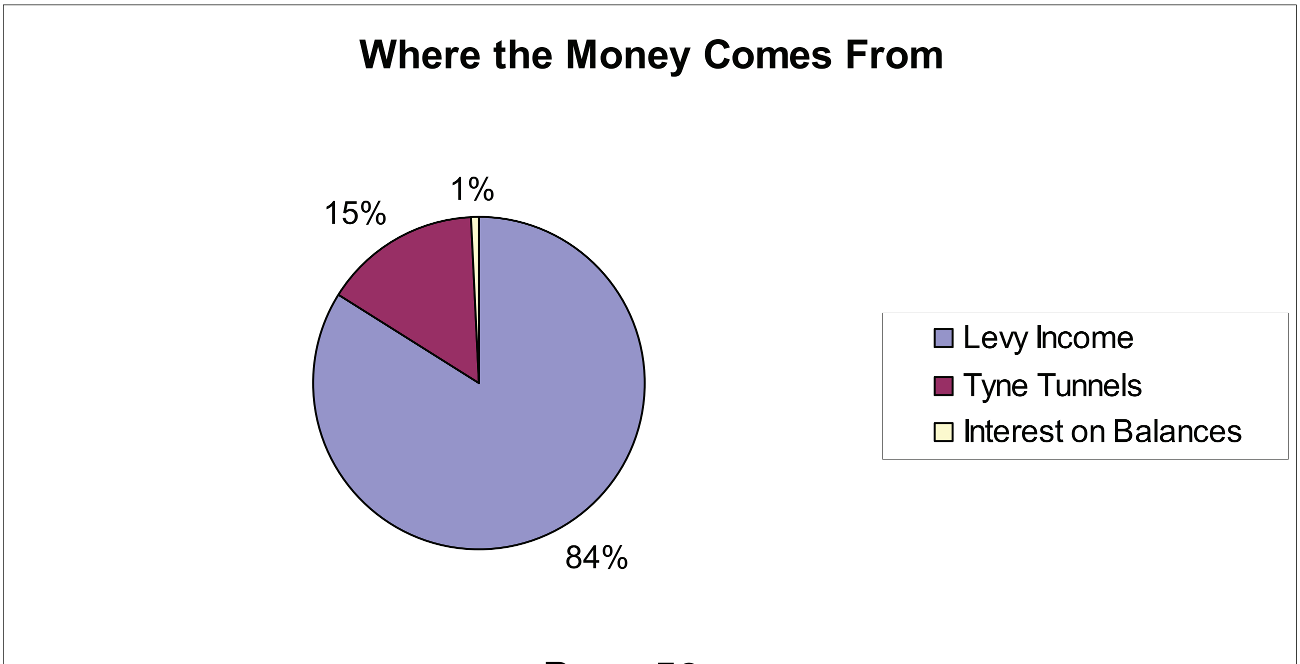
Principal Financial Results for 2010/11

1. Revenue Expenditure

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



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



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

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

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

2. Analysis of Revenue Expenditure against Budget

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

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

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

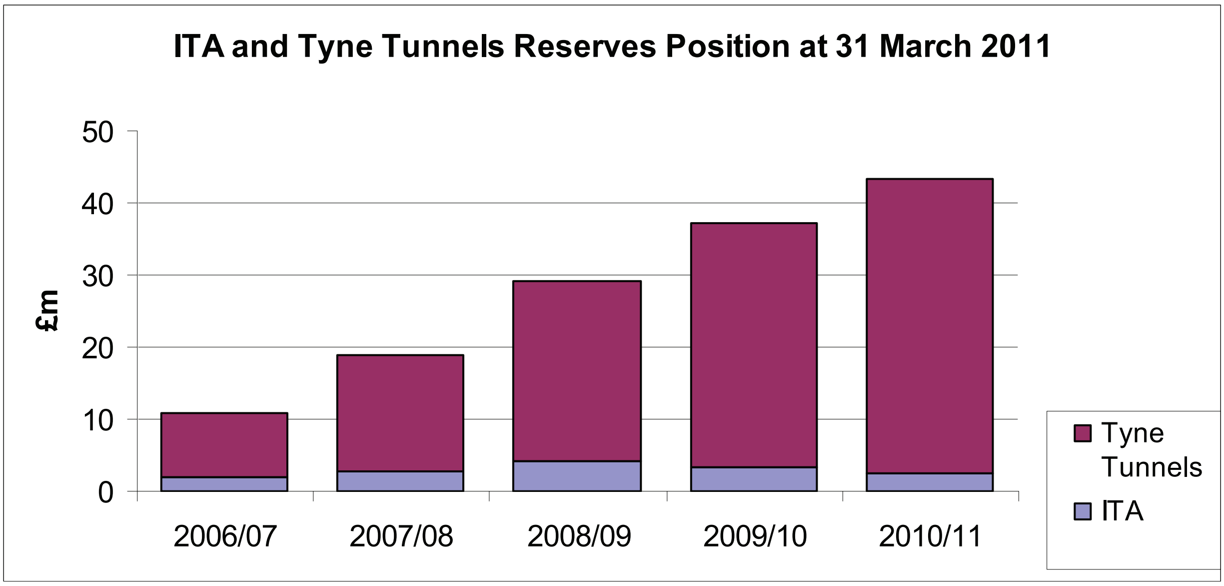
3. Reserves Position

Reserves at 31st March 2011	2009/10 £000	2010/11 £000	Variance £000
Earmarked Metro Re-invigoration Reserve	(13,441)	(12,438)	1,003
General Reserves			
Integrated Transport Authority	(3,268)	(2,600)	668
Tyne Tunnel	(33,988)	(40,722)	(6,784)
Total	**(50,698)**	**(55,810)**	**(5,113)**

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

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

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



4. Capital Expenditure

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

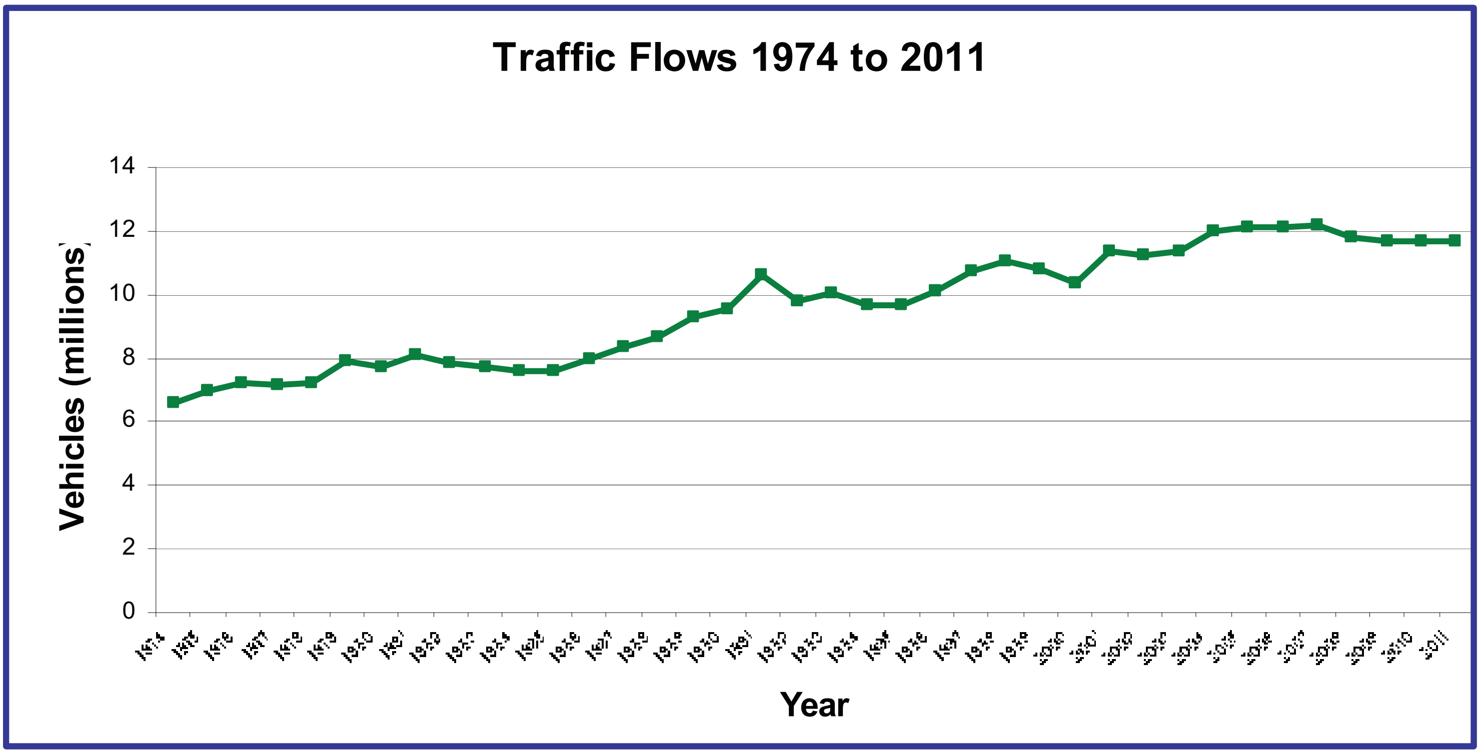
The following table compares capital expenditure in year against the budgeted figures:

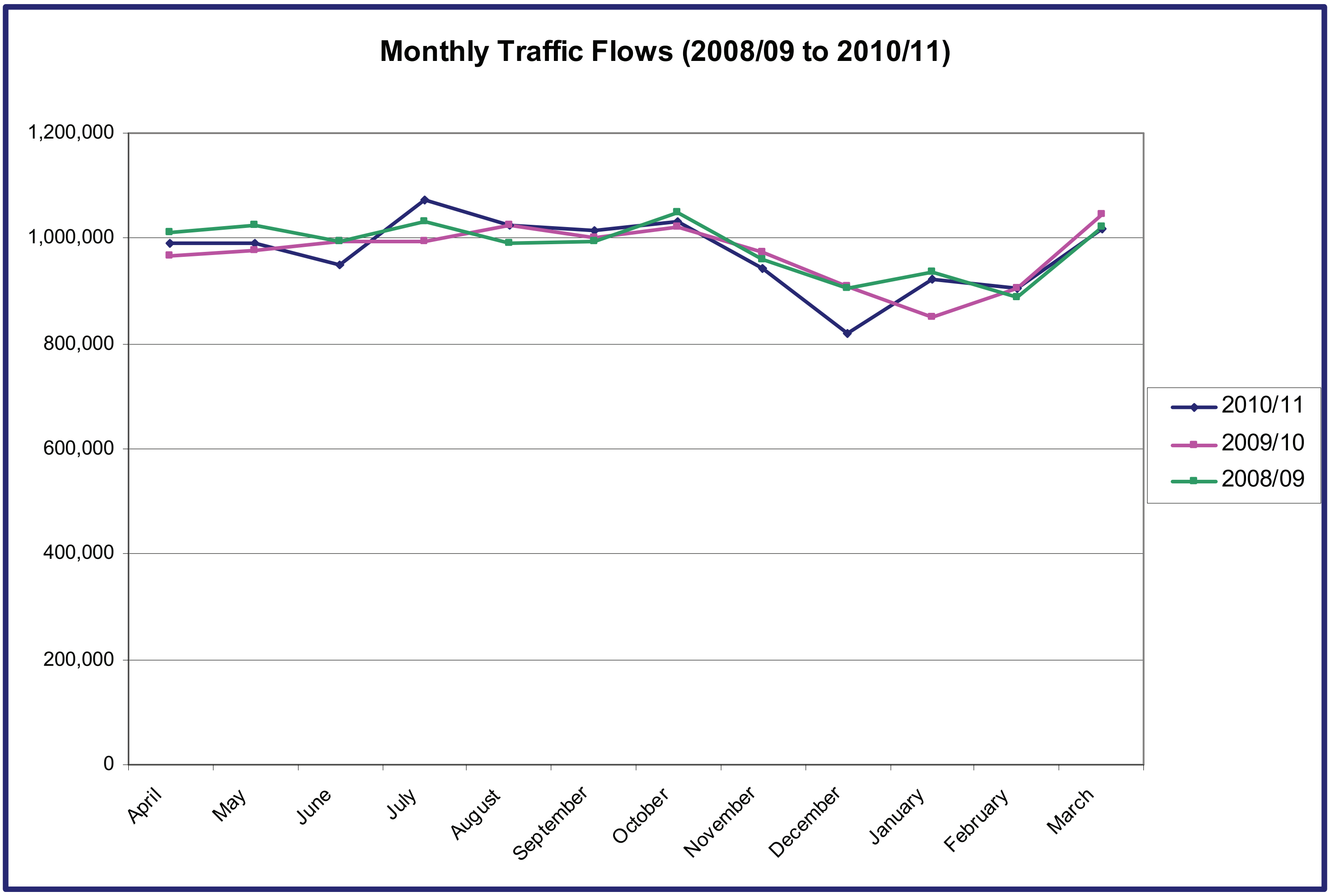
Budget Heading	Budget £000	Actual £000	Variance £000
New Tyne Crossing			
Environmental improvements	330	464	134
Land	253	221	(32)
Professional fees	1,057	1,374	317
Construction Milestone Payments	37,800	37,800	-
Tyne Pedestrian and Cycle Tunnel			
Lift replacement	520	460	(60)
Pedestrian tunnel	575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

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

5. Tyne Tunnels

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


Traffic Flows 1974 to 2011
Vehicles (millions)
14
12
10
8
6
4
2
0
Year


Monthly Traffic Flows (2008/09 to 2010/11)
1,200,000
1,000,000
800,000
600,000
400,000
200,000
0
April
May
June
July
August
September
October
November
December
January
February
March
2010/11
2009/10
2008/09

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

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

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

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

6. Pension Liabilities

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

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

- The total cost of pensions that are being paid out to former employees who have retired;

- The total sum of the pension entitlements earned to date for current employees.

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

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

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

7. Changes in Accounting Policies and Practices

Move to International Financial Reporting Standards

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

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

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

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

- **Financial Statements**

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

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

- **Capital Grants and Contributions**

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

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

- **Segmental Reporting**

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

- **Leases**

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

- **Property, Plant and Equipment**

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

Accounts and Audit Regulations 2011

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

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

Accounting for the New Tyne Crossing model

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

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

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

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

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

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

8. North East Smart Ticketing Initiative

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

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

The majority of the contributions (£7.2million) from the twelve local authorities were received in 2009/10 when, with the agreement of the local authorities, the funding was applied to capital works on the New Tyne Crossing. The amounts applied will be met with expenditure from Tyne Tunnel Reserves as works take place in 2011/12 and future years.

There is a liability on the 2009/10 Balance Sheet of £5.5m representing Grants and Contributions Receipts in Advance, to indicate that these have not yet been applied to fund expenditure on NESTI, in line with the conditions under which they were made by the North East Authorities. The balance of £1.7m represents grant made directly to the ITA from Department for Transport, where the conditions have been met.

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

9. Metro Reinvigoration

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

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

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

10. Looking ahead to 2011/12 and beyond

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

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

New Tyne Crossing Project Review of Progress

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



Operations

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

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

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

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

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

New Tyne Crossing Review

Construction

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

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

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

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

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

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

Environmental Monitoring

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

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

Tyne Pedestrian and Cyclist Tunnels (TCPT)

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

Communications

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

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

1. New tunnel walk through on 2 July 2010 which involved the Mayor of North Tyneside, the Leader of South Tyneside, the Chair of TWITA, local MPs, local Councillors from North and South Tyneside Councils and adjacent community representatives. The event marked the first walk through in the new vehicle tunnel.

2. Commissioning of the new vehicle tunnel at midnight on 25 February 2011. This involved the Mayor of North Tyneside, the Leader of South Tyneside Council, the Chair and Members of TWITA, the Contractor, TT2 staff and TWITA officers. The Civic Leaders were the first to be driven through the tunnel in two Nissan Leaf (electric) vehicles. The vehicles were kindly supplied by Nissan.

Walkthrough event, July 2010

Aerial view North Jan 2011

Aerial view South Jan 2011

Programme

The current key target delivery dates are:

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

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

Land

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

Acknowledgement

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

Paul Fenwick
New Tyne Crossing Project Director

Scrutiny Advisory Committee - A Review of 2010/11

"… Giving Advice and Holding to Account …"

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

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

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

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

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

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

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

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

…drive improvement in public services

Principle	Evidence
To provide critical friend challenge to executive policy-makers and decision-makers	• In recognition of the need for more timely comment, the committee adopted a new way of working with agenda items based on the ITA's forward plan providing, wherever possible, pre-decision scrutiny • The committee reviewed the effectiveness of Super Routes • The committee commenced work looking at how the Highways Agency and others assess the non-financial risks of decisions not to proceeding with major capital schemes such as A19 junctions • The committee submitted reports to the ITA on: a) the need for clarity in its part in bringing high speed rail to the North East and b) on feedback to LTP3 consultations • The committee studied, in some detail, reasons for low occupancy for the Northumberland Park Metro Park and Ride car park
To enable the voice and concerns of the public and its communities to be heard	• The committee highlighted the need for additional (face to face) consultation on draft Local Transport Plan (LTP) 3 priorities. A welcome increase in responses was noted with face to face eventually making up 37% of all responses • The committee considered how equalities were integrated into the developing LTP3 given public transport is key to promoting social inclusion • The committee considered whether mobility scooters could be provided with a safe return to the Metro network • The committee reviewed and commented on the forward plan of the Nexus Consultation Panel • As representatives of local communities, committee members sought assurances about the frequency and reliability of a number of local bus services
To carry out scrutiny by 'independent minded governors' who lead and own the scrutiny process	• The committee amended the start time of its meetings to ensure arrangements were convenient for all its members • The committee received two detailed briefings from the Deputy Clerk and Treasurer on the ITA's budget context • The committee used its own budget to attend a national conference discussing latest developments in the rail industry and reported back to Councillors • The committee walked the new Tyne Tunnel commenting about the size of the project that had been delivered with the minimum of disruption

Principle	Evidence
To drive improvement in public services	• A broad range of developing policy areas were considered including: • NESTI - the North East Smart Ticketing Initiative where it was hoped there could be a shared system with rail • Three Nexus Strategies (Park and Ride, Ferry Services and Safety and Security) • LTP3 • The committee Chair and Vice-Chair were invited to comment as part of the review of the ITA's Risk Register • Discussion took place on opportunities available from water buses as part of an integrated transport system

Membership of the Scrutiny Committee 2010/11

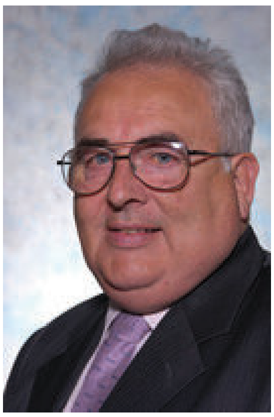
Councillor
Graeme Miller
[Chairman]
Sunderland

Councillor
David Tate
Sunderland

Councillor
Tom Graham
Gateshead

Councillor
Lawrence Hunter
Newcastle

Councillor
Mike Lynch
Newcastle



Councillor
David Charlton
North Tyneside

Councillor
Julia Macauley
North Tyneside

Councillor
Malcolm Graham
Gateshead

Councillor
Bob Watters
South Tyneside

Councillor
Richard Porthouse
South Tyneside

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

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

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

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

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

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

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

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

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

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

Independent Members

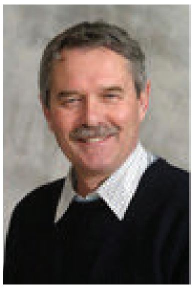

Mr. M. Scrimshaw (Chairman)


Ms. E. Green


Mr. A Atkinson

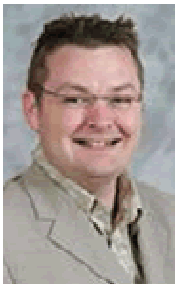

Mr. G. Clark

ITA Members


Councillor J. S. Green

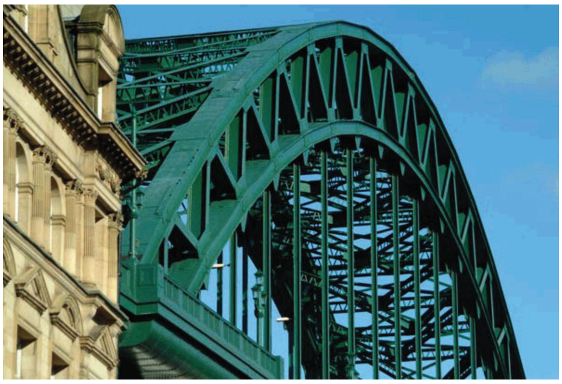

Councillor J. Blackburn


Councillor A. Macmillan


Councillor G. Stone


Councillor P. Wood

Statement of Responsibilities for the Statement of Accounts



The Authority's Responsibilities

The Authority is required:

- To make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Authority, that officer is the Deputy Clerk and Treasurer.

- To manage its affairs to secure economic, efficient and effective use of resources, and to safeguard its assets.

- To approve the statement of accounts by 30 September 2011.

Signed ………………………………………………………
Councillor D. Wood, Chair of the Tyne & Wear Integrated Transport Authority
Date: 22 September 2011

The Treasurer's Responsibilities

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

In preparing this statement of accounts, the Treasurer has:

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

The Treasurer has also:

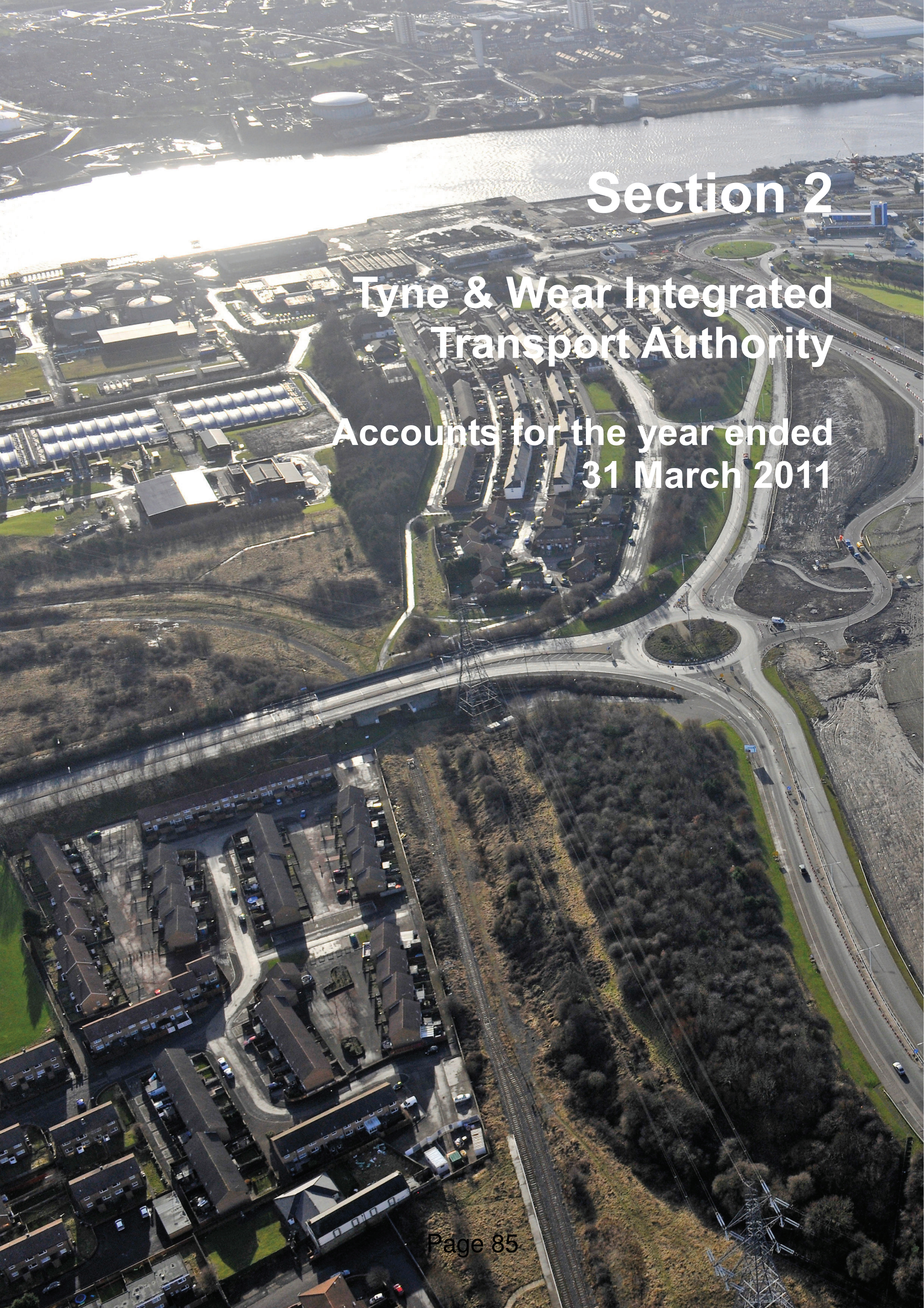
- Kept proper accounting records which were up to date
- Taken reasonable steps for the prevention and detection of fraud and other irregularities

Treasurer's Certificate

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

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

Signed ....
P. V. Woods, Deputy Clerk and Treasurer
Date: 22 September 2011



Section 2

Tyne & Wear Integrated Transport Authority

Accounts for the year ended 31 March 2011

Movement in Reserves Statement

	General Fund Balance £000	Earmarked General Fund Reserves £000	Capital Grants Unapplied £000	Total Usable Reserves £000	Unusable Reserves £000	Total Reserves £000
Balance at 31 March 2009	(29,219)	(12,875)	-	**(42,094)**	(63,129)	**(105,223)**
Movement in reserves during 2009-2010						
(Surplus) / Deficit on Provision of Services	(10,360)	-	-	**(10,360)**	-	**(10,360)**
Other Comprehensive Income & Expenditure	-	-	-	**-**	1,650	**1,650**
Total Comprehensive Income & Expenditure	(10,360)	-	-	**(10,360)**	1,650	**(8,710)**
Adjustments between accounting basis & funding basis under regulations (Note 4)	1,756	-	-	**1,756**	(1,756)	**-**
Net (Increase) / Decrease before transfers to Earmarked Reserves	(8,604)	-	-	**(8,604)**	(106)	**(8,710)**
Transfers (to) / from Earmarked Reserves (Note 5)	566	(566)	-		-	**-**
(Increase) / Decrease in 2009/10	(8,038)	(566)	-	**(8,604)**	(106)	**(8,710)**
Balance at 31 March 2010 carried forward	**(37,257)**	**(13,441)**	**-**	**(50,698)**	**(63,235)**	**(113,933)**
Movement in reserves during 2010/11						
(Surplus) / Deficit on Provision of Services	2,197	-	-	**2,197**	-	**2,197**
Other Comprehensive Income & Expenditure	-	-	-	**-**	(4,691)	**(4,691)**
Total Comprehensive Income & Expenditure	2,197	-	-	**2,197**	(4,691)	**(2,494)**
Adjustments between accounting basis & 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 2010-2011	(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

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

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

Balance Sheet

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

Treasurer's Certificate

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

Signed

Deputy Clerk and Treasurer
Date: 22 September 2011

Cash Flow Statement

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

Note 1: Prior Year Adjustments and Transition to IFRS

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

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

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

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

Note 2: Critical Judgements in Applying Accounting Policies

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

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

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

Note 2 (Continued)

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

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

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

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

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

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

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

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

	Usable Reserves		
2010/11	**General Fund Balance**	**Capital Grants Unapplied**	**Movement in Unusable Reserves**
	£000	**£000**	**£000**
Adjustments involving the Capital Adjustment Account:			
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:			
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
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:			
Statutory provision for the financing of capital investment	1,732	-	(1,732)
Capital expenditure charged against the General Fund	1,273	-	(1,273)
Adjustments involving the Capital Grants Unapplied Account:			
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	288	(288)	-
Application of grants to capital financing transferred to the Capital Adjustment Account	-	-	-
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 4 (Continued)

2009/10 Comparative Figures	Usable Reserves General Fund Balance £000	Usable Reserves Capital Grants Unapplied £000	Movement in Unusable Reserves £000
Adjustments involving the Capital Adjustment Account:			
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:			
Charges for depreciation and impairment of non current assets	(1,591)	-	1,591
Revaluation losses on Property Plant and Equipment	-	-	-
Capital grants and contributions applied	(7,179)	-	7,179
Revenue expenditure funded from capital under statute	(6,090)	-	6,090
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:			
Statutory provision for the financing of capital investment	1,804	-	(1,804)
Capital expenditure charged against the General Fund	7,199	-	(7,199)
Adjustments involving the Capital Grants Unapplied Account:			
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	-	-	-
Application of grants to capital financing transferred to the Capital Adjustment Account	7,774	-	(7,774)
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	(262)	-	262
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)	(1,000)	-	1,000
Employer's pensions contributions and direct payments to pensioners payable in the year	1,101	-	(1,101)
Total Adjustments	1,756	-	(1,756)

Note 5: Transfers to / from Earmarked Reserves

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

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

Note 6: Financing and Investment Income and Expenditure

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

Note 7: Taxation and non-specific Grant Income

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

Note 8: Property, Plant and Equipment

Movements in 2010/11:

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

Note 8 (Continued)

Depreciation

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

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

Revaluations

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

The significant assumptions applied in estimating the fair values are:

- That no high alumina cement, concrete or calcium chloride additive or other potentially deleterious material was used in the construction of the property and that none has been subsequently incorporated.
- The property is not subject to any unusual or especially onerous restrictions, encumberances 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.

Note 9: Financial Instruments

01 April 2009 £000		31 March 2010 £000	31 March 2011 £000
	Short term investments:		
126,263	Bank deposits	44,966	-
126,263		**44,966**	**-**
	Long term debtors:		
53,914	Loans to Nexus	51,825	51,178
53,914		**51,825**	**51,178**

Note 9 (Continued)

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

Income, Expense, Gains and Losses

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

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

The fair values are calculated as follows:

Financial Liabilities

31 March 2010			31 March 2011	
Carrying amount £000	Fair value £000		Carrying amount £000	Fair value £000
(56,560)	(60,154)	Public Works Loan Board	(31,560)	(35,129)
(89,000)	(91,094)	Market Loans	(89,000)	(95,974)
(145,560)	**(151,248)**	**Total**	**(120,560)**	**(131,103)**

Financial Assets

31 March 2010			31 March 2011	
Carrying amount £000	Fair value £000		Carrying amount £000	Fair value £000
51,825	51,825	Long-term debtors	51,178	51,178
51,825	**51,825**	**Total**	**51,178**	**51,178**

Note 9 (Continued)

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

Note 10: Long Term Debtors

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

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

Note 11: Short Term Debtors

01 April 2009 £000	31 March 2010 £000		31 March 2011 £000
522	495	Tax to be recovered	464
6,701	6,407	Loans to Nexus	6,174
324	987	Other entities and individuals	55
7,547	**7,889**	**Total**	**6,692**

Note 12: Cash and Cash Equivalents

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

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

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

Note 13: Short Term Creditors

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

Note 14: Grants and Contributions Receipts in Advance

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

NESTI

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

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

Note 15: Usable Reserves

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

ITA General Fund

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

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

Tyne Tunnels General Fund

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

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

Earmarked Metro Reinvigoration Reserve

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

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

Capital Grants and Contributions Unapplied Reserve

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

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

Note 16: Unusable Reserves

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

Revaluation Reserve

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

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

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

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

Capital Adjustment Account

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

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

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

Note 16 (Continued)

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

Financial Instruments Adjustment Account

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

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

Note 16 (Continued)

Pensions Reserve

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

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

Note 17: Cash Flow Statement: Operating Activities

The cash flows for operating activities include the following items:

2009/10 £000		2010/11 £000
6,146	Interest received	3,221
(8,458)	Interest paid	(6,592)
(2,312)	**Total**	**(3,371)**

Note 18: Cash Flow Statement: Investing Activities

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

Note 19: Cash Flow Statement: Financing Activities

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

Note 20: Members' Allowances

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

2009/10 £000		2010/11 £000
86	Allowances	83
86	**Total**	**83**

Note 21: External Audit Costs

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

Note 22: Amounts Reported for Resource Allocation

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

Income and Expenditure

2010/11	ITA	Tyne Tunnels	Total
	£000	£000	£000
Fees, charges & other service income	-	(13,177)	(13,177)
Interest	(61)	(569)	(630)
Total Income	**(61)**	**(13,746)**	**(13,807)**
Employee expenses (including pensions)	511	626	1,137
Other service expenses	188	3,002	3,190
Support service recharges	368	163	531
Capital Payments	1,407	325	1,732
Interest Payments	1,406	2,794	4,200
Total Expenditure	**3,880**	**6,910**	**10,790**
Net Expenditure	**3,819**	**(6,836)**	**(3,017)**

Income and Expenditure

2009/10 Comparative Figures	ITA	Tyne Tunnels	Total
	£000	£000	£000
Fees, charges & other service income	(47)	(13,195)	(13,242)
Interest	(769)	(1,096)	(1,865)
Total Income	**(816)**	**(14,291)**	**(15,107)**
Employee expenses	510	623	1,133
Other service expenses	282	2,929	3,211
Support service recharges	327	143	470
Capital Payments	1,465	360	1,825
Interest Payments	1,501	1,414	2,915
Provision	-	0	-
Total Expenditure	**4,085**	**5,469**	**9,554**
Net Expenditure	**3,269**	**(8,822)**	**(5,553)**

Note 22 (Continued)

2010/11	Analysis by function £000	Services and Support Services not in Analysis £000	Amounts not reported to management for decision making £000	Amounts not included in CIES £000	Cost of Services £000	Corporate Amounts £000	Total £000
Fees, charges & other service income	(13,177)	-	-	-	(13,177)	-	(13,177)
Interest and investment income	(630)	-	-	630	-	(3,221)	(3,221)
Levy income	-	-	-	-	-	(71,706)	(71,706)
Government grants and contributions	-	(4,821)	(603)	-	(5,424)	-	(5,424)
Total Income	**(13,807)**	**(4,821)**	**(603)**	**630**	**(18,601)**	**(74,927)**	**(93,528)**
Employee expenses	1,137	-	(5,510)	(1,103)	(5,476)	-	(5,476)
Other service expenses	3,190	72,238	-	-	75,428	-	75,428
Support Service recharges	531	-	-	-	531	-	531
Capital Payments	1,732	4,585	14,065	(1,732)	18,650	-	18,650
Interest Payments	4,200	-	-	(4,200)	-	6,592	6,592
Total expenditure	**10,790**	**76,823**	**8,555**	**(7,035)**	**89,132**	**6,592**	**95,724**
Surplus or deficit on the provision of services	**(3,017)**	**72,002**	**7,952**	**(6,405)**	**70,531**	**(68,335)**	**2,197**

2009/10 Comparative Figures	Analysis by function £000	Services and Support Services not in Analysis £000	Amounts not reported to management for decision making £000	Amounts not included in CIES £000	Cost of Services £000	Corporate Amounts £000	Total £000
Fees, charges & other service income	(13,242)	-	-	-	(13,242)	-	(13,242)
Interest and investment income	(1,865)	-	-	1,865	-	(1,865)	(1,865)
Levy income	-	-	-	-	-	(70,646)	(70,646)
Government grants and contributions	-	(6,090)	(1,683)	-	(7,773)		(7,773)
Total Income	**(15,107)**	**(6,090)**	**(1,683)**	**1,865**	**(21,015)**	**(72,511)**	**(93,526)**
Employee expenses	1,133	-	-	(1,099)	34	-	34
Other service expenses	3,211	67,595	-	-	70,806	-	70,806
Support Service recharges	470	-	-	-	470	-	470
Capital Payments	1,825	6,090	1,590	(1,825)	7,680	-	7,680
Interest Payments	2,915	-	-	(2,915)	-	4,177	4,177
Contribution To Provision	-	-	-	-	-	-	-
Total expenditure	**9,554**	**73,685**	**1,590**	**(5,839)**	**78,990**	**4,177**	**83,167**
Surplus or deficit on the provision of services	**(5,553)**	**67,595**	**(93)**	**(3,974)**	**57,975**	**(68,334)**	**(10,360)**

Note 23: Grant Income

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

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

Note 24: Related Parties

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

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

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

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

Other Public Bodies [subject to common control by central government]
The Authority has a direct relationship with the Passenger Transport Executive (Nexus). The ITA sets the policy which is then delivered by Nexus.

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

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

Note 24 (continued)

Related Party Transactions	2009/10 £000	2010/11 £000 Paid / Received in year	£000 Accrued at year end	£000 Total
Receipts				
Levy on Tyne and Wear Councils				
Gateshead MBC	(12,354)	(12,500)	-	**(12,500)**
Newcastle City Council	(17,613)	(17,943)	-	**(17,943)**
North Tyneside MBC	(12,710)	(12,939)	-	**(12,939)**
South Tyneside MBC	(9,792)	(9,942)	-	**(9,942)**
City of Sunderland Council	(18,177)	(18,382)	-	**(18,382)**
	(70,646)	**(71,706)**	-	**(71,706)**
Newcastle City Council				
Interest on Revenue Balance	(1,231)	(805)	-	**(805)**
Nexus				
Loans from ITA - Principal	(2,249)	-	(2,159)	**(2,159)**
Loans from ITA - Interest	(2,474)	-	(2,321)	**(2,321)**
	(4,723)	**-**	**(4,480)**	**(4,480)**
Payments				
LTP Grant Payments				
Gateshead MBC	575	178	35	**213**
Newcastle City Council	736	487	97	**584**
North Tyneside MBC	333	147	37	**184**
South Tyneside MBC	415	91	11	**102**
City of Sunderland Council	162	55	54	**109**
	2,221	**958**	**234**	**1,192**
Newcastle City Council				
Provision of Support Services	753	774	-	**774**
Nexus				
Revenue Support Grant	67,595	68,555	-	**68,555**
LTP Grant for Capital Expenditure	3,542	3,270	71	**3,341**
Grant for Metro Re-invigoration	-	0	1,273	**1,273**
Loan to fund Capital Expenditure	-	0	1,491	**1,491**
	71,137	**71,825**	**2,764**	**74,589**
Tyne & Wear Superannuation Fund				
Employers Contributions	1,101	1,030	73	**1,103**

Note 24 (Continued)

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

Note 25: Capital Expenditure and Capital Financing

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

	2009/10 £000	**2010/11 £000**
Opening Capital Financing Requirement	110,417	132,181
Capital investment:		
- Property, Plant and Equipment	33,016	40,369
- Revenue Expenditure Funded from Capital under Statute	6,091	4,585
- Loans to Other Public Bodies	-	1,491
Sources of finance:		
- Government grants and other contributions	(13,269)	(4,533)
Sums set aside from revenue:		
- Direct revenue contributions	-	(52)
- MRP/loans fund principal	(4,074)	(3,891)
Closing Capital Financing Requirement	**132,181**	**170,150**
Explanation of movements in year:		
- Increase in underlying need to borrow (unsupported by government financial assistance)	21,764	37,969
Increase/(decrease) in Capital Financing Requirement	**21,764**	**37,969**

Note 26: Leases

Operating Leases

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

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

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

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

	2009/10 £000	2010/11 £000
Minimum lease payments	129	179
	129	**179**

Note 27: Private Finance Initiatives and Similar Contracts

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

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

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

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

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

Note 27 (Continued)

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

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

	2011/12 £000	2010/11 £000
Balance outstanding at start of year	(46,627)	(84,427)
Payments during the year	46,627	37,800
Balance outstanding at year-end	**-**	**(46,627)**

Note 28: Impairments

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

Note 29: Defined Benefit Pension Schemes

The Authority participates in two post employment schemes:

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

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

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

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

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

Transactions Relating to Post-Employment Benefits

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

Note 29 (Continued)

	Local Government Pension Scheme		Discretionary Benefits Arrangements	
	£000	£000	£000	£000
	2009/10	2010/11	2009/10	2010/11
Comprehensive Income and Expenditure Statement				
Cost of Services:				
- Past service costs	-	(5,510)	(110)	-
Financing and Investment Income and Expenditure:				
- Interest cost	1,920	1,720	40	70
- Expected return on scheme assets	(970)	(1,580)	-	-
Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	**950**	**(5,370)**	**(70)**	**70**
Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement:				
- Actuarial (gains) and losses	1,500	(5,100)	150	530
Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	**2,450**	**(10,470)**	**80**	**600**

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

Note 29 (Continued)

Assets and Liabilities in Relation to Post-employment Benefits

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

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

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

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

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

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

Note 29 (Continued)

Scheme History

	2006/07 £000	2007/08 £000	2008/09 £000	2009/10 £000	2010/11 £000
Present value of liabilities:					
Local Government Pension Scheme	(32,430)	(27,970)	(28,520)	(36,170)	(26,130)
Discretionary Benefits	850	770	760	910	790
Fair value of assets in the Local Government Pension Scheme	**24,690**	**18,270**	**15,440**	**21,690**	**22,650**
Surplus/(deficit) in the scheme:					
Local Government Pension Scheme	(32,430)	(27,970)	(28,520)	(36,170)	(26,130)
Discretionary Benefits	(850)	(770)	(760)	(910)	(790)
Total	**(33,280)**	**(28,740)**	**(29,280)**	**(37,080)**	**(26,920)**

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

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

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

Basis for Estimating Assets and Liabilities

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

Note 29 (Continued)

The principal assumptions used by the actuary have been:

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

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

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

History of Experience Gains and Losses

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

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

Note 30 - Contingent Liabilities

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

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

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

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

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

Credit Risk

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

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

Note 31 (Continued)

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

Liquidity Risk

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

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

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

Market Risk

Interest Rate Risk

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

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

Note 31 (Continued)

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

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

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

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

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

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

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

Foreign Exchange Risk

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

Note 32: Accounting Policies

1. General Principles

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

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

2. Accruals of Income and Expenditure

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

3. Cash and Cash Equivalents

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

4. Exceptional Items

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

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

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

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

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

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

6. Charges to Revenue for Non-Current Assets

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

7. Employee Costs

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

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

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

8. Pensions

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

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

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

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

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

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

a. Current service cost - the increase in liabilities as a result of years of service earned this year, allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked

b. Past service cost - the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years, debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement

c. Interest cost - the expected increase in the present value of liabilities during the year as they move one year closer to being paid, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement

d. Expected return on assets - the annual investment return on the fund assets attributable to the Authority, based on an average of the expected long-term return, credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement

e. Gains or losses on settlements and curtailments - the result of actions to relieve the Authority of liabilities or events that reduce the expected future service or accrual of benefits of employees - debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non-Distributed Costs

f. Actuarial gains and losses - changes in the net pension liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions - debited to the Pensions Reserve

g. Contributions paid to the pension fund - cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense

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

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

9. Events After the Balance Sheet Date

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

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

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

10. Financial Instruments

Financial Liabilities

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

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

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

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

Financial Assets

Financial assets are classified into two types:

- Loans and receivables: assets that have fixed or determinable payments but are not quoted in an active market

- Available-for-sale assets: assets that have a quoted market price and/or do not have fixed or determinable payments

Loans and Receivables

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

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

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

Available-for-Sale Assets

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

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

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

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

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

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

11. Government Grants & Contributions

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

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

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

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

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

12. Leases

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

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

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

Operating Leases

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

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Property, Plant & Equipment

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

Recognition

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

Measurement

Assets are initially measured at cost, comprising:

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

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

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

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

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

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

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

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

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

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

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

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

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

De Minimis Levels

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

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

Impairment

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

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

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

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

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

Depreciation

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

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

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

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

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

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

Componentisation

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

Disposals

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

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

14. Public Private Partnership (PPP) Contracts

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

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

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

- The public sector entity ('grantor') controls or regulates the services that the operator must provide with the infrastructure, to whom it must provide them, and at what price

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

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

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

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

- In each month TWITA pays a Shadow Toll to the Operator; this being a fixed amount per vehicle adjusted for changes in RPI

- Throughout the Term, Formula Tolls for each vehicle type are defined to equal the corresponding vehicle type Shadow Tolls

- The Formula Tolls are the initially-defined sequence of tolls to be charged to users and collected by TWITA. If TWITA varies a Real Toll from its corresponding Formula Toll, the Operator is compensated for the effect of this adjustment on demand

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

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

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

15. Provisions

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

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

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

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

16. Contingent Liabilities

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

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

17. Reserves

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

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

18. Revenue Expenditure Funded from Capital Under Statute

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

19. VAT

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

20. Overheads

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

21. Tyne Tunnel Income

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

22. Group Accounts

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

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

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

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

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

Section 3

Tyne & Wear Integrated Transport Authority

Group Accounts for the year ended 31 March 2011

Group Movement in Reserves Statement

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

Group Comprehensive Income and Expenditure Statement

2009/10 Gross Expenditure	2009/10 Gross Income	2009/10 Net Expenditure		2010/11 Gross Expenditure	2010/11 Gross Income	2010/11 Net Expenditure
		£000		£000	£000	£000
			Highways and Transport Services			
161,560	(59,950)	101,610	- Other Highways and Transport Services	154,297	(54,323)	99,974
4,695	(14,878)	(10,183)	- Tyne Tunnels	19,673	(13,780)	5,893
1,256	-	1,256	Planning & Development	1,752	(334)	1,417
2,538	(47)	2,491	Corporate and Democratic Core	2,626	-	2,626
5,437	(6,460)	(1,023)	Non-Distributed costs	125	(39,312)	(39,187)
161,900	**(81,335)**	**94,151**	**Cost of Services (Note 2)**	**178,473**	**(107,749)**	**70,723**
			Other Operating Expenditure			
20,441	(11,465)	8,976	Financing and Investment Income and Expenditure	15,973	(10,345)	5,628
203	(134,477)	(134,274)	Taxation and Non-Specific Grant Income	1,212	(152,373)	(151,161)
		(31,147)	**(Surplus) or Deficit on Provision of Services**			**(74,810)**
		-	Surplus or deficit on revaluation of fixed assets			(121)
		-	Surplus or deficit on revaluation of available for sale financial assets			-
		18,970	Actuarial gains / losses on pension assets / liabilities			(6,470)
		18,970	**Other Comprehensive Income and Expenditure**			**(6,591)**
		(12,177)	**Total Comprehensive Income and Expenditure**			**(81,401)**

Group Balance Sheet

1 April 2009 £000	31 March 2010 £000		Group Notes	31 March 2011 £000
486,877	530,475	Property, Plant & Equipment	6	752,582
891	1,546	Intangible Assets	7	1,272
-	-	Assets Held for Sale		82
1	1	Long Term Investments		1
340	340	Long Term Debtors		-
488,109	**532,362**	**Long Term Assets**		**753,937**
126,263	44,966	Short Term Investments		-
3,165	3,444	Inventories		1,353
16,944	18,984	Short Term Debtors	4	24,049
64,499	66,563	Cash and Cash Equivalents	8	101,636
210,871	**133,957**	**Current Assets**		**127,038**
(42,683)	(5,847)	Short Term Borrowing	13	(40,723)
(15,034)	(22,852)	Short Term Creditors	5	(27,465)
-	(187)	Bank Overdraft		-
-	-	New Tyne Crossing Deferred Income		(51,980)
(57,717)	**(28,886)**	**Current Liabilities**		**(120,168)**
-	(5,495)	Grants and Contributions Receipts in Advance		(9,254)
(1,813)	(844)	Provisions		(1,320)
(183,365)	(145,560)	Long Term Borrowing	13	(120,560)
(76,871)	(93,940)	Other Long Term Liabilities	17	(41,887)
(3,154)	(3,357)	Deferred Tax Liability	12	(4,569)
-	-	New Tyne Crossing Deferred Income		(113,579)
(265,203)	**(249,196)**	**Long Term Liabilities**		**(291,169)**
376,060	**388,237**	**Net Assets**		**469,638**
(65,242)	(76,784)	Usable Reserves	10	(87,211)
(310,818)	(311,453)	Unusable Reserves	11	(382,427)
(376,060)	**(388,237)**	**Total Reserves**		**(469,638)**

Treasurer's Certificate

I certify that the accounts set out on pages 92 to 109 present a true and fair view of the financial position of the Tyne and Wear Integrated Transport Authority as at 31 March 2011.

Signed

Deputy Clerk and Treasurer
Date: 22 September 2011

Group Cash Flow Statement

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

Group Note 1: Group Accounts

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

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

<u>Deferred Tax</u>

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

<u>Property, Plant, Equipment and Intangible Assets</u>

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

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

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

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

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

Group Note 1 (Continued)

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 Note 2: Analysis of Cost of Services

The table below shows a detailed analysis of the figures included in Cost of Services in the Comprehensive Income and Expenditure Statement for 2010/11

2010/11	Gross Expenditure £000	Gross Income £000	Net Expenditure £000
Nexus Rail	73,154	(42,519)	30,635
Ferry	1,432	(493)	939
Rail Franchise	4,328	(1)	4,327
Supported bus services	16,901	(5,971)	10,930
Bus Infrastructure	3,333	(551)	2,782
Promotion and Information	4,496	(1,322)	3,174
Concessionary Travel	49,408	(1,988)	47,420
Tyne Tunnel	18,409	(16,190)	2,219
Tyne & Wear LTP	1,190	(1,478)	(288)
NESTI	52	(2,874)	(2,822)
Highways & Transport	**172,703**	**(73,387)**	**99,316**
Planning	1,752	(334)	1,418
Corporate costs		(1,620)	(1,620)
Non distributed costs	5,635	-	5,635
Pensions - Additional service cost		(39,310)	(39,310)
Cost of Services in CIES	**180,090**	**(114,651)**	**65,439**

Group Note 3: Integrated Transport Authority Lead Officers

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

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

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

Director General	Bernard Garner
Director of Finance and Administration	John Fenwick
Director of Rail and Infrastructure	Ken Mackay
Director of Strategy	Tobyn Hughes

Group Note 4: Short Term Debtors

31 March 2010 £000		**31 March 2011 £000**
495	Tax to be recovered	464
11,476	Central government	19,077
451	Other local authorities	371
23	NHS bodies	26
142	Public corporations and trading funds	120
6,397	Other entities and individuals	3,991
18,984	**Total**	**24,049**

Group Note 5: Short Term Creditors

31 March 2010 £000		31 March 2011 £000
(2,017)	Central government bodies	(1,029)
(26)	Other local authorities	(34)
(1,309)	Other local authorities - LTP claims	(333)
-	NHS Bodies	(1)
(239)	Public Corporations	(239)
(274)	Payments due to TT2 Ltd.	(560)
(593)	Prepayments	(663)
(74)	Accrued payments to pension fund	(73)
(243)	New Tyne Crossing Advisors	(317)
(18,077)	Other entities and individuals	(24,217)
(22,852)	**Total**	**(27,465)**

Group Note 6: Property, Plant and Equipment

Movements in 2010/11:

	Other Land and Buildings £000	Vehicles, Plant, furniture & Equipment £000	Infrastructure Assets £000	Assets Under Construction £000	Total Property, Plant and Equipment £000
Cost or Valuation					
At 1 April 2010	16,965	31,444	604,442	61,520	**714,371**
Additions	-	466	206,404	-	**206,870**
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)**
	-	(390)	(237)	-	**(627)**
Transfers to assets held for sale					
Transfers from assets under construction	-	1,066	68,135	(69,201)	**-**
At 31 March 2011	16,965	32,455	865,822	(7,681)	**907,561**
Accumulated Depreciation and Impairment					
At 1 April 2010	(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**
At 31 March 2011	(2,556)	(22,415)	(177,772)	-	**(202,743)**
Net Book Value					
At 31 March 2011	14,409	10,040	688,050	(7,681)	**704,818**
At 31 March 2010	14,568	10,281	444,972	61,520	**531,341**

Group Note 6 (Continued)

	Other Land and Buildings	Vehicles, Plant, furniture & Equipment	Infrastructure Assets	Assets Under Construction	Total Property, Plant and Equipment
	£000	£000	£000	£000	£000
Comparative Movements in 2009/10:					
Cost or Valuation					
At 1 April 2009	16,965	30,892	583,606	21,688	**653,151**
Additions	-	-	20	61,343	**61,363**
Transfers from assets under construction	-	695	20,816	(21,511)	**-**
Disposals	-	(143)	-	-	**(143)**
At 31 March 2010	16,965	31,444	604,442	61,520	**714,371**
Accumulated Depreciation and Impairment					
At 1 April 2009	(2,157)	(19,674)	(144,442)	-	**(166,273)**
Depreciation charge	(240)	(1,632)	(15,028)	-	**(16,900)**
Disposals	-	143	-	-	**143**
At 31 March 2010	(2,397)	(21,163)	(159,470)	-	**(183,030)**

Group Note 7: Intangible Assets

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

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

Group Note 8: Cash and Cash Equivalents

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

01 April 2009 £000	31 March 2010 £000		31 March 2011 £000
-	-	Cash held by the Authority	-
26,341	19,427	Bank current accounts *	46,336
38,158	47,136	Short-term deposits with building societies	55,300
64,499	**66,563**	**Total Cash and Cash Equivalents**	**101,636**

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

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

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

Group Note 10: Breakdown of Usable Reserves

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

Group Note 11: Breakdown of Unusable Reserves

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

Group Note 12: Deferred Taxation

Deferred Taxation in the Group Accounts relates wholly to Nexus.

The Balance Sheet figure comprises:

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

Group Note 13: Financial Instruments

The following categories of financial instrument are carried in the balance sheet:

01 April 2009 £000	31 March 2010 £000		31 March 2011 £000
		Short term investments:	
126,263	44,966	Bank deposits	-
126,263	**44,966**		**-**

01 April 2009 £000	31 March 2010 £000	Borrowings:	31 March 2011 £000
(42,683)	(5,847)	Short term borrowing	(40,723)
(183,365)	(145,560)	Financial liabilities at amortised cost - long term borrowing	(120,560)
(226,048)	**(151,407)**		**(161,283)**
		Other Long Term Liabilities:	
(76,871)	(93,940)	Pensions Liability	(41,887)
(76,871)	**(93,940)**		**(41,887)**

Group Note 14: Cash Flow Statement: Operating Activities

The cash flows for operating activities include the following items:

2009/10 £000		2010/11 £000
11,465	Interest received	10,345
(20,441)	Interest paid	(15,973)

Group Note 15: Cash Flow Statement - Investing Activities

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

Group Note 16: Cash Flow Statement - Financing Activities

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

Group Note 17: Defined Benefit Pension Schemes

Participation in the Pension Scheme

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

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

Group Note 17 (continued)

Summary of Pension Scheme Liability

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

Principal Mortality and Financial Assumptions

The principal assumptions used by the actuary are:

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

Group Note 17 (Continued)

LGPS Funded Benefits

Expected return on assets

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

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

Reconciliation of funded status to Balance Sheet

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

Charges to the Surplus or Deficit on the Provision of Services

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

Group Note 17 (Continued)

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

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

Changes to the fair value of assets during the accounting period

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

Changes to the fair value of assets during the accounting period

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

Group Note 17 (Continued)

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

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

Unfunded Benefits

Reconciliation of Balance Sheet

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

Charges to the Surplus or Deficit on the Provision of Services

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

Group Note 17 (Continued)

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

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

History of present value of liabilities and deficit

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

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

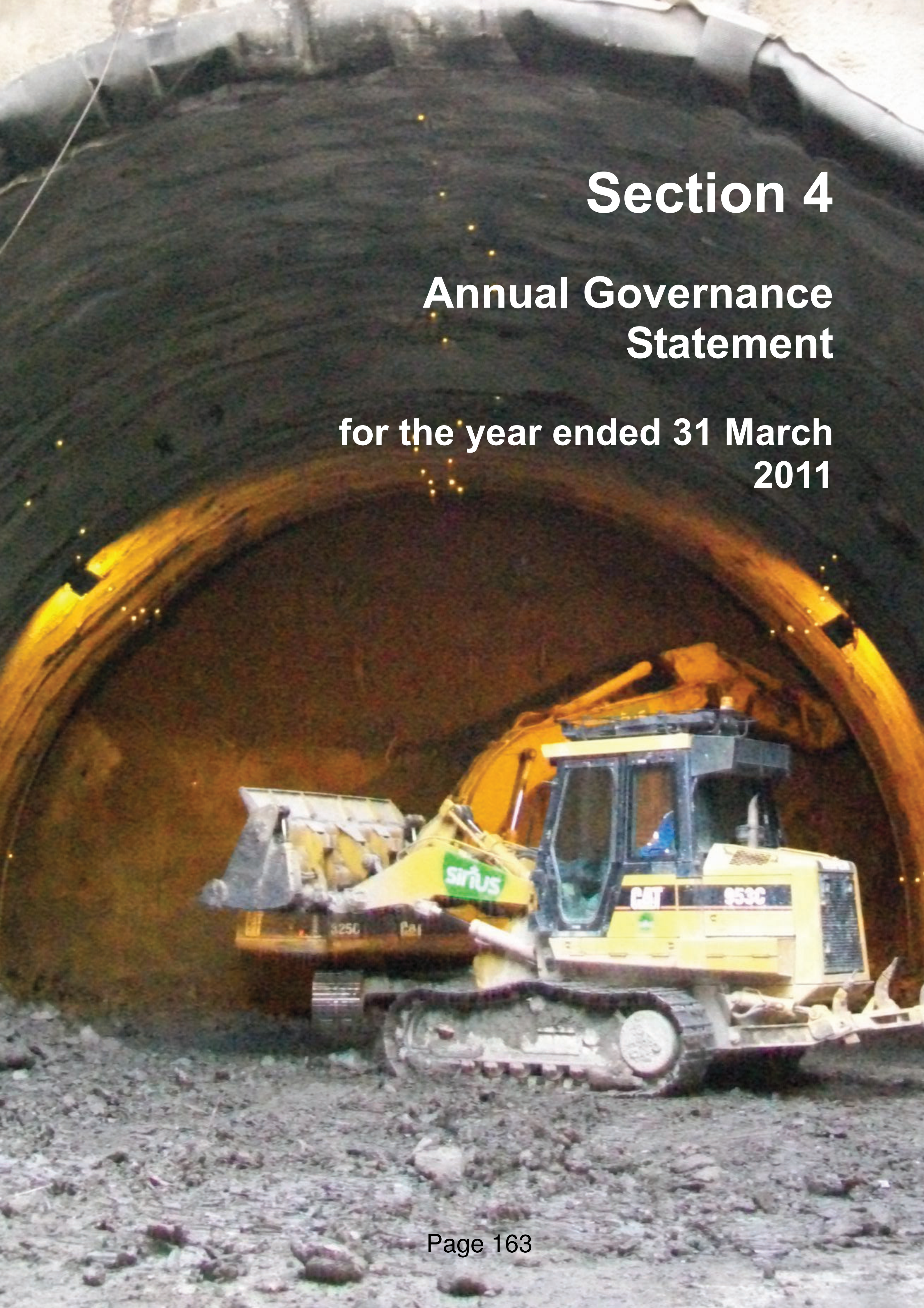
Capital Receipts	Monies received from the disposal of land and other fixed assets, and from the repayment of grants and loans made by the Authority.
Code of Practice on Local Authority Accounting in the UK	The Code specifies the principles and practices of accounting to give a “true and fair” view of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

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

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

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

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



Section 4

Annual Governance Statement

for the year ended 31 March 2011

ANNUAL GOVERNANCE STATEMENT 2010/11

SECTION 1: SCOPE OF RESPONSIBILITY

The Tyne and Wear Integrated Transport Authority (ITA) is responsible for ensuring that its business is conducted in accordance with the law and proper standards and that public money is safeguarded and properly accounted for and used economically, efficiently and effectively. The ITA also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness. The ITA also has a general power of promoting well-being within its area that was introduced by the Local Transport Act 2008.

In discharging this overall responsibility, the ITA is responsible for putting in place proper arrangements (known as a Governance Framework) for:

i. the governance of our affairs and

ii. facilitating the effective exercise of our functions, including arrangements for the management of risk.

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

In relation to (ii) the ITA has put in place a system of internal control designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to:

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

SECTION 2: THE PURPOSE OF THE GOVERNANCE FRAMEWORK

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

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

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

SECTION 3: THE GOVERNANCE FRAMEWORK

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

CORE PRINCIPLE 1: FOCUSSING ON OUR PURPOSE AND OUTCOMES FOR RESIDENTS

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

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

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

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

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

Reviewing the ITA's vision and the implications for its governance arrangements

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

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

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

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

East Local Enterprise Partnership.

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

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

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

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

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

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

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

Performance is reported to the ITA

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

CORE PRINCIPLE 2: MEMBERS AND OFFICERS HAVE CLEARLY DEFINED ROLES AND RESPONSIBILTIES

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

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

There is a clear scheme of delegation to officers.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The ITA has an agreed whistle-blowing policy.

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

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

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

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

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

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

CORE PRINCIPLE 6: ENGAGING WITH LOCAL PEOPLE AND STAKEHOLDERS

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

Meetings are held in public

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

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

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

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

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

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

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

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

SECTION 4: ANNUAL REVIEW OF EFFECTIVENESS OF GOVERNANCE FRAMEWORK

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

The review is informed by :

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

SECTION 5: SIGNIFICANT GOVERNANCE ISSUES

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

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

SECTION 6: SIGNIFICANT IMPROVEMENTS NEEDED TO GOVERNANCE AND INTERNAL CONTROL

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

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

Summary

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

Issues

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

2011/12 Actions

Continue to embed arrangements in the directorates

Agree strategic arrangements with BMG and Directors

Development and agreement of Resilience Strategy

Decision needed about going for accreditation for BS 25999

Finalise arrangements for resources in the BC post

Develop and implement training and awareness programme for wider council staff

Develop and implement an exercise programme for Business Continuity arranges

SECTION 7: CONCLUSION

We consider the governance and internal control environment operating during 2010/11 to provide reasonable and objective assurance that any significant risks impacting on the achievement of our principal objectives will be identified and actions taken to avoid or mitigate their impact. A number of weaknesses and issues have been identified and these are set out in Section 5 above. Implementing the action plans is a priority.

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

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

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

Barry Rowland **Clerk**	**Councillor David Wood** **Chair of the ITA**	**Paul Woods** **Treasurer and Deputy Clerk**
Date:	**Date:**	**Date:**

Tyne and Wear Integrated Transport Authority

Paul V. Woods
Deputy Clerk and Treasurer, ITA
Chief Executive's Office
Civic Centre
Newcastle upon Tyne
NE99 1RD

Tel: 0191 277 7527
Email paul.v.woods@newcastle.gov.uk
www.newcastle.gov.uk

Deloitte LLP
1 Trinity Gardens,
Broad Chare,
Newcastle upon Tyne,
NE1 2HF

Ref: DPW/TWITA

Tyne & Wear Integrated Transport Authority – Audit of the annual accounts for the year ended 31 March 2011

This representation letter is provided in connection with your audit of the financial statements of Tyne & Wear Integrated Transport Authority ("TWITA") for the year ended 31 March 2011 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view of the financial position of the entity as of 31 March 2011 and the results of its operations, other recognised gains and losses and its cash flows for the year then ended in accordance with the applicable accounting framework.

We acknowledge our responsibilities for preparing financial statements for the Authority which present a true and fair view and for making accurate representations to you.

We confirm, to the best of our knowledge and belief, the following representations:

<u>Financial statements</u>

1. We understand and have fulfilled our responsibilities for the preparation of the financial statements in accordance with the applicable financial reporting framework which give a true and fair view, as set out in the terms of the audit engagement letter.

2. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

3. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of IAS24 “Related party disclosures”.

4. All events subsequent to the date of the financial statements and for which the applicable financial reporting framework requires adjustment of or disclosure have been adjusted or disclosed.

5. The effects of uncorrected misstatements and disclosure deficiencies are immaterial, both individually and in aggregate, tot eh financial statements as a whole. A list of the uncorrected misstatements and disclosure deficiencies is detailed in Appendix 1 to the Report to the Standards and Audit Committee.

6. We confirm that the financial statements have been prepared on the going concern basis. We are not aware of any material uncertainties related to events or conditions that may cast significant doubt upon the Authority’s ability to continue as a going concern. We confirm the completeness of the material provided regarding events and conditions relating to going concern at the date of approval of the financial statements, including our plans for future actions.

<u>Information provided</u>

We have provided you with:

7. Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;

8. Additional information that you have requested from us for the purpose of the audit.

9. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

10. All transactions have been recorded and are reflected in the financial statements and the underlying accounting records.

11. We acknowledge our responsibilities for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

12. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

13. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Authority and involves:

    - Management;
    - Members of the Authority;
    - Employees who have significant roles in internal control; or
    - Others where the fraud could have a material effect on the financial statements.

14. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity’s financial statements communicated by employees, former employees, analysts, regulators or others.

15. We are not aware of any instances of non-compliance, or suspected non-compliance, with laws, regulations and contractual agreements whose effects should be considered when preparing financial statements.

16. We have disclosed to you the identity of TWITA's related parties and all the related party relationships and transactions of which we are aware.

17. No claims in connection with litigation have been or are expected to be received.

18. We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities reflected in the financial statements.

19. We have considered the uncorrected misstatements and disclosure deficiencies detailed in the report to the Standards and Audit Committee. We believe that no adjustment is required to be made in respect of any of these items as they are individually and in aggregate immaterial having regard to the financial statements taken as a whole.

20. Where required, the value at which assets and liabilities are recorded in the balance sheet is, in the opinion of the Members, the fair value. We are responsible for the reasonableness of any significant assumptions underlying the valuation, including consideration of whether they appropriately reflect our intent and ability to carry out specific courses of action on behalf of TWITA. Any significant changes in those values since the balance sheet date have been disclosed to you.

21. There have been no irregularities involving members or employees who have a significant role in the accounting and internal control systems or that could have a material effect on the financial statements.

22. The financial statements are free from material misstatement.

23. There have been no events since the balance sheet date which require adjustment of or a disclosure in the financial statements or notes thereto. Should further material events occur, which may necessitate revision of the figures included in the annual accounts or inclusion of a note thereto, we will advise you accordingly.

24. We recognise that we are responsible for ensuring that the statement of accounts as published on the website properly presents the financial information and your auditors' report and for the controls over, and security of, the website. We also recognise that we are responsible for establishing and controlling the process for electronically distributing annual reports and other information.

25. We confirm that:

    - All retirement benefits and schemes, including UK, foreign, funded or unfunded, approved or unapproved, contractual or implicit have been identified and properly identified and properly accounted for;
    - All settlements and curtailments have been identified and properly accounted for;
    - All events which relate to the determination of pension liabilities have been brought to the actuary's attention;

- The actuarial assumptions underlying the valuation of the scheme liabilities accord with Members' best estimates of the future events that will affect the cost of retirement benefits and are consistent with out knowledge of the business;
- The actuary's calculations have been based on complete and up to date member data as far as appropriate regarding the adopted methodology; and
- The amounts included in the financial statements derived from the work of the actuary are appropriate.

26. All known material liabilities have been properly included in the annual accounts and all material contingent liabilities have been disclosed.

We confirm that the above representations are made on the basis of adequate enquiries of management and staff (and where appropriate, inspection of evidence) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

Yours faithfully,

Chief Financial Officer, Signed on behalf of Tyne & Wear Integrated Transport Authority

Date:

Tyne and Wear Integrated Transport Authority

Date:	**22 September 2011**
TITLE:	**ANNUAL GOVERNANCE STATEMENT 2010/11**
REPORT OF	**ITA OFFICER CO-ORDINATION GROUP**
	Not Confidential / District Implications - All

1. Summary / Purpose of Report

1.1 The ITA is required to conduct an annual review of its governance and internal control arrangements and to produce an Annual Governance Statement to be published as part of the ITA's accounts.

1.2 Officers from the ITA Co-ordination Group ("Officer Group") carried out this review in May 2011, reported its findings to Standards and Audit Committee on 8 July 2011 and updated assurances in August 2011. Standards and Audit Committee approved the final report on 16 September 2011.

1.3 Appendix A to this report presents the Annual Governance Statement 2010/11 ("AGS").

2. Recommendations

2.1 To approve the Annual Governance Statement provided in Appendix A as part of the Annual Report and Accounts 2010/11.

3. Introduction / Background

3.1 The ITA is responsible for ensuring that its business is conducted in accordance with the law and proper standards and that public money is safeguarded, properly accounted for and used economically, efficiently and effectively.

3.2 The ITA also has a duty[1] to make arrangements to secure continuous improvement in the way in which it exercises its functions, having regard to a combination of economy, efficiency and effectiveness.

3.3 To discharge this responsibility, the ITA is responsible for putting in place proper arrangements (a Governance Framework) to:

[1] Local Government Act 1999

(a) Govern its affairs: in relation to this, we have adopted a Local Code. This is a public document which sets out the main elements of our governance framework, evidences our commitment to achieving good governance and demonstrates how we comply with the governance standards recommended by CIPFA[2]; and

(b) Facilitate the effective exercise of our functions, including arrangements for managing risk: in relation to this, we have a system of internal control designed to manage risk to a reasonable level.

3.4 The ITA has a statutory duty to do the following on an annual basis :

(a) Review and update the Local Code and demonstrate how we have complied with it in practice;

(b) Conduct a review of the effectiveness of our governance framework, including the system of internal control;

(c) Identify significant weaknesses and the actions that have taken place (or will take place) to address them;

(d) Report these to the public in the AGS which is part of the Accounts.

4. Review Process

4.1 The Officer Group met on 4 May 2011 to draw together their knowledge of the ITA's activities during the 2010/11 financial year. Where available, the Officer Group drew upon the information sources highlighted in Section 4 of the AGS. These information sources were further reviewed where relevant in August 2011 to ensure that the AGS is up to date at the point of final approval. No revisions to the draft AGS approved by Standards and Audit Committee on 8 July 2011 were required, and the final AGS was approved by Standards and Audit on 16 September 2011.

4.2 The main parts of the review were:

(a) **Assurances provided by Internal Audit during the year:** All key officers and the Officer Group are informed of the outcomes of all audits completed during the year and any impact upon the ITA's operations. Key officers also receive a copy of all final reports. A summary of all Internal Audit work completed in the year is provided in the Internal Audit Annual Report and Opinion of the Head of Audit and Strategic Risk which is included on this agenda. As part of this report the effectiveness of Internal Audit and its compliance with CIPFA Code for Internal Audit is considered.

(b) **Assurances provided by External Audit (Deloitte) during the year:** officers attend regularly meetings with the external auditors which enables continuing feedback. The "Value for Money Conclusion" reached as part of the audit of the accounts has also been taken into account as part of the review.

(c) **Local Transport Plan Partnership:** a review of the main governance and internal control arrangements through an assurance statement.

(d) **TT2 Ltd:** there is a governance structure in place which provides management, contract monitoring and assurance in relation to the operation of the project

[2] CIPFA/SOLACE Framework Delivering Good Governance in Local Government.

agreement. The New Tyne Crossing Project Director has considered TT2 Ltd's annual report and is satisfied that this provides the necessary assurances.

(e) **Nexus:** consideration of their Annual Governance Statement. The Officer Group has satisfied itself that the Nexus Annual Governance Statement, overseen by Nexus' Audit Committee, provides the ITA with an appropriate level of assurance since:

(i) There is external auditing of Nexus accounts; and

(ii) There are senior ITA officers who are members of the Nexus Executive Board.

(f) **Newcastle City Council's Annual Governance Statement:** the ITA uses and relies upon the governance and internal control arrangements of the lead authority and therefore, if there are material issues within this framework, it is relevant for the ITA to take these into account.

(g) **ITA Strategic Risk Register:** officers considered risks set out in the Strategic Risk register. The Risk Register was also shared, for comment, with the ITA Scrutiny Committee Chair and Vice-Chair.

(h) **Views of the Officer Group:** the group is represented by policy and management, finance, legal, internal audit, risk management, project management and democratic / member services, all working on behalf of the ITA. Membership is:

Director of Finance and Resources

Head of Corporate Law

Head of Strategy, Planning and Performance

Policy and Information Officer (with scrutiny responsibility)

Project Director, New Tyne Crossing

Team Manager Transport, ITA LTP City Region

Senior Communication Adviser

Principal Auditor, Internal Audit

Senior Transportation Practitioner, ITA LTP City Region

Senior Accountant, Financial Systems & Accounting

Solicitor, Corporate Team

Democratic Services Officer

5. Conclusions of the Review

5.1 The annual review must consider whether any of the following concerns have been identified and should be included in the AGS :

(a) <u>Significant weaknesses (Section 5 of the AGS):</u> where there are or have been significant gaps, where we have experienced a serious incident from a failure in our arrangements or where there was a systemic weakness in our arrangements during the majority of the year under review.

(b) Significant improvements needed (Section 6 of the AGS): where there are essential parts of our arrangements which, whilst not ‘weaknesses’, need significant improvement and/or have not been working as they should during the year under review.

5.2 There are criteria provided by CIPFA which guide us on what to include as a “significant weakness”. These are provided in **Appendix B** for information. The “significant improvement” section is not mandatory – we do this to ensure transparency, focus and continuous improvement in our arrangements, even though they fall below the materiality thresholds recommended by CIPFA.

5.3 Significant weaknesses:

There are no areas of significant weakness that have been identified in the review in 2010/11.

5.4 Significant improvements needed:

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

Summary

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

Issues

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

2011/12 Actions

Continue to embed arrangements in the directorates

Agree strategic arrangements with BMG and Directors

Development and agreement of Resilience Strategy

Decision needed about going for accreditation for BS 25999

Finalise arrangements for resources in the BC post

Develop and implement training and awareness programme for wider council staff

Develop and implement an exercise programme for Business Continuity arranges

6. Monitoring

The ITA Officer Co-ordination Group will monitor progress in addressing the issues highlighted in Paragraph 5 and provide a monitoring report to this committee in December 2011.

7. Next Steps

7.2 The AGS will be signed by the Chair of the ITA, Clerk and Deputy Clerk (Section 151 Officer) before being published with the Final Accounts.

8. Further comments by the:

- **Clerk** (none);
- **Treasurer** (none)
- **Legal Advisor** The Legal Advisor to the ITA is a member of the Co-ordination Group and has been involved in the preparation of this report. He has nothing to add;
- **Director General** (none).

8. Background Papers

8.1 None.

9. Contact Officer (s):

Richard Elliott – Head of Strategy, Planning & Performance, Newcastle City Council 0191 277 7669

Roger Gill – ITA Policy Manager – 0191 211 4805

APPENDIX B

CIPFA CRITERIA FOR SIGNFICANT INTERNALCONTROL ISSUES

A single definition of a significant internal control issue is not possible. Authorities will need to exercise judgement in deciding whether or not a particular issue should be regarded as falling into this category.

Factors which may be helpful in exercising that judgement include:

1. The issue has seriously prejudiced or prevented achievement of a principal objective;

2. The issue has resulted in a need to seek additional funding to allow it to be resolved, or has resulted in a significant diversion of resources from another aspect of the business;

3. The issue has led to a material impact on the accounts;

4. The audit committee, or equivalent, has advised that it should be significant for this purpose;

5. The Head of Internal Audit has reported on it as significant, for this purpose, in the annual opinion on the internal control environment;

6. The issue, or its impact, has attracted significant public interest or has seriously damaged the reputation of the organisation;

7. The issue has resulted in formal action being taken by the Chief Financial Officer and/or the Monitoring Officer.

Appendix A

ANNUAL GOVERNANCE STATEMENT 2010/11

SECTION 1: SCOPE OF RESPONSIBILITY

The Tyne and Wear Integrated Transport Authority (ITA) is responsible for ensuring that its business is conducted in accordance with the law and proper standards and that public money is safeguarded and properly accounted for and used economically, efficiently and effectively. The ITA also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness. The ITA also has a general power of promoting well-being within its area that was introduced by the Local Transport Act 2008.

In discharging this overall responsibility, the ITA is responsible for putting in place proper arrangements (known as a Governance Framework) for:

(i) the governance of our affairs and

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

In relation to (i) we have adopted a Local Code of Corporate Governance ("Local Code"), which is consistent with the principles of the *CIPFA/SOLACE Framework Delivering Good Governance in Local Government*. A copy is available on our website at www.twita.gov.uk.

The Local Code evidences our commitment to achieving good governance and demonstrates how we comply with the governance standards recommended by CIPFA. It has been updated and approved as part of this review.

In relation to (ii) the ITA has put in place a system of internal control designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to:

(a) identify and prioritise the risks to the achievement of our policies, aims and objectives; and

(b) to evaluate the likelihood of those risks being realised, the impact should they be realised, and to manage them efficiently, effectively and economically.

SECTION 2: THE PURPOSE OF THE GOVERNANCE FRAMEWORK

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

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

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

SECTION 3: THE GOVERNANCE FRAMEWORK

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

CORE PRINCIPLE 1: FOCUSSING ON OUR PURPOSE AND OUTCOMES FOR RESIDENTS

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

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

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

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

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

Reviewing the ITA's vision and the implications for its governance arrangements

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

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

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

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

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

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

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

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

- managing finances
    - financial planning and financial health
    - understanding costs and achieving efficiencies
    - financial reporting
- governing the business
    - risk management and internal control.

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

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

Performance is reported to the ITA.

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

CORE PRINCIPLE 2: MEMBERS AND OFFICERS HAVE CLEARLY DEFINED ROLES AND RESPONSIBILTIES

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. The role of Standards and Audit Committee was reviewed in 2008/09 and the new terms of reference embedded within the ITA. **.**

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

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

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

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

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

There is a Register of Interests and 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.

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

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

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

The ITA has a Risk Management Framework in place and maintains a register of its strategic risks as well as project risks related to the New Tyne Crossing Project. The

ITA uses the risk management resources available within the Lead Authority as required.

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

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

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

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

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

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

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

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

The ITA has an agreed whistle-blowing policy.

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

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

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

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

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

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

CORE PRINCIPLE 6: ENGAGING WITH LOCAL PEOPLE AND STAKEHOLDERS

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

Meetings are held in public

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

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

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

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

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

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

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

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

SECTION 4: ANNUAL REVIEW OF EFFECTIVENESS OF GOVERNANCE FRAMEWORK

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

The review is informed by :

(a) The executive managers within the ITA who have responsibility for the development and maintenance of the governance environment

(b) The views of our internal auditors which are regularly reported to Standards and Audit Committee through regular progress reports and through the Annual Internal Audit Opinion.

(c) An annual review of the effectiveness of our Internal Audit arrangements (as required by Regulation 6 of the Accounts and Audit (Amendment) (England) Regulations 2006).

(d) The views of our external auditors, regularly reported to Standards and Audit Committee through regular progress reports and through the Annual Audit and Inspection Letter, Annual Governance Report and through regular meetings with officers.

(e) The independent views of inspection agencies.

(f) The governance and internal control arrangements of our significant partnerships, contractors and group arrangements:

- The Local Transport Plan Partnership (responsible for delivering the Local Transport Plan)
- Nexus (the passenger transport executive responsible for the planning, provision and promotion of public transport). The ITA has appropriate representation within Nexus which provides an ongoing source of assurance
- TT2 Ltd (responsible for the construction and effective operation of the Tyne Tunnels and New Tyne Crossing) and internal arrangements in place to support and monitor the contract.

(g) The Value for Money Self-Assessment which assesses our performance and the services we provide

(h) The ITA's Strategic Risk Register, which captures the most significant risks associated with delivery of the ITA's objectives

(i) The Lead Authority's own annual review of its Governance Framework

(j) The views of members through the ongoing work of the Standards and Audit Committee and the ITA

(k) The work of the ITA Officer Co-Ordination Group – this group consists of Lead Authority officers who meet monthly to monitor ongoing performance issues and governance arrangements

SECTION 5: SIGNIFICANT GOVERNANCE ISSUES

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

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

SECTION 6: SIGNIFICANT IMPROVEMENTS NEEDED TO GOVERNANCE AND INTERNAL CONTROL

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

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

Summary

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

Issues

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

2011/12 Actions

Continue to embed arrangements in the directorates

Agree strategic arrangements with BMG and Directors

Development and agreement of Resilience Strategy

Decision needed about going for accreditation for BS 25999

Finalise arrangements for resources in the BC post

Develop and implement training and awareness programme for wider council staff

Develop and implement an exercise programme for Business Continuity arranges

SECTION 7: CONCLUSION

We consider the governance and internal control environment operating during 2010/11 to provide reasonable and objective assurance that any significant risks impacting on the achievement of our principal objectives will be identified and actions taken to avoid or mitigate their impact. A number of weaknesses and issues have been identified and these are set out in Section 5 above. Implementing the action plans is a priority.

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

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

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

Barry Rowland	**Councillor David Wood**	**Paul Woods**
Clerk	**Chair of the ITA**	**Treasurer and Deputy Clerk**
Date:	**Date:**	**Date:**

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Tyne and Wear Integrated Transport Authority

DATE: 22 September 2011

TITLE: Revenue Budget Monitoring Report to August 2011

REPORT OF: Deputy Clerk and Treasurer

Not confidential

District Implications - all

1. Summary / Purpose of Report

1.1 The purpose of this report is to provide members with a revenue budget monitor report for the period 1 April 2011 to 31 August 2011.

1.2 The monitor includes current financial information relating to ITA administration and financing and the Tyne Tunnels.

1.3 The report sets out expenditure to date and compares this with the budget for the year presented to the ITA at its meeting of 27 January 2011. It shows that the likely outturn position is anticipated to be within the budget.

1.4 The report also provides an update on the level of the ITA's borrowing and lending for information.

2. Recommendations

2.1 The committee is recommended to receive this report for information and comment.

3. Introduction / Background

3.1 The budget monitor has been prepared by comparing the actual income and expenditure (analysed into ITA and Tyne Tunnels) from April 2011 to June 2011 with the original budget for 2011/12. Appendices 1 and 2 summarise the recorded spending position as at 31 August 2011.

3.2 For the ITA, expenditure at £30.99m is 42% of the budget for the year, with no significant unexpected costs incurred to date. There is some variation in the percentage spend on individual budget items, but this is broadly in line with expectations.

Forecast expenditure, revenue and grant levels in 2011/12 indicate that the latest anticipated net spending of the ITA itself will be within the original budgeted resources available for the year.

In response to suggestions made by ITA members, a policy of charging support services costs to the ITA on a more regular basis is being put in place, rather than charging the majority of costs at the end of the financial year. This will help provide a clearer budget monitoring position for members.

3.3 2011/12 is the third full year of the contract with TT2 for the operation of the Tyne Tunnels. Payment to TT2 is linked to the tolls income. For the period from 1 April 2011 to 31 August 2011, the position is summarised in Appendix 2, with key bullet points shown below -

- Toll income is collected by TT2 and paid to the ITA within 4 working days of being actually received. The monthly payment to TT2 is paid within 30 working days after the end of the relevant month.
- The expected tolls income by the end of the year is slightly below budgeted at present, due to lower traffic levels than anticipated. The situation is being carefully monitored by Tyne Tunnels officers.

Costs are in line with expectations under all other budget heads at present.

Treasury Management Update – Borrowing and Lending

Borrowing

3.4 The ITA's approved Authorised borrowing limit for the 2011/12 year is £243 million and its Operational borrowing limit is £238 million. The level of external borrowing as at 31 August 2011 is £176 million. This is well within the limits agreed by ITA and has been throughout the year to date. This includes the money that the ITA needs to borrow to fund its share of the new Tyne Tunnel contract. The average interest rate payable on the ITA's loans this year is estimated at 4.40%.

Lending

3.5 Some additional borrowing was undertaken recently to take advantage of falls in Public Works Loan Board rates caused by the Eurozone crisis affecting gilt yields. The funds have been invested to meet capital construction payments on the New Tyne Crossing due in 2011/12.

4. Next Steps

4.1 The budget and the ITA's treasury management position will continue to be monitored carefully by the Treasurer. The next update on the budget position will be brought to the November meeting of the ITA.

5. Further comments by the:

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

6. Background Papers

6.1 Revenue Monitoring reports to August 2011

7. Contact Officer (s)

7.1 Eleanor Goodman, Senior Accountant 0191 277 7518

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

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Revenue Budget Monitor
April - August 2011

ITA	Spend to 31/08/11	Budget	Spend Against Budget	Traffic Light	Notes
	£000	£000	%		
Revenue Expenditure					
Members' Allowances and Expenses	38	86	44%	G	
Travel Costs	1	3	33%	G	
Supplies & Services	1	23	4%	G	
Support Services	143	342	42%	G	
ITA Website Charges	22	22	100%	G	This is a one-off annual payment made at the beginning of the year.
Pension Costs	180	432	42%	G	
Grant to Nexus	29,301	70,323	42%	G	
LGA Subscription	31	33	94%	G	This is a one-off annual payment made at the beginning of the year.
Financing Charges	1,289	2,662	48%	G	
Total	**30,968**	**73,926**	**42%**	G	
Income					
Levy Income	(30,747)	(73,793)	42%	G	
Interest on Balances	-	(31)	0%	G	Interest on average balances is calculated and allocated at the year end.
Total	**(30,747)**	**(73,824)**	**42%**		
Contribution from Reserves	**221**	**102**			

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Revenue Budget Monitor
April - August 2011

Tyne Tunnels	Spend to 31/08/11 £000	Original Budget for Year £000	Spend as a % of Original Budget %	Traffic Light	Notes
TT2 Contract					
Toll Income	-5,645	(15,000)	38%	A	
Contract Payments to TT2	1,532	5,807	26%	G	Timing of the preparation of this report - August payment to TT2 not yet due.
Total	**-4,113**	**(9,193)**	**45%**		
Other					
Employee Costs	14	33	43%	G	
Other Expenses	21	55	38%	G	
Community Fund	5	10	50%	G	
Pension Costs	208	499	42%	G	
New Tyne Crossing Support Services	60	145	42%	G	
Financing Charges	2,430	5,833	42%	G	Indicative position - charges allocated at year end
Interest on Balances	-	(338)	0%	G	Interest on average balances is calculated and allocated at the year end.
Total	**2,739**	**6,237**	**44%**		
Net Surplus on Existing Tunnels	**(1,374)**	**(2,956)**	**46%**	G	

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Tyne and Wear Integrated Transport Authority

DATE:	**22 September 2011**
TITLE:	**Treasury Management and Investment Strategies Update**
REPORT OF:	**Deputy Clerk and Treasurer**
	Not confidential
	District Implications - all

1. Summary / Purpose of Report

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

2. Recommendations

2.1 The committee is recommended to:

1. Receive this report for information and comments
2. Consider and review the revised Authorised Limit
3. Consider and review changes to the Authority's Counter-party List at Appendix 1

3. The CIPFA Treasury Management Code

3.1 To meet the requirements of the Code, the Authority must show evidence that the following actions are taken:

1. <u>Scrutiny</u>

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

2. Approval Process

The annual strategy will be approved by the Authority.

3. Training of Authority Members

Relevant members of the Authority will receive appropriate training to enable them to function in their role.

4. Reporting

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

4. Update report

4.1 The current Treasury Management prudential indicators were set out in the Treasury Management Strategy Report 2011/12. That report was considered and approved by the Authority at its meeting on 27 January 2011. A revised set of indicators is given in this report, including a table of investment limits with financial institutions which is contained at Appendix 1.

4.2 **Prudential Indicators**

Borrowing Requirement

4.2.1 The borrowing requirement comprises the expected movement in the Capital Financing Requirement and any maturing debt which will need to be re-financed. The table below shows the estimated effect on the borrowing requirement of the Authority over the next three years, updated for changes that have occurred since the Treasury Management Strategy Report 2011/12 was reported in January of this year.

	2011/12	**2012/13**	**2013/14**
	£000	**£000**	**£000**
Debt at 1 April	155,560	213,227	215,795
Expected change in Debt	57,667	2,568	(4,269)
Debt at 31 March	213,227	215,795	211,526

4.2.2 During the first half of 2011/12 advantage was taken of a sudden fall in levels of interest rates to borrow the following amounts:

Lender	Principal	Type	Interest Rate	Maturity
PWLB	£20m	Maturity	3.89%	9 years
PWLB	£10m	Equal Instalments of Principal	2.00%	5 years
PWLB	£10m	Equal Instalments of Principal	3.59%	15 years

4.2.3 On 31 August 2011 a Public Works Loan Board loan of £24m held by Newcastle City Council was transferred to the Tyne & Wear Integrated Transport Authority. The loan is at 4.25% and will mature on 5 September 2052. This loan provides additional stability to the ITA debt portfolio and is at a low rate of interest no longer available for such periods, due to:

- The Government's Comprehensive Spending Review Report in 2010 under which PWLB interest rates increased by an average of 1% above the Government's cost of borrowing
- Current levels of interest for 25+ year periods for which forecasts until 2014 show rates remaining above 5.00% (Source – Sector Treasury Services Interest rate Forecast 20/07/2011).

This action also allowed Newcastle City Council to reduce the amount of PWLB debt it held in order to satisfy the requirements of the Government's Reform of Council Housing Finance.

4.2.4 Paragraph 4.2.1 shows that expected levels of debt for the ITA will be £213.2m while current borrowing is £199.6m. An additional £30m of borrowing is required in the remaining months of 2011/12, taking into account further maturing loans of £16.3m in the first quarter of 2012.

Treasury Officers aim to meet the Authority's future borrowing needs and minimise the impact on the budgetary position of the Authority. There are several options that can be utilised to do this:

1. Consider further use of PWLB annuity and equal instalments of principal (EIP) as well as the more common maturity type of loan. PWLB annuity and EIP loans usually provide a lower rate of interest in order to encourage borrowers to repay principal during the course of the loan rather than at the end. As an example, one of the EIP loans mentioned in 4.2.2 above for a period of 5 years will pay interest of 2.00% on EIP; the annuity level was 2.00% and the maturity level was 2.75%. It is nevertheless advantageous to provide a mix of the various loan types within the debt portfolio in order to reduce interest rate volatility.

2. Explore the use of bonds jointly with other Local Authorities. Rates are currently estimated to be around 0.2% less than PWLB borrowing rates.

3. Using flexibility to borrow funds in advance for the 2012/13 borrowing requirement. The Deputy Clerk and Treasurer may look to do this under delegated power so borrowing early at fixed interest rates will be economically beneficial or meet budgetary constraints. Whilst the Deputy Clerk and Treasurer will adopt a cautious approach to any such borrowing, where there is a clear business case for doing so borrowing may be undertaken to fund the approved capital programme or to fund future debt requirements. Borrowing in advance will be made within the constraints that

   - It will be limited to no more than 100% of the expected increase in borrowing need (CFR) over the three year planning period; and

   - It will not be more than 12 months in advance of need.

4.3 **The Authorised Limit for External Debt**

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

Authorised Limit £m	2011/12 Estimate	2012/13 Estimate	2013/14 Estimate
Borrowing	247,000	243,000	238,000
Authorised Limit	**247,000**	**243,000**	**238,000**

In previous reports, an amount has been included for 'Other long term liabilities' within the Authorised Limit. This represented the 'Finance Lease creditor' in relation to the New Tyne Crossing project. Under the new accounting treatment agreed for the model, this is no longer required and has therefore been removed.

The Authorised limit for borrowing has been increased to provide flexibility to take out additional borrowing in 2011/12 to meet the 2012/13 borrowing requirement, should an opportunity arise to borrow at low rates.

4.4 **Investment Activity April to September 2011**

4.4.1 Key Objectives – The Authority's investment strategy primary objectives are safeguarding the repayment of the principal and interest of its investments on time first and ensuring adequate liquidity second – the investment return being a third objective. Given the current investment climate, the over-riding risk consideration is ensuring that return is maximised without reducing the level of counterparty security risk and maintaining liquidity to meet the Authority's obligations. However, should the Deputy Clerk and Treasurer utilise borrowing in advance to take advantage of lower interest rates then there may be short term surpluses that can be invested.

4.4.2 Risk Benchmarking – It is now a requirement for investment strategy to consider and approve security and liquidity benchmarks. Yield benchmarks are currently widely used to assess investment performance. Discrete security and liquidity benchmarks are requirements of Member reporting, although the application of these is more subjective in nature.

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

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

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

- Liquid short term deposits of at least £1m available with a week's notice.
- Weighted Average Life benchmark is expected to be 0.30 years, with a maximum of 3 years, currently outstanding investments have an average period to maturity of 0.25 years.

Yield – Local measures of yield benchmarks are:

Investments – The returns of interest on investments are measured against money market indices. These indices are subject to fluctuations and so are monitored daily. This allows comparison of actual and forecast returns to market averages.

The index against which our investment portfolio return, currently 1.40%, is measured is the LIBOR 7 day notice rate, currently 0.55%.

4.4.3 In view of the relatively low rates of interest that can be earned on investments the Deputy Clerk and Treasurer is following a strategy to maintain low levels of external investments. This is being achieved by ensuring decisions to take out new borrowing the fund capital expenditure do not result in levels of external investments at interest rates lower than the new debt. Capital expenditure and cash flow may thus be funded on a short term basis by use of internal funds and temporary borrowing. At this time it is estimated that the net effect of this approach will reduce external investments from the current level of £30m to nil by mid-October 2011.

5. Further comments by the:

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

6. Background Papers

6.1 Held by Capital Investments and Projects Team, Newcastle City Council

7. Contact Officer (s)

7.1 Ian Richardson, Treasury Management Officer (Finance), Capital Investments & Projects Team, ext. 26524. Email i.richardson@newcastle.gov.uk

Iain Duncan, Senior Accountant, Capital Investments & Project Team, ext. 26684. Email iain.duncan@newcastle.gov.uk

Tyne and Wear Integrated Transport Authority Approved Institutions For External Investments

Limits of Investments per Institution.

Institution	Investment Limit	Support Rating	Maximum Period	Individual Rating	Short-term Rating	Long-term Rating
Co-operative Bank	£30m	3	365 days	B/C	F2	A-
United Kingdom Debt Management Office (Maximum Period)	£50m	See note	6 months - DMO limit	Note: This is a United Kingdom government facility and an executive agency of the Treasury. Deposits placed with it are guaranteed by the government and have the equivalent of a sovereign triple-A credit rating.		
Barclays Bank	£15m	1	364 days	B	F1+	AA-
HSBC Bank	£15m	1	364 days	B	F1+	AA
Lloyds Banking Group (LBG) – Any combination of Lloyds TSB and Bank of Scotland not to exceed group limit	£25m group total includes Lloyds TSB and Bank of Scotland	1		C	F1+	AA-
LBG (a) - Lloyds TSB Bank	See above	1	364 days	C	F1+	AA-
LBG (b) - Bank of Scotland	See above	1	364 days	C	F1+	AA-
Nationwide Building Society	£15m	1	364 days	B	F1+	AA-
Royal Bank of Scotland	£25m	1	364 days	D/E	F1+	AA-
U.K. Local Authorities	£10m per authority	-	3 months			

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Tyne and Wear Integrated Transport Authority

DATE:	**22nd September 2011**
TITLE:	**Pteg – Modelling Bus Subsidy in English Metropolitan Areas**
REPORT OF:	**DIRECTOR GENERAL, NEXUS**
	Not confidential
	District Implications: All Districts

1. **Summary / Purpose of Report**

1.1 To outline the findings of a recent study by Pteg into Modelling Bus Subsidy in English Metropolitan Areas.

2. **Recommendations**

2.1 Members are asked to note the report.

3. **Introduction / Background**

3.1 Pteg commissioned MVA to complete a study into Bus Subsidy in English Metropolitan areas. The report was published in August 2011. The full report can be found at www.pteg.net.

3.2 The report paints an uncertain picture for the bus industry in the Metropolitan areas, it shows how changing policy, reductions in government funding and the wider socio-economic outlook will lead to a decline in patronage, increase in fares and cuts to services unless action is taken.

3.3 The report tests three scenarios against the continuation of pre-election trends

1. Changes to BSOG payments – leading to cuts in commercial mileage, reduction in patronage of 18% and an increase in fares of 21% between 2009 and 2016.
2. Local government cuts – leading to a decline in tender services alongside a 24% increase in fares and a 20% drop in patronage by 2016.
3. Reduction in the market power of incumbent operators – leading to a more balanced sharing of cost increases and subsidy decreases keeping fares closer to their 2009 levels and a much smaller reduction in patronage (7%).

4. **Information**

4.1 In 2009/10 46% of operator income in Tyne and Wear came from the public purse; this is a combination of Bus Services Operators Grant, Concessionary Travel payments and tender service payments. This proportion is broadly replicated across the Metropolitan areas. On the costs side fuel prices and labour costs have risen above inflation. Across the country total government support has risen; whilst patronage and vehicle kilometres operated has fallen.

4.2 The bus industry receives support in three ways:

1. Bus Service Operators Grant – designed to partially insulate operators from the impact of duty on their fuel.
2. Concessionary Travel Reimbursement – Compensation; according to a 'no better, no worse off' principle for carrying elderly and disabled passengers for free.
3. Tendered services – where local authorities subsidies operators to run services which would not otherwise run on a commercial basis.

Additionally the industry receives investment via the Integrated Transport Block and initiatives such as the Green Bus Fund; both of which seek to improve the quality of services offered to the customer.

4.4 Pteg's report considers a variety of factors to underpin the different scenario forecasts, including:

- Internal demand drivers – fares, service km, fleet age and government investment.
- External demand drivers – economic, demographic and competition indicators.
- Industry costs – Staff and non-staff costs, vehicle ownership and other overheads.
- The competitive and regulatory environment
- Operator strategies.

4.5 Scenario 0 sets the reference case with a continuation of recent trends, benchmarked in 2009. This shows:

- Reduction in patronage of 16% between 2009 and 2016 due to a combination of a reduction in service kilometres of 13% and an increase in fares of 18% in real terms by 2016.
- Government subsidy would increase slightly due to a rise in the average fare impacting on Concessionary Travel Payments, despite reductions in Bus Services Operators Grant.
- Increasing model shift from bus to car, increasing congestion, with an

estimates £53m in disbenefits.

4.6 Scenario 1 covers the impact of confirmed government policy changes including changes to the Bus Services Operators Grant rate, increase in Concessionary fare entitlement age and capital support via the green bus fund.

4.7 Scenario 2 looks at changes in local government support through combining the changes in scenario 1 with confirmed cuts in the Integrated Transport Block and reductions in tender services budgets.

4.8 Finally Scenario 3 considers the introduction of greater market constraints on operators commercial behaviour from the findings of the competition commissions provisional report.

4.9 The table below compares the projected outcomes of each scenario by 2016.

	Scenario 0 – reference case – recent trends	Scenario 1 – BSOG and GBF changes	Scenario 2 – 1 plus local government cuts	Scenario 4 – Competition Commission
Patronage	-16%	-18%	-20%	-7%
Fares	18%	21%	24%	0%
Service Km	-13%	-15%	-19%	-4%
Government support				
Central (BSOG)	-14%	-32%	-35%	-23%
Local (Concessions)	10%	11%	9%	-9%
Local (tendered)	0%	0%	-23%	-23%
Total	4%	1%	-7%	-15%
Increased congestion	+£53m	+£64m	+£68m	+£24m

4.10 The modelling demonstrated that without intervention in the bus market in Metropolitan areas the services provided to the public will continue to reduce, resulting in significant reductions in patronage combined with higher costs to both the travelling public and the public purse.

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

5.

Next Steps

5.1 Not applicable.

6. **Further comments by the:**

- **Clerk** (if any);
- **Treasurer** (if any);
- **Legal Advisor (**if any**);**
- **Director General** (if any**).**

7 Background Papers

7.1 Modelling Bus Subsidy in English Metropolitan Areas; Pteg, 2011

8 Contact Officer (s)

8.1 Helen Mathews, Head of Business Development, Nexus.

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Tyne and Wear Integrated Transport Authority

TITLE:	**Date: 22nd September 2011**
	Metro Reinvigoration Phase 3
REPORT OF	**The Clerk of the ITA / Director General of Nexus**
	Not Confidential
	District Implications: All Districts

1. **Purpose of Report**

1.1 To inform the ITA of progress being made on the blueprint for future development of the Metro system.

2. **Recommendations**

2.1 The Authority is recommended to

a) Note progress with the potential Metro corridor studies;

b) Note commencement of the 2 year work programme to establish a long term Metro Strategy;

c) Endorse the proposal for wide ranging consultation as part of the Strategy Development Programme and;

d) Agree future reporting arrangements through the Metro Sub-Committee

3. **Summary of Key Issues**

3.1 An independent study of corridors with potential for Metro extensions is currently taking place. This is a first review to identify what the potential is in nine key areas across Tyne and Wear.

3.2 Progress on the long-term Metro Strategy will be reported quarterly to the ITA Metro Sub-committee.

3.3 Extensive public consultation is planned as part of this process to help define the future Metro network.

4. Information

4.1 At the May 26 ITA meeting it was reported that external consultants were to be appointed to undertake a detailed and impartial assessment of eight corridors, previously identified in *Project Orpheus work,* with the potential to be developed as extensions to the Metro network, either as segregated rail routes - as Metro is now - or as street-running trams, similar to those in operation in cities such as Manchester and Nottingham. The corridors are:

Seaham – Sunderland- South Shields

Sunderland – Doxford International

Newcastle city centre- west Newcastle

Four Lane Ends – Killingworth

Pelaw – Washington – South Hylton

Gateshead town centre - Metrocentre

Newcastle city centre - Walker

Gateshead town centre – Team Valley

A further corridor, Percy Main – Silverlink – Cobalt- Northumberland Park, has been added following discussions within the project team. The corridors encompass all five districts of Tyne and Wear, and are included on the basis that they cover many of the largest and most popular destinations not currently served by Metro. This study builds on previous work undertaken and acts as a starting point for a region wide discussion on Metro of the future.

4.2 Preliminary study conclusions will be available by October, and will be reported to the ITA. Each corridor is being examined in terms of planning, demand, technical and operational issues. The study will highlight the potential strengths and weaknesses of introducing a Metro service along each corridor, allowing comparisons between corridors to be made which can form the nucleus of a future business case.

4.3 The Arup study will also provide an early view as to the types of technology which could be the most suitable for the next generation Metro network. Existing Metro technology has served Tyne and Wear well for more than 30 years. During that time, innovations have transformed the way in which light rail networks worldwide are specified and operated. This gives Metro the opportunity to exploit these advances to deliver a product that is once again world-class, when the time comes to replace the existing fleet and to consider extensions to the current network.

Some examples of new technology Metro style vehicles are shown below.

www.rail.co

(light rail Train)

www.railway-technology.com

(Tram-Train)

4.4

The development of the Metro Strategy is continuing, and will include an analysis of similar light rail networks in the UK and overseas. This will cover not only the planning and technical aspects of successful network extensions, but also the ways in which the promoters have been able to fund such improvements. Flexible and innovative funding arrangements will be key to the process of producing a convincing business case for network expansion, as block grant funding from central government can no longer be guaranteed.

4.5 A project board will report progress of the strategy quarterly to the ITA Metro Sub-Committee. The board will focus on key future business requirements including operating structures, fleet renewal, network extensions, technology and operations, funding and finance. An indicative timeline for the delivery of key elements of the strategy is shown below:

- Spring 2012 – planning issues, demand estimation, corridor development, technical option identification
- Autumn 2012 – integration, network extension option appraisal
- Spring 2013 – concessions option appraisal, financing options, development of business case

4.6 The conclusions of the corridor study and the emerging themes of the Metro Strategy will galvanise a wide-ranging debate over the Metro system of the future. With funding for the second phase of re-invigoration secured, this provides a platform to start planning in earnest for the 2020s and beyond. Extensive consultation with groups and individuals across all sectors will be an essential element of the forward planning process; for Metro to succeed in renewing and expanding, it will be vital to show that it commands the support of the society which it serves. This will mean having an understanding of each district's planning policies and aspirations, so that network expansions can be planned in the full knowledge of land-use changes that could make a Metro service a more viable proposition. It will mean canvassing support from communities not currently linked by Metro which could benefit from future network extensions, as well as close liaison with important partner organisations such as the North East Local Economic Partnership and Network Rail, to identify strategic regional opportunities. The views of accessibility and cycling groups will also be important. This will be a once in a generation opportunity to shape the future direction of Metro: to succeed, it must have the support of a diverse range of stakeholders.

5. Next Steps

5.1 Progress will be reported to the Metro Sub-Committee on a quarterly basis.

6. Further comments by the:

- **Clerk** (if any);
- **Treasurer** (if any);

- **Legal Advisor (**if any**);**
- **Director General** (if any**).**

7 Background Papers

7.1 ITA Agenda 26 May 2011 – Metro Reinvigoration Phase 3 Report

8 Contact Officer (s)

8.1 Gordon Harrison, Strategic Planning Manager, Nexus.

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

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Tyne and Wear Integrated Transport Authority

Date: 22 September 2011

TITLE: MYSTERY SHOPPER & CUSTOMER SATISFACTION SURVEY RESULTS and ASSOCIATED PERFORMANCE MONITORING OF THE METRO OPERATING CONCESSION

REPORT OF DIRECTOR GENERAL, NEXUS

Non confidential

District Implications: All Tyne & Wear

1. **Summary / Purpose of Report**

1.1 This report summarises the results of the latest Mystery Shopper (MSS) and Customer Satisfaction (CSS) surveys, and explains their implications in terms of the Metro Operating Concession.

2. **Recommendations**

2.1 That the ITA notes this report which has been previously considered by metro Sub Committee .

w **Introduction / Background**

This report summarises the results of the Mystery Shopper Survey (MSS) and Customer Satisfaction Survey (CSS) conducted during March and April of 2011.

The results of the CSS surveys provide a snapshot of customer perception, against which the Metro Operating Concessionaire's performance can be measured and monitored. The results of the CSS surveys are also tied to two Committed Obligations.

The results of the MSS surveys allow Nexus to investigate the passenger experience by providing a snapshot, which allows Nexus to monitor the performance of the Concessionaire and requires remedial action to be taken where required.

The Overall Category Indicator gives passengers the opportunity to give Metro an overall score out of 10 and is conducted as part of the Customer Satisfaction Survey. The results of the April survey are displayed in Appendix C.

4. **Information**

4.1 Customer Satisfaction Survey (CSS)

4.11 The attached Appendices illustrate the most recent results of both the Mystery Shopper and Customer Satisfaction surveys.

4.12 The CSS survey results are generally positive with improvement seen in the majority of categories, although scores in the Information category show decline in comparison to the previous survey. All scores were above the benchmarks calculated in accordance with the Concession Agreement.

4.13 The MSS survey results are very positive and show improvement over the previous survey in almost every category. The scores for Train and Station Mean are the highest in the past three years. All scores were above the MSS Targets calculated in accordance with the Concession Agreement.

4.14 The overall Metro Satisfaction score remained constant, although at a level below that required to be achieved by the Operator from the September 2012 survey onwards.

4.15 Both the CSS and MSS surveys are conducted by Nexus Business Intelligence in accordance with the agreed methodology.

4.16 A summary of the latest CSS results can be seen in Appendix A. Performance is measured by comparing scores to Benchmarks calculated in accordance with the Concession Agreement.

4.17 Improvement is seen in scores for six of the seven Category Indicators with Staff, a low scorer historically, achieving the greatest increase. Improved scores were also observed in the Station Equipment, Ticketing, Security & Comfort, Cleanliness and Reliability & Punctuality Categories. Figure 1 of Appendix D illustrates the general trend of the Category Indicators over time.

4.18 A decline was observed in the Information Category Indicator, historically the strongest performer. Scores in all but one Sub-Category Indicator in the Information category declined with the Clarity of Station Announcements score declining significantly.

4.2 Mystery Shopper Survey (MSS)

4.21 A summary of the latest MSS results can be seen in Appendix B. Scores for each Performance Indicator are compared to MSS Targets calculated in accordance with the Concession Agreement.

4.22 The Station Mean MSS score is 9.3, above the target of 9.0 generating a performance figure of 104%. The Train Mean is 9.4, above the target of 8.9, generating a performance figure of 105.6%. Figure 2 of Appendix D illustrates that this was an improvement on the generally static trend in these scores over a three year period.

4.23 All Station and Train Performance Indicators achieved 95% or above of their MSS Target, with all but one Indicator achieving a performance score in excess of 100%. The highest performing Station Performance Indicators were the Condition of the Journey Planner (9.6 compared to a target of 8.5) and Condition of the Train Timetable (9.7 compared to a target of 8.7). The highest performing Train Performance Indicator was Level of Graffiti, which scored 9.6 compared to a target of 8.6.

4.24 Should either the Station Mean or the Train Mean achieve less than or equal to 95% of the relevant MSS Target, or any of the Indicators are less than or equal to 95% of the MSS Target for two surveys in succession, then there are mechanisms in place in the Concession Agreement that allow Nexus to request DBTW to take remedial action to rectify these scores. Both the Train and Station Means are above 95% for this survey, both scoring over 100%.

4.25 The four Indicators which achieved less than 95% of their MSS Target in the last survey all achieved target in the April survey, therefore no contravention of the Agreement has occurred.

4.3 <u>Overall Category Indicator</u>

4.31 The overall average score of 7.95 is constant with the results of the previous survey, however this could be considered disappointing considering the general positivity of the main CSS results.

4.32 When the scores are analysed by route section, as can be seen in Appendix C, lower average satisfaction is observed between North Shields and St James, with the highest average satisfaction recorded on the route sections from Fellgate to Sunderland, and from Park Lane to South Hylton.

4.33 Under the terms of the Concession Agreement, DBTW have to comply with two Committed Obligations which relate to the results achieved in the Customer Satisfaction Survey, these are detailed below:

- A CSS Score of at least **8.3 (83)** for the Overall Category Indicator in the Customer Satisfaction Survey that is due to be carried out in September 2012. The Operator shall ensure that such CSS Score is maintained for the remainder of the Concession Term. This measure is currently recorded as **7.95 (79.5)**; and
- Personal Safety and Security – CSS Score across the four sub- categories of the Personal Safety and Security Category indicators of at least **7.3 (73)** in September 2012 and the date of each subsequent Customer Satisfaction Survey. This measure is currently at **7.29 (72.9)**.

4.34 The results of both the CSS and MSS surveys are discussed in detail with the

DBTW Customer Services Director at the appropriate Concession Meeting, which are held periodically.

5. **Contact Officer (s)**

5.1 Tobyn Hughes, Director of Customer Services, 0191 203 3246

6. **Further comments by the:**

- **Clerk** (if any);
- **Treasurer** (if any);
- **Legal Advisor (**if any**);**
- **Director General** (if any**).**

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

Appendix A: Results of the April 2011 Customer Satisfaction Survey

Category/Sub-Category Indicator	May-08 Mean Score	Nov-08 Mean Score	May-09 Mean Score	Nov-09 Mean Score	May-10 Mean Score	Nov-10 Mean Score	**Apr-11** Mean Score	Trend	CSS Benchmark
Information on Trains arrival /departures	76.1	76.0	76.9	76.9	77.7	77.2	**77.2**	↔	77.4
Ease of understanding signage at Stations	77.2	78.8	79.3	78.4	79.5	81.0	**79.6**	↓	80.4
Helpfulness of signage at the station	76.5	78.0	78.5	77.6	79.3	80.1	**79.5**	↓	79.8
Clarity of announcements at the station	72.0	70.8	73.0	74.0	74.7	73.9	**70.6**	↓	74.4
Clarity of other announcements on Trains	72.7	71.7	72.4	73.3	71.3	73.5	**72.3**	↓	72.6
The information on TIM machines (TIM users only)	69.3	71.9	74.0	72.8	72.9	71.1	**70.6**	↓	72.9
Information.	**74.0**	**74.5**	**75.7**	**75.5**	**75.9**	**76.1**	**75.4**	↓	**76.0**
Condition of the Station	66.4	69.5	69.4	69.9	74.1	73.6	**74.5**	↑	73.8
Lighting at the Station	74.6	76.4	76.2	75.0	77.5	79.3	**78.5**	↑	78.6
Condition of the Lifts	62.1	64.5	57.4	70.0	67.4	67.4	**75.5**	↑	68.4
Condition of the escalators	72.9	75.1	74.2	76.5	76.4	77.4	**79.6**	↑	77.0
Station Equipment.	**69.0**	**71.4**	**69.3**	**72.9**	**73.9**	**74.4**	**76.9**	↑	**74.2**
The range of tickets available	71.1	71.2	75.1	73.9	72.2	70.6	**69.2**	↓	72.9
Facilities for buying tickets	69.8	72.9	70.1	70.8	70.8	70.0	**72.5**	↑	70.8
Ticket cost Value for money			46.2	52.6	52.1	50.9	**51.9**	↑	52.3
Ticketing.	**70.5**	**72.1**	**63.8**	**65.8**	**65.0**	**63.8**	**66.2**	↑	**65.3**
Your personal security approaching the station	69.1	72.5	72.9	71.0	73.1	74.5	**77.8**	↑	73.9
Your personal security at the station	67.7	71.4	72.5	70.4	73.3	73.5	**76.6**	↑	73.4
Behaviour of other passengers	58.7	60.8	60.4	62.8	62.6	64.5	63.4	↓	63.7
Your personal security on the Train	66.0	70.8	70.4	70.1	70.0	72.3	73.7	↑	71.4
Security & Comfort.	**65.4**	**68.9**	**69.1**	**68.6**	**69.8**	**71.2**	**72.9**	↑	**70.6**
General cleanliness of the Station	63.7	66.8	67.6	69.6	72.2	71.6	74.0	↑	71.8
Levels of graffiti	68.4	73.3	76.8	76.8	79.2	81.6	79.4	↓	80.6
Levels of graffiti and damage to the Train	67.8	68.1	69.5	69.6	72.5	75.2	75.2	↓	74.1
Cleanliness of inside of Trains	63.1	64.2	63.9	64.7	69.0	69.4	71.4	↑	69.2
Cleanliness of outside of Trains	65.5	68.3	67.1	67.0	69.7	70.8	71.8	↑	70.4
Cleanliness.	**65.7**	**68.1**	**69.0**	**69.5**	**72.5**	**73.7**	**74.4**	↑	**73.2**
Availability of staff	36.9	45.2	45.0	48.2	50.3	49.0	53.5	↑	49.5
Staff	**36.9**	**45.2**	**45.0**	**48.2**	**50.3**	**49.0**	**53.5**	↑	**49.5**
Train Reliability			76.7	76.0	77.3	77.7	78.0	↑	77.5
Train Punctuality			77.8	76.7	78.8	79.1	78.8	↓	79.0
Availability of seats			67.2	67.1	69.6	68.3	71.8	↑	68.8
Availability of standing			70.0	69.9	71.4	70.9	73.6	↑	71.1
Reliability & Punctuality			**72.9**	**72.4**	**74.3**	**74.0**	**75.5**	↑	**74.1**

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Appendix B: Results of the March 2011 Mystery Shopper Survey

Station Indicators

Performance Indicator - Stations	Mar-08 Mean Score	Sep-08 Mean Score	Mar-09 Mean Score	Sep-09 Mean Score	Mar-10 Mean Score	Sep-10 Mean Score	**Mar-11** Mean Score	Trend	MSS Target
Condition of ticket machines	9.9	9.9	9.9	9.7	9.8	9.8	**9.9**	↑	9.8
Ease of seeing train indicators	9.9	9.8	9.8	9.9	9.9	9.9	**10.0**	↑	9.9
Quality of train indicators	9.9	9.8	9.6	9.3	9.8	9.9	**9.8**	↓	9.7
Condition of lifts	9.6	9.4	9.4	9.3	9.5	9.6	**9.6**	↔	9.5
Condition of clock	9.4	9.5	9.8	9.5	9.7	7.9	**9.9**	↑	9.6
Quality of help points	9.4	9.3	9.1	8.9	9.5	9.7	**9.8**	↑	9.4
Condition of lighting	9.3	9.7	9.6	9.5	9.6	9.5	**9.6**	↑	9.5
Ease of seeing journey planner	9.1	9.6	9.6	9.7	9.6	9.6	**9.9**	↑	9.6
Ease of seeing train timetable	9.1	9.4	9.4	9.7	9.5	9.4	**9.8**	↑	9.4
Condition of escalators	9.0	9.3	8.8	9.5	9.2	9.1	**9.3**	↑	9.2
Condition of advertising posters	8.9	9.0	9.2	8.6	8.2	8.2	**8.9**	↑	8.7
Condition of stairs	8.8	9.3	8.6	8.7	8.5	8.4	**8.9**	↑	8.7
Ease of seeing help points	8.8	9.3	9.0	9.5	9.4	9.4	**9.8**	↑	9.3
Overall appearance of retail outlets	8.8	9.3	9.2	9.1	9.2	9.2	**9.3**	↑	9.2
Appearance of ticket machines	8.6	9.2	9.1	8.6	8.4	8.5	**9.1**	↑	8.7
Condition of platform seating	8.6	8.9	8.7	8.5	8.2	8.3	**8.9**	↑	8.5
Condition of public telephones	8.6	6.7	8.9	8.4	8.0	8.0	**8.8**	↑	8.2
Audibility of PA system	8.5	8.9	9.4	9.7	9.6	9.2	**9.4**	↑	9.4
Condition of train timetable	8.5	8.7	9.1	8.4	8.4	9.2	**9.7**	↑	8.7
Condition of vending/photo booths	8.5	9.2	9.2	9.1	8.6	8.5	**9.1**	↑	8.9
Level of litter at station	8.4	8.6	8.7	8.6	8.4	8.6	**9.0**	↑	8.6
Appearance of escalators	8.3	8.7	8.5	8.6	8.4	8.2	**8.9**	↑	8.5
Cleanliness of walls and floors	8.3	8.9	8.6	8.6	8.4	8.5	**9.0**	↑	8.6
Condition of journey planner	8.2	8.5	8.8	8.1	8.0	9.2	**9.6**	↑	8.5
Appearance of lifts	7.9	8.5	8.1	8.5	8.6	8.2	**8.4**	↑	8.4
Level of graffiti	7.6	8.3	8.0	8.1	8.1	8.3	**8.6**	↑	8.1
Overall flat AV for Stations (Station Mean)	8.8	9.1	9.1	9.0	8.9	8.9	**9.3**	↑	9.0

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Train Indicators

Performance Indicator - Trains	Mar-08 Mean Score	Sep-08 Mean Score	Mar-09 Mean Score	Sep-09 Mean Score	Mar-10 Mean Score	Sep-10 Mean Score	**Apr-11** Mean Score	Trend	MSS Target
Condition of line map	9.8	9.9	9.8	9.9	9.9	9.9	**9.9**	↔	9.9
Condition of advertising (train)	9.8	9.9	9.9	9.8	9.9	9.7	**9.9**	↑	9.8
Train arrival time	9.7	9.8	9.8	9.7	9.6	9.6	**9.5**	↓	9.7
Ease of seeing line map	9.6	9.7	9.6	9.8	9.9	10.0	**10.0**	↔	9.8
Condition of statutory safety notices	9.5	9.7	9.8	9.8	9.6	9.8	**9.9**	↑	9.7
Temperature	9.0	9.5	9.3	9.2	9.4	9.3	**9.6**	↑	9.3
Audibility of PA system (train)	8.8	9.4	9.1	9.2	8.9	8.1	**9.5**	↑	9.1
Condition of seats	8.8	9.0	8.9	8.7	8.7	8.4	**9.0**	↑	8.8
Air Quality	8.8	9.4	9.0	9.0	9.2	9.0	**9.7**	↑	9.1
Level of litter on train	8.7	8.9	9.2	8.7	9.0	8.9	**9.4**	↑	8.9
External cleanliness of trains	8.7	8.7	8.4	8.2	8.1	8.1	**8.7**	↑	8.4
Internal cleanliness of ceilings/surfaces	8.6	8.9	9.0	8.6	8.2	8.5	**9.1**	↑	8.6
Quality of ride	8.5	8.9	8.6	8.4	8.6	8.6	**9.5**	↑	8.6
Level of noise (rolling)	8.3	8.8	8.7	8.4	8.6	8.6	**9.3**	↑	8.6
Level of graffiti	8.1	8.9	8.6	8.7	8.7	8.5	**9.6**	↑	8.6
Cleanliness of windows	7.9	8.2	8.0	8.1	7.7	7.8	**8.4**	↑	8.0
Cleanliness of floors	6.8	8.0	7.7	8.2	6.4	8.6	**8.1**	↓	7.6
Overall flat AV for Trains (Train Mean)	8.8	9.2	9.0	9.0	8.8	8.9	**9.4**	↑	8.9

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Appendix C: Overall Category Indicator Results - April 2011

Overall Score out of 10	7.95
1	0
2	0
3	5
4	3
5	23
6	58
7	197
8	437
9	210
10	78

Route Section	Avg Score
Regent Centre - Airport	8.1
South Shields - Pelaw	7.8
Longbenton - Tynemouth	7.8
Fellgate - Sunderland	8.2
North Shields - St James	7.6
Central Station - Haymarket	8.0
Heworth - Gateshead	8.1
Jesmond - South Gosforth	7.9
Park Lane - South Hylton	8.3

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Appendix D

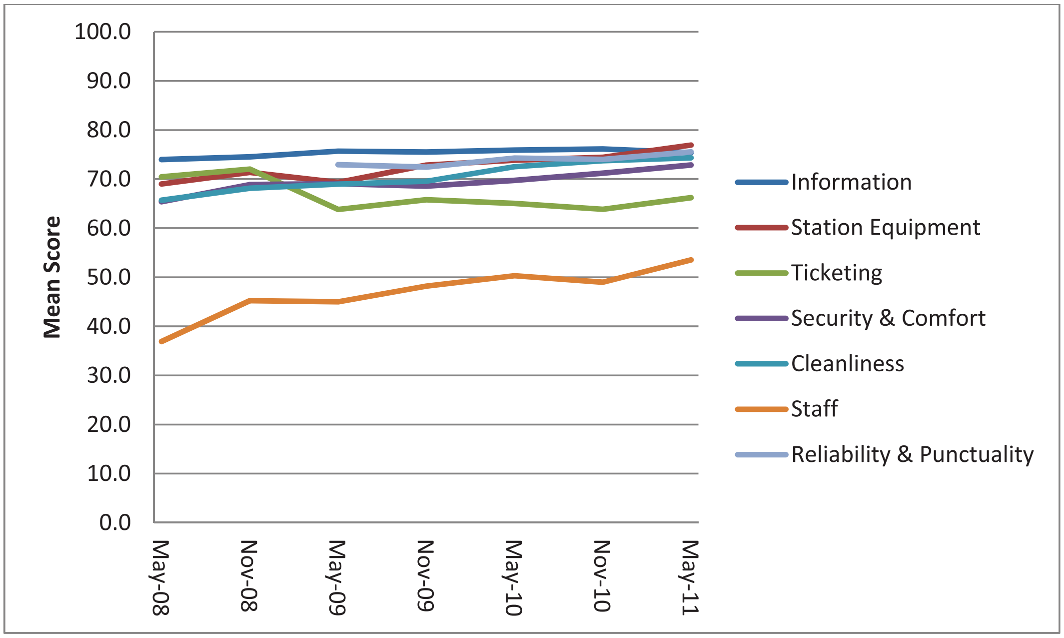

Figure 1: Mean Scores for CSS Category Indicators over the past seven CSS surveys

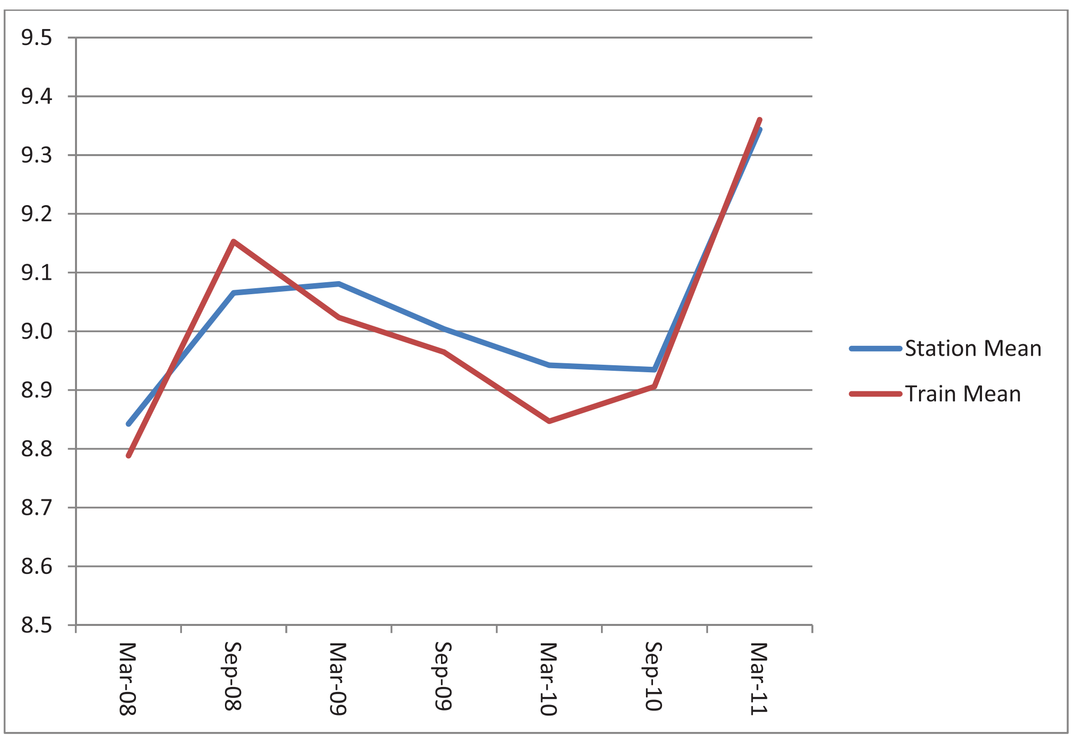

Figure 2: Station and Train Mean scores over the past seven MSS surveys

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Tyne and Wear Integrated Transport Authority

TITLE:	**Metal Theft on Tyne and Wear Metro Network**
DATE	**22nd September 2011**
REPORT OF	**DIRECTOR GENERAL, NEXUS**
	Non Confidential
	District Implications: All Tyne and Wear

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1. **Summary / Purpose of Report**

1.1 To update members on the impact of metal theft incidents on the Tyne and Wear Metro in the current financial year.

2. **Recommendations**

2.1 The ITA is recommended to raise with the Home Office the necessity for changes to the laws and regulations surrounding the handling of used and scrap metal in accordance with the proposals set out in paragraph 4.9.

3. **Introduction / Background**

3.1 The 2011/12 financial year has so far seen 18 incidents of metal theft on Nexus and Network Rail infrastructure, compared to 13 in the whole of 2010/11. The extent of train service delay and disruption has more than doubled as a result.

3.2 Nexus estimates the cost of incidents on its own infrastructure to be approximately £293,000, shared between Nexus and its operating concessionaire, DBTW.

3.3 Since June Nexus has pursued an action plan to reduce the impact of this problem on four fronts, and has seen a reduction in the number of attacks it has suffered.

3.4 In addition to what can be achieved within local resources, an important step in tackling the underlying drivers of metal theft is by seeking to tighten the regulations on the trade in used and scrap metal

4. **Information**

4.1 Metal theft is a widespread problem in North East England which has grown significantly as a crime in recent years, driven by a rise in metal prices on world markets. Power supply, telecoms and railway companies are high profile victims but churches, schools, war memorials and local council services and amenities have also been affected.

4.2 Attacks on railway infrastructure used by Metro have increased in line with this, as thieves target power and signalling/communication cables, putting themselves at real danger of serious injury or death. This summer a 17-year-old was killed during attempted theft from a power sub-station in the Leeds area.

4.3 During June 2011 Nexus suffered six separate attacks in a 30 day period, resulting in several days of disruption on parts of the network in the Newcastle and North Tyneside area. Up to the end of August there had been 11 attacks in total on Nexus Infrastructure and seven on Network Rail infrastructure, 38% more than the whole of the previous year.

4.4 The overall cost of incidents on Nexus infrastructure alone is estimated to be £293,000. The value of metal stolen is often negligible, and in some cases it has been found abandoned or the thieves have caused damaged but taken nothing. The major costs arise from providing replacement bus services and deploying staff to assist passengers, the staff resource and equipment required to make repairs, deferring other important maintenance and renewal jobs and the loss of revenue and goodwill among passengers. The wider economic cost to the region from people missing appointments, being late for work or being put off travelling has not been estimated.

4.5 The extent of incidents and rising cost reflects the national situation, which saw the UK railway industry suffer £16.5 million cost in 2010/11 compared to £12.5 million in the previous financial year. The North East and Yorkshire are identified as areas where the problem is most severe, however.

4.6 Nexus has set up a high-level task group to look at all aspects of the problem, with four strands to it.

1) **Enforcement**: Working with police forces in new ways to improve the protection of our assets, supported by technology such as CCTV and security marking.

2) **Engineering**: Identifying innovations across the European rail industry which could be exploited to protect fixed assets or replace them through the ARP in a form less attractive to thieves.

3) **Enabling:** Review operational practices for Metro to identify ways it can assist the passenger by recovering services faster or limiting the extent of disruption after attacks.

4) **Education:** Warn people of the risks associated with metal theft, and passengers of the steps Nexus and its partners are taking to combat the

problem; highlight the impact of metal theft on the community.

4.7 The number and frequency of attacks has reduced since June but it is reasonable to expect that there will be continued incidents and disruption to passengers.

4.8 Nexus has been working with the national working group on metal theft, which unites railway companies, utilities and police forces in seeking definite solutions to this problem.

4.9 From this we have identified a lobbying strategy which would press for changes to laws and regulations with the following aims:

1) A robust licensing regime (rather than the present registration) with clear requirements upon the dealer to take steps to reduce the risk that stolen materials are purchased or received.

2) Scrap metal dealers to pay a licence fee in order to give local authorities greater funds to facilitate the regulation of the licence.

3) Property obtained by virtue of breaches of the legislation should be regarded as criminal assets allowing Proceeds of Crime provisions to apply.

4) Police powers to close scrap metal dealers in line with alcohol licensing and police authority to search and investigate all premises owned and operated by a scrap metal dealer.

5) Restrict trade in scrap metals to cashless payments and introduce a requirement that scrap metal must be held for a certain period before being sold or processed in order to allow payments to be processed.

6) Searchable records to be kept of proof of identity of the seller of scrap and any vehicles used to transport it (egg through photo id and CCTV).

7) Magistrate powers to add restrictions on to licences and to prevent re-opening of closed yards until conditions have been met.

4.10 It is important to note that there are many entirely legitimate businesses operating in this arena. There is no desire to penalise these businesses. Indeed, it is hoped that improved legislation to remove dealers who deliberately seek to profit from crimes will actually increase business for the remaining, legitimate metal recycling companies

5. **Next Steps**

5.1

6. **Further comments by the:**

- **Clerk** (if any);

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

- **Treasurer** (if any);
- **Legal Advisor (**if any**);**
- **Director General** (if any**).**

7 Background Papers

7.1

8 Contact Officer (s)

8.1 Michael Ellison, Head of Planning and Performance, Nexus, 0191 203 3195

8.2 Huw Lewis, Head of Communications, Nexus, 0191 203 3112

Tyne and Wear Integrated Transport Authority

DATE: **22nd September 2011**

TITLE: **Petitions: Service 87**

REPORT OF: **DIRECTOR GENERAL, NEXUS**

District Implications: South Tyneside, Gateshead, Newcastle

---

1. **Summary / Purpose of Report**

1.1 To inform Members about petitions received in respect of the withdrawal of the former service 87 in Gateshead.

2. **Recommendations**

2.1 Members are requested to support the recommendation that no further action is taken at this stage.

3. **Introduction / Background**

3.1 In spring 2010, Go North East proposed the withdrawal of their commercial 87 service (previously the 527 service) as part of a wider review of their Gateshead based services. Service 87 was partially replaced by service 187, with the loss of links particularly affecting people living and working in the Felling, Bensham and Saltwell areas of Gateshead, especially for visitors and workers at the Queen Elizabeth hospital. The re-instatement of these links was the focus of a campaign launched and with the support of a local ward councillor a 160 signature petition was raised in one hour by local people in Felling. Similarly at the QE hospital a ‘Save the No. 87 Bus’ petition was subscribed to by around 100 staff and visitors. At the same time smaller related petitions were collated additionally involving people in the Heworth, Hepburn Gardens, Windy Nook, Pelaw and Bill Quay areas, asking Go North East to review their decision and return the 87 to its former route.

3.2 The larger petition stated: “Go North East are proposing the withdrawal of Service 87 (formerly the 527). A new Service 187 is proposed to replace the 87. Bus users, particularly in the Felling area feel that service 87 is a well-used and much appreciated service, and we the undersigned request that the Go North East Bus Company reconsider the proposals and continue with Service 87 in its current route.” Notwithstanding the 87 service was withdrawn and new service 187 implemented from 13th June 2010. In response to the petitioning it was agreed the situation would be kept under review at the East Gateshead

Partnership Board.

4. **Service 87 & Service 187**

4.1 Prior to the summer of 2010 the Go North East service 87 had been providing links commercially (daytime-half hourly) between Fellgate and Newcastle Central Station via Jarrow, Hebburn, Heworth, and the QE Hospital. The evening and Sunday service was a half-hourly frequency between Jarrow to Newcastle.

4.2 As part of a commercial network review implemented in summer 2010, the 87 service was withdrawn and partially replaced from 13th June 2010 by service 187 operating hourly (daytime-commercial, evenings-secured) from the QE Hospital to the MetroCentre via Whitehall Road.

4.3 In spring/summer of 2010 the Council was working with Go North East and Nexus to improve conditions for public transport in the borough through the Accessible Bus Network Design Project which involved undertaking a review of the local network of subsidised socially necessary bus services secured under contract to Nexus. However service 87 was (and the bulk of the daytime 187 remains) a commercial bus service provided by Go North East over which the local authority, the ITA and Nexus have little direct influence in the deregulated environment.

5. **Next Steps**

5.1 With the implementation of the Accessible Bus Network in east Gateshead in May 2011 resources to fund socially necessary bus services in this area are fully committed. The decisions taken by Go North East relating to withdrawing service 87 and partially replacing it with service 187 were commercial decisions by that company. Members are therefore requested to support the recommendation that no further action can be taken at this stage but that the situation is kept under review by Nexus.

6.. **Further comments by the:**

- **Clerk** (if any);
- **Treasurer** (if any);
- **Legal Advisor (**if any**);**
- **Director General** (if any**).**

7. **Background Papers**

7.1 Bus Services in Tyne and Wear: Charter for Growth (ITA and Nexus, March 2009)

8 **Contact Officer (s)**

8.1 Tobyn Hughes, Director of Customer Services, Nexus

Tyne and Wear Integrated Transport Authority

DATE:	**Date: 22nd September 2011**
TITLE:	**Rail Issues Report**
REPORT OF:	**The Clerk of the ITA / Director General of Nexus**
	Not Confidential
	District Implications: All Districts

1. **Purpose of Report**

1.1 To inform the ITA of the recent announcement made by the Secretary of State for Transport regarding the proposed programme for the creation of new rail franchises, and confirmation of the additional rolling stock for local services arising from the 2007 High Level Output Statement.

2. **Recommendations**

2.1 Members are recommended to note the report and the implications for the delivery of local and long distance rail services to and from the Tyne and Wear area.

3. **Summary of Key Issues**

3.1 The East Coast Intercity franchise will be let from December 2013

3.2 Existing Transpennine and Northern Rail franchises are to be extended until 2014/5 to allow potential changes to the structure of these franchises to be introduced, following consultation.

3.3 An additional Class 142 train will be allocated to local rail services in the region from December 2011.

4. **Information**

Franchise Alterations

4.1 On 4 August the Secretary of State for Transport announced a revised and updated programme for future rail franchising, taking account of views received from within and beyond the rail industry. Longer, less prescriptive franchises are proposed which are intended to promote greater innovation and investment, as well as to generate lower costs at an industry level. Closer partnership working between train operators and Network Rail at a local level is also envisaged.

4.2 Those sections of the announcement which affect the Tyne and Wear area are as follows:

- The East Coast franchise will remain in state ownership until December 2013, when a new franchise will commence. This is later than previously indicated, due to the Greater Western franchise being renewed earlier than expected, in order to avoid more than one long-distance franchise competition being held at the same time.

- The existing Transpennine Express franchise held by First Keolis will be extended until between April 2014 and March 2015. This flexibility could allow the start dates for the new Northern franchise – due to expire in October 2013 - and the TransPennine franchise to be aligned in April 2014, by exercising the short extension provision in the current Northern franchise. Having both existing franchises end at the same date could allow for these franchises to be combined, or split in different ways. The Secretary of State will be considering the optimal configuration and intends to seek views on the preferred structure from local interested parties. The timescales outlined above will allow for proper consultation and consideration of the possibilities for a radical restructuring in the Northern/Transpennine operating area, according to the ministerial statement.

- The statement suggests that there will in future be greater variations between individual franchises, depending on their particular circumstances.

4.3 The relationship between the expiry dates of the Northern and Transpennine franchises suggests that serious consideration is being given by the Secretary of State towards a merger of the two franchises, or at least some change to the existing arrangements. This is especially relevant in connection with the discussions which are currently taking place between the Department for Transport and the PTEs served by the Northern franchise, to gauge the potential for specification and oversight of the next franchise to be devolved to PTEs to a greater or lesser extent. Clearly the inclusion or otherwise of Transpennine services within a future local rail franchise could significantly alter the potential for the delivery of regional rail services. Once the consultation process is underway, a further paper will be brought to the ITA outlining the potential issues and opportunities attached to possible revised franchising arrangements.

4.4 The East Coast announcement confirms that the service will remain publicly operated for two more years. In advance of that franchise being let in 2013, an extensive programme of consultation and discussions with potential bidders can be expected as the franchise is likely to generate a high level of interest; this will be the opportunity for the ITA to specify what is sought in terms of service improvements and passenger facilities on this important route.

Additional Rolling Stock

4.5 The Department for Transport has confirmed that a cascade of rolling stock, resulting from the intention in the High Level Output Statement to allocate more trains to help meet passenger demand in urban areas, will result in one extra Class 142 unit being allocated to local rail services in the North East with effect from December 2011. Northern Rail will use the unit to provide additional capacity on what is currently the most overcrowded local service in the region, the morning peak service from Hexham to Middlesbrough via Newcastle and Sunderland. Whilst welcome, this intervention does fall some way short of satisfying growing demand for local rail travel in the region.

5. **Further comments by the:**

- **Clerk** (if any);
- **Treasurer** (if any);
- **Legal Advisor** (if any);
- **Director General** (if any).

6. **Background Papers**

6.1 New Franchising Programme – announcement by the Secretary of State for Transport, August 2011.

7 Contact Officers

7.1 Gordon Harrison, Strategic Planning Manager, Nexus.

ITA Policy Manager

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

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Tyne and Wear Integrated Transport Authority

Date: 22 September 2011

TITLE: **STRATEGIC RISK UPDATE**

REPORT OF **THE DEPUTY CLERK AND TREASURER**

Not Confidential

District Implications across Tyne and Wear

1. Summary / Purpose of Report

1.1 This report provides an update on ITA strategic risks and opportunities as set out in the ITA Strategic Risk Register.

1.2 The formal risk process adopted by the ITA aims to provide assurance that significant risks and opportunities associated with the delivery of ITA business are continually being identified, and appropriately managed and monitored to derive optimal performance.

1.3 The risk register has been updated by ITA Policy Officers together with colleagues from Nexus and material changes / issues are summarised within this report.

1.4 Risks fall into two general areas:

a) Significant threats, barriers or weaknesses that could cause substantial negative impacts on the delivery of ITA business / prevent the achievement of aims and objectives (and which therefore require attention to avoid or reduce); and / or

b) Significant opportunities that could cause substantial positive impacts on the delivery of ITA business / secure the delivery of aims and objectives (and which may require planning to exploit or enhance).

2. Recommendations

2.1 To review and challenge the outcomes of the update to the strategic risk review.

2.2 To identify any further significant risks or mitigating actions for consideration.

3. Strategic Risk Update

3.1 This update concentrates on:

(a) Summarising current activities and further mitigation in response to the highest priority risks and opportunities facing the ITA.

(b) An overview of all strategic risks and opportunities (as presented in **Appendix A**).

3.2 Since the last review strategic risks, reported to ITA Standards and Audit Committee in March 2011, a number of events have occurred that have mitigated (or changed the focus) of several of the ITA strategic risks.

- The ITA and Nexus have undertaken a budget review process which has delivered efficiency savings resulting, in a 5% reduction in levy charges for the districts in 2011/12 and 5% in 2012/13.

- The Government has also confirmed the levels of reduction in funding for both local transport and major transport schemes, including the A19 Junctions.

- The LTP 3 is now finalised and was approved and adopted by the ITA in March 2011.

- The ITA has been successful in a bid to Government on the key components bid for the Local Sustainable Transport Fund

3.3 In March 2011, Members of the ITA's Standards and Audit Committee agreed to close the risk titled "inability to bring forward A19 junction schemes to coincide with New Tyne Crossing completion, resulting in lost opportunities", due to the fact that the A19 junctions will not be taken forward until after 2014 through the loss of Government funding. However, this will be reviewed closer to 2014, with a view of an opportunity.

3.4 It is proposed that a new risk is added to reflect the risk of failing to deliver the key components project for the LSTF. If we successfully manage this risk it will strengthen our proposals for our larger bid to Government.

4. Next Steps

4.1 The ITA Strategic Risk Register is regularly monitored and fully reviewed/reported to ITA Standards and Audit Committee twice a year to ensure risk ratings reflect emerging risks and progress is being made in reducing current risks. The ITA will also continue to receive strategic risk updates on an annual basis.

5. Further comments by the:

- **Clerk** (none)
- **Treasurer** (none)
- **Legal Advisor** (none)
- **Director General** (none)

6. Background Papers

6.1 ITA Strategic Risk Register – Available from contact officers below.

7. Contact Officer (s)

7.1 Ian Pattison, Principal Auditor, Newcastle City Council (0191) 211 6885

Roger Gill, ITA Policy Manager, Newcastle City Council (0191) 211 4805

SUMMARY OF ALL STRATEGIC RISKS (September 2011)

ITA Risk at a glance

Strategic Risks			
Description	Priority	Direction of travel	Summary of progress
Policy Delivery and Integration			
Ineffective stakeholder management and ITA leadership on development and implementation of the Local Transport Plan (LTP3).	Amber 9	Improving	There continues to be a strong focus and ongoing engagement with LTP Partners and stakeholders in the development and finalisation of the LTP3. The draft LTP underwent a public consultation period between October and December 2010. The LTP was adopted by the ITA in March 2011. Partners are now delivering their implementation plans Strong partnership working continues through various member and officer structures, including: • ITA • ITA LTP Working Group • LTP Senior Officer Group (Chaired by the ITA Clerk) • Joint Transport Steering Group • Joint Transport Working Group

SUMMARY OF ALL STRATEGIC RISKS (September 2011)

Performance Management			
Ineffective performance management leading to ineffective decision making and inappropriate use of resources.	Green 6	Improving	With the move to a new Local Transport Plan a coherent set of revised local transport indicators are being developed. This development offers the opportunity to streamline monitoring and performance arrangements at the Tyne and Wear level with a single monitoring framework reflecting the ITA's vision, strategic objectives, LTP policies and interventions.
Financial			
Future spending restrictions, impacting on key ITA projects and ability to deliver policy objectives.	Red 12	Improving	The Government decreased the amount of capital resources, resulting in Local Transport Plan funding being reduced in from 2010 to 2013. LTP3 has been developed to reflect the reduction in funding in the short-term, whilst acknowledging that the LTP is a ten year strategy.
Joint Service Budget priorities may not fully support current ITA activities, leading to additional and unexpected financial demands on the ITA and the five Councils.	Red 12	Improving	We have had a STEP process where the ITA and Nexus identified efficiency savings, taking account of the 5% reduction in the levy for 2011/12 and 2012/13. We are identifying options for further efficiencies.
Insufficient funding for Concessionary Fares	Amber 9	Static	The published Scheme for Tyne and Wear

SUMMARY OF ALL STRATEGIC RISKS (September 2011)

resulting in restricted ITA ability to fund other transport services, reduction in some services and adverse publicity.			has been amended to take account of DfT guidance issued in late 2010. Funding for April 2011 onwards has I been reviewed as part of Nexus budget which has recently been approved by the ITA.
Major Projects			
Failure to provide effective challenge and governance to the Metro Re-invigoration Project.	Amber 9	Static	The Coalition Government re-affirmed its support for the Metro Reinvigoration Phase II capital and revenue programme in June 2010. ITA continues to receive updates on programme progress from Nexus, and has set up an ITA Metro Sub Committee to consider Metro issues in further detail.
Impacts of NTC construction being poorly managed or perceived as being poorly managed resulting in damage to community relations and reputation damage to the ITA.	Amber 9	Static	The New Tyne Crossing Programme has been modified to take into account actual progress in the year. The new tunnel opened in February 2011 and the reopening of the existing tunnel, following renovation, is December 2011. Completion of the NTC programme remains December 2011.
Failure to deliver the LSTF key components project impacting on the development of our business case for the main LSTF bid, which may also turn to be an opportunity, if this risk is successfully managed.	Amber 9	N/A new risk	We have been successful in our bid to tackle congestion associated with school journeys. This forms one part of our wider proposals to tackle congestion to access to

SUMMARY OF ALL STRATEGIC RISKS (September 2011)

			our key employment sites. We have governance arrangements in place to oversee and manage the programme.
Equalities			
Equalities issues not fully considered in policy formulation and other activities of the ITA, resulting in potential legal challenge and/or failure to deliver ITA vision and objectives.	Green 6	Static	An Equalities Impact Assessment has been carried out as part of the LTP3 development process. ITA E&D Working Group established to consider equalities issues in further detail. Reviewing the ITA Policy Statement and Equalities Schemes to ensure that they comply with equalities legislation.

ITA Opportunities at a glance

Strategic Opportunities			
Description		Direction of travel	Summary of progress
Opportunity to deliver maximum benefits to bus users as a result of Local Transport Act 2008 provisions.		Improving	The Accessible Network Design project was completed and implemented which has resulted in changes in some bus services. We are continuing to identify options to deliver benefits to bus users.

SUMMARY OF ALL STRATEGIC RISKS (September 2011)

Opportunities presented by Smart Ticketing Initiative (NESTI)		Improving	The first public transport service to carry NESTI enabled smart ticketing equipment began on 6th June 2010. Work is underway to develop the opportunities for using the NESTI scheme to deliver efficiencies to Local Authorities.
Opportunity for the ITA to play stronger role in Tyne and Wear Local Transport matters and demonstrate strategic leadership.		Improving	ITA is leading on LTP3 development in partnership and consultation with districts and Nexus. Also providing input to other national transport activities and development of a High Level Transport Strategy. The ITA will be in a strong position to help advise and influence transport proposals in the new Local Enterprise Partnership.
Opportunity to further develop processes and arrangements for scrutiny.		Static	There continues to be a strong focus on aligning the ITA and ITA scrutiny forward programme to ensure relevant items and issues are considered by scrutiny committee and value is added to the process.
Opportunity for the ITA to develop and lead on bids for funding from Central Government to help deliver ITA objectives		Improving	The ITA is leading on a bid for funding for sustainable transport from Government, on behalf of Tyne and Wear partners.
Opportunity for the ITA to undertake a review to look at other models of operation.		Improving	As part of the budget review process, we committed ourselves to looking at how the ITA operates in the new LEP policy environment and how it tackles the localism agenda.

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Agenda Item 17

Tyne and Wear Integrated Transport Authority

Date: 22nd September 2011

TITLE:	**CONSULTATION ON THE DRAFT NATIONAL PLANNING POLICY FRAMEWORK**
REPORT OF:	**The Clerk to the ITA**
	Not confidential
	District Implications: All of Tyne and Wear

1. **Purpose of Report**

1.1 This report provides an outline of the Government's consultation on the draft National Planning Policy Framework (NPPF) and potential implications. This will help inform the response from the ITA.

2. **Recommendations**

2.1 ITA members are recommended to note the report and offer comments on a proposed ITA response.

3. **Background**

3.1 In July 2011 the Government published the draft NPPF which sets out the requirements and strategy for economic, environmental and social planning policies in England.

3.2 The Framework replaces all planning policy statements (PPSs) and planning policy guidance (PPGs) and planning circulars that currently influence local planning. Some of the key proposals in the NPPF are being taken forward by the Localism Bill, emphasising the importance of local leadership and the Local Plan.

3.3 The main features of the draft NPPF are:

- Fewer rules about what can be built, where, and how
- A presumption in favour of sustainable development
- The local plan becomes (even) more important

- Supports a growth agenda
- Introduces a duty to cooperate
- Replaces targets for development with incentives
- Supports neighbourhood planning and sets out expectations on consultation with communities by local authorities and developers.

3.4 The following section briefly outlines some of the key elements from each of the main features outlined above.

3.5 **Fewer Rules** - The 35+ pages of the Framework replaces over 1000 pages of guidance and rules in planning policy statements, planning policy guidance and planning circulars. There is far less national policy and guidance on issues such as density, design, affordable housing.

Limits on planning conditions and obligations
Planning conditions and obligations under the current system can be imposed by local authorities on developers. Under the proposals in the draft NPPF, councils will still be able to impose planning conditions and obligations, but the Framework suggests this should only be used when necessary.

3.6 **Presumption in favour of sustainable development** - The NPPF says that presumption should be in favour of sustainable development. This means that the default position is development goes ahead unless it can be shown to be contrary to local plans or the Framework (e.g. protection of Areas of Outstanding Natural Beauty). The Government says that the reasons for the 'presumption in favour' approach are to speed up decision making, encourage more development, and encourage both councils and local communities to focus on the content of plans.

3.7 **The local plan becomes more important** - The Framework says that all councils should produce a Local Plan. Plans are expected to be long term, covering around a 15 year period, and will be subject to assessment by an independent inspector to judge whether the plan has been prepared in accordance with the Duty to Cooperate, legal and procedural requirements, and in line with the Framework.

The presumption in favour of sustainable development means that councils will generally be required to give planning permission to all developments where *"the plan is absent, silent, indeterminate or where relevant policies are out of date."*

The presumption, and the removal of much planning policy and guidance at a national level, and supplementary planning documents at a local level raises the significance of the Local Plan itself. The Framework says that Local Plans should:

- identify sites for development and land to protect from development and give clear guidance what will and wont be permitted and where
- set out strategic priorities and policies on housing and economic development requirements, provision of commercial development, provision of infrastructure (transport, waste, telecoms etc), provision of

health, security, community infrastructure and other local facilities and the environment, guided by core land-use planning principles.

3.8 **Supporting growth -** As with current planning policy, the Framework supports economic growth, business and infrastructure development and housing. The framework says that the primary role of councils in the planning process is to foster sustainable development, and that they need to attach significant weight to the benefits of economic and housing growth.

3.9 **Targets replaced by incentives** – Previous guidance relied on national and regional targets to increase the level of house building, and within this the level of affordable housing. These targets have been scrapped, and the Localism Bill proposes to abolish the regional strategies which set them. As well as monetary incentive for councils, incentives are intended to ensure that local areas benefit directly from development.

3.10 **Duty to Co-operate** - Within the Framework is the implementation of the Duty to Co-operate proposed in the Localism Bill. The Duty recognises that councils and other public bodies need to work together across administrative boundaries to plan housing, transport and infrastructure. This replaces the co-operation between authorities that used to happen through regional governance structures.

3.11 **Community involvement in planning** - The Framework supports the implementation of neighbourhood planning being proposed in the Localism Bill, which will give local people greater ownership of the plans and policies that affect their local area.

4. **NPPF & Transport**

4.1 The key transport aspects of the NPFF are:

- the removal of maximum parking standards for non-residential development
- the importance of travel plans for developments that generate significant trips, although it will be down to the local authority to define what is significant
- the retention of the town centre first policy for retail and leisure but the removal of the test for office development.

4.2 One of the core planning principles of the framework is that planning policies and decisions should “actively manage patterns of growth to make the fullest use of public transport, walking and cycling and focus development in locations which are or can be sustainable”. However the framework also states that development should not be prevented or refused on transport grounds unless the residual impacts of development are severe.

4.3 The draft NPPF endorses the continued use of travel plans to ensure a long-term management strategy is in place to promote sustainable travel in new developments. However, with no explicit reference to monitoring or enforcing travel plans, the draft NPPF may limit how effective travel plans submitted through the development process will be in practice.

Possible implications

4.4 The draft NPPF states that development should not be refused on transport grounds unless “residual impacts” are “severe”. This implies that transport objections should not be allowed to obstruct the delivery of housing targets or economic development. This makes it less likely that improvements in sustainable transport provision in new development will be secured through negotiations and reinforces the need for a clear Local Plan transport policy – including defining a “severe” residual traffic impact. It is in the interests of developers, local authorities and their communities to ensure new housing and employment is accessible by all modes of transport, to maximise economic benefits and social inclusion, and to minimise traffic congestion.

4.5 The Draft NPPF endorses the proposed approach set out in the Localism Bill – of using Section 106 agreements to mitigate localised impacts.
Local authorities will have to develop a robust approach to local infrastructure planning and to set a Community Infrastructure Levy (CIL) charging schedule that enables them to invest in the major transport infrastructure.

4.6 The draft NPPF does not include maximum parking standards. Local Authorities will therefore need to develop their own parking standards and supporting justification, taking into account: the accessibility of the site; the type and mix of development; local car ownership; and the need to reduce use of high- emission vehicles. The removal of consistent parking standards could introduce an element of competition between local authorities to attract development.

Since the availability of parking has a major influence on travel behaviour, higher parking levels, combined with a light touch approach travel planning, could lead to car-dependent developments.

4.7 The draft NPPF provides an incentive to local authorities to get Local Plans – with clear transport policies embedded – in place quickly and efficiently, as several key elements require criteria to be set at the local level. There are some concerns that the lack of a more rigorous national framework could lead to less sustainable planning decisions being made. It will be for local authorities to develop strong local policies in relation to sustainable transport and for developers to recognise the clear business case for ensuring their development sites support their share of the required infrastructure and service improvements, and are accessible by all transport modes.

4.8 There is an issue around how major infrastructure planning is dealt with at the national level, by Government and a potential vacuum between the local plan level and at the national level. There is the potential for the ITA to fill this gap, through its policies and strategies and also through being a consultee on development plans and major development proposals. The importance of having a strategic approach to transport at the Tyne and Wear level via the ITA, remains, given that many journeys are cross boundary in nature.

5. Next Steps

5.1 The deadline for responses to the consultation is Friday 17 October. ITA Members are asked to raise any comments they may have on this report to help inform an ITA response.

6. Further comments by the:

- **Clerk** (if any);
- **Treasurer** (if any);
- **Legal Advisor** (if any)
- **Director General** (if any**).**

7. Background Papers

7.1 Consultation Document available at : http://www.communities.gov.uk/documents/planningandbuilding/pdf/1951747.pdf

7 Contact Officer (s)

7.1 Roger Gill, ITA Policy Manager, Newcastle City Council 0191 211 4805

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Tyne and Wear Integrated Transport Authority

23 September 2011

New Tyne Crossing - Construction Progress Report

REPORT OF NTC PROJECT DIRECTOR

1. Synopsis

1.1 This report provides an overview of progress made on the construction and the preparation for certain key events to come since the last meeting of the Authority. Progress photographs will be available at the meeting.

2. Recommendations

2.1 The Authority is recommended to note progress made.

3. Background

3.1 Construction of the NTC began on 22 April 2008. Key dates as set out in the Project Agreement signed on 23 November 2007 are as follows:-

PTU1	15 December 2010 (Revised to 4 February 2011)
PTU2	3 December 2011
Completion	3 December 2011

4. Progress – Since June 2011

4.1 **Programme**

Work began on the refurbishment of the existing vehicle tunnel on 28 February 2011 and the contractor plans to achieve PTU2 on 11 November 2011. This PTU2 date is based on the premise that it is possible to hold the Emergency Exercise on 8 November 2011 and the outcome is successful. Arrangements for a 'fall back' date for the exercise have been negotiated with the relevant parties. Overall, the works are slightly behind the programme but the target date for Completion remains at 3 December 2011 at this time.

4.2 **North Approach Works**

Earthworks and the foundations for the new north bound tolls plaza and construction of the steel canopy structure is complete. Adjacent to the new toll plaza the construction of the drainage swale and the revised access to the north extract building are substantially complete. Construction of the approach and egress roads for the north bound tolls plaza is nearing completion.

Piling works for the new quay extension adjacent to the Howdon Yard is progressing and concreting to the main quay slab has begun.

New and disturbed local roads have now all been accepted by North Tyneside Council and are on 12 months maintenance.

4.3 **South Approach Works**

Reinstatement of the river wall is complete. Earthworks between the river and Chaytor Street are complete and work is on-going on the riverside walk and skate-park. Reinstatement of Tyne Street near the east emergency access point to the Rohm & Haas site is nearing completion. Work on the construction of the new roundabout on Chaytor Street is nearing completion. Seeding and tree planting in the landscaped areas is complete over the tunnel between Salem Street and Tyne Street. The new Friar Way link road will stay closed to traffic pending the completion of the new roundabout on Chaytor Street to avoid it being used as a 'rat run'. The construction of the linear footpath/cycleway in the Riverside Area is complete.

Salem Street remains closed - High Street is open to traffic.

4.4 **South Junction Works**

The formation of the new A19 approach carriageways is nearing completion. The construction of the noise barrier between the loop-bridge and Howard Street Bridge is complete. The barrier was increased in height at the north end to help further ameliorate the visual impact of the loop road to the Epinay Walk houses but some residents still have some concerns. Meetings with the residents have been and continue to be arranged to address these concerns. Earthworks to the south of the junction for the installation of the drainage pond are nearing completion. Construction of the new structures, widening and refurbishment of the existing structures to the south of the roundabout is ongoing. The new local road roundabout under the 'Shell' bridge continues to be temporarily used, in part, as the A19. Traffic diversion for local traffic on Church Bank is still in operation.

Details for the footway link from the A19 under the A185 to Straker Street are in preparation – this will include appropriate lighting, particularly in the underpass.

4.5 **Existing Tunnel Refurbishment**

Work on the refurbishment of the existing tunnel commenced shortly after the opening of the new tunnel on 26 February 2011.

Within the tunnel, installation of fire protection boarding system which forms the new ceiling, wall cladding and support frame is substantially complete. Under the road deck, structural repair work is complete. Redundant services have been stripped out and the cable trays to support the new services and the installation of drainage are nearing completion.

Above the road deck services have been stripped out and the erection of the pre-cast concrete escape gallery partitions together with the infill insitu concrete sections complete. To the east side of the carriageway the construction of the new crash wall is complete.

Currently mechanical and electrical installation works are underway and are being closely monitored. A revised Testing and Commissioning programme has been issued leading to the Emergency exercise on 8 November 2011.

Remedial works identified in relation to the bolts, the segment joints and the roof frame structure have been completed.

The bank seat abutment works to support the bridging beams required over the A19 are complete. The beams were installed on 24 July 2011 and required a closure of Howard Street. Construction works for the cover slab are on-going.

5. Land

5.1 Arrangements relating to hand-back of land continue to be discussed in detail between the relevant parties on the basis of the approved landscape master-plans. Licences to occupy land to the north of the south-bound toll plaza in East Howdon and between Chaytor Street and High Street in Jarrow have been terminated.

6. Communication

6.1 The web-sites (NTC & TT2) continue to be updated almost daily. The Drop-in-sessions are held once per week each in Jarrow and in East Howdon. The Helpline is maintained and staffed 24/7. A Newsletter was distributed at the end of June 2011 and the next is currently planned for October 2011.

6.2 The journey time monitoring system is now reinstated and the new web-cams are operational. TT2 have received good feed-back from the media (particularly radio) who are making good use of the facility.

6.3 Information about the closure to Howard Street on 24 July 2011 was communicated via the web-site, media release, leaflets to local residents and at the Jarrow drop-in sessions.

6.4 A site visit for the North Partnering Forum has been arranged for the end of September 2011. A date for a visit for the South Partnering Forum has yet to be agreed. A visit to the site for people who worked on the construction of the 1967 vehicle tunnel has been arranged for mid-October 2011.

6.5 Following the meeting of the Authority on 25 August 2011, an application for a modification to the River Tyne (Tunnels) Order 2005 was submitted to the Secretary of State. The appropriate Notices have been published in the local media and the London Gazette and the relevant documents placed in Central Library, Newcastle and in the libraries in North Shields and South Shields for public inspection. The documents are also to be up-loaded onto the project's web-site.

6.6 Also following the meeting on 25 August 2011, TT2 Ltd implemented the zero toll for motorcycles on 12 September 2011. This was publicised and received good media coverage.

Contact Officer: P Fenwick, phone: (0191) 211 6058

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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