



Chief Finance Officer's Narrative Report for the Year ended 31 March 2019

1. Introduction

This Narrative Report provides information about the North East Combined Authority (NECA), including the key issues affecting the Authority and its accounts. This report provides an explanatory narrative to key elements of the statements and sections in the accounts and also provides a summary of the Authority's financial performance for 2018/19 and its future financial prospects.

This report provides the reader with:

- A guide to the different financial statements within the Statement of Accounts.
- An overview of the activities and significant matters which occurred during the year.
- A summary of the Authority's financial performance during the year ending 31 March 2019 and its financial position at that date.
- A look ahead to 2019/20 and beyond.

The Statement of Accounts sets out the financial performance of the Authority for the year ending 31 March 2019 and its financial position at that date. They have been prepared in accordance with proper practices as set out in the Chartered Institute of Public Finance & Accountancy (CIPFA) Code of Practice on Local Authority Accounting in the United Kingdom (the Code). The Code requires that the accounts give a true and fair view of the financial position of the Authority. In line with the Code, suitable accounting policies have been applied and where necessary prudent judgements and estimates have been made.

The accounts feature four main financial statements:

- Movement in Reserves Statement.
- Comprehensive Income and Expenditure Statement.
- Balance Sheet.
- Cash Flow Statement.

The purpose of each of the above statements is described at the end of this report and the actual statements are contained within the accompanying Statement of Accounts document, which also includes detailed notes providing further backup relating to specific amounts and balances.

The main statements are supplemented by a further section which presents the Group Accounts, consolidating the figures of Nexus with those of the Authority. NECA is also the Accountable Body for the North East Local Enterprise Partnership (North East LEP). Our accounts include all transactions relating to the North East LEP and summary information is highlighted in this report.

These statements and accounts collectively provide a comprehensive view of the Authority's financial position during the period to which they relate. The format of the accounts has changed to reflect the impact of the Newcastle upon Tyne, North Tyneside and Northumberland Combined Authority (Establishment and Functions) Order 2018 (the Order), which changed the boundaries of NECA on the 2nd November 2018. As a result of these governance changes, the boundaries of NECA now cover the Local Authorities of Durham, Gateshead, South Tyneside and Sunderland. On the same date, the North of Tyne Combined Authority (NTCA) was established as well as the North East Joint Transport Committee (JTC), which continue to exercise the Transport functions over the area covered by the two Combined Authorities. The accounts have to show the accounting information at 31st March 2018 and information in year to the end of 1st November 2018 for the previous membership of NECA and the position at 31st March 2019 for the revised membership of NECA.

The Authority seeks to make the best possible use of resources available with regard to economy, efficiency and effectiveness. This is a responsibility shared by Members and Officers of the Authority, with the Chief Finance Officer having a specific role in ensuring the adequacy of resources and proper financial administration. Our budget proposals for 2019/20, available on the NECA website (www.northeastca.gov.uk) sets out how we will do this looking forward. The Statement of Accounts accompanying this report looks back at our performance over the past year. Reviewed together they provide the reader with an understanding of the financial position of the Authority.

2. What is the North East Combined Authority?

The North East Combined Authority (NECA) was established in April 2014 as a legal body that brought together the seven councils which serve Durham, Gateshead, Newcastle upon Tyne, North Tyneside, Northumberland, South Tyneside and Sunderland. It had transport and economic development powers and its ambition was to create the best possible conditions for growth in jobs, investment and living standards, making the North East an excellent location for business and enabling residents to develop high-level skills so they can benefit long into the future.

The North of Tyne authorities secured a devolution deal with devolution funding for the North of Tyne area, which required the establishment of a separate North of Tyne Mayoral Combined Authority during 2018/19. On the 2nd November 2018, the Newcastle upon Tyne, North Tyneside and Northumberland Combined Authority (Establishment and Functions) Order 2018 changed the boundaries of NECA.

As a result of these governance changes, from 2nd November 2018 the boundary of NECA covers the Local Authorities of Durham, Gateshead, South Tyneside and Sunderland. At the same time the North of Tyne Combined Authority was established, and the North East Joint Transport Committee was created, which continues to exercise the Transport functions over the area covered by the two Combined Authorities.

A Deed of Cooperation was made on the 4th July 2018 between the seven Constituent Authorities in the area that outlines a framework for collaborative working across the region. On 20th November 2018 NECA was formally confirmed as retaining the Accountable Body role for Transport on behalf of the North East Joint Transport Committee. NECA continued to be the accountable body for the North East Local Enterprise Partnership (North East LEP) throughout 2018/19, and continues in that role until the North East LEP formally agrees to enter into a new Accountable Body agreement. The Deed of Cooperation envisages that this role will transfer to the North of Tyne Combined Authority and the North East LEP is expected to take its formal decision later in 2019.

In the absence of a devolution deal for the south of the region, the authority will continue to work with other bodies to secure external funding, including funding for transport; infrastructure; economic development; skills and employment activities.

NECA is working closely with the North East LEP and the wider business community to deliver the Strategic Economic Plan for the North East and capitalise on these opportunities. As NECA is the 'Accountable Body' for the North East LEP, all of its financial information is included in the accounts of NECA. This has a significant impact on the accounts in both 2017/18 and 2018/19 because there was a significant amount of Local Growth Fund (LGF) grant expenditure in these years and the funds in the North East Investment Fund (NEIF), which the North East LEP controls grew over the course of the year. This has resulted in a positive cash flow position and increase in the useable

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reserves. In 2018/19 the LGF funding that had been allocated to the region was fully applied to projects. This was a significant achievement for the region and the North East LEP.

Revenue Financial Summary 2018/19

Revenue expenditure covers the cost of the Authority's day to day operations and contributions to and from reserves. A summary of NECA expenditure against the budget is set out in the Table 1 below. Expenditure totalling £109.5m was managed within the approved revenue budget and income of £113.0m, which resulted in a net surplus of £3.474m. This surplus and contribution was broadly in line with what was previously expected and includes a planned contribution to reserves of £3.361m (including £28k interest) to provide match funding for the Metro Fleet replacement.

Table 1: Summary of Revenue Expenditure

	2018/19 Revised Budget	2018/19 Actual	Variance
	£000	£000	£000
Expenditure			
Transport Levy Budget			
- NECA retained (less contributions to other NECA activity)	2,110	1,993	(117)
- Grant to Durham	15,692	15,692	-
- Grant to Nexus	56,367	56,367	-
- Grant to Northumberland	6,146	6,146	-
Tyne Tunnels			-
- Contract Payments	20,298	20,256	(42)
- NECA costs	175	169	(5)
- Financing Costs	6,594	6,773	179
Other Transport Activity			
- Regional Transport Team	597	572	(25)
Inward Investment	379	369	(10)
Corporate/Central Budget	367	363	(4)
North East Technical Assistance match funding contribution	12	15	3
Devolution Activity	56	56	0
Skills - Mental Health Trailblazer Project and NETA	767	767	-
Total Expenditure	109,560	109,538	(21)
Income			
External Grant Funding	(1,364)	(1,339)	25
Transport Levies	(83,648)	(83,648)	-
Tolls Income	(26,730)	(26,842)	(112)
Interest/Investment Income	(409)	(499)	(90)
Contributions from Constituent Authorities	(440)	(440)	-
Contributions from NELEP	(140)	(140)	-
Tyne Tunnels Miscellaneous Income	-	(20)	(20)
Other Income	(108)	(84)	24
Total Income	(112,839)	(113,012)	(173)
Net Revenue Expenditure to fund from Reserves	(3,279)	(3,474)	(194)

This statement provides a comparison with the NECA Revised Revenue Budget for the full year 2018/19, before any allocation of costs and income between the accounts of NECA and NTCA. The purpose of this is to give the reader an understanding of overall spending and income for the whole year, in comparison with the revised budget.

Revenue costs were within the overall budget for the year. The statement does not include the Corporate budget of the North East LEP, which is shown in detail in Table 3 (page 6).

Within the accompanying Statement of Accounts document the **Comprehensive Income & Expenditure Statement** (CIES, page 6 to the Statement of Accounts) sets out the Authority's financial position for the year before taking account of statutory adjustments required to be made to the accounts. It is not directly comparable with Table 1 as it includes some capital expenditure/income items and does not include transport activity in the NTCA area after 2 November 2018.

The **Movement in Reserves Statement** (MIRS, page 4 to the Statement of Accounts) reflects these statutory adjustments and shows how the financial performance for the year has impacted on the Authority's reserves. While there has been a net increase in reserves in overall terms; the impact of reporting part of the transport reserves in the accounts of NTCA (£62.3m) means that the reserves of NECA at 31 March 2019 (£114.2m) appear significantly lower than the reserves at 31 March 2018 (£163.6m). The total of consolidated reserves at 31 March 2019 is £174.4m, which is an underlying £10.8m increase compared with the balance at 31 March 2018.

The figures presented in the accounts are different from the budgeted revenue income and expenditure as they include accounting adjustments for costs such as Depreciation, and Revenue Expenditure Funded by Capital Under Statute and other grant-funded expenditure not included in the revenue budget.

The gross cost of services during the year including capital grants to third parties as well as revenue expenditure was £160.5m (£194.0m in 2017/18), of which £27.8m related to areas shown in the NTCA accounts from 2 November 2018. This includes all areas of the NECA's and North East LEP's activity. This includes 'Revenue Expenditure Funded by Capital Under Statute' – representing investment in capital assets owned by third parties, not by the Authority itself.

After deducting specific grants and income from fees and charges, the net cost of services was £62.1m (£90.8m in 2017/18). This was funded from a range of sources including the Transport Levy, other contributions from Constituent Authorities, Government Grants, Fees and Charges, and Enterprise Zones Business Rates Income. The net cost was lower than in 2017/18 due mainly to lower levels of capital expenditure in the year and higher levels of Government grants received in advance of expenditure, for example the Transforming Cities grant, as well as an element of Transport costs from the period post-2 November 2018 being shown in the accounts of NTCA.

The balance of usable reserves at the year-end, before reallocation to NTCA was £67.647m, which is a £11.8m increase on the previous year. This is made up of a number of different elements, most of which are held for specific purposes. The true unearmarked/un-ringfenced balance available to the Authority (the NECA Corporate reserve) is relatively low at £0.34m, which after repatriation of part of the reserve to the local authorities that have left NECA is estimated to reduce to £0.22m. Table 2 below sets out a breakdown of the Usable reserves and the movement in the year. The main changes in the year include the use of Tyne Tunnel reserves of £1.152m to fund capital expenditure; the increase in the reserve for Metro Fleet renewal (£3.361m) and the net increase in Transport Grants applied, which mainly relates to the balance of £10m Transforming Cities Grant received at the end of the year which is expected to be spent in 2019/20; and the increase in the

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North East Investment fund, where loan repayments and interest receipts in the year were higher than the loans made in the year.

Table 2: Breakdown of Usable Reserves

	1.4.2018	31.3.2019	Movement
	£000	£000	£000
NECA Corporate General Fund	(311)	(340)	(29)
Inward Investment Budget	(110)	(110)	-
Transport Reserves			-
- Tyne and Wear Transport General Fund	(513)	(630)	(117)
- Transforming Cities Fund Reserve	-	(37)	(37)
- Tyne Tunnels	(22,302)	(21,150)	1,152
- Metro Fleet Renewal	(3,333)	(6,694)	(3,361)
- Metro Reinvigoration Reserve	(9,117)	(9,167)	(50)
- Transport Grants Unapplied	(1,716)	(10,415)	(8,699)
North East LEP Reserves			-
- NELEP General Fund	(574)	(585)	(11)
- Enterprise Zones reserve	(2,707)	(2,913)	(206)
- North East Investment Fund	(8,696)	(9,178)	(482)
- LEP Grants Unapplied	(6,498)	(6,428)	70
Total	(55,877)	(67,647)	(11,770)

The CIES shows a net surplus for the year on the Provision of Services of £7.574m. This largely reflects additional capital grant income received in the year and credited to the CIES but not yet spent.

3. North East Local Enterprise Partnership

NECA is the Accountable Body for the North East LEP and, as such, the accounts include details of its income and expenditure during 2018/19, fully consolidated with the figures for NECA itself. A separate summary statement of the accounts of the North East LEP will be reported on its website.

The North East LEP brings together business leaders, universities and the Leaders and Elected Mayor of the seven local authorities in the North East LEP area. It is the fourth largest LEP in the country and covers the seven local authority areas which also make up NECA. It is responsible for promoting and developing economic growth in the area and works together with NECA to ensure there is co-ordination across a range of activities.

The North East LEP core budget covers operational activity and also management of the Local Growth Fund (LGF) programme. Table 3 below provides a summary of actual spend against the revised budget for the year. Total revenue expenditure amounted to £3.174m, which was £0.059m lower than the revised budget for the year. Income was £3.185m, which produced a net surplus of £0.011m which was added to the North East LEP reserve. This is £0.018m better than previously anticipated.

Table 3: North East LEP Revenue Expenditure

	2018/19 Original Budget	2018/19 Revised Budget	2018/19 Actual	2018/19 Variance
	£000	£000	£000	£000
Expenditure				
Employees	1,483	1,603	1,546	(57)
Premises	95	95	101	6
Communications	247	247	263	16
Transport LGF Monitoring and Evaluation	215	60	54	(6)
Growth Hub Operational Costs	243	243	210	(33)
Invite (Horizon 2020) Operational Costs	-	34	34	-
LIS (Local Industrial Strategy) Costs	-	127	106	(21)
Other Operational Costs	614	634	676	42
Other NECA LGF Costs	50	50	44	(6)
Inward Investment Contribution	140	140	140	-
Gross Expenditure	3,087	3,233	3,174	(59)
Income				
LEP Core Grant	(500)	(500)	(500)	-
Local Authority Match Contributions	(250)	(250)	(250)	-
BEIS Grant	-	(200)	(176)	24
Local Growth Fund (part of 2.5% Top-Slice)	(1,100)	(1,000)	(950)	50
NEIF/EZ Business Rate Receipts	(100)	(118)	(129)	(11)
Gatsby Grant	(33)	(96)	(84)	12
Growth Hub Grant	(410)	(410)	(410)	-
Other Grants / Enterprise Advisor	(325)	(240)	(280)	(40)
European Social Fund / LGF Match	-	(92)	(52)	40
NECA contribution to Head of Paid Service	(30)	(60)	(77)	(17)
Interest on Balances	(50)	(254)	(252)	2
Other Income	(6)	(6)	(25)	(19)
Gross Income	(2,804)	(3,226)	(3,185)	41
Net (Surplus)/Deficit	283	7	(11)	(18)

Activity increased during the year with the receipt of additional grants and income. The original budget for 2018/19 took a prudent view of interest receipts and potential grants and assumed that activity would need to be supported from reserves. The revised estimate for the year built in information about additional grants; improved forecast of interest receipts and later information on expenditure in the year. Some of the new activity anticipated to start in the last quarter was slightly delayed, resulting in slightly lower costs as well as some carry over of income into 2019/20.

The almost full utilisation of LGF grant in 2017/18 was taken into account by the Government in its assessment of performance of the North East LEP and helped to achieve a rating as one of the top performing LEPs in the country, with two Good and one Excellent assessments being given by the Government, following the last annual conversation, which was announced in March 2019. The full utilisation of LGF grant in 2018/19 should also be seen as good performance in the next annual performance assessment.

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Table 4 below shows the North East LEP revenue balances as at the 31 March 2019. The total LEP reserve balance has increased by £11k over the year to £585k. The use of reserves is £18k lower than anticipated in the revised budget.

Table 4: North East LEP Revenue Balances

	Opening Balance	Movement in 2018/19	Closing Balance
	£000	£000	£000
General Reserve	(574)	(11)	(585)
Total	(574)	(11)	(585)

Further details of the activities of the North East LEP are available at www.nelep.co.uk.

4. Enterprise Zones

The original round 1 North East Low Carbon Enterprise Zone is located across four Local Authority areas: Newcastle upon Tyne, North Tyneside, Northumberland and Sunderland. Business rates growth generated on these designated sites accrues to the benefit of the North East LEP for a 25 year period. The surplus will be allocated by the North East LEP to help improve the economy of the North East LEP area and the delivery of the Strategic Economic Plan (or its equivalent). 2018/19 was the sixth year of the zone's life.

Analysis of the business rates generated to date is shown in Table 5 below. This funding is available to support future North East LEP activity; primarily additional Enterprise Zone site development works to further enhance this income stream in the coming years.

Table 5: North East Enterprise Zone Business Rates Growth - period to 2018/19

	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
	£000	£000	£000	£000	£000	£000
Business Rate Income EZ Areas						
- Newcastle	(312)	(330)	(262)	(613)	(437)	(501)
- North Tyneside	(14)	(55)	(100)	(165)	(160)	(194)
- Northumberland	(12)	(28)	(96)	(173)	(321)	(380)
- Sunderland	(696)	(653)	(745)	(743)	(708)	(750)
	(1,034)	(1,066)	(1,203)	(1,694)	(1,626)	(1,826)
Interest	-	(3)	(7)	(5)	(10)	(25)
EZ Commercial Advice Grant					(30)	
Gross Income	(1,034)	(1,069)	(1,210)	(1,699)	(1,666)	(1,851)
NEIF Loan Repayment	-	-	542	1,306	1,301	1,238
Financing Costs	-	-	424	-		235
Contribution to Inward Investment Team				6	148	71
EZ Operating Costs	-	9	9	115	112	100
Gross Expenditure	-	9	975	1,427	1,561	1,644
Annual Surplus	(1,034)	(1,060)	(235)	(272)	(105)	(206)
Cumulative Surplus	(1,034)	(2,094)	(2,329)	(2,601)	(2,707)	(2,913)

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Business Rate Income, interest and grants for 2018/19 amounted to £1.851m and Expenditure, including repayments back to the NEIF, amounted to £1.644m. The surplus for the year was £0.206m, resulting in a cumulative surplus of £2.9m being held in reserve at the year end. This is higher than the cumulative surplus forecast set out in the 2014 Financial Model and the revised estimate for the year.

5. North East Investment Fund (NEIF)

The North East Investment Fund has been operating since 2012, utilising £25m of Growing Places Fund and £30m of Regional Growth Fund to invest on a sustainable basis in capital infrastructure projects which generate economic growth and job creation in line with North East LEP objectives. The NEIF is managed by the North East LEP and is included in the NECA accounts as it is the accountable body of the North East LEP. Over its life it has invested £68m in 27 projects, including money that has been repaid into the fund.

The total balance of the fund at 31 March 2019 was £55.8m, of which £41.1m was money that has been lent out to other organisations and £14.7m is held by NECA as a combination of usable reserve (£9.2m) and capital receipts/capital grants unapplied in the balance sheet. The balance available for new loans from the NEIF has been growing as repayments are received and the balance available at the end of 2019/20 is expected to increase to £26m and to continue to grow as repayments are received. An expected loss allowance of just over £1m is provided for in the accounts, although as the loans are generally secured on assets, no loss of funds has occurred to date or is expected from the loans that have been made to date.

During 2018/19 the North East LEP has been undertaking a strategic review of the future use of the NEIF. The potential future use of the NEIF was discussed by the North East LEP Board on 23 May 2019 and more detailed work on the establishment of a major Commercial Property Development Fund is being undertaken as well as a Strategic Grants Fund, with formal decisions on the allocation of the NEIF being taken by the North East LEP Board later in 2019/20.

The aim of the NEIF capital loans made to date has been to support projects that specifically encourage local economic growth and create jobs in the area, including loans to enterprise zones. Table 6 below shows a summary of the NEIF activity in 2018/2019.

Table 6: Summary of North East Investment Fund (NEIF) Activity 2018/19

	Grants Paid	Loans Advanced	Total Payments 2018/19	Interest Repayments 2018/19	Principal Repayments 2018/19	Total Repayments 2018/19
	£000	£000	£000	£000	£000	£000
Growing Places Fund					1,027	1,027
Regional Growth Fund				144	3,082	3,227
Loan to Hellens , re Monkton Business park		1,071	1,071			
Loan Contribution to North East Property Fund		2,750	2,750			
Total	-	3,821	3,821	144	4,109	4,253

Capital Investment

Capital investment during the year totalled £98.896m. This is lower than the 2017/18 figure of £111.36m, which included a higher level of Local Growth Fund schemes and the revised estimate for the year of £100.994m. This consisted of capital expenditure on the Authority's own assets,

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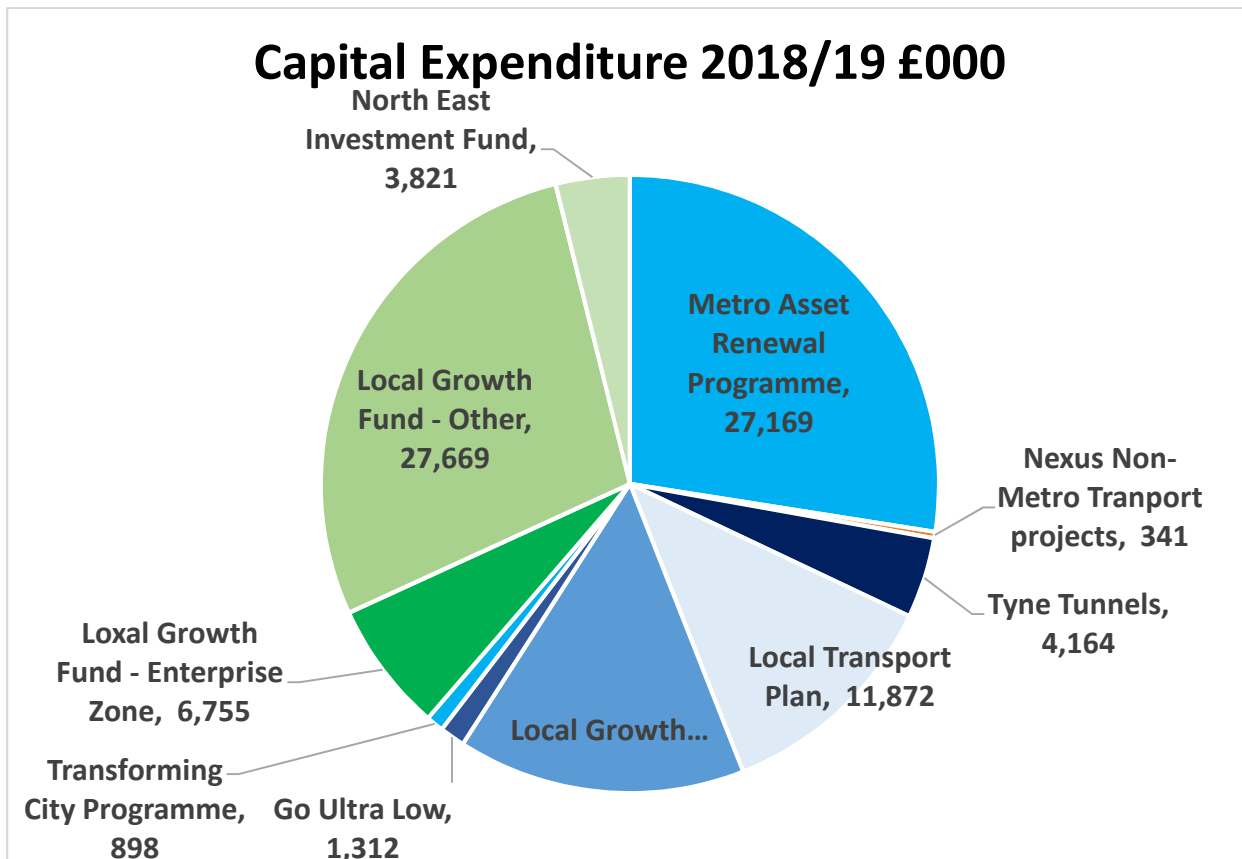
capital expenditure via capital grants to third parties and long-term capital loans to third parties. An analysis of capital investment by programme are shown in the following table and chart, together with a listing of the larger projects.

Table 7: Capital Expenditure by Programme

	2018/19 £000	2018/19 %
Metro Asset Renewal Programme	27,169	27.5%
Nexus Non-Metro Transport projects	341	0.3%
Tyne Tunnels	4,164	4.2%
Local Transport Plan	11,872	12.0%
Local Growth Fund Transport	14,895	15.1%
Go Ultra Low	1,312	1.3%
Transforming City Programme	898	0.9%
Loxal Growth Fund - Enterprise Zone	6,755	6.8%
Local Growth Fund - Other	27,669	28.0%
North East Investment Fund	3,821	3.9%
Total Funding	98,896	100.0%

Included within the Local Growth Fund – Enterprise Zone Programme (LGF) is £6.7m expenditure on the Follingsby Enterprise Zone infrastructure project, which was approved by the North East LEP Board in March 2019 and was temporarily funded from LGF grant/swap monies, as part of funding swap to make full use of LGF grant available and to reduce interest costs to the Enterprise Zone account, with an equivalent amount to be repaid to the LGF Programme from Gateshead Council in future years.

Chart 1: Capital Expenditure by Programme



The largest area of capital expenditure is in relation to Transport, reflecting the NECA's responsibilities as the accountable body for the North East Joint Transport Committee. Activity on Economic Assets and Infrastructure and Economic Development continues to grow, building on strong performance in 2017/18, and includes Local Growth Fund and the North East Investment Fund.

A selection of the significant by value capital projects / programmes under each thematic area are set out below (figures in brackets represent capital investment in the year funded by NECA sources).

Economic Assets and Infrastructure

- LGF – International Advanced Manufacturing Park (IAMP) (£13.8m)
- LGF – Gateshead Quays (£1.66m)
- LGF – Follingsby Enterprise Zone Infrastructure (£6.7m)
- LGF – A1 Junction 61, Bowburn – Integra 61 (£1.1m)
- LGF – North East Rural Growth Network (£1.0m)
- NEIF – Monkton Business Park loan (£1.07m)
- NEIF - Property Portfolio (£2.75m)

Innovation

- LGF – Newcastle Helix – Low Carbon Energy Centre and Heat Network (£2.0m)
- LGF – National Centre for Healthcare Photonics (Stage 2) (£5.5m)

Transport and Digital Connectivity

- Metro Asset Renewal Programme (£24.2m) (Tyne & Wear – Nexus)
- Local Transport Plan – Grants to Local Authorities (£14.0m)
- Transforming Cities Grant – Barras Bridge (£0.8m)
- LGF – Six Majors – A1058 Coast Road (£0.6m)
- LGF - Six Majors – South Shields Transport Interchange (stage 2) (£6.0m)
- LGF - Six Majors – Horden Rail Station (£0.6m)
- LGF – Traffic Movements A185/A194/A19 (The Arches) (£4.4m)
- LGF – South Shields Metro training and maintenance Skills Centre (£2.96m)
- LGF – A19 North Bank of Tyne Swans Phase 2 (£2.23m)
- LGF – Local Sustainable Transport Fund Programme (£0.7m)
- LGF – Northern Access Corridor Newcastle (£0.5m)
- Tyne Tunnels Capital Programme (£4.16m)

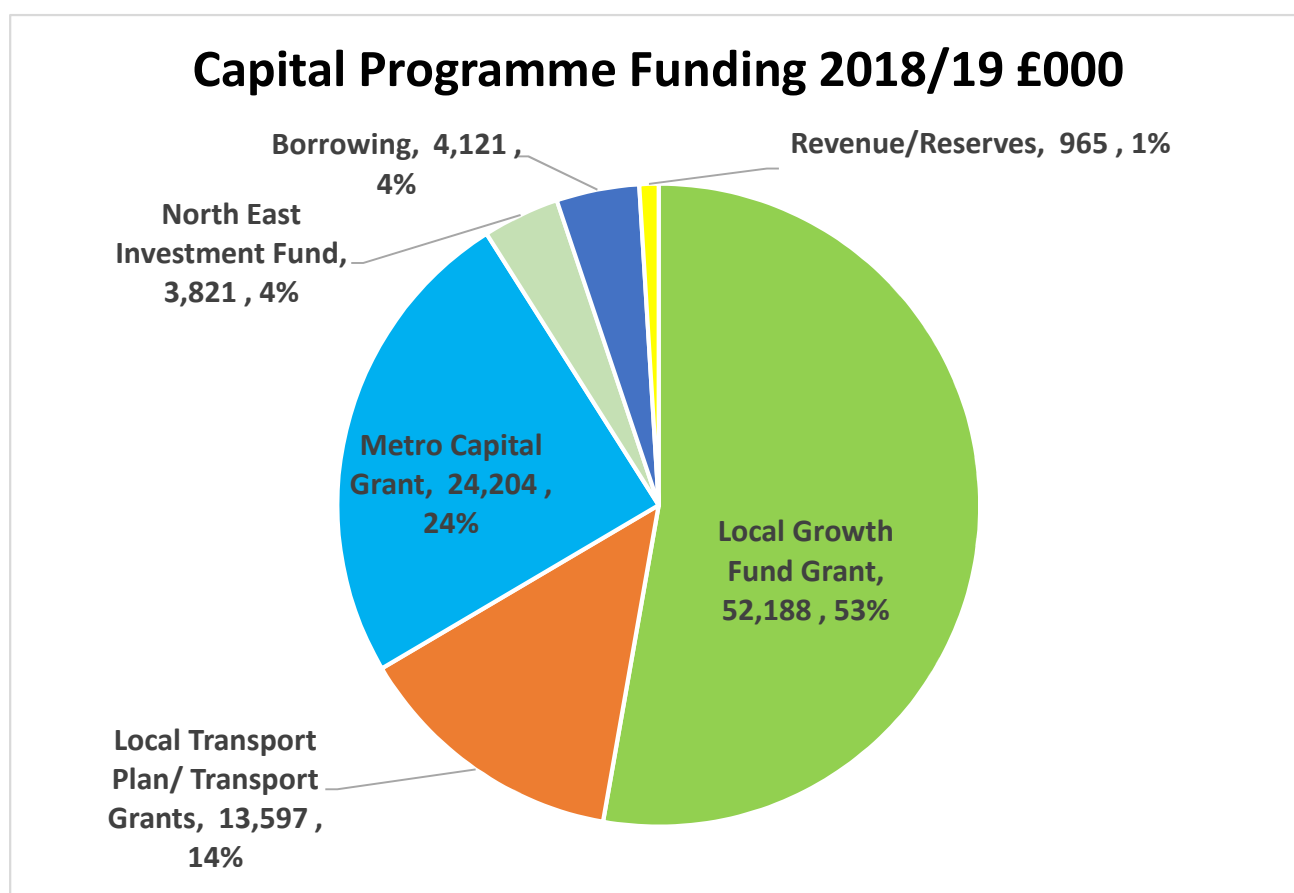
A summary of how this capital investment was financed is shown in the following table:

Table 8: Capital Funding 2018/19

	2018/19	2018/19
	£000	%
Local Growth Fund Grant	(52,188)	52.8%
Local Transport Plan/ Transport Grants	(13,597)	13.7%
Metro Capital Grant	(24,204)	24.5%
North East Investment Fund	(3,821)	3.9%
Borrowing	(4,121)	4.2%
Revenue/Reserves	(965)	1.0%
Total Funding	(98,896)	100.0%

Funding from borrowing relates to part of the £6.0m funding of the Tyne Pedestrian and Cycle Tunnels, which was initially approved as being funded from borrowing and will be financed from Vehicle Tunnel Toll income in future years. The use of borrowing increased the capital financing requirement, although no additional external borrowing was undertaken during the year.

Chart 2: Capital Expenditure by Funding Source



6. Treasury Management

The Balance Sheet on page 8 of the accounts shows external borrowing of £93.973m at the end of the year, which is split between short term borrowing £1.288m and long term borrowing £92.685m, after the allocation of part of the transport borrowing to NTCA accounts. Table 10 shows that the combined total of borrowing at 31 March 2019 in both the NECA and NTCA accounts was

£168.645m, compared with £169.326m at 31 March 2018. The decrease is due to the regular principal repayments made on Equal Instalment of Principal (EIP) loans. The average rate of interest on external borrowing for the year was 4.3%, which is comparable with the previous year.

The Balance Sheet also shows short term external investments of £93.0m (consolidated) and £65.281m in the NECA accounts at the end of the year compared to £72.0m at the end of the previous year. The total of investments included £51m of investments held on behalf of Nexus, with a further £7m cash equivalents. The increase in investments in 2018/19 compared to the previous year is primarily due to the receipt of more grants in advance; the growth in reserves, such as the Metro fleet replacement reserve, NEIF funds; and an increase in investment income held on behalf of Nexus.

7. Debtors

The Balance Sheet in table 10 shows short term debtors of £11.926m at the end of the year compared to £16.575m at the end of the previous year. In the NECA accounts on Page 8 the balance is £11.926m. These balances mainly relate to interest and principal repayments due within 12 months on loans issued and business rates income from enterprise zones and are analysed in more detail in Note 14 on page 33 in the accounts.

8. Creditors

The Balance Sheet summary in Table 10 on shows short term creditors of £81.0m at the end of the year compared to £77.8m at the end of the previous year. These balances are analysed in more detail in Note 17 on page 33 in the accounts. The main reason for the increase is an increase in the creditor which represents balances owed to Nexus for investments placed on their behalf (£58m total creditor). The balance in the NECA accounts is £51.118m.

9. Pensions Costs

The Authority is an employer in the Tyne and Wear Pension Fund (the pension fund), which is part of the Local Government Pension Scheme (LGPS), which provides defined benefits based on members' final pensionable salary and years of service. In accordance with IAS19, the Authority is required to value all pension liabilities that have accumulated at the end of the year consisting -

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

IAS19 also requires the Authority to value all investments held by the pension fund at market value at the end of the year.

When assets and liabilities at year-end are compared this results in a surplus or deficit.

NECA has two types of pension liabilities – described as funded and unfunded. Funded pension liabilities are within the LGPS and are backed by assets attributable to the Authority. For the funded element of the scheme, the NECA pension fund is in a notional surplus position amounting to £9m, at 31 March 2019, compared with £7m last year. This reflects the decision of the former Tyne and Wear ITA to make a lump sum payment to clear its pension deficit in December 2013, and the high employers' contribution rate on employee costs paid in recent years. This approach has given significant increases in the value of assets in the fund, well above the levels of return that could have been achieved by the Authority itself, and also significant savings in the revenue budget.

For accounting purposes this surplus is limited to nil on the NECA balance sheet because, under existing Pension Fund arrangements, the Authority is not able to “withdraw” the surplus from the Fund. It gets a benefit from the surplus in the form of savings on employers’ pension contributions for current employees, which has enabled significant savings on the revenue budget particularly in relation to the North East LEP.

Unfunded or discretionary benefits e.g. early retirement awards sit outside the Authority’s funded part of the scheme and are therefore not backed by assets and must be paid as incurred on a monthly basis. These costs all relate to former Tyne Tunnels employees and are paid from the Tyne Tunnels revenue account, at a cost of approximately £50k in 2018/19. At the end of the year there was a pension fund deficit of £0.900m and this is disclosed on the Balance Sheet on page 8. This compares with a deficit of £0.960m at the end of the previous year.

Further disclosures related to the pension fund are included in Note 19 from pages 35-39 of the Statement of Accounts.

10. Net Assets

Total net assets have increased from £163.599m at 31 March 2018 to £174.471m at 31 March 2019, which after excluding the assets to be included in the NTCA accounts resulted in net assets in the NECA accounts of £114.283m at 31st March 2019. The increase in total net assets is due to an increase in fixed assets; a reduction in outstanding debt; and the receipt of additional capital grants (e.g. Transforming Cities grant).

11. Group Results

The Group Accounts included as part of the Statement of Accounts fully incorporate the results of Nexus (The Tyne and Wear Passenger Transport Executive). More details can be found in Group Note 1 on page 74.

The NECA Group results show a surplus for the year of £3.077m, mainly as a result of the significant surplus within the NECA single entity accounts as described previously in this document. The net assets of the Group stood at £360.087m at 31 March 2019 (£607.855m at 31 March 2018), with the reduction being due to the allocation of part of the Group Accounts to the NTCA in line with population. Comparing the total (NECA and NTCA) position against the 31 March 2018 comparator shows an increase in net assets and reserves from £607.855m to £615.593m, as shown in Table 11.

The accounts of the Nexus Group (including North East Metro Operations Limited – NEMOL) show a loss for the year after grants and taxation of £12.547m. This is lower than the loss reported in the prior year of £20.047m. The main cause of the variation is the increased pension liability following the incorporation of NEMOL incurred in the prior year.

The Nexus Group management accounts as presented internally and to North East Joint Transport Committee reported a surplus of £0.924m before taxation and after movements in capital reserves.

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The surplus can be compared to the budget for the year as follows:-

	Actual £m	Budget £m	+/(-) £m
Income	(50.596)	(54.023)	(3.427)
Revenue Support Grants	(56.367)	(56.367)	-
Other Revenue Grants	(26.854)	(26.854)	-
Other income	(25.577)	(25.010)	0.567
Service expenditure	156.761	159.566	2.805
Loan interest	1.709	1.713	0.004
	(0.924)	(0.975)	0.051

A reconciliation between the Nexus management accounts and the surplus as reported in the Comprehensive Income and Expenditure Statement is included in the Nexus Expenditure and Funding Analysis, and also within Note 5 to the Nexus accounts.

The balance of Nexus usable reserves stands at £49.2m at the end of the year, of which £10.5m is potentially available to allow the protection of services during the transition to a balanced budget in the medium term.

During the year Nexus invested £29.5m of capital expenditure in public transport in Tyne and Wear which was funded primarily by central government grants.

The liquidity of Nexus remained strong with net current assets of £68.8m, adequate to cover both short-term fluctuations and future commitments from usable reserves.

The Nexus accounts are divided between NTCA and NECA accounts (after elimination of intra-Group transactions), with the balance sheet information at 31 March 2019 allocated between the two Combined Authorities in proportion to their relative share of Tyne and Wear Population – 55.723% in NECA accounts and 44.277% in the NTCA accounts.

12. Accounting Developments

The main changes in the current year are as follows:

- **Implementation of the Devolution order, changing the membership of NECA from 2nd November 2018.** NECA commissioned Deloitte to provide independent accounting and reporting advice regarding how the reconfiguration of NECA should be reflected in its financial statements. The advice concluded that the transfer of services set out in the Order should be accounted for as a transfer by absorption. This means that NECA should account for the transactions under its control up to the date of the reconfiguration albeit with clear disaggregation of the financial results relating to the functions being transferred; and assets and liabilities should transfer at book value.

Under the CIPFA Code, the JTC meets the definition of a 'joint operation', which determines its accounting treatment. Where a Joint Committee is accounted for as a Joint Arrangement each Joint Operator (in this case NECA and NTCA) must account for their own share of the assets, liabilities, revenues and expenses held or incurred jointly in their own single entity financial statements. In order to comply with the CIPFA Code, NECA must:

1. Split the revenues between that which relates to NECA and NTCA. In this case the constitution of the JTC and its funding arrangements suggests that, in the first instance, the revenues should be divisible into that which relates to Northumberland (allocated wholly to NTCA), that which relates to Durham (allocated wholly to NECA) and that which relate to Tyne and Wear (requires further division into NECA and NTCA).
2. The revenues which relate to Tyne and Wear must then be divided into that which relates wholly to Newcastle and/or North Tyneside (allocated to NTCA), that which relates wholly to Gateshead, South Tyneside and/or Sunderland (allocated to NECA) and that which relates to activities not wholly attributable under the preceding two points which requires apportionment.

The Order gives no clear instruction on the basis of division of revenues, but the Deed of Cooperation made on 4 July 2018 between the seven local authorities in the area provides that “those costs and liabilities which are attributable to the exercise of functions exclusively in the area of the Tyne and Wear Authorities...shall be shared between the Tyne and Wear Authorities on a per capita basis relating to their resident populations at that time.” By similar rationale, the division of assets and expenditure incurred will also be divided on this basis.

- **Faster Closure of Accounts** – the deadline for faster closure of accounts was brought forward from 2017/18 to the 31st May (previously 30th June) for preparation and sign off by the Chief Finance Officer, and for approval and publication of financial statements with audit opinion by 31st July (previously 30th September). This was a major challenge for NECA in 2017/18 and was only just achieved, with additional support from our external Auditors. The NECA accounts now need to be closed and audited at least a week earlier than the statutory deadline so that accounting information relating to Transport activity can also be reflected in the accounts of NTCA. Given the changes to the format of the accounts and the complexity of the in year changes this is an even greater challenge.

13. Dividing Assets and Liabilities between NECA and NTCA in the accounts.

The new Orders require the Transport assets of the North East Joint Transport Committee to be accounted for separately in the accounts and balance sheets of the two Combined Authorities. As the Transport Assets and Liabilities are related to Tyne and Wear activities, the transport accounting balances at the 2nd November 2018 and at 31st March 2019 are divided between the two Combined Authorities on the basis of relative population for the year. For the 2018/19 accounts the mid-year estimated population published by the Office of National Statistics as at June 2016 is used, which is the basis on which the Transport Levy payments for the year are required to be calculated. The calculation of the proportion used to allocate the figures in the accounts at both 2nd November 2018 and 31 March 2019 is shown in Table 9 below.

Table 9 - Population used to allocate Transport Assets/Liabilities between NECA and NTCA

	Mid-Year 2016 Population	Proportion
	People	Proportion
NECA		
- Gateshead	201,592	
- South Tyneside	149,418	
- Sunderland	277,962	
	628,972	0.55723
NTCA		
- Newcastle	296,478	
- North Tyneside	203,307	
	499,785	0.44277
Tyne and Wear Total	1,128,757	1.00000

As the Accountable body for Transport of the North East Joint Transport Committee, NECA accounts for and reports the whole of the transport activity for the year for budget and monitoring/reporting purposes. The previous sections of the report have provided the total information for the whole area of the Joint Transport Committee to enable comparison to be made with previous years.

However, in the Accounts for the 2018/19 year, each Combined Authority must only show the relative proportion of assets and liabilities for its area. The detailed accounting statement for NECA reflect the totality of the figures as at 1 April 2018, when NECA included all seven of the councils in the Joint Transport Committee and reports figures at 2nd November 2018 and 31st March 2019 which includes the relevant population proportion (0.55723) of the Tyne and Wear Transport accounting information.

NECA is the accountable body for the North East LEP and reports their assets and liabilities in their entirety in the accounts. NECA also accounts for the entirety of the Inwards Investment North East Team and accounts for the totality of its activity.

The General Fund Reserve of NECA was originally created by equal contributions from each of the seven local authorities. The reserve increased from £0.311m at the start of the year to £0.340m at the year end. A repatriation of reserves to North of Tyne Council will take place once the accounts for 2018/19 have been completed and costs of transition and devolution have been provided for. It is estimated that the net NECA general fund reserve after repatriation of funds would be approximately £0.22m. A final calculation and repatriation will take place in the summer after the accounts for 2018/19 are audited.

14. Looking Ahead

NECA appointed new Statutory officers in February 2019, who took up their roles with effect from 1 April 2019. It will continue to be the accountable body for the Joint Transport Committee, and it is expected (under the Deed of Co-operation) that it will transfer its responsibilities as the accountable body for the North East LEP, to NTCA later in 2019/20, once a formal decision on the choice of accountable body is taken by the North East LEP.

The Interim Chief Finance Officer for NECA during 2018/19 was Paul Woods and the new Chief Finance Officer for NECA from 1 April 2019 is John Hewitt. The Deputy Chief Finance Officer is Paul Darby. Paul Woods provided financial assurance to the new Chief Finance Officer during the

preparation for the 2018/19 accounts. The detailed accounts themselves were prepared by Eleanor Goodman, who will continue as the Principal Accountant for NECA.

During 2019/20 the existing accounting systems used by NECA will continue to be used until alternative solutions are found for future years.

The focus for 2019/20 and beyond is on supporting the existing objectives of the NECA, the objectives of the North East Joint Transport Committee, in particular, the Transport objectives, and delivering the objectives of the North East Strategic Economic Plan (SEP), while completing transitional arrangements relating to the changes in role and responsibility.

The 2019/20 net revenue budget was agreed by the Leadership Board on 5th February 2019 and was made up of several elements. The NECA share of overall JTC Transport Revenue Budget of £82.8m was £49.6m and other contribution of £0.4m for non-transport costs. A capital programme for the year totalling £142m (including over programming) including Transport and non-transport schemes was set over the whole of the JTC and North East LEP area. Future reports will also identify the capital programme elements covering the NECA area.

NECA activity for the year ahead falls into three key themes: Transport; Employment and Skills; and Economic Development and Regeneration. These are discussed in more detail below.

Transport

Transport is seen as a key driver of growth and the strategic alignment of transport within economic growth strategies emphasises a clear link between transport and skills, housing and economic prosperity. The Transport North East Committee and now the new North East Joint Transport Committee (JTC) has supported political leadership at the highest level on strategic transport planning, set within the context of the wider economic strategy for the area. NECA facilitated greater co-operation amongst regional and local partners which has resulted in improvements to the region's public transport network, increased opportunity to address congestion on the local road network, and a step change in information and ticketing provision for the travelling public. Since the publication of the SEP in 2014, NECA and North East LEP have continued to develop collaborative working arrangements across the region and provide a single approach to transport.

Transport activity is focused on providing leadership and a united voice on key strategic transport issues; representing the North East on transport issues of national significance; coordinating the area's public transport network; and managing the transport investment programme. NECA produced and consulted on the Transport Manifesto setting out the vision and objectives for transport in the area. This will feed into the Transport Plan, which will be developed under the Governance of the new Transport Joint Committee, which has delegated powers from NECA and the new North of Tyne Mayoral Combined Authority. NECA has been appointed as the accountable body for the Transport Joint Committee.

During 2018/19, Nexus commenced the procurement of a train manufacturer who will design and build 42 Metro trains (84 carriages in total) and a new maintenance depot, which will be built on the existing Metro depot site in Gosforth. The new fleet will offer greater reliability while delivering improved comfort and convenience for passengers; air conditioning, digital connectivity, phone charging points and a linear seat layout to create more space for wheelchairs, standing room and luggage. The preferred supplier will be selected during 2019, with the first new trains expected to arrive from the end of 2021.

News of the Government grant funding of £337m to fund the fleet and a new depot had been accounted on 22 November 2017 in the Chancellor's budget speech, with Nexis having to provide

£25m of match funding. Nexus had identified a £15m capital reserve in their accounts and three annual contributions of £3.333m are being made from the revenue account to provide the remaining £10m needed. At 31 March 2019 £6.694m of this funding (including some interest) is shown split between the NECA and NTCA accounts.

Nexus' overall budget proposal for 2019/20 will allow it to maintain frontline services despite a £0.7m cash reduction in the grant it receives from the Joint Transport Committee. This is possible because of a combination of permanent savings being achieved in the current year, further planned efficiency savings next year and the application of reserves which will be augmented this financial year-end as a result of the positive outturn for 2018/19.

NECA Transport Team activity for 2019/20 includes strategy development, the coordination of bids and regional initiatives, continuous development of the transport pipeline and programme management of the transport investment programme. The team will continue to represent the North East at an interregional and national level including engagement with Transport for the North, liaison with Government and other national agencies and NECA representation on strategic rail partnerships. A key activity for 2019 is the development and submission of two major transport bids – Tranche 2 of the Transforming Cities Fund transport bid for a major grant (of over £300m) to be spent over the next four years and a Mobility Zone Transport bid.

Employment and Skills

NECA and its constituent authorities, in partnership with North East LEP, and local education organisations deliver against the Employability and Inclusion and Skills themes of the Strategic Economic Plan (SEP) for the North East. NECA's and North East LEP's objective is to ensure that economic growth benefits the whole of the North East, delivering an increase in the economic participation rate and closing the gap in performance with the national average. Key themes of work revolve around raising attainment; implementing a responsive skills system; tackling social exclusion and improving employment prospects.

Looking ahead the key elements of activity for the Skills theme include –

- *Adult Education Budget (AEB) devolution.*
- *Skills Support in the Workplace*
- *Apprenticeship Growth Partnership 3.4*
- *Skills Consultations*
- *Skills Advisory Partnership (SAP)*
- *Work Discovery Weeks – All authorities have differing forms of Business / School engagement*

Looking ahead the key elements of activity for the Employment theme include –

- *Work & Health Programme (WHP)*
- *European Social Fund (ESF) grant utilisation and future funding programmes*
- *Employment resilience Intensive Personalised Employment Support (IPES)*
- *Mental Health Trailblazer (MHT) future activity*
- *Access to work*

These areas of activity will be reported to the NECA Leadership Board through Thematic updates.

Economic Development and Regeneration

The Economic Development and Regeneration Portfolio focuses on overseeing the coordination of inward investment activity and providing the right environment and infrastructure for attracting and embedding investment.

The North East Enterprise Zone sites provide specific additional benefits to businesses and room to grow and are central to NECA's and North East LEP's plans to create 'more and better jobs'. A key focus is on completing the infrastructure works that will enable the development of the Enterprise Zone sites that are now live will provide opportunities for business growth and inward investment aimed at increasing employment in the region.

Co-operation between North East LEP and its constituent authorities secured the £120m European funded JEREMIE 2 financial support for Business fund, which is now operational. There will be continued activity to deliver JEREMIE 2 and to explore options for further support for Business.

Risks and Uncertainties

NECA's Strategic Risk register sets out the high level risks covering the overall Authority. Specific risks relating to themes within the Strategic Economic Plan are monitored within the themes, and Nexus reports risks to the Joint Transport Committee Tyne and Wear Sub-Committee. Strategic Risks are recorded, monitored and reported to the Audit and Standards Committee at 3 monthly intervals.

The summary below shows NECA's Strategic Risk register 'Risks at a glance' summary, which was reported to the Audit and Standards Committee in April 2019.

Risks at a glance		
Risk Title & Description	Risk Priority	Direction of Travel
NECA Corporate Risks		
Effectiveness The future effectiveness of the North East Combined Authority may be affected by the new devolution arrangements operating North of Tyne.	Amber 8	Static
European Funding 2014-2020 Failure of the North East LEP area which covers the 7 Local Authorities to secure the full notional funding allocated to the North East through European Structural and Investment Funding (ESIF) programmes (circa £500m) by 2021 which would significantly impact on the delivery of the Strategic Economic Plan.	Amber 9	Static
Operational Capacity and Resourcing The North East Combined Authority is unable to demonstrate to Government and partners that it has the necessary operational capacity, skills and budget, to successfully deliver the Authority's objectives.	Red 12	Improving

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North East LEP Risks		
<p><u>Operational Capacity and Resourcing</u> Medium term operational budget may not be sufficient to maintain the current capacity within the team to lead the delivery of the Strategic Economic Plan (SEP) and to react to the impact of Brexit due to multiple short-term funding sources.</p>	Amber 8	Static
<p><u>Increase in the role and scope of LEPs by Government with no new resource to support the additional responsibility(ies)</u> Government fails to allocate sufficient operational budgets if they increase the role, scope and remit of LEP activity through changes in national policy, and in particular the national LEP Review.</p>	Red 12	Static
<p><u>Government Capital Funding</u> Government capital funding to replace Local Growth Funding (LGF) may be insufficient to support the delivery of the strategic projects within the SEP and the Local Industrial Strategy (LIS).</p>	Red 12	Static
<p><u>European Funding</u> Failure of the North East LEP area to secure the notional funding (circa £500m) allocated to the North East through European Structural and Investment Funding (ESIF) programmes which significantly impacts on the delivery of the Strategic Economic Plan.</p>	Amber 9	Static
<p><u>North East devolution</u> The LEP area covers 7 local authorities. The LEP area is unique in England to have more than one combined authority which may impact on SEP and Local Industrial Strategy delivery as governance structures and the accountable body status are reviewed.</p>	Red 12	Static

15. The Statement of Accounts

The Statement of Accounts is set out in the accompanying document, they consist of the following statements that are required to be prepared under the Code of Practice:

Movement in Reserves Statement (Statement of Accounts page 4)

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

Comprehensive Income and Expenditure Statement (Statement of Accounts page 6)

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

Balance Sheet (Statement of Accounts page 8)

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

The balance sheet in the accounts follows the format advised by independent advisers Deloitte to follow proper accounting practice and discussed with our external auditors. It reflects the starting balances for NECA as they were in the accounts for 2017/18, at 31 March 2018 and the closing balance for NECA as it is now constituted, after the allocation of accounting entries relating to transport for NTCA. It does not make it easy to understand the full impact of changes at a total level for the year.

The following statements provides an illustration of the Balance Sheet showing the full consolidated accounts for both NECA and the elements that have been transferred to NTCA as they would have been shown at 31 March 2019, in a way which was comparable with the services included in the balance sheet for NECA at 31 March 2018. This highlights the changes that occurred at a consolidated level in this very unusual transitional accounting year.

Table 10 - Illustration of a Consolidated balance sheet, comparable with 31 March 2018

31 March 2018	Balance Sheet Analysis	31 March 2019		
		Consolidated	NTCA	NECA
£000		£000	£000	£000
352,143	Property, Plant & Equipment	353,630	156,578	197,051
53,769	Long Term Debtors	49,073	16,402	32,671
405,912	Long Term Assets	402,702	172,980	229,722
72,000	Short Term Investments	93,000	27,719	65,281
16,575	Short Term Debtors	12,891	965	11,926
22,231	Cash and Cash Equivalents	20,761	9,041	11,720
110,806	Current Assets	126,652	37,725	88,927
(2,326)	Short Term Borrowing	(2,312)	(1,024)	(1,288)
(77,867)	Short Term Creditors	(81,034)	(29,916)	(51,118)
(2,328)	Grants Receipts in Advance	(1,709)	(503)	(1,205)
(5,092)	New Tyne Crossing - Deferred Income	(5,092)	(2,255)	(2,838)
(87,613)	Current Liabilities	(90,147)	(33,698)	(56,449)
(96,753)	New Tyne Crossing - Deferred Income	(91,661)	(40,585)	(51,076)
(167,000)	Long Term Borrowing	(166,333)	(73,648)	(92,685)
(793)	Grants Receipts in Advance	(225)	(100)	(125)
(960)	Pension Liability	(900)	-	(900)
(265,506)	Long Term Liabilities	(259,119)	(114,333)	(144,786)
163,599	Net Assets	180,089	62,674	117,413
	Usable Reserves			
(32,808)	General Fund	(32,474)	(9,644)	(22,830)
(14,651)	Earmarked	(16,831)	(7,039)	(9,792)
(682)	Capital Receipts	(2,502)	-	(2,502)
(7,727)	Capital Grant Unapplied	(15,840)	(4,167)	(11,673)
(55,877)	Total	(67,647)	(20,850)	(46,797)
(107,722)	Unusable Reserves	(112,442)	(41,825)	(70,617)
(163,599)	Total Reserves	(180,089)	(62,675)	(117,413)

Cash Flow Statement (Statement of Accounts page 9)

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

Expenditure and Funding Analysis (Statement of Accounts page 11)

The Expenditure and Funding Analysis (EFA) shows how annual expenditure is used and funded from resources (e.g. government grants and levies) by local authorities in comparison with those resources consumed or earned by authorities in accordance with generally accepted accounting practices. It also shows how this expenditure is allocated for decision making purposes between the different areas of the NECA budget. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

The EFA presented in the accounts reconciles between the amounts in the NECA Movement in Reserves Statement and Comprehensive Income and Expenditure Statement which includes the period after 2 November, when some of the transport related income and expenditure is reported elsewhere in the accounts of the North of Tyne Combined Authority. The analysis of revenue expenditure shown in Table 1 to this Narrative Report gives an overview of the totality of Joint Transport Committee income and expenditure, including elements reported in the NTCA accounts.

Group Financial Statements and Notes (Statement of Accounts pages 68 onwards)

Reports the financial picture of all activities conducted by the Authority, including those delivered through partnership and separate undertakings controlled by the Authority.

Table 11 – Illustration of Consolidated Group Balance Sheet, comparable with 31 March 2018

31 March 2018	Balance Sheet Analysis	31 March 2019		
		Consolidated	NTCA Group	NECA Group
£000		£000	£000	£000
861,545	Long Term Assets	857,880	372,034	480,228
160,375	Current Assets	160,041	54,273	106,686
(69,993)	Current Liabilities	(53,621)	(19,063)	(34,967)
(344,072)	Long Term Liabilities	(333,170)	(118,277)	(225,322)
607,855	Net Assets	631,130	288,967	326,626
(76,036)	Usable Reserves	(84,679)	(42,628)	(42,051)
(531,819)	Unusable Reserves	(530,913)	(246,339)	(284,574)
(607,855)	Total Reserves	(615,593)	(288,967)	(326,626)

16. Annual Governance Statement

To accompany the Narrative Report and Statement of Accounts, the leadership of the Authority prepares an Annual Governance Statement that sets out the principal arrangements that operate to ensure proper governance of the Authority's affairs and the stewardship of resources at its disposal. It also outlines the principal arrangements that are in place to ensure that a sound system of internal control is maintained.

17. Non-Financial Performance

The Statement of Accounts is focused on the Financial Performance of the Authority. NECA also monitors and reports its non-financial Performance, particularly in the following areas:

Economic Development and Regeneration

- Inward Investment – in the financial year 2018/19, there were more inward investments than in 2017/18 into the NECA area which will lead to the creation of additional jobs.
- Strategic Economic Plan Update – the North East LEP has worked with the local authorities, the business community and partners across the region to refresh the SEP for 2019, with the updated SEP being launched in February 2019 and can be found on the North East LEP website. Also available is the North East LEP's Annual Plan for 2019/20, which sets out what is planned to be achieved in the new year.
- Headlines are:
 - The North East is ahead of schedule to reach its 100,000 more and better jobs target before 2024. At December 2018 – over 71,500 jobs created since 2014, with 70% of these classed as 'better' higher skilled jobs.
 - The employment rate for people aged 16-64, between the North East and the rest of the country is closing. By December 2018, the gap between the North East LEP area and England (excluding London) had reduced by 34% since 2014.
 - In terms of achieving the target to reduce the gap in GVA per hour, progress by 2017 showed that the gap between the North East LEP area and England (excluding London) had reduced by 29%.

Employability and Inclusion

- DWP European Social Fund Opt-In for the North East – the programme is still at a relatively early stage of delivery (the first referrals began in January). 210 participants are being supported by the programme, 12 people to date have moved into work.
- North East Mental Health Trailblazer – the programme began to take referrals in mid-January, 99 people are currently being supported and 13 participants have moved into work.
- Generation NE – the scheme has been operational since July 2014 and the programme has supported 3250 young people of which 1600 have moved into employment (914 of those sustaining employment for 6 months or more).

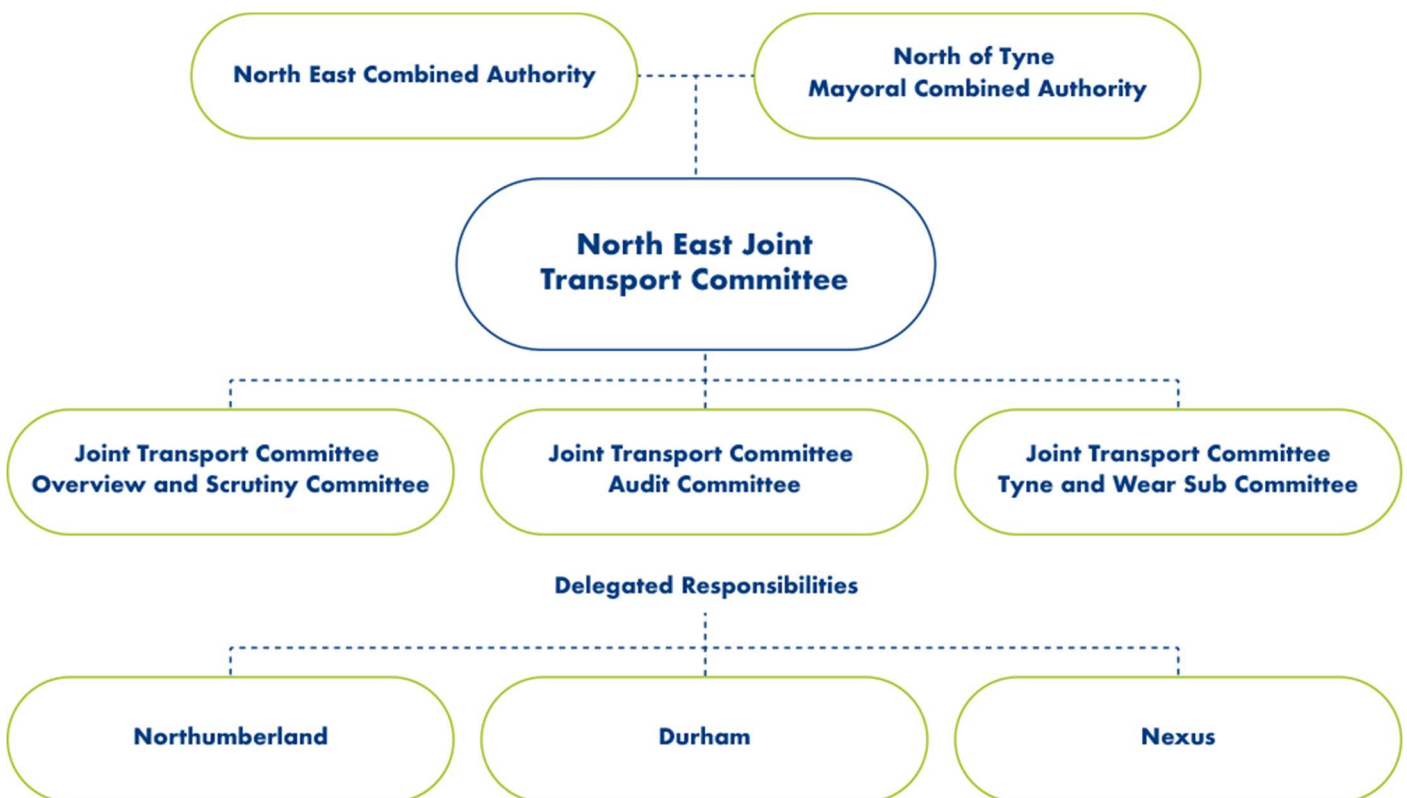
Transport

The North East Joint Transport Committee

The North East Joint Transport Committee brings together a total of seven members from each of the Constituent Authorities of the region; four Members from the North East Combined Authority and three Members from the North of Tyne Combined Authority in accordance with the Order and was created on the 2nd November 2018.

Transport is of strategic importance to the North East, and the collaborative working of both Combined Authorities allows effective decision making across the region, which ensures that the local needs and priorities are delivered.

The new structure for Transport that was established in November 2018 is shown in the diagram below.



Transforming Cities Fund

Last year we set out a vision for the Transforming Cities Fund (TCF) bid in the successful Expression of Interest (EOI), that demonstrated significant ambition and hinted at large-scale interventions:

“More sustainable connectivity, and more mobility, making sustainable transport the natural choice for people moving around our city region, banishing congestion and its polluting effects, and improving air quality and public health.”

In March 2019, the North East was awarded a £10m Tranche 1 Transforming City grant, which was the largest award in the country. Much larger bids are being prepared for submission in 2019 in relation to –

- **Future Mobility Zone proposals** The DfT's Future Mobility Zone (FMZ) funding will select areas to trial initiatives around the ability of new technology to influence future transport provision. A share of grant funding of up to £70m is available. The expression of interest was submitted to DfT on 24 May 2019. The DfT will then select six proposals from across the English city regions for further development, and we will have two months to work with the Department to develop our proposals and prepare a final submission. If successful, our Future Mobility Zone will be established in Autumn 2019.
- **Transforming Cities Fund bid Tranche 2.** Work is underway to finalise the programme of schemes that will form our Tranche 2 bid, to be submitted to the Department for Transport (DfT) in draft form in June 2019. TCF Tranche 2 is a competitive bidding process in which the North East is competing with eleven other city regions. The funding available for Tranche 2 is much larger. It is anticipated that bids in excess of £300 million will be submitted for the JTC area (the submission of high, medium and low cost options is a requirement of the bidding process). A period of 'co-development' with DfT will then take place over the months that follow, leading to a final submission in late November 2019.

Other key funding issues for future years relates to securing confirmation of the extension of Metro Rail operating grant and Metro Asset Renewal grant as well as securing A Fairer funding of concessionary travel costs. Earlier in 2019 NECA provided evidence to DfT of the growing gap between concessionary Travel funding and costs and oppose the proposed revenue funding arrangements that were being consulted upon by MHCLG. Continuing to make the case for and lobby for a **Fair Funding solution for Transport** will continue to be a priority for 2019 and future years.

Tyne Tunnels

NECA owns the Tyne Tunnels, which link the A19 under the River Tyne between Howdon and Jarrow. There are two tolled vehicle tunnels, and tunnels for both pedestrians and cyclists. The Tunnels are entirely self-financing from the tolls, i.e. there is no call on the Authority's budget or local tax payers to support them, and assets and liabilities associated with the tunnels are ringfenced to the Tyne and Wear constituent councils within the Authority. The refurbishment of the Tyne and Pedestrian Cycle Tunnel took significantly longer to complete than expected due to problems with contractors and asbestos contamination. The tunnels due to reopened in June 2019 and are expected to be fully operational in 2019/20 and the future operation of the Tunnels will be transferred to TT2 under the terms of the concession contract.

The following table of Traffic flows shows a small increase in traffic in 2018/19. The number of class 2 and exempt vehicles increased while the number of Class 1 and 3 vehicles reduced.

Table 12 – Tyne Tunnel Traffic Flow data

	Class 1	Class 2	Class 3	Exempt	Total
2018/19	171,626	14,839,928	823,469	631,444	16,466,467
2017/18	172,655	14,802,233	855,656	584,809	16,415,353
2016/17	197,688	15,705,319	951,785	605,670	17,460,462
2015/16	204,751	16,218,493	989,451	581,377	17,994,072
2014/15	195,798	15,265,379	873,270	508,444	16,842,891
2013/14	185,471	13,970,360	804,147	464,529	15,424,507

Class 1 = Motorcycles; Class 2 = Car, Van or Bus less than 3m high with 2 axles; Class 3 = HGV, Van or Bus more than 3m high or 3 axles or more; Exempt = emergency vehicles and blue badge holders

The Tolls were increased in line with inflation on 13th May 2019 from £1.70 to £1.80 for class 2 vehicles without permits (now £1.62 with a pre-paid permit) and from £3.40 to £3.60 for class 3 vehicles (now £3.24 with a pre-paid permit). Opportunities for improving the toll collection arrangements are being explored with TT2, the Tunnel concessionaire, which will potentially involve improvements over the next three years, including the potential to move to a barrier free number plate recognition system, although this is subject to the formal approval of the North East Joint Transport Committee once a detailed proposal is presented for consideration.

Tyne and Wear Passenger Transport Executive – Nexus

The North East Joint Transport Committee sets public transport policy for the region, which in Tyne and Wear is delivered operationally by NEXUS. The following indicators describe the general performance of public transport in Tyne and Wear during 2018/19.

- The number of passenger journeys across Tyne and Wear was estimated at 159.3million; a 0.8% increase when compared to 158.5million in the previous year.
- Bus Patronage increased slightly to 120.9m, a 0.5% increase compared with 120.3million in 2017/18 .
- Metro patronage remained at 36.4million in 2018/19.
- Ferry journeys increased to 436,500 in 2018/19, an increase of 3.5% compared with 422,000 journeys the year before.
- Rail passengers increased to 1.6million, an increase of 14% on the previous year's total of 1.4million.
- Metro reliability (operated mileage) was 98.5% during 2018/19, an improvement on the 97.9% achieved in the previous year.
- Metro Charter punctuality was 79.6% during 2018/19, a significant reduction compared with the 85.1% achieved in the previous year.

NECA Staffing

- Still a relatively new organisation, NECA continues to adapt and change to meet the requirements of the area, while keeping costs to a minimum. Most services are provided through Service Level Agreements.
- The new statutory officer arrangements came into operation from 1 April 2019.

Chief Finance Officer's Narrative Report 2018/19

- Movement in employee numbers up to 2018/19 mainly relates to staff supporting the North East LEP, see table (below), which mainly results from the success in securing funding for operational skills activity.

Table 13 – Change in Staffing numbers since 2015/16

	Total NECA Employees at the year end	Employed on behalf of the North East LEP
2018/19	43	39
2017/18	29	21
2016/17	21	18
2015/16	15	11

- During 2019/20 it is expected that Transport Staff in the Regional Transport Team will be transferred to NECA. After the North East LEP takes a decision on its accountable body, it is expected that the North East LEP staff will transfer to another authority, which is envisaged to be NTCA in the Deed of Co-operation. The dates for transfer have still to be confirmed. 2019/20 is therefore likely to be another transitional year until the new arrangements are fully implemented.

18. Further Information Available

Access to this report, the accounts and the Annual Governance Statement will be made available to the general public via the Authority's website. If this information is needed in another format or language please use the contact below.

If you have any problems understanding this publication, any general enquiries on the accounts or have any suggestions on how it may be improved, please contact:

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John Hewitt

Chief Finance Officer, North East Combined Authority, from 1 April 2019.