

## **Audit and Standards Committee**

Monday 22 July 2019 at 10.00am

Meeting to be held at: Committee Room, Gateshead Civic Centre,  
Regent Street, Gateshead, NE8 1HH

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## AGENDA

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### Page No

#### **1. Apologies for Absence**

#### **2. Declarations of Interest**

Please remember to declare any personal interest where appropriate both verbally and by recording it on the relevant form (to be handed to the Democratic Services Officer). Please also remember to leave the meeting where any personal interest requires this.

- |   |              |
|---|--------------|
| <b>3. Minutes of the meeting held on 2 April 2019</b> | <b>1- 6</b>  |
| <b>4. Audit Completion Report</b>                     | <b>7-10</b>  |
| <b>5. Statement of Accounts 2018/19</b>               | <b>11-14</b> |
| <b>6. Date and Time of Next Meeting</b>               |              |

10 September 2019 – Town Hall and Civic Offices, South Shields



**Audit and Standards Committee  
DRAFT MINUTES TO BE APPROVED**

**Agenda Item 3**

2 April 2019

(10.00 – 10.45am)

Meeting held at County Hall, County Durham, DH1 5UL

**Present:**

Independent Members: M Scrimshaw (Chair) and G Clark (Vice Chair)

Councillors : E Bell (Durham), G Hobson (South Tyneside), J McClurey (Gateshead),  
J Wallace (Substitute Gateshead) and A Hetherington (Substitute  
South Tyneside).

**1 APOLOGIES FOR ABSENCE**

Apologies for absence were received from Cameron Waddell (Auditor Mazars)

**2 DECLARATIONS OF INTEREST**

None

**3. MINUTES/NOTES OF PREVIOUS MEETING HELD ON 4 DECEMBER 2018**

**RESOLVED-** That the Minutes of the meeting held on 4 December 2018 be approved as a correct record and be signed by the Chair.

**Matters Arising** – The Committee had previously raised concern over the number of times the meeting had been inquorate and it had been agreed that a meeting be held to look at the possibility of appointing a further member or strategy going forward.

**RESOLVED-** That:

- (i) The Monitoring officer follow up the previous concerns with the previous monitoring officer and take the action forward.
- (ii) The Monitoring officer contact Sunderland Council to ask that a representative attend this meeting.

4. **DELEGATED AUTHORITY TO GRANT DISPENSATION TO COUNCILLORS UNDER THE LOCALISM ACT 2011**

Submitted: Report by the Monitoring Officer (previously circulated and a copy attached to official minutes)

The report provided an update on the use of the Authority delegated to the Monitoring Officer by the NECA Audit and Standards Committee on 4 December 2018 and invited the Committee to grant longer term dispensations to the Councillors who have requested them. Section 33 of the Localism Act 2011 which was appended to the report states that following a written request, the Authority may grant a dispensation but only if, after having had regard to all relevant circumstances, the authority:

- a) considers that, without the dispensation, the number of persons prohibited by section 31(4) from participating in any particular business would be so great a proportion of the body transacting the business as to impede the transaction of the business,
- b) considers that without the dispensation the representation of different political groups on the body transacting any particular business would be so upset as to alter the likely outcome of any vote relating to the business,
- c) considers that granting the dispensation is in the interests of persons living in the authority's area,
- d) [not applicable to NECA] or
- e) considers that it is otherwise appropriate to grant a dispensation.

The dispensations should be granted for a defined period not exceeding four years. The dispensations allow for effective decision-making, they will support the proper functioning of the NECA Leadership Board, its committees and the authority's governance and respect the statutory requirements. They will also provide parity of participation of all Authority Members and Substitutes across the NECA and JTC Committees and Sub Committees.

Various requests for dispensations had been received since the NECA Audit and Standards meeting on 4 December 2018 and temporary dispensations had been granted as detailed in the report.

**RESOLVED** - That the Committee:

- (i) Note that in accordance with the delegation given to the Monitoring Officer by the Committee on 4 December the following temporary dispensations were granted to:
  - a. Councillor Alan Kerr (South Tyneside Council) temporary dispensation granted 4 December 2018 expiring 30 April 2019.
  - b. Councillor Mark Walsh (South Tyneside Council) temporary dispensation granted on 19 December 2018 expiring on 30 April 2019.
  - c. Councillor Carl Marshall (Durham County Council) temporary dispensation granted 19 December 2018 expiring on 30 April 2019.
  - d. Councillor Iain Malcolm (South Tyneside Council) temporary dispensation granted 19 December 2018 expiring 30 April 2019.
  - e. Councillor John Eagle (Gateshead Council) temporary dispensation granted on 12 March 2019 expiring 30 April 2019.

(ii) Note that, in accordance with the terms of the delegation given by the Committee, the Chair was informed immediately that these temporary dispensations had been given.

(iii) approve the requests of each of the following Councillors for longer term Dispensations for a period of two years:

- a. Councillor Alan Kerr
- b. Councillor Mark Walsh
- c. Councillor Carl Marshall
- d. Councillor Iain Malcolm
- e. Councillor John Eagle

5. **ACCOUNTING POLICIES FOR 2018/19 ACCOUNTS AND CODE OF PRACTICE UPDATE**

Submitted: Report by the Finance Officer (previously circulated and a copy Attached to official minutes)

The report updated members on the key accounting changes in the Code of Practice for Local Authority Accounting (The Code) which are relevant for the preparation of 2018/19 NECA Accounts.

The majority of Accounting Policies approved in previous years remained applicable and unchanged. As a result of changes to the Code for 2018/19 it was proposed to update two policies. The changes in the Code were in relation to:

- Adoption of International Financial Reporting Standard (IFRS) 15 Revenue from Contracts with Customers and
- Adoption of IFRS 9 Financial Instruments.

The updated Accounting Policies as a result of these changes were number 2, Accruals of Income and Expenditure and number 11, Financial Instruments: Accruals of Income and Expenditure, details of which were outlined in the report.

In addition the report provided an update on the Closure of Accounts, including changes required to the presentation of the 2018/19 accounts as a result of the establishment of the North of Tyne Combined Authority.

The Committee queried whether the correct processes were in place in order to deal with the required split of revenue between the North of Tyne Combined Authority and the North East Combined Authority. The Auditor assured the Committee that in his opinion everything was in place and expected to be signed off on time.

**RESOLVED** - That the committee:

- (i) note the changes to the Code of Practice for Local Authority Accounting which apply for the 2018/19 accounts.
- (ii) reviewed the Accounting Policies presented and approved their use in the preparation of the 2018/19 financial statements.

- (iii) note the changes required to the NECA accounts for 2018/19 as a result of the creation of the North of Tyne Combined Authority

**6. EXTERNAL AUDIT PROGRESS UPDATE- AUDIT STRATEGY MEMORANDUM**

Submitted: Report by External Auditor (previously circulated and a copy attached to official minutes).

The report presented the Audit Strategy Memorandum for the North East Combined Authority for the year ending 31 March 2019 which had been produced by Mazars. The memorandum summarises the audit approach highlighting the significant audit risks and key areas of management judgement, together with the Value for money conclusion.

Given the changes to NECA, with the introduction of the North of Tyne Combined Authority advice had been taken on how the reconfiguration could be reflected in the financial statements of the North East Combined Authority. Officers were to meet with auditors in the forthcoming weeks to scope the work.

**RESOLVED-** That the Committee:

- (i) Note the External Auditor's strategy for the year ended 31 March 2019, as attached at Appendix 1.
- (ii) Receive a final report from the Auditor's at the meeting to be held in July 2019.

**7. DRAFT ANNUAL GOVERNANCE STATEMENT 2018/19**

Submitted: Report by Chief Internal Auditor (previously circulated and a copy attached to official minutes)

The Audit, Risk and Insurance Manager introduced the report which provided members with information on the outcome of the annual review of the Authority's governance and internal control arrangements. The review highlighted one area which required improvement around the Tyne pedestrian and cycle tunnels. This area for improvement would be disclosed within the 2018/19 Annual Governance Statement (AGS). A copy of the draft Annual Governance Statement was provided at Appendix 1.

**RESOLVED-** That the committee:

- (i) Agree the draft 2018/19 Annual Governance Statement narrative and consider the evidence provided to support its production.
- (ii) Acknowledge the area requiring improvement as attached to the report at Appendix A of the AGS.

- (iii) Acknowledge that the Statement would be subject to further review in July 2019, following the completion of the external audit of the accounts before it was signed by the Head of Paid Service and Chair of the Combined Authority.
- (iv) Be provided with a hard copy of the Annual Governance Statement when available.

## **8. INTERNAL AUDIT PROGRESS REPORT 2018/19 AND AUDIT PLAN 2019/20**

Submitted: Report by Chief Internal Auditor (previously circulated and a copy attached to official minutes)

The report provided members with progress against the delivery of the 2018/19 internal audit plan and information on the implementation of audit recommendations.

The outstanding recommendations relate to SLA's. The SLA between Newcastle City Council and NECA ended 31 March 2019. As the new arrangements come into effect for 2019/20 it is envisaged that new SLA's will be developed to take into account those highlighted in the audit recommendations.

The Committee expressed some concern over how long it was taking to resolve the issues in the SLA's presented. The new Finance Officer assured the Committee that he had been asked to formalise the SLA's and that he would present updates to the Committee on progress.

**RESOLVED** - That the committee:

- (i) note the current position regarding the 2018/19 audit and
- (ii) the Finance Officer present an update on the position with regards to the SLA's to the next meeting of the Committee.

## **9. STRATEGIC RISK REGISTER**

Submitted: Report by Chief Internal Auditor (previously circulated and a copy attached to official minutes).

The report provided members with an update of the Strategic Risks for the North East Combined Authority. The risk had been updated to acknowledge the establishment of the North of Tyne Combined Authority and the arrangements for regional transport, which are delivered through the North East Joint Transport Committee bringing together all seven Constituent Authorities. Statutory officers and deputies have been appointed to their new positions and work is underway to review the resource requirement for the new Combined Authority.

The risk description had been strengthened to acknowledge the uncertainties around future funding opportunities beyond European Structural and Investment Funding. The Government had given assurances that projects that were contracted before the Brexit deadline will be honoured, however consultation documents expected from Government have been delayed due to the Brexit negotiations.

The Committee questioned how the work with the LEP would continue given the split of Combined Authorities. The Officers informed the Committee that the Chief Executives

and the Leaders have agreed a level of commitment to work with the LEP.

**RESOLVED-** That the update on the strategic risk review be noted.

10. **DATE AND TIME OF NEXT MEETING**

The future dates will be confirmed by NECA Leadership Board at the Annual General Meeting in June 2019.

**RESOLVED-** Once draft dates become available they be circulated to the current members of the Committee.



## **Audit and Standards Committee**

**Date:** 22 July 2019

**Subject:** Audit Completion Report

Agenda Item 4

**Report of:** External Auditor

### **Executive Summary**

This report presents the Audit Completion Report for 2018/19, as prepared by the North East Combined Authority Auditors (Mazars).

The External Audit is largely completed but is still ongoing. Subject to the satisfactory completion of outstanding work, at the time of issuing the report the auditors have come to the following conclusions:

- An unqualified opinion on the financial statements, without modification, is anticipated to be issued once the outstanding work is completed;
- The auditors anticipate concluding that NECA had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.

The auditors anticipate completing work on the Whole of Government Accounts (WGA) submission in line with the group instructions issued by the National Audit Office by the deadline of 13 September 2019 and anticipate reporting that the WGA submission is consistent with the audited financial statements.

### **Recommendations**

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

## **Audit and Standards Committee**

### **1. Background Information**

- 1.1 The Audit Completion Report for 2018/19 prepared by the North East Combined Authority external auditor is attached as Appendix 1.
- 1.2 The Audit and Standards Committee will consider the 2018/19 Statement of Accounts, Annual Governance Statement and the reports of the External Auditor at its meeting on 22 July 2019, and comments arising from that consideration will be provided to the Leadership Board at its meeting on 23 July 2019.

### **2 Proposals**

- 2.1 On 23 July 2019 the Leadership Board will be recommended to consider the Audit Completion Report submitted by Mazars as external auditors to the NECA and to take their findings into account in their consideration of the Statement of Accounts for 2018/19 for approval. The view and observations of the NECA Audit and Standards Committee consideration of these matters will also be taken into account as part of this.

### **3. Reasons for the Proposals**

- 3.1 The Audit Completion Report is presented to the Audit and Standards Committee for consideration.

### **4. Alternative Options Available**

- 4.1 The report is presented for information.

### **5. Next Steps and Timetable for Implementation**

- 5.1 The Statement of Accounts must be audited and published online by 31 July 2019.

### **6. Potential Impact on Objectives**

- 6.1 There are no impacts on objectives arising from this report.

### **7. Financial and Other Resources Implications**

- 7.1 The costs of the external audit are set by Public Sector Audit Appointments and were included in the budget for 2018/19. There are no financial or other resources implications arising from this report.

## **Audit and Standards Committee**

### **8. Legal Implications**

- 8.1 There are no legal implications arising from this report. It is a requirement of the Local Government Act 2003 and the Accounts and Audit (England) Regulations 2015 for the Statement of Accounts to be produced in accordance with proper accounting practices.

### **9. Key Risks**

- 9.1 An assessment of the authority against key accounting risks is set out in the External Auditor's report attached here as Appendix 1.

### **10. Equality and Diversity**

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

### **11. Crime and Disorder**

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

### **12. Consultation/Engagement**

- 12.1 The Statement of Accounts was subject to a period of public inspection from 3 June to 12 July 2019. No enquiries or objections were raised during this time.

### **13. Other Impact of the Proposals**

- 13.1 There are no other impacts arising from these proposals.

### **14. Appendices**

- 14.1 Appendix 1: Audit Completion Report

### **15. Background Papers**

- 15.1 None

### **16. Contact Officers**

- 16.1 Jim Dafter, Senior Manager Mazars LLP, 07815876042,  
[jim.dafter@mazars.co.uk](mailto:jim.dafter@mazars.co.uk)

### **17. Sign off**

## **Audit and Standards Committee**

- 17.1
- Head of Paid Service:
  - Monitoring Officer:
  - Chief Finance Officer:



# Audit Completion Report

North East Combined Authority

Year ending 31 March 2019

**neca**

North East Combined Authority

DURHAM • GATESHEAD • SOUTH TYNESIDE • SUNDERLAND

 **MAZARS**

# CONTENTS

1. Executive summary
2. Significant findings
3. Internal control recommendations
4. Summary of misstatements
5. Value for Money conclusion

Appendix A – Draft management representation letter

Appendix B – Draft auditor's report

Appendix C – Independence

Our reports are prepared in the context of the 'Statement of responsibilities of auditors and audited bodies' and the 'Appointing Person Terms of Appointment' issued by Public Sector Audit Appointments Limited.

Reports and letters prepared by appointed auditors and addressed to the North East Combined Authority are prepared for the sole use of the North East Combined Authority and we take no responsibility to any member or officer in their individual capacity or to any third party.

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NE33 2RL

18 July 2019

Dear Members

**Audit Completion Report – Year ended 31 March 2019**

We are pleased to present our Audit Completion Report for the year ended 31 March 2019. The purpose of this document is to summarise our audit conclusions.

The scope of our work, including identified significant audit risks and other areas of management judgement, was outlined in our Audit Strategy Memorandum which we presented on 2 April 2019. We have reviewed our Audit Strategy Memorandum and concluded that the original significant audit risks and other areas of management judgement remain appropriate.

We would like to express our thanks for the assistance of your team during our audit.

If you would like to discuss any matters in more detail then please do not hesitate to contact me on 0781 375 2053.

Yours faithfully

Signed: {{\_es\_:signer1:signature }}

Cameron Waddell  
For an on behalf of Mazars LLP

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# 1. EXECUTIVE SUMMARY

## Purpose of this report and principal conclusions

The Audit Completion Report sets out the findings from our audit of North East Combined Authority ('NECA') for the year ended 31 March 2019, and forms the basis for discussion at the Audit and Standards Committee meeting on 2 April 2019.

The detailed scope of our work as your appointed auditor for 2018/19 is set out in the National Audit Office's (NAO) Code of Audit Practice. Our responsibilities and powers are derived from the Local Audit and Accountability Act 2014 and, as outlined in our Audit Strategy Memorandum, our audit has been conducted in accordance with International Standards of Auditing (UK) and means we focus on audit risks that we have assessed as resulting in a higher risk of material misstatement.

Sections 2 and 5 of this report outline the detailed findings from our work on the financial statements and our conclusion on NECA's arrangements to achieve economy, efficiency and effectiveness in its use of resources. Section 2 also includes our conclusions on the audit risks and areas of management judgement in our Audit Strategy Memorandum, which include:

- Management override of controls (relevant to single entity and group accounts).
- Revenue recognition - in relation to Tyne Tunnel tolls and grant income (relevant to single entity and group accounts).
- Defined benefit liability valuation (relevant to group accounts only).

## Status of our work

As we outline on the following page, as at 18 July 2019, work in a number of significant areas remains to be completed. Subject to the satisfactory completion of the outstanding work, at the time of issuing this report we have the following conclusions:

### Opinion on the financial statements

We anticipate issuing an unqualified opinion, without modification, on the financial statements. Our proposed audit opinion is included in the draft auditor's report in Appendix B.

### Value for Money conclusion

We anticipate concluding that NECA had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources. Our draft auditor's report, including proposed conclusion, is provided in Appendix B.

### Whole of Government Accounts (WGA)

We anticipate completing our work on your WGA submission, in line with the group instructions issued by the NAO, by the deadline of 13 September 2019. We anticipate reporting that the WGA submission is consistent with the audited financial statements.

### Wider powers








The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of NECA and to consider any objection made to the accounts.






# 1. EXECUTIVE SUMMARY

## Status of our audit work

We have substantially completed our work on the financial statements and Value for Money conclusion for the year ended 31 March 2019. At the time of preparing this report the following are the main matters that remain outstanding:

Audit area	Status	Description of outstanding matters
Pensions		We have not yet received the information we require from the local government pension fund administering authority's auditor. As soon as it is received we will review it and consider the assurance and implications for our audit.
Movement in reserves statement		Internal consistency work to be completed
Creditors		A small number of queries outstanding
Cash Flow statement		Work is ongoing
Group Accounts		Work on going in relation to Nexus and NEMOL.
Whole of Government Accounts		Work to be completed
Audit Closure Procedures		This includes internal consistency checks, agreeing amendments and post balance sheet events.

### Status

-  Likely to result in material adjustment or significant change to disclosures within the financial statements
-  Potential to result in material adjustment or significant change to disclosures within the financial statements
-  Not considered likely to result in material adjustment or change to disclosures within the financial statements

We will provide the NECA Leadership Board with an update in relation to these outstanding matters in a follow-up letter, prior to signing the auditor's report.

## Our audit approach

We provided details of our intended audit approach in our Audit Strategy Memorandum in April 2019. We have not made any changes to our audit approach since we presented our Audit Strategy Memorandum.

# 1. EXECUTIVE SUMMARY

## Materiality

We set materiality at the planning stage of the audit at £3.291 million for NECA and £5.183 million for the Group using a benchmark of 2% of Gross Revenue Expenditure at the surplus or deficit on provision of services level. Our final assessment of materiality, based on the final financial statements and qualitative factors is £xx million for NECA and £xx million for the Group using the same benchmark. We set our trivial threshold (the level under which individual errors are not communicated to the Audit and Risk Committee, at £xxk for NECA and £XXk for the Group based on 3% of overall materiality.

## Misstatements and internal control recommendations

Section 3 sets out the internal control recommendations that we make, together with an update on any prior year recommendations.

Section 4 outlines the misstatements noted as part of our audit as at the time of issuing this report. If any additional misstatements are noted on completion of the outstanding work, these will be reported to the NECA Leadership Board in a follow-up letter.



## 2. SIGNIFICANT FINDINGS

Set out below are the significant findings from our audit. These findings include:

- our audit conclusions regarding significant risks and key areas of management judgement outlined in the Audit Strategy Memorandum;
- our comments in respect of the accounting policies and disclosures that you have adopted in the financial statements. On page 9 we have concluded whether the financial statements have been prepared in accordance with the financial reporting framework and commented on any significant accounting policy changes that have been made during the year;
- any further significant matters discussed with management; and
- any significant difficulties we experienced during the audit.

### Significant risks and key areas of management judgement

As part of our planning procedures we considered the risks of material misstatement in NECA's financial statements that required special audit consideration. Although we report identified significant risks at the planning stage of the audit in our Audit Strategy Memorandum, our risk assessment is a continuous process and we regularly consider whether new significant risks have arisen and how we intend to respond to these risks. No new risks have been identified since we issued our Audit Strategy Memorandum.

#### Significant risk

Management override of controls (relevant to single entity and group accounts)

#### Description of the risk

Management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Because of the unpredictable way in which such override could occur there is a risk of material misstatement due to fraud on all audits.

#### How we addressed this risk

We addressed this risk through performing audit work over:

- reviewing of material accounting estimates, which may be subject to management bias, included in the financial statements;
- consideration and review of unusual or significant transactions outside the normal course of business; and
- testing of journals recorded in the general ledger and other adjustments made in preparation of the financial statements.

#### Audit conclusion

Work ongoing in this area.

## 2. SIGNIFICANT FINDINGS (CONTINUED)

Significant risk	Description of the risk
Revenue recognition -in relation to Tyne Tunnel tolls and grant income (relevant to single entity and group accounts)	<p>Revenue recognition has been identified as a significant risk due to:</p> <ul style="list-style-type: none"><li>• cut off considerations for Tyne Tunnel toll income given the cash nature of the receipts; and</li><li>• grant income is recognised when all conditions attached to the grant have been met so there is significant management judgement in determining if there are any conditions and if they have been met.</li></ul> <hr/> <p><b>How we addressed this risk</b></p> <p>We plan to address the revenue recognition risk through performing audit work over:</p> <ul style="list-style-type: none"><li>• the design and implementation of controls management has in place to ensure income is recognised in the correct period;</li><li>• cash receipts around the year end to ensure they have been recognised in the right year;</li><li>• the judgements made by management in determining when grant income is recognised;</li><li>• For Tyne Tunnel toll income, perform a substantive analytical review; and</li><li>• for major grant income, obtaining counterparty confirmation.</li></ul> <hr/> <p><b>Audit conclusion</b></p> <p>Work ongoing in this area.</p>

Significant risk	Description of the risk
Defined benefit liability valuation (relevant to group accounts only)	<p>The financial statements contain material pension entries in respect of the retirement benefits. The calculation of these pension figures, both assets and liabilities, can be subject to significant volatility and includes estimates based upon a complex interaction of actuarial assumptions. This results in an increased risk of material misstatement.</p> <hr/> <p><b>How we addressed this risk</b></p> <p>We plan to address the defined benefit liability valuation risk through performing audit work over -</p> <ul style="list-style-type: none"><li>• evaluate the management controls you have in place to assess the reasonableness of the figures provided by the Actuary;</li><li>• consider the reasonableness of the Actuary's output, referring to an expert's report on all actuaries nationally which is commissioned annually by the National Audit Office; and</li><li>• we will discuss with key contacts any significant changes to the pension estimates prior to the preparation of the financial statements.</li></ul> <hr/> <p><b>Audit conclusion</b></p> <p>Work ongoing in this area.</p>

## 2. SIGNIFICANT FINDINGS (CONTINUED)

Management judgement	Description of the management judgement
Proposed devolution accounting treatment	<p>With effect from 2 November 2018, the footprint of NECA changed with the introduction of the North of Tyne Combined Authority. As a result of this decision, management took advice on how this reconfiguration should be reflected in the financial statements of NECA.</p> <hr/> <p><b>How our audit addressed this area of management judgement</b></p> <p>We will address this judgement by reviewing the advice supplied to management by their appointed expert (Deloitte) to ensure that it is reasonable and complies with the Code of Audit Practice and applicable accounting standards.</p> <p>We will review the proposed accounting treatment to ensure that apportionments are on a reasonable basis. In addition, we will also test transactions and balances included in the Statement of Accounts are complete, accurate and relate to NECA.</p> <hr/> <p><b>Audit conclusion</b></p> <p>Work ongoing in this area.</p> <hr/>

## 2. SIGNIFICANT FINDINGS (CONTINUED)

### Qualitative aspects of NECA's accounting practices

We have reviewed the Authority's and Group's accounting policies and disclosures and, subject to amendments in section 4, concluded they comply with the requirements of the Code of Practice on Local Authority Accounting (the Code), appropriately tailored to the Authority's and Group's circumstances.

We received NECA's Single Entity accounts on 31 May 2019 in line with the deadline however we did not receive the Group accounts until 19 June 2019. In our initial review of the draft accounts we identified a number of consistency, grammatical or other typographical matters that we would have expected to be identified in NECA's own internal quality review prior to publication. In our view, this is related to the staffing capacity issue we expand upon below,

### Significant matters discussed with management

There have been significant issues this year relating to accounting for pensions. These issues are not specific to NECA, but are national issues impacting on all local government and related bodies, including police and fire. There have been three issues, but the most significant issue has been the impact of what is known as the McCloud judgement.

It relates to claims of discrimination in respect of protections offered to some, but not all, pension scheme members as part of reforms to public sector pensions. In December 2018, the Court of Appeal ruled in a test case that this did amount to unlawful discrimination. At the time NECA was producing its draft financial statements, the Government intended to appeal to the Supreme Court and the outcome was uncertain.

During the audit period, the Government was not granted leave to appeal, meaning that some form of restitution across all public sector pension schemes seems more certain, requiring the estimated impact of this to be reflected in the pension disclosures in the financial statements, subject to materiality considerations.

The other two issues have been:

- Guaranteed Minimum Pension (GMP) indexation and equalisation, which relate to the move to a single-tier new State Pension and equalisation of the GMP benefits between males and females, which has been accounted for to varying degrees by each actuary; and
- Asset values, which relates to whether the estimation of assets by the actuary using asset values at the end of December 2018/end of January 2019 was accurate, given higher than expected returns in the final quarter of 2018/19.

For each of these issues, our approach has been to suggest that NECA engages with the actuary of the scheme, to assess the potential impact of these issues, to see whether the impact is material, and if so, to make amendments to the financial statements.

Whilst none of these issues impact on NECA in terms of a bottom-line impact on the General Fund balance, in practice both McCloud and GMP will place upward pressure on employers pension contributions reflecting an increased pension liability to recover over the life of the scheme.

During the course of the audit we have held a number of meeting with officers to discuss their approach to the proposed accounting treatment of devolution. These discussions have assisted us in our understanding of the complex processes carried out to arrive at the production of the Accounts

### Significant difficulties during the audit

During the course of the audit we had the full co-operation of management however we did experience a number of difficulties, for example we did not receive the draft Group accounts until 19 June 2019.

In previous years we have reported that we were concerned at the lack of staffing support allocated to the Principal Accountant to help produce both the draft and audited accounts whilst also being available to assist in responding to audit queries in a timely way. Whilst we understand that this issue has now been addressed, it has had a major impact this year given the issues and additional work associated with devolution.

## 2. SIGNIFICANT FINDINGS (CONTINUED)

### Wider responsibilities

Our powers and responsibilities under the 2014 Act are broad and include the ability to:

- issue a report in the public interest;
- make statutory recommendations that must be considered and responded to publicly;
- apply to the court for a declaration that an item of account is contrary to law; and
- issue an advisory notice under schedule 8 of the 2014 Act.

We have not exercised any of these powers as part of our 2018/19 audit.

The 2014 Act also gives rights to local electors and other parties, such as the right to ask questions of the auditor and the right to make an objection to an item of account. No objections or questions from local electors have been received.



### 3. INTERNAL CONTROL RECOMMENDATIONS

The purpose of our audit is to express an opinion on the financial statements. As part of our audit we have considered the internal controls in place relevant to the preparation of the financial statements. We do this in order to design audit procedures to allow us to express an opinion on the financial statement and not for the purpose of expressing an opinion on the effectiveness of internal control, nor to identify any significant deficiencies in their design or operation.

The matters reported are limited to those deficiencies and other control recommendations that we have identified during our normal audit procedures and that we consider to be of sufficient importance to merit being reported. If we had performed more extensive procedures on internal control we might have identified more deficiencies to be reported or concluded that some of the reported deficiencies need not in fact have been reported. Our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

Our findings and recommendations are set out below. We have assigned priority rankings to each of them to reflect the importance that we consider each poses to your organisation and, hence, our recommendation in terms of the urgency of required action. In summary, the matters arising fall into the following categories:

Priority ranking	Description	Number of issues
1 (high)	In our view, there is potential for financial loss, damage to reputation or loss of information. This may have implications for the achievement of business strategic objectives. The recommendation should be taken into consideration by management immediately.	0
2 (medium)	In our view, there is a need to strengthen internal control or enhance business efficiency. The recommendations should be actioned in the near future.	1
3 (low)	In our view, internal control should be strengthened in these additional areas when practicable.	0



### 3. INTERNAL CONTROL RECOMMENDATIONS (CONTINUED)

#### Other deficiencies in internal control – Level 2

**Description of deficiency**

Related party declarations should be updated and obtained annually from senior officers.

We first identified this deficiency in 2017/18 however our work has identified that this has not been implemented and therefore the deficiency in internal control still exists.

**Potential effects**

Related parties may not be identified which potentially may lead to fraud and error.

**Recommendation**

Ensure that related party declarations are completed and received annually.

**Management response**

# 4. SUMMARY OF MISSTATEMENTS

We set out below the misstatements identified for adjustment during the course of the audit, above the level of trivial threshold of [£xm].

The first table outlines the misstatements that were identified during the course of our audit which management has assessed as not being material, either individually or in aggregate, to the financial statements and does not currently plan to adjust.

The second table outlines the misstatements that have been adjusted by management during the course of the audit.

## Unadjusted misstatements 2018/19 – None identified as at 18 July 2019

		Comprehensive Income and Expenditure Statement		Balance Sheet	
		Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
1	Dr: Cr:  Insert explanation				
<hr/>					
Total unadjusted misstatements					
<hr/>					

## 4. SUMMARY OF MISSTATEMENTS (CONTINUED)

### Adjusted misstatements 2018/19 – None identified as at 18 July 2019

	Comprehensive Income and Expenditure Statement		Balance Sheet	
	Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
1 Dr: Pension Reserve Cr: Pension Liability  Pensions were incorrectly split for devolution - should have been fully included in NECA.			398	398
2 Dr: General Fund Cr: Taxation and Non Specific Grant Income  Levy was incorrectly split between NoTCA and NECA in relation to devolution.		3,523	3,523	
3 Dr: NELEP Income Cr: NELEP Expenditure  LEP income and expenditure was overstated due intra adjustments not being removed.	1,200	1,200		
4 Dr: Pension Reserve Cr: Remeasurement of defined benefit liability  Pensions were incorrectly split for devolution - should have been fully included in NECA.			268	268
5 Dr: Corporate Expenditure Cr: Retained Levy Budget Expenditure  Correction to the movement of pension/employee expenses.		223		223
5 Dr: Corporate Expenditure Cr: Retained Levy  Pensions were incorrectly split for devolution - should have been fully included in NECA. The amount includes £180k for resolution of the McCloud/GMP pension implications.		357		357
6 Dr: Impairment CIES Cr: PPE Impairment  Impairment of the value of pedestrian/cycling tunnels	3,131			3,131

# 4. SUMMARY OF MISSTATEMENTS (CONTINUED)

## Disclosure amendments as at 18 July 2019

Our audit identified a number of presentational and disclosure errors which have been amended. Only those which are considered significant have been listed here:

- Officer Remuneration (Note 8) – One officer was excluded from the Note and a further two were found to be incorrectly disclosed.
- PFI (Note 18) – Our work identified that two categories in the Deferred Income Release table had been incorrectly disclosed.
- Risks from Financial Instruments (Note 13) - the amounts in the maturity analysis of financial liabilities in two of the lines in the table were incorrectly categorised.
- Cash flow statement – We identified two misstatements in the investing activities line of the cash flow statement
- Pensions – The four sensitivity analysis tables in Note 19 do not agree to the Actuary report

# 5. VALUE FOR MONEY CONCLUSION

## Our approach to Value for Money

We are required to form a conclusion as to whether NECA has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out in order to form our conclusion, and sets out the criterion and sub-criteria that we are required to consider.

The overall criterion is that, ‘in all significant respects, NECA had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.’ To assist auditors in reaching a conclusion on this overall criterion, the following sub-criteria are set out by the NAO:

- Informed decision making.
- Sustainable resource deployment.
- Working with partners and other third parties.

Commentary against each of the sub-criteria, and an indication of whether arrangements are in place, is provided below.

On 26th April 2018, the North East Leadership Board agreed in principle to the Government making the requisite Order, which allowed the three authorities North of Tyne (Newcastle, North Tyneside and Northumberland) to withdraw from NECA in order to create a new mayoral Combined Authority for the North of Tyne area, and also to maintain governance arrangements for Transport across all seven local authorities. This arrangement officially took place on 2 November 2018.

Sub-criteria	Commentary	Arrangements in place?
Informed decision making	<p>The North East Leadership Board was made up of the Leaders of the seven constituent bodies however this reduced to five bodies and renamed as the NECA Leadership Board on 2 November 2018 with the introduction of the North of Tyne Combined Authority (NoTCA).</p> <p>The NECA Leadership Board is supplemented by elected members who serve on a number of committees along with non-executives.</p> <p>There is an up to date Constitution in place which is available on the website.</p> <p>The NECA Leadership Board receive appropriate and regular reports on the financial position of NECA.</p> <p>Martin Swales replaced Helen Golightly as the Head of Paid Service and Chief Executive on 2 November 2018 and leads a very experienced senior officer team at NECA.</p> <p>Risk management arrangements along with an up to date risk register is in place. A risk update is reported regularly to the Audit and Standards Committee, who provide challenge in this area.</p> <p>An annual governance statement is prepared, reviewed and approved before being included in the financial statements.</p> <p>No indicators of inappropriate governance arrangements.</p>	Yes
Sustainable resource deployment	<p>The 2018/19 revenue budget and capital programme were approved by the NELB in January 2018.</p> <p>NECA has a history of achieving financial targets as evidenced by financial and performance reports.</p> <p>Arrangements are in place for the Financial Plan to be updated as appropriate.</p> <p>The 2018/19 Outturn position, which will be reported to Audit and Standards Committee on 22 July 2019 identifies an underspend of £0.272 million at the year end.</p> <p>Relevant HR policies and procedures in place.</p>	Yes

# 5. VALUE FOR MONEY CONCLUSION (CONTINUED)

Sub-criteria	Commentary	Arrangements in place?
Working with partners and other third parties	<p>A service concession exists in relation to the Tyne Tunnel. This is subject to a detailed 30 year agreement with the operator TT2 which was introduced in 2008.</p> <p>NECA work very closely with the North East Local Enterprise Partnership (NELEP). This is a business-led, strategic partnership responsible for promoting and developing economic growth in the area. NECA supports the work of the enterprise partnership and they work together to ensure co-ordination across their range of activities.</p> <p>The NELEP board includes representatives from across the private and public sectors. Each of the leaders and the elected Mayor representing the seven NECA councils are members of the NELEP and the Chair of the NELEP is a non-voting member of the NELB.</p> <p>The Combined Authority provides the formal accountability arrangements for the enterprise partnership.</p>	Yes

## Significant Value for Money risks

The NAO's guidance requires us to carry out work to identify whether or not a risk to the Value for Money conclusion exists. Risk, in the context of our Value for Money work, is the risk that we come to an incorrect conclusion rather than the risk of the arrangements in place at the Authority being inadequate.

In our Audit Strategy Memorandum, we reported that we had not identified a significant Value for Money risk.

## Overall assessment ('reality check')

Having gathered evidence in each area we have conducted a final 'reality check', which included consideration of our cumulative knowledge of the NECA and, in particular:

- reports by statutory inspectorates, other regulators and external advisors;
- achievement of performance and other targets; and
- performance against budgets and other financial targets.

We do this to identify anything that would make us reconsider our conclusion.

# 5. VALUE FOR MONEY CONCLUSION (CONTINUED)

Evidence	Auditor assessment
Outputs by statutory inspectorates or other regulators	We are not aware of any relevant work which impacts upon our value for money conclusion.
Achievement of performance and other targets	No issues identified.
Performance against budgets and other financial targets	All relevant financial targets have been achieved.

## Our overall Value for Money conclusion

Having completed our assessment, and having carried out a ‘reality check’, we have concluded that our initial risk assessment remains appropriate and we remain confident in our conclusion that the NECA has adequate arrangements in place for each criterion. We intend to issue an unqualified Value for Money conclusion as set out in Appendix B.

# APPENDIX A

## DRAFT MANAGEMENT REPRESENTATION LETTER

Mr Cameron Waddell  
Partner  
Mazars LLP  
Salvus House  
Aykley Heads  
Durham DH1 5TS

Date: X July 2019

**North East Combined Authority (NECA) and Group - audit for year ended 31 March 2019**

This representation letter is provided in connection with your audit of the financial statements of NECA and Group for the year ended 31 March 2019 for the purpose of expressing an opinion as to whether the statement of accounts give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 (the Code).

I confirm that the following representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, inspection of supporting documentation) sufficient to satisfy myself that I can properly make each of the following representations to you.

**My responsibility for the statement of accounts and accounting information**

I believe that I have fulfilled my responsibilities for the true and fair presentation and preparation of the statement of accounts in accordance with the Code.

**My responsibility to provide and disclose relevant information**

I have provided you with:

- access to all information of which I am aware that is relevant to the preparation of the statement of accounts such as records, documentation and other material;
- additional information that you have requested from me for the purpose of the audit; and
- unrestricted access to individuals within NECA and Group you determined it was necessary to contact in order to obtain audit evidence.

I confirm as Chief Finance Officer that I have taken all the necessary steps to make me aware of any relevant audit information and to establish that you, as auditors, are aware of this information. As far as I am aware there is no relevant audit information of which you, as auditors, are unaware.

**Accounting records**

I confirm that all transactions have been recorded in the accounting records and are reflected in the financial statements. All other records and related information, including minutes of all NECA and Committee meetings, have been made available to you.

**Accounting policies**

I confirm that I have reviewed the accounting policies applied during the year in accordance with the Code and International Accounting Standard 8 and consider them appropriate for the year.

**Accounting estimates, including those measured at fair value**

I confirm that any significant assumptions used in making accounting estimates, including those measured at fair value, are reasonable.

**Contingencies**

There are no material contingent losses including pending or potential litigation that should be accrued where:

- information presently available indicates that it is probable that an asset has been impaired or a liability had been incurred at the balance sheet date; and
- the amount of the loss can be reasonably estimated.





# APPENDIX A

## DRAFT MANAGEMENT REPRESENTATION LETTER

### (CONTINUED)

There are no material contingent losses that should be disclosed where, although either or both the conditions specified above are not met, there is a reasonable possibility that a loss, or a loss greater than that accrued, may have been incurred at the balance sheet date.

There are no contingent gains which should be disclosed.

All material matters, including unasserted claims, that may result in litigation against NECA and Group have been brought to your attention. All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to you and accounted for and disclosed in accordance with Code.

**Laws and regulations**

I confirm that I have disclosed to you all those events of which I am aware which involve known or suspected non-compliance with laws and regulations, together with the actual or contingent consequences which may arise therefrom.

NECA and Group has complied with all aspects of contractual agreements that would have a material effect on the accounts in the event of non-compliance.

**Fraud and error**

I acknowledge my responsibility as Chief Finance Officer for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

I have disclosed to you:

- all the results of my assessment of the risk that the statement of accounts may be materially misstated as a result of fraud;
- all knowledge of fraud or suspected fraud affecting NECA and Group involving:
  - management and those charged with governance;
  - employees who have significant roles in internal control; and
  - others where fraud could have a material effect on the financial statements.

I have disclosed to you all information in relation to any allegations of fraud, or suspected fraud, affecting NECA and Group’s financial statements communicated by employees, former employees, analysts, regulators or others.

**Related party transactions**

I confirm that all related party relationships, transactions and balances (including sales, purchases, loans, transfers, leasing arrangements and guarantees) have been appropriately accounted for and disclosed in accordance with the requirements of the Code.

I have disclosed to you the identity of NECA and Group’s related parties and all related party relationships and transactions of which I am aware.

**Impairment review**

To the best of my knowledge, there is nothing to indicate that there is a permanent reduction in the recoverable amount of the property, plant and equipment below their carrying value at the balance sheet date. An impairment review is therefore not considered necessary.

**Charges on assets**

All NECA and Group’s assets are free from any charges exercisable by third parties except as disclosed within the financial statements.

**Future commitments**

We have no plans, intentions or commitments that may materially affect the carrying value or classification of assets and liabilities or give rise to additional liabilities.

**Subsequent events**

I confirm all events subsequent to the date of the financial statements and for which the Code require adjustment or disclosure have been adjusted or disclosed.

Should further material events occur after the date of this letter which may necessitate revision of the figures included in the financial statements or inclusion of a note thereto, I will advise you accordingly.

# APPENDIX A

## DRAFT MANAGEMENT REPRESENTATION LETTER

### (CONTINUED)

**Going concern**

To the best of my knowledge there is nothing to indicate that NECA and Group will cease to continue as a going concern in the foreseeable future. The period to which I have paid particular attention in assessing the appropriateness of the going concern basis is not less than twelve months from the date of approval of the accounts.

**Devolution**

I confirm that the asset/liability split between NECA and the North of Tyne Combined Authority has been carried out in line with The Order and on the most appropriate basis.

**Unadjusted misstatements**

I confirm that the effects of the uncorrected misstatements are immaterial, both individually and in aggregate, to the financial statements as a whole. A list of the uncorrected misstatements is attached to this letter as an Appendix.

Yours sincerely

Chief Finance Officer  
Date.....



# APPENDIX B

## DRAFT AUDITOR'S REPORT

### Independent auditor's report to NECA and Group

#### Report on the financial statements

#### Opinion

We have audited the financial statements of NECA and Group for the year ended 31 March 2019, which comprise NECA and Group Movement in Reserves Statement, NECA and Group Comprehensive Income and Expenditure Statement, NECA and Group Balance Sheet, NECA and Group Cash Flow Statement, and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

In our opinion, the financial statements:

- give a true and fair view of the financial position of NECA and Group as at 31<sup>st</sup> March 2019 and of its expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

#### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities section of our report. We are independent of NECA and Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applicable to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Chief Finance Officers' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Chief Finance Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about NECA and Group's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

#### Other information

The Chief Finance Officer is responsible for the other information. The other information comprises the information included in the Statement of Accounts, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.



# APPENDIX B

## DRAFT AUDITOR’S REPORT (CONTINUED)

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

### Responsibilities of the Chief Finance Officer for the financial statements

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the Chief Finance Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, and for being satisfied that they give a true and fair view. The Chief Finance Officer is also responsible for such internal control as the Chief Finance Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Chief Finance Officer is required to comply with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 and prepare the financial statements on a going concern basis, unless NECA and Group is informed of the intention for dissolution without transfer of services or function to another entity. The Chief Finance Officer is responsible for assessing each year whether or not it is appropriate for NECA and Group to prepare its accounts on the going concern basis and disclosing, as applicable, matters related to going concern.

### Auditor’s responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Authority’s website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor’s report.

### Matters on which we are required to report by exception under the Code of Audit Practice

We are required by the Code of Audit Practice to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make a recommendation under section 24 of the Local Audit and Accountability Act 2014; or
- we exercise any other special powers of the auditor under sections 28, 29 or 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

# APPENDIX B

## DRAFT AUDITOR’S REPORT (CONTINUED)

### Conclusion on NECA and Group’s arrangements for securing economy, efficiency and effectiveness in the use of resources

#### Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, we are satisfied that, in all significant respects, NECA and Group has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

#### Basis for conclusion

We have undertaken our review in accordance with the Code of Audit Practice issued by the Comptroller and Auditor General, having regard to the guidance on the specified criterion issued in November 2017, as to whether NECA and Group had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider in satisfying ourselves whether NECA and Group put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, NECA and Group had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

#### Responsibilities of NECA and Group

NECA and Group is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

#### Auditor’s responsibilities for the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We are required under section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that NECA and Group has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice requires us to report to you our conclusion relating to proper arrangements. We are not required to consider, nor have we considered, whether all aspects of NECA and Group’s arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

#### Use of the audit report

This report is made solely to the members of NECA and Group, as a body, in accordance with part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 44 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the members of NECA and Group those matters we are required to state to them in an auditor’s report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the members of NECA and Group, as a body, for our audit work, for this report, or for the opinions we have formed.

# APPENDIX B

## DRAFT AUDITOR’S REPORT (CONTINUED)

**Delay in certification of completion of the audit**

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the NECA and Group’s Whole of Government Accounts consolidation pack. We are satisfied that these matters do not have a material effect on the financial statements or on our conclusion on the NECA and Group’s arrangements for securing economy, efficiency and effectiveness in its use of resources.

Cameron Waddell  
Partner  
For and on behalf of Mazars LLP  
Salvus House  
Aykley Heads  
Durham DH1 5TS

x July 2019

# APPENDIX C

## INDEPENDENCE

As part of our ongoing risk assessment we monitor our relationships with you to identify any new actual or perceived threats to our independence within the regulatory or professional requirements governing us as your auditors.

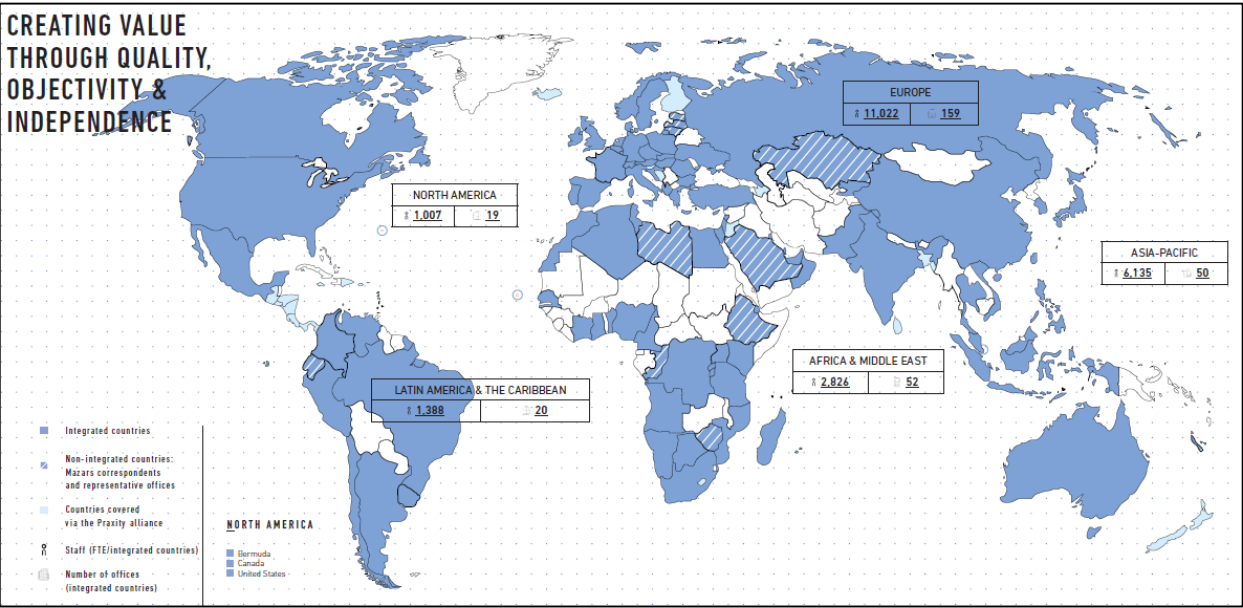
We can confirm that no new threats to independence have been identified since issuing the Audit Strategy Memorandum and therefore we remain independent.

# MAZARS AT A GLANCE

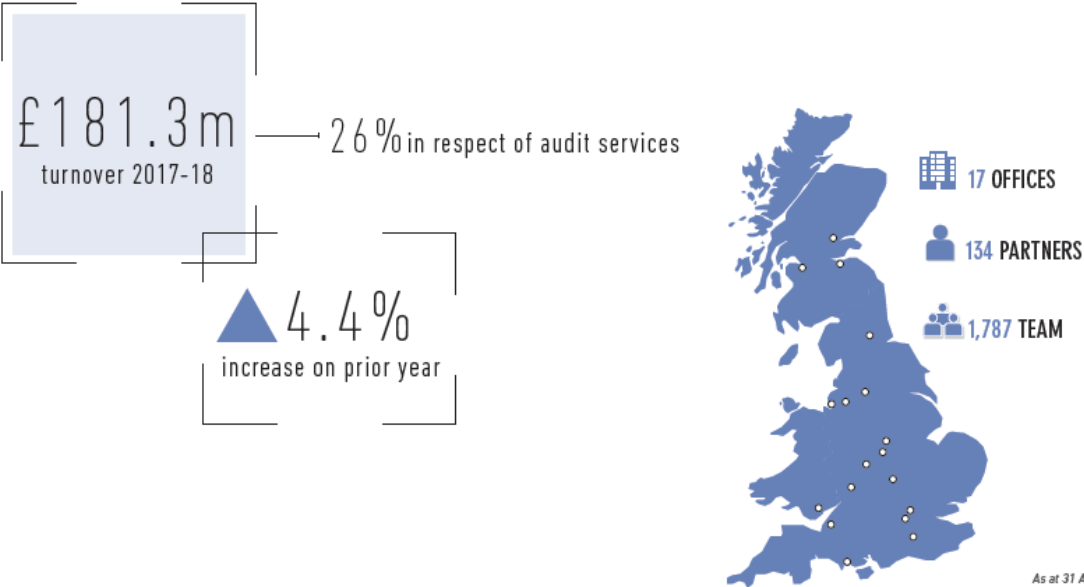
## Mazars LLP

- Fee income €1.6 billion
- Over 86 countries and territories
- Over 300 locations
- Over 20,000 professionals
- International and integrated partnership with global methodologies, strategy and global brand

## Mazars Internationally



## Mazars in the UK





## CONTACT

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## **Audit and Standards Committee**

**Date:** 22 July 2019

**Subject:** Statement of Accounts 2018/19

Agenda Item 5

**Report of:** Chief Finance Officer

### **Executive Summary**

A covering report was circulated with the main agenda papers.

Attached to this report are the following appendices:

1. Letter of Representation
2. Statement of Accounts
3. Annual Governance Statement
4. Narrative Report

The NECA Accounts include the single entity accounts and the Group Accounts, which incorporate the accounts of Nexus.

The Group Accounts still require some final amendments to incorporate changes to the Nexus accounts that have been recommended by their auditors, Mazars. The revised Nexus Accounts were only received on Thursday 18 July 2019.

The complexity of the changes in the presentation of our accounts this year to reflect the implementation of devolution changes with effect from 2 November, has meant that it is taking much longer to make the adjustments, which are set out and explained in this covering report. The updated version of the Group Accounts will be available at the meeting and will be circulated under a separate cover.

This report sets out the changes that have been made to the accounts and the adjustments that will be incorporated in the final version of the statement of accounts and provides a commentary on the points included in the External Auditor's draft Audit Completion Report which is considered elsewhere on this agenda.

The final external audit sign-off is expected on 31 July and their draft audit completion report envisages that they will give an unqualified opinion on the accounts and an unqualified value for money conclusion also.

### **Recommendations**

The Audit and Standards Committee is recommended to note the contents of this report and the external auditors draft completion report. Any comments that Audit Committee wish to make will be reported to the Leadership Board when it meets to

## **Audit and Standards Committee**

consider and approve the accounts on 23<sup>rd</sup> July.

## **Audit and Standards Committee**

### **1. Background Information**

- 1.1 The draft Statement of Accounts was completed and signed off by the Chief Finance Officer on 31 May 2019, and the Group Accounts were signed off and published on 14 June 2019. The reasons for later sign off of the Group accounts are explained below.
- 1.2 In April, Audit and Standards Committee received a report setting out the significant and extra-ordinary complexities involved in accounting for the devolution changes in the transport arrangements and membership of NECA, which came into effect on 2 November. In practice, the impact on the accounts to reflect this extra-ordinary change was even more complex than had been envisaged, particularly the accounting for the inclusion of the Nexus accounts into the NECA group accounts.
- 1.3 The draft Group accounts should have been signed off, published and provided to the external auditors on 31 May. The Nexus draft accounts were received on 28 May and the considerable extra work required to make the complex changes needed to present the position before and after 2 November, as well as allocating the year end balances between the NTCA accounts and NECA accounts took a significant additional amount of time to complete. This was the reason for the delay in their sign off.
- 1.4 NECA had provided additional resources to support the accounts closedown process. This included the retention of the services of the previous interim CFO; support from the new CFO and the new Deputy CFO and their staff; and use of an external financial consultant to help check the group accounting statements. Additional accounting resources have been put in place by NECA for future years.
- 1.5 The Audit and Standards Committee considered the draft Annual Governance Statement (AGS) and accounting policies for 2018/19 at its meeting on 2 April. Comments on the audited Statement of Accounts and final Annual Governance Statement will be reported verbally to the Leadership Board at their meeting on 23 July 2019.
- 1.6 The audited Statement of Accounts must be signed by the Chair of the Leadership Board and the Chief Finance Officer on behalf of the Authority and published on the NECA website by 31 July 2019.

### **2 Proposals**

- 2.1 At the Audit and Standards Committee on 22 July the recommendation will be for the Committee to consider the Statement of Accounts for 2018/19, the final Annual Governance Statement for 2018/19 and to raise any comments or issues for the Leadership Board to take into account in their consideration

## Audit and Standards Committee

of these documents.

- 2.2 The establishment of the North of Tyne Combined Authority part-way through the 2018/19 financial year and the consequential impact on the NECA accounts has significantly increased the complexity of the final accounts, with a resulting impact on the accounting and audit work involved. In addition, the meeting dates are over a week earlier than in the previous year, so that the final accounting information can be provided to the North of Tyne Combined Authority. This accelerated timetable has been challenging to meet.
- 2.3 Amendments to the NECA pension figures disclosed in the accounts have been required as a result of the recent Court of Appeal ruling in relation to public sector pension schemes known as the McCloud judgement. This has required NECA and Nexus to obtain updated information from the fund actuary, which has added to the delay in being able to complete the final accounts.
- 2.4 Section 4 of the External Audit Report sets out the adjustments to the NECA accounts that we have made following their recommendations. Further information about these adjustments is provided below.
1. A correction was made to the apportionment of levy income between the NECA and NTCA accounts which had resulted from an error in the application of the population split to the total levies.
  2. Pension figures have been updated for the likely impact of the McCloud judgement. For NECA this was immaterial at an increase in liabilities of £0.180m.
  3. Pension figures have been adjusted to show them in the accounts of NECA only rather than split with NTCA. This is because the Order specifically references that NECA remains the employer in the Tyne and Wear Pension Fund and remains responsible for the liabilities. Costs will continue to be recovered from NTCA authorities through the levies or other budgets as appropriate.
  4. An impairment on the carrying valuation of the Tyne Pedestrian and Cycle Tunnels has been recognised, to account for the fact that elements of the tunnels had been damaged and put out of use, and their replacements capitalised as part of the Tyne Pedestrian and Cycle Tunnels refurbishment project.

Other amendments to disclosures which are set out in the Auditors report have been updated.

- 2.5 Several changes have had to be made to the Nexus final accounts following their external audit. The audited Nexus accounts were received on 18 July 2019. The changes are being reflected in the updated NECA group accounts

## **Audit and Standards Committee**

and the complexity of making these changes means that this work is currently still in progress.

The main adjustments that have still to be made to the accounts attached to this report are –

1. Group Movement in Reserves Statement and accompanying note G14 to be updated
2. Group Cash Flow Statement and accompanying notes G15-G17 to be updated
3. Note G5 Property, Plant and Equipment, Note G7 Financial Instruments, Note G11 Pensions, to be updated.

Items which are still to be updated are headed as such and are shaded in grey in the relevant documents. Finalised statements will be issued in advance of the meeting.

### **3. Reasons for the Proposals**

- 3.1 The Statement of Accounts must be approved and signed by the Chair of the North East Combined Authority and the Chief Finance Officer by 31 July 2019, and published online by this date in order to meet statutory accounting deadlines.

### **4. Alternative Options Available**

- 4.1 None – there is a statutory requirement to prepare and publish an audited set of accounts for 2018/19, with a supporting external audit opinion.

### **5. Next Steps and Timetable for Implementation**

- 5.1 A copy of the updated Group accounts will be available at the meeting. This and any comments from the Audit and Standards Committee will be circulated to the Leadership Board on a Supplemental Agenda. The NECA Leadership Board is due to approve and authorise the signature of the accounts on 23 July. The final external audit report is expected to be issued on or before 31 July.

### **6. Potential Impact on Objectives**

- 6.1 The successful close of the accounts for 2018/19 will have no adverse impact on the objectives of NECA.

### **7. Financial and Other Resources Implications**

- 7.1 The costs of the external audit are set by Public Sector Audit Appointments and were included in the budget for 2018/19. There may be a small additional charge for extra external audit work relating to the implementation

## **Audit and Standards Committee**

of the devolution changes. There are no financial or other resources implications arising from this report.

### **8. Legal Implications**

- 8.1 There are no legal implications arising from this report. It is a requirement of the Local Government Act 2003 and the Accounts and Audit (England) Regulations 2015 for the Statement of Accounts to be produced in accordance with proper accounting practices.

### **9. Key Risks**

- 9.1 An overview of the key risks will be provided in the full report.

### **10. Equality and Diversity**

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

### **11. Crime and Disorder**

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

### **12. Consultation/Engagement**

- 12.1 The Statement of Accounts was subject to a period of public inspection from 3 June to 12 July 2019. No enquiries or objections were raised during this time.

### **13. Other Impact of the Proposals**

- 13.1 There are no other impacts arising from these proposals.

### **14. Appendices**

- 14.1 Appendix 1: Letter of Representation  
Appendix 2: Statement of Accounts 2018/19  
Appendix 3: Annual Governance Statement 2018/19  
Appendix 4: Narrative Report

### **15. Background Papers**

- 15.1 None

### **16. Contact Officers**

- 16.1 John Hewitt, Chief Finance Officer, [NECA.johnhewitt@durham.gov.uk](mailto:NECA.johnhewitt@durham.gov.uk), 03000 261 943



## **Audit and Standards Committee**

Eleanor Goodman, Principal Accountant,  
[Eleanor.goodman@northeastca.gov.uk](mailto:Eleanor.goodman@northeastca.gov.uk), 0191 277 7518

### **17. Sign off**

- 17.1
- Head of Paid Service:
  - Monitoring Officer:
  - Chief Finance Officer:



Mr Cameron Waddell  
Partner  
Mazars LLP  
Salvus House  
Ayckley Heads  
Durham DH1 5TS  
Date: X July 2019

**North East Combined Authority (NECA) and Group – audit for year ended 31 March 2019**

This representation letter is provided in connection with your audit of the statement of accounts for the North East Combined Authority (NECA) and Group for the year ended 31 March 2019 for the purpose of expressing an opinion as to whether the statement of accounts give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 (the Code).

I confirm that the following representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, inspection of supporting documentation) sufficient to satisfy ourselves that I can properly make each of the following representations to you.

**My responsibility for the statement of accounts and accounting information**

I believe that I have fulfilled my responsibilities for the true and fair presentation and preparation of the statement of accounts in accordance with the Code.

**My responsibility to provide and disclose relevant information**

I have provided you with:

- access to all information of which I am aware that is relevant to the preparation of the statement of accounts such as records, documentation and other material;
- additional information that you have requested from me for the purpose of the audit; and
- unrestricted access to individuals within NECA and Group you determined it was necessary to contact in order to obtain audit evidence.

I confirm as Chief Finance Officer that I have taken all the necessary steps to make me aware of any relevant audit information and to establish that you, as auditors, are aware of this information. As far as I am aware there is no relevant audit information of which you, as auditors, are unaware.

**Accounting records**

I confirm that all transactions have been recorded in the accounting records and are reflected in the financial statements. All other records and related information, including minutes of all NECA and Committee meetings, have been made available to you.

**Accounting policies**

I confirm that I have reviewed the accounting policies applied during the year in accordance with the Code and International Accounting Standard 8 and consider them appropriate for the year.

### **Accounting estimates, including those measured at fair value**

I confirm that any significant assumptions used in making accounting estimates, including those measured at fair value, are reasonable.

### **Contingencies**

There are no material contingent losses including pending or potential litigation that should be accrued where:

- information presently available indicates that it is probable that an asset has been impaired or a liability had been incurred at the balance sheet date; and
- the amount of the loss can be reasonably estimated.

There are no material contingent losses that should be disclosed where, although either or both the conditions specified above are not met, there is a reasonable possibility that a loss, or a loss greater than that accrued, may have been incurred at the balance sheet date.

There are no contingent gains which should be disclosed.

All material matters, including unasserted claims, that may result in litigation against NECA and Group have been brought to your attention. All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to you and accounted for and disclosed in accordance with the Code.

### **Laws and regulations**

I confirm that I have disclosed to you all those events of which I am aware which involve known or suspected non-compliance with laws and regulations, together with the actual or contingent consequences which may arise therefrom.

NECA and Group have complied with all aspects of contractual agreements that would have a material effect on the accounts in the event of non-compliance.

### **Fraud and error**

I acknowledge my responsibility as Chief Finance Officer for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

I have disclosed to you:

- all the results of my assessment of the risk that the statement of accounts may be materially misstated as a result of fraud;
- all knowledge of fraud or suspected fraud affecting NECA and Group involving:
  - management and those charged with governance;



North East Combined Authority

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- employees who have significant roles in internal control; and
- others where fraud could have a material effect on the financial statements.

I have disclosed to you all information in relation to any allegations of fraud, or suspected fraud, affecting NECA and Group's statement of accounts communicated by employees, former employees, analysts, regulators or others.

### **Related party transactions**

I confirm that all related party relationships, transactions and balances, have been appropriately accounted for and disclosed in accordance with the requirements of the Code.

I have disclosed to you the identity of NECA and Group's related parties and all related party relationships and transactions of which I am aware.

### **Impairment review**

To the best of my knowledge, there is nothing to indicate that there is a permanent reduction in the recoverable amount of the property, plant and equipment below their carrying value at the balance sheet date. An impairment review is therefore not considered necessary.

### **Charges on assets**

All NECA and Group's assets are free from any charges exercisable by third parties except as disclosed within the financial statements.

### **Future commitments**

We have no plans, intentions or commitments that may materially affect the carrying value or classification of assets and liabilities or give rise to additional liabilities.

### **Subsequent events**

I confirm all events subsequent to the date of the financial statements and for which the Code requires adjustment or disclosure have been adjusted or disclosed.

Should further material events occur after the date of this letter which may necessitate revision of the figures included in the financial statements or inclusion of a note thereto, I will advise you accordingly.

### **Going concern**

To the best of my knowledge there is nothing to indicate that NECA and Group Authority will cease to continue as a going concern in the foreseeable future. The period to which I have paid particular attention in assessing the appropriateness of the going concern basis is not less than twelve months from the date of approval of the accounts.

### **Devolution**

I confirm that the asset/liability split between NECA and the North of Tyne Combined Authority has been carried out in line with The Order and on the most appropriate basis.

### **Unadjusted misstatements**



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I confirm that the effects of the uncorrected misstatements are immaterial, both individually and in aggregate, to the financial statements as a whole. A list of the uncorrected misstatements is attached to this letter as an Appendix.

Yours sincerely,

Chief Finance Officer

Date



North East Combined Authority

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**North East Combined Authority**

**Statement of Accounts 2018/19**

<b>Contents</b>	<b>Page</b>
<b>1.0 Statement of Responsibilities for the Statement of Accounts</b>	
1.1 The Authority's Responsibilities	3
<b>2.0 Core Financial Statements and Explanatory Notes</b>	
2.1 Movement in Reserves Statement	4
2.2 Comprehensive Income and Expenditure Statement	6
2.3 Balance Sheet	8
2.4 Cash Flow Statement	9
2.5 Explanatory Notes to the Core Financial Statements	10-67
<b>3.0 Group Financial Statements and Explanatory Notes</b>	
3.1 Group Movement in Reserves Statement	68
3.2 Group Comprehensive Income and Expenditure Statement	69
3.3 Group Balance Sheet	71
3.4 Group Cash Flow Statement	72
3.5 Explanatory Notes to the Group Financial Statements	73-90
<b>4.0 Supplemental Information</b>	
4.1 Glossary of Terms	91-96



## 1.0 Statement of Responsibilities for the Statement of Accounts

### 1.1 The Authority's Responsibilities

**The Authority is required:**

- To make arrangements for the proper administration of its financial affairs and to ensure that one of its officers has the responsibility for the administration of those affairs. In this Authority, that officer is the Chief Finance Officer.
- To manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- To approve the Statement of Accounts.

**The Chief Finance Officer's Responsibilities:**

The Chief Finance Officer is responsible for the preparation of the Authority's Statement of Accounts in accordance with proper practices as set out in the CIPFA (Chartered Institute of Public Finance & Accountancy) Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

**In preparing this Statement of Accounts, the Chief Finance Officer has:**

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

**The Chief Finance Officer has also:**

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

**Certification of the Accounts**

I certify that the Statement of Accounts gives a true and fair view of the financial position of the North East Combined Authority at 31 March 2019 and its income and expenditure for the year ended 31 March 2019.

Signed:

John Hewitt, Chief Finance Officer

Signed:

Cllr Iain Malcolm, Chair of the North East  
Combined Authority Leadership Board

## 2.1 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 which can be applied to fund expenditure) and Unusable Reserves (which cannot). The Total Comprehensive Income and Expenditure line shows the accounting cost of providing NECA's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. This is different from the statutory amounts required to be charged to the General Fund balance. The net increase or decrease before transfers to earmarked reserves shows the statutory General Fund balance before any discretionary transfers to or from earmarked reserves undertaken by the Authority.

	Usable Reserves						Unusable Reserves	Total Authority Reserves
	Note	General Fund Balance	Earmarked General Fund Reserves	Capital Receipts Reserve	Capital Grants Unapplied	Total Usable Reserves		
		£000	£000	£000	£000	£000	£000	£000
<b>Balance at 1 April 2017</b>		<b>(34,897)</b>	<b>(9,663)</b>	<b>(168)</b>	<b>(25,726)</b>	<b>(70,454)</b>	<b>(100,242)</b>	<b>(170,696)</b>
Total Comprehensive Income and Expenditure		7,379	-	-	-	7,379	(280)	7,099
Adjustments between accounting basis & funding basis under regulations	3	(10,161)	-	(638)	17,999	7,200	(7,200)	-
Net (Increase)/Decrease before transfers to Earmarked Reserves		<b>(2,782)</b>	-	<b>(638)</b>	<b>17,999</b>	<b>14,579</b>	<b>(7,480)</b>	<b>7,099</b>
Transfers (To)/From Earmarked Reserves	21	4,871	(4,986)	114	-	-	-	-
<b>(Increase)/Decrease in 2017/18</b>		<b>2,089</b>	<b>(4,986)</b>	<b>(524)</b>	<b>17,999</b>	<b>14,579</b>	<b>(7,480)</b>	<b>7,099</b>
<b>Balance at 31 March 2018 carried forward</b>		<b>(32,808)</b>	<b>(14,649)</b>	<b>(692)</b>	<b>(7,727)</b>	<b>(55,875)</b>	<b>(107,722)</b>	<b>(163,597)</b>
Total Comprehensive Income and Expenditure (prior to transfer of services)		(5,066)	-	-	-	(5,066)	(230)	(5,296)
Adjustments between accounting basis & funding basis under regulations (prior to transfer of services)	3	3,026	-	-	-	3,026	(3,026)	-
<b>Balance at 1 November 2018</b>	1	<b>(34,848)</b>	<b>(14,649)</b>	<b>(692)</b>	<b>(7,727)</b>	<b>(57,916)</b>	<b>(110,978)</b>	<b>(168,894)</b>
<b>Transfer of Services to the NTCA at 2 November 2018</b>	1	<b>10,894</b>	<b>5,513</b>	-	<b>545</b>	<b>16,951</b>	<b>40,548</b>	<b>57,499</b>
<b>Balance at 2 November 2018</b>		<b>(23,954)</b>	<b>(9,136)</b>	<b>(692)</b>	<b>(7,182)</b>	<b>(40,965)</b>	<b>(70,430)</b>	<b>(111,395)</b>
Total Comprehensive Income and Expenditure (subsequent to transfer of services)		(2,508)	-	-	-	(2,508)	(380)	(2,888)
Adjustments between accounting basis & funding basis under regulations (subsequent to transfer of services)	3	2,976	-	(1,811)	(4,490)	(3,325)	3,325	0
Net (Increase)/Decrease before transfers to Earmarked Reserves		<b>468</b>	-	<b>(1,811)</b>	<b>(4,490)</b>	<b>(5,833)</b>	<b>2,945</b>	<b>(2,887)</b>

**North East Combined Authority Statement of Accounts 2018/19**

Transfers (To)/From Earmarked Reserves	20	655	(655)	-	-	-	-	-
<b>(Increase)/Decrease in 2018/19</b>		1,123	(655)	(1,811)	(4,490)	(5,833)	2,945	(2,887)
<b>Balance at 31 March 2019 carried forward</b>		<b>(22,831)</b>	<b>(9,791)</b>	<b>(2,503)</b>	<b>(11,672)</b>	<b>(46,798)</b>	<b>(67,485)</b>	<b>(114,283)</b>

## 2.2 Comprehensive Income and Expenditure Statement

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 charged to the General Fund which is set out in the Movement in Reserves Statement.

2017/18 - Restated				Note	2018/19		
Gross Expenditure	Gross Income	Net Expenditure			Gross Expenditure	Gross Income	Net Expenditure
£000	£000	£000			£000	£000	£000
			<b>Continuing NECA Services</b>	1			
549	(543)	6	Corporate		1,044	(311)	733
609	(432)	177	Inward Investment		295	(294)	1
60,292	(41,673)	18,619	Local Growth Fund Programme		52,283	(52,022)	261
4,898	(3,954)	944	North East Local Enterprise Partnership		5,248	(1,753)	3,495
326	(326)	-	Skills		767	(762)	5
252	-	252	Transport - Retained Levy Budget		105	-	105
15,477	-	15,477	Transport - Durham		15,692	-	15,692
32,072	-	32,072	Transport - Tyne and Wear		31,409	-	31,409
13,448	(13,503)	(55)	Transport - Other		9,398	(13,972)	(4,574)
13,118	(17,909)	(4,791)	Transport - Tyne Tunnels		16,527	(17,805)	(1,278)
<b>141,041</b>	<b>(78,340)</b>	<b>62,700</b>	<b>Cost of services relating to continuing services excluding operations transferred to the NTCA</b>		<b>132,768</b>	<b>(86,919)</b>	<b>45,849</b>
			<b>Services transferred to the NTCA - income and expenditure for the period 1 April 2018 - 1 November 2018</b>	1			
6,217	-	6,217	Transport - Northumberland		3,585	-	3,585
200	-	200	Transport - Retained Levy Budget		39	-	39
25,485	-	25,485	Transport - Tyne and Wear		15,420	-	15,420
10,686	(10,729)	(43)	Transport - Other		2,320	(2,316)	4
10,424	(14,230)	(3,806)	Transport - Tyne Tunnels		6,399	(9,159)	(2,760)
<b>53,012</b>	<b>(24,959)</b>	<b>28,053</b>	<b>Cost of services relating to services transferred to the NTCA</b>		<b>27,763</b>	<b>(11,475)</b>	<b>16,288</b>

North East Combined Authority Statement of Accounts 2018/19

194,053	(103,299)	90,754	Cost of services		160,531	(98,394)	62,137
			<b>Financing and Investment Income and Expenditure</b>	4			
7,134	(3,299)	3,835	- From continuing services		4,797	(3,446)	1,351
-	-	-	- From services transferred to the NTCA		1,540	(45)	1,495
			<b>Taxation and Non-Specific Grant Income</b>	5			
-	(87,210)	(87,210)	- From continuing services		-	(52,539)	(52,539)
-		-	- From services transferred to the NTCA		-	(20,018)	(20,018)
		7,379	<b>(Surplus)/Deficit on Provision of Services</b>				(7,574)
			<b>Other Comprehensive Income and Expenditure</b>				
		(280)	Re-measurement of the defined benefit liability	19			(610)
		7,099	<b>Total Comprehensive Income and Expenditure</b>				(8,184)

The 2017/18 figures have been restated to reflect the new presentation required as a result of the reconfiguration of the North East Combined Authority and the establishment of the North of Tyne Combined Authority (NTCA) during 2018/19. No transfers took place until the establishment of the NTCA on 2 November 2018, but 2017/18 figures relating to the constituent authorities of the NTCA have been shown separately to aid comparison between years.

## 2.3 Balance Sheet

The Balance Sheet summarises NECA's financial position at 31 March each year. The Net Assets of the Authority (total assets less total liabilities are matched by Reserves. Reserves are reported in two categories, Usable and Unusable. 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 in the Movement in Reserves Statement line "adjustments between accounting basis and funding basis under regulations".

31 March 2018 £000		Note	31 March 2019 £000
352,143	Property, Plant and Equipment	11	193,921
53,769	Long Term Debtors	12	32,671
<b>405,912</b>	<b>Long Term Assets</b>		<b>226,592</b>
72,000	Short Term Investments	12	65,281
16,575	Short Term Debtors	14	11,926
22,231	Cash and Cash Equivalents	16	11,720
<b>110,806</b>	<b>Current Assets</b>		<b>88,927</b>
(2,326)	Short Term Borrowing	12	(1,288)
(77,867)	Short Term Creditors	17	(51,118)
(2,328)	Grants Receipts in Advance	6	(1,205)
(5,092)	New Tyne Crossing Deferred Income	18	(2,838)
<b>(87,613)</b>	<b>Current Liabilities</b>		<b>(56,449)</b>
(96,753)	New Tyne Crossing Deferred Income	18	(51,076)
(167,000)	Long Term Borrowing	12	(92,685)
(793)	Grants Receipts in Advance	6	(125)
(960)	Pension Liability	19	(900)
<b>(265,506)</b>	<b>Long Term Liabilities</b>		<b>(144,786)</b>
<b>163,599</b>	<b>Net Assets</b>		<b>114,284</b>
(55,877)	Usable Reserves	20	(46,797)
(107,722)	Unusable Reserves	22	(67,486)
<b>(163,599)</b>	<b>Total Reserves</b>		<b>(114,284)</b>

### Chief Finance Officer Certificate

I certify that the accounts set out on pages 4 to 68 give a true and fair view of the financial position of the North East Combined Authority as at the 31 March 2019.

Signed: John Hewitt, Chief Finance Officer

Signed: Paul Woods, Interim Chief Finance Officer to 31 March 2019

## 2.4 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. 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.

2017/18 £000		Note	2018/19 £000
(7,379)	Net Surplus/(Deficit) on the provision of services		7,574
(25,450)	Adjustments to net surplus or deficit on the provision of services for non-cash movements	24	8,982
(65,301)	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	24	(68,990)
(98,130)	<b>Net cash flows from Operating Activities</b>		<b>(52,434)</b>
98,827	Investing Activities	25	52,707
(678)	Financing Activities	26	(548)
<b>19</b>	<b>Net (Decrease)/Increase in cash and cash equivalents</b>		<b>(275)</b>
22,231	Cash and cash equivalents at the beginning of the reporting period		22,231
-	Transfer to the NTCA		(10,237)
<b>22,231</b>	<b>Cash and cash equivalents at the end of the reporting period</b>		<b>11,720</b>

## **Note 1: Transfer of Services to the Newcastle upon Tyne, North Tyneside and Northumberland Combined Authority**

On 2 November 2018, under the terms of the Newcastle upon Tyne, North Tyneside and Northumberland Combined Authority (Establishment and Functions) Order 2018 a new entity, the Newcastle upon Tyne, North Tyneside and Northumberland Combined Authority was created (referred to in this document as the North of Tyne Combined Authority, or NTCA).

- Newcastle City Council, North Tyneside Metropolitan District Council and Northumberland County Council ceased to be members of the North East Combined Authority and became members of the new NTCA; and
- The business of the North East Combined Authority, and the associated assets and liabilities, relating to the geography of Newcastle upon Tyne, North Tyneside and Northumberland transferred to the new NTCA.

Under the Order, it is stated that NECA and NTCA must appoint a Joint Transport Committee (JTC), which is endowed with the powers of the Integrated Transport Authority previously endowed upon NECA. The Constitution of the JTC is such that it meets the definition of Joint Control and it is classified accordingly as a Joint Operation.

At its first meeting on 20 November 2018, the JTC appointed NECA as its accountable body. In order to comply with the requirements outlined above NECA as the accountable body must split the revenue, expenditure, assets and liabilities into those which relate to NECA and NTCA:

- That which relates to Northumberland is wholly allocated to NTCA.
- That which relates to Durham is wholly allocated to NECA.
- That which relates to Tyne and Wear is allocated between NECA and NTCA on the basis of population using the ONS statistics used as the basis of dividing the levy contributions.

The NECA accounts for 2018/19 therefore include all income and expenditure relating to Transport activity up to 1 November 2018. From 2 November 2018 to 31 March 2019, all income and expenditure relating to Transport activity is split between NECA and NTCA as described above.



## Note 2: Expenditure and Funding Analysis

	2018/19				
	Net Expenditure Chargeable to the General Fund	Adjustments for Capital Purposes	Pension Adjustments	Other Differences	Net Expenditure in the CIES
	£000	£000	£000	£000	£000
<b>Continuing NECA Services</b>					
Corporate	153	-	580	-	733
Inward Investment	-	-	-	-	-
Local Growth Fund Programme	502	241			261
North East Local Enterprise Partnership	795	2,700			3,495
Skills	5	-	-	-	5
Transport - Retained Levy Budget	518	(413)	-	-	105
Transport - Durham	15,692	-	-	-	15,692
Transport - Tyne and Wear	31,409	-	-	-	31,409
Transport - Other	1,337	(5,910)			(4,574)
Transport - Tyne Tunnels	(1,928)	900	-		(1,278)
<b>Cost of services relating to continuing services excluding operations transferred to the NTCA</b>	<b>48,483</b>	<b>(2,482)</b>	<b>580</b>	<b>-</b>	<b>45,848</b>
<b>Services transferred to the NTCA</b>					
Transport - Northumberland	3,585	-	-	-	3,585
Transport - Retained Levy Budget	39	-	-	-	39
Transport - Tyne and Wear	15,420	-	-	-	15,420
Transport - Other	4		-		4
Transport - Tyne Tunnels	(613)	(2,148)	-		(2,760)
<b>Cost of services relating to services transferred to the NTCA</b>	<b>18,435</b>	<b>(2,148)</b>	<b>-</b>	<b>-</b>	<b>16,288</b>
<b>Cost of services</b>	<b>66,918</b>	<b>(4,630)</b>	<b>580</b>	<b>-</b>	<b>62,136</b>

<b>Other Income and Expenditure</b>					
- From continuing services	(50,166)	-	-	(1,021)	(51,188)
- From services transferred to the NTCA	(18,323)	-	-	-	(18,523)
<b>(Surplus)/Deficit on Provision of Services</b>	<b>(1,571)</b>	<b>(4,630)</b>	<b>580</b>	<b>(1,021)</b>	<b>(7,575)</b>
<b>Opening General Fund Balances</b>	<b>(47,458)</b>				
Transferred to the NTCA 2 November 2018	16,407				
<b>Closing General Fund Balances</b>	<b>(32,622)</b>				

### Adjustments for Capital Purposes

This column adds in depreciation and impairment and revaluation gains and losses in the service line, and adjusts for:

- Other operating expenditure - adjusts for capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets.
- Financing and investment income and expenditure - the statutory charges for capital financing i.e. Minimum Revenue Provision and other revenue contributions are deducted from other income and expenditure as these are not chargeable under generally accepted accounting practices.
- Taxation and non-specific grant income and expenditure - capital grants are adjusted for income not chargeable under generally accepted accounting practices. Revenue grants are adjusted from those receivable in the year to those receivable without conditions or for which conditions were satisfied during the year. The Taxation and Non Specific Grant Income and Expenditure line is credited with capital grants receivable in the year without conditions or for which conditions were satisfied in the year.

### Net Change for the Pension Adjustments

Net change for the removal of pension contributions and the addition of IAS 19 Employee Benefits pension related expenditure and income:

- For services this represents the removal of the employer pension contributions made by the authority as allowed by statute and the replacement with current service costs and past service costs.
- For Financing and investment income and expenditure - the net interest on the defined benefit liability is charged to the CIES.

### Other Differences

Other differences between amounts debited/credited to the Comprehensive Income and Expenditure Statement and amounts payable/receivable to be recognised under statute:

- For Financing and investment income and expenditure, the other differences column recognises adjustments to the General Fund for the timing differences for premiums and discounts.

	2017/18				
	Net Expenditure Chargeable to the General Fund	Adjustments for Capital Purposes	Pension Adjustments	Other Differences	Net Expenditure in the CIES
	£000	£000	£000	£000	£000
Corporate	6	-	-	-	6
Inward Investment	177	-	-	-	177
Local Growth Fund Programme	341	18,278	-	-	18,619
North East Local Enterprise Partnership	844	50	50	-	944
Skills	-	-	-	-	-
Transport - Retained Levy Budget	1,449	(997)	-	-	452
Transport - Durham	15,447	-	-	-	15,477
Transport - Northumberland	6,217	-	-	-	6,217
Transport - Tyne and Wear	57,557	-	-	-	57,557
Transport - Other	1,050	(1,147)	-	-	(98)
Transport - Tyne Tunnels	(3,655)	(4,892)	(50)	-	(8,597)
<b>Net Cost of Services</b>	<b>79,462</b>	<b>11,292</b>	<b>-</b>	<b>-</b>	<b>90,754</b>
Other Income and Expenditure	(82,243)	-	260	(1,392)	(83,375)
<b>Surplus or Deficit on Provision of Services</b>	<b>(2,782)</b>	<b>11,292</b>	<b>260</b>	<b>(1,392)</b>	<b>7,379</b>
<b>Opening General Fund Balances</b>	<b>(44,562)</b>				
Transfer from Capital Receipts Reserve	(114)				
Less Surplus on General Fund Balances in Year	(2,782)				
<b>Closing General Fund Balance</b>	<b>(47,458)</b>				

**Note 2a: Income and Expenditure Analysed by Nature**

	2017/18 £000	2018/19 £000
<b>Expenditure</b>		
Employee benefit expenses	1,485	2,045
Other service expenses	106,246	89,317
Depreciation, impairment and Revenue Expenditure Funded from Capital Under Statute (REFCUS)	86,322	69,170
Interest payments	7,134	6,337
<b>Total expenditure</b>	<b>201,187</b>	<b>166,868</b>
<b>Income</b>		
Fees, charges and other service income (Tyne Tunnels tolls)*	(26,774)	(18,137)
Interest and investment income	(3,299)	(3,491)
Income from business rates on enterprise zones	(1,626)	(1,675)
Income from transport levy	(84,744)	(69,683)
Government grants and contributions	(71,657)	(71,997)
Other income	(5,708)	(9,460)
<b>Total income</b>	<b>(193,808)</b>	<b>(174,442)</b>
<b>Surplus/Deficit on the provision of services</b>	<b>7,379</b>	<b>(7,574)</b>

**Note 3: 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.

2017/18				Adjustments between Accounting Basis and Funding Basis Under Statute	2018/19			
General Fund	Capital Receipts Reserve	Capital Grants Unapplied	Unusable Reserves		General Fund	Capital Receipts Reserve	Capital Grants Unapplied	Unusable Reserves
£000	£000	£000	£000		£000	£000	£000	£000
				<b>Adjustments primarily involving the Capital Adjustment Account (CAA)</b>				
(3,890)	-	-	3,890	<b>Reversal of items debited or credited to the CIES</b>	(6,331)	-	-	6,331
5,092	-	-	(5,092)	Charges for depreciation and impairment of non current assets	4,166	-	-	(4,166)
63,183	-	-	(63,183)	Other income that cannot be credited to the General Fund	62,928	-	-	(62,928)
(82,432)	-	-	82,432	Capital grants and contributions applied	(62,839)	-	-	62,839
				Revenue expenditure funded from capital under statute				
				<b>Insertion of items not debited or credited to the CIES</b>				
2,557	-	-	(2,557)	Statutory provision for the financing of capital investment	1,521	-	-	(1,521)
2,129	-	-	(2,129)	Capital expenditure charged against the General Fund	24	-	-	(24)
				<b>Adjustments primarily involving the Capital Grants Unapplied Account</b>				
2,118	-	(2,118)	-	Grants and contributions unapplied credited to the CIES	6,063	-	(6,063)	-
-	-	20,117	(20,117)	Application of grants to capital financing transferred to the CAA	-	-	1,573	(1,573)
				<b>Adjustments involving the Capital Receipts Reserve</b>				
-	(2,387)	-	2,387	Loan principal repayments	-	(3,794)	-	3,794
(50)	-	-	50	Use of Capital Receipts Reserve to finance new capital expenditure	-	-	-	-
-	1,749	-	(1,749)	Application of Capital Receipts to repayment of debt	-	1,983	-	(1,983)

Adjustments involving the Financial Instruments Adjustment Account								
1,392	-	-	(1,392)	Amount by which finance costs charged to the CIES are different from finance costs chargeable in the year in accordance with statutory requirements	1,021	-	-	(1,021)
Adjustments involving the Pensions Reserve								
(310)	-	-	310	Reversal of items relating to retirement benefits debited or credited to the CIES	(600)	-	-	600
50	-	-	(50)	Employer's pension contributions and direct payments to pensioners payable in the year	50	-	-	(50)
(10,161)	(638)	17,999	(7,200)	<b>Total Adjustments</b>	<b>6,003</b>	<b>(1,811)</b>	<b>(4,490)</b>	<b>298</b>

**Note 4: Financing and Investment Income and Expenditure**

	Note	2017/18	2018/19	
			Continuing Services	Transport Services transferred to NTCA - 1 April 2018 - 1 November 2018
		£000	£000	£000
Interest Payable and Similar Charges		7,114	4,786	1,531
Interest Payable on defined benefit liability	19	20	20	-
Interest Receivable and similar income		(3,299)	(3,446)	(45)
<b>Total</b>		<b>3,835</b>	<b>1,360</b>	<b>1,486</b>

**Note 5: Taxation and Non Specific Grant Income**

	2017/18	2018/19	
		Continuing Services	Transport Services transferred to NTCA - 1 April 2018 - 1 November 2018
	£000	£000	£000
Transport Levy	(84,744)	(50,133)	(19,550)
Enterprise Zones Income	(1,626)	(1,675)	-
Non Specific Capital Grants	(840)	(731)	(468)
<b>Total</b>	<b>(87,210)</b>	<b>(52,539)</b>	<b>(20,018)</b>

**Note 6: Grant Income**

	2017/18	2018/19	
		Continuing Services	Transport Services transferred to NTCA - 1 April 2018 - 1 November 2018
	£000	£000	£000
LEP Core and Capacity Grant	(500)	(500)	-
Growth Hub	(410)	(410)	-
Local Authority Contributions to NECA	(440)	(440)	-
Local Authority Contribution to North East LEP	(250)	(250)	-
Local Growth Fund	(42,506)	(51,706)	-
Local Transport Plan	(22,889)	(7,773)	(2,316)
European Grants	(569)	(1,034)	(234)
North East Smart Ticketing Initiative	(527)	(463)	-
Transforming Cities Fund	-	(5,600)	-
LEP Local Industrial Strategy Grant	-	(176)	-
Office for Low Emission Vehicles	-	(393)	(234)
Other Grants	(444)	(468)	-
<b>Total</b>	<b>(68,535)</b>	<b>(69,213)</b>	<b>(2,784)</b>

The Authority has received a number of grants and contributions that have yet to be recognised as income as they have conditions attached to them that if not met will require the monies or property to be returned to the giver. The balances at the year-end are as follows:

Grants Receipts in Advance	31 March 2018 £000	31 March 2019 £000
North East Smart Ticketing Initiative	(1,396)	(316)
Office for Low Emission Vehicles	(1,500)	(443)
Other Grants	(225)	(571)
<b>Total</b>	<b>(3,121)</b>	<b>(1,330)</b>

Shown as Short-Term Liability on the Balance Sheet	(2,328)	(1,205)
Short as Long-Term Liability on the Balance Sheet	(793)	(125)
<b>Total</b>	<b>(3,121)</b>	<b>(1,330)</b>



**Note 7: Members' Allowances**

The Authority paid the following amounts to independent members of its various committees during the year. Representatives from constituent authorities receive no allowances from NECA.

	<b>2017/18 £000</b>	<b>2018/19 £000</b>
Allowances	4	6
<b>Total</b>	<b>4</b>	<b>6</b>

**Note 8: Officers' Remuneration**

The remuneration paid to the Authority's Senior Officers was as follows:

		<b>Salary, Fees and Allowances £000</b>	<b>Pension Contributions £000</b>	<b>Total £000</b>
Managing Director of Transport Operations	2018/19	125	21	<b>146</b>
	2017/18	127	22	<b>149</b>
Monitoring Officer	2018/19	76	-	<b>76</b>
	2017/18 (Oct-March)	30	-	<b>30</b>

Two of the Authority's interim statutory officers are not formal employees of the authority (and therefore are not included in the statutory disclosure above), but their services have been provided via secondment and agency arrangements, details of which are set out below in the interest of transparency.

		<b>Payment for days worked £000</b>	<b>Expenses £000</b>	<b>Total £000</b>
Interim Head of Paid Service	2018/19	77	-	<b>77</b>
	2017/18	63	-	<b>63</b>
Interim Chief Finance Officer	2018/19	110	2	<b>112</b>
	2017/18	117	2	<b>119</b>

## North East Combined Authority Statement of Accounts 2018/19

The number of other officers (including those employed on behalf of the North East LEP) who received remuneration greater than £50,000 (excluding employers' pension contributions) was as follows:

	2017/18 £000	2018/19 £000
£50,000-£54,999	2	2
£55,000-£59,999		
£60,000-£64,999	3	4
£65,000-£69,999		
£70,000-£74,999		
£75,000-£79,999		1
£80,000-£84,999		
£85,000-£89,999		1
£90,000-£94,999		
£95,000-£99,999		
<b>Total</b>	<b>5</b>	<b>8</b>

### Note 9: External Audit Costs

The Authority has incurred the following costs in relation to the audit of the Statement of Accounts, certification of grant claims and statutory inspection and for non-audit services provided by the Authority's external auditors.

	2017/18 £000	2018/19 £000
Scale fee for the audit of the Statement of Accounts	24	19
Additional fee in relation to the audit of the 2017/18 Accounts (paid during 2018/19)	-	2
<b>Total</b>	<b>24</b>	<b>21</b>

## Note 10: 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.

In this context, related parties include:

- Central Government
- Members of the Authority
- Officers of the Authority
- NECA Constituent Authorities
- Joint Transport Committee Constituent Authorities
- Other Public Bodies
- Other Entities

### Central Government

Central Government is responsible for providing the statutory framework within which the Authority operates, provides much of its funding in the form of grants and prescribes the terms of some of the transactions that the Authority has with other parties (e.g. Concessionary Fares reimbursement). Grants received from government departments are set out in Note 6.

### Elected Members of the Authority

Members of the Authority have a direct control over the Authority's financial and operating policies. No members allowances are payable to elected members of the Authority. During 2018/19 no works or services were commissioned from companies in which any members had an interest.

### Officers

There have been no pecuniary interest involving the Head of Paid Service, the Chief Finance Officer or the Monitoring Officer to the Authority.

### NECA Constituent Authorities

The Leaders of the four NECA constituent Authorities serve as members of the NECA Leadership Board. Prior to 2 November, the Leaders and Elected Mayor of the seven North East local authorities were members of the NECA Leadership Board. Details of material transactions with the seven Authorities are set out in the table below.

### Joint Transport Committee Constituent Authorities

From 2 November, the Joint Transport Committee has been in establishment, comprised of the seven North East local authorities. Figures reported in these accounts include the NECA share of Joint Transport Committee activity, and details of material transactions with the seven Authorities are set out in the table below.

### Other Public Bodies

The Authority has a direct relationship with the Passenger Transport Executive for Tyne and Wear (Nexus). NECA (via its participation in the Joint Transport Committee) sets the policy which is delivered by Nexus, and agrees its budget and revenue grant. Details of material transactions with Nexus are set out in the table below.

### Other Entities

Newcastle International Airport Ltd - the seven Constituent Authorities of NECA are shareholders in Newcastle Airport.

	2017/18 Receivables	2017/18 Income	2017/18 Expenditure	2017/18 Payables	2018/19 Receivables	2018/19 Income	2018/19 Expenditure	2018/19 Payables
	£000	£000	£000	£000	£000	£000	£000	£000
<b>NECA Constituent Authorities</b>								
Durham	-	(15,538)	30,151	774	-	(12,900)	15,826	77
Gateshead	-	(11,390)	2,740	838	(99)	(9,100)	8,887	7,661
South Tyneside	-	(8,450)	4,911	685	(213)	(6,981)	11,004	637
Sunderland	(708)	(16,367)	11,536	8,040	(849)	(13,260)	17,051	1,058
<b>Remaining JTC Constituent Authorities</b>								
Newcastle	(437)	(16,509)	18,093	1,095	(501)	(13,238)	7,271	914
North Tyneside	(160)	(11,474)	10,546	4,347	(245)	(9,394)	3,869	137
Northumberland	(321)	(6,430)	13,584	445	(780)	(5,479)	8,718	614
<b>Other Public Bodies</b>								
Nexus	(3,129)	(3,251)	60,892	4,190	(889)	(1,685)	52,060	34,203

**Note 11: Property, Plant and Equipment**

2018/19	Vehicles, Plant, Furniture & Equipment £000	Infrastructure Assets £000	Assets Under Construction £000	Total Property, Plant & Equipment £000	Service Concession Assets included in Property, Plant and Equipment £000
<b>Cost or Valuation</b>					
At 1 April 2018	3,207	381,072	12,695	396,974	381,072
Additions	-	-	2,702	2,702	-
<b>At 2 November 2018</b>	<b>3,207</b>	<b>381,072</b>	<b>15,397</b>	<b>399,676</b>	<b>381,072</b>
Transferred to the NTCA	(1,420)	(168,729)	(6,817)	(176,966)	(168,729)
Additions	-	24	1,487	1,511	24
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	-	(24)	-	(24)	(24)
Impairment recognised in the Surplus/Deficit on the Provision of Services	-	(3,180)	-	(3,180)	(3,180)
<b>At 31 March 2019</b>	<b>1,787</b>	<b>209,163</b>	<b>10,067</b>	<b>221,016</b>	<b>209,163</b>
<b>Accumulated Depreciation and Impairment</b>					
At 1 April 2018	(1,094)	(43,738)	-	(44,832)	(43,738)
Depreciation charge for the period 1/4/18- 1/11/18	(54)	(2,233)	-	(2,287)	(2,233)
<b>At 2 November 2018</b>	<b>(1,148)</b>	<b>(45,971)</b>	<b>-</b>	<b>(47,119)</b>	<b>(45,971)</b>
Transferred to the NTCA	508	20,355	-	20,863	20,355
Depreciation charge for the period 2/4/18- 31/3/19	(21)	(818)	-	(839)	(818)
<b>At 31 March 2019</b>	<b>(661)</b>	<b>(26,435)</b>	<b>-</b>	<b>(27,095)</b>	<b>(26,435)</b>
<b>Net Book Value</b>					
<b>At 1 April 2018</b>	<b>2,113</b>	<b>337,334</b>	<b>12,695</b>	<b>352,142</b>	<b>337,334</b>
At date of reconfiguration	2,059	335,101	15,397	352,557	335,101
<b>At 31 March 2019</b>	<b>1,126</b>	<b>182,728</b>	<b>10,067</b>	<b>193,921</b>	<b>182,728</b>

2017/18	Vehicles, Plant, Furniture & Equipment £000	Infrastructure Assets £000	Assets Under Construction £000	Total Property, Plant & Equipment £000	Service Concession Assets included in Property, Plant and Equipment £000
<b>Cost or Valuation</b>					
At 1 April 2017	3,205	381,075	9,726	394,006	381,075
Additions	-	8	2,969	2,977	8
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	-	(8)	-	(8)	(8)
<b>At 31 March 2018</b>	<b>3,205</b>	<b>381,075</b>	<b>12,695</b>	<b>396,974</b>	<b>381,075</b>
<b>Accumulated Depreciation and</b>					
At 1 April 2018	(1,002)	(39,947)	-	(40,949)	(39,947)
Depreciation charge for the year	(92)	(3,763)	-	(3,855)	(3,763)
Depreciation adjustment	-	(27)	-	(27)	(27)
<b>At 31 March 2019</b>	<b>(1,094)</b>	<b>(43,737)</b>	<b>-</b>	<b>(44,831)</b>	<b>(43,737)</b>
<b>Net Book Value</b>					
At 1 April 2017	2,203	341,128	9,726	353,057	341,128
At 31 March 2018	2,111	337,338	12,695	352,143	337,338

## Note 12: Financial Instruments

A financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Non-exchange transactions, such as those relating to taxes and government grants, do not give rise to financial instruments. The following categories of financial instrument are carried in the balance sheet:

### Financial Assets

A financial asset is a right to future economic benefits controlled by the Authority that is represented by cash or other instruments or a contractual right to receive cash or another financial asset. The financial assets held by the Authority during the year are held under the following classifications.

	31-Mar-18 £000	31-Mar-19 £000
<b>Financial assets at amortised cost</b>		
Trade receivables	2,642	6,690
Other loans and receivables	61,760	37,912
Held to maturity investments (short term)	72,000	65,281
<b>Total</b>	<b>136,402</b>	<b>109,883</b>

### Financial assets at amortised cost (2018/19 loans and receivables)

Financial assets are classified at amortised cost only if both of the following criteria are met:

- The asset is held within a business model whose objective is to collect the contractual cash flows; and
- The contractual terms give rise to cash flows that are solely payments of principal and interest

All of NECA's financial assets fit these criteria and are classified at amortised cost.

### Trade receivables

Trade receivables are amounts due for goods and services delivered. They are generally due for settlement within 30 days and are therefore classified as current. Trade receivables are recognised initially at the amount of the consideration. Trade receivables are held with the objective of collecting the contractual cash flows and are therefore measured at amortised cost using the effective interest method.

Due to the short-term nature of held to maturity investments their carrying value is considered to be the same as their fair value.

### Financial Liabilities

A financial liability is an obligation to transfer economic benefits controlled by the Authority and can be represented by a contractual obligation to deliver cash or financial assets or an obligation to exchange financial assets and liabilities with another entity that is potentially unfavourable to Authority.

The Authority's financial liabilities held during the year are measured at amortised cost and comprised:

	31-Mar-18 £000	31-Mar-19 £000
<b>Borrowings:</b>		
Short term borrowing	(2,326)	(1,288)
Financial liabilities at amortised cost - long term borrowing	(167,000)	(92,685)
<b>Total borrowings</b>	<b>(169,326)</b>	<b>(93,973)</b>
<b>Short term creditors</b>	<b>(77,867)</b>	<b>(51,118)</b>

**Income, Expense, Gains and Losses**

The gains and losses recognised in the CIES in relation to financial instruments are made up as follows:

31 March 2018				31 March 2019		
£000	£000	£000		£000	£000	£000
Financial Liabilities at amortised cost	Financial assets: loans and receivables	Total		Financial Liabilities at amortised cost	Financial assets: loans and receivables	Total
7,114	-	7,114	Interest expense	6,315	-	6,315
7,114	-	7,114	<b>Total expense in Surplus on Provision of Services</b>	6,315	-	6,315
-	(3,299)	(3,299)	Investment income	-	(3,491)	(3,491)
-	(3,299)	(3,299)	<b>Total income in Surplus on Provision of Services</b>	-	(3,491)	(3,491)
7,114	(3,299)	3,815	<b>Net (gain)/loss for the year</b>	6,315	(3,491)	2,824

**Fair Value of Assets & Liabilities carried at Amortised Cost**

Financial assets classified as loans and receivables and all non-derivative financial liabilities are carried in the Balance Sheet at amortised cost. Their fair values have been estimated by calculating the net present value of the remaining contractual cash flows at 31st March 2019, using the following methods and assumptions:

- Loans borrowed by the Authority have been valued by discounting the contractual cash flows over the whole life of the instrument at the appropriate market rate for local authority loans.
- The value of "Lender's Option Borrower's Option" (LOBO) loans have been increased by the value of the embedded options. Lender's options to propose an increase to the interest rate of the loan have been valued according to a proprietary model for Bermudan cancellable swaps. Borrower's contingent options to accept the increased rate or repay the loan have been valued at zero, on the assumption that lenders will only exercise their options when market rates have risen above the contractual loan rate.
- The fair values of other long-term loans and investments have been discounted at the market rates for similar instruments with similar remaining terms to maturity on 31st March.
- No early repayment or impairment is recognised for any financial instrument.
- The fair value of short-term instruments, including trade payables and receivables, is assumed to approximate to the carrying amount.

For 2018/19 the fair values are shown in the table below are split by their level in the fair value hierarchy:

- Level 1 – fair value is only derived from quoted prices in active markets for identical assets or liabilities, e.g. bond prices.
- Level 2 – fair value is calculated from inputs other than quoted prices that are observable for the asset or liability, e.g. interest rates or yields for similar instruments.
- Level 3 – fair value is determined using unobservable inputs, e.g. non-market data such as cash flow forecasts or estimated creditworthiness.



The fair values calculated are as follows:

**Financial Liabilities**

		31 March 2018		31 March 2019	
		Carrying amount £000	Fair value £000	Carrying amount £000	Fair value £000
Financial liabilities	2	(167,667)	(279,072)	(92,685)	(151,424)
<b>Total</b>		<b>(167,667)</b>	<b>(279,072)</b>	<b>(92,685)</b>	<b>(151,424)</b>
<b>Financial Assets at amortised cost</b>					
Held to maturity investments		72,000	72,000	65,281	65,281
Long-term debtors	3	53,452	78,815	32,671	45,752
<b>Total</b>		<b>125,452</b>	<b>150,815</b>	<b>97,952</b>	<b>111,033</b>

### Soft Loans

Soft loans are loans made to third parties at a preferential rate of interest, i.e. below the market rate. In previous years, the LEP issued a small number of loans as part of its North East Investment Fund activity to encourage economic development in the region. Details of soft loans are set out in the table below.

#### 2018/19

Description	Term (Years)	Contracted Rate	Fair Value Rate	Opening Balance (Nominal)	Advances in Year	FV adjustment on initial recognition	Loans Repaid	Increase in discounted amount	Closing Balance (fair value)	Closing Balance (Nominal)
				£000	£000	£000	£000	£000	£000	£000
Durham University	12	1.90%	4.95%	10,000	-	(756)	-	-	9,244	10,000
Neptune Test Centre	9	0.00%	4.99%	5,094	-	(1,000)	(697)	-	3,397	4,397
Cobalt Data Centre	6	6.00%	7.00%	2,384	-	(66)	-	-	2,318	2,384
Boiler Shop	3	4.50%	5.02%	1,545	-	(65)	-	-	1,480	1,545

The rate of interest applied in 2018/19 means The Jesmond loan is no longer classified as a soft loan.

#### 2017/18

Description	Term (Years)	Contracted Rate	Fair Value Rate	Opening Balance (Nominal)	Advances in Year	FV adjustment on initial recognition	Loans Repaid	Increase in discounted amount	Closing Balance (fair value)	Closing Balance (Nominal)
				£000	£000	£000	£000	£000	£000	£000
Durham University	12	1.90%	4.95%	10,000	-	(1,192)	-	-	8,808	10,000
Neptune Test Centre	9	0.00%	4.99%	5,094	-	(1,378)	-	-	3,716	5,094
Cobalt Data Centre	6	6.00%	7.00%	2,384	-	(26)	(477)	-	1,882	1,907
Boiler Shop	3	4.50%	5.02%	1,545	-	96	-	-	1,641	1,545
The Jesmond	2	11.00%	11.02%	1,269	-	87	-	-	1,356	1,269

**Note 13: 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 financial 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 Annual Treasury Management Strategy Statement. The statement 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 deposit risk is minimised through the Treasury Management Statement, which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria. The Treasury Management Statement 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.

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

The Authority's maximum exposure to credit risk in relation to its investments in banks and building societies cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of non recovery applies to all of the Authority's deposits, but there was no evidence at the 31 March 2019 that this was likely to crystallise. Actions are taken immediately if an institution is downgraded and deposits withdrawn in line with Treasury Management Strategy.

**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 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-Mar-18 £000	31-Mar-19 £000
Between 1-2 years	(667)	(372)
Between 2-5 years	(2,000)	(1,114)
Between 5-10 years	(2,333)	(928)
More than 10 years	(162,000)	(90,271)
	<b>(167,000)</b>	<b>(92,685)</b>
Less than 1 year	(2,326)	(1,288)
Total borrowing	<b>(169,326)</b>	<b>(93,973)</b>

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

## Market Risk

### Interest Rate Risk

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

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

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

The Authority has a number of strategies for managing interest rate risk. The 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 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.

**Note 14: Short Term Debtors**

	31 March 2018 £000	31 March 2019 £000
Central Government bodies	6,203	2,458
Other local authorities	1,843	2,898
Other entities and individuals	8,529	6,570
<b>Total</b>	<b>16,575</b>	<b>11,926</b>

**Note 15: Long Term Debtors**

	31 March 2018 £000	31 March 2019 £000
Nexus borrowing	38,302	20,642
Airport prepayment	317	-
North East Investment Fund loans	15,150	12,029
<b>Total</b>	<b>53,769</b>	<b>32,671</b>

**Note 16: Cash and Cash Equivalents**

	31 March 2018 £000	31 March 2019 £000
North East LEP Cash balances held by Sunderland City Council	863	-
Cash held in Authority's bank account	15,368	7,819
Cash equivalents	6,000	3,901
<b>Total</b>	<b>22,231</b>	<b>11,720</b>

**Note 17: Short Term Creditors**

	31 March 2018 £000	31 March 2019 £000
Central government bodies	(63)	-
Other local authorities	(29,036)	(11,107)
Other entities and individuals		
- Nexus	(42,239)	(35,447)
- TT2	(3,208)	(1,871)
- Other	(3,321)	(2,693)
<b>Total</b>	<b>(77,867)</b>	<b>(51,118)</b>

The Code of Practice now permits the split of short term creditor balances to be across headings determined by the Authority itself, rather than specified headings. The presentation of 31 March 2018 balances has been restated accordingly.

## Note 18: Private Finance Initiatives and Similar Contracts

In November 2007, the then Tyne and Wear Passenger Transport Authority entered into a 30 year contract with TT2 Ltd to construct a second vehicel tunnel under the River Tyne, refurbish the existing Tyne Tunnel and operate both vehicle tunnels alongside the pedestrian and cycle tunnels for the life of the contract. The second tunnel was opened on 25 February 2011, and the refurbished original tunnel opened on 21 November 2011. Both are included on the public sector balance sheet.

In 2018/19 the total payment under the contract was £20.256m (2017/18 £19.487m) of which £16.654m is shown in the accounts of NECA and £3.602m shown in the accounts of the NTCA.

The contribution to the capital works by the private sector partner is recognised as a deferred income balance with a 2018/19 value of £96.753m (2017/18 £101.845m), of which £53.913m is shown on the NECA balance sheet and £42.840m shown on the NTCA balance sheet.

	Deferred Income Release	
	2017/18 £000	2018/19 £000
Payable in 2019/20	(5,092)	(2,838)
Payable within 2 to 5 years	(20,370)	(11,350)
Payable within 6 to 10 years	(25,461)	(14,188)
Payable within 11 to 15 years	(25,461)	(14,188)
Payable within 16 to 20 years	(25,461)	(11,350)
<b>Total</b>	<b>(101,845)</b>	<b>(53,913)</b>

### Payments

Payments made by the Authority to TT2 Ltd are based on actual traffic volumes using the tunnel, and so will vary from year to year.

## Note 19: Defined Benefit Pension Schemes

The Authority participates in two post-employment schemes:

(i) The largest of the two, the Tyne and Wear Pension Fund is administered locally by South Tyneside Council - this is a funded, defined benefit scheme, meaning that the Authority and employees pay contributions into a fund, calculated at a level intended to balance the pension liabilities with investments.

(ii) Unfunded defined benefit arrangements for the award of discretionary post-employment benefits upon early retirement. Under this type of scheme liabilities are recognised when awards are made. However there are no investment assets built up to meet these liabilities and cash has to be generated to meet actual pension payments as they fall due.

The Tyne and Wear Pension Fund is operated under the regulatory framework for the Local Government Pension Scheme. The governance of the scheme is the responsibility of the Fund's Pension Committee which consists of eight members from South Tyneside Council (which has legal responsibility for the Fund), four members from the other councils in Tyne and Wear, and three members each nominated by the trades unions and the employers. During 2017/18, the Fund, along with eleven other funds, created and now owns a Financial Conduct Authority (FCA) regulated investment management company called Border to Coast Pensions Partnership Limited.

### Transactions Relating to Post-employment Benefits

We recognise the cost of retirement benefits in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge we are required to make against the General Fund 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 the General Fund Balance via the Movement in Reserves Statement during the year:

### Amounts recognised in profit and loss and other comprehensive income

	Local Government Pension Scheme		Discretionary Benefits	
	2017/18	2018/19	2017/18	2018/19
	£000	£000	£000	£000
<b>Comprehensive Income and Expenditure Statement</b>				
<b>Cost of Services:</b>				
Current service cost	290	400	-	-
Past service cost	-	180		
<b>Financing and Investment Income and Expenditure</b>				
Interest on net defined benefit liability (asset)	-	-	20	20
<b>Pension expense recognised in profit and loss</b>	<b>290</b>	<b>580</b>	<b>20</b>	<b>20</b>
<b>Other Post Employment Benefits charged to the Comprehensive Income and Expenditure Statement:</b>				
Return on plan assets (in excess of)/below that recognised in net interest	(570)	(2,510)	-	-
Actuarial (gains)/losses due to changes in financial assumptions	330	1,890	-	40
Actuarial (gains)/losses due to changes in demographic assumptions	-	(1,610)	-	(40)
Actuarial (gains)/losses due to changes in liability assumptions	570	90	10	(30)
Adjustment in respect of paragraph 58	(620)	1,560	-	

Total amount recognised in Other Comprehensive Income	(290)	(580)	10	(30)
Total amount recognised	-	-	30	(10)

### 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	
	2017/18	2018/19	2017/18	2018/19
	£000	£000	£000	£000
<b>Opening balance at 1 April</b>	<b>(37,590)</b>	<b>(38,950)</b>	<b>(980)</b>	<b>(960)</b>
Current service cost	(290)	(400)	-	-
Interest cost	(930)	(990)	(20)	(20)
Contributions by participants	(70)	(100)	-	-
Actuarial gains/(losses) on liabilities - financial assumptions	(330)	(1,890)	-	(40)
Actuarial gains/(losses) on liabilities - demographic assumptions	-	1,610	-	40
Actuarial gains/(losses) on liabilities - experience	(570)	(90)	(10)	30
Net benefits paid out	830	1,470	50	50
Past service costs	-	(180)	-	-
<b>Closing balance at 31 March</b>	<b>(38,950)</b>	<b>(39,520)</b>	<b>(960)</b>	<b>(900)</b>

#### Reconciliation of the fair value of the scheme assets:

	Local Government Pension Scheme		Discretionary Benefits	
	2017/18	2018/19	2017/18	2018/19
	£000	£000	£000	£000
<b>Opening balance at 1 April</b>	<b>45,050</b>	<b>45,980</b>	<b>-</b>	<b>-</b>
Interest income on assets	1,120	1,180	-	-
Remeasurement gains/(losses) on assets	570	2,510	-	-
Employer contributions	-	-	50	50
Contributions by scheme participants	70	100	-	-
Net benefits paid out	(830)	(1,470)	(50)	(50)
<b>Closing balance at 31 March</b>	<b>45,980</b>	<b>48,300</b>	<b>-</b>	<b>-</b>

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

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



Scheme History	2014/15 £000	2015/16 £000	2016/17 £000	2017/18 £000	2018/19 £000
<b>Fair value of LGPS assets</b>	<b>37,770</b>	<b>37,150</b>	<b>45,050</b>	<b>45,980</b>	<b>48,300</b>
Present value of liabilities:					
- LGPS liabilities	(34,520)	(31,630)	(37,590)	(38,950)	(39,520)
- Impact of minimum funding	(3,250)	(5,520)	(7,460)	(7,030)	(8,780)
<b>Deficit on funded defined benefit scheme</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Discretionary benefits	(1,020)	(890)	(980)	(960)	(900)
<b>Total (Deficit)</b>	<b>(1,020)</b>	<b>(890)</b>	<b>(980)</b>	<b>(960)</b>	<b>(900)</b>

The split of the defined benefit obligation at the last valuation date between the various categories of members was as follows: active members 5%, deferred pensioners 10% and pensioners 85%.

The liabilities show the underlying commitments that the Authority has in the long run to pay post employment (retirement) benefits. The total liability of £40.420m has an impact on the net worth of the Authority recorded on the balance sheet, resulting in a negative pension balance of £0.900m. 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 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 contributions expected to be made to the Local Government Pension Scheme by the Authority in the year to 31 March 2020 is nil. In addition, Strain on the Fund contributions may be required. Expected payments direct to beneficiaries in the year to 31 March 2020 are £0.05m in relation to unfunded benefits.

### Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels etc. Both the Local Government Pension Scheme and Discretionary Benefits liabilities have been assessed by Aon, an independent firm of actuaries, estimates for the pension fund being based on the latest full valuation of the scheme as at 31 March 2016.

The weighted average duration of the defined benefit obligation for scheme members is 13.3 years.

The principal assumptions used by the actuary have been:

	Local Government		Discretionary Benefits	
	2017/18	2018/19	2017/18	2018/19
<b>Mortality assumptions:</b>				
Longevity at 65 for current pensioners:				
Men	22.9	22.2	22.9	22.2
Women	26.4	25.3	26.4	25.3
Rate for discounting scheme liabilities	2.6%	2.4%	2.6%	2.4%
Rate of inflation - Retail Price Index	3.2%	3.3%	3.2%	3.3%
Rate of inflation - Consumer Price Index	2.1%	2.2%	2.1%	2.2%
Rate of increase in pensions	2.1%	2.2%	2.1%	2.2%
Pension accounts revaluation rate	2.1%	2.2%	n/a	n/a
Rate of increase in salaries	3.6%	3.7%	n/a	n/a

The approximate split of assets for the Fund as a whole is shown in the table below:

	31 March 2018	31 March 2019		
	% Total	% Quoted	% Unquoted	% Total
Equity investments	67.0%	58.0%	7.0%	65.0%
Property	8.5%	0.0%	8.8%	8.8%
Government bonds	4.0%	4.1%	0.0%	4.1%
Corporate bonds	11.7%	11.7%	0.0%	11.7%
Cash	3.7%	2.7%	0.0%	2.7%
Other*	5.1%	3.5%	4.2%	7.7%
<b>Total</b>	<b>100.0%</b>	<b>80.0%</b>	<b>20.0%</b>	<b>100.0%</b>

\* Other holdings may include hedge funds, currency holdings, asset allocation futures and other financial instruments. It is assumed that these will generate a return in line with equities.

#### Actual Return on Assets

	Local Government	
	2017/18	2018/19
	£000	£000
Interest Income on Assets	1,120	1,180
Remeasurement gain/(loss) on assets	570	2,510
<b>Actual Return on Assets</b>	<b>1,690</b>	<b>3,690</b>

#### Sensitivity Analysis

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the tables above. The sensitivity analyses below have been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all the other assumptions remain constant. The assumptions in longevity, for example, assume that life expectancy increases or decreases for men and women. In practice, this is unlikely to occur, and changes in some of the assumptions may be interrelated. The estimations in the sensitivity analysis have followed the accounting policies for the scheme, i.e. on an actuarial basis using the projected unit credit method. The methods and types of assumptions used in preparing the sensitivity analysis below did not change from those used in the previous period.

Sensitivity analysis of unfunded benefits has not been included on materiality grounds.

	+0.1% per annum	Base Figure	-0.1% per annum
<b>Discount rate assumption</b>			
<b>Adjustment to discount rate</b>			
Present value of total obligation (£M)	39.00	39.52	40.05
% change in present value of total obligation	-1.30%		1.30%
Projected service cost (£M)	0.46	0.48	0.50
Approximate % change in projected service cost	-3.90%		4.00%

	<b>+0.1% per annum</b>	<b>Base Figure</b>	<b>-0.1% per annum</b>
<b>Rate of general increase in salaries</b>			
<b>Adjustment to salary increase rate</b>			
Present value of total obligation (£M)	39.52	39.52	39.52
% change in present value of total obligation	0.00%		0.00%
Projected service cost (£M)	0.48	0.48	0.48
Approximate % change in projected service cost	0.00%		0.00%

	<b>+0.1% per annum</b>	<b>Base Figure</b>	<b>-0.1% per annum</b>
<b>Rate of increase to pensions in payment and deferred pensions assumption, and rate of revaluation of pension accounts assumption</b>			
<b>Adjustment to pension increase rate</b>			
Present value of total obligation	40.51	39.52	38.57
% change in present value of total obligation	2.50%		-2.40%
Projected service cost (£M)	0.50	0.48	0.46
Approximate % change in projected service cost	4.00%		-3.90%

	<b>- 1 year</b>	<b>Base Figure</b>	<b>+ 1 year</b>
<b>Post retirement mortality assumption</b>			
<b>Adjustment to mortality age rating assumption *</b>			
Present value of total obligation (£M)	41.06	39.52	37.98
% change in present value of total obligation	3.90%		-3.90%
Projected service cost (£M)	0.50	0.48	0.46
Approximate % change in projected service cost	3.90%		-3.90%

\* a rating of +1 year means that members are assumed to follow the mortality pattern of the base table for an individual that is 1 year older than them

**Note 20: Usable Reserves**

	Note	31/03/2018 £000	31/03/2019 £000
General Fund Balance	21	(32,808)	(22,830)
Earmarked Reserves		(14,651)	(9,792)
Capital Receipts Reserve		(682)	(2,502)
Capital Grants Unapplied Reserve		(7,727)	(11,673)
<b>Total</b>		<b>(55,868)</b>	<b>(46,797)</b>

The **General Fund Balance** is the statutory fund into which all the receipts of an authority are required to be paid and out of which all liabilities of the authority are to be met, except to the extent that statutory rules might provide otherwise. These rules can also specify the financial year in which liabilities and payments should impact on the General Fund Balance, which is not necessarily in accordance with proper accounting practice. The General Fund Balance therefore summarises the resources that the authority is statutorily empowered to spend on its services or on capital investment (or the deficit of resources that the authority is required to recover) at the end of the financial year.

**Earmarked Reserves** are amounts which the authority has chosen to set aside from the General Fund Balance to be used for specific purposes.

The **Capital Receipts Reserve** holds the proceeds from the disposal of land or other assets, which are restricted by statute from being used other than to fund new capital expenditure or to be set aside to finance historical capital expenditure. The balance on the reserve shows the resources that have yet to be applied for these purposes at the year-end.

The **Capital Grants Unapplied Reserve** holds the grants and contributions received towards capital projects for which the authority has met the conditions that would otherwise require repayment of the monies by which have yet to be applied to meet expenditure. The balance is restricted by grant terms as to the capital expenditure against which it can be applied and/or the financial year in which this can take place.

**Note 21: Transfers (to)/From Earmarked Reserves**

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

	Opening Balance 1 April 2017	Transfers Out 2017/18	Transfers In 2017/18	Balance at 31 March 2018	Transfer to NTCA 2 November 2018	NECA Balance at 2 November 2018	Transfers Out from 2 November to 31 March 2019	Transfers In from 2 November to 31 March 2019	Balance at 31 March 2019
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Metro Reinvigoration Reserve	(9,126)	49	(41)	(9,118)	4,037	(5,081)	-	(27)	(5,108)
Metro Fleet Replacement Reserve	-	-	(3,333)	(3,333)	1,476	(1,857)	-	(1,873)	(3,730)
North East LEP Restricted Cashable Reserve - RGF Interest	(539)	-	(253)	(792)	-	(792)	-	(142)	(934)
North East LEP Restricted Cashable Reserve - GPF Loan Repayments	-	8	(1,416)	(1,408)	-	(1,408)	1,706	(298)	-
Transforming Cities Fund Support	-	-	-	-	-	-	-	(20)	(20)
<b>Total</b>	<b>(9,665)</b>	<b>57</b>	<b>(5,043)</b>	<b>(14,651)</b>	<b>5,513</b>	<b>(9,138)</b>	<b>1,706</b>	<b>(2,360)</b>	<b>(9,792)</b>

**Note 22: Unusable Reserves****Summary**

	<b>31 March 2018 £000</b>	<b>31 March 2019 £000</b>
Capital Adjustment Account	(105,885)	(67,448)
Financial Instruments Adjustment Account	5,638	3,681
Revaluation Reserve	(8,434)	(4,619)
Pension Reserve	960	900
<b>Total</b>	<b>(107,721)</b>	<b>(67,486)</b>

**Capital Adjustment Account**

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

The CAA 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 3 provides details of the source of all the transactions posted to the CAA, apart from those involving the Revaluation Reserve.

	<b>£000</b>
<b>Opening Balance 1 April 2017</b>	<b>(99,672)</b>
<b>Reversal of items relating to capital expenditure debited or credited to the CIES:</b>	
Charges for depreciation and impairment of non current assets	3,890
Other income that cannot be credited to the General Fund	(5,092)
Revenue expenditure funded from capital under statute	82,432
Write down of long term debtors	2,387
<b>Adjusting amounts written out of the Revaluation Reserve</b>	<b>(146)</b>
<b>Capital financing applied in the year:</b>	
Capital grants and contributions credited to the CIES that have been applied to capital financing	(83,299)
Statutory provision for the financing of capital investment	(2,557)
Capital expenditure charged against the General Fund	(2,129)
Debt redeemed using capital receipts	(1,699)
<b>Balance at 31 March 2018</b>	<b>(105,885)</b>
<b>Reversal of items relating to capital expenditure debited or credited to the CIES to 2 November 2018:</b>	
Charges for depreciation and impairment of non current assets	2,287
Other income that cannot be credited to the General Fund	(3,000)
Revenue expenditure funded from capital under statute	5,144
Write down of long term debtors	-
<b>Adjusting amounts written out of the Revaluation Reserve to 2 November 2018</b>	<b>-</b>

<b>Capital financing applied in the year to 2 November 2018:</b>	
Capital grants and contributions credited to the CIES that have been applied to capital financing	(6,200)
Statutory provision for the financing of capital investment	(981)
Capital expenditure charged against the General Fund	-
Debt redeemed using capital receipts	-
<b>Balance at date of reconfiguration</b>	<b>(108,635)</b>
<b>Transferred to the NTCA</b>	<b>37,748</b>
<b>Reversal of items relating to capital expenditure debited or credited to the CIES to 31 March 2019:</b>	
Charges for depreciation and impairment of non current assets	4,044
Other income that cannot be credited to the General Fund	(1,166)
Revenue expenditure funded from capital under statute	57,695
Write down of long term debtors	3,794
<b>Adjusting amounts written out of the Revaluation Reserve to 31 March 2019</b>	<b>(81)</b>
<b>Capital financing applied in the year to 31 March 2019</b>	<b>0</b>
Capital grants and contributions credited to the CIES that have been applied to capital financing	(58,300)
Statutory provision for the financing of capital investment	(540)
Capital expenditure charged against the General Fund	(24)
Debt redeemed using capital receipts	(1,983)
<b>Balance at 31 March 2019</b>	<b>(67,448)</b>

### Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account (FIAA) absorbs the timing differences arising from the different arrangements for accounting for income and expense relating to certain financial instruments and for bearing losses or benefitting 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.

	<b>£000</b>
<b>Opening Balance 1 April 2017</b>	<b>7,030</b>
Proportion of premiums incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements	(803)
Amount by which finance costs charged to the CIES are different from finance costs chargeable in the year in accordance with statutory requirements	(589)
<b>Balance at 31 March 2018</b>	<b>5,638</b>
Proportion of premiums incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements - to 2 November 2018	(477)
<b>Balance at date of reconfiguration</b>	<b>5,161</b>
<b>Transferred to the NTCA</b>	<b>(935)</b>
Amount by which finance costs charged to the CIES are different from finance costs chargeable in the year in accordance with statutory requirements	(545)
<b>Balance at 31 March 2019</b>	<b>3,681</b>

## Revaluation Reserve

The Revaluation Reserve (RR) 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
- Disposed of and the gains are realised

The RR only contains 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 CAA.

	£000
<b>Opening Balance 1 April 2017</b>	<b>(8,580)</b>
Difference between fair value depreciation and historical cost depreciation written off to the CAA	146
<b>Balance at 31 March 2018</b>	<b>(8,434)</b>
<b>Transferred to the NTCA 2 November 2018</b>	<b>3,734</b>
Difference between fair value depreciation and historical cost depreciation written off to the CAA	81
<b>Balance at 31 March 2019</b>	<b>(4,619)</b>

## 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 CIES as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on 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.

	£000
<b>Opening Balance 1 April 2017</b>	<b>980</b>
Remeasurements of the net defined benefit liability (asset)	(280)
Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the CIES	310
Employer's pension contributions and direct payments to pensioners payable in the year	(50)
<b>Balance at 31 March 2018</b>	<b>960</b>
Remeasurements of the net defined benefit liability (asset)	-
Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the CIES	-
Employer's pension contributions and direct payments to pensioners	-
<b>Balance at 31 March 2019</b>	<b>960</b>



**Note 23: Capital Expenditure and Capital Financing**

	£000
<b>Opening Capital Financing Requirement 1 April 2017</b>	<b>199,660</b>
<b>Capital Investment</b>	
Property, Plant and Equipment	2,976
Revenue Expenditure Funded from Capital Under Statute	82,432
<b>Sources of Finance</b>	
Capital receipts - repayment of principal from long term debtors	(1,699)
Government Grants and other contributions	(83,299)
<b>Sums set aside from revenue</b>	
Direct revenue contributions	(2,129)
Minimum Revenue Provision	(2,111)
Additional Voluntary Provision	(447)
<b>Closing Capital Financing Requirement 31 March 2018</b>	<b>195,383</b>
Decrease in underlying need to borrow (unsupported by government financial assistance)	<b>(4,277)</b>

	£000
<b>Opening Capital Financing Requirement 1 April 2018</b>	<b>195,383</b>
<b>Capital Investment to 2 November 2018</b>	
Property, Plant and Equipment	2,702
Revenue Expenditure Funded from Capital Under Statute	5,144
<b>Sources of Finance to 2 November 2018</b>	
Capital receipts - repayment of principal from long term debtors	-
Government Grants and other contributions	(6,200)
<b>Sums set aside from revenue to 2 November 2018</b>	
Direct revenue contributions	-
Minimum Revenue Provision	(981)
<b>Closing Capital Financing Requirement 2 November 2018</b>	<b>196,048</b>
<b>Transfer to NTCA</b>	<b>(86,805)</b>
<b>NECA Capital Financing Requirement 2 November 2018</b>	<b>109,243</b>
<b>Capital Investment to 31 March 2019</b>	
Property, Plant and Equipment	1,511
Revenue Expenditure Funded from Capital Under Statute	57,695
<b>Sources of Finance to 31 March 2019</b>	
Capital receipts - repayment of principal from long term debtors	(1,983)
Government Grants and other contributions	(58,300)
<b>Sums set aside from revenue to 31 March 2019</b>	
Direct revenue contributions	(24)
Minimum Revenue Provision	(387)
Additional Voluntary Provision	(153)
<b>Closing Capital Financing Requirement 31 March 2019</b>	<b>107,601</b>
Decrease in underlying need to borrow (unsupported by government financial assistance)	<b>(977)</b>

**Note 24: Adjustments to net surplus or deficit on the provision of services for non cash movements and items that are Investing or Financing activities**

	2017/18 £000	2018/19 £000
Surplus/(Deficit) on the provision of services	(7,379)	7,574
<b>Adjustments to Surplus/(Deficit) on Provision of Services for Non-Cash Movements</b>		
Depreciation and Impairment	3,890	6,331
(Increase)/Decrease in Creditors	(18,208)	480
Increase/(Decrease) in Debtors	(5,711)	5,787
Movement in Pension Liability	260	550
Other non-cash items charged to the net surplus or deficit on the provision of services	(5,681)	(4,165)
	<b>(25,450)</b>	<b>8,983</b>
<b>Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities</b>		
Capital grants credited to surplus/(deficit) on provision of services	(65,301)	(68,990)
<b>Net cash flow from operating activities</b>	<b>(98,130)</b>	<b>(52,433)</b>

The cash flows for operating activities include the following items:

	2017/18 £000	2018/19 £000
Interest received	2,717	3,491
Interest paid	(7,119)	(6,317)

**Note 25: Cash Flow Statement - Investing Activities**

	2017/18 £000	2018/19 £000
Purchase of property, plant and equipment, investment property and intangible assets	4,479	(4,212)
Purchase of short-term and long-term investments	(53,000)	(144,426)
Proceeds from short-term and long-term investments	79,000	116,517
Other receipts from investing activities	68,348	71,011
<b>Net cash flows from investing activities</b>	<b>98,827</b>	<b>38,890</b>

**Note 26: Cash Flow Statement - Financing Activities**

	2017/18 £000	2018/19 £000
Repayments of short and long-term borrowing	(676)	(548)
<b>Net cash flows from financing activities</b>	<b>(676)</b>	<b>(548)</b>

## Note 27: Accounting Standards Issued, Not Yet Adopted

### Impact of the adoption of new accounting standards on the 2018/19 Financial Statements

At the balance sheet date, the following new standards and amendments to existing standards have been published but not yet adopted by the Code of Practice of Local Authority Accounting in the United Kingdom:

- **IFRS 16 Leases** will require local authorities that are lessees to recognise most leases on their balance sheets as right-of-use assets with corresponding lease liabilities (there is recognition for low-value and short-term leases). CIPFA/LASAAC have deferred implementation of IFRS 16 for local government to 1 April 2020.

- **IAS 40 Investment Property: Transfers of Investment Property** provides further explanation of the instances in which a property can be reclassified as investment property. NECA does not currently classify any of its assets as investment property.

- **IFRIC 22 Foreign Currency Transactions and Advance Consideration** clarifies the treatment of payments in a foreign currency made in advance of obtaining or delivering services or goods. NECA does not have any material transactions within the scope of this amendment.

- **IFRIC 23 Uncertainty over Income Tax Treatments** provides additional guidance on income tax treatment where there is uncertainty. This will have no impact on the NECA accounts.

- **IFRS 9 Financial Instruments: prepayment features with negative compensation** amends IFRS 9 to make clear that amortised cost should be used where prepayments are substantially lower than the unpaid principal and interest. NECA currently has no loans to which this will apply.

## Note 28: Critical Judgements in Applying Accounting Policies

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

### Service Concession Arrangements

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

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

For arrangements falling under the scope of IFRIC 12, the public sector entity will recognise the cost of the Property, Plant and Equipment underlying the service concession as a tangible fixed asset. The New Tyne Crossing concession has been judged to meet both of the IFRIC 12 criteria and, accordingly, the cost of the new Tunnel and the refurbishment of the existing Tunnel are recorded within the Authority's Property, Plant and Equipment on the Balance Sheet.

### Transferred Assets and Liabilities in Local Government Pension Scheme transferred to TT2 Ltd

Assets and liabilities relating to membership accrued before 1 February 2008 transferred to TT2 Ltd on commencement of the concessionaire agreement. 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, the authority will be required to reimburse the shortfall. As a result of the most recent triennial valuation, there is currently no reimbursement due.

**Accounting for the North East Joint Transport Committee**

As set out in Note 1, on 2 November 2018 the boundaries of NECA changed and the North East Joint Transport Committee was created. The assets and liabilities which transferred from the former Tyne and Wear Integrated Transport Authority to NECA on its creation in April 2014 are now jointly owned by NECA and the NTCA, and assets, liabilities, income and expenditure (from the date of establishment) must be divided between the accounts of the two Combined Authorities.

For many of the assets and liabilities and revenue streams, these cannot be separated into those which relate to the authorities which are part of NECA and those which relate to the authorities which are part of NTCA. As a result, these balances have been apportioned between the two Combined Authorities on the basis of Tyne and Wear population.

## Note 29: Assumptions made about the future and other major 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 2019 for which there is a risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Authority with expert advice about the assumptions to be applied.	<p>The approximate impact of changing the key assumptions on the present value of the funded defined benefit obligation as at 31 March 2019 and the projected service cost for the year ending 31 March 2020 are set out below.</p> <p>Discount rate assumption, an adjustment to the discount rate of +0.1% p.a. would decrease the present value of the total obligation to £39.0m, a variance of £0.52m, whereas a decrease of (0.1%) p.a. results in an increase to £40.05m. The percentage change in the present value of the total obligation would be (1.3%) and 1.3% respectively.</p>
		Rate of increase to pensions in payment and deferred pensions assumption, and rate of revaluation of pension accounts assumption: an adjustment to the pension increase rate of +0.1% p.a. would increase the present value of the total obligation by £0.99m to £40.51m, whereas a decrease of (0.1%) p.a. results in a decrease to £38.57m, a variance of £0.95m. The percentage change in the present value of the total obligation would be 2.5% and (2.4%) respectively.
		Post retirement mortality assumption: an adjustment to the mortality age rating assumption of -1 year would change the present value of the total obligation to £41.06m, an increase of £1.54m, whereas a adjustment of +1 year results in a reduction to £37.98m, a variance of £1.54m. The percentage change in the present value of the total obligation would be 3.9% and (3.9%) respectively.

## **Note 30: Accounting Policies**

### **1. General Principles**

The Statement of Accounts summarises the Authority's transactions for the 2018/19 financial year and its position at the year-end of 31 March 2019. The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015, which those Regulations require to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, 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.

The Code requires that a Local Authority's Statement of Accounts is prepared on a 'going concern' basis, that is, the accounts are based on the assumption that the Authority will continue in operational existence for the foreseeable future.

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

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue from the sale of goods is recognised when the Authority transfers the significant risks and rewards of ownership to the purchaser and it is probable that the economic benefits or service potential associated with the transaction will flow to the Authority.
- Revenue from the provision of services is recognised when the Authority can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.
- Supplies are recorded as expenditure when they are consumed - where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payments on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument, rather than the cash flows fixed or determined by the contract.

- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded on the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected. The Authority has a policy of not accruing for manual sundry creditor or sundry debtor provisions for less than £1,000, other than in exceptional circumstances.

### **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 less than 90 days 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**

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

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

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

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

## **7. Employee Benefits**

### **Benefits Payable during Employment**

Short-term employee benefits are those due to be settled within 12 months of the year end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render service to the Authority. Due to the small number of employees the Authority has, 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 is immaterial and therefore an accrual will not be made. This approach will be reviewed each year to ensure it is still an appropriate treatment.

### **Termination Benefits**

Termination benefits are amounts which would be payable as a result of a decision by the Authority to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis to the Non Distributed Costs line in the Comprehensive Income and Expenditure Statement when the Authority is demonstrably committed to the termination of the employment of an officer or group of officers or making an offer to encourage voluntary redundancy.



Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Authority to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination 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.

No such amounts are payable in 2018/19.

## **8. Post-Employment Benefits**

NECA is a member of the Local Government Pension Scheme, which provides members with defined benefits relating to pay and service. Its pension obligations relate primarily to former employees.

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

The Local Government Scheme is accounted for as a defined benefits scheme:

- The liabilities of the pension fund attributable to the Authority 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 and projections of earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate determined annually, based on the indicative rate of return on high quality corporate bonds.
- 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 the following 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 NECA Corporate line.

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

c) Net interest on the net defined liability, i.e. net interest expense for the Authority the change during the period in the net defined benefit liability that arises from the passage of time charged to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure statement. This is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability at the beginning of the period taking into account any changes in the net defined benefit liability during the period as a result of contribution and benefit payments.

d) Remeasurements comprising:

- the return on plan assets, excluding amounts included in net interest on the net defined benefit liability, charged to the Pensions Reserve as Other Comprehensive Income & Expenditure
- actuarial gains and losses, changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions, charged to the Pensions Reserve as Other Comprehensive Income and Expenditure

e) 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 Note 19 to the accounts.

## **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. Fair Value Measurement

The Authority measures some of its non-financial assets such as surplus assets and investment properties and some of its financial instruments such as equity shareholdings at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

- a) in the principal market for the asset or liability, or
- b) in the absence of a principal market, in the most advantageous market for the asset or liability.

The Authority measures the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

When measuring the fair value of a non-financial asset, the Authority takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Authority uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the Authority's financial statements are categorised within the fair value hierarchy, as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the Authority can access at the measurement date
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3 – unobservable inputs for the asset or liability.

## 11. 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 recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of the financial instrument and are classified into three types using an approach that is based on the business model for holding the financial assets and their cashflow characteristics.

- Amortised Cost - assets held within a business model with the sole objective of collecting contractual cash flows on specified dates that are solely payments of principal and interest.

- Fair Value through other comprehensive income (FVOCI) - assets held within a business model with the objective to either sell the asset or collect contractual cash flows on specified dates that are solely payments of principal and interest.
- Fair value through profit and loss (FVPL) – objectives are achieved by any other means than collecting contractual cash flows.

The Authority can at initial recognition of the asset override the above classifications in the following circumstances and the decision is irrevocable:

- An equity instrument can be elected into FVOCI rather than FVPL if it is not held for trading.
- Any financial asset can be designated as measured at FVPL if this removes any deemed inconsistency in measurement by treating assets based upon the above classification.

### **Amortised Cost**

Financial assets measured at amortised cost 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 CIES 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 financial assets held by the authority, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the CIES is the amount receivable for the year in the loan agreement.

However, the authority has made a number of loans to organisations at less than market rates (soft loans). When soft loans are made, a loss is recorded in the CIES (debited to the appropriate service) for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal.

Interest is credited to the Financing and Investment Income and Expenditure line in the CIES at a marginally higher effective rate of interest than the rate receivable from the organisations, with the difference serving to increase the amortised cost of the loan in the Balance sheet. Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year - the reconciliation of amounts debited and credited to the CIES to net gain 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.

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

### **Expected Credit Loss Model**

The authority recognises expected credit losses on all of its financial assets held at amortised cost, either on a 12-month or lifetime basis. Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses.

### **Fair Value Through Other Comprehensive Income**

Changes in fair value are recorded against Other Comprehensive Income and Expenditure gain/loss by an entry in the Financial Instrument Revaluation Reserve through the Movement in Reserves Statement.

However, interest is charged to the Surplus/Deficit on the Provision of Services as though the asset had been measured at amortised cost.

Where assets are identified as impaired because of a likelihood arising from a future event that cashflows due under the contract will not be made a charge for the value of the impairment is made to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement with a corresponding entry being recognised in Other Comprehensive Income through the Financial Instruments Revaluation Reserve on the Balance Sheet.

When the asset is de-recognised the cumulative gain or loss previously recognised in Other Comprehensive Income is reclassified from the Financial Instrument Revaluation Reserve to the Surplus/Deficit on the Provision of Services as a reclassification adjustment.

### **Fair Value through Profit and Loss (FVPL)**

Financial assets that are measured at FVPL 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. Fair value gains and losses are recognised as they arrive in the Surplus or Deficit on the Provision of Services. The fair value measurements of the financial assets are based on the following techniques:

- Instruments with quoted market prices - the market price
- Other instruments with fixed and determinable payments - discounted cash flow analysis.

The inputs to the measurement techniques are categorised in accordance with the following three levels:

- Level 1 inputs - quoted prices (unadjusted) in active markets for identical assets that the authority can access at the measurement date.
- Level 2 inputs - inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly.
- Level 3 inputs - unobservable inputs for the asset.

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.

## **12. 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 and capital grants used to fund Revenue Expenditure Financed from Capital Under Statute) or Taxation and Non-Specific Grant Income (non-ring-fenced 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.

### **13. 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 for it 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 Authority does not capitalise borrowing costs incurred whilst assets are under construction.

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 assets - depreciated historical cost.
- Assets Under Construction - cost
- All other assets – current 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 current 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. The work is carried out on behalf of the Authority by the Property Services division of Newcastle City Council. 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 as follows:

- 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 deminimis level for capital expenditure means that in the above categories assets below the deminimis 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 deminimis 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 as follows:

- 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 and adjusted for depreciation that would have been charged if the loss had not been recognised.

## **Depreciation**

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

Depreciation on all Property, Plant and Equipment assets (except vehicles) is calculated by taking the asset value at 31 March 2019, divided by remaining life expectancy. Depreciation is charged in the year of acquisition, but not the year of disposal. Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation that would have been chargeable based on their historic cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

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

## Disposals

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previous losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell. Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. Receipts are 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 general fund, 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 scope of the Application where both of the following 'IFRIC 12' criteria are met:

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

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

In most arrangements within the scope of the Application, the grantor will account for the arrangement's financing by recording and measuring a long term liability in accordance with 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 Ltd. (the Operator) receives a defined proportion of the total toll revenue and uses this to meet its cost of constructing and operating both vehicle tunnels. NECA 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 NECA 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 Shadow Tolls;
- The Formula Tolls are the initially-defined sequence of tolls to be charged to users and collected by NECA. If NECA varies a Real Toll from its corresponding Formula Toll beyond a certain level, the Operator is compensated for the effect of this adjustment on demand.

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

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

In relation to such an arrangement, the Code and the accompanying notes 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. NECA has therefore recognised a deferred credit balance, added to as each of Phase 1 and Phase 2 of the project were 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. There are no contingent liabilities disclosed in 2018/19.

## **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.

## **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 & 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 NECA 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 different areas of NECA activity (e.g. Transport, Economic Development, Corporate) in accordance with estimated work done on each area.

## **21. Tyne Tunnels Income**

The majority of the income from tolls is received on a cash basis. Accruals are made to apportion income credited to the bank account to the correct financial year. Prepayments on permit accounts are also received, and the balance on these accounts are accrued as income received in advance at the year end.

## **22. Group Accounts**

NECA is required by the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 to produce Group Accounts to include services provided to Council Tax payers in the North East 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 Combined Authorities and Passenger Transport Executives, it is recognised that the accounts of Nexus fall within the definition of a subsidiary. As such, group accounts have been prepared on the basis of a full consolidation of the financial transactions and balances of NECA 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 2018/19 accounts, NECA has fully complied with the requirements of the Code, providing Group figures for 2018/19 and comparators for 2017/18. From 2010/11, Passenger Transport Executives have been required to produce their accounts under International Financial Reporting Standards, and as if the proper practices in relation to accounts applicable to a local authority were, so far as appropriate, applicable to an Executive. The group financial statements are prepared in accordance with the policies set out in the Statement of Accounting Policies above.

## **23. Joint Transport Committee**

On 2 November 2018, the Newcastle upon Tyne, North Tyneside and Northumberland Combined Authority (Establishment and Functions) Order 2018 (the Order) changed the boundaries of NECA and established the new mayoral combined authority.

The reconfiguration of NECA has been classed as a transfer by absorption meaning:

- NECA has accounted for its control up to the date of the reconfiguration albeit with clear disaggregation of the financial results relating to the functions being transferred;
- Assets and liabilities transferred at book value.

The Order establishing the NTCA also required the seven local authorities to establish the Joint Transport Committee (JTC). 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:

- 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).
- 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 and argument, the division of assets, liabilities and expenditure incurred will also be divided on this basis.

## 3.1 Group Movement in Reserves Statement [to be updated]

	Note	NECA Usable Reserves	NECA Unusable Reserves	Total NECA Reserves	Authority Share of Nexus	Total Group Reserves
		£000	£000	£000	£000	£000
<b>Balance at 1 April 2017</b>		<b>(70,456)</b>	<b>(100,242)</b>	<b>(170,698)</b>	<b>(462,113)</b>	<b>(632,811)</b>
Total Comprehensive Income and Expenditure		7,379	(280)	7,099	17,856	24,955
Adjustments between accounting basis & funding basis under regulations		7,200	(7,200)	-	-	-
Net (Increase)/Decrease before transfers to Earmarked Reserves		14,579	(7,480)	7,099	17,856	24,955
Transfers (To)/From Earmarked Reserves		-	-	-	-	-
<b>(Increase)/Decrease in 2017/18</b>		<b>14,579</b>	<b>(7,480)</b>	<b>7,099</b>	<b>17,856</b>	<b>24,955</b>
<b>Balance at 31 March 2018 carried forward</b>		<b>(55,877)</b>	<b>(107,722)</b>	<b>(163,599)</b>	<b>(444,257)</b>	<b>(607,856)</b>
Total Comprehensive Income and Expenditure (prior to transfer of services)				-		-
Adjustments between accounting basis & funding basis under regulations (prior to transfer of services)				-	-	-
<b>Balance at 1 November 2018</b>		<b>(55,877)</b>	<b>(107,722)</b>	<b>(163,599)</b>	<b>(444,257)</b>	<b>(607,856)</b>
<b>Transfer of Services to the NTCA at 2 November 2018</b>		<b>16,951</b>	<b>40,548</b>	<b>57,499</b>	<b>198,458</b>	<b>255,957</b>
<b>Balance at 2 November 2018</b>		<b>(38,926)</b>	<b>(67,174)</b>	<b>(106,100)</b>	<b>(245,799)</b>	<b>(351,899)</b>
Total Comprehensive Income and Expenditure (subsequent to transfer of services)		(5,638)	(380)	(6,018)	(1,575)	(7,593)
Adjustments between accounting basis & funding basis under regulations (subsequent to transfer of services)		(194)	194	-	-	-
Net (Increase)/Decrease before transfers to Earmarked Reserves		(5,832)	(186)	(6,018)	(1,575)	(7,593)
Transfers (To)/From Earmarked Reserves		-	-	-	-	-
<b>(Increase)/Decrease in 2018/19</b>		<b>(5,832)</b>	<b>(186)</b>	<b>(6,018)</b>	<b>(1,575)</b>	<b>(7,593)</b>
<b>Balance at 31 March 2019 carried forward</b>		<b>(44,758)</b>	<b>(67,360)</b>	<b>(112,118)</b>	<b>(247,375)</b>	<b>(359,493)</b>

## 3.2 Group Comprehensive Income and Expenditure Statement

2017/18 - Restated				Note	2018/19		
Gross Expenditure	Gross Income	Net Expenditure			Gross Expenditure	Gross Income	Net Expenditure
£000	£000	£000			£000	£000	£000
			<b>Continuing NECA Services</b>				
549	(543)	6	Corporate		1,044	(311)	733
609	(432)	177	Inward Investment		295	(294)	1
60,292	(41,673)	18,619	Local Growth Fund Programme		52,283	(52,022)	261
4,898	(3,954)	944	North East Local Enterprise Partnership		5,248	(1,753)	3,495
326	(326)	-	Skills		767	(762)	5
252	-	252	Transport - Retained Levy Budget		105	-	105
15,477	-	15,477	Transport - Durham		15,692	-	15,692
102,558	(44,510)	58,048	Transport - Tyne and Wear		86,198	(44,333)	41,864
13,448	(13,503)	(55)	Transport - Other		7,530	(13,972)	(6,442)
13,118	(17,909)	(4,790)	Transport - Tyne Tunnels		16,527	(17,805)	(1,278)
<b>211,527</b>	<b>(122,849)</b>	<b>88,678</b>	<b>Cost of services relating to continuing services excluding operations transferred to the NTCA</b>		<b>185,689</b>	<b>(131,252)</b>	<b>54,436</b>
			<b>Services transferred to the NTCA - income and expenditure for the period 1 April 2018 - 1 November 2018</b>				
6,217	-	6,217	Transport - Northumberland		3,585	-	3,585
200	-	200	Transport - Retained Levy Budget		39	-	39
81,493	(35,368)	46,125	Transport - Tyne and Wear		59,240	(20,549)	38,690
10,686	(10,729)	(43)	Transport - Other		2,320	(2,316)	4
10,424	(14,230)	(3,807)	Transport - Tyne Tunnels		6,399	(9,159)	(2,760)
<b>109,020</b>	<b>(60,328)</b>	<b>48,692</b>	<b>Cost of services relating to services transferred to the NTCA</b>		<b>71,583</b>	<b>(32,024)</b>	<b>39,558</b>
<b>320,547</b>	<b>(183,177)</b>	<b>137,370</b>	<b>Cost of services</b>		<b>257,272</b>	<b>(163,277)</b>	<b>93,995</b>
			<b>Financing and Investment Income and Expenditure</b>	G2			
5,056	(1,213)	3,843	- From continuing services		6,132	(2,382)	3,750

North East Combined Authority Statement of Accounts 2018/19

4,017	(964)	3,053	- From services transferred to the NTCA		1,982	(186)	1,796
			<b>Taxation and Non-Specific Grant Income</b>	G3			
-	(65,252)	(65,252)	- From continuing services		-	(66,209)	(66,209)
-	(51,849)	(51,849)	- From services transferred to the NTCA		-	(26,359)	(26,359)
			<b>(Gain)/Loss on disposal or derecognition of non-current assets</b>				
		(11)	- From continuing services				(11)
		(9)	- From services transferred to the NTCA				(5)
		<b>27,145</b>	<b>(Surplus)/Deficit on Provision of Services</b>				<b>6,957</b>
			<b>Other Comprehensive Income and Expenditure</b>				
		(2,471)	<b>Re-measurement of the defined benefit liability</b>	G11			(10,022)
		282	<b>Taxation of Group Entities</b>	G12			(418)
		<b>24,956</b>	<b>Total Comprehensive Income and Expenditure</b>				<b>(3,483)</b>

The 2017/18 figures have been restated to reflect the new presentation required as a result of the reconfiguration of the North East Combined Authority and the establishment of the North of Tyne Combined Authority (NTCA) during 2018/19.

## 3.3 Group Ba 3.3 Group Balance Sheet

01 April 2017 Restated £000	31 March 2018 Restated £000		Note	31 March 2019 £000
839,114	843,217	Property, Plant and Equipment	G5	466,715
3,294	2,860	Intangible Assets	G6	1,483
16,583	15,467	Long Term Debtors	G7	12,029
1	1	Long Term Investments	G7	1
<b>858,992</b>	<b>861,545</b>	<b>Long Term Assets</b>		<b>480,228</b>
98,000	72,000	Short Term Investments	G7	65,281
21,923	25,645	Short Term Debtors	G8	17,794
49,432	59,878	Cash and Cash Equivalents	G9	21,964
901	2,852	Inventories		1,647
<b>170,256</b>	<b>160,375</b>	<b>Current Assets</b>		<b>106,686</b>
(2,611)	(2,596)	Short Term Borrowing	G7	(1,288)
(67,286)	(59,976)	Short Term Creditors	G10	(29,636)
(2,483)	(2,329)	Grants Receipts in Advance	G4	(1,205)
(5,093)	(5,092)	New Tyne Crossing Deferred Income		(2,838)
<b>(77,473)</b>	<b>(69,993)</b>	<b>Current Liabilities</b>		<b>(34,967)</b>
(101,845)	(96,753)	New Tyne Crossing Deferred Income		(51,076)
(167,667)	(167,000)	Long Term Borrowing	G7	(92,508)
(971)	(793)	Grants Receipts in Advance	G4	(125)
(42,200)	(71,541)	Pension Liability	G11	(76,472)
(1,304)	(3,222)	Provisions		(2,562)
(4,977)	(4,763)	Deferred Taxation	G12	(2,578)
<b>(318,964)</b>	<b>(344,072)</b>	<b>Long Term Liabilities</b>		<b>(225,322)</b>
<b>632,811</b>	<b>607,855</b>	<b>Net Assets</b>		<b>326,626</b>
(113,670)	(76,036)	Usable Reserves	G13	(42,052)
(519,141)	(531,819)	Unusable Reserves	G14	(284,574)
<b>(632,811)</b>	<b>(607,855)</b>	<b>Total Reserves</b>		<b>(326,626)</b>

## Chief Finance Officer Certificate

I certify that the accounts set out on pages 68 to 90 give a true and fair view of the financial position of the North East Combined Authority Group as at the 31 March 2019.

Signed: John Hewitt, Chief Finance Officer

Signed: Paul Woods, Interim Chief Finance Officer to 31 March 2019

**3.4 Group Cash Flow Statement [to be updated]**

<b>2017/18 £000</b>		<b>Note</b>	<b>2018/19 £000</b>
(27,145)	Net Surplus/(Deficit) on the provision of services	G15	
40,438	Adjustments to net surplus or deficit on the provision of services for non-cash movements	G15	
(95,160)	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	G15	
<b>(81,867)</b>	<b>Net cash flows from Operating Activities</b>	G15	
94,503	Investing Activities	G16	
(2,190)	Financing Activities	G17	
<b>10,446</b>	<b>Net (Decrease)/Increase in cash and cash equivalents</b>		
49,432	Cash and cash equivalents at the beginning of the reporting period		
-	Shown in accounts of NTCA at 31 March 2019		
<b>59,878</b>	<b>Cash and cash equivalents at the end of the reporting period</b>	G9	

## 3.5 Explanatory Notes to the Group Financial Statements

### G1 Group Accounts

Under the Code of Practice for Local Authority Accounting 2018/19, authorities with interests in subsidiaries, associates and/or joint ventures shall prepare Group Accounts in addition to their single entity financial statements, unless their interest is considered to be not material.

Nexus is the only subsidiary for the North East Combined Authority, and the Group Accounts have been prepared on a consolidation basis. The accounting policies adopted by Nexus are largely aligned with those of NECA with the following minor differences:

#### Deferred Taxation

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

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

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

- 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

Details of NECA depreciation policy can be found on page 61 of the single entity accounts.

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

Where Group Accounts are required, authorities must provide 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 at [www.nexus.org.uk](http://www.nexus.org.uk)

**Note G2: Financing and Investment Income and Expenditure**

	Note	2017/18	2018/19	
			Continuing Services	Transport Services transferred to NTCA - 1 April 2018 - 1 November 2018
		£000	£000	£000
Interest Payable and Similar Charges	19	7,471	4,362	1,982
Interest Payable on defined benefit liability		1,602	1,770	-
Interest Receivable and similar income		(2,177)	(2,382)	(186)
<b>Total</b>		<b>6,896</b>	<b>3,750</b>	<b>1,796</b>

**Note G3: Taxation and Non Specific Grant Income**

	2017/18	2018/19	
		Continuing Services	Transport Services transferred to NTCA - 1 April 2018 - 1 November 2018
	£000	£000	£000
Transport Levy	(84,744)	(50,133)	(18,689)
Enterprise Zones Income	(1,626)	(1,675)	-
Non Specific Capital Grants	(30,730)	(14,401)	(7,670)
<b>Total</b>	<b>(117,100)</b>	<b>(66,209)</b>	<b>(26,359)</b>



**Note G4: Grant Income**

	2017/18	2018/19	
		Continuing Services	Transport Services transferred to NTCA - 1 April 2018 - 1 November 2018
	£000	£000	£000
LEP Core and Capacity Grant	(500)	(500)	-
Growth Hub	(410)	(410)	-
Local Authority Contributions to NECA	(440)	(440)	-
Local Authority Contribution to North East LEP	(250)	(250)	-
Local Growth Fund	(42,506)	(51,706)	-
Local Transport Plan	(22,889)	(7,773)	(2,316)
European Grants	(569)	(1,034)	(234)
North East Smart Ticketing Initiative	(527)	(463)	-
Transforming Cities Fund	-	(5,600)	-
LEP Local Industrial Strategy Grant	-	(176)	-
Office for Low Emission Vehicles	-	(393)	(234)
Other Grants	(991)	(468)	-
Metro Rail Grant	(25,110)	(14,327)	(6,641)
Heavy Rail Grant	(262)	(140)	(65)
<b>Total</b>	<b>(94,454)</b>	<b>(83,680)</b>	<b>(9,490)</b>

The Authority has received a number of grants and contributions that have yet to be recognised as income as they have conditions attached to them that if not met will require the monies or property to be returned to the giver. The balances at the year-end are as follows:

Grants Receipts in Advance	31 March 2018 £000	31 March 2019 £000
North East Smart Ticketing Initiative	(1,396)	(316)
Office for Low Emission Vehicles	(1,500)	(443)
Other Grants	(225)	(571)
<b>Total</b>	<b>(3,121)</b>	<b>(1,330)</b>

Shown as Short-Term Liability on the Balance Sheet	(2,328)	(1,205)
Short as Long-Term Liability on the Balance Sheet	(793)	(125)
<b>Total</b>	<b>(3,121)</b>	<b>(1,330)</b>

## Note G5: Property, Plant and Equipment [to be updated]

2018/19	Vehicles, Plant, Furniture & Equipment £000	Infrastructure Assets £000	Assets Under Construction £000	Land and Buildings £000	Total Property, Plant & Equipment £000
<b>Cost or Valuation</b>					
At 1 April 2018	34,975	1,071,546	43,586	1,739	1,151,846
Additions	-	-	17,773	-	17,773
Transfers from Assets Under Construction	1,485	17,062	(18,620)	-	(73)
Derecognition - Disposals	(58)	(2,109)	-	-	(2,167)
<b>At 2 November 2018</b>	<b>36,402</b>	<b>1,086,499</b>	<b>42,739</b>	<b>1,739</b>	<b>1,167,379</b>
Transferred to the NTCA	(16,118)	(481,075)	(18,924)	(770)	(516,887)
Additions	-	24	7,486	-	7,510
Transfers from Assets Under Construction	591	6,791	(7,411)	-	(29)
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of	-	(24)	-	-	(24)
Derecognition - Disposals	(23)	(839)	-	-	(862)
<b>At 31 March 2019</b>	<b>20,852</b>	<b>611,376</b>	<b>23,890</b>	<b>969</b>	<b>657,087</b>
<b>Accumulated Depreciation and Impairment</b>					
At 1 April 2018	(20,843)	(287,122)	-	(666)	(308,631)
Depreciation charge for the period 1/4/18-1/11/18	(1,575)	(16,288)	-	(23)	(17,886)
Derecognition - Disposals	56	2,002	-	-	2,058
<b>At 2 November 2018</b>	<b>(22,362)</b>	<b>(301,408)</b>	<b>-</b>	<b>(689)</b>	<b>(324,459)</b>
Transferred to the NTCA	9,902	133,456	-	305	143,663
Depreciation charge for the period 2/4/18-31/3/19	(627)	(6,462)	-	(9)	(7,098)
Derecognition - Disposals	22	797	-	-	819
<b>At 31 March 2019</b>	<b>(13,065)</b>	<b>(173,617)</b>	<b>-</b>	<b>(393)</b>	<b>(187,075)</b>

Net Book Value					
At 1 April 2018	14,132	784,424	43,586	1,073	843,215
At date of reconfiguration	14,040	785,091	42,739	1,050	842,920
At 31 March 2019	7,787	437,759	23,890	576	470,012

2017/18 (restated)

	Vehicles, Plant, Furniture & Equipment £000	Infrastructure Assets £000	Assets Under Construction £000	Land and Buildings £000	Total Property, Plant & Equipment £000
<b>Cost or Valuation</b>					
At 1 April 2017	34,283	1,057,285	51,936	1,739	1,145,243
Assets reclassified	-	-	-	-	-
Transfers from assets under construction	896	42,671	(43,567)	-	-
Derecognition - disposals	(206)	(4,492)	-	-	(4,698)
Derecognition - other	-	-	-	-	-
Additions	-	8	35,217	-	35,225
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	-	(8)	-	-	(8)
At 31 March 2018	34,973	1,095,464	43,586	1,739	1,175,762
<b>Accumulated Depreciation and Impairment</b>					
At 1 April 2017	(18,678)	(286,825)	-	(625)	(306,128)
Reclassification	-	-	-	-	-
Depreciation Adjustment	-	(27)	-	-	(27)
Depreciation Charge for the Year	(2,371)	(26,007)	-	(41)	(28,419)
Derecognition - disposals	206	1,823	-	-	2,029
At 31 March 2019	(20,843)	(311,036)	-	(666)	(332,545)
<b>Net Book Value</b>					
At 1 April 2017	15,605	770,460	51,936	1,114	839,115
At 31 March 2018	14,130	784,428	43,586	1,073	843,217

**Note G6: Intangible Assets**

Intangible assets in the Group Accounts relate wholly to Nexus.

2018/19	2017/18 (restated) £000	2018/19 £000
<b>Cost or Valuation</b>		
Opening Balance	8,141	8,157
Transferred to the NTCA 2 November 2018		(3,720)
Additions	16	343
<b>Total</b>	<b>8,157</b>	<b>4,780</b>
<b>Amortisation</b>		
Opening Balance	4,847	5,297
Transferred to the NTCA 2 November 2018	-	(2,506)
Amortisation provided during the period	450	506
<b>Total</b>	<b>5,297</b>	<b>3,297</b>
<b>Net Book Value at 31 March</b>	<b>2,860</b>	<b>1,483</b>

**Note G7: Financial Instruments [to be updated]**

A financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Non-exchange transactions, such as those relating to taxes and government grants, do not give rise to financial instruments. The following categories of financial instrument are carried in the balance sheet:

**Financial Assets**

A financial asset is a right to future economic benefits controlled by the Authority that is represented by cash or other instruments or a contractual right to receive cash or another financial asset. The financial assets held by the Authority during the year are held under the following classifications.

	31 March 2018 £000	31 March 2019 £000
<b>Financial assets at amortised cost</b>		
Trade receivables	11,713	12,925
Other loans and receivables	18,693	16,393
Held to maturity investments (short term)	72,000	65,281
Long term investments	1	1
<b>Total</b>	<b>102,407</b>	<b>94,600</b>

**Financial assets at amortised cost (2018/19 loans and receivables)**

Financial assets are classified at amortised cost only if both of the following criteria are met:

- The asset is held within a business model whose objective is to collect the contractual cash flows; and
- The contractual terms give rise to cash flows that are solely payments of principal and interest

All of NECA's financial assets fit these criteria and are classified at amortised cost.

**Trade receivables**

Trade receivables are amounts due for goods and services delivered. They are generally due for settlement within 30 days and are therefore classified as current. Trade receivables are recognised initially at the amount of the consideration. Trade receivables are held with the objective of collecting the contractual cash flows and are therefore measured at amortised cost using the effective interest method.

Due to the short-term nature of held to maturity investments their carrying value is considered to be the same as their fair value.

**Financial Liabilities**

A financial liability is an obligation to transfer economic benefits controlled by the Authority and can be represented by a contractual obligation to deliver cash or financial assets or an obligation to exchange financial assets and liabilities with another entity that is potentially unfavourable to Authority.

The Authority's financial liabilities held during the year are measured at amortised cost and comprised:

	31 March 2018 £000	31 March 2019 £000
<b>Borrowings:</b>		
Short term borrowing	(2,596)	(1,288)
Financial liabilities at amortised cost - long term borrowing	(167,000)	(92,508)
<b>Total borrowings</b>	<b>(169,596)</b>	<b>(93,796)</b>
<b>Short term creditors</b>	<b>(59,976)</b>	<b>(29,636)</b>

**Note G8: Short Term Debtors**

	<b>31 March 2018 £000</b>	<b>31 March 2019 £000</b>
Central Government bodies	14,567	8,012
Other local authorities	2,235	5,518
NHS bodies	81	45
Other entities and individuals	8,762	4,219
<b>Total</b>	<b>25,645</b>	<b>17,794</b>

**Note G9: Cash and Cash Equivalents**

	<b>31 March 2018 £000</b>	<b>31 March 2019 £000</b>
Cash	21,928	11,170
Short-term deposits with financial institutions	37,950	10,794
<b>Total</b>	<b>59,878</b>	<b>21,964</b>

**Note G10: Short Term Creditors**

	<b>31 March 2018 £000</b>	<b>31 March 2019 £000</b>
Central government bodies	(2,882)	(515)
Other local authorities	(30,838)	(11,415)
Other entities and individuals	(26,256)	(17,707)
<b>Total</b>	<b>(59,976)</b>	<b>(29,636)</b>

**Note G11: Defined Benefit Pension Schemes [to be updated]**

The Authority participates in two post-employment schemes:

(i) The largest of the two, the Tyne and Wear Pension Fund is administered locally by South Tyneside Council - this is a funded, defined benefit schemes, meaning that the Authority and employees pay contributions into a fund, calculated at a level intended to balance the pension liabilities with investments.

(ii) Unfunded defined benefit arrangements for the award of discretionary post-employment benefits upon early retirement. Under this type of scheme liabilities are recognised when awards are made. However there are no investment assets built up to meet these liabilities and cash has to be generated to meet actual pension payments as they fall due.

The Group pension liability of £36.799 is the sum of the NECA, Nexus and NEMOL pension liability. The details of the NEMOL pension liability of £28.369m (of which £15.808m is attributable to NECA on population basis) are set out within the NEMOL Annual Report and Accounts using the FRS 102 disclosure framework. The details of the NECA pension liability of £0.502m and the NECA share of the total Nexus pension liability of £36.770m (£20.489m attributable to NECA on population basis) is set out below.

**Transactions Relating to Post-employment Benefits**

We recognise the cost of retirement benefits in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge we are required to make against the General Fund 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 the General Fund Balance via the Movement in Reserves Statement during the year:

**Amounts recognised in profit and loss and other comprehensive income**

	Local Government Pension Scheme		Discretionary Benefits	
	2017/18	2018/19	2017/18	2018/19
	£000	£000	£000	£000
<b>Comprehensive Income and Expenditure Statement</b>				
<b>Cost of Services:</b>				
Current service cost	12,258		-	
<b>Financing and Investment Income and Expenditure</b>				
Interest on net defined benefit liability (asset)	1,482		120	
Expected return on pension assets	-		-	
<b>Pension expense recognised in profit and loss</b>	<b>13,740</b>		<b>120</b>	
<b>Other Post Employment Benefits charged to the Comprehensive Income and Expenditure Statement:</b>				
Return on plan assets (in excess of)/below that recognised in net interest	(3,840)		-	
Actuarial (gains)/losses due to changes in financial assumptions	(372)		-	
Actuarial (gains)/losses due to changes in demographic assumptions	-		-	
Actuarial (gains)/losses due to changes in liability assumptions	2,311		50	
Adjustment in respect of paragraph 58	(620)		-	
<b>Total amount recognised in Other Comprehensive Income</b>	<b>(2,521)</b>		<b>50</b>	
<b>Total amount recognised</b>	<b>11,219</b>		<b>170</b>	

**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	
	2017/18	2018/19	2017/18	2018/19
	£000	£000	£000	£000
<b>Opening balance at 1 April</b>	<b>(378,764)</b>		<b>(5,130)</b>	
<b>Transferred to NTCA 2 November 2018</b>	-		-	
<b>NECA balance 2 November 2018</b>	<b>(378,764)</b>		<b>(5,130)</b>	
Current service cost	(12,258)		-	
Interest cost	(9,450)		(120)	
Contributions by participants	(2,481)		-	
Actuarial gains/(losses) on liabilities - financial assumptions	(1)		-	
Actuarial gains/(losses) on liabilities - demographic assumptions	-		-	
Actuarial gains/(losses) on liabilities - experience	(2,310)		(50)	
Net benefits paid out	10,102		430	
Past service costs	-		-	
<b>Closing balance at 31 March</b>	<b>(395,162)</b>		<b>(4,870)</b>	

**Reconciliation of the fair value of the scheme assets:**

	Local Government Pension Scheme		Discretionary Benefits	
	2017/18	2018/19	2017/18	2018/19
	£000	£000	£000	£000
<b>Opening balance at 1 April</b>	<b>324,420</b>		-	
<b>Transferred to NTCA 2 November 2018</b>	-		-	
<b>NECA balance 2 November 2018</b>	<b>324,420</b>		-	
Interest income on assets	8,158		-	
Remeasurement gains/(losses) on assets	4,212		-	
Employer contributions	6,352		430	
Contributions by scheme participants	2,481		-	
Net benefits paid out	(10,102)		(430)	
<b>Closing balance at 31 March</b>	<b>335,521</b>		-	

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

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



Scheme History	2014/15 £000	2015/16 £000	2016/17 £000	2017/18 £000	2018/19 £000
<b>Fair value of LGPS assets</b>	<b>218,780</b>	<b>222,650</b>	<b>271,850</b>	<b>335,521</b>	<b>164,604</b>
Present value of liabilities:					
- LGPS liabilities	(258,730)	(251,680)	(301,460)	(395,162)	
- Impact of minimum funding	(3,250)	(5,520)	(7,460)	(7,030)	
<b>Deficit on funded defined benefit scheme</b>	<b>(43,200)</b>	<b>(34,550)</b>	<b>(37,070)</b>	<b>(66,671)</b>	
Discretionary benefits	(5,680)	(5,090)	(5,130)	(4,870)	
<b>Total (Deficit)</b>	<b>(48,880)</b>	<b>(39,640)</b>	<b>(42,200)</b>	<b>(71,541)</b>	

The split of the defined benefit obligation for the NECA fund at the last valuation date between the various categories of members was as follows: active members 5%, deferred pensioners 10% and pensioners 85%.

The split of the defined benefit obligation for the Nexus fund at the last valuation date between the various categories of members was as follows: active members 34%, deferred pensioners 10% and pensioners 56%.

The liabilities show the underlying commitments that the Authority has in the long run to pay post employment (retirement) benefits. The total liability of £178.117m has an impact on the net worth of the Authority recorded on the balance sheet, resulting in a negative pension balance of £21.403m. 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 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 contributions expected to be made to the Local Government Pension Scheme by the Authority in the year to 31 March 2020 is £4m. In addition, Strain on the Fund contributions may be required. Expected payments direct to beneficiaries in the year to 31 March 2020 are £0.23m in relation to unfunded benefits.

### Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels etc. Both the Local Government Pension Scheme and Discretionary Benefits liabilities have been assessed by Aon, an independent firm of actuaries, estimates for the pension fund being based on the latest full valuation of the scheme as at 31 March 2016.

The principal assumptions used by the actuary have been:

	Local Government		Discretionary Benefits	
	2017/18	2018/19	2017/18	2018/19
<b>Mortality assumptions:</b>				
Longevity at 65 for current pensioners:				
Men	22.9	22.2	22.9	22.2
Women	26.4	25.3	26.4	25.3
Rate for discounting scheme liabilities	2.6%	2.4%	2.6%	2.4%
Rate of inflation - Retail Price Index	3.2%	3.3%	3.2%	3.3%
Rate of inflation - Consumer Price Index	2.1%	2.2%	2.1%	2.2%
Rate of increase in pensions	2.1%	2.2%	2.1%	2.2%
Pension accounts revaluation rate	2.1%	2.2%	n/a	n/a
Rate of increase in salaries	3.6%	3.7%	n/a	n/a

The approximate split of assets for the Fund as a whole is shown in the table below:

	31 March 2018	31 March 2019		
	% Total	% Quoted	% Unquoted	% Total
Equity investments	67.0%	58.0%	7.0%	65.0%
Property	8.5%	0.0%	8.8%	8.8%
Government bonds	4.0%	4.1%	0.0%	4.1%
Corporate bonds	11.7%	11.7%	0.0%	11.7%
Cash	3.7%	2.7%	0.0%	2.7%
Other*	5.1%	3.5%	4.2%	7.7%
<b>Total</b>	<b>100.0%</b>	<b>80.0%</b>	<b>20.0%</b>	<b>100.0%</b>

\* Other holdings may include hedge funds, currency holdings, asset allocation futures and other financial instruments. It is assumed that these will generate a return in line with equities.

#### Actual Return on Assets

	Local Government	
	2017/18	2018/19
	£000	£000
Interest Income on Assets	8,158	
Remeasurement gain/(loss) on assets	4,212	
<b>Actual Return on Assets</b>	<b>12,370</b>	

#### Sensitivity Analysis

Sensitivity analysis of NECA pension liabilities is set out on pages 39 to 40 of the single entity accounts. Sensitivity analysis of the Nexus pension liabilities is shown below.

The approximate impact of changing the key assumptions on the present value of the funded defined benefit obligation as at 31 March 2018 and the projected cost for the period ending 31 March 2019 is set out below. In each case, only the assumption mentioned is altered, all other assumptions remain the same.

	+0.1% per annum	Base Figure	-0.1% per annum
<b>Discount rate assumption</b>			
<b>Adjustment to discount rate</b>			
Present value of total obligation (£M)	275.37	280.31	285.34
% change in present value of total obligation	-1.80%		1.80%
Projected service cost (£M)	6.22	6.41	6.61
Approximate % change in projected service cost	-3.00%		3.10%

	+0.1% per annum	Base Figure	-0.1% per annum
<b>Rate of general increase in salaries</b>			
<b>Adjustment to salary increase rate</b>			
Present value of total obligation (£M)	281.56	280.31	279.08
% change in present value of total obligation	0.40%		-0.40%
Projected service cost (£M)	6.41	6.41	6.41
Approximate % change in projected service cost	0.00%		0.00%

<b>Rate of increase to pensions in payment and deferred pensions assumption, and rate of revaluation of pension accounts assumption</b>	<b>+0.1% per annum</b>	<b>Base Figure</b>	<b>-0.1% per annum</b>
<b>Adjustment to pension increase rate</b>			
Present value of total obligation	284.08	280.31	276.59
% change in present value of total obligation	1.30%		-1.30%
Projected service cost (£M)	6.61	6.41	6.22
Approximate % change in projected service cost	3.10%		-3.00%

	<b>+0.1% per annum</b>	<b>Base Figure</b>	<b>-0.1% per annum</b>
<b>Post retirement mortality assumption</b>			
<b>Adjustment to mortality age rating assumption *</b>			
Present value of total obligation (£M)	289.22	280.31	271.48
% change in present value of total obligation	3.20%		-3.10%
Projected service cost (£M)	6.66	6.41	6.16
Approximate % change in projected service cost	3.90%		-3.80%

\* a rating of +1 year means that members are assumed to follow the mortality pattern of the base table for an individual that is 1 year older than them

**Note G12: Deferred Taxation**

The movement for the year comprises:

	2017/18 £000	2018/19 £000
Capital Allowances	(293)	(137)
Roll over relief on capital gains	(1)	-
Other timing differences	80	-
Amount transferred to NTCA 2 November 2018	-	-
<b>Total</b>	<b>(214)</b>	<b>(137)</b>

The balance at the year end comprises:

	31 March 2018 £000	31 March 2019 £000
Excess of capital allowances over depreciation	(3,531)	(1,892)
Roll over relief on capital gains	(1,232)	(687)
Other timing differences	-	-
Tax effect of losses	-	-
<b>Total</b>	<b>(4,763)</b>	<b>(2,578)</b>

**Note G13: Usable Reserves**

	31/03/2018 Restated £000	31/03/2019 £000
General Fund Balance	(32,808)	(22,830)
Earmarked Reserves	(14,649)	(9,792)
Capital Receipts Reserve	(692)	(2,502)
Capital Grants Unapplied Reserve	(7,728)	(11,673)
Nexus Revenue Reserves	(18,747)	(9,016)
Nexus Capital Reserves	(29,153)	(18,390)
Pensions (NEMOL)	27,741	32,152
<b>Total</b>	<b>(76,036)</b>	<b>(42,052)</b>

**Note G14: Unusable Reserves [to be updated]****Summary**

	<b>31 March 2018 £000</b>	<b>31 March 2019 £000</b>
Capital Adjustment Account	(572,135)	
Financial Instruments Adjustment Account	5,637	
Revaluation Reserve	(9,120)	
Pension Reserve	43,800	
<b>Total</b>	<b>(531,818)</b>	<b>(284,574)</b>

Details of movements on the Financial Instruments Adjustment Account is shown on pages 42 to 43 of the NECA single entity accounts. These reserves relate to NECA only.

**Revaluation Reserve**

The Revaluation Reserve (RR) 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
- Disposed of and the gains are realised

The RR only contains 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 CAA.

	<b>£000</b>
<b>Opening Balance 1 April 2017</b>	<b>(9,266)</b>
Difference between fair value depreciation and historical cost depreciation written off to the CAA	146
<b>Balance at 31 March 2018</b>	<b>(9,120)</b>
<b>Transferred to the NTCA 2 November 2018</b>	<b>4,038</b>
Difference between fair value depreciation and historical cost depreciation written off to the CAA	81
<b>Balance at 31 March 2019</b>	<b>(5,001)</b>

**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 CIES as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Authority makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a shortfall in the benefits earned by past and current employees and the resources the Authority has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

	<b>£000</b>
<b>Opening Balance 1 April 2017</b>	<b>42,200</b>

Remeasurements of the net defined benefit liability (asset)	(2,471)
Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the CIES	38,594
Employer's pension contributions and direct payments to pensioners payable in the year	(6,782)
<b>Balance at 31 March 2018</b>	<b>71,541</b>
Remeasurements of the net defined benefit liability (asset) to 2 November 2018	(3,405)
Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the CIES to 2 November 2018	230
Employer's pension contributions and direct payments to pensioners payable to 2 November 2018	(30)
<b>Balance at date of reconfiguration</b>	<b>68,336</b>
<b>Transferred to the NTCA</b>	<b>(30,258)</b>
Remeasurements of the net defined benefit liability (asset) to 31 March 2019	(1,375)
Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the CIES to 31 March 2019	106
Employer's pension contributions and direct payments to pensioners payable to 31 March 2019	(11)
<b>Balance at 31 March 2019</b>	<b>36,798</b>

#### Nexus Grant Deferred Account

	<b>£000</b>
<b>Opening Balance 1 April 2017</b>	<b>(432,094)</b>
Capital grants released	24,697
Capital grants applied	(33,185)
<b>Balance at 31 March 2018</b>	<b>(440,582)</b>
Capital grants released	16,112
Capital grants applied	(16,266)
<b>Balance at date of reconfiguration</b>	<b>(440,736)</b>
<b>Transferred to the NTCA</b>	<b>195,147</b>
Capital grants released	6,413
Capital grants applied	(6,474)
<b>Balance at 31 March 2019</b>	<b>(245,650)</b>

#### Nexus Unusable Capital Reserve

	<b>£000</b>
<b>Opening Balance 1 April 2017</b>	<b>(27,338)</b>
Depreciation	1,670
<b>Balance at 31 March 2018</b>	<b>(25,668)</b>
Depreciation	(180)
<b>Balance at date of reconfiguration</b>	<b>(25,848)</b>
<b>Transferred to the NTCA</b>	<b>11,445</b>
Depreciation	(71)
<b>Balance at 31 March 2019</b>	<b>(14,474)</b>

**Note G15: Adjustments to net surplus or deficit on the provision of services for non cash movements and items that are Investing or Financing activities [to be updated]**

	2017/18 £000	2018/19 £000
Surplus/(Deficit) on the provision of services	(27,145)	
<b>Adjustments to Surplus/(Deficit) on Provision of Services for Non-Cash Movements</b>		
Depreciation, Impairment and Amortisation	28,904	
Loss on disposal of non-current assets	2,648	
(Increase)/Decrease in Creditors	(13,229)	
Increase/(Decrease) in Debtors	(2,654)	
Increase/(Decrease) in Inventories	(1,951)	
Movement in Pension Liability	31,812	
Other non-cash items charged to the net surplus or deficit on the provision of services	(5,092)	
	<b>40,438</b>	
<b>Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities</b>		
Capital grants credited to surplus/(deficit) on provision of services	(95,769)	
Other adjustments for items that are financing or investing activities	609	
<b>Net cash flow from operating activities</b>	<b>(81,867)</b>	

The cash flows for operating activities include the following items:

	2017/18 £000	2018/19 £000
Interest received	1,288	
Interest paid	(7,119)	

**Note G16: Cash Flow Statement - Investing Activities [to be updated]**

	2017/18 £000	2018/19 £000
Purchase of property, plant and equipment, investment property and intangible assets	(27,785)	
Purchase of short-term and long-term investments	(53,000)	
Other payments for investing activities	(1,699)	
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	20	
Proceeds from short-term and long-term investments	79,000	
Other receipts from investing activities	97,967	
<b>Net cash flows from investing activities</b>	<b>94,503</b>	

**Note G17: Cash Flow Statement - Financing Activities [to be updated]**

	2017/18 £000	2018/19 £000
Repayments of short and long-term borrowing	(742)	
Other payments for financing activities	(1,448)	
<b>Net cash flows from financing activities</b>	<b>(2,190)</b>	



## 4.0 Supplemental Information

### 4.1 Glossary of Terms

Abbreviations	The symbol 'k' following a figure represents £ thousand. The symbol 'm' following a figure represents £ million.
Accruals	Income and expenditure are recognised as they are earned or incurred, not as money is received or paid.
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 & Expenditure Statement	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.
Corporate & Democratic Core	The corporate & democratic core comprises all activities which local authorities engage in specifically because they are elected, multipurpose 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, for example, charges for the use of leisure facilities.
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 & 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.
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 misstatement in the financial statements could be expected to lead to a distortion of the view given by the financial statements.

Minimum Revenue Provision (MRP)	An amount charged by the Authority to the Comprehensive Income & 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 Authority arising from increases in value as a result of inflation or other factors.
Revenue Expenditure	Expenditure on providing day-to-day services, for example employee costs 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 e.g. grants to other organisations for capital purposes.
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.



## ANNUAL GOVERNANCE STATEMENT 2018/19

In partnership with



Durham County Council



Gateshead Council



South Tyneside Council



Sunderland City Council



North East LEP



NEXUS

## **Annual Governance Statement 2018/19**

<b>Section 1</b>	Introduction
<b>Section 2</b>	Scope of Responsibility
<b>Section 3</b>	The Purpose of the Governance Framework
<b>Section 4</b>	The Governance Framework
<b>Section 5</b>	Annual Review of Effectiveness of Governance Framework
<b>Section 6</b>	North East Joint Transport Committee and North of Tyne Combined Authority
<b>Section 7</b>	Significant Weaknesses in Governance and Internal Control
<b>Section 8</b>	Conclusion
<b>Appendix A</b>	Improvements needed to Governance and Internal Control

### **Section 1: Introduction**

This Annual Governance Statement provides an overview of how the North East Combined Authority's governance arrangements operate, including how they are reviewed annually to ensure they remain effective. The statement also includes activities that may need improvement, but which do not constitute 'significant weaknesses' in our governance and internal control arrangements.

Appendix A of the statement includes the background to the weaknesses and details the actions that will be undertaken to improve their effectiveness.

### **Section 2: Scope Of Responsibility**

The North East Combined Authority (NECA) was established in April 2014 and brought together the seven councils which serve Durham, Gateshead, Newcastle, North Tyneside, Northumberland, South Tyneside and Sunderland.

Following the establishment of a North of Tyne Mayoral Combined Authority (NTCA), On 2 November 2018 the boundaries of NECA were changed. As a result of these governance changes the boundaries of NECA now cover the Local Authorities of Durham, Gateshead, South Tyneside and Sunderland.

NECA and the NTCA continue to work together on a number of areas to support the region, including transport. To oversee strategic transport functions a new North East Joint Transport Committee has been established with members from both Combined Authorities. All seven Local Authorities will remain members of the North East Local Enterprise Partnership to deliver the objectives of the regions Strategic Economic Plan, which is the North East's plan for growing and developing a more productive, inclusive and sustainable regional economy.



NECA is responsible for ensuring that its business is conducted in accordance with the law and proper standards. It is also responsible for ensuring that public money is safeguarded, properly accounted for and used economically, efficiently and effectively. The Authority 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.

In discharging this overall responsibility, the Authority's Leadership Board and Statutory Officers are responsible for putting in place proper arrangements (known as a Governance Framework) for:

- (i) the governance of our affairs and
- (ii) facilitating the effective exercise of our functions, including arrangements for the management of risk

In relation to (ii) the Authority has put in place a system of internal control designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness.

The system of internal control is based on an ongoing process designed to:

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

The Combined Authority has developed a Risk Management Strategy and strategic risk register, which is reported to regular meetings of the Authority's Audit and Standards Committee. This information can be found under the [Audit and Standards Committee on the Authority's web-site](#).

### **Section 3: Purpose Of The Governance Framework**

In addition to the above the Authority's Governance Framework comprises the systems, processes, culture, values and activities through which we are directed and controlled and through which we account to, engage with, creating the conditions of economic growth and investment. It enables us to monitor the achievement of the Authority's objectives and to consider whether those objectives have led to the delivery of appropriate services which represent value for money.

The Governance Framework has been in place for the year ended 31 March 2019 and up to the date of approval of the Authority's Annual Report and Accounts.

This Annual Governance Statement meets the requirements of the Accounts and Audit Regulations 2015 (6) (1) to conduct a review of the effectiveness of the system of internal controls required by Regulation 3 and prepare an Annual Governance Statement.

### **Section 4: The Governance Framework**

The core principals and outcomes of our Governance framework are set out below and through these we will aim to provide strong governance to achieve our objectives:

## 1. Ensuring openness and comprehensive stakeholder engagement

1.1 We ensure that we are clear on delivering the objectives of the Combined Authority and intended outcomes of our [Strategic Economic Plan, January 2019](#), to create the best possible conditions for growing and developing a more productive, inclusive and sustainable regional economy.

1.2 We ensure we assess and review our vision and the implications for our governance arrangements through the budget and performance management framework.

1.3 Meetings, agendas and minutes are accessible via [NECA's website](#). A Forward Plan is available which contains matters which are expected to be the subject of key decisions taken by the Leadership Board. All meetings are held in public (other than where consideration of confidential or exempt information)

1.4 We publish a register of key decisions to notify the public of the most significant decisions it is due to take. Details of each decision are included on the [Forward Plan](#) 28 days before the report is considered and any decision is taken. This allows an opportunity for people to find out about major decisions that the Combined Authority is planning to take.

1.5 Our [Freedom of Information Scheme](#) is published on our website.

1.6 The Authority maintains a [list of significant partners](#). Signed assurance statements are received from each partner which contains an assessment of their governance and internal control systems. The statements provide additional evidence for this AGS.

1.7 Transport is of strategic importance to the North East and together with the North of Tyne Mayoral Combined Authority a [North East Joint Transport Committee](#) has been established bringing together members from both Combined Authorities, allowing effective decision making across the region to ensure that the local needs and transport priorities are delivered.

## 2. Developing the entity's capacity, including the capability of its leadership and the individuals within it

2.1 We have defined and documented in our [Constitution](#) the roles and responsibilities of the Board, Scrutiny and 'proper' officer functions (Head of Paid Service, Monitoring Officer, Chief Finance Officer), with clear delegation arrangements and protocols for effective communication. The collective and individual roles and responsibilities of the Leadership Board, Members and Officers have been agreed by the Combined Authority.

2.2 We identify and aim to address the development needs of members and officers in relation to their strategic roles, and support these with appropriate training.

## 3. Behaving with integrity, demonstrating strong commitment to ethical values and respecting the rule of law

3.1 We review and update our standing orders, standing financial instructions, scheme of delegation and supporting procedure notes/manuals – these clearly define how decisions are taken and the processes and controls required to manage risks. We ensure compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful. The Monitoring Officer advises on compliance with our policy framework, ensuring that decision making is lawful, fair and ethical. Our financial management arrangements conform

to the CIPFA Statement on the Role of the Chief Finance Officer and are the responsibility of the Chief Finance Officer.

3.2 We develop, communicate and embed codes of conduct set out in the Constitution, defining standards of behaviour for Members and Officers working on behalf of the Authority. Audit and Standards Committee deals with issues of conduct and generally promotes high standards among officers and members, reporting annually to Leadership Board. The [Constitution is available on the NECA website](#).

3.3 We ensure that there are effective arrangements for “Whistle-blowing” and for receiving and investigating complaints from the public. Administration of the Authority’s policies on anti-fraud and corruption is undertaken by Internal Audit. [Whistleblowing policy and procedure is at Part 6.5 of our Constitution](#)

3.4 A [Deed of Cooperation](#) was made on the 4 July 2018 between the seven Constituent Authorities in the area that outlines a framework for collaborative working across the region.

3.5 A register of Members’ interests (including gifts and hospitality) is also maintained.

#### 4. Determining the interventions necessary to optimise the achievement of the intended outcomes

4.1 Our scrutiny arrangements enhance accountability and transparency of decision making, The Overview and Scrutiny Call-in Sub Committee acts in accordance with the principles of decision making as set out in our Constitution (Part 13.3) and will call-in decisions where there is evidence which suggests that the decision was not taken in accordance with the principles.

4.2 The Authority’s procurement procedures are carried out in line with financial regulations set out in Part 5 of the Constitution through Service Level Agreements.

4.3 The [Accounts and Transparency](#) page of our website contains the most recent accounts of the North East Combined Authority, and includes monthly spending reports, procurement procedures, lists and registers.

#### 5. Managing risks and performance through robust internal control and strong public financial management

5.1 Our Risk Management Policy and Strategy outlines our arrangements for managing risk. Risk management is an integral part of our decision-making processes. To inform decision making all committee reports include a section which highlights the key risks to the decisions or proposed recommendations and how they are being addressed.

5.2 We have an information governance strategy and framework in place to ensure the effective safeguarding, collection, storage and sharing of the Authority’s data. A Data Protection Officer has been appointed to oversee the data protection strategy and its implementation to ensure compliance with the General Data Protection Regulations.

5.3 The control and financial management arrangements are reviewed by Internal and External Audit throughout the year. The outcome for 2018/19 are noted in Section 5 of this Statement - Annual Review of Effectiveness of Governance Framework.

5.4 The Authority has a robust internal control process in place which supports the

achievement of its objectives while managing risks. The Audit and Standards Committee acts as principle advisory committee to NECA, providing independent assurance on the adequacy of the risk management framework and internal control environment.

5.5 An assessment of the overall adequacy and effectiveness of the framework of governance, risk management and control is provided by the Authority's internal auditors. The Chief Internal Auditor will provide an annual opinion for 2018/19 to support this AGS.

## 6. Defining outcomes in terms of sustainable economic social and environmental benefits

6.1 The North East LEP works with its partners to produce and deliver the Strategic Economic Plan (SEP). The SEP was updated January 2019 at a time of significant change for the global and national economy. New opportunities in technology and areas such as ageing, and the management of climate risks provide potential for economic growth.

6.2 We incorporate good governance arrangements in our partnerships and reflect these in our overall governance arrangements.

## 7. Implementing good practices to transparency, reporting and audit to deliver effective accountability

7.1 Section 5 of this Annual Governance Statement provides the views of our internal and external auditors. Auditors report regularly to Audit and Standards Committee and provide their annual opinion on the adequacy and effectiveness of our governance, risk and control framework.

7.2 We publish details of [delegated decisions on our website](#).

7.3 We ensure that our Audit and Standards Committee undertakes the core functions identified in CIPFA's Audit Committees – Practical Guidance for Local Authorities 2013.

## Section 5: Annual Review Of Effectiveness Of Governance Framework

We have a legal responsibility to conduct an annual review of the effectiveness of our governance framework, including the system of internal control. The review is led by Officers and Members of Audit and Standards Committee who provide independence and challenge. The outcomes of the review were circulated informally to Leadership Board and will be considered further by the Audit and Standards Committee.

The review is informed by:

- (a) The views of our internal auditors, reported to Audit and Standards Committee through regular progress reports, and the Annual Internal Audit Opinion. The Chief Internal Auditor's report to the July Audit and Standards Committee gives the opinion that "the overall adequacy and effectiveness of NECA's governance, risk and control framework during 2018/19 was that there has been an effective system of control in place. No system of control can give absolute assurance against material misstatement or loss and, accordingly, this opinion does not provide such absolute assurance".

- (b) An annual review of the effectiveness of internal audit (as required by Public Sector Internal Audit Standards).
- (c) The views of our external auditors, reported to Audit and Standards Committee through regular progress reports, the Annual Audit Letter and Annual Governance Report. The external auditors Annual Audit Letter for 2018/19 provides an unqualified opinion on the financial statements. The report confirms that NECA has proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.
- (d) The activities and operations of the themes (economic development and regeneration, employability & inclusion, and transport & digital connectivity) and significant partnerships through written assurance statements.
- (e) The views of the Authority's Monitoring Officer, Chief Finance Officer and Senior Information Risk Owner, through written statements.
- (f) The views of Members through the ongoing activities of Audit and Standards Committee (providing independent assurance on the effectiveness of the governance and internal control environment). And an Overview and Scrutiny Committee who review and scrutinise Leadership Board decisions as well as other Transport committee's decisions.
- (g) The Risk Management process, particularly the Strategic Risk Register.
- (h) Performance information which is reported to Leadership Board and other meetings on a regular basis.
- (i) The assurance framework that is in place to ensure Local Growth Fund monies are subject to appropriate levels of internal control and are focussed on the delivery of the Combined Authority's objectives and delivery of the Strategic Economic Plan.
- (j) The North East LEP Annual Performance Review 2018/19, undertaken by MHCLG. No overall rating is given however, ratings have been given in three themes as follows:
  - a. Governance: Good
  - b. Delivery: Good
  - c. Strategy: Exceptional

The North East LEP Board have noted the feedback provided by the department and is committed to continual improvement and believe the outcome to present the North East LEP amongst the strongest performing Local Enterprise Partnerships.

## **Section 6: North East Joint Transport Committee and North of Tyne Combined Authority**

The North East Combined Authority's decision not to proceed with a Mayoral Combined Authority in September 2016 and the withdrawal of the devolution deal has resulted in the seven local authorities that made up a single Combined Authority splitting and forming two combined authorities. This change happened on 2 November 2018. NECA now constitutes the four Local Authority areas south of the River Tyne. The North of Tyne Mayoral Combined Authority now constitutes the three Local Authority's north of the River Tyne, Newcastle, North Tyneside and Northumberland.

Regional transport remains to operate and be governed at the seven Local Authority geography through a newly formed North East Joint Transport Committee, bringing together

the two Combined Authorities which allows effective decision-making across the region to ensure that the local needs and transport priorities are delivered.

NECA as accountable body for the Joint Transport Committee and the functions delegated to it, are responsible for overseeing the legal and financial management of all regional transport resources, recognising that the assets are, in many cases jointly owned by the two Combined Authorities. NECA will also host the Regional Transport Team, including the newly appointed Proper Officer for Transport.

## **Section 7: Significant Weaknesses In Governance and Internal Control**

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

The review highlighted no significant weaknesses in governance or internal control during 2018/19.

## **Section 8: Conclusion**

We consider the governance and internal control environment operating during 2018/19 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. There is however one area that requires improvement during 2019/20 as detailed in Appendix A.

Systems are in place to continually review and improve the governance and internal control environment. Mid-year checks are undertaken to provide assurance that improvements are being implemented and that the assessment is improving.

The annual review has shown that the arrangements for 2018/19 are in place and operating as planned.

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

**Head of Paid Service**

**Chair of the North East Combined Authority**

**Full Name:**

**Full Name:**

**Signature:**

**Signature:**

**Date:**

**Date:**

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

Governance and Internal Control Item	
<p>Tyne Tunnels</p> <p><u>Background/Risk</u></p> <p>The North East Combined Authority (NECA) own the Tyne Tunnels. TT2 Ltd are responsible for the operation and routine maintenance of all the tunnels including the pedestrian and cycle tunnels, however the major maintenance liability for the pedestrian and cycle tunnels is retained by the NECA. This is monitored by Newcastle City Council on behalf of NECA in accordance with the terms of the Concession Project Agreement.</p> <p>In March 2015 the contractor undertaking Phase 3 of the refurbishment works entered administration bringing the project to a halt. Following this NECA took over the role of Main Contractor on the refurbishment of the pedestrian and cyclist tunnels. This role is being undertaken by Newcastle City Council's Building and Commercial Enterprise Division. Bringing the project management in house has minimised further delays and cost risks. This arrangement will continue until the completion of the project.</p> <p>Effective arrangements need to be put in place to deliver the Client Role responsibilities of NECA. Options for Nexus to take over the Client role for NECA are being investigated. The local authority Chief Executives have asked for a formal decision on the transfer to be discussed in more detail over the next few months and Nexus have indicated that the most appropriate time for a transfer of Client responsibility is after the completion and handover of the Pedestrian and Cycle Tunnel.</p> <p>Accountable Officer: Chief Finance Officer</p>	
Action(s) required to enhance effectiveness	Implementation date
Formulate a proposal and obtain agreement to improve clarity, communications, accountability and officer capacity in respect to the governance and management arrangements for the Tyne Tunnels.	31 July 2019
Implement agreed governance and management arrangements for the Tyne Tunnels.	1 October 2019
Handover arrangements for the operation of the newly refurbished Pedestrian and Cycle Tunnels by TT2 need to be put in place this summer prior to the opening of the Tunnels later in the year.	30 April 2019







# **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 31<sup>st</sup> March 2018 and information in year to the end of 1<sup>st</sup> November 2018 for the previous membership of NECA and the position at 31<sup>st</sup> 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](http://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 2<sup>nd</sup> 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 20<sup>th</sup> 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

## Chief Finance Officer's Narrative Report 2018/19

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
<b>Expenditure</b>			
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	-
<b>Total Expenditure</b>	<b>109,560</b>	<b>109,538</b>	<b>(21)</b>
<b>Income</b>			
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
<b>Total Income</b>	<b>(112,839)</b>	<b>(113,012)</b>	<b>(173)</b>
<b>Net Revenue Expenditure to fund from Reserves</b>	<b>(3,279)</b>	<b>(3,474)</b>	<b>(194)</b>

## Chief Finance Officer's Narrative Report 2018/19

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 (£117.8m) appear significantly lower than the reserves at 31 March 2018 (£163.6m). The total of consolidated reserves at 31 March 2019 is £180.1m, which is an underlying £15.5m 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 £158.2m (£194.0m in 2017/18), which after excluding the costs to be included in the NTCA accounts (£27.7m) resulted in a gross cost in the NECA accounts of £130.5m for the year. 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 £66.8m (£90.8m in 2017/18), which after excluding the costs to be included in the NTCA accounts resulted in a gross cost in the NECA accounts of £58.6m for the year. 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.

The balance of usable reserves at the year-end, before reallocation to NTCA was £67.747m, 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

## Chief Finance Officer's Narrative Report 2018/19

received at the end of the year which is expected to be spent in 2019/20; and the increase in the 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 the 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
<b>Total</b>	<b>(55,877)</b>	<b>(67,647)</b>	<b>(11,770)</b>

The CIES shows a net surplus for the year on the Provision of Services of £7.547m. 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.



## Chief Finance Officer's Narrative Report 2018/19

**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
<b>Expenditure</b>				
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	-
<b>Gross Expenditure</b>	<b>3,087</b>	<b>3,233</b>	<b>3,174</b>	<b>(59)</b>
<b>Income</b>				
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)
<b>Gross Income</b>	<b>(2,804)</b>	<b>(3,226)</b>	<b>(3,185)</b>	<b>41</b>
<b>Net (Surplus)/Deficit</b>	<b>283</b>	<b>7</b>	<b>(11)</b>	<b>(18)</b>

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.

## Chief Finance Officer's Narrative Report 2018/19

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)
<b>Total</b>	<b>(574)</b>	<b>(11)</b>	<b>(585)</b>

Further details of the activities of the North East LEP are available at [www.nelep.co.uk](http://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
<b>Business Rate Income EZ Areas</b>						
- 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)	
<b>Gross Income</b>	<b>(1,034)</b>	<b>(1,069)</b>	<b>(1,210)</b>	<b>(1,699)</b>	<b>(1,666)</b>	<b>(1,851)</b>
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
<b>Gross Expenditure</b>	<b>-</b>	<b>9</b>	<b>975</b>	<b>1,427</b>	<b>1,561</b>	<b>1,644</b>
<b>Annual Surplus</b>	<b>(1,034)</b>	<b>(1,060)</b>	<b>(235)</b>	<b>(272)</b>	<b>(105)</b>	<b>(206)</b>
<b>Cumulative Surplus</b>	<b>(1,034)</b>	<b>(2,094)</b>	<b>(2,329)</b>	<b>(2,601)</b>	<b>(2,707)</b>	<b>(2,913)</b>



## Chief Finance Officer's Narrative Report 2018/19

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			
<b>Total</b>	<b>-</b>	<b>3,821</b>	<b>3,821</b>	<b>144</b>	<b>4,109</b>	<b>4,253</b>

### 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,

## Chief Finance Officer's Narrative Report 2018/19

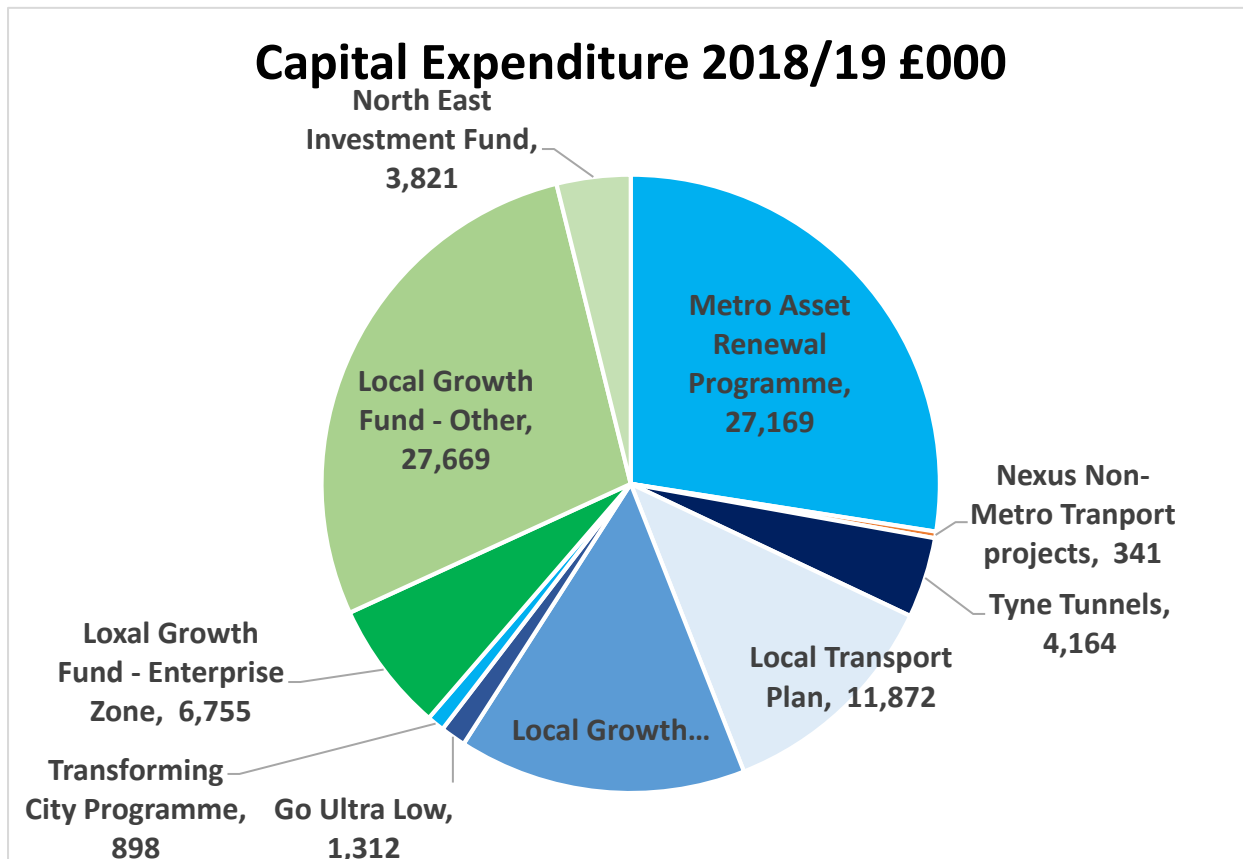
capital expenditure via capital grants to third parties and long-term capital loans to third parties. An analysis of capital investment by programme are shown in the following table and chart, together with a listing of the larger projects.

**Table 7: Capital Expenditure by Programme**

	2018/19	2018/19
	£000	%
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%
<b>Total Funding</b>	<b>98,896</b>	<b>100.0%</b>

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**



## Chief Finance Officer's Narrative Report 2018/19

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:

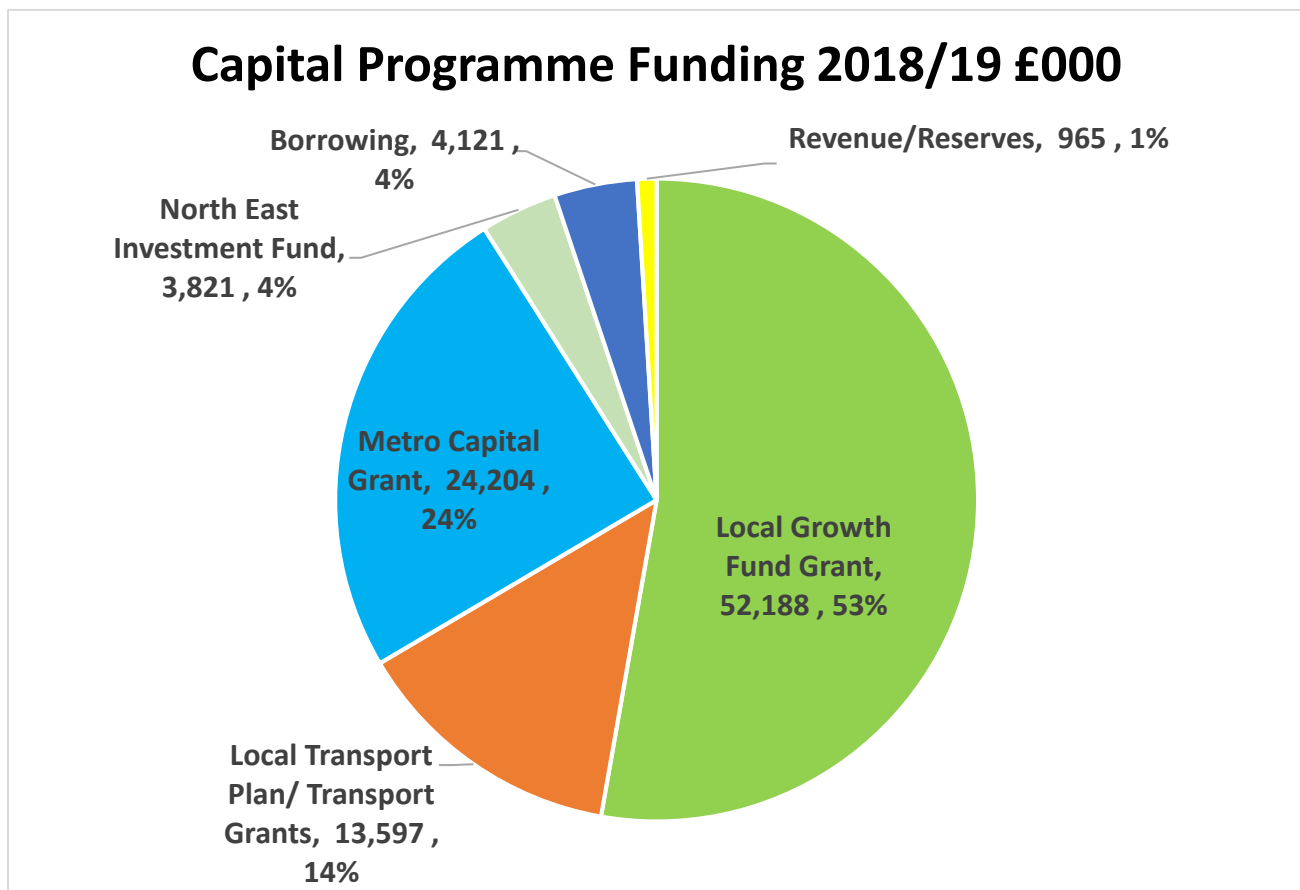
## Chief Finance Officer's Narrative Report 2018/19

**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%
<b>Total Funding</b>	<b>(98,896)</b>	<b>100.0%</b>

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 £12.891m 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 34 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 34 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 £0.90m and this is disclosed on the Balance Sheet on page 8. This compares with a deficit of £0.96m at the end of the previous year.

Further disclosures related to the pension fund are included in Note 19 from pages 36-40 of the Statement of Accounts.

### 10. Net Assets

Total net assets have increased from £163.6m at 31 March 2018 to £180.089m at 31 March 2019, which after excluding the costs to be included in the NTCA accounts resulted in a gross cost in the NECA accounts of £117.8m at 31<sup>st</sup> 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 68.

The NECA Group results show a surplus for the year of £13.423m, 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 £369m at 31 March 2019 (£608m 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 £608m to £631m, 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 £5.468m. This is lower than the loss reported in the prior year of £20.047m. The main cause of the variation is the movement on pension adjustments included within the CIES.

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.



## Chief Finance Officer's Narrative Report 2018/19

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
	<b>(0.924)</b>	<b>(0.975)</b>	<b>0.051</b>

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

The balance of usable revenue reserves stands at £15.7m at the end of the year, of which £10.2m is potentially available to allow the protection of services during the transition to a balanced budget in the medium term. The balance of usable capital reserves stands at £33.0m at the end of the year, of which £27.7m has been earmarked for future investment in the new Metro fleet and other public transport infrastructure. Therefore, the total balance of usable reserves available as a general contingency to provide for unforeseen events is £10.8m.

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 £68.6m, 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 2<sup>nd</sup> 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 31<sup>st</sup> May (previously 30<sup>th</sup> June) for preparation and sign off by the Chief Finance Officer, and for approval and publication of financial statements with audit opinion by 31<sup>st</sup> July (previously 30<sup>th</sup> 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 2<sup>nd</sup> November 2018 and at 31<sup>st</sup> 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 2<sup>nd</sup> 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
<b>NECA</b>		
- Gateshead	201,592	
- South Tyneside	149,418	
- Sunderland	277,962	
	<b>628,972</b>	0.55723
<b>NTCA</b>		
- Newcastle	296,478	
- North Tyneside	203,307	
	<b>499,785</b>	0.44277
<b>Tyne and Wear Total</b>	<b>1,128,757</b>	<b>1.00000</b>

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 2<sup>nd</sup> November 2018 and 31<sup>st</sup> 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 5<sup>th</sup> 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 Nexus 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
<b>NECA Corporate Risks</b>		
<b>Effectiveness</b> The future effectiveness of the North East Combined Authority may be affected by the new devolution arrangements operating North of Tyne.	Amber 8	Static
<b>European Funding 2014-2020</b> 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
<b>Operational Capacity and Resourcing</b> 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

## Chief Finance Officer's Narrative Report 2018/19

North East LEP Risks		
<b><u>Operational Capacity and Resourcing</u></b> 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.	Amber 8	Static
<b><u>Increase in the role and scope of LEPs by Government with no new resource to support the additional responsibility(ies)</u></b> 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.	Red 12	Static
<b><u>Government Capital Funding</u></b> 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).	Red 12	Static
<b><u>European Funding</u></b> 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.	Amber 9	Static
<b><u>North East devolution</u></b> 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.	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.

## Chief Finance Officer's Narrative Report 2018/19

**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
<b>405,912</b>	<b>Long Term Assets</b>	<b>402,702</b>	<b>172,980</b>	<b>229,722</b>
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
<b>110,806</b>	<b>Current Assets</b>	<b>126,652</b>	<b>37,725</b>	<b>88,927</b>
(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)
<b>(87,613)</b>	<b>Current Liabilities</b>	<b>(90,147)</b>	<b>(33,698)</b>	<b>(56,449)</b>
(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)
<b>(265,506)</b>	<b>Long Term Liabilities</b>	<b>(259,119)</b>	<b>(114,333)</b>	<b>(144,786)</b>
<b>163,599</b>	<b>Net Assets</b>	<b>180,089</b>	<b>62,674</b>	<b>117,413</b>
	<b>Usable Reserves</b>			
(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)
<b>(55,877)</b>	<b>Total</b>	<b>(67,647)</b>	<b>(20,850)</b>	<b>(46,797)</b>
	<b>Unusable Reserves</b>			
(107,722)		(112,442)	(41,825)	(70,617)
<b>(163,599)</b>	<b>Total Reserves</b>	<b>(180,089)</b>	<b>(62,675)</b>	<b>(117,413)</b>

## 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)
<b>607,855</b>	<b>Net Assets</b>	<b>631,130</b>	<b>288,967</b>	<b>326,626</b>
(76,036)	<b>Usable Reserves</b>	(84,679)	(42,628)	(42,051)
(531,819)	<b>Unusable Reserves</b>	(530,913)	(246,339)	(284,574)
<b>(607,855)</b>	<b>Total Reserves</b>	<b>(615,593)</b>	<b>(288,967)</b>	<b>(326,626)</b>



### 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).

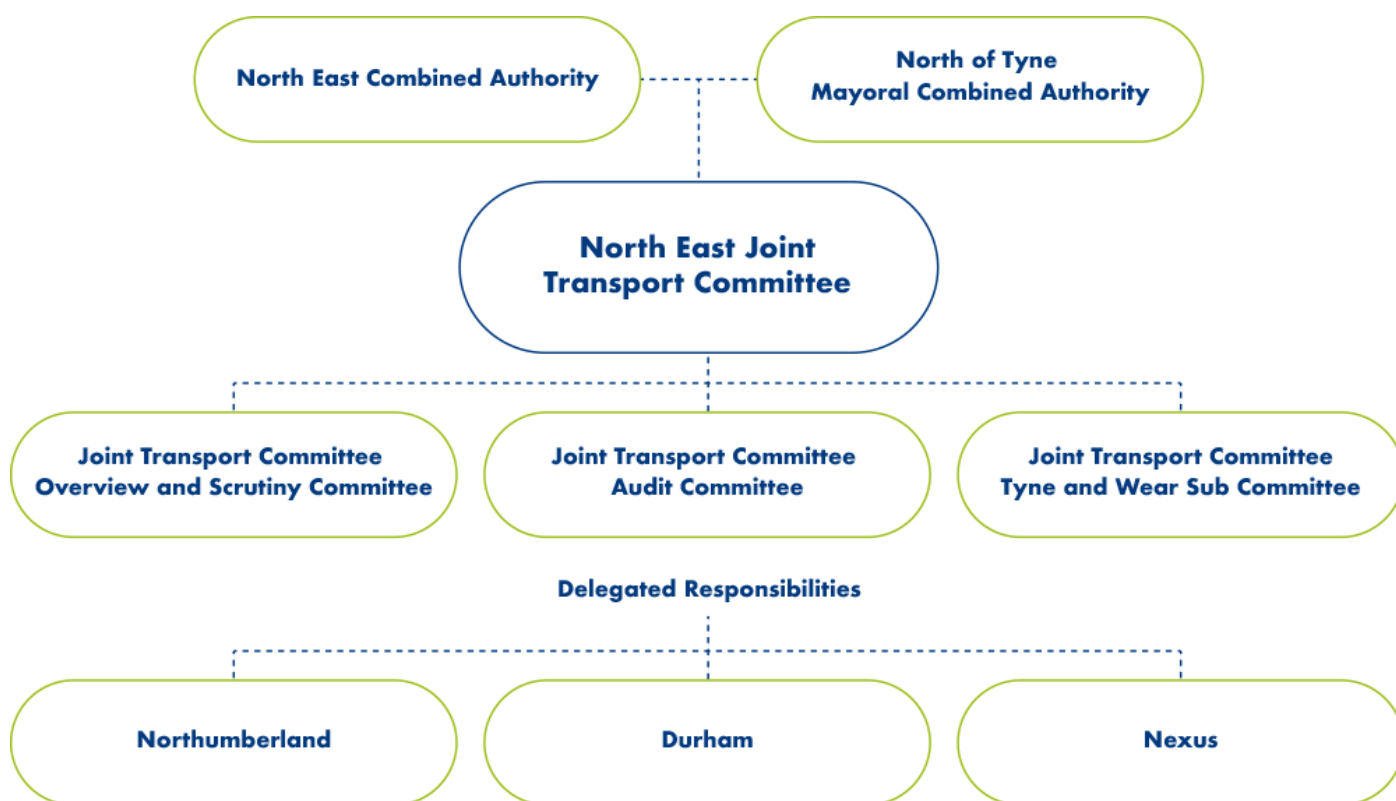
### Transport

#### 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 bids

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 13<sup>th</sup> 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.
- 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**

	<b>Total NECA Employees at the year end</b>	<b>Employed on behalf of the North East LEP</b>
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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**Paul Woods**  
Interim Chief Finance Officer, North East Combined Authority, from 1 April 2018 to 31 March 2019.

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