Leadership Board

Tuesday 1 February 2022 at 2.00pm

Meeting to be held at: Mayor's Parlour, Sunderland City Hall, SR1 3DP

www.northeastca.gov.uk

AGENDA

12. **Date and Time of Next Meeting:** 1 February 2021 at 2.00pm

Contact Assistant: Toby Ord Tel: 0191 424 7541
Email: toby.ord@northeastca.gov.uk

Item 3

Leadership Board

DRAFT MINUTES TO BE APPROVED

14 December 2021

(2.00pm – 2.25pm)

Meeting held at: Blaydon Room, Gateshead Civic Centre, NE8 1HH

Present:

Councillors	Dixon (Chair), Gannon, Hopgood
Officers	Sheena Ramsey (Chief Executive, Gateshead Council), Jon Ritchie (representing Chief Executive, Sunderland City Council), Nicola Robason (Monitoring Officer), Lucy Winskell (North East LEP), Paul Darby (Chief Finance Officer, NECA), Gavin Armstrong (Policy and Scrutiny Officer, NECA) and Toby Ord (Strategy and Democratic Services Assistant, NECA)

1 **APOLOGIES FOR ABSENCE (MEMBERS)**

Apologies for absence were received from Cllr Miller, Cllr Rowntree, Gillian Hall, John Hewitt, Patrick Melia and Jonathan Tew.

2 **DECLARATIONS OF INTEREST**

None.

3 **MINUTES OF THE PREVIOUS MEETING HELD ON 2 NOVEMBER 2021**

Both the public and confidential minutes of the previous meeting held on 2 November 2021 were approved as a correct record.

4 **ANNOUNCEMENTS FROM THE CHAIR AND/OR HEAD OF PAID SERVICE**

Both the Chair and Head of Paid Service submitted their apologies and were not present at the meeting.

5 **ECONOMIC DEVELOPMENT AND DIGITAL THEMATIC PORTFOLIO UPDATE**

Submitted: Report of the Economic Development and Digital Thematic Lead (previously circulated and copy attached to the official minutes).

The Thematic Lead for Economic Development and Digital delivered the report which provided an overview of the economic situation in the NECA region.

It was noted that there has been a sharp bounce back from the economic downturn caused by COVID-19, however the North East region was said to be seeing slower growth compared to the rest of the nation. Inflationary pressures, supply chain shortages and staff vacancies were said to be of current concern, with the health, social care and hospitality sectors struggling to fill vacancies and the automotive industry feeling the pressures of supply chain shortages.

It was noted that the forecasted impact of the furlough scheme's discontinuation has yet to materialise, however different parts of the NECA region are recovering from the fallout of the pandemic at an uneven rate. Unemployment rates were noted as remaining high amongst over 50s and NEETs. It was also noted that current data suggests that there is a mismatch between skillsets and current vacancies, suggesting a need for upskilling or reskilling. Atop of this, footfall levels are said to have been steadily recovering however data also suggests that people are no longer using the highstreets the same way they were prior to the pandemic.

The Governments recent budget announcements were briefly covered, and Members were informed of five projects which received Government funding in the North East, however proportionally the region received less than other areas of the UK. It was also noted that there has been no further information on the UK Shared Prosperity Fund nor the Levelling Up White Paper.

Despite this, there have been business successes for the NECA region, with Just Eat, Equinor, SSE and Nissan all creatin new jobs and/or facilities within, and Invest North East England's 'Move On Up' campaign promoting businesses to move their business into the North East. Their successes have already been realised in the North Shoring Group.

RESOLVED that: -

i. the report be noted.

6 **FINANCE AND SKILLS AND EMPLOYABILITY THEMATIC PORTFOLIO UPDATE**

Submitted: Report of the Finance and Skills and Employability Thematic Lead (previously circulated and copy attached to the official minutes).

The Thematic Lead delivered the report which expressed uncertainty on the current financial position of NECA; it was noted that we still await the Local Government Finance Settlement, and although there was mixed success in Phase 1 of the Levelling Up Fund, there has yet to be any information on the white paper.

There was also said to be a lack of detail on the UK Shared Prosperity Fund and we are yet to see if this will match the EU funding previously received. However, pleasure was expressed over the announcement of the Platinum Jubilee Fund provided by the National Lottery, although funding is expected to be acquired through a bidding process.

It was noted that budget pressures remain prevalent with regards to the Joint Transport Committee, and these are unlikely to alleviate due to a reduction in public transport users since the pandemic's outbreak.

RESOLVED that: -

i. the report be noted.

7 **TRANSPORT THEMATIC UPDATE**

Submitted: Report of the Transport Thematic Lead (previously circulated and copy attached to the official minutes).

The Thematic Lead delivered the report providing an insight into the LA7 areas transport situation and the implications this has for NECA.

It was noted that there is no further information on the integrated rail plan, and that the Governments figure of £96bn includes money already committed to the HS2 project (£46bn). It was also noted that the Leamside Line project is vital for the region; our economic future and prosperity is dependent on connectivity. Members were informed that no new plans to deliver an East to West line have materialised, however the JTC has funded the opening of the north side of the Leamside Line, and the Government has indicated a possibility of including further funding in future cities or devolution deals.

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As for bus travel, the Bus Service Improvement Plan was approved last October, with further bus strategies from the Government aiming to promote bus travel in the name of greener travel among other motivations. These strategies include new express bus lanes, additional park and ride lines and subsidised bus fares. Members were made aware that a funding bid has been submitted to finance said strategies. The ultimate plan is to return bus usage back to pre-pandemic levels.

A member queried whether problems associated with the Tyne Tunnel's new barrierless travel have subsided, the response to which was that the ticket booths presence was causing motorists some confusion and have since been removed.

RESOLVED that: -

i. the report be noted.

8 **TREASURE MANAGEMENT MID-YEAR UPDATE 2021/22**

Submitted: Report of the Chief Finance Officer (previously circulated and copy attached to the official minutes).

The Chief Finance Officer delivered the report which provided an overview of NECA's borrowing, investment activity and further finance management.

It was noted that there is no new borrowing within the last six months, and members were made aware of a breakdown of NECA's borrowing position and investment activity within the report. Members were also made aware of a list of indicators set out within the report, stating that NECA fully complies with the strategy set out by the Leadership Board.

RESOLVED that: -

i. the report be noted.

9 **APPOINTMENT OF DEPUTY HEAD OF PAID SERVICE**

Submitted: Report of the Policy and Scrutiny Officer, NECA (previously circulated and copy attached to the official minutes).

The Monitoring Officer delivered the report which proposed to appoint Jonathan Tew, Chief Executive of South Tyneside Council, as NECA's

Deputy Head of Paid Service, replacing George Mansbridge.

RESOLVED that: -

i. the report be noted.
ii. it be agreed that Jonathan Tew is appointed as Deputy Head of Paid Service

10 **DATE AND TIME OF NEXT MEETING**

Tuesday 1 February 2022 at 2.00pm.

Item 6

NECA Leadership Board

Date: 1st February 2022
Subject: Economic Development and Digital Theme Update
Report of: Economic Development and Digital Thematic Lead

Executive Summary

The purpose of this report is to provide an update on activity and progress under the Economic Development and Digital (EDD) theme of the North East Combined Authority.

The report provides an update on economic recovery following the previous update reported at the December meeting (which covered the implications of the Autumn Budget and an overview of inward investment trends and activities).

The report suggests that the economy is continuing to recover from the economic shock of the pandemic, but that such a recovery is fragile given the uncertainty caused by the Omicron wave (particularly for the hospitality, retail and leisure sectors), inflationary and cost of living pressures, ongoing supply chain problems, upcoming rises in general and business taxation and staff shortages.

It also describes the newly announced support for hospitality, leisure, arts and cultural and other businesses. The report also points to reasons to be optimistic, particularly the leading role the area is playing in the move towards Net Zero.

Recommendations

The Leadership Board is recommended to note the contents of the report.

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1.0	**Background Information**
1.1	This report provides an update on activity and progress under the Economic Development and Digital theme of the Combined Authority, specifically: • Economic recovery; • New funding for leisure, hospitality, arts and cultural and other organisations.
2.0	**Economic Recovery**
2.1	***Economic outlook in the final quarter of 2021*** Reports in the final quarter of 2021 suggested that the North East economy was slowing, amid concerns around supply chain blockages, inflationary pressures and staff shortages. These were the key issues highlighted by the North East Chamber of Commerce quarterly economic survey, as well as the NatWest North East Business Activity Index, the latter outlining that growth had edged up from the Autumn, but was the slowest rate in the UK. Yet businesses appeared optimistic, as supported by both the NatWest and Lloyds North East tracking reports as domestic and global economies recovered from the pandemic.
2.2	***Economic outlook in the first quarter of 2022*** However, the advent of the new Omicron variant has added considerable uncertainty. There is evidence of falling consumer confidence nationwide before the Christmas break following both the implementation of Government Plan B restrictions and record numbers of CV19 infections. Yet footfall in the North East until the end of December appears to have held up well with retail and recreation visits in most areas in the fortnight before Christmas at their highest since March 2020 and workplace trips also at their post-pandemic highest.

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	Nevertheless, major concerns expressed by hospitality, leisure, retail and travel firms about trading conditions given the impact of the restrictions upon turnover and the levels of self-isolation from the new Omicron variant hindering their ability to operate. Strong feeling that hospitality businesses cannot afford another lockdown and many concerned about any potential new restrictions, such as social distancing and limits on household mixing. Wider staff shortages and rising inflation continue to be factors with concerns about January and February, always quiet months and coinciding with the end of the hospitality VAT cut, followed by further tax increases in April (minimum wage and national insurance). The impact upon the cost of living is also uncertain as it is likely interest rates will rise, along with energy and other costs at a time when the Universal Credit uplift also ended (impacting 121,500 NECA residents, including 43,000 in work). All these factors could prove to be a drag on growth in an economy that remains 2.1% below pre-pandemic levels.
2.3.	***Unemployment impact***
	The immediate impact of the pandemic upon unemployment was significant, with the wider measure of unemployment rising from 6% in March 2020 to 6.8% in December 2020, considerably above the national average. The unemployment claimant count in the NECA area leapt up from 4.7% in March 2020 to 7.9% in Autumn 2020, a rise of 56% and it was particularly pronounced amongst 18-24s (where it increased by over 4,000 people). However, since the Spring, the Claimant Count has fallen by around 26% to 5.3% with particularly large falls amongst young people and those out of work for less than 6 months.

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Claimant Count	NECA %	NECA number	UK%
June 2019	4.5	32,275	2.7
June 2020	7.4	53,805	6.2
November 2020	7.2	52,085	6.2
June 2021	6.3	45,345	5.5
November 2021	5.3	38,215	4.6

Data for October and November also saw falls, encouraging they were the first months after the end of Furlough, supporting findings by the Resolution Foundation that 88% of those in work in September remained that way in October.

2.4. ***Looking forward***

There are worrying signs on the horizons, including national and regional rises in economic inactivity, with a record rise of those not working due to ill health. This could potentially be a reflection of the mental health impact of the pandemic. There has also been a rise in those taking early retirement, again putting pressure on an already tightening labour market.

This is leading to two main impacts. Firstly, concerns that rates of unemployment have fallen faster in the more affluent areas across the NECA, and wider North East area, compared to our more disadvantaged places, pointing to a potentially uneven recovery. This is accentuated by persistently-high NEET rates, a rise in long-term unemployment (which has doubled nationally since the start of the pandemic) and high rates of over 50s unemployed.

The second impact is the labour market mismatch being felt nationally, regionally and in the NECA area. There is clearly a large demand for health and social care, education, manufacturing and professional roles, but employers are reporting real difficulties in recruiting and major skills shortages. This has been driven by the impact of the pandemic, the rise in logistics and distribution roles (and the incentives for workers to join these and other sectors, such as joining payments) and other factors.

This mismatch between record vacancy numbers but still high rates of unemployment, suggest a need to continue to focus upon skills development, re-skilling and up-skilling so that our residents can access

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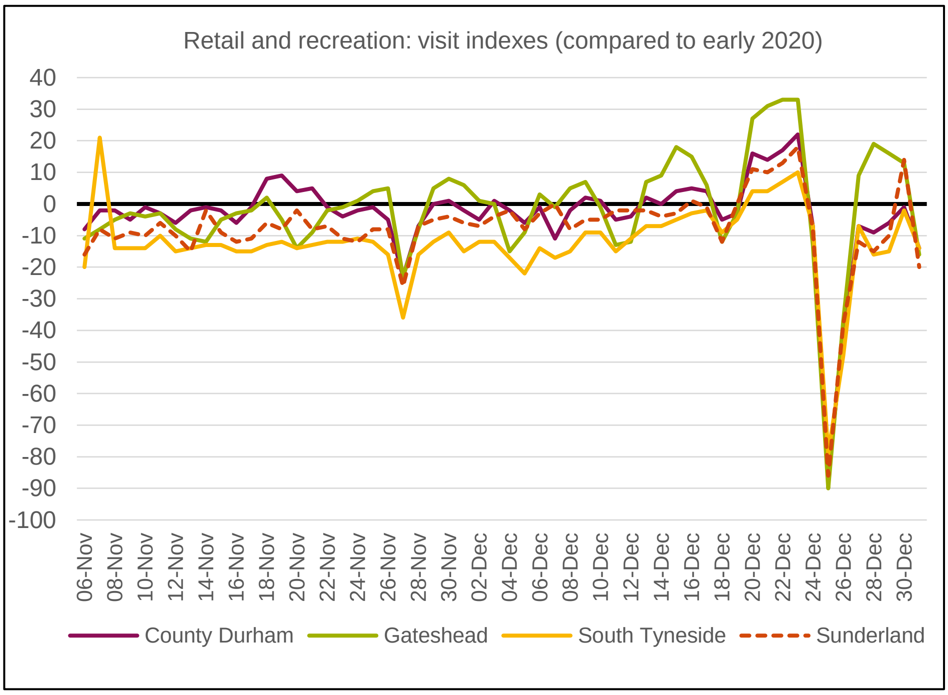
	those jobs available. It also points to the need to boost aspiration, change perceptions amongst certain careers (such as in the care sector) and to ensure targeted employability support is working.
2.5.	**Footfall and sector impact**
	In addition, footfall appears to be bouncing back towards pre-pandemic levels and, while different across the four local authority areas, is around 90% of those seen back in March 2020 in key retail and recreation sites (see Google Mobility chart below) and the pre-Christmas numbers appear to be encouraging.
	
	Yet there are concerns about the future of high streets and city centres as levels of people in workplaces (as opposed to working from home) remain reduced and public transport footfall is down nearly a quarter from usual levels (road usage is above pre-pandemic rates).
	Looking at it from a sector perspective, the impact of the pandemic and subsequent recovery is different by sector. For example, the automotive sector continues to feel the pressure from the semiconductor shortages

NECA Leadership Board

	hitting OEMS and supply chains across the country (but the North East has a huge opportunity from the new Gigafactory for Electric Vehicle batteries being built at the International Advanced Manufacturing Park), while construction is still impacted by material shortages and rising prices. Professional and business services and digital industries appear to be faring much better, epitomised by recent job creation across the NECA area.
2.6	***Next steps***
	The Local Authorities continue to monitor the economic picture and support businesses and residents. We will continue to monitor the impact of the pandemic upon the NECA economy and focus on economic recovery.
3.0	**New funding for leisure, hospitality, arts and cultural and other organisations** Local authorities digesting Government guidance on additional support through ARG, Omicron Hospitality and Leisure Grants and Cultural Recovery Fund amid expected high demand, although some concerns expressed by businesses that the grants are not enough.
3.1.	On 21st December the Chancellor announced a further £1bn of support for businesses, with a particular focus on the hospitality, leisure, arts and cultural sectors, due to the impact of the Omicron variant. There were three main schemes announced. **Omicron Hospitality and Leisure Grants** The first scheme provides support to hospitality, leisure and accommodation businesses, in recognition that the rise of the Omicron variant means that some businesses are likely to struggle over the coming weeks. These one-off grants can only be used in 2021/22 so have to be spent by the end of March 2022 (and therefore must close for applications on 28th February 2022).

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Grants of up to £6,000 will be paid to hospitality, leisure and accommodation businesses depending on their Rateable Value; those with a RV of £15,000 or less can receive £2,667, those between £15,001 and £50,999 will be eligible for £4,000, while those over £51,000 could receive £6,000.

3.2. **Additional Restrictions Grant**

The second funding stream is a further £102 million for Local Authorities, through a top-up to the Additional Restrictions Grant. The ARG funding scheme aims to support businesses severely impacted by coronavirus restrictions and the rise of the Omicron variant, when most needed. Funding was first made available in financial year 2020-2021 and can be used across financial years 20/21 and 21/22. However, Local Authorities are encouraged to distribute funding to businesses which require support as soon as possible.

Some guidance has been published from Government for both schemes and Local Authorities allocations are as follows:

Local Authority	*ARG Top-Up*	*Omicron H&L Grant*
Durham	£617,470	£5,352,480
Gateshead	£233,168	£1,416,078
South Tyneside	£144,988	£978,066
Sunderland	£260,512	£1,806,111

3.3 **Cultural Recovery Fund**

The third is an additional £30 million in emergency funding through the Culture Recovery Fund to support museums, cinemas, theatres and heritage organisations with the impact of the Omicron variant.

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	The emergency grants are designed to safeguard local museums and heritage, independent cinemas and regional theatres and applications are open until the deadline of 18th January 2022. Government funding via Arts Council England will also provide an immediate £1.5 million to support freelancers affected by the pandemic, alongside a further £1.35 million contribution from the theatre sector. This will provide grants of £650,000 each directly to the Theatre Artists Fund, Help Musicians, and £200,000 to a-n, the Artists Information Company, a charity for visual artists which will distribute cash to freelancers over the coming weeks.
3.4	***Next Steps*** The Local Authorities will continue to monitor guidance closely and look to support as many businesses as possible as soon as possible, just as they have done since the start of the pandemic.
4.0	**Reasons for the Proposals**
	This report provides an update on Economic Development and Digital theme.
5.0	**Alternative Options Available**
	There are no alternative options associated with this report.
6.0	**Next Steps and Timetable for Implementation**
	A further update will be provided to the Board at subsequent meetings.
7.0	**Potential Impact on Objectives**
	The activities under the Economic Development and Digital theme will support NECA in its aims to promote economic growth and regeneration in the area.
8.0	**Financial and Other Resources Implications**

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	There are no financial or other resource implications directly associated with this report as it is for information only.
9.0	**Legal Implications**
	There are no legal implications arising from this report.
10.0	**Key Risks**
	There are no specific risk management issues arising from this report.
11.0	**Equality and Diversity**
	There are no specific equality and diversity issues arising from this report.
12.0	**Crime and Disorder**
	There are no specific crime and disorder issues arising from this report.
13.0	**Consultation/Engagement**
	There are no specific consultation and engagement issues arising from this report.
14.0	**Other Impact of the Proposals**
	There are no further impacts arising from the proposals.
15.0	**Appendices**
	None
16.0	**Background Papers**
	None.
17.0	**Contact Officers**

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	John Scott, Head of Economic Growth, South Tyneside Council john.scott@southtyneside.gov.uk Rory Sherwood-Parkin, Senior Economic Policy Manager, South Tyneside Council
	Sign off
	• Head of Paid Service: ✓ • Monitoring Officer: ✓ • Chief Finance Officer: ✓
	• **Glossary**
	None.

Item 7

Leadership Board

Date: 1 February 2022

Subject: Transport Thematic Lead Portfolio Update Report

Report of: Thematic Lead for Transport

Executive Summary

The purpose of this report is to provide an update on various transport matters of relevance to the NECA area.

Recommendations

The Leadership Board is recommended to note the contents of this report.

1. Background Information

1.1 This report provides an update on transport issues affecting the NECA area.

Rail

1.2 The final report of the Union Connectivity Review, which aimed to asses transport connectivity between the nations of the United Kingdom, was published on 26th November 2021. However, it did not recommend any further investment for the East Coast Main Line. The report proposes new investment for the West Coast Main Line but only recommends that an assessment be conducted for the East Coast Corridor.

1.3 Great British Railways' call for evidence was launched on 9 December 2021 and will be open for eight weeks until 4 February 2022. They are seeking support for a Whole Industry Strategic Plan (WISP), a 30-year strategy for the UK's rail system. They aim to use evidence to shape their Strategic Plan which will be a 30-year strategy for the UK's rail system. It will be shaped by a set of strategic objectives that have been developed by the UK Government for the benefit of rail passengers, freight users and taxpayers, and to support Britain's economic, environmental, and social ambitions. The five objectives are listed below:

- meeting customers' needs,
- delivering financial sustainability,
- contributing to long-term economic growth,
- levelling up & connectivity,
- delivering environmental sustainability

1.4 A response will be developed on behalf of the North East Joint Transport Committee

1.5 A draft of the North East Rail and Metro Strategy was presented to the North East Joint Transport Committee on 18th January 2022 for approval to go to public consultation.

1.6 Buses

The North East Enhanced Partnership progressed to the objection period for Bus Operators. This period ended on 19th January 2022 and the statutory consultation with key stakeholders follows in due course.

Funding

1.7 A report setting out the proposed 2022/23 Transport Revenue Budget and associated Transport Levies for the North East Joint Transport Committee was presented to the Committee on 18th January 2022. The two Combined Authorities in the JTC area are required to set the Transport Levies before 15 February 2022 to enable their constituent councils to take the levies and other contributions into account in setting their own budgets.

1.8 The JTC budget is under significant pressure as Covid support for Metro from the Government is due to be withdrawn at the end of March 2022 while patronage levels and revenue have not yet recovered.

1.9 Bus operators face a similar removal of Covid funding from Government and the pressures across the public transport services look likely to result in a reduction in service levels.

2. Proposals

2.1 This report is for information only. Therefore, no decisions are contained in this report.

3. Reasons for the Proposals

3.1 This report is for information purposes only.

4. Alternative Options Available

4.1 Not applicable to this report.

5. Next Steps and Timetable for Implementation

5.1 Timetables are set out as appropriate in relation to the individual items in the sections above.

6. Potential Impact on Objectives

6.1 Sustaining an effective public transport system will be critical to NECA in delivering its objective to maximise the area's opportunities and potential. In addition to this continuing investment in the projects and programmes outlined above will help ensure the area has a transport system capable of meeting current and future challenges.

7. Financial and Other Resources Implications

7.1 The report includes information on funding and financial opportunities.

7.2 There are no specific additional financial implications for NECA arising from this report.

7.3 There are no Human Resource or ICT implications for NECA arising from this report.

8. Legal Implications

8.1 There are no specific legal implications arising from this report.

9. Key Risks

9.1 Various risks exist in relation to the impacts that a failure to achieve the region's aspirations for improving transport would have on wider economic and environmental objectives.

10. Equality and Diversity

10.1 There are no specific equalities and diversity implications arising from this report.

11. Crime and Disorder

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

12. Addressing Geographic Diversity:

12.1 The continued provision of bus and other public transport services to more sparsely populated areas remain important to meeting the future needs of these areas.

13. Climate Change/Environmental Sustainability

13.1 Transport remains a major source of carbon dioxide and other pollutants. Sustaining effective public transport networks and investing in alternatives to the private car as well as Electric Vehicles are important to achieving further reductions in carbon emissions.

14. Consultation/Engagement

14.1 Not applicable.

15. Other Impact of the Proposals

15.1 No specific impacts.

16. Appendices

16.1 Not applicable.

17. Background Papers

17.1 Not applicable.

18. Contact Officers

18.1 Sheena Ramsey

19. Sign off

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

20. Glossary

North East Joint Transport Committee – the formal decision making body in terms of transport strategy, covering both the NECA and North of Tyne areas.

NORTH EAST JOINT TRANSPORT COMMITTEE

To: All Members of the Joint Transport Committee and Gateshead Council
LA7 Leaders and Elected Mayor

Civic Centre
Regent Street
Gateshead
NE8 1HH

19 August 2021

Dear Colleague

Bus Partnership update

I am writing to update you on the next steps in developing a Bus Partnership for the North East, and to ask for your assistance both in leading your Council's input into the work, and in ensuring that your Cabinet Members have access to appropriate briefings.

Firstly I would like to thank you for the financial support that your Council has provided to allow a project team to be established swiftly, and for your active participation at the Joint Transport Committee that unanimously agreed to develop a bus partnership with operators.

The Covid-19 pandemic has put our public transport services and our transport objectives at risk. Ridership levels – and therefore income from fares – are way below pre-pandemic levels. Central government support has kept the buses and the Metro running until now because of their role as an essential service, but the government has been clear that this support will cease at the end of this financial year. We do not expect ridership to recover quickly enough to make services viable without further financial support, and we therefore need to act in order to preserve services.

The bus network has always been essential in the North East. Before the Covid-19 pandemic there were over 160m bus journeys each year in our region. Almost a third of our households have no access to a car, and for many people in one-car households the bus is their lifeline to get to work, education, health and social inclusion.

The North East Transport Plan that we approved earlier this year set out our shared transport objectives of: achieving carbon neutrality; overcoming inequality and growing our economy; improving public health; and offering appealing sustainable transport choices through a safe and secure network.

Throughout this year we have talked about the need for a new approach to buses. If we are to deliver on our ambitions to move towards net zero carbon emissions, to clean up the air we breathe, and to make sustainable travel an affordable and realistic choice for everyone, we need to change the way that buses work for our communities. We also need to change the way that we work with the bus industry.

In July the Joint Transport Committee agreed a Vision for Buses setting out our ambition for:
• An enhanced network that is simple and easy to understand;
• Faster and more reliable journey times;

• A simple and flexible fares structure;
• Better integration between modes;
• More early morning and evening services;
• Clear and consistent information that is easy to access;
• Improved safety and security;
• Cleaner and greener vehicles
• Improved connectivity beyond our boundaries;
• A first-class customer experience.

In July we also agreed to work with local bus operators through an Enhanced Partnership which will allow us to bid into a £3bn government fund. Members unanimously supported the proposal to draw up a strong proposal which will be in a document known as a Bus Service Improvement Plan ("BSIP"). The government fund is tied to a new National Bus Strategy published earlier this year, and our BSIP is effectively a bidding document that will need to convince the government that our plans are ambitious, credible, effective and deliverable.

We will of course continue to make the case for adequate government funding for bus services as matter of principle, directly and through the collective bodies like the Local Government Association and the Urban Transport Group. However, the government has been very clear that emergency Covid-19 funding support for buses will cease at the end of this financial year, and it seems increasingly likely that the only route to securing new funding for buses will be through grants awarded through the BSIP process.

It is therefore of the utmost importance that we present the strongest possible BSIP and secure the biggest possible share of the £3bn that we can. The funding will support not only our ambitions for a better bus system, but it will also be needed to provide essential relief as the bus network continues its recovery from the effects of the pandemic. The alternative we face is almost certain wide-spread cuts to services that will damage our communities.

To develop a strong BSIP that will truly make a difference to how buses operate we will need the leadership and support of you and your Cabinet colleagues, along with officers responsible for local highways and transport.

Extensive priority will need to be given to buses on our area's roads, particularly on the approaches to centres of population, in order to speed up bus journeys and make them more reliable. This will see the introduction of more bus lanes and more bus-only roads and access gates across the region.

Road junctions at key points on the bus network will prioritise buses both in their physical design and in how traffic signals are phased. We will need to critically appraise parking charges and policies to make sure that buses are a competitive and attractive way to travel for both work and leisure. We will also need to make sure that parked cars do not prevent people from boarding buses or make it difficult for buses to pass through narrow roads in villages and estates.

The bus operators will of course have to make very significant improvements of their own as part of the package. They will need to make fares both affordable and integrated; buses will need to be of the highest standard in appearance, comfort, and environmental performance; and timetables will need to be designed to support communities across the area, rather than focusing on the most profitable routes.

I recognise that such changes will need to be considered very carefully, in consultation with the communities affected and considering the views of, and impact on, all road users. However, it is equally important to stress that without wide-ranging improvements of this nature our BSIP may not attract significant funding and our bus network will shrink as a result.

Officers from Transport North East and the LA7 Councils are working in partnership with bus operators to develop the BSIP. I would encourage everyone with a stake in a successful bus network successful to pro-actively feed ideas into the development of the BSIP.

In September we will review the first draft of our BSIP. I have asked my officers to ensure that, following the Joint Transport Committee briefing, every Council's Cabinet is offered a full briefing on the local implications. I would like to request your assistance in arranging this briefing so that your colleagues can gain a better understanding of what is being proposed and its possible benefits and impacts on the residents in your area.

The North East is already suffering from a car-dominated recovery with traffic levels consistently higher throughout the day than before the pandemic. Our leadership in the coming months will be essential to ensure that this is only a short-term effect and that public transport is able to play its full part in supporting a green economic recovery for the North East.

There are, unfortunately, no other avenues open to us at present if we want to secure funding to support and grow the bus network. Franchising is a possible long-term option which we will keep under review, but it is a very complex and lengthy process even for those Combined Authorities which have the legal powers to introduce a scheme themselves – and we do not. In any case bus-friendly highway and parking policies such as those I highlight above will still be necessary for the bus network to be successful, regardless of the system of governance.

If you would like to discuss this letter in person, I would be delighted to speak to you about it. I will also ask officers to make contact with your office to arrange a briefing of Cabinet Members as discussed above.

Yours sincerely

Councillor Martin Gannon
Chair of the North East Joint Transport Committee
Copied to: Transport Strategy Board

Item 8

Date: **1 February 2022**

Subject: **Audit Completion Report**

Report of: **Chief Finance Officer**

Executive Summary

Attached to this report is the Audit Completion Report for 2020/21, as prepared by Mazars, External Auditors to the North East Combined Authority.

The audit is substantially completed in respect of the financial statements for the year ended 31 March 2021.

At the time of preparing this report, matters remaining outstanding are as outlined in section 02 of the report at Appendix 1. An update will be provided in relation to the matters outstanding through issuance of a follow-up letter.

Subject to the satisfactory conclusion of the remaining audit work, Mazars have the following conclusions:

- Mazars anticipate issuing an unqualified opinion, without modification, on the financial statements.
- Mazars anticipate having no significant weaknesses to report in relation to the arrangements that NECA has in place to secure economy, efficiency and effectiveness in its use of resources.
- At the time of preparing this report, Mazars have not yet received group instructions from the National Audit Office in respect of their work on NECA's Whole of Government Accounts submission. Until this work is completed they are unable to issue their certificate.

The Local Audit and Accountability Act 2014 requires Mazars to give an elector, or any representative of the elector, the opportunity to question the external auditor about the accounting records of NECA and to consider any objection made to the accounts. No questions or objections have been received.

Recommendations

The Leadership Board is recommended to note the contents of the Audit Completion Report for 2020/21.

1. Background Information

1.1 The Audit Completion Report for 2020/21 prepared by the External Audit (Mazars) is attached as Appendix 1.

1.2 The report gives the External Auditor's view of whether the accounts of NECA give a true and fair view of the financial position and performance of the authority to 31 March 2021. Mazars will present their report.

2. Proposals

2.1 The Leadership Board is asked to consider the content of the Audit Completion Report submitted by Mazars as external auditors to the Authority and take the findings into account in their consideration of the Statement of Accounts for approval.

3. Reasons for the Proposals

3.1 The Audit Completion Report is presented to the Leadership Board for consideration. The NECA External Auditor will present their report and findings to the meeting.

4. Alternative Options Available

4.1 There are no alternative options associated with this report.

5. Next Steps and Timetable for Implementation

5.1 Subject to completion of the External Audit, the Statement of Accounts must be signed by the Chair of the Leadership Board and the Chief Finance Officer and published online.

6. Potential Impact on Objectives

6.1 There are no other 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 2020/21. 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 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 1 July to 11 August 2021. 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 Gavin Barker, Director, Public and Social Sector, Mazars, gavin.barker@mazars.co.uk

17. Sign Off

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

Audit Completion Report

North East Combined Authority
Year ended 31 March 2021

January 2022

mazars

Contents

mazars

The Leadership Board
And Members of the Audit and Standards Committee
North East Combined Authority
c/o South Tyneside Council
Town Hall & Civic Officers
Westoe Road
South Shields
NE33 2RL

Mazars LLP
Bank Chambers
26 Mosley Street
Newcastle upon Tyne
NE1 1DF

17 January 2022

Dear Members

Audit Completion Report – year ended 31 March 2021

We are pleased to present our Audit Completion Report for the year ended 31 March 2021. 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 to the Audit Committee on 22 June 2021. We have reviewed our Audit Strategy Memorandum and concluded that the original significant audit risks and other areas of management judgement remain appropriate. We noted in our Audit Strategy Memorandum that our risk assessment in respect of our VFM work was not complete; following completion of this risk assessment, we did not identify any significant risks of weaknesses in arrangements.

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 07896 684 771.

Yours faithfully

Gavin Barker

Gavin Barker
Director
Mazars LLP

01

Section 01:

Executive summary

1. Executive summary

Principal conclusions and significant findings

The detailed scope of our work as your appointed auditor for 2020/21 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 on Auditing (UK) and means we focus on audit risks that we have assessed as resulting in a higher risk of material misstatement.

In section 04 of this report we have set out our conclusions and significant findings from our audit. This section 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 NECA and Group);
- Revenue recognition - in relation to Tyne Tunnel tolls and grant income (relevant to NECA and Group); and
- Defined benefit liability valuation (relevant to NECA and Group).

Section 05 sets out internal control recommendations and section 6 sets out audit misstatements. Section 07 outlines our work on NECA's arrangements to achieve economy, efficiency and effectiveness in its use of resources.

Status and audit opinion

We have substantially completed our audit in respect of the financial statements for the year ended 31 March 2021.

At the time of preparing this report, matters remaining outstanding are as outlined in section 02. We will provide an update to you in relation to the matters outstanding through issuance of a follow-up letter.

Subject to the satisfactory conclusion of the remaining audit work, we have the following conclusions.

Audit opinion

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

We anticipate having no significant weaknesses in arrangements to report in relation to the arrangements that NECA has in place to secure economy, efficiency and effectiveness in its use of resources. Further detail on our Value for Money work is provided in section 07 of this report.

Whole of Government Accounts (WGA)

At the time of preparing this report, we have not yet received group instructions from the National Audit Office in respect of our work on NECA's WGA submission. We are unable to commence our work in this area until such instructions have been received. Until this work is completed we are unable to issue our certificate.

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. No questions or objectives have been received.

1. Executive summary

COVID-19 impacts

The Covid-19 pandemic continued to impact on NECA and its subsidiaries and on the audit process this year. The audit team continued to work remotely. Whilst challenging at times, through the effective use of technology and close liaison with finance and other officers, these challenges were overcome.

There were also delays in completing the audit this year. We highlighted these to officers and Members early in 2021. However, the eventual delays were longer than originally anticipated. We are grateful to officers and Members for their understanding in the difficult circumstances faced by the audit team in relation to completion of the 2020/21 audit work. We would particularly like to thank the finance team for their co-operation and for being available throughout the audit work to answer our queries.

02

Section 02:

Status of the audit

2. Status of the audit

Our work is substantially complete and there are currently no matters of which we are aware that would require modification of our audit opinion, subject to the outstanding matters detailed below.

Audit area	Status	Description of the outstanding matters
Work still outstanding at the point of drafting this Audit Completion Report	Green	We are finalising our testing in a number of areas, and continuing to write up our documentation of the audit file. We continue to discuss some matters arising with officers. We deem the risk of significant audit issues arising from the work that requires completion to be low. We will be able to provide a verbal update to Members when we present our report. In addition, we will provide a follow up letter setting out how any issues arising are resolved immediately prior to signing the audit opinion through issuance of a follow up letter.
WGA	Green	Our audit work will be completed once the Group Instructions have been received from the National Audit Office.
Audit quality control and completion procedures	Green	Our audit work is subject to ongoing review and quality control procedures. In addition, there are residual procedures to complete, including agreeing the expected amendments to the final Statement of Accounts, updating post balance sheet event considerations to the point of issuing the opinion and reviewing management's going concern assertion.

Red: Likely to result in material adjustment or significant change to disclosures within the financial statements.

Amber: Potential to result in material adjustment or significant change to disclosures within the financial statements.

Green: Not considered likely to result in material adjustment or change to disclosures within the financial statements.

03

Section 03:

Audit approach

3. Audit approach

Changes to our audit approach

We provided details of our intended audit approach in our Audit Strategy Memorandum in June 2021. We have not made any changes to our audit approach since we finalised our Audit Strategy Memorandum.

Materiality

Our provisional materiality at the planning stage of the audit was set at £12.196m for the Group and £6.286m for NECA using a benchmark of 2% of total assets. Our final assessment of materiality, based on the final financial statements is £11.961m and £5.740m for the Group and NECA respectively, using the same benchmark.

Group audit approach

The Group consists of Nexus, North East Metro Operations Limited (NEMOL) and Tyneside Transport Services Limited. We are responsible for the direction, supervision and performance of the group audit. Mazars is also the external auditor for NEMOL.

04

Section 04:

Significant findings

4. Significant findings

In this section we outline the significant findings from our audit. These findings include:

- our audit conclusions regarding other 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 15 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; and
- any significant difficulties we experienced during the audit.

Significant risk – management override of controls

Management override of controls (single entity and group)	**Description of the risk** This is a mandatory significant risk on all audits due to the unpredictable way in which such override could occur. 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. Due to 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: • accounting estimates impacting amounts included in the financial statements; • consideration of identified significant transactions outside the normal course of business; and • journals recorded in the general ledger and other adjustments made in preparation of the financial statements.
	Audit conclusion Subject to completion of outstanding work, there are no issues arising from our work that we are required to report to you.

4. Significant findings – significant risk: revenue recognition

Revenue recognition - in relation to Tyne Tunnel tolls and grant income (relevant to single entity and group accounts)	**Description of the risk** Revenue recognition has been identified as a significant risk due to: • cut off considerations for Tyne Tunnel toll income given the cash nature of the receipts; and • 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.
	How we addressed this risk We addressed this risk through performing audit work over: • the design and implementation of controls management had in place to ensure income was recognised in the correct period; • cash receipts around the year end to ensure they had been recognised in the right year; • the judgements made by management in determining when grant income was recognised; • for Tyne Tunnel toll income, performed a substantive analytical review; and • for major grant income, obtained counterparty confirmation.
	Audit conclusion Subject to completion of outstanding work, there are no issues arising from our work that we are required to report to you.

4. Significant findings – significant risk: net defined benefit liability (pensions)

Defined benefit liability valuation (relevant to single entity and group accounts)

Description of the risk

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.

How we addressed this risk

We addressed this risk through performing audit work over:

- evaluating the management controls you had in place to assess the reasonableness of the figures provided by the Actuary; and
- considered 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.

Audit conclusion

The entries for the pension liability are derived from information provided by the actuary, and relate to pensions administered by Tyne and Wear Pension Fund.

The actuary bases NECA and the Group entities share of the Pension Fund assets based on actual asset performance for part of the year, but with an estimate in relation to the final quarter of the financial year. In normal circumstances this results in an estimate that is not significantly different to the actual asset performance at the end of the financial year and is a fair basis for the disclosures. In the final quarter of 2020/21, there was more volatility in asset values than is normally the case. Consequently, during the audit officers requested an updated report from the actuary based on final asset performance to see whether any differences were material and would need to be adjusted in the financial statements.

In relation to the NECA single entity statements, the difference in asset values was £1.88m, which is below the materiality level for NECA. Although this is not material to the NECA statements, management do intend to adjust for this and this is the position reflected on page 23 of this report.

Nexus, a significant component within the NECA Group, also requested and obtained a revised report from the Actuary during their audit process. As Nexus has many more employees than NECA, the impact was much more significant and this led to a material adjustment to the Nexus financial statements. The outcome was an increase of £13.550m in the re-measurement gain on assets as measured by the Actuary in the revised valuation report.

The impact on the NECA Group statements is estimated at £7.515m. Together with the NECA impact of £1.88m, this makes a total difference of £9.395m. Although this is below overall materiality of £11.961m, it is above our performance materiality level of £8.971m and is a significant value. Consequently, management do intend to adjust for this in the Group financial statements and this is the position reflected on page 24 of this report.

It is important for Members to understand that although these figures seem significant, they are disclosures of estimated assets and liabilities at a point in time, and subject to significant estimation. In addition, none of these issues impact on the outturn position or the usable reserves available to the Authority or its Group entities.

4. Significant findings

Qualitative aspects of NECA's accounting practices

We have reviewed NECA's accounting policies and disclosures and concluded they comply with the 2020/21 Code of Practice on Local Authority Accounting, appropriately tailored to NECA's circumstances.

Draft accounts were received from NECA on 30 June 2021, well ahead of the revised statutory deadline and were of a good quality, supported by comprehensive working papers.

Significant difficulties during the audit

During the course of the audit we did not encounter any significant difficulties and we have had the full co-operation of management.

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 2020/21 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 questions or objections have been raised.

Delay in the audit certificate

The issue of the Audit Certificate confirms that we have discharged all of our audit responsibilities and that the audit is formally 'closed'. The Audit Certificate would normally be published in our Auditor's Report on the Statement of Accounts. We expect to issue the audit report but the Audit Certificate will not be issued until the following procedures are complete:

- Value for money - We are yet to complete our work in respect of the NECA's arrangements for the year ended 31 March 2021 and expect to report our findings in the 2020/21 Annual Auditors Report within 3 months of giving our audit opinion. At the time of preparing this report, we have not identified any significant weaknesses in the NECA's arrangements that require us to make any recommendations.
- Whole of Government Accounts - The NAO has not yet issued its Group Instructions to enable this work to be undertaken.

We will update Members when more information is known but at this stage the draft Auditor's Report at Appendix B assumes that we are not able to issue the Audit Certificate at this stage.

05

Section 05:

Internal control recommendations

5. Internal control recommendations

The purpose of our audit was 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 in order to design audit procedures to allow us to express an opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of internal controls or 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 controls 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 controls or enhance business efficiency. The recommendations should be actioned in the near future.	1 (relates specifically to NECA)
3 (low)	In our view, internal controls should be strengthened in these additional areas when practicable.	2 (reflect the Group position, with two issues relating to subsidiary Nexus)

5. Internal control recommendations

NECA – single entity issues

Deficiencies in internal control – Level 2

Description of deficiency

Bank reconciliations

The bank reconciliations were not reviewed and approved in a timely manner. We reviewed the bank reconciliation for 30 April 2020, which was prepared on 12 May 2020, but which was not signed off as reviewed and approved until 21 January 2021.

Potential effects

Risk of material misstatement if the cashbook and bank statement are not reconciled to each other on a regular basis.

Recommendations

All bank reconciliations should be reviewed and approved in a timely manner.

Management response

Daily uploads from the NECA bank account are processed in the general ledger, with a reconciliation between the two forming part of this process. However this process was not formally documented until January 2021. Since then an additional monthly review and authorisation process has been in place for the bank reconciliation and is working well.

5. Internal control recommendations

NECA: Follow-up on previous internal control points

In our 2019/20 work, we reported one internal control recommendation, and our follow up of this issue is set out below:

- Obtaining related party disclosures from senior officers and Members (Level 2 issue) – the returns have all been received in 2020/21 and this issue is now closed.

Group position - Nexus reporting issues

Pages 19 and 20 of this report document the internal control recommendations and management response in the audit of Nexus, a significant subsidiary in the NECA group.

5. Internal control recommendations

Nexus: Other deficiencies in internal control – Level 3

Description of deficiency

Related Party Disclosures

We identified the following as part of audit work:

- It was noted that Nexus appointed five Non-Executive Directors during financial year 2020/21 and they were not initially included in requests to complete a Related Party confirmation return. During discussions regarding the returns, it was agreed to seek returns from the Non-Executive Directors. All five Non-Executive Directors subsequently submitted a return; and
- It was identified that some officers who have left the organisation did not complete a related party confirmation return as part of the exit process.

Potential effects

- There is a risk that non-executive directors may not update the register of interests in a timely manner. As such at year end if there has been any material related party transactions with non-executive directors these may not be appropriately disclosed within the accounts; and
- There is a risk that at year end any material related party transactions with officers who have left the organisation part way through the year may not be appropriately disclosed within the accounts.

Recommendations

- Non- Executive directors should continue to complete a declaration in subsequent years in line with current practices with the Directors and Heads of Service. This will ensure that appropriate related party transactions have been disclosed to Nexus and the relevant disclosures have been made in the accounts if required; and
- Officers leaving the organisation should complete a related party declaration form as part of the exit process. This will ensure that appropriate related party transactions have been disclosed to Nexus and the relevant disclosures have been made in the accounts if required.

Management response

The recommendation was implemented during the course of the 2020/21 audit and the declarations will continue to be obtained going forward.

5. Internal control recommendations

Nexus - Other deficiencies in internal control – Level 3

Description of deficiency

Asset Impairment process

Managers are requested to look at “Major assets” (no definition given), that have been “damaged significantly or had become effectively obsolete and unusable”, to identify “only those exceptional situations where an asset which may be in the books at a high value has, for whatever reason, become incapable of being used properly.”

We are not aware of any asset lists being provided to Managers for them to assess, or even to identify assets with a high NBV.

Potential effects

Impaired assets may not be identified.

Property, Plant and Equipment may be overstated in the Accounts.

Recommendation

Full impairment review of all assets be performed. Each manager could be given a list of the assets under their supervision, and they could assess each one against its NBV. This would be a simpler task if the asset list could be summarised by “headline” assets, as the client intends.

Management response

The impairment review process will be formalised by ensuring that each manager is given a list of assets to check for indication of impairment. Should any indication of impairment be found, an estimate of the recoverable value of the asset will be obtained and compared against the net book value of the asset, to assess if any impairment is required.

Nexus - Follow-up on previous internal control points

Our 2019/20 audit work did not identify any significant deficiencies which we needed to follow up.

06

Section 06:

Summary of misstatements

6. 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 £225,000 (NECA) and £375,000 (Group).

Unadjusted misstatements

There are no unadjusted misstatements.

Adjusted misstatements – NECA single entity accounts

There is one adjusted misstatement in relation to the NECA financial statements, as set out below.

		Comprehensive Income and Expenditure Statement / Movement in Reserves Statement		Balance Sheet	
		Dr (£'000)	**Cr (£'000)**	**Dr (£'000)**	**Cr (£'000)**
1	Dr: Pension Liability			1,880	
	Cr. Pension Asset				1,880
	Dr. Adjustment through the Movement in Reserves Statement	1,880			
	Cr: Re-measurement Gains on Assets		1,880		
	Being an increase of £1.88m in re-measurement gain on assets as measured by the Actuary in a revised valuation report for NECA. As explained on page 14 of this report, this did not impact on the usable reserves position. Although this adjustment is not material to the NECA statements, management has decided to amend the financial statements. Note that this does not impact on the outturn position or the usable reserves available to NECA.				

6. Summary of misstatements

Adjusted misstatements - Group

There is one adjusted misstatement in relation to the Group financial statements, which incorporates the NECA adjustment reported on page 23, as set out below.

		Comprehensive Income and Expenditure Statement / Movement in Reserves Statement		Balance Sheet	
		Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
1	Dr: Pension Liability			9,395	
	Cr. Pension Asset				9,395
	Dr. Adjustment through the Movement in Reserves Statement	9,395			
	Cr: Re-measurement Gains on Assets		9,395		

Being an increase of £7.515m in re-measurement gain on assets as measured by the Actuary in a revised valuation report for Nexus (The £7.515m is NECA's share based on the devolution population calculation of the total re-measurement gain of £13.550m).

The £7.515m is added to the equivalent NECA impact of £1.88m (see page 23), to give the total adjustment of £9.395m. As explained on page 14 of this report, although this is below overall materiality of £11.961m, it is above our performance materiality level of £8.971m and is a significant value. Consequently, management have adjusted for this in the Group financial statements.

Note that this does not impact on the outturn position or the usable reserves available to NECA or its Group entities.

6. Summary of misstatements

Disclosure amendments

There are no significant disclosure amendments that need to be brought to the attention of Members.

Other issues

The financial statements for NECA include a share of the Joint Transport Committee assets and liabilities. We have reported in previous years an unadjusted misstatement in relation to cash balances between NECA and NTCA (the North of Tyne Combined Authority). In 2019/20 the figure was £796k. We reported this as follows: “On recalculation of Cash split for the devolution a variance has arisen as cash is a balancing figure due to the number of estimations used during the process.”

On reflection, our view is that we do not need to report this as an unadjusted misstatement, but we do note that there is a difference, and this year the value of the difference is £553k. The reason for not disclosing this as an error is that it is the result of a reasonable estimation process, but there is a relatively small and non-material variation when we carry out a comparison of this against the devolution percentages. No further action is required in relation to this issue.

07

Section 07:

Value for Money

7. Value for Money

Approach to Value for Money

We are required to consider 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 and sets out the reporting criteria that we are required to consider. The reporting criteria are:

- **Financial sustainability** – how NECA plans and manages its resources to ensure it can continue to deliver its services
- **Governance** - how NECA ensures that it makes informed decisions and properly manages its risks
- **Improving economy, efficiency and effectiveness** - how NECA uses information about its costs and performance to improve the way it manages and delivers its services

At the planning stage of the audit, we undertake work to understand the arrangements that NECA has in place under each of the reporting criteria and we identify risks of significant weaknesses in those arrangements. Although we describe this work as planning work, we keep our understanding of arrangements under review and update our risk assessment throughout the audit to reflect emerging issues that may suggest significant weaknesses in arrangements exist.

Where our risk-based procedures identify actual significant weaknesses in arrangements we are required to report these and make recommendations for improvement. Where such significant weaknesses are identified, we report these in the audit report.

The primary output of our work on NECA's arrangements is the commentary on those arrangements that forms part of the Auditor's Annual Report.

We intend to issue the Auditor's Annual Report no later than three months after the auditor's report on the financial statements is signed, in accordance with the latest guidance issued by the NAO.

Status of our work

We are yet to complete our work in respect of NECAs arrangements for the year ended 31 March 2021. At the time of preparing this report, we have not identified any significant weaknesses in arrangements that require us to make a recommendation, however, we continue to undertake work on NECA's arrangements.

Our draft audit report at Appendix B outlines that we have not yet completed our work in relation to NECA's arrangements. As noted above, our commentary on NECA's arrangements will be provided in the Auditor's Annual Report no later than three months after the auditor's report on the financial statements is signed.

Appendices

A: Draft management representation letter

B: Draft audit report

C: Independence

D: Other communications

Appendix A: Draft management representation letter

To: Mr Gavin Barker
Director
Mazars LLP

Date:

North East Combined Authority (NECA) and Group - audit for year ended 31 March 2021

This representation letter is provided in connection with your audit of the financial statements of NECA and Group for the year ended 31 March 2021 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (the Code) and applicable law.

I confirm that the following representations, to the best of my knowledge and belief, 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 financial statements and accounting information

I believe that I have fulfilled my responsibilities for the true and fair presentation and preparation of the financial statements in accordance with the Code and applicable law.

My responsibility to provide and disclose relevant information

I have provided you with:

- access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other material;
- additional information that you have requested from us 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 that have a material effect on the financial statements 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 Group committee meetings, have been made available to you.

Appendix A: Draft management representation letter

Accounting policies

I confirm that I have reviewed the accounting policies applied during the year in accordance with Code and International Accounting Standard 8 and consider these policies to faithfully represent the effects of transactions, other events or conditions on NECA and Group's financial position, financial performance and cash flows.

Accounting estimates, including those measured at fair value

I confirm that any significant assumptions used by NECA and Group in making accounting estimates, including those measured at current or 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 and applicable law.

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.

Appendix A: Draft management representation letter

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 financial statements 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, have been appropriately accounted for and disclosed in accordance with the requirements of the Code and applicable law. 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.

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.

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.

Future commitments

I am not aware of any plans, intentions or commitments that may materially affect the carrying value or classification of assets and liabilities or give rise to additional liabilities.

Appendix A: Draft management representation letter

Subsequent events

I confirm all events subsequent to the date of the financial statements and for which the Code and applicable law, 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.

Going concern

I confirm that I have carried out an assessment of the potential impact of the COVID-19 Virus pandemic on NECA and Group, including the impact of mitigation measures and uncertainties and I am satisfied that the going concern assumption remains appropriate and that no material uncertainty has been identified.

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 financial statements.

Unadjusted misstatements

I confirm that there were no unadjusted misstatements in the 2020/21 statement of accounts. IF THERE ARE UNADJUSTED MISSTATEMENTS PLEASE LIST THEM HERE OR INCLUDE THEM IN AN APPENDIX.

Yours faithfully

Chief Finance Officer

Date: ………………………

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Appendix B: Draft audit report

Independent auditor's report to the Members of North East Combined Authority and the Group

Report on the audit of the financial statements

Opinion on the financial statements

We have audited the financial statements of North East Combined Authority and Group for the year ended 31 March 2021, which comprise the North East Combined Authority and Group Comprehensive Income and Expenditure Statements, the North East Combined Authority and Group Balance Sheets, the North East Combined Authority and Group Movement in Reserves Statement, the North East Combined Authority and Group Cash Flow Statements 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 2020/21.

In our opinion, the financial statements:

- give a true and fair view of the financial position of North East Combined Authority and Group as at 31st March 2021 and of North East Combined Authority and Group's 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 2020/21.

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 North East Combined Authority 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, 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

In auditing the financial statements, we have concluded that the Chief Finance Officers' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on North East Combined Authority and Group's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Chief Finance Officer with respect to going concern are described in the relevant sections of this report.

Appendix B: Draft audit report

Other information

The Chief Finance Officer is responsible for the other information. The other information comprises the Narrative Statement and the Annual Governance Statement and 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.

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 the Chief Finance Officer's Responsibilities, 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 2020/21, 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 2020/21 and prepare the financial statements on a going concern basis, on the assumption that the functions of North East Combined Authority and Group will continue in operational existence for the foreseeable future. The Chief Finance Officer is responsible for assessing each year whether or not it is appropriate for North East Combined Authority 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Based on our understanding of North East Combined Authority and Group, we identified that the principal risks of non-compliance with laws and regulations related to the Local Government Act 2003 (and associated regulations made under section 21), the Local Government Finance Acts of 1988, 1992 and 2012, and the Accounts and Audit Regulations 2015, and we considered the extent to which non-compliance might have a material effect on the financial statements.

We evaluated the Chief Finance Officer's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls) and determined that the principal risks were related to posting manual journal entries to manipulate financial performance, management bias through judgements and assumptions in significant accounting estimates and significant one-off or unusual transactions.

Appendix B: Draft audit report

Our audit procedures were designed to respond to those identified risks, including non-compliance with laws and regulations (irregularities) and fraud that are material to the financial statements. Our audit procedures included but were not limited to:

- discussing with management and Those Charged with Governance the policies and procedures regarding compliance with laws and regulations;
- communicating identified laws and regulations throughout our engagement team and remaining alert to any indications of non-compliance throughout our audit; and
- considering the risk of acts by North East Combined Authority and the Group which were contrary to applicable laws and regulations, including fraud.

Our audit procedures in relation to fraud included but were not limited to:

- making enquiries of management and Those Charged with Governance on whether they had knowledge of any actual, suspected or alleged fraud;
- gaining an understanding of the internal controls established to mitigate risks related to fraud;
- discussing amongst the engagement team the risks of fraud; and
- addressing the risks of fraud through management override of controls by performing journal entry testing.

There are inherent limitations in the audit procedures described above and the primary responsibility for the prevention and detection of irregularities including fraud rests with management and Those Charged with Governance. As with any audit, there remained a risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal controls.

We are also required to conclude on whether the Chief Finance Officer's use of the going concern basis of accounting in the preparation of the financial statements is appropriate. We performed our work in accordance with Practice Note 10: Audit of financial statement and regularity of public sector bodies in the United Kingdom, and Supplementary Guidance Note 01, issued by the National Audit Office in April 2021.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on North East Combined Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Matter on which we are required to report by exception

We are required to report to you if, in our view, we are not satisfied that North East Combined Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021.

We have not completed our work on North East Combined Authority's arrangements. On the basis of our work to date, having regard to the guidance issued by the Comptroller and Auditor General in April 2021, we have not identified any significant weaknesses in arrangements for the year ended 31 March 2021.

We will report the outcome of our work on North East Combined Authority's arrangements in our commentary on those arrangements within the Auditor's Annual Report. Our audit completion certificate will set out any matters which we are required to report by exception.

Appendix B: Draft audit report

Responsibilities of North East Combined Authority

North East Combined Authority 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 North East Combined Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of North East Combined Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our work in accordance with the Code of Audit Practice, having regard to the guidance issued by the Comptroller and Auditor General in April 2021.

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.

Use of the audit report

This report is made solely to the members of North East Combined Authority, 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 North East Combined Authority 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 North East Combined Authority, as a body, for our audit work, for this report, or for the opinions we have formed.

Appendix B: Draft audit report

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 North East Combined Authority's Whole of Government Accounts consolidation pack; and
- the work necessary to satisfy ourselves that the North East Combined Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Gavin Barker
Director
For and on behalf of Mazars LLP

The Corner
Bank Chambers
26 Mosley Street
Newcastle upon Tyne
NE1 1DF

Date:

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.

Appendix D: Other communications

Other communication	Response
Compliance with laws and regulations	We have not identified any significant matters involving actual or suspected non-compliance with laws and regulations. We will obtain written representations from management that all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements have been disclosed.
External confirmations	We did not experience any significant issues with respect to obtaining external confirmations.
Related parties	Issues were identified in respect of related parties disclosures for the subsidiary Nexus as outlined in the internal control recommendation raised in section 05. We will obtain written representations from management confirming that: a. they have disclosed to us the identity of related parties and all the related party relationships and transactions of which they are aware; and b. they have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the applicable financial reporting framework.
Going concern	We have not identified any evidence to cause us to disagree with the Chief Finance Officer that North East Combined Authority will be a going concern, and therefore we consider that the use of the going concern assumption is appropriate in the preparation of the financial statements. We will obtain written representations from management, confirming that all relevant information covering a period of at least 12 months from the date of approval of the financial statements has been taken into account in assessing the appropriateness of the going concern basis of preparation of the financial statements.

Appendix D: Other communications

Other communication	Response
Subsequent events	We are required to obtain evidence about whether events occurring between the date of the financial statements and the date of the auditor's report that require adjustment of, or disclosure in, the financial statements are appropriately reflected in those financial statements in accordance with the applicable financial reporting framework. We will obtain written representations from management that all events occurring subsequent to the date of the financial statements and for which the applicable financial reporting framework requires adjustment or disclosure have been adjusted or disclosed.
Matters related to fraud	We have designed our audit approach to obtain reasonable assurance whether the financial statements as a whole are free from material misstatement due to fraud. In addition to the work performed by us, we will obtain written representations from management, and Those Charged with Governance, confirming that a. they acknowledge their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud; b. they have disclosed to the auditor the results of management's assessment of the risk that the financial statements may be materially misstated as a result of fraud; c. they have disclosed to the auditor their knowledge of fraud or suspected fraud affecting the entity involving: i. management; ii. employees who have significant roles in internal control; or iii. others where the fraud could have a material effect on the financial statements; and d. they have disclosed to the auditor their knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

Gavin Barker, Director
gavin.barker@mazars.co.uk

Mazars
The Corner
Bank Chambers
26 Mosley Street
Newcastle upon Tyne
NE1 1DF

North East Combined Authority

DURHAM • GATESHEAD • SOUTH TYNESIDE • SUNDERLAND

Item 9

Date: **1 February 2022**

Subject: **Capital Programme and Treasury Management Policy and Strategy**

Report of: **Chief Finance Officer**

Executive Summary

This report provides the Leadership Board with a copy of the Capital Programme for 2022/23 as agreed by the North East Joint Transport Committee (JTC) on 18 January 2022. The report to the JTC sets out an updated forecast of outturn for the current year as well as the capital programme for 2022/23 and includes details of how the capital investments will be financed. The Transport Capital Programme will be administered by NECA in its role as Accountable Body for the JTC. The full report to the JTC is set out at Appendix 1.

The initial capital programme for 2022/23 agreed by the JTC totals £279.774m and includes a wide range of transport programmes including Transforming Cities Fund, the Metro Asset Renewal Plan, Metro Fleet Replacement, Local Transport Plan Integrated Transport Block grant and the capital elements of the region's Active Travel Fund programme.

This report also presents the NECA Treasury Management Strategy, the expected treasury operations for this period and provides details of the Treasury Management Strategy and Statement on Minimum Revenue Provision (MRP).

Consideration of this report and adoption of the Treasury Management Strategy fulfils NECA's legislative requirements with regards to compliance with the CIPFA Prudential Code for Capital Finance.

Recommendations

The Leadership Board is recommended to:

i) Note the forecast outturn position for 2021/22 set out in section 2.2 of the report;

ii) Agree to administer the capital programme approved by the JTC as set out in section 2.2;

iii) Agree the Treasury Management Strategy and the Treasury Prudential Indicators contained within Appendix 2, including the Authorised Limit;

iv) Agree the Cash Investment Strategy 2022/23 contained in the Treasury Management Strategy within Appendix 2.

1. Background Information

1.1 This report provides an updated forecast of outturn against the revised capital budget for 2021/22 and outlines the proposed capital programme for 2022/23 and the funding sources identified to deliver it. The capital programme covers a wide range of economic and regeneration initiatives and transport improvements.

1.2 In its role as accountable body for the JTC, NECA accounts for the transport capital programme, which is set and overseen by the JTC, so this is included in summary in the budgets included in this report. A copy of the detailed report considered and agreed by the JTC is appended to this report.

1.3 The report also sets out the authority's Treasury Management Strategy and Minimum Revenue Provision Policy for 2022/23. Consideration of this report and adoption of the Treasury Management Strategy fulfils NECA's legislative requirements with regards to compliance with the CIPFA Prudential Code for Capital Finance.

2. Proposals

Transport Capital Programme

2.1 The Transport Capital Programme for 2022/23 and indicative amounts for 2023/24 and 2024/25 was approved by the JTC on 18 January 2022. The report also provided an update on the latest forecast of outturn for 2021/22. Details of the various elements making up the transport capital programme are set out in detail in the report to the JTC, which is attached as Appendix 1. As Accountable Body for the JTC, NECA must administer the capital programme which the JTC has agreed.

2.2 A summary of the forecast outturn for 2021/22 and the initial programme for 2022/23 is set out in the table below with full details contained in the report at Appendix 1.

	2021/22 Revised Budget (Nov JTC)	Spend to October 2021	2021/22 Forecast Outturn	2021/22 Forecast Variance	2022/23 Initial Programme
	£m	£m	£m	£m	£m
TCF Tranche 1	0.931	0.896	0.901	(0.030)	0.000
TCF Tranche 2 (Exc. Metro Flow)	30.916	1.725	32.455	1.539	70.618
Active Travel Fund (capital elements)	6.977	0.260	3.752	(3.225)	3.186
Go Ultra Low	0.127	0.000	0.000	(0.127)	0.000
Electric Vehicle Charging Infrastructure	0.000	0.082	0.257	0.257	0.175

Ultra-Low Emission Vehicles – Taxi Project	0.049	0.001	0.049	0.000	0.043
Metro Asset Renewal Plan	19.310	6.742	18.226	(1.084)	32.762
Metro Fleet Replacement	65.227	39.965	64.801	(0.426)	69.808
Nexus non-Metro Programme	3.549	0.712	2.589	(0.960)	8.345
Metro Flow	17.885	5.820	17.884	(0.001)	83.498
Tyne Tunnels	1.200	0.470	1.200	0.000	0.000
LTP	11.339	7.876	11.339	0.000	11.339
Total Capital Programme	**157.510**	**64.549**	**153.453**	**(4.057)**	**279.774**

Prudential Code and Treasury Management

2.3 Appendix 2 outlines the authority's prudential indicators for 2022/23 to 2024/25, details of the expected treasury operations for this period and provides details of the Treasury Management Strategy and Statement on Minimum Revenue Provision (MRP).

2.4 Consideration of this report and adoption of the Treasury Management Strategy fulfils NECA's legislative requirements with regards to compliance with the CIPFA Prudential Code for Capital Finance.

2.5 Included within the Treasury Management Strategy is a cash investment strategy which sets out the Authority's criteria for choosing investment counterparties and limiting exposure to the risk of loss. This element of the strategy is in accordance with the Department for Levelling Up, Housing and Communities Investment Guidance.

2.6 The Treasury Management Strategy sets out how the treasury service will support the capital decisions taken in this report, the day-to-day treasury management and the limitations on activity through treasury prudential indicators. The key indicator being the 'Authorised Limit', the maximum amount of debt the Authority could afford in the short term but which would not be sustainable in the longer term. This is the Affordable Borrowing Limit required by section 3 of the Local Government Act 2003. This is in accordance with the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code.

2.7 The Authority's Minimum Revenue Provision (MRP) Statement sets out how the Authority will pay for capital assets through revenue each year (as required by Regulation under the Local Government and Public Involvement in Health Act 2007).

2.8 The policies and parameters set out in Treasury Management Strategy and Statement on Minimum Revenue Provision provide an approved framework within which officers undertake day to day capital and treasury activities.

3. Reasons for the Proposals

3.1 The proposals are presented in this report to enable the Leadership Board to agree its capital programme for 2022/23 and to adhere to legislative requirements with regards to compliance with the CIPFA Prudential Code for Capital Finance. Appendix 2 therefore contains the NECA Treasury Management Strategy, the expected treasury operations for this period and provides details of the Treasury Management Strategy and Statement on Minimum Revenue Provision (MRP).

4. Alternative Options Available

4.1 Option 1: The Leadership Board may accept the recommendations set out in this report.

Option 2: The Leadership Board may not accept the recommendations set out in this report.

Option 1 is the recommended option.

5. Next Steps and Timetable for Implementation

5.1 The initial capital programme for 2022/23 and the indicative programme for future years will be closely monitored. As new funding is sourced additional schemes will added and therefore the capital programme will inevitably be subject to change. Any changes to the capital programme, including slippage and necessary re-profiling of investments, will be subject to reports and consideration by meetings of the Joint Transport Committee.

6. Potential Impact on Objectives

6.1 The capital investment set out in the report will have a positive impact on the objectives of the Authority. Successful delivery of the various transport schemes and investment proposals will assist the JTC in meeting its objective to maximise the region's opportunities and potential.

7. Financial and Other Resources Implications

7.1 The financial and other resources implications are set out in the main body of the report.

8. Legal Implications

8.1 It is noted that both the recommended resolutions require unanimous approval in accordance with the NECA Constitution.

9. Key Risks

9.1 Appropriate risk management arrangements are in place and managed by the teams delivering the capital programme on the Authority's behalf.

9.2 Both the CIPFA Code and government guidance require NECA to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. NECA's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

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 Projects being delivered by constituent authorities or in constituent authority areas are subject to local consultation and planning approvals.

13. Other Impact of the Proposals

13.1 There are no other impacts arising from these proposals.

14. Appendices

14.1 Appendix 1 – North East Joint Transport Committee Capital Programme Report

Appendix 2 – North East Combined Authority Annual Treasury Management Strategy 2022/23

15. Background Papers

15.1 NECA Capital Programme and Treasury Management Strategy – Leadership Board 2 February 2021 Leadership-Board-2-February-2021-Agenda-Pack.pdf (northeastca.gov.uk)

16. Contact Officers

16.1 Eleanor Goodman, NECA Finance Manager, Eleanor.goodman@northeastca.gov.uk, 0191 433 3860

17. Sign Off

17.1
- Head of Paid Service: ✓
- Monitoring Officer: ✓

- Chief Finance Officer: ✓

North East Joint Transport Committee

Date: 18 January 2022

Subject: Forecast of Capital Outturn 2021/22 (Period to 31 October 2021) and 2022/23 Capital Programme Assumptions

Report of: Chief Finance Officer

Executive Summary

This report provides the North East Joint Transport Committee with an updated forecast capital outturn for 2021/22 and presents the initial 2022/23 capital programme, totalling £279.774m, for consideration and approval.

The report identifies that total capital expenditure on Transport schemes of £153.453m is now forecast for 2021/22 against the revised programme budget of £157.510m. The main variances since the last update reported to the committee is a reduction in expenditure on the Active Travel Fund programme where some schemes have had extensions approved and expenditure is now being reprofiled into 2022/23; a small increase in forecast expenditure on TCF Tranche 2 and small reductions to the forecasts for the Metro Asset Renewal Plan programme and Metro Fleet Replacement.

£0.901m is forecast to be invested on TCF Tranche 1 schemes in 2021/22, with schemes due to complete this financial year.

£32.455m is forecast to be paid out on TCF Tranche 2 schemes in 2021/22, including Durham Bus Station and Sunderland Central Station. The programme for 2022/23 is £70.618m, representing the final year of the programme as all schemes must be fully committed by the end of March 2023. Reporting on the Metro Flow project is included within the sections on the Metro capital programme.

The report sets out details of the Nexus capital programme for 2022/23, totalling £194.413m which includes the Metro Asset Renewal Programme (MARP, £32.762m), Fleet Replacement Programme (FRP, £69.808m), Other Nexus Capital Projects (£8.345m) and Metro Flow (£83.498m). Indicative figures for 2023/24 and 2024/25 are included, which are subject to approval of funding.

The programme includes an estimated £14.057m of Local Transport Plan Integrated Transport Block grant that will be received by NECA on behalf of the Joint Transport Committee, most of which will be paid to constituent authorities and Nexus on a quarterly

basis to support their capital programmes. Expenditure on the Nexus elements is included in the sections on the Nexus capital programme. A proposed allocation of the LTP Integrated Transport block is set out in the report, but this is subject to confirmation of the total grant due in 2022/23 which has not yet been received.

Most of the capital works during the current and next financial year will be funded through government grants awarded (£141.552m in 2021/22 and £269.728m in 2022/23) with elements of the Nexus capital programme and the Tyne Pedestrian and Cyclist Tunnels works funded by reserves (£11.901m in 2021/22 and £10.046m in 2022/23) held specifically for this purpose.

Recommendations

The North East Joint Transport Committee is recommended to:

i. Note the latest position in respect of the 2021/22 capital programme, set out in section 2.1 and the following sections

ii. Approve the proposed initial capital programme for 2022/23 which amounts to £279.774m as set out in section 2.1 and the following sections.

1. Background Information

1.1 In January 2021, the JTC approved the initial 2021/22 capital programme of £152.674m. The capital programme was updated to take account of adjustments for slippage in the 2020/21 and any new developments in 2021/22. The revised updated budget approved by JTC in November 2021 is £157.510m.

2. Proposals

2.1 A summary of the Transport capital outturn forecast for 2021/22, together with a forecast outturn position and details of actual expenditure to 31 October 2021 is set out in the table below, with further details provided in the sections that follow.

Table 1: Transport Capital Programme 2021/22 and 2022/23

	2021/22 Revised Budget (Nov JTC)	**Spend to October 2021**	**2021/22 Forecast Outturn**	**2021/22 Forecast Variance**	**2022/23 Initial Programme**
	£m	**£m**	**£m**	**£m**	**£m**
TCF Tranche 1	0.931	0.896	0.901	(0.030)	0.000
TCF Tranche 2 (Exc. Metro Flow)	30.916	1.725	32.455	1.539	70.618
Active Travel Fund (capital elements)	6.977	0.260	3.752	(3.225)	3.186
Go Ultra Low	0.127	0.000	0.000	(0.127)	0.000
Electric Vehicle Charging Infrastructure	0.000	0.082	0.257	0.257	0.175
Ultra-Low Emission Vehicles – Taxi Project	0.049	0.001	0.049	0.000	0.043
Metro Asset Renewal Plan	19.310	6.742	18.226	(1.084)	32.762
Metro Fleet Replacement	65.227	39.965	64.801	(0.426)	69.808
Nexus non-Metro Programme	3.549	0.712	2.589	(0.960)	8.345
Metro Flow	17.885	5.820	17.884	(0.001)	83.498
Tyne Tunnels	1.200	0.470	1.200	0.000	0.000
LTP	11.339	7.876	11.339	0.000	11.339
Total Capital Programme	**157.510**	**64.549**	**153.453**	**(4.057)**	**279.774**

Transforming Cities Fund (TCF) – Tranche 1 and Tranche 2

2.2 The North East was awarded £208m grant from the Transforming Cities Fund (TCF), of which £10m was for Tranche 1 and £198m was for Tranche 2. Within the Tranche 2 schemes, £104m is for schemes where the decision making on funding is devolved to the region, and the remaining £94m is for the Metro Flow scheme managed by Nexus, where the decision making on the funding is retained by the Department for Transport.

2.3 There are 19 schemes within the TCF Tranche 1 programme, of which 12 have been fully claimed and audit statements submitted which have released the retention held by NECA. There are a further five schemes which have submitted a final claim, but an audit statement is awaited to release the retention. The remaining two schemes are Barras Bridge (Newcastle City Council) and New Road to Lingley Lane (Gateshead Council) which are due to complete by the end of 2021.

2.4 Ten schemes have currently been identified within the TCF Tranche 2 programme, 4 of which are currently underway, Durham Bus Station, Sunderland Central Station, Regional Option Survey and the Active Travel Campaign.

2.5 Approximately £2.4m of the total TCF Tranche 2 grant allocation for the North East region has been spent to 31 October 2021, which represents 2.3% of the overall programme. However, this is expected to start increasing significantly, as both Durham Bus Station and Sunderland Station schemes have been approved, which accounts for 19.2% of the total £103.8m Devolved Pot. In 2021/22 so far £1.725m payments from the Devolved Pot have been made. There is a rapid acceleration in the anticipated spend over 2021/22 which is based on the anticipated milestones provided to TNE and requires a number of business cases to come forward for approval during this financial year. A total of £32.455m expenditure is forecast for 2021/22.

2.6 *Table 2: TCF Tranche 2 Capital Forecast of Outturn 2021/22 to 2020/23:*

TCF Tranche 2	**2020/21 Outturn**	**2021/22 Forecast Outturn**	**2022/23 Initial Budget**	**Total Budget**
	£m	**£m**	**£m**	**£m**
Devolved Programme Level	0.726	32.455	70.618	103.799
Nexus Metro Flow (reported with Nexus Capital Programme)	1.142	17.884	75.659	94.685
All Programme Level	**1.868**	**50.339**	**146.277**	**198.484**

Active Travel Fund – Tranche 2

2.7 In November 2020, the North East region was allocated £9.049m of grant funding from Tranche 2 of the Active Travel Fund (ATF) (£7.239m capital and £1.810m revenue). £0.262m of the capital funding was used in 2020/21.

2.8 Ten Active Travel schemes across the seven Local Authorities have been allocated £6.938m from the remaining £6.978m. In order for a Grant Funding Agreement (GFA) to be set up and claims to be processed for schemes, TNE has requested that an Assurance Statement and a Monitoring and Evaluation Plan is submitted for the scheme. This is additional to the DfT requirement to submit a letter confirming the outcomes of public consultation activities. These documents have started to come through and GFAs will begin to be issued.

2.9 At present there has been no grant funding paid to scheme promoters. Durham County Council's Great North Cycleway GFA has been received and work is currently ongoing, with their claim to be received shortly. Transport North East have completed their Regional Public Opinion Survey and the Active Travel Campaign is due to complete in the near future.

2.10 *Table 3: ATF Tranche 2 Capital Forecast of Outturn 2021/22 to 2022/23*

ATF Tranche 2	**2021/22 Forecast Outturn**	**2022/23 Initial Budget**	**Total Budget**
	£m	**£m**	**£m**
Great North Cycleway	0.520	0.000	0.520
Gateshead Town Centre Walking and Cycling Improvements	0.361	0.000	0.361
Grey Street	0.656	1.313	1.969
RVI Active Travel Access Improvements	0.434	0.434	0.868
Strategic Corridors	0.630	0.630	1.260
A183 Whitburn Road Cycleway	0.225	0.675	0.900
Waterloo Road/Renwick Road Cycle Improvements, Blyth	0.134	0.134	0.268
Four Active Travel Corridors Package	0.432	0.000	0.432
Regional Public Opinion Survey	0.040	0.000	0.040
Active Travel Campaign	0.320	0.000	0.320
All Programme Level	**3.752**	**3.186**	**6.938**

Electric Vehicle charging infrastructure

2.11 Following the completion of the Go Ultra Low project earlier this year, good progress is being made in the delivery of further Electric Vehicle charging infrastructure across the north east, using Local Growth Fund resources. All sites are due to be completed by the end of the next financial year.

2.12 Capital expenditure to the end of October 2021 was £0.082m. Forecast expenditure to the year end is £0.257m. The initial budget for 2022/23 is £0.175m.

Ultra-Low Emission Vehicles – Taxi Project

2.13 Nine of the ten dedicated electric vehicle charges for the taxi and private hire industry (funded by the Office of Zero Emission Vehicles) are now live and operational.

Engagement events to encourage the switch to electric vehicles in the taxi trade are planned for 2021 and 2022. There are issues impacting on implementing the final site. The Coronation Street site in North Tyneside is currently being used as a Covid testing centre. Discussions are being held with North Tyneside Council on the future of this site. £0.043m budget will be carried over into 2022/23 for this site.

2.14 Capital expenditure to the end of October 2021 was £0.001m. Forecast expenditure to the year end is £0.049m.

Nexus Capital Programme

2.15 The JTC approved Nexus' Capital Programme for 2021/22 to 2024/24 in January 2021. The programme is sub-divided into the following sections:

i) Metro Infrastructure (the Metro Asset Renewal Programme or MARP);
ii) A new fleet of Metrocars (the Fleet Replacement Programme or FRP);
iii) Other Capital Projects (OCP); e.g. the cross Tyne Ferry; and
iv) Metro Flow (MFL)

Total Nexus Capital Programme Summary

2.16 Nexus' revised capital programme for 2021/22, provides for gross expenditure of £111.835m. The programme forecast outturn as at Period 7 (to 16 October 2021) stands at £103.500m. At the end of Period 7 the total programme spend was £50.239m, against the budgeted spend of £57.815m.

2.17 The 2021/22 forecast outturn is £103.500m against a revised budget of £111.835m. Importantly, the under spend and associated programme implications can be accommodated, and no resources will be clawed back. The £8.335m net underspend is detailed below.

Table 4: Nexus Capital Programme Forecast Outturn 2021/22

	2021/22 Original Budget	**2021/22 Revised Budget**	**2021/22 Forecast Outturn**	**2021/22 Forecast Variance**
	£m	**£m**	**£m**	**£m**
Cumulative to Period 7				
Metro Asset Renewal Programme		7.768	6.742	(1.026)
Fleet Replacement Programme		40.827	36.965	(3.862)
Other Capital Projects		1.236	0.712	(0.524)
Metro Flow		7.984	5.820	(2.164)
		57.815	**50.239**	**(7.576)**
Outturn				
Metro Asset Renewal Programme	19.222	23.609	18.226	(5.383)
Fleet Replacement Programme	63.069	64.215	64.801	0.586
Other Capital Projects	8.252	3.379	2.589	(0.790)
Metro Flow	8.100	20.632	17.884	(2.748)
	98.643	**111.835**	**103.500**	**(8.335)**

2.18 At the end of Period 7, £63.602m of capital grant has been claimed from the Department for Transport (DfT). This includes both the MARP, FRP and MFL. The actual amount claimed in total was 100% of forecast and therefore within DfT tolerance levels of +/- 5%.

2.19 The initial budget for 2022/23 is £194.413m.

2.20 Funding for (i) to (iv) is largely provided by the DfT:

i. In respect of the MARP, 2022/23 represents the first year of a three-year funding programme. Following the Autumn 2021 Spending Review the Department for Transport (DfT) have confirmed the capital grant funding for 2022/23 but not yet for future years. The MARP programme within the report assumes capital grant funding of £30.200m in 2022/23, £30.000m in 2023/24 and £27.000m in 2024/25.
ii. In relation to FRP, 2022/23 represents the fourth year of capital funding from DfT, with the programme fully funded to expected completion in 2025/26.
iii. OCP is largely funded via DfT Transforming Cities Fund (TCF) grant and Nexus Reserves, which in lieu of other funding being confirmed is currently underwriting the development work for the North Shields Ferry Landing relocation project.
iv. The MFL, funding was approved following submission of the Final Business Case (FBC) to DfT, in Summer 2021. The local contributions will come from Metro Rail Grant.

2.21 Other than the FRP, obtaining funding for the capital programme 2022/23 to 2024/25 has been extremely challenging, with the submission to the 2021 Spending Review in relation to the MARP not yet fully confirmed, although the 2022/23 allocation has now been confirmed at £30.2m of capital grant. MARP funding for 2023/24 and 2024/25 is, at this point in time, subject to further approvals and is likely to be linked to the region receiving a City Region Sustainable Transport Settlement. However, the MARP has been developed on the assumption that funding for future years will be obtained and if funding for the capital programme that has been developed is approved, this represents over £400 million of investment in key assets over the next three years.

Metro Asset Renewal Programme (MARP)

Forecast of Outturn 2021/22 - MARP

2.22 Actual spend at the end of Period 7 was £6.742m against the revised budgeted profile of £7.768m. The £1.026m underspend relates to reduced use of contingency than forecast during the period.

2.23 Forecast outturn for 2021/22 is £18.226m (including a risk contingency of £0.500m) against a revised budget of £23.609m. The £5.383m net decrease is mainly as a result of £2.944m of project spend deferred into 2022/23 (Network Refresh, Tanners Bank, Battery Loco replacement, Timetabling and Rostering system and Relay Rooms), plus net savings of £0.479m (Tyne Dock track works and Heworth to South Shields plain line renewal). Also, a review of the required contingency has been undertaken which has resulted in a reduction in the contingency provision held of £1.960m. The lack of long-term surety is now severely impacting on delivery of the MARP because future projects aren't sufficiently developed in the life cycle and therefore incapable of being brought forward to mitigate slippage in the current year's programme.

2.24 The October grant claim was £1.301m, compared to the forecast £1.300m and therefore within the +/- 5% DfT target.

2.25 Total grant claimed to date is £6.691m and MRG capital grant totalling £16.000m is forecast to be claimed by year end. Whilst the forecast outturn is currently only £0.004m above the minimum spend target of £18.222m, arrangements have been made with the DfT, in the event that the minimum spend level is not achieved, thereby ensuring no claw back of MRG capital grant at the year-end.

2.26 The remaining £2.227m of forecast spend will be funded from £1.835m of local funding (LTP), plus £0.392m Highways Challenge Fund grant for Tanners Bank.

Initial Budgets 2023/24 to 2024/25 - MARP

2.27 Funding for the 2022/23 programme totals £32.762m, consisting of Metro Rail Grant of £22.875m (£30.200m less the £7.325m contribution to Metro Flow funding), supplemented by local contributions of £2.604m LTP grant, £5.238m reserves (including over programming) and £2.245m Highways Challenge Fund in respect of the Tanners Bank bridge project.

2.28 As outlined in paragraph 2.21 developing the MARP for 2022/23 to 2024/25 has been extremely challenging with capital grant from DfT beyond 2022/23 still not confirmed. Nexus has received confirmation from DfT that it will receive £30.200m of capital grant in 2022/23, with funding thereafter contingent on the region becoming eligible for a City Region Sustainable Transport Settlement (CRSTS), subject to putting in place appropriate governance. This is far from satisfactory given that next year's allocation is less than what was originally sought and the lack of a CRSTS for the region means that essential funding for infrastructure renewal beyond 2022/23 is not in place at this time. Since 2019, the MARP has been subject to annual funding settlements and as a result, planning the essential renewals programme has been very difficult, including preparation of the 2022/23 programme which had initially been assessed as being for one-year only. However, and notwithstanding the challenges Nexus has had in connection with the Spending Review formalising capital grant allocations across the next three years, the MARP has been developed on the assumption that funding for future years beyond 2022/23 will be obtained. However, the timescales have been more challenging than usual, and this has given rise to the development of a three-year programme that will likely require further refinement once projects progress through the stage gate process and become better defined.

2.29 In addition, there are emerging risks associated with safety considerations (the need to improve track worker safety) and climate change (vegetation management and embankment strengthening) where although investment has been earmarked for these initiatives within the three-year programme, this might need to be revisited depending on a more detailed understanding of what is actually required.

2.30 A number of significant projects across a range of different asset categories are planned in 2022/23. The programme is developed using a prioritisation model that, in the context of finite funding available for investment in the Metro asset base, targets resources based on a range of criteria ranging from safety and performance to impact on demand for the Metro service to strategic fit. The proposed programme is set out in Appendix 1 and a summary is provided below:

Civils

- Cullercoats Footbridge refurbishment
- Design and planning of refurbishment of bridges at Stoddart Street (Newcastle)
- Development of a scheme to replace the track system on Howdon Viaduct
- Renewal of Tanners Bank Bridge, North Shields

Permanent Way

- Renewal of switches and crossings at Monkseaton and development of the renewal at Chillingham Road.
- Design and planning for the renewal of Prudhoe Street switch and crossing (Central Newcastle tunnel).
- Design and planning for the renewal and refurbishment of track between Regent Centre and Airport
- Scope and option development to enable reduced reliance on lookout protection for infrastructure works.

Mechanical and Electrical

- Completion of the programme of half-life refurbishment of lifts and escalators installed in the early years of the Asset Renewal Programme
- Commence renewal of tunnel lighting under central Newcastle

Overhead Line Equipment

- Continuation of the overhead line renewal (50% complete to date)

ICT Infrastructure

- Upgrades to ticketing and gating systems including operating system
- Renewal of Network Infrastructure equipment
- Replacement of Firewalls
- Scoping and development of systems for remote asset condition monitoring.

Business Applications

- Completion of Payroll / HR System Upgrade
- Completion of Finance System implementation
- Implementation of Timetabling and Rostering Applications.
- Scoping and development of a new Asset Management system

Signalling

- Commencement of development of proposals for a new signalling system.
- Development design and implementation of a new SCADA system,
- Progression of works to address cable degradation in relay rooms. This will become an ongoing multi-year programme continuing across the Metro infrastructure – similar to the OLE renewal programme.

Capital Maintenance/Other

- Continued heavy maintenance of the existing fleet
- Investment in our premises, particularly with regard to accessibility
- Addressing vegetation around the system
- Refurbishment of electrically powered works locomotives.

2.31 Despite considerable investment over the past twelve years, the programme of renewals needs to continue across the next three years and beyond in order to stabilise the backlog that had developed pre-2010, when Metro was subject to annual funding settlements, meaning that the condition of the Metro infrastructure had steadily declined. Years 2 and 3 (2023/24 and 2024/25) of this three-year programme therefore represents the planned investment to continue network Essential Renewals, although as highlighted in paragraph 2.24 above, funding for both these years has not yet been approved.

2.32 In addition, in January 2020, DfT's Rail Investment Board (RIB) had approved a £200m five-year funding package between 2021/22 to 2025/26. Due to the global pandemic, that funding was never approved by HM Treasury. Instead, Nexus were awarded £20m in 2021/22, £30.2m in 2022/23 with an expected further £57m for 2023/24 to 2024/25. Including financial year 2025/26 which is not covered by the 2021 Spending Review, this represents a £93m reduction in funding previously approved by DfT's RIB.

2.33 To this extent, a number of projects within the original programme are no longer able to be delivered. Examples of projects now deferred or where funding has been cut include:

- Track renewal and refurbishment from Tynemouth to Northumberland Park won't be carried out meaning redundant wooden formation sleepers won't be replaced, drainage systems won't be introduced, and the risk of rail breaks and buckles will heighten given the age of the track;
- The airport cross-over won't be replaced;
- Manors, Chichester, Monument and Gateshead station refurbishments are likely to be delayed beyond 2025;
- Investment in remedying cable degradation across the network and in relay rooms will be scaled back to around 50% of what was planned; and
- Funding to deal with emerging issues with fare collection systems is also cut in half.

2.34 The likely consequences of delaying this investment beyond 2025 include continued degradation of track and formation which together with cable faults and signalling failures will increase the likelihood of speed restrictions, timetable disruptions, increased journey times and reduced service frequency. From a safety perspective, risks will need to be managed through additional inspection and maintenance, which is likely to put additional pressure on the revenue budget. Increasing unreliability of fare collection systems will also increase outages leading to further pressure on the revenue budget. Should this lead to an increase in less sustainable forms of transport, the wider economic benefits generated by the Metro for the region will be impaired. By way of example, the Metro Infrastructure Essential Renewals business case states that failure to invest will result in an additional 11 million car journeys in Tyne and Wear travelling an estimated 96 million Kms and creating 16,414 tonnes of CO_2 emissions.

2.35 Investment that is planned over the next 36 months, accepting the caveats set out in paragraphs 2.29 and 2.30, the indicative MARP programme for 2022/23 to 2024/25 at asset category level is set out below and in more detail at Appendix A:

Table 5: Indicative MARP programme 2022/23 to 2024/25

	2022/23 Initial Budget	2023/24 Initial Budget	2024/25 Initial Budget	Total
	£m	£m	£m	£m
Capital Maintenance	4.100	3.900	2.700	10.800
Civils	5.000	2.600	1.800	9.300
Level Crossings	0.100	0.100	0.100	0.200
Mechanical and Electrical	1.900	0.600	0.300	2.800
Overhead line	3.100	3.400	3.500	10.000
Permanent Way (Plain line)	4.100	5.900	8.900	18.800
Plant	1.500	2.100	1.000	4.600
Risk Contingency	2.000	2.500	3.000	7.500
Signalling	3.100	6.900	6.000	16.000
Stations	3.100	4.500	6.800	14.300
Business Applications	1.100	0.600	0.200	1.900
ICT Infrastructure	1.700	3.100	2.500	7.200
Miscellaneous	1.600	1.000	0.700	3.200
Power	0.600	1.100	0.800	2.300
Total MARP	**33.000**	**38.300**	**38.300**	**108.900**

2.36 Nexus will still be required to fund 10% of the overall investment in the MARP, which will amount to £3.333m in 2022/23. As with investment since 2010, Nexus will secure this from the LTP Integrated Transport Block plus Highways Maintenance Challenge Fund (HMCF) grant secured to fund Tanner’s Bank bridge replacement.

Fleet Replacement Programme (FRP)

Forecast of Outturn 2021/22 - FRP

2.37 Actual spend at the end of Period 7 was £36.965m against the revised budget profile of £40.827m. The majority of the £3.862m underspend relates to less contingency being applied than budgeted and a realignment of contractor activities on the Gosforth Depot project. None of this is expected to delay the depot completion date.

2.38 Forecast outturn for 2021/22 is now £64.801m which represents an overspend on budget of £0.586m. The movement from the current under spend at Period 7 to the forecast overspend at the year-end relates to an acceleration of Work In Progress in manufacture of the new trains.

2.39 The October grant claim is 103.3% of the forecast. The £64.801m forecast outturn is expected to be funded from the £54.100m DfT Fleet Replacement grant available in 2021/22. With the balance funded from the local contribution of £10.701m.

Initial Budgets to 2025/26 - FRP

2.40 In October 2017, government announced £336.8m of grant funding for the replacement of Nexus' fleet of Metrocars. This is augmented by a £25.0m local contribution.

2.41 The funding profile was confirmed in January 2020 based on the key milestones to be delivered within the programme and is detailed below:

Table 6: FRP original funding profile

	2018/ 2019	2019/ 2020	2020/ 2021	2021/ 2022	2022/ 2023	2023/ 2024	2024/ 2025	2025/ 2026	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
DfT Capital Grant	0.000	21.600	29.800	44.000	78.600	117.700	43.600	1.500	336.800
Local Contribution	1.100	7.600	16.300	0.000	0.000	0.000	0.000	0.000	25.000
Total	**1.100**	**29.200**	**46.100**	**44.000**	**78.600**	**117.700**	**43.600**	**1.500**	**361.800**

2.42 The programme has necessarily evolved since this funding profile was initially agreed, although there are other factors, most notably changes to the delivery milestones for the Depot Construction Contract (DCC) and the addition of four additional trains in relation to the Metro Flow project. Whilst the additional trains are funded as part of the Metro Flow project, their addition has altered the FRG funding profile. The latest spend profile for grant draw down is being discussed with DfT and is detailed below:

Table 7: FRP programme forecast to 2025/26

	2018/ 2019	2019/ 2020	2020/ 2021	2021/ 2022	2022/ 2023	2023/ 2024	2024/ 2025	2025/ 2026	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
DfT Capital Grant	0.000	21.600	35.800	54.100	64.800	99.000	42.300	19.200	336.800
Local Contribution	1.500	3.300	7.900	7.300	5.000	0.000	0.000	0.000	25.000
Total	**1.500**	**24.900**	**43.700**	**61.400**	**69.800**	**99.000**	**42.300**	**19.200**	**361.800**

2.43 Importantly the re-profiling of the delivery programme has not resulted in a delay to the planned delivery of the new train fleet and over the next 36 months, the Manufacture and Supply Agreement (MSA) will progress through manufacture and acceptance of the first train, leading to the delivery of all 46 new trains. In addition, the existing depot in Gosforth will be replaced with a brand-new facility. The following expenditure is forecast:

Table 8: FRP programme forecast 2022/23 to 2024/25

	2022/23 Initial Budget	2023/24 Initial Budget	2024/25 Initial Budget	Total
	£m	£m	£m	£m
New Train Fleet (MSA)	40.900	90.800	41.200	172.800
Gosforth Depot (DCC)	22.300	4.500	0.000	26.900
Project Delivery	2.800	2.200	1.000	5.900
Risk Contingency	3.800	1.600	0.100	5.500
	69.800	**99.000**	**42.300**	**211.100**

Other Capital Projects (OCP)

Forecast of Outturn 2021/22 - OCP

2.44 In 2021/22 Other Capital Projects have a revised budget of £3.379m comprising of £1.322m Transforming Cities car park projects, £1.226m Ferry North Landing relocation, £0.515m Ferry vessels and infrastructure and £0.316m non-Metro digital projects.

2.45 Actual spend at the end of Period 7 was £0.712m against the revised budgeted profile of £1.236m, resulting in a £0.524m underspend. This is mainly as a result of delays in the Ferry North Landing relocation project. The timescales for the design have been pushed back further although the tender for the GI works is now being evaluated.

2.46 Forecast outturn for 2021/22 is £2.589m (including a risk contingency of £0.472m) against an approved budget of £3.379m. The forecast underspend consists of £0.862m relating to the Transforming Cities (TCF) car park projects. This is as a result of a reduction in contingency and programme slippage into the next financial year. Although forecasts have reduced in 2021/22 both TCF projects are estimated to complete by the funding deadline of March 2023 and are being monitored closely. Additionally, there is a £0.388m overspend on Ferry vessels and South Landing refurbishment, offset against a £0.331m forecast underspend on the North Landing Relocation project due to the aforementioned programme delays. The net increase is offset against the £0.150m additional NELEP grant approved in Period 4

Initial Budgets 2022/23 to 2024/25 - OCP

2.47 Other Capital Projects largely feature other external funding that Nexus has secured. During the three years Nexus will expand the car park at Callerton Metro station and deliver a range of digital enhancements at other car parks across the Metro estate, funded by the Transforming Cities Fund. The relocation of the North Shields Ferry Landing to a new site on North Shields Fish Quay is also planned for 2022/23 but has thus far failed to secure external funding and its development is currently underwritten by Nexus reserves. The construction cost, whilst included in the table below is subject to external funding being obtained and the tendering exercise that will inform the estimate is not expected to progress until this funding is secured.

Table 9: Nexus Other Capital Projects 2022/23 to 2024/25

	2022/23 Initial Budget	2023/24 Initial Budget	2024/25 Initial Budget	Total
	£m	£m	£m	£m
North Shields Ferry Landing Relocation	3.300	5.900	0.000	9.200
Other Ferry Infrastructure	0.400	0.400	0.000	0.800
Callerton Car Park	2.200	0.000	0.000	2.200
Digital Car Park Enhancements	2.500	0.000	0.000	2.500
Total	**8.400**	**6.300**	**0.000**	**14.700**

Metro Flow (MFL)

Forecast of Outturn 2021/22 - MFL

2.48 Actual spend at the end of Period 7 was £5.820m against an expected cumulative spend of £7.984m, resulting in a £2.163m underspend. The variance relates to contractor delays to undertaking planned surveys and reduced spend on PM time and de-vegetation works.

2.49 Forecast outturn for 2021/22 is £17.884m (including a risk contingency of £1.807m) against a revised budget of £20.632m. The £2.748m underspend is due to deferred contractor programme £0.858m, a reduction in internal team costs £0.374m and a £1.516m reduction of forecast contingency usage.

2.50 The project is 100% TCF capital grant funded with TCF grant of £20.100m delegated to and received in full by Nexus during Period 4. TCF Grant conditions allow grant, already received, to be carried forward into 2022/23 in the event that there is an underspend in year. The 2021/22 grant allocation, together with TCF grant receivable in 2022/23, must be fully utilised by the end of 2022/23.

2.51 In relation to the match funding (£8.5m Metro Rail Grant and the £4.9m to acquire Network Rail infrastructure) a letter of comfort was received from DfT in August 2021, which has enabled the award of both the contracts for the 4 additional trains to Stadler and the main works contract to Buckingham Group. Full confirmation of the ongoing funding package is still to be announced despite the Government's 2021 Spending Review taking place at the end of October. Discussions with civil servants continue in order to resolve the delay.

Initial Budgets 2022/23 to 2024/25 - MFL

2.52 In March 2020 DfT awarded Nexus £95.0m of Transforming Cities funding for the Metro Flow project, subject to approval of the Final Business Case which was duly achieved in Summer 2021. A local contribution of £8.4m, from an allocation of Metro Rail Grant was confirmed by DfT, ahead of final confirmation of MRG funding for 2022/23.

2.53 The MFL project will deliver more capacity, better frequency and more resilience to the existing network via the implementation of dual tracking in South Tyneside and the procurement of four additional trains. It is envisaged that this project will increase patronage, reduce emissions and improve journey times.

2.54 Both contracts for the main contracted works and the additional four trains have been awarded. The expected profile for the project to completion, based on the latest programme, is illustrated below:

Table 10: MFL profile 2022/23 to 2024/25

	2022/23 Initial Budget	2023/24 Initial Budget	2024/25 Initial Budget	Total
	£m	£m	£m	£m
Main Construction Contract	47.600	0.000	0.000	47.600
Additional Trains	12.300	0.000	0.000	12.300
Project Delivery	6.200	0.600	0.000	6.800

	2022/23 Initial Budget	2023/24 Initial Budget	2024/25 Initial Budget	Total
	£m	**£m**	**£m**	**£m**
Risk Contingency	17.400	0.500	0.000	17.900
Total	**83.500**	**1.100**	**0.000**	**84.600**

Nexus Capital Programme Funding

2.55 The initial Capital Programme budget for 2022/23 to 2024/25 is only funded in part, with the bulk of years 2 and 3 dependent on bids to DfT, whether for Metro Rail Grant or Transforming Cities funding. Notwithstanding this, the programme funding is summarised in the following table:

2.56 Funding for the proposed Capital Programme for 2022/23 to 2024/25 is only secured in part, with MRG funding still to be confirmed by DfT. Notwithstanding this, the programme funding is summarised in the following table:

2.57 *Table 11: Nexus Capital Funding 2022/23 to 2024/25*

	Proposed Funding 2022/23	Proposed Funding 2023/24	Proposed Funding 2024/25	Total
	£m	**£m**	**£m**	**£m**
Metro Rail Grant (DfT)	30.200	30.000	27.000	87.200
Highways Challenge Fund	2.200	0.000	0.000	2.200
LTP Grant	2.700	2.7000	2.600	8.000
Fleet Replacement Grant (DfT)	64.800	99.000	42.300	206.100
Transforming Cities Grant (DfT)	80.400	0.000	0.000	80.400
	180.300	**131.700**	**71.9000**	**383.900**
Nexus Reserves	1.000	0.300	0.000	1.400
NECA Reserves	5.000[1]	0.700	0.400	6.100
Overprogramming	5.000	5.900	8.000	19.000
Unfunded[2]	3.000	5.900	0.000	8.900
	14.100	**12.800**	**8.400**	**35.300**
Total	**194.400**	**144.500**	**80.300**	**419.300**

[1] 2022/23 funding relates to the Fleet Replacement project. Thereafter funding relates to MARP.
[2] North Shields Ferry Landing. The construction element of which will be delivered if further funding can be secured.

Tyne Tunnels

2.58 It was anticipated at the time of setting the 2021/22 budget that works would be completed by December 2021, and that the Tyne Pedestrian and Cycle Tunnels would be handed over to the operation of TT2 this year. Works on the inclined lifts have progressed well since July 2021 with specialist engineers on site daily working on parts of the lifts, in particular the wiring, counterweights and track works have all been completed successfully on both the north and south lifts. However, there are further parts relating to the doors, the operating mechanisms and the cabin which are required from suppliers. These are bespoke parts have a supplier lead time of 14 weeks; therefore, the lifts will not be brought into operation until early 2022.

2.59 Until the works are completed, additional costs will be incurred if the Tunnels are to remain open to the public. Costs including onsite security, maintenance contracts, cleaning and utilities are being incurred. There is also further expenditure required on the door parts, operating mechanisms and cabin which need to be fitted by specialist lift engineers. It was unclear at the start of the works whether some existing parts could be used or required replacement, however it has been assessed that whilst some can be reused there are also new parts required to make the lift safe and fully operational to open to the public. Regular updates on the works will continue to be provided to the Tyne & Wear Sub Committee.

2.60 Capital expenditure to 30 October is £0.470. Forecast capital expenditure to the year-end is expected to be up to £1.200m

Local Transport Plan

2.61 Local Transport Plan (LTP) Integrated Transport Block funding is made available by the DfT to the whole JTC area. This block is allocated between the JTC constituent authorities on a locally agreed basis with an allocation to Nexus (mainly used to provide the match funding needed for the Metro ARP capital programme. The LTP block allocation is also used to contribute to the costs of the Transport Strategy Unit (TSU) and, in Tyne an Wear, to the Urban Traffic Management and Control (UTMC) centre. Payments have been made to the authorities for the first 3 quarters of the year, following receipt of the grant from DfT and expenditure to 31 October 2021 is £7.876m.

2.62 At the time of writing this report, final confirmation from DfT of the level of Integrated Transport Block grant for 2022/23 has not been received. Should the same amount be received as for 2021/22, it is proposed that the apportionment of the grant between constituent authorities be made on the same basis as 2021/22, as set out in the table below.

2.63 *Table 9: Allocation of LTP Integrated Transport Block grant 2022/23*

	Allocation	**Top-slice for TNE**	**Top-slice for UTMC**	**2022/23 Net Allocation**
	£m	**£m**	**£m**	**£m**
Durham	2.811	(0.0625)	0.000	2.749
Gateshead	1.339	(0.0625)	(0.079)	1.198
Newcastle	1.663	(0.0625)	(0.115)	1.486
North Tyneside	1.097	(0.0625)	(0.080)	0.955
Northumberland	1.708	(0.0625)	0.000	1.646
South Tyneside	0.849	(0.0625)	(0.059)	0.728
Sunderland	1.618	(0.0625)	(0.109)	1.447
MARP Local Contribution / Public Transport Schemes	2.972	(0.0625)	0.000	2.910
Total	**14.057**	**(0.500)**	**(0.442)**	**13.115**

Overall Capital Programme Financing

2.64 Forecast capital expenditure for the 2021/22 year will be financed as follows:

Table 10: Capital Programme Financing 2021/22

	2021/22 Original Budget	**2021/22 Updated (November JTC)**	**2021/22 Revised Forecast**	**Variance – (November JTC to January JTC)**
	£m	**£m**	**£m**	**£m**
Government Grants	147.174	153.499	141.552	(11.947)
Earmarked Reserves	5.500	4.011	11.901	7.890
Total Funding	**152.674**	**157.510**	**153.453**	**(4.057)**

2.65 The 2022/23 capital programme will be financed as follows:

Table 11: Capital Programme Financing 2022/23

	2022/23 Initial Programme Budget
	£m
Government Grants	269.728
Earmarked Reserves	10.046
Total Funding	**279.774**

3. Reasons for the Proposals

3.1 The proposals are presented in this report to enable the Joint Transport Committee to agree its capital programme for 2022/23.

4. Alternative Options Available

4.1 Option 1 – The North East Joint Transport Committee may accept the recommendations set out in this report.

4.2 Option 2 – The North East Joint Transport Committee may not accept the recommendations set out in this report.

4.3 Option 1 is the recommended option.

5. Next Steps and Timetable for Implementation

5.1 Progress against the JTC Capital Programme will be reported regularly throughout the year and monitored carefully by officers at the various delivery bodies. As and when updated information on funding bids is received, the capital programme will be updated and presented to the JTC for consideration and approval.

6. Potential Impact on Objectives

6.1 Successful delivery of the various transport schemes and investment proposals outlined in this report will assist the JTC in meeting its objective to maximise the region's opportunities and potential.

7. Financial and Other Resources Implications

7.1 The financial and other resources implications are set out in the main body of the report.

8. Legal Implications

8.1 The Newcastle upon Tyne, North Tyneside and Northumberland Combined Authority (Establishment and Functions) Order 2018 specifies that the setting of the capital programme in relation to transport is a function exercisable only by the Joint Transport Committee. Unanimous approval is required.

9. Key Risks

9.1 Risks associated with the delivery of transport schemes by the key delivery bodies are factored into the risk management processes of those organisations.

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 Projects being delivered by constituent authorities or in constituent authority areas are subject to local consultation and planning approvals.

13. Other Impact of the Proposals

13.1 There are no other impacts arising from this report.

14. Appendices

14.1 Appendix 1: Nexus Capital Programme 2022/23 to 2024/25

15. Background Papers

15.1 JTC report 16 November 2021 – Capital Programme Update –(Public Pack)Agenda Document for North East Joint Transport Committee, 16/11/2021 14:30 (northeastca.gov.uk)

JTC report 19 January 2021 – 2020/21 Initial Capital Programme – (Public Pack)Agenda Document for North East Joint Transport Committee, 19/01/2021 14:30 (northeastca.gov.uk)

16. Contact Officers

16.1 Eleanor Goodman, NECA Finance Manager, eleanor.goodman@northeastca.gov.uk, 0191 433 3860

17. Sign off

- The Proper Officer for Transport:
- Head of Paid Service:
- Monitoring Officer:
- Chief Finance Officer:

18. Glossary

DfT – Department for Transport

DARP – Digital Asset Renewal Programme

JTC – Joint Transport Committee

LTP – Local Transport Plan

MARP – Metro Asset Renewal Programme

TCF – Transforming Cities Fund

TPCT – Tyne Pedestrian and Cycle Tunnel

TSU – Transport Strategy Unit

UTMC – Urban Traffic Management and Control

Appendix 1 – Nexus Capital Programme 2022/23 to 2024/25

Asset Category	Proposed Budget 2022/23	Proposed Budget 2023/24	Proposed Budget 2024/25	Total
	£m	£m	£m	£m
Metro ARP	**32.762**	**38.133**	**38.045**	**108.940**
Capital Maintenance	4.148	3.898	2.705	10.751
Capital Maintenance - Existing fleet and transition.	*3.223*	*3.223*	*1.700*	*8.146*
Infrastructure Vehicle Maintenance (RRV's, wagons, locos etc.)	*0.175*	*0.175*	*0.175*	*0.525*
Plain Line (Heavy Maintenance)	*0.500*	*0.500*	*0.500*	*1.500*
Rail Grinding	*0.250*	-	*0.330*	*0.580*
Civils	4.963	2.550	1.750	9.263
Tanners Bank Underbridge	*2.245*	-	-	*2.245*
Tunnels - repairs and asbestos maintenance	*0.068*	*0.400*	*0.400*	*0.868*
Howdon Viaduct - Track System Renewal	*0.500*	*0.500*	-	*1.000*
Stoddart Street bridges - repair/waterproofing	*0.200*	*0.200*	*0.500*	*0.900*
Cullercoats Footbridge	*0.400*	*0.100*	-	*0.500*
Multi Storey Car Parks refurbishment	*0.500*	*0.500*	-	*1.000*
Surface Car Parks Refurbishment	*0.500*	*0.250*	*0.250*	*1.000*
Bridges - condition and assessment led repairs/painting	*0.500*	*0.500*	*0.500*	*1.500*
Structural Assessments - overbridges	*0.050*	*0.100*	*0.100*	*0.250*
Level Crossings	0.050	0.050	0.050	0.150
Crossing Upgrade / repairs	*0.050*	*0.050*	*0.050*	*0.150*
Mechanical and Electrical	1.900	0.610	0.300	2.810
Lighting inverters	*0.200*	-	-	*0.200*
Station lighting and small power	*0.050*	*0.050*	-	*0.100*
Tunnel Lighting	*0.250*	*0.300*	*0.300*	*0.850*
Gas suppression	*0.100*	*0.200*	-	*0.300*
Escalator - 1/2 life refurb programme	*0.700*	*0.030*	-	*0.730*
Lifts - 1/2 Life Refurbishment	*0.400*	*0.030*	-	*0.430*
DC Circuit Breakers	*0.200*	-	-	*0.200*
Overhead line	3.126	3.400	3.500	10.026
OHL renewal - Continued from Phase 2 ARP	*3.126*	*3.400*	*3.500*	*10.026*
Permanent Way (Plain line)	.4.072	5.875	8.850	18.817
Vegetation clearance / Off track remedial works	*0.500*	*0.300*	*0.300*	*1.100*
Track Works - Tyne Dock	*0.010*	-	-	*0.010*
Plain Line Refurbishment South Gosforth to Airport (Christon Road 1020A/B & 1021 pts)	*0.132*	-	-	*0.132*

Asset Category	Proposed Budget 2022/23	Proposed Budget 2023/24	Proposed Budget 2024/25	Total
	£m	£m	£m	£m
Switches & Crossings - Pelaw Chords 7016/17 pts	*1.400*	*0.200*	*-*	*1.600*
Switches & Crossings - Prudhoe Street 6007A/B pts	*0.030*	*1.400*	*-*	*1.430*
Plain line - Tynemouth to Northumberland Park	*-*	*-*	*0.250*	*0.250*
Plain Line Refurbishment. SGF to Airport (Col)	*0.400*	*2.000*	*7.000*	*9.400*
Points Heater Controls Replacement	*-*	*0.075*	*-*	*0.075*
Switches & Crossings - Chillingham Road 3014AB pts (Crosssover)	*-*	*0.100*	*0.800*	*0.900*
Switches & Crossings - Monkseaton 2036B pts (Turnout), 2034 AB pts (Crossover), 2032 AB pts (Crossover)	*0.800*	*1.300*	*-*	*2.100*
PLW-SSS Underbridge Rail fastenings	*0.300*	*-*	*-*	*0.300*
Lookout Protection infrastructure works	*0.500*	*0.500*	*0.500*	*1.500*
Plant	1.468	2.140	0.950	4.558
Vehicle replacement Programme	*0.240*	*0.140*	*0.150*	*0.530*
Diesel Shunters Battery Locos (likely to be RRVs)	*1.228*	*2.000*	*0.800*	*4.028*
Risk Contingency	2.000	2.500	3.000	7.500
Signalling	3.095	6.910	6.040	16.045
Cable Testing and Replacement	*0.200*	*0.200*	*0.200*	*0.600*
Location Rewire	*0.200*	*0.200*	*0.200*	*0.600*
SCADA	*0.800*	*4.000*	*3.200*	*8.000*
Track impedance bonds(replace oil filled)	*0.090*	*0.090*	*-*	*0.180*
Cable Degradation relay rooms	*1.000*	*1.000*	*-*	*2.000*
Customer Information System (PID's) & to IP	*0.050*	*0.500*	*1.000*	*1.550*
Ground shunt & Subsidiary Signals	*-*	*0.100*	*-*	*0.100*
Relay Replacement & relay room equipment	*0.100*	*0.100*	*-*	*0.200*
Relay rooms cooling and lighting at SGF	*0.030*	*0.080*	*-*	*0.110*
Treadle Replacement	*0.040*	*0.040*	*0.040*	*0.120*
Troughing	*0.100*	*0.100*	*0.100*	*0.300*
Signalling System replacement development	*0.200*	*0.500*	*1.300*	*2.000*
MM74DB DCCB Circuit breakers	*0.285*	*-*	*-*	*0.285*
Stations	3.075	4.500	6.750	14.325
Interchange station GHD (Design)	*0.010*	*0.200*	*0.200*	*0.410*
Whitley Bay (Canopy)	*1.000*	*1.000*	*-*	*2.000*
Platform Interchange Compliance	*0.165*	*-*	*-*	*0.165*
Byker	*0.500*	*1.500*	*1.200*	*3.200*
Manors	*-*	*-*	*0.200*	*0.200*

Asset Category	Proposed Budget 2022/23	Proposed Budget 2023/24	Proposed Budget 2024/25	Total
	£m	£m	£m	£m
Monkseaton (incl' canopy)	*0.500*	*0.300*	*-*	*0.800*
Simonside	*-*	*-*	*0.200*	*0.200*
St James	*-*	*-*	*0.250*	*0.250*
Halt Stations	*0.500*	*0.300*	*0.300*	*1.100*
Jesmond	*-*	*-*	*0.200*	*0.200*
Monument Scope and Design	*0.100*	*0.300*	*0.500*	*0.900*
Regent Centre Scope and Design	*0.300*	*-*	*-*	*0.300*
Heworth Scope and Design	*-*	*0.400*	*3.000*	*3.400*
Four Lane Ends interchange enhancement	*-*	*0.200*	*0.300*	*0.500*
Heritage Stations	*-*	*0.300*	*0.200*	*0.500*
Airport Stations	*-*	*-*	*0.200*	*0.200*
Business Applications	1.050	0.600	0.200	1.850
Asset Management Software Replacement	*0.300*	*0.200*	*-*	*0.500*
Finance System	*0.200*	*-*	*-*	*0.200*
HR/Payroll	*0.050*	*-*	*-*	*0.050*
Timetable & Driver Rostering	*0.300*	*-*	*-*	*0.300*
Competency Management System	*0.050*	*-*	*-*	*0.050*
ArcGis Desktop	*0.025*	*-*	*-*	*0.025*
Finance System upgrades/developments	*0.025*	*0.100*	*0.100*	*0.225*
Business Applications	*0.100*	*0.300*	*0.100*	*0.500*
ICT Infrastructure	1.665	3.050	2.450	7.165
Microsoft SQL Server	*0.050*	*0.050*	*0.050*	*0.150*
Network Refresh	*1.000*	*0.500*	*0.500*	*2.000*
Digital Connectivity	*0.150*	*0.100*	*-*	*0.250*
Remote condition monitoring	*0.100*	*0.200*	*0.200*	*0.500*
Microsoft Sharepoint	*0.100*	*0.100*	*0.100*	*0.300*
Microsoft CRM	*0.100*	*0.100*	*-*	*0.200*
Paloalto (Firewall)	*0.165*	*-*	*-*	*0.165*
Virtual Server Platform	*-*	*2.000*	*-*	*2.000*
CCTV Storage Platform	*-*	*-*	*1.600*	*1.600*
Miscellaneous	1.550	0.950	0.700	3.200
Fare Collection Systems	*0.050*	*0.200*	*0.200*	*0.450*
Control Centre improvements (further)	*0.500*	*0.250*	*-*	*0.750*
Upgrade TVMs, gates/barriers, validators, TOMs	*1.000*	*0.500*	*0.500*	*2.000*
Power	0.600	1.100	0.800	2.500
DC Switch Boxes	*0.300*	*0.300*	*0.300*	*0.900*
HV Improvements	*0.300*	*0.800*	*0.500*	*1.600*
Fleet Replacement Programme	**69.808**	**99.000**	**42.300**	**211.108**
MSA	*40.884*	*90.754*	*41.160*	*172.798*
DCC	*22.329*	*4.545*	*-*	*26.874*

Asset Category	Proposed Budget 2022/23	Proposed Budget 2023/24	Proposed Budget 2024/25	Total
	£m	£m	£m	£m
Project Delivery	*2.767*	*2.126*	*1.001*	*5.895*
Risk Allowance	*3.827*	*1.575*	*0.139*	*5.541*
Metro Flow	**83.498**	**1.075**	**-**	**84.572**
Other Capital Projects	**8.345**	**6.289**	**-**	**14.634**
Callerton Car Park	*2.164*	*0.021*	*-*	*2.185*
Digital Car Park	*2.452*	*0.024*	*-*	*2.476*
Ferry	*3.729*	*6.244*	*-*	*9.973*
Ferry Vessels	*0.065*	*-*	*-*	*0.065*
Ferry North Landing Relocation	*3.334*	*5.893*	*-*	*9.227*
South Landing works	*0.330*	*0.351*	*-*	*0.681*
Total Capital Programme	**194.413**	**144.497**	**80.345**	**419.255**

north east combined authority

Appendix 2

Leadership Board

Appendix 2 – North East Combined Authority Treasury Management Strategy 2022/23

Purpose

1 In accordance with statutory guidance and the Authority's Financial Procedure rules, this report presents the 2022/23 position for the proposed Treasury Management Strategy, the Annual Cash Investment Strategy, Prudential Indicators, Minimum Revenue Provision (MRP) Policy and Treasury Management Policy Statement and Practices (which are detailed at Annex 1).

Background

2 Treasury management is defined as 'the management of the local authority's investments and cash flows, its banking, money market and capital market transactions, the effective control of the risks associated with those activities and the pursuit of optimum performance consistent with those risks'.

3 The Authority operates a balanced budget, which broadly means that cash raised during the year will meet cash expenditure incurred. Part of the treasury management operation is to ensure this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, with the main aims of providing sufficient liquidity and security, with the achievement of the best possible investment returns ranking as less important.

4 The second main function of the treasury management service is to arrange the funding of the Authority's capital programme, which will support the provision of NECA services. The capital programme provides a guide to the borrowing need of the Authority, and there needs to be longer term cash flow planning to ensure capital spending requirements can be met. The management of longer-term cash may involve arranging long or short-term loans, utilising longer term cash flow surpluses and, occasionally, debt restructuring to meet NECA risk or cost objectives.

5 The Authority adopts the latest CIPFA Code of Practice on Treasury Management (the Code) which is regarded as best practice in ensuring adequate monitoring of the Authority's capital expenditure plans and its Prudential Indicators (PIs). This requires that Members agree the following reports, as a minimum:

i. An annual Treasury Management Strategy in advance of the year (this report);
ii. A mid-year Treasury Management Review report presented to Leadership Board on 14 December 2021);
iii. An annual review following the end of the year describing the activity compared to the strategy (the 2020/21 outturn was reported to the Leadership Board 20 July 2021 and the detailed accounts on 1 February 2022);

6 This report provides a summary of the following for 2022/23:

- Summary Treasury Position including Mid-Year Update;
- Borrowing Strategy;
- Other Debt and Long-Term Liability Plans;
- Cash Investment Strategy;
- Non-Treasury Investments;
- Treasury Management Indicators;
- Prudential Indicators;
- MRP Policy Statement;
- Other Matters.

7 This covers the requirements of the various statutory requirements, codes and guidance that cover the Treasury Management activity, including the Local Government Act 2003, the CIPFA Prudential Code, Communities and Local Government (CLG) MRP Guidance, the CIPFA Treasury Management Code and Communities and Local Government Investment Guidance.

a) Summary Treasury Position

8 The Authority's debt and investment position is organised to ensure adequate liquidity for revenue and capital activities, security for investments, and to manage risks within all treasury management activities.

9 The following table shows the Authority's treasury position as at 31 December 2021 alongside the expected position for 31 March 2022:

	1 April 2021	Rate /Return	Average Life	31 Dec 2021	Rate /Return	Average Life
	£m	%	years	£m	%	Years
Total Debt	170.667	4.24	41.7	170.333	4.24	41.1
Total Investments	67.850	0.07	0.6	119.035	0.157	0.8
Net Debt	**102.817**			**51.298**		

b) Borrowing Strategy

10 NECA held £170.667m of loans at 31 March 2021. The balance had decreased to £170.333m at 31 December 2021 and is expected to be £170.000m at 31 March 2022, as detailed below:

	1 April 2021	2021/22	31 March 2022	Average	31 March 2022
	Actual Balance	Estimated Movement	Estimated Balance	Interest Rate	Average Life
	£m	£m	£m	%	years
Public Works Loan Board (PWLB)	81.667	(0.667)	81.000	4.09	29.2
Private Sector	89.000	0.000	89.000	4.39	52.3
Total borrowing	**170.667**		**170.000**	**4.24**	**41.1**

11 The Authority's principal objective when borrowing has been to strike an appropriate risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required.

12 The difference between the Authority's borrowing requirement and the actual borrowing undertaken is called under-borrowing. This represents the ability of the Authority to use its balance sheet reserves to delay the date that loans are taken out. The strength of the Authority's balance sheet means it has no immediate need to borrow to fund its capital outlays and this means that using internal balances is the generally most cost-effective option. However, in the medium term the Authority may need to borrow to fund its capital programme.

13 No new borrowing has been undertaken during 2021/22 to date and none is anticipated for the remainder of the financial year.

14 The following sources of long-term and short-term borrowing have been identified for approval:

- Public Works Loan Board (PWLB);
- UK local authorities;
- Any institution approved for investments (see paragraph 36);
- UK public/private sector pension funds;
- European Investment Bank; and
- Local authority special purpose vehicles created to enable local authority bond issues (for example the Municipal Bonds Agency)

15 A major source of the Authority's borrowing is the PWLB, which is a lending facility operated by the UK Debt Management Office on behalf of HM Treasury. In order to have access to PWLB loans, the current arrangements require the Authority to confirm that they are not buying investment assets

primarily for yield and that they are not borrowing in advance of need, with the aim of making a profit from the sums borrowed.

16 The Authority meets the borrowing criteria so taking out PWLB loans is an available option. Loan rates are fluid (PWLB rates change twice daily), and the Authority will continue to work with its Treasury Management advisors, Link Asset Services, to monitor rates and cash flow requirements to determine the timing for taking out further loans.

Policy on Borrowing in Advance of Need

17 The Authority will not borrow more than, or in advance of, its needs, purely to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be made within approved Capital Financing Requirement (CFR) estimates and following careful consideration, in order to demonstrate value for money and ensure the security of such funds.

18 Any risks associated with activity to borrow in advance will be subject to prior appraisal and will be subsequently accounted for in the Treasury Management report that follows.

Debt Rescheduling

19 As short-term borrowing rates will be considerably cheaper than longer term fixed interest rates, there may be opportunities to generate savings by switching from long term debt to short term debt. Advantages of debt rescheduling would include:

- generating cash savings and / or discounted cash flow savings;
- helping to fulfil the treasury strategy;
- enhancing the balance of the portfolio (amend the maturity profile and / or the balance of volatility).

However, these savings will need to be considered in light of the current treasury position and the cost of debt repayments (i.e. premiums).

20 Consideration will also be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.

c) Other Debt and Long Term Liabilities Plans

21 NECA does not currently have any capital finance liabilities in the form of finance leases.

d) Cash Investment Strategy

22 The Authority holds a significant cash surplus from reserves in its balance sheet and from funds received before related expenditure is incurred. A strategy for the investment of these funds is required.

23 The Authority's cash investment policy is governed by Department for Levelling Up, Housing and Communities (DLUHC) guidance. Both the CIPFA Code and government guidance require the Authority to invest its funds prudently, and to have regard to the security, liquidity and rate of return, or yield, of its investments. Of these three criteria the first two, security and liquidity, are most important, ahead of achieving the highest yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

24 In accordance with the guidance from the DLUHC and CIPFA, and in order to minimise the risk to investments, the Authority will apply minimum acceptable credit criteria in order to generate a list of creditworthy counterparties, with investment limits set so that investments are diversified. Credit ratings agencies will be used but will not be the sole determinant of investment quality and the assessments will also take account of other information that reflects the opinion of the markets. To this end the Authority will engage with its advisers to maintain a monitor on market pricing (e.g. "credit default swaps") and overlay that information on top of the credit ratings. Information in the financial press, share price and other banking sector information will also be used as appropriate.

25 There are a wide range of Investment instruments which are available for the Authority to consider. These can be classified as either Specified or Non-Specified Investments and are listed below:

Specified Investments

26 These investments are sterling investments of not more than one-year maturity, or those which could be for a longer period but where the Authority has the right to be repaid within 12 months if it wishes. These are considered to be low risk assets where the possibility of loss of principal or investment income is small and are not defined as capital expenditure. These would include the following sterling investments:

- Deposit with the UK Government – e.g. the Debt Management Office deposit facility, UK treasury bills or gilts with less than one year to maturity;
- Term deposits with a body that is considered of a high credit quality e.g. UK banks and building societies;
- Global bonds of less than one year's duration;
- Deposits with a local authority, parish council or community council;
- Certificates of Deposit;

- Pooled investment vehicles (such as money market funds) that have been awarded a high credit rating by a credit rating agency.

Non-Specified Investments

27 These are investments which do not meet the specified criteria as outlined above. The Authority is therefore required to examine non-specified investments in more detail. As well as any of the above sterling investments that are of more than one-year maturity, non-specified investments include the following sterling investments:

- gilt edged securities with a maturity of greater than one year. These are Government bonds and so provide the highest security of interest and the repayment of principal on maturity;
- deposits with the Authority's own banker if it fails to meet the basic credit criteria. In this instance balances will be minimised as far as is possible;
- loans and shares in local businesses, in order to encourage regeneration and economic development in the area. Any new investments will only be agreed after significant due diligence checks have been carried out;
- Any other funds.

Creditworthiness Policy

28 The primary principle governing the Authority's investment criteria is the security of its investments; although the yield or return on the investment is also a key consideration. After this main principle, the Authority will ensure that:

- it maintains a policy covering the categories of investment types it will invest in, the criteria for choosing investment counterparties with adequate security and arrangements for monitoring their security; and
- it has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Authority's prudential indicators covering the maximum principal sums invested.

29 The Chief Finance Officer will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit these to the Leadership Board for approval as necessary. These criteria provides an overall pool of counterparties considered to be high quality which the Authority may use, rather than defining what types of investment instruments are to be used.

30 Since 1 April 2020, Treasury Management services to NECA have been provided by Durham County Council. Durham County Council have a contract with Link Asset Services as Treasury Management advisers. Link Asset Services' creditworthiness service uses a wider array of information than just primary ratings and by using a

risk weighted scoring system, does not give undue weight to only one agency's ratings.

31 Typically the minimum credit ratings criteria used by the Authority will be a short term rating (Fitch or equivalents) of F1 and a Long Term rating of A-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances, consideration will be given to the whole range of ratings available or other topical market information to support their use.

32 All credit ratings will be monitored regularly. The Authority is alerted to changes to ratings of all three agencies (Fitch, Moody's and Standard and Poor's) through its use of Link's creditworthiness service.

33 If a downgrade results in the counterparty / investment scheme no longer meeting the Authority's minimum criteria, its further use as a new investment will be withdrawn immediately.

34 In addition to the use of credit ratings, the Authority will be advised of information in movements in credit default swap spreads against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in the downgrade of an institution or removal from the Authority's lending list.

35 Sole reliance will not be placed on the use of the service provided by Link. The Authority will also use market data and market information, information on sovereign support for banks and the credit ratings of that supporting government. This additional market information, for example credit default swaps and negative rating watches / outlooks, will be applied to compare the relative security of differing investment counterparties. The relative value of investments will be reviewed in relation to the counterparty size to ensure an appropriate ratio.

Investment Criteria

36 The criteria for providing a pool of high-quality investment counterparties (both specified and non-specified investments) is:

Banks 1 – good credit quality. The Authority will only use banks which are:

- UK banks and/or
- Non-UK banks domiciled in a country which has a minimum sovereign long-term rating of AA- and have, as a minimum, the following credit ratings (where rated):

	Fitch	Moody's	Standard & Poor's
Short Term	F1	P1	A-1
Long Term	A-	A3	A-

(N.B. viability, financial strength and support ratings have been removed and will not be considered in choosing counterparties).

- Banks 2 – Part nationalised UK banks - Royal Bank of Scotland. This bank can be included if it continues to be part nationalised or meets the ratings in Banks 1 above;
- Banks 3 – The Authority's own banker for transactional purposes if the bank falls below the above criteria, although in this case, balances will be minimised in both monetary size and time;
- Bank subsidiary and treasury operation. The Authority will use these where the parent bank has provided an appropriate guarantee or has the necessary ratings outlined above;
- UK Government (including gilts and the Debt Management Account Deposit Facility [DMADF});
- Local authorities, parish councils etc.;
- Building societies. The Authority will use societies which:
  i. Meet the ratings for banks outlined above; or
  ii. Have assets in excess of £1 billion;
- Money market funds;
- Ultra-Short Dated Bond Funds;
- Property Funds.

Time and Monetary Limits applying to Investments

37 The time and monetary limits for institutions on the Authority's counterparty list, covering specified and non-specified investments, are as follows:

Investment Type	Long Term Rating	Money Limit	Time Limit
Banks / Building Societies*	AA-	£15m	1 year
Banks / Building Societies*	A	£15m	1 year
Banks / Building Societies*	A-	£10m	6 months
Banks – part-nationalised*	N/A	£15m	1 year
Banks– Council's banker*	A-	£15m	3 months
DMADF / Treasury Bills	AAA	unlimited	unlimited
Local Authorities	N/A	£10m each	3 years
Investment Type	**Asset Size**	**Money Limit**	**Time Limit**
Building Societies	+£1 billion	£5m	6 months
Investment Type	**Fund Rating**	**Money Limit**	**Time Limit**
Money Market Funds	AAA	£20m total	liquid
Money Market Funds CNAV	AAA	£5m each	liquid

Money Market Funds LVNAV	AAA	£5m each	liquid
Money Market Funds VNAV	AAA	£5m each	liquid

*For bank subsidiaries and treasury operations the limits depend on the rating of the subsidiary / operation or of the parent providing a guarantee

The above limits are unchanged from those used for 2021/22.

UK Banks – Ring Fencing

38 An additional factor must be taken into account when making investments with some UK banks from 1 January 2019. From this date the largest UK banks, (those with more than £25bn of retail / Small and Medium-sized Enterprise (SME) deposits), are required, by UK law, to separate core retail banking services from their investment and international banking activities. This is known as "ring-fencing". Whilst smaller banks with less than £25bn in deposits are exempt, they can choose to opt to be included in the arrangements. Several banks are very close to the threshold already and so may come into scope in the future regardless.

39 Ring-fencing is a regulatory initiative created in response to the global financial crisis. It mandates the separation of retail and SME deposits from investment banking, in order to improve the resilience and resolvability of banks by changing their structure. In general, simpler, activities offered from within a ring-fenced bank, (RFB), will be focused on lower risk, day-to-day core transactions, whilst more complex and "riskier" activities are required to be housed in a separate entity, a non-ring-fenced bank, (NRFB). This is intended to ensure that an entity's core activities are not adversely affected by the acts or omissions of other members of its group.

40 While the structure of the banks included within this process may have changed, the fundamentals of credit assessment have not. The Authority will continue to assess the new-formed entities in the same way that it does others and those with sufficiently high ratings, (and any other metrics considered), will be considered for investment purposes.

e) Non-Treasury Investments

41 Separately from treasury investments, the Authority may make loans and investments in support of service priorities and this may mean they generate a commercial return.

42 Where an authority invests in other financial assets and property with the main aim of generating a financial return, the Prudential Code guidance is that the investments should be proportionate to the authority's level of resources and the same robust procedures for the consideration of risk and return should be followed as for other investments.

43 The Authority recognises that investments such as these, taken for non-treasury management purposes, require careful investment management and that it is important that there are agreed processes to ensure there is effective due diligence and that the investments fit with the Authority's agreed risk profile.

f) Treasury Management Indicators

44 There are three debt related treasury activity limits which are designed to manage risk and reduce the impact of an adverse movement in interest rates.

45 Interest Rate Exposures – this indicator is set to control the Authority's exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as the proportion of net principal invested is:

	2021/22 Limit
Upper limit on fixed interest rate exposure	100%
Upper limit on variable interest rate exposure	70%

46 Maturity Structure of Borrowing – this indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing are:

	Lower Limit	Upper Limit
Under 12 months	0%	20%
12 months to 2 years	0%	40%
2 years to 5 years	0%	60%
5 years to 10 years	0%	80%
10 years and above	0%	100%

47 Principal Sums Invested for Periods Longer than 365 days – the purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments:

	2021/22	2022/23	2023/24
Principal sums invested > 365 days	£15m	£15m	£15m

g) Prudential Indicators

48 The Local Government Act 2003 requires the Authority to have regard to the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code) when determining how much money it can afford to borrow.

49 The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the Authority has fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.

50 Capital Expenditure – the table below summarises capital expenditure incurred and planned and how the expenditure was and will be financed:

	2020/21 Actual £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m
Capital Programme	**83.449**	**153.453**	**279.774**	**155.517**	**92.017**
Financed by:					
Capital grants	80.603	141.552	269.728	154.217	91.617
Revenue and reserves	2.846	11.901	10.046	1.300	0.400
Net borrowing financing need for the year	**0.000**	**0.000**	**0.000**	**0.000**	**0.000**

51 Capital Financing Requirement (CFR) – the CFR is a measure of the Authority's underlying borrowing need for a capital purpose.

	2020/21 Actual £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m
Capital Financing Requirement	191.513	187.897	184.292	180.693	177.123
Movement in CFR	(4.382)	(3.616)	(3.605)	(3.599)	(3.570)
Net borrowing financing need for the year	0.000	0.000	0.000	0.000	0.000
Less MRP/VRP and other financing movements	(4.382)	(3.616)	(3.605)	(3.599)	(3.570)
Movement in CFR	(4.382)	(3.616)	(3.605)	(3.599)	(3.570)

52 Gross Debt and the Capital Financing Requirement – in order to ensure that debt will only be held for capital purposes, the Authority should ensure that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. This is a key indicator of prudence. The table below shows how the Authority plans to comply with this requirement, which shows gross borrowing continues to be less than the CFR:

	2020/21 Actual £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m
Debt at 1 April	171.333	170.667	170.000	169.333	168.667
Expected change in debt	(0.666)	(0.667)	(0.667)	(0.667)	(0.667)
Gross Debt at 31 March	**170.667**	**170.000**	**169.333**	**168.667**	**168.000**
Capital Financing Requirement	**191.513**	**187.897**	**184.292**	**180.693**	**177.123**
Under borrowing	**(20.846)**	**(17.897)**	**(14.959)**	**(12.026)**	**(9.123)**

53 Operational Boundary and Authorised Limit – the Operational Boundary is the limit which external borrowing is not normally expected to exceed. Periods where the actual position is either below or above the boundary is acceptable subject to the authorised limit not being breached. The Authorised Limit represents a control on the maximum level of borrowing and is a statutory limit determined under section 3 (1) of the Local Government Act 2003. It reflects the level of external borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

	2020/21 Actual £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m
Operational Boundary	205.000	205.000	205.000	205.000	205.000
Authorised Limit	210.000	210.000	210.000	210.000	210.000

54 Actual and estimates of the ratio of financing costs to net revenue stream – this indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue streams.

	2020/21 Actual	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
Ratio of financing costs to net revenue stream:					
Tyne and Wear Levy	2.34%	2.30%	2.14%	2.09%	2.08%
Tyne Tunnels Account	37.51%	25.25%	24.88%	24.94%	24.94%

The estimates of financing costs include current commitments and the proposals in the budget report.

h) MRP Policy Statement

55 The CIPFA Prudential Code for Capital Finance in Local Authorities requires the Leadership Board to agree an annual policy for the Minimum Revenue Provision (MRP).

56 The MRP is the amount that is set aside each year to provide for the repayment of debt. The regulations require the authority to determine an amount of MRP which it considers to be prudent. The broad aim of a prudent provision is to ensure that debt is repaid over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Revenue Support Grant (RSG), reasonably commensurate with the support provided through the RSG. The guidance provides recommended options for the calculation of a prudent provision but local authorities have significant discretion in determining the level of MRP which they consider to be prudent.

63 The Government updated its Statutory Guidance on MRP on 2 February 2018, with some elements of the guidance taking effect from 1 April 2018.

64 The Authority’s annual MRP policy has been set in line with the following principles:

- Supported capital borrowing (pre-2008) debt – minimum revenue provision to be made on a 2% straight line basis.
- Supported capital borrowing undertaken on behalf of Nexus, being a 4% minimum revenue provision – this relates to historic debt (prior to 1 April 2008) only.
- For unsupported capital borrowing (Prudential Borrowing) undertaken on behalf of Nexus, making provision for the debt in equal annual instalments over the estimated life of the asset.
- For unsupported capital borrowing for the New Tyne Crossing, making provision for the debt over the life of the asset on an annuity basis. This basis is suitable for use on this particular project as it is consistent with the financial model which reflects an increase in traffic and tolls over the life of the concession contract. A 50-year asset life is assumed.
- For unsupported capital borrowing (prudential borrowing) in relation to Enterprise Zones, making provision for the repayment of debt over the life of the asset on an annuity basis (maximum of 25 years); or making provision for the repayment of the debt over a shorter period on an annuity basis for a period agreed by the CFO with reference to the estimate of business rates income receivable to repay the debt.
- The Authority retains the right to make additional voluntary payments to reduce debt if deemed prudent.

55 The regulations allow the Authority to review its policy every year and set a policy that it considers prudent at that time. The impact of a revised MRP policy would be kept under regular review in order to ensure that the annual provision is prudent.

i) Other Matters

Training

56 The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny and training will be arranged as required. There is a further requirement that the training needs of treasury management officers are periodically reviewed.

Policy on use of external advisers

57 Link Asset Services are Durham County Council's treasury management advisers and whilst they provide professional support to the internal treasury management team, under current market rules and the CIPFA Code of Practice, the final decision on treasury matters remains with the Authority. This service is subject to regular review.

The range of services provided by the advisers currently includes:

- technical support on treasury matters and capital finance issues;
- economic and interest rate analysis;
- debt services which includes advice on the timing of borrowing;
- debt rescheduling advice surrounding the existing portfolio;
- generic investment advice on interest rates, timing and investment instruments;
- credit ratings/ market information service, comprising the three main credit rating agencies

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Annex 1: Treasury Management Policy Statement and Practices

Treasury Management Policy Statement

The Authority defines its treasury management activities as:

The management of the organisation's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.

The Authority regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the Authority, and any financial instruments entered into to manage these risks.

The Authority acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

Treasury Management Practices

From 1 April 2020, Durham County Council has provided Treasury Management support to NECA under a service level agreement. Accordingly, NECA will adopt the TMPs of Durham County Council to enable this support to be provided to implement its Treasury Management Policies.

TMP1 Risk management

General Statement

The Authority regards a key objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, it will ensure that robust due diligence procedures cover all external investment.

The responsible officer will design, implement and monitor all arrangements for the identification, management and control of treasury management risk, will report at least annually on the adequacy/suitability thereof, and will report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the organisation's objectives in this respect, all in accordance with the procedures set out in TMP6 *Reporting requirements and management information arrangements*.

The arrangements for the management of identified risks are detailed overleaf.

Credit and Counterparty Risk Management

The Authority regards a key objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, it will ensure that its counterparty lists and limits reflect a prudent attitude towards organisations with whom funds may be deposited, and will limit its investment activities to the instruments, methods and techniques referred to in TMP4 *Approved instruments, methods and techniques.* It also recognises the need to have, and will therefore maintain, a formal counterparty policy in respect of those organisations from which it may borrow, or with whom it may enter into other financing or derivative arrangements.

Liquidity Risk Management

The Authority will ensure it has adequate though not excessive cash resources, borrowing arrangements, overdraft or standby facilities to enable it at all times to have the level of funds available to it which are necessary for the achievement of its business/service objectives. The Authority will only borrow in advance of need where there is a clear business case for doing so and will only do so for the current capital programme or to finance future debt maturities.

Interest Rate Risk Management

The Authority will manage its exposure to fluctuations in interest rates with a view to containing its interest costs, or securing its interest revenues, in accordance with the amounts provided in its budgetary arrangements as amended in accordance with TMP6 Reporting requirements and management information arrangements.

It will achieve this by the prudent use of its approved instruments, methods and techniques, primarily to create stability and certainty of costs and revenues, but at the same time retaining a sufficient degree of flexibility to take advantage of unexpected, potentially advantageous changes in the level or structure of interest rates. This should be the subject to a consideration and, if required, approval of any policy or budgetary implications.

It will ensure that any hedging tools such as derivatives are only used for the management of risk and the prudent management of financial affairs and that the policy for the use of derivatives is clearly detailed in the annual strategy.

Exchange Rate Risk Management

It will manage its exposure to fluctuations in exchange rates so as to minimise any detrimental impact on its budgeted income/expenditure levels.

Inflation Risk Management

The organisation will keep under review the sensitivity of its treasury assets and liabilities to inflation, and will seek to manage the risk accordingly in the context of the whole organisation's inflation exposures.

Refinancing Risk Management

The Authority will ensure that its borrowing, private financing and partnership arrangements are negotiated, structured and documented, and the maturity profile of the monies so raised are managed, with a view to obtaining offer terms for renewal or refinancing, if required, which are competitive and as favourable to the organisation as can reasonably be achieved in the light of market conditions prevailing at the time.

It will actively manage its relationships with its counterparties in these transactions in such a manner as to secure this objective, and will avoid overreliance on any one source of funding if this might jeopardise achievement of the above.

Legal and Regulatory Risk Management

The Authority will ensure that all of its treasury management activities comply with its statutory powers and regulatory requirements. It will demonstrate such compliance, if required to do so, to all parties with whom it deals in such activities. In framing its credit and counterparty policy under TMP1[1] *credit and counterparty risk management*, it will ensure that there is evidence of counterparties' powers, authority and compliance in respect of the transactions they may effect with the organisation, particularly with regard to duty of care and fees charged.

The Authority recognises that future legislative or regulatory changes may impact on its treasury management activities and, so far as it is reasonably able to do so, will seek to minimise the risk of these impacting adversely on the organisation.

Fraud, Error and Corruption, and Contingency Management

The Authority will ensure that it has identified the circumstances which may expose it to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings. Accordingly, it will employ suitable systems and procedures, and will maintain effective contingency management arrangements, to these ends.

Price Risk Management

The Authority will seek to ensure that its stated treasury management policies and objectives will not be compromised by adverse market fluctuations in the value of the principal sums it invests, and will accordingly seek to protect itself from the effects of such fluctuations.

TMP2 Performance Measurement

The Authority is committed to the pursuit of value for money in its treasury management activities, and to the use of performance methodology in support of that aim, within the framework set out in its treasury management policy statement.

Accordingly, the treasury management function will be the subject of ongoing analysis of the value it adds in support of the organisation's stated business or service objectives. It will be the subject of regular examination of alternative methods of service delivery, of the availability of fiscal or other grant or subsidy incentives, and of the scope for other potential improvements.

TMP3 Decision Making and Analysis

The Authority will maintain full records of its treasury management decisions, and of the processes and practices applied in reaching those decisions, both for the purposes of learning from the past, and for demonstrating that reasonable steps were taken to ensure that all issues relevant to those decisions were taken into account at the time.

TMP4 Approved Instruments, Methods and Techniques

The Authority will undertake its treasury management activities within the limits and parameters defined in TMP1 *Risk management*.

Where the Authority intends to use derivative instruments for the management of risks, these will be limited to those set out in its annual treasury strategy. The organisation will seek proper advice and will consider that advice when entering into arrangements to use such products to ensure that it fully understands those products.

TMP5 Organisation, Clarity and Segregation of Responsibilities, and Dealing Arrangements

The Authority considers it essential, for the purposes of the effective control and monitoring of its treasury management activities, for the reduction of the risk of fraud or error, and for the pursuit of optimum performance, that these activities are structured and managed in a fully integrated manner, and that there is at all times a clarity of treasury management responsibilities.

The principle on which this will be based is a clear distinction between those charged with setting treasury management policies and those charged with implementing and controlling these policies, particularly with regard to the execution and transmission of funds, the recording and administering of treasury management decisions, and the audit and review of the treasury management function.

If and when the Authority intends, as a result of lack of resources or other circumstances, to depart from these principles, the responsible officer will ensure that the reasons are properly reported in accordance with TMP6 Reporting requirements and management information arrangements, and the implications properly considered and evaluated.

The responsible officer will ensure that there are clear written statements of the responsibilities for each post engaged in treasury management, and the arrangements for absence cover. The responsible officer will also ensure that at all times those engaged in treasury management will follow the policies and procedures set out.

The responsible officer will ensure there is proper documentation for all deals and transactions, and that procedures exist for the effective transmission of funds.

The delegations to the responsible officer in respect of treasury management are set out in the Authority's constitution. The responsible officer will fulfil all such responsibilities in accordance with the organisation's policy statement and TMPs and, if a CIPFA member, the *Standard of Professional Practice on Treasury Management*.

TMP6 Reporting Requirements and Management Information Arrangements

The Authority will ensure that regular reports are prepared and considered on the implementation of its treasury management policies; on the effects of decisions taken and transactions executed in pursuit of those policies; on the implications of changes, particularly budgetary, resulting from regulatory, economic, market or other factors affecting its treasury management activities; and on the performance of the treasury management function.
As a minimum:

The Leadership Board will receive:

(a) an annual report on the strategy and plan to be pursued in the coming year;

(b) a mid-year review;

(c) an annual report on the performance of the treasury management function, on the effects of the decisions taken and the transactions executed in the past year, and on any circumstances of non-compliance with the organisation's treasury management policy statement and TMPs.

The Leadership Board will receive regular monitoring reports on treasury management activities and risks.

The Audit and Standards committee, will have responsibility for the scrutiny of treasury management policies and practices.

TMP7 Budgeting, Accounting and Audit Arrangements

The responsible officer will prepare, and the Authority will approve and, if necessary, from time to time will amend, an annual budget for treasury management, which will bring together all of the costs involved in running the treasury management function, together with associated income. The matters to be included in the budget will at minimum be those required by statute or regulation, together with such information as will demonstrate compliance with TMP1 *Risk management*, TMP2 *Performance measurement*, and TMP4 *Approved instruments, methods and techniques*. The responsible officer will exercise effective controls over this budget, and will report upon and recommend any changes required in accordance with TMP6 *Reporting requirements and management information arrangements*.

The Authority will account for its treasury management activities, for decisions made and transactions executed, in accordance with appropriate accounting practices and standards, and with statutory and regulatory requirements in force for the time being.

TMP8 Cash and Cash Flow Management

Unless statutory or regulatory requirements demand otherwise, all monies in the hands of the Authority will be under the control of the responsible officer, and will be aggregated for cash flow and investment management purposes. Cash flow projections will be prepared on a regular and timely basis, and the responsible officer will ensure that these are adequate for the purposes of monitoring compliance with TMP1 *Liquidity risk management*.

TMP9 Money Laundering

The Authority is alert to the possibility that it may become the subject of an attempt to involve it in a transaction involving the laundering of money. Accordingly, it will maintain procedures for verifying and recording the identity of counterparties and reporting suspicions, and will ensure that staff involved in this are properly trained.

TMP10 Training and Qualifications

The Authority recognises the importance of ensuring that all staff involved in the treasury management function are fully equipped to undertake the duties and responsibilities allocated to them. It will therefore seek to appoint individuals who are both capable and experienced and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills. The responsible officer will recommend and implement the necessary arrangements.

The responsible officer will ensure that members tasked with treasury management responsibilities have access to training relevant to their needs and those responsibilities.

Those charged with governance recognise their individual responsibility to ensure that they have the necessary skills to complete their role effectively.

TMP11 Use of External Service Providers

The Authority recognises that responsibility for treasury management decisions remains with the organisation at all times. It recognises that there may be potential value in employing external providers of treasury management services, in order to acquire access to specialist skills and resources. When it employs such service providers, it will ensure it does so for reasons which have been submitted to a full evaluation of the costs and benefits. It will also ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review. And it will ensure, where feasible and necessary, that a spread of service providers is used, to avoid overreliance on one or a small number of companies. Where services are subject to formal tender or re-tender arrangements, legislative requirements will always be observed. The monitoring of such arrangements rests with the responsible officer.

TMP12 Corporate Governance

The Authority is committed to the pursuit of proper corporate governance throughout its businesses and services, and to establishing the principles and practices by which this can be achieved. Accordingly, the treasury management function and its activities will be undertaken with openness and transparency, honesty, integrity and accountability.

The Authority has adopted and has implemented the key principles of the Code. This is considered vital to the achievement of proper corporate governance in treasury management, and the responsible officer will monitor and, if and when necessary, report upon the effectiveness of these arrangements.

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TREASURY MANAGEMENT PRACTICES – DETAILED SCHEDULES

The following schedules have been prepared to support the implementation of the TMPs.

TMP 1 Risk management

TMP 2 Best value and performance measurement

TMP 3 Decision–making and analysis

TMP 4 Approved instruments, methods and techniques

TMP 5 Organisation, clarity and segregation of responsibilities, and dealing arrangements

TMP 6 Reporting requirements and management information arrangements

TMP 7 Budgeting, accounting and audit arrangements

TMP 8 Cash and cash flow management

TMP 9 Money laundering

TMP 10 Training and qualifications

TMP 11 Use of external service providers

TMP 12 Corporate governance

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TMP 1 RISK MANAGEMENT

1.1 CREDIT AND COUNTERPARTY RISK MANAGEMENT

Credit and counterparty risk
The risk of failure by a third party to meet its contractual obligations to the Authority under an investment, borrowing, capital, project or partnership financing, particularly as a result of the third party's diminished creditworthiness, and the resulting detrimental effect on the Authority's capital or current (revenue) resources.

1.1.1 Criteria to be used for creating/managing approved counterparty lists/limits:

(a) Suitable criteria for assessing and monitoring the credit risk of investment counterparties will be formulated and a lending list comprising time, type, sector and specific counterparty limits will be constructed. This criteria will follow the Ministry of Housing, Communities and Local Government (MHCLG) investment guidance issued in February 2018 to cover financial years from 1 April 2018.

(b) The primary criteria used in the selection of counterparties is their credit worthiness. However the authority will also monitor latest market information and reduce the limits imposed on third parties where appropriate.

(c) The Authority's Treasury Management Advisers provide a regular update of all the ratings relevant to the authority as well as any changes to the counterparty credit ratings. This information is also available via their website.

(d) Credit ratings will be used as supplied from one or more of the following credit rating agencies: -

- Fitch Ratings
- Moody's Investors Services
- Standard and Poor's

(e) Counterparty limits will be as set within the annual Treasury Management Strategy reported to Authority.

1.1.2 Credit ratings for individual counterparties can change at any time. The Chief Finance Officer is responsible for applying the stated credit rating criteria in 1.1.1 for selecting approved counterparties, and will add or delete counterparties as appropriate to / from the approved counterparty list when there is a change in the credit ratings of individual counterparties or in banking structures e.g. on mergers or takeovers. This is delegated on a daily basis to the Durham County Council Treasury Management team who provide treasury management support to NECA.

1.1.3 When there is a change in the credit ratings of individual counterparties or in banking structures (e.g. on mergers or takeovers in accordance with the criteria in 1.1.1) the

Chief Finance Officer will also adjust lending limits and periods. This is delegated on a daily basis to the Durham County Council Treasury Management team who provide treasury management support to NECA.

1.2 LIQUIDITY RISK MANAGEMENT

Liquidity Risk

The risk that cash will not be available when it is needed, that ineffective management of liquidity creates additional unbudgeted costs, and that the Authority's business/service objectives will be thereby compromised.

1.2.1 **Cash Flow**

NECA finance officers will maintain, on a daily basis, a cash flow projection showing:

(a) all known income and expenditure
(b) all anticipated income and expenditure.

This record will be maintained for a minimum period of 12 months ahead of current date.

1.2.2 Amounts of approved minimum cash balances and short-term investments

The Treasury Management team shall seek to ensure that the balance held in the Authority's main bank accounts at the close of each working day is held at a level in order to maximize the amount of credit interest receivable. Borrowing or lending shall be arranged in order to achieve this aim.

1.2.3 Short-term borrowing facilities

The Authority can access temporary loans through approved brokers on the London money market.

1.2.4 Closure of Offices

When the Authority's offices are closed on a banking day, then provision will be made for expected clearances and receipts. The actual strategy to be adopted will depend on overall liquidity and market conditions at the time and available staff resources. At such times the Treasury Management team undertakes transfers, anticipating cash flow within the Authority's accounts.

1.3 INTEREST RATE RISK MANAGEMENT

Interest rate risk

The risk that fluctuations in the levels of interest rates creates an unexpected or unbudgeted burden on the Authority's finances, against which the Authority has failed to protect itself adequately.

1.3.1 Details of approved interest rate exposure limits

This risk is considered as part of the Treasury Management Strategy Statement approved by Authority in February each year. The Strategy sets interest rate exposure limits in accordance with the requirements of the CIPFA Prudential Code. A variety of Prudential indicators is required to be approved and monitored by Authority. The Authority will have regard to potential fluctuations in interest rates when borrowing or lending surplus cash. Advice will be sought from the Authority's Treasury Management advisers before any non-routine transaction is made.

1.3.2 Maximum proportion of variable rate debt/interest

The requirement to set out a series of Prudential Indicators includes a requirement to set upper limits for exposure to fixed interest rates and variable interest rates.

1.4 EXCHANGE RATE RISK MANAGEMENT

Exchange rate risk

The risk that fluctuations in foreign exchange rates create an unexpected or unbudgeted burden on the Authority's finances, against which the Authority has failed to protect itself adequately.

1.4.1 Approved criteria for managing changes in exchange rate levels

NECA rarely deals with foreign currency so an exposure to exchange rate risk will be minimal. However, as a result of the nature of the Authority's business, the Authority may have an exposure to exchange rate risk from time to time. This will mainly arise from the receipt of income or the incurring of expenditure in a currency other than sterling. Where appropriate the Authority will adopt a hedging strategy to control and add certainty to the sterling value of these transactions. This will mean that the Authority will minimize all foreign exchange exposures as soon as they are identified.

Where there is a contractual obligation to receive income or make a payment in a currency other than sterling at a date in the future, forward foreign exchange transactions will be considered, with professional advice, to comply with this full cover hedging policy. Unexpected receipt of foreign currency income will be converted to sterling at the earliest opportunity unless the Authority has a contractual obligation to make a payment in the same currency at a date in the future. In this instance, the currency may be held on deposit to meet this expenditure commitment, depending on the expected timing of transactions.

1.5 INFLATION RISK MANAGEMENT

Inflation risk

The risk that prevailing levels of inflation cause an unexpected or unbudgeted burden on the Authority's finances, against which the Authority has failed to protect itself adequately.

1.5.1 Details of approved inflation exposure limits for cash investments/debt

During the current period of low and stable worldwide inflation there is little requirement for an active consideration of the impact of inflation. The key consideration is that investments reap the highest real rate of return, with debt costing the lowest real cost, consistent with other risks mentioned within TMP 1 *Risk Management.*

1.5.2 Approved criteria for managing changes in inflation levels

Inflation both current and projected will form part of the debt and investment decision-making criteria both within the strategy and operational considerations.

1.6 REFINANCING RISK MANAGEMENT

Refinancing risk

The risk that maturing borrowings, capital, project or partnership financings cannot be refinanced on terms that reflect the provisions made by the Authority for those refinancings, both capital and current (revenue), and/or that the terms are inconsistent with prevailing market conditions at the time.

1.6.1 Debt/other capital financing maturity profiling, policies and practices

The maturity profile of debt will be monitored and used to minimize any refinancing risk in consultation with the Authority's treasury advisors. Any debt rescheduling is likely to take place when the difference between the refinancing rate and the redemption rate is most advantageous and the situation will be continually monitored. The reasons for any rescheduling to take place will include:

(a) The generation of cash savings at minimum risk;
(b) To reduce the average interest rate;
(c) To enhance the balance of the long term portfolio (amend the maturity profile and /or the balance of volatility)

1.6.2 Projected capital investment requirements

The Authority will prepare forecasts of capital investment needs and resources covering at least a three-year period within the Medium Term Financial Plan (MTFP). This will identify capital financing requirements and therefore the need to borrow to finance the capital programme. The MTFP provides details of the Authority's financial plans covering a three-period and is updated on an annual basis.

1.6.3 Policy concerning limits on revenue consequences of capital financings

As part of compliance with the CIPFA Prudential Code, the Authority will consider the revenue consequences of any capital scheme to ensure it is affordable, prudent and sustainable.

1.7 LEGAL AND REGULATORY RISK MANAGEMENT

Legal and regulatory risk

The risk that the Authority itself, or a third party with which it is dealing in its treasury management activities, fails to act in accordance with its legal powers or regulatory requirements, and that the Authority suffers losses accordingly.

1.7.1 References to relevant statutes and regulations

The treasury management activities of the Authority shall comply with legal statute and the regulations of the Authority.

1.7.2 Procedures for evidencing the Authority's powers/authorities to counterparties

The Authority will prepare, adopt and maintain, as the cornerstones for effective treasury management:-

(a) A Treasury Management Policy Statement, stating the overriding principles and objectives of its Treasury Management activities.

(b) Treasury Management Practices, setting out the manner in which the Authority will achieve those principles and objectives, and prescribing how it will manage and control those activities.

1.7.3 Required information from counterparties concerning their powers/authorities

Lending shall only be made to counterparties on the authorised list and borrowings will only be undertaken from recognized and reputable counterparties to comply with TMP 9 *Money Laundering*.

Durham County Council (providing support to NECA) hold letters verifying that the approved brokers are regulated by the Financial Services Authority under the provisions of the Financial Services and Markets Act 2000, under which Local Authorities are classified as market counterparties.

Building Societies are members of Building Society Association and are governed by Building Society Act 1986.

Banks are regulated by the Financial Services Authority under the provisions of the Financial Services and Markets Act 2000.

1.7.4 Statement on the Authority's political risks and their management

The Authority recognises that future political, legislative or regulatory changes may impact on its treasury management activities and, so far as it is reasonably able to do so, will seek to minimise the risk of these impacting adversely on the authority.

1.8 <u>FRAUD, ERROR AND CORRUPTION, BUSINESS CONTINUITY AND CONTINGENCY MANAGEMENT ARRANGEMENTS</u>

Fraud, error and corruption, business continuity and contingency risk

The risk that the Authority fails to identify the circumstances in which it may be exposed to the risk of loss through fraud, error, corruption or other eventualities in its treasury *management dealings, and fails to employ suitable systems and procedures to maintain effective business continuity and contingency management arrangements to these ends. It includes the area of risk commonly referred to as operational risk.*

1.8.1 Details of systems and procedures to be followed, including internet services

Durham County Council's Treasury Management function is subject to a regular review by the Council's Internal Audit Service. The systems and procedures followed are described below:

Authority:

- The Scheme of Delegation to Officers sets out the appropriate delegated levels. All loans and investments, including PWLB, are negotiated by the Chief Finance Officer or authorized persons.

Occurrence:

- Detailed register of loans and investments is maintained.
- Adequate and effective cash flow forecasting records are maintained to support the decision to lend or borrow.
- Written confirmation is received from the lending or borrowing institution
- All transactions placed through the brokers are confirmed by a broker note, showing details of the loan arranged.

Completeness:

- The loans register is updated to record all lending and borrowing. This includes the date of the transaction and interest rates and covers both Treasury Management loans and others to third parties that are not part of the routine Treasury Management activity.

Measurement:

- The Treasury Management team checks the calculation of repayment of principal and interest notified by the lender or borrower for accuracy.
- The Treasury Management team calculates periodic interest payments of PWLB and other long-term loans. This is used to check the amount paid to these lenders.

Timeliness:

- The Treasury Management team maintains an up to date diary and register that clearly identifies when money borrowed or lent is due to be repaid.

Regularity:

- Lending is only made to institutions on the Approved List or as specifically approved by Cabinet for loans that are outside the usual Treasury Management activity.
- All loans raised and repayments made go directly to and from the institutions bank account.

- Authorisation limits are set for every institution (see 1.1.1).
- A list of named officials authorised to perform loan transactions is maintained.
- There is adequate Fidelity Guarantee insurance cover for employees involved in loans management and accounting.

1.8.2 Contingency planning and business continuity management arrangements

If the Electronic Banking System fails, there is a contingency arrangement in place with the Bank whereby cash balances can be obtained from Lloyds Bank, and the Authority can make CHAP payment instructions (which are normally input directly into the electronic payment system) to Lloyds, via telephone and/or e-mail.

In the event of a business continuity problem, which prevents access to the electronic payment system, the present contingency management arrangements will be invoked.

1.8.3 Insurance cover details

The officers concerned in the treasury management function are covered by appropriate fidelity guarantee insurance.

1.9 <u>MARKET RISK MANAGEMENT</u>

Market risk

The risk that, through adverse market fluctuations in the value of the principal sums invested, the Authority's stated treasury management policies and objectives are compromised, so it has not protected itself adequately against the effects of the fluctuations.

1.9.1 Details of approved procedures and limits for controlling exposure to investments whose capital value may fluctuate (gilts, CDs, etc.)

The Authority does not normally make investments where the capital value may fluctuate. Investment instruments used by external fund managers are subject to fluctuations in capital and exposure to interest rate risk. The Authority does not currently use external fund managers but will keep the situation under review. In order to minimise the risk of fluctuations in capital value of investments, capital preservation is set as the primary objective.

TMP 2 BEST VALUE AND PERFORMANCE MEASUREMENT

2.1 METHODOLOGY TO BE APPLIED FOR EVALUATING THE IMPACT OF TREASURY MANAGEMENT DECISIONS

Durham County Council's Treasury Management consultants are required to carry out a health check of the Treasury Management function, who provide support to NECA.

2.2 POLICY CONCERNING METHODS FOR TESTING BEST VALUE IN TREASURY MANAGEMENT

2.2.1 Frequency and processes for tendering

Tenders are normally awarded for a minimum ranging from two to five years. The process for advertising and awarding contracts will be in line with Durham County Council's Contract Standing Orders.

2.2.2 Banking services

Banking services will be reviewed every 5 years to ensure that the level of prices reflect efficiency savings achieved by the supplier and current pricing trends.

2.2.3 Money-broking services

The Authority will use money broking services in order to make deposits or to borrow, and will establish charges for all services prior to using them. An approved list of brokers will be established which takes account of both prices and quality of services. The Chief Finance Officer may add brokers to the list during the year, providing they meet the Authority's standards and requirements.

2.2.4 Consultants'/advisers' services

Durham County Council's policy is to separately appoint professional treasury management consultants and leasing advisory consultants.

2.2.5 Policy on External Managers (Other than relating to Superannuation Funds)

The Authority's current policy is not to use an external investment fund manager to manage a proportion of surplus cash. This will be kept under review.

2.3 METHODS TO BE EMPLOYED FOR MEASURING THE PERFORMANCE OF THE AUTHORITY'S TREASURY MANAGEMENT ACTIVITIES

Performance of the Treasury Management function will be measured against annual Treasury Management Strategy Statement targets and compliance with the CIPFA Code of Treasury Practice.

Performance will be monitored monthly against approved budgets and internally agreed targets.

2.4 BENCHMARKS AND CALCULATION METHODOLOGY:

2.4.1 Performance will be measured against Annual Treasury Management Strategy targets:

Debt management

Average rate on all external debt
Average maturity of external debt

Investment

The performance of in house investment earnings will be measured against 7 day LIBID, (London Inter-Bank Bid Rate)

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Leadership Board

TMP 3 DECISION-MAKING AND ANALYSIS

3.1 FUNDING, BORROWING, LENDING, AND NEW INSTRUMENTS /TECHNIQUES:

3.1.1 Records to be kept

(a) Daily cash projections.
(b) Telephone / e-mail rates.
(c) Dealing ticket for all money market transactions.
(d) PWLB loan schedules.
(e) Local bond certificates (if used).
(f) Market bond certificates (if used).
(g) Temporary loan receipts (if used).
(h) Brokers confirmations for deposits/investments.
(i) Contract notes received from fund managers (if used).
(j) Fund managers valuation statements (if used).
(k) Confirmation notes from borrowers.

3.1.2 Processes to be pursued

(a) Cash flow analysis.
(b) Maturity analysis.
(c) Ledger reconciliations
(d) Review of borrowing requirement.
(e) Monitoring of projected loan charges and interest and expenses costs.
(f) Review of opportunities for debt rescheduling.
(g) Collation of performance information.

3.1.3 Issues to be addressed.

3.1.3.1 ***In respect of every decision made the Authority will:***

(a) Above all be clear about the nature and extent of the risks to which the Authority may become exposed.

(b) Be certain about the legality of the decision reached and the nature of the transaction, and that all authorities to proceed have been obtained.

(c) Be content that the documentation is adequate both to deliver the Authority's objectives and protect the Authority's interests, and to deliver good housekeeping

(d) Ensure that third parties are judged satisfactory in the context of the Authority's creditworthiness policies, and that limits have not been exceeded

(e) Be content that the terms of any transactions have been fully checked against the market, and have been found to be competitive.

3.1.3.2 ***In respect of borrowing and other funding decisions, the Authority will:***

(a) Evaluate the economic and market factors that might influence the manner and timing of any decision to fund.

(b) Consider the merits of alternative forms of funding, including (but not exclusively) funding from revenue, leasing and private partnerships

(c) Consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use

(d) Consider the ongoing revenue liabilities created, and the implications for the Authority's future plans and budgets.

3.1.3.3 ***In respect of investment decisions, the Authority will:***

(a) Consider the optimum period, in the light of cash flow availability and prevailing market conditions.

(b) Consider the alternative investment products and techniques available, especially the implications of using any which may expose the Authority to changes in the value of its capital.

TMP 4 APPROVED INSTRUMENTS, METHODS AND TECHNIQUES

4.1 APPROVED ACTIVITIES OF THE TREASURY MANAGEMENT OPERATION

(a) Borrowing;
(b) Lending;
(c) Debt repayment and rescheduling;
(d) Consideration, approval and use of new financial instruments and treasury management techniques;
(e) Managing the underlying risk associated with the Authority's capital financing and surplus funds activities;
(f) Managing cash flow;
(g) Banking activities;
(h) Leasing.

4.2 APPROVED INSTRUMENTS FOR INVESTMENTS

All investments will comply with the Authority's Annual Investment Strategy (which takes into account guidance issued by the Secretary of State concerning Local Authority investments). The instruments used will be:

(a) Term deposits with banks and building societies
(b) Term deposits with non-rated subsidiaries of an institution meeting the basic credit criteria
(c) Debt Management Office
(d) Treasury Bills
(e) Term deposits with other Local Authorities and Parish Councils
(f) Money market funds that meet the criteria set in the investment policy
(g) Ultra-Short dated Bond Funds
(h) Property Funds

4.3 APPROVED METHODS AND SOURCES OF RAISING CAPITAL FINANCE

Finance will only be raised in accordance with the Local Government and Housing Act 1989, and within this limit the Authority has a number of approved methods and sources of raising capital finance.

Borrowing will only be undertaken in keeping with the contents of the Prudential Code and within the limits determined through the approved Prudential Indicators and Treasury Management Strategy and, in respect of any long term borrowings, following consultation with the Chief Finance Officer.
All forms of funding will be considered dependent on the prevailing economic climate, regulations and local considerations. The Chief Finance Officer has delegated powers through this policy and the strategy to take the most appropriate form of borrowing from the approved sources.

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Leadership Board

TMP 5 ORGANISATION, CLARITY AND SEGREGATION OF RESPONSIBILITIES, AND DEALING ARRANGEMENTS

INDEX OF SCHEDULES:

5.1 LIMITS TO RESPONSIBILITIES/DISCRETION AT AUTHORITY/DIRECTOR LEVELS

(a) Leadership Board will receive and review reports on treasury management policies, practices and activities, and the annual treasury management strategy.

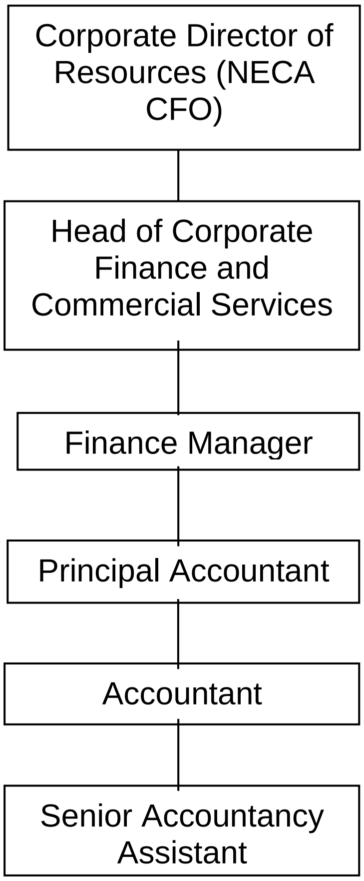
(b) The Chief Finance Officer will be responsible for amendments to the Authority's adopted clauses, treasury management policy statement and treasury management practices.

5.2 PRINCIPLES AND PRACTICES CONCERNING SEGREGATION OF DUTIES

Durham County Council provide Treasury Management support to NECA. In addition, the Corporate Director of Resources has the role of Chief Finance Officer for NECA.

The Corporate Director of Resources will ensure there is always adequate segregation of duties in all transactions.

5.2.1 <u>DURHAM COUNTY COUNCIL TREASURY MANAGEMENT ORGANISATION CHART</u>



5.3 <u>STATEMENT OF DUTIES/RESPONSIBILITIES OF EACH TREASURY POST AND OTHER OFFICERS INVOLVED WITH TREASURY MANAGEMENT</u>

5.3.1 Corporate Director of Resources

(a) The Corporate Director of Resources will:

- Recommend clauses, treasury management policy/practices for approval, reviewing the same regularly and monitor compliance
- Submit Treasury Management reports to NECA Leadership Board
- Authorise and maintain TMPs and Schedules
- Set, submit and monitor budgets
- Review the performance of the treasury management function.
- Ensure the adequacy of treasury management resources and skills and the effective division of responsibilities within the treasury management function

- Ensure the adequacy of internal audit and liaise with external audit
- Recommend the appointment of external service providers and brokers where appropriate.
- Approve and authorise investment deals (within dealing limits – see 5.6)

(b) The Corporate Director of Resources has delegated powers to take the most appropriate form of borrowing from the approved sources and to take the most appropriate form of investments in approved instruments.

(c) Prior to entering into any capital financing, lending or investment transaction, it is the responsibility of The Corporate Director of Resources to be satisfied, by reference to legal and external advisors as appropriate, that the proposed transaction does not breach any statute, external regulation or the Authority's Financial Regulations.

(d) The Corporate Director of Resources may delegate power to borrow and invest to members of staff to conduct all dealing transactions. All transactions must be processed by at least two specified named officers. Alternatively staff can be authorised to act as temporary cover for leave/sickness.

5.4.2 Head of Corporate Finance and Commercial Services

The treasury responsibilities of this post will be to assist the Corporate Director of Resources to:

(a) Formulate the Treasury Management Strategy.
(b) Identify and recommend opportunities for improved practices
(c) Supervise Treasury Management staff
(d) Monitor performance
(e) Review the performance of treasury management functions

5.4.3 Finance Manager

The treasury responsibilities of this post will be to assist the Corporate Director of Resources and the Head of Corporate Finance and Commercial Services to:

(a) Formulate the Treasury Strategy
(b) Produce the Treasury Management reports to Council
(c) Identify and recommend opportunities for improved practices
(d) Supervise Treasury Management staff
(e) Monitor performance
(f) Review the performance of treasury management functions
(g) Implement Treasury Management Strategy
(h) Approve and authorise investment deals (within dealing limits – see 5.6)
(i) Approve Chaps payments/Faster payments according to the limits in the Table of Payment Approval Responsibilities below
(j) Arrange rescheduling or premature repayment of existing borrowings.

5.4.4 Principal Accountant

This post responsibilities to assist the Finance Manager – Commercial Capital Treasury to:

(a) Formulate the Treasury Strategy.
(b) Identify and recommend opportunities for improved practices
(c) Supervise Treasury Management staff
(d) Monitor performance
(e) Review the performance of treasury management functions
(f) Implement Treasury Management Strategy
(g) Approve and authorise investment deals (within dealing limits – see 5.6)
(h) Approve Chaps/Faster payments according to the limits in the Table of Payment Approval Responsibilities below

5.4.5 Accountant

This post has responsibilities to:-

(a) Calculate daily cash balances
(b) Monitor performance and market conditions on a day to day basis and recommend investments
(c) Adhere to agreed policies and procedures on a day to day basis
(d) Enter transmission of monies via Lloyds Banking system
(e) Approve Chaps/Faster payments according to the limits in the Table of Payment Approval Responsibilities below
(f) Select Brokers from approved list
(g) Adhere to agreed policies and practices on a day to day basis
(h) Submit management information reports
(i) Maintain cash flow projections
(j) Record investment deals and obtain third party loan confirmation
(k) Identify and maintain relationships with 3rd parties and external partners
(l) Ensure counter party limits are not exceeded

5.4.6 Senior Accountancy Assistant/Principal Accountancy Assistant

This post has responsibilities to:-

(a) Calculate daily cash balances
(b) Enter transmission of monies via Lloyds Banking system
(c) Select Brokers from approved list
(d) Adhere to agreed policies and practices on a day to day basis
(e) Submit management information reports
(f) Maintain cash flow projections
(g) Obtain third party loan confirmation
(h) Ensure counter party limits are not exceeded

Table of Payment Approval Responsibilities

Monetary Limit per Investment	Number of Approvers	Level of Approver Required
Up to £100,000	1	Any one of Accountant/Principal Accountant/Finance Manager
£100,000 to £20,000,000	2	Any two of Accountant/Principal Accountant/Finance Manager
£20,000,000 to £30,000,000	2	Any two of Principal Accountant/Finance Manager

5.4 ABSENCE COVER ARRANGEMENTS

The Corporate Director of Resources is responsible for ensuring that adequate arrangements are in place to cover staff absences.

5.6 INVESTMENT DEALING LIMITS

Dealings can be carried out providing that transactions are within limits determined by the Authority and the Chief Finance Officer as detailed in the table below:

Officers	Limits
Corporate Director of Resources and Head of Corporate Finance and Commercial Services	As per limits set within the Treasury Management Strategy
Finance Manager & Principal Accountant	As per limits set within the Treasury Management Strategy for dealings of up to 12 months
Accountant	As per limits set within the Treasury Management Strategy for dealings of up to 12 months, in consultation with Finance Manager or Principal Accountant

5.7 LIST OF APPROVED BROKERS

A list of approved brokers is maintained within the Treasury Management section and a record of all transactions recorded against them.

5.8 POLICY ON BROKERS' SERVICES

It is the Authority's policy to divide business between brokers.

5.9 POLICY ON RECORDING OF CONVERSATIONS

It is not the Authority's Policy to record broker's conversations

5.10 DIRECT DEALING PRACTICES

It is an acceptable practice for the Authority to make direct dealings with suitable counterparties if the use of Brokers does not provide a satisfactory financial arrangement at any time.

5.11 SETTLEMENT TRANSMISSION PROCEDURES

All payments and repayments resulting from the treasury management function will be made via the authority's bank account using the electronic payment facility (with Lloyds Banking system). Only authorised officers can transmit, approve or release payments, protected by appropriate passwords and a card operated pin number. A manual back up facility, agreed with Lloyds Bank, is in place to cover system failure.

5.12 DOCUMENTATION REQUIREMENTS

For each deal undertaken a record should be prepared giving details of amount, period, counterparty, interest rate, dealing date, payment date(s), broker.

5.13 ARRANGEMENTS CONCERNING THE MANAGEMENT OF THIRD-PARTY FUNDS

The authority manages funds under delegated powers for the Office of the Durham Police, Crime and Victims' Commissioner and the Durham County Council Pension Fund. From 1st April 2020 it will also manage funds for the North East Combined Authority.

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Leadership Board

TMP 6 REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION ARRANGMENTS

6.1 ANNUAL TREASURY MANAGEMENT STRATEGY

The Treasury Management Strategy sets out the specific expected treasury activities for the forthcoming financial. This strategy will be submitted to the Leadership Board for approval before the commencement of each financial year.

The formulation of the annual treasury management strategy involves determining the appropriate borrowing and investment decisions in the light of the anticipated movement in both fixed and shorter term variable interest rates.

The Treasury management statement is concerned with the following elements:

(a) Summary Treasury Position;
(b) Borrowing Strategy;
(c) Other Debt and Long Term Liability Plans
(d) Cash Investment Strategy;
(e) Non-Treasury Investments
(f) Treasury Management Indicators;
(g) Prudential Indicators;
(h) MRP Policy Statement;
(i) Other Matters

6.2 MID-YEAR REVIEW OF ANNUAL TREASURY MANAGEMENT ACTIVITY

A report will be presented to the Leadership Board detailing performance for the six months to 30th September against the items reported in the annual strategy. The report will be presented to the Leadership Board at the earliest practicable meeting after the mid-year point.

6.3 ANNUAL PERFORMANCE REPORT

An annual report will be presented to the Leadership Board at the earliest practicable meeting after the end of the financial year, but in any case by the end of September. This report will include the following:

(a) Summary Treasury Position;
(b) Borrowing Activity;
(c) Other Debt and Long Term Liability Activity;
(d) Investment activity;
(e) Treasury Management Indicators;
(f) Prudential Indicators;

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TMP 7 BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS

7.1 STATUTORY/REGULATORY REQUIREMENTS

The accounts are drawn up in accordance with the Code of Practice on Local Authority Accounting in Great Britain that is recognized by statute as representing proper accounting practices.

7.2 ACCOUNTING PRACTICES AND STANDARDS

Due regard is given to the Statements of Recommended Practice and Accounting Standards as they apply to Local Authorities in Great Britain. The Authority adopts in full the principles set out in:

(a) the CIPFA Code of Practice on Treasury Management in the Public Services;
(b) the CIPFA Prudential Code for Capital Finance in Local Authorities;
(c) the Code of Practice on Local Authority Accounting in the United Kingdom (Statement of Recommended Practice);
(d) Statutory Guidance on Local Authority Investments;
(e) Statutory Guidance on Minimum Revenue Provision and
(f) any other mandatory guidance covering this service area.

7.3 BUDGETING AND ACCOUNTING ARRANGEMENTS

The Finance Manager will prepare an annual budget for treasury management, which will bring together all the expenditure incurred with regard to this activity, as well as the associated income. The Finance Manager will exercise effective controls over this budget, and will report upon and recommend any changes required in accordance with section TMP6 *Reporting Requirements and Management Information Arrangements.*

All transactions for loans, repayments and interest paid and received are recorded to general ledger codes reserved for these purposes.

7.4 LIST OF INFORMATION REQUIREMENTS OF INTERNAL AND/OR EXTERNAL AUDITORS

The Authority will ensure that all those charged with regulatory review, including internal and external auditors, have access to all information and papers supporting the activities of the treasury management function.

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TMP 8 CASH AND CASH FLOW MANAGEMENT

8.1 ARRANGEMENTS FOR PREPARING/SUBMITTING CASH FLOW STATEMENTS

The authority will monitor and complete daily cashflow forecasts for major items of income and expenditure. The annual and monthly cash flow projections are prepared from the previous year's daily cash flow records, adjusted for known changes in levels of income and expenditure and also changes in payments and receipts dates. Additionally, a strategic cashflow forecast will be prepared annually and updated as necessary.

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TMP 9 MONEY LAUNDERING

9.1 PROCEDURES FOR ESTABLISHING IDENTITY/AUTHENTICITY OF LENDERS

The Authority will only accept loans from individuals where the funds are transferred through a United Kingdom domiciled bank account. All other loans are obtained from the PWLB or from authorised institutions under the Financial Services and Markets Act 2000. The Financial Conduct Authority (FCA) is responsible for maintaining a register of authorised institutions. This register can be accessed through their website at https://register.fca.org.uk/

9.2 RECONCILIATION OF DEPOSITS

All deposits are identified and reconciled on a daily basis. The source of each deposit is verified so they can be allocated to the appropriate fund within the main accounting system. Staff will be kept aware of developments in money laundering regulations and will be encouraged to keep abreast of money laundering issues through specific training, publications and the Internet.

TMP 10 STAFF TRAINING AND QUALIFICATIONS

10.1 DETAILS OF TRAINING ARRANGEMENTS

The Corporate Director of Resources is committed to ensuring that staff engaged in Treasury Management activities are appropriately trained, so they can carry out their duties to the required standards.

Staff employed in the treasury management function will be qualified to the level that is appropriate to their post. All staff will be given appropriate basic training before fulfilling their treasury management duties for the first time and will be expected to undertake continuous training as appropriate to enable them to keep up to date with all aspects of treasury management within their responsibility.

Training courses run by CIPFA and other training providers such as our Treasury Advisors will form the major basis of ongoing staff training. Records will be kept of all courses and seminars attended by staff as part of their annual appraisal. The authority will take all reasonable steps to ensure that staff are adequately trained.

CIPFA members are required to abide by CIPFA’s Ethics Standard on Professional Practice (SOPP).

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Leadership Board

TMP 11 USE OF EXTERNAL SERVICE PROVIDERS

11.1 DETAILS OF CONTRACTS WITH SERVICE PROVIDERS, INCLUDING BANKERS, BROKERS, CONSULTANTS, ADVISERS

11.1.1 Banking services

(a) Name of supplier of service is Lloyds Bank plc. The branch address is:
102 Grey Street
Newcastle upon Tyne
ME1 6AG

(a) Contract commenced 5 November 2015 and runs for a minimum 5 years, subject to one year's notice, such notice to expire after the minimum period

(b) Cost of service is variable depending on schedule of tariffs and volumes agreed at the beginning of the contract

11.1.2 Money-broking services

Name of suppliers of service:

(a) Martin Brokers (UK) plc
(b) Tradition (UK) Ltd
(c) King and Shaxson
(d) BGC Brokers
(e) Tullett Prebon (Europe) Limited

The Chief Finance Officer may add brokers to the list during the year, providing they meet the Authority's standards and requirements.

No commission is paid by the Authority to any money broker

11.1.3 Consultants/advisers services

(a) Treasury Consultancy Services

Name of supplier of service is Link Asset Services Their address is:
65 Gresham Street
London
EC2V 7NQ

(b) Leasing Consultancy Services.

Name of the supplier of the service is Link Asset Services. Their address is:
65 Gresham Street
London
EC2V 7NQ
The cost of the service is dependent upon the value of leasing drawdowns which take place throughout the year.

(c) External Fund Managers

Leadership Board

There are none at present.

External Fund Managers and other consultancy services may be employed on short term contracts as and when required.

north east combined authority

Leadership Board

TMP 12 CORPORATE GOVERNANCE

12.1 <u>LIST OF DOCUMENTS TO BE MADE AVAILABLE FOR PUBLIC INSPECTION</u>

To support the implementation of a robust corporate governance policy, the following documents are available for public inspection:

(a) Treasury Management Practices;
(b) Treasury Management Strategy;
(c) Mid-year Treasury Management Review;
(d) Annual Treasury Management Report;
(e) Annual Statement of Accounts, and
(f) Annual Budget

North East Combined Authority
DURHAM • GATESHEAD • SOUTH TYNESIDE • SUNDERLAND

Leadership Board

Date:	**1 February 2022**
Subject:	**Budget 2022/23 and Medium-Term Financial Strategy**
Report of:	**Chief Finance Officer**

Report to follow

Report to follow

North East Combined Authority
DURHAM • GATESHEAD • SOUTH TYNESIDE • SUNDERLAND

Item 11

Date: **1 February 2022**

Subject: **Statement of Accounts**

Report of: **Chief Finance Officer**

Executive Summary

This report presents the 2020/21 Statement of Accounts for review and approval.

The NECA Accounts include the single entity accounts and the Group Accounts, which incorporate the accounts of Nexus. Attached to this report are the following appendices:

1. Letter of Representation (Appendix 1);
2. Statement of Accounts (Appendix 2);
3. Annual Governance Statement (Appendix 3);
4. Narrative Report (Appendix 4)

The purpose of this report is to present the updated and finalised 2020/21 Statement of Accounts for review and approval by the Leadership Board. The draft Statement of Accounts for 2020/21 were published on 30 June 2021 and have been subject to review by the External Auditor over the last two months. Due to capacity issues experienced nationally across all public sector audit firms, the external audit fieldwork was unable to begin until late November 2021.

The 2020/21 audit programme is substantially complete and Mazars, the External Auditor, anticipate issuing an unqualified and unmodified audit opinion subject to the completion of outstanding work, as set out in the Audit Completion Report elsewhere on this agenda.

The draft accounts published in June have been amended to reflect updated pension results obtained from the Tyne and Wear Pension Fund taking actual (rather than estimated) asset returns into account, and for amendments to pension figures in the Nexus accounts, which impacts on the Group Accounts of NECA.

The NECA Audit and Standards Committee met on 25 January 2022 and considered the accounts and the Audit Completion Report. Any comments raised by the Committee will be reported to the Leadership Board verbally at this meeting.

This report sets out the changes that have been made to the draft accounts that were published on 30 June 2021 and reported to this committee on 7 September 2021. The report also includes explanations and key figures from the main financial statements to aid understanding.

No changes are required to the draft Annual Governance Statement which was considered by the NECA Audit and Standards Committee in June 2021 or the draft Narrative Report.

Recommendations

The Leadership Board is recommended to:

i. Authorise the Chief Finance Officer to sign the Letter of Representation on behalf of the Authority (Appendix 1);
ii. Approve the Statement of Accounts for 2020/21 (Appendix 2), taking into account any views from the Audit and Standards Committee meeting on 25 January;
iii. Authorise the Chair of the Leadership Board and the Chief Finance Officer to make any further adjustments required to the Statement of Accounts as a result of the conclusion of the external audit and to sign the Statement of Accounts for 2020/21;
iv. Approve the Annual Governance Statement (Appendix 3); and
v. Authorise the Chair of the Leadership Board and the Head of Paid Service to sign the Annual Governance Statement.

1. Background Information

1.1 The Accounts and Audit (Amendment) Regulations 2021, which stipulate a two stage approval process for the statement of accounts, have extended the statutory audit deadlines for 2020/21 and 2021/22 for local authorities. The first statutory deadline requires that the responsible financial officer, by no later than 31 July, should sign and certify that the statement of accounts presents a true and fair view of:

a) The financial position of the authority for the year to 31 March previous, and

b) Its expenditure and income for the year to 31 March previous,

subject to the views of the external auditor.

1.2 The second stage requires that on or before 30 September, approval needs to be given to the statement of accounts by resolution of a committee, which for NECA is the Leadership Board, taking into account the views of the external auditor and the consideration of the Audit and Standards Committee. Once approved, the statement of accounts must be formally published on the authority's website.

1.3 The first stage was completed on 30 June 2021 and the draft accounts were presented to Members of the Audit Committee on 7 September 2021.

1.4 At the Audit and Standards Committee on 22 June 2021 the External Auditor presented the Audit Strategy Memorandum which informed the Committee of a revised timetable for audit fieldwork to September-November 2021, with completion of the audit in November 2021. This would be after the required publication date of 30 September 2021 with the audited Statement of Accounts being presented to the Audit and Standards Committee on 7 December and the Leadership Board on 14 December. Due to capacity issues reflected nationally across all public sector audit firms, the external audit fieldwork was further delayed to late November, and the December meeting of the Audit and Standards Committee was deferred to 25 January 2022.

1.5 The external audit began at the end of November 2021, and at the time of writing this report, is substantially complete. The Audit Completion Report is to be presented by the auditor to Leadership Board today and is elsewhere on the agenda. Subject to the completion of remaining audit work, the external auditor anticipates issuing an unqualified opinion without modification on the financial statements.

2. Proposals

2.1 The statement of accounts for the financial year 2020/21 has been prepared in accordance with the 'Accounts and Audit Regulations 2003', as amended by the Accounts and Audit (Amendment) (England) Regulations 2006 and 2009, the 'Accounts and Audit (England) Regulations 2015, the Accounts and Audit (Amendment) Regulations 2021 and the 'Code of Practice on Local Authority

Accounting 2020/21' (the Code) as published by the Chartered Institute of Public Finance and Accountancy (CIPFA).

2.2 The Code is based on approved accounting standards in England and Wales and constitutes 'proper accounting practice' under the terms of section 21(2) of the Local Government Act 2003. The authority is therefore legally required to follow this code of practice. Explanatory notes are included in the document to assist in the interpretation of the accounts which are unavoidably technical and complex.

2.3 During the audit review of the draft statement of accounts, a number of 'misstatements' were identified which have since been amended. These are listed in Section 6 of the Audit Completion Report. These relate to pension asset values which were included in the draft accounts on the basis of estimated returns at 31 March 2021. Due to significant volatility in asset values in the final quarter of 2020/21, NECA and Nexus requested updated reports from the actuary based on final asset performance to establish whether differences were material and would need to be adjusted in the financial statements. The values of the adjustments required for NECA and Nexus combined exceeds performance materiality threshold and have been updated in the final Group Accounts. For consistency, the NECA accounts have also been updated although the value of the NECA adjustment was not on its own material.

2.4 In addition, a small number of minor corrections and amendments have been made to disclosure notes to ensure compliance with the Code.

Key information from the Statement of Accounts (Appendix 2)

2.5 Page numbers used in this report refer to the page numbers in the statement of accounts document attached at Appendix 2, not those used in the full pack of reports. There are four core statements to provide fundamental information on the financial activities and position of the Authority, and the purpose of these is described below.

i. Movement in Reserves Statement (page 5);
ii. Comprehensive Income and Expenditure Statement (page 6);
iii. Balance Sheet (page 7); and
iv. Cash Flow Statement (page 8)

2.6 NECA also produces Group Accounts which consolidate the financial accounts of Nexus (page 77 onwards).

Movement in Reserves Statement

2.7 This statement shows the movement in the year on the different reserves held by NECA analysed into 'usable' reserves and 'unusable' reserves. There has been no change to the usable reserves from that which was reported previously to the committee and published in the draft accounts.

2.8 There has been a decrease in total reserves held from £125.139m at 31 March 2020 to £99.316m at 31 March 2021, mainly due to the transfer of reserves relating to the North East Local Enterprise Partnership (North East LEP) to the North of Tyne Combined Authority (NTCA) on 1 April 2020.

2.9 Usable reserves totalled £43.032m at 31 March 2021, which included £11.454m earmarked reserves and £23.687m capital grants unapplied, representing grants committed to fund capital expenditure in future years.

2.10 Unusable reserves totalling £56.284m at 31 March 2021, which includes reserves absorbing timing differences arising from the different arrangements for accounting for and financing non-current assets, financial instruments and pension liabilities in accordance with statutory provisions, and for containing gains made by the Authority arising from increases in the value of Property, Plant and Equipment.

Comprehensive Income and Expenditure Statement (CIES)

2.11 This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount charged against the General Fund and therefore funded from the Transport levy and other sources of income such as grants.

2.12 The gross cost of services during the year including capital grants to third parties as well as revenue expenditure was £79.781m (£104.772m in 2019/20 – which included expenditure relating to the North East LEP). This includes a significant amount of 'Revenue Expenditure Funded by Capital Under Statute' (REFCUS) – representing investment in capital assets owned by third parties, not by the Authority itself.

2.13 After deducting specific grants and income from fees and charges, the net cost of services was £30.325m last year (£41.758m in 2019/20). The net cost was lower in 2020/21 mainly due to a significant value of capital grants received which have been released to the CIES as conditions are met through commitment to fund the Transforming Cities Fund programme, but where the grants have not yet been used to fund the expenditure. (These grants are held at the year-end in the Capital Grants Unapplied Reserve). Net expenditure was funded from a range of sources including the Transport Levy, other contributions from Constituent Authorities and Government Grants.

Balance Sheet

2.14 The Balance Sheet shows the value of assets and liabilities recognised at 31 March. The net assets (less liabilities) are matched by the reserves held by the Authority.

2.15 Net assets in the NECA accounts decreased from £125.141m at 31 March 2020 to £99.316m at 31 March 2021. The decrease in total net assets is mainly due to the transfer of assets relating to the North East LEP to NTCA.

Cash Flow Statement

2.16 The Cash Flow Statement shows the changes in cash and cash equivalents during the financial year. The statement shows how the Authority generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities.

2.17 Cash and cash equivalents increased from £22.017m at 31 March 2020 to £38.182m at 31 March 2021, mainly due to capital grants received during the year but not defrayed and held to fund activity in future years.

Notes to the Core Financial Statements

2.18 The notes are important in the presentation of a true and fair view of the financial performance and position of NECA to 31 March 2021. They aim to assist understanding by presenting information about the basis of preparation of the core financial statements, by disclosing information required by the Code that is not presented elsewhere and by providing information that is not provided elsewhere but is relevant to the understanding of the accounts. They also include the Accounting Policies adopted in preparing the accounts.

Group Accounts

2.19 The Group Financial Statements and Notes report the financial picture of all activities conducted by the Authority, including those delivered through partnerships and separate undertakings controlled by the Authority, in this case Nexus.

Other Documents

2.20 Published alongside the draft Statement of Accounts are two further documents which do not form part of the audited accounts but provide further context. The Narrative Report (attached here as Appendix 4) aims to offer interested parties a more understandable guide to the most significant matters reported in the accounts. The Annual Governance Statement (Appendix 3) gives assurance that appropriate mechanisms are in place for the maintenance of good governance across the activities of the Authority. There have been no changes to the Narrative Report which was published with the draft accounts and which has previously been considered by the Audit and Standards Committee.

2.21 Members of the Audit and Standards Committee considered the draft Annual Governance Statement for NECA on 22 June 2021, and it was noted at that time that it was subject to a final review taking into account external audit findings. One internal control recommendation has been raised by the external auditors in the Audit Completion Report, relating to authorisation and review of bank reconciliations. This recommendation was fully addressed in 2020/21 and therefore it is not considered that any change to the conclusions reached in the Annual Governance Statement is required.

3. Reasons for the Proposals

3.1 It is the responsibility of the Leadership Board to approve the Statement of Accounts, which have been subject to review and challenge by both Mazars, the External Auditors, and the Audit and Standards Committee.

3.2 The Statement of Accounts must be approved and signed by the Chair of the North East Combined Authority and the Chief Finance Officer, and published online. T

4. Alternative Options Available

4.1 There are no alternative options associated with this report. There is a statutory requirement to prepare and publish an audited set of accounts for 2020/21, with a supporting external audit opinion and this report seeks to discharge that responsibility.

5. Next Steps and Timetable for Implementation

5.1 Subject to completion of the External Audit, the Statement of Accounts must be signed by the Chair of the Leadership Board and the Chief Finance Officer and published online.

5.2 The Leadership Board will receive a follow up letter from the External Auditor following final conclusion of the audit.

6. Potential Impact on Objectives

6.1 There are no direct impacts on objectives arising from this report. Sound financial stewardship improves the ability of the Authority to meet of its objectives. The Accounts presented reflect a true and fair view of the financial position of NECA and Group during 2020/21 and as at 31 March 2021. The work of the external auditors has confirmed that proper arrangements have been made to secure, economy, efficiency and effectiveness in the use of resources.

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 2020/21. The statement of accounts details the financial position of the authority as at 31 March 2021.

8. Legal Implications

8.1 Compliance with the Accounts and Audit Regulations 2015 and the CIPFA Code of Practice on Local Authority Accounting 2020/21 which is based upon approved accounting standards in England and Wales and constitutes proper accounting practice under the terms of section 21(2) of the Local Government Act 2003.

9. Key Risks

9.1 There are no risks arising from this 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 1 July to 11 August 2021. 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 – Draft Management Representation Letter

Appendix 2 – Statement of Accounts 2020/21

Appendix 3 – Annual Governance Statement 2020/21

Appendix 4 – Narrative Report 2020/21

15. Background Papers

15.1 Draft Statement of Accounts 2020/21 – Audit and Standards Committee 7 September 2021 NECA-Audit-and-Standards-7-September-2021.pdf (northeastca.gov.uk)

Draft Annual Governance Statement 2020/21 – Audit and Standards Committee 22 June 2021 Audit-and-Standards-Agenda-Pack-22-June-2021.pdf (northeastca.gov.uk)

16. Contact Officers

16.1 Eleanor Goodman, NECA Finance Manager, Eleanor.goodman@northeastca.gov.uk, 0191 433 3860

17. Sign Off

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

Paul Darby
North East Combined Authority
paul.darby@durham.gov.uk
03000 261 930

Appendix 1

To: Mr Gavin Barker
Director
Mazars LLP
Date:

North East Combined Authority (NECA) and Group - audit for year ended 31 March 2021

This representation letter is provided in connection with your audit of the financial statements of NECA and Group for the year ended 31 March 2021 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (the Code) and applicable law.

I confirm that the following representations, to the best of my knowledge and belief, 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 financial statements and accounting information

I believe that I have fulfilled my responsibilities for the true and fair presentation and preparation of the financial statements in accordance with the Code and applicable law.

My responsibility to provide and disclose relevant information

I have provided you with:

- access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other material;
- additional information that you have requested from us 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

Paul Darby
North East Combined Authority
paul.darby@durham.gov.uk
03000 261 930

I confirm that all transactions that have a material effect on the financial statements 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 Group 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 Code and International Accounting Standard 8 and consider these policies to faithfully represent the effects of transactions, other events or conditions on NECA and Group's financial position, financial performance and cash flows.

Accounting estimates, including those measured at fair value

I confirm that any significant assumptions used by NECA and Group in making accounting estimates, including those measured at current or 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 and applicable law.

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.

Paul Darby
North East Combined Authority
paul.darby@durham.gov.uk
03000 261 930

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 financial statements 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, have been appropriately accounted for and disclosed in accordance with the requirements of the Code and applicable law. 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.

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.

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.

Future commitments

I am not aware of any plans, intentions or commitments that may materially affect the carrying value or classification of assets and liabilities or give rise to additional liabilities.

Paul Darby
North East Combined Authority
paul.darby@durham.gov.uk
03000 261 930

Subsequent events

I confirm all events subsequent to the date of the financial statements and for which the Code and applicable law, 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.

Going concern

I confirm that I have carried out an assessment of the potential impact of the COVID-19 Virus pandemic on NECA and Group, including the impact of mitigation measures and uncertainties and I am satisfied that the going concern assumption remains appropriate and that no material uncertainty has been identified.

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 financial statements.

Unadjusted misstatements

I confirm that there were no unadjusted misstatements in the 2020/21 statement of accounts.

Yours faithfully

Chief Finance Officer

Date: ………………………

Appendix 2

North East Combined Authority

Statement of Accounts 2020/21

Contents **Page**

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 hereby certify that the Statement of Accounts for the year ended 31 March 2021, required by the Accounts and Audit Regulations 2015, are set out in the following pages.

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 2021 and its income and expenditure for the year ended 31 March 2021.

Signed:	Signed:
Paul Darby Chief Finance Officer	Cllr Graeme Miller 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						
	Note	General Fund Balance	Earmarked General Fund Reserves	Capital Receipts Reserve	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Authority Reserves
		£000	£000	£000	£000	£000	£000	£000
Balance at 1 April 2019		**(22,831)**	**(9,792)**	**(2,503)**	**(11,672)**	**(46,796)**	**(67,485)**	**(114,281)**
Total Comprehensive Income and Expenditure	1	(9,988)	-	-	-	(9,988)	(870)	(10,858)
Adjustments between accounting basis & funding basis under regulations	3	9,005	-	(6,386)	(1,551)	1,068	(1,068)	-
Net (Increase)/Decrease before transfers to Earmarked Reserves		**(983)**	**-**	**(6,386)**	**(1,551)**	**(8,920)**	**(1,938)**	**(10,858)**
Transfers (To)/From Earmarked Reserves		2,581	(2,581)	-	-	**-**	-	-
(Increase)/Decrease in 2019/20		1,598	(2,581)	(6,386)	(1,551)	**(8,920)**	(1,938)	(10,858)
Balance at 31 March 2020 carried forward		**(21,233)**	**(12,373)**	**(8,889)**	**(13,223)**	**(55,716)**	**(69,423)**	**(125,139)**
Transfer to NTCA 1 April 2020		12,068	1,596	8,889	5,862	**28,415**	13,724	42,139
Opening Balance at 1 April		**(9,165)**	**(10,777)**	-	**(7,361)**	**(27,301)**	**(55,699)**	**(83,000)**
Total Comprehensive Income and Expenditure	1	(16,673)	-	-	-	(16,673)	360	(16,313)
Adjustments between accounting basis & funding basis under regulations	3	17,269	-	-	(16,324)	944	(944)	-
Net (Increase)/Decrease before transfers to Earmarked Reserves		**595**	**-**	**-**	**(16,324)**	**(15,729)**	**(584)**	**(16,313)**
Transfers (To)/From Earmarked Reserves		677	(677)	-	-	**-**	-	-
(Increase)/Decrease in 2020/21		1,271	(677)	-	(16,324)	**(15,730)**	(583)	(16,313)
Balance at 31 March 2021 carried forward		**(7,893)**	**(11,454)**	**-**	**(23,685)**	**(43,030)**	**(56,284)**	**(99,313)**

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.

2019/20 Gross Expenditure £000	2019/20 Gross Income £000	2019/20 Net Expenditure £000		Note	2020/21 Gross Expenditure £000	2020/21 Gross Income £000	2020/21 Net Expenditure £000
			Continuing NECA Services	1			
1,341	(678)	663	Corporate		574	(781)	(207)
290	(290)	-	Skills		-	-	-
143	-	143	Transport - Retained Levy Budget		73	-	73
15,552	-	15,552	Transport - Durham		15,456	-	15,456
31,010	-	31,010	Transport - Tyne and Wear		32,719	-	32,719
11,741	(13,609)	(1,868)	Transport - Other		11,618	(28,367)	(16,749)
14,250	(18,719)	(4,469)	Transport - Tyne Tunnels		13,267	(14,234)	(967)
-	-	-	Covid-19 Grants		6,074	(6,074)	-
74,327	**(33,296)**	**41,031**	**Cost of Services relating to continuing services excluding operations transferred to the NTCA**		**79,781**	**(49,456)**	**30,325**
375	(161)	214	Inward Investment		-	-	-
26,390	(26,053)	337	Local Growth Fund Programme		-	-	-
3,680	(3,752)	(72)	North East Local Enterprise Partnership		-	-	-
30,445	**(29,966)**	**479**	**Cost of Services relating to services transferred to the NTCA**		**-**	**-**	**-**
104,772	**(63,262)**	**41,510**	**Cost of Services**		**79,781**	**(49,456)**	**30,325**
			Financing and Investment Income and Expenditure	4			
4,196	(1,463)	2,733	- From continuing services		4,057	(963)	3,094
-	(761)	(761)	- From services transferred to the NTCA		-	-	-
			Taxation and Non-Specific Grant Income	5			
-	(51,319)	(51,319)	- From continuing services		-	(50,091)	(50,091)
-	(2,151)	(2,151)	- From services transferred to the NTCA				-
		(9,988)	**(Surplus)/Deficit on Provision of Services**				**(16,672)**
		(870)	Re-measurement of the defined benefit liability	19			360
		(870)	**Other Comprehensive Income and Expenditure**				**360**
		(10,858)	**Total Comprehensive Income and Expenditure**				**(16,312)**

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 2020 £000		Note	31 March 2021 £000
193,200	Property, Plant and Equipment	11	190,648
31,935	Long Term Debtors	15	18,715
225,135	**Long Term Assets**		**209,363**
58,236	Short Term Investments	12	34,383
8,899	Short Term Debtors	14	5,050
22,017	Cash and Cash Equivalents	16	38,183
89,152	**Current Assets**		**77,616**
(1,298)	Short Term Borrowing	12	(1,274)
(39,984)	Short Term Creditors	17	(39,879)
(891)	Grants Receipts in Advance	6	(3,356)
(2,837)	New Tyne Crossing Deferred Income	18	(2,824)
(45,010)	**Current Liabilities**		**(47,333)**
(48,224)	New Tyne Crossing Deferred Income	18	(45,184)
(95,072)	Long Term Borrowing	12	(94,276)
(840)	Pension Liability	19	(870)
(144,136)	**Long Term Liabilities**		**(140,330)**
125,141	**Net Assets**		**99,316**
(55,717)	Usable Reserves	20	(43,032)
(69,424)	Unusable Reserves	22	(56,284)
(125,141)	**Total Reserves**		**(99,316)**

Chief Finance Officer Certificate

I certify that the accounts set out on pages 5 to 77 give a true and fair view of the financial position of the North East Combined Authority as at the 31 March 2021.

Signed:

Paul Darby, Chief Finance Officer

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.

2019/20 £000		Note	2020/21 £000
9,988	Net Surplus/(Deficit) on the provision of services		16,672
(7,193)	Adjustments to net surplus or deficit on the provision of services for non-cash movements	24	16,000
(41,940)	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	24	(25,271)
(39,145)	**Net cash flows from Operating Activities**		**7,401**
47,036	Investing Activities	25	51,740
2,406	Financing Activities	26	(838)
10,297	**Net (Decrease)/Increase in cash and cash equivalents**		**58,303**
11,720	Cash and cash equivalents at the beginning of the reporting period	16	22,017
-	Transfer to the NTCA		(42,138)
22,017	**Cash and cash equivalents at the end of the reporting period**		**38,182**

Note 01: 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).

At this date:

- 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. As the accountable body NECA must split the revenue, expenditure, assets and liabilities into those which relate to NECA and those which relate to 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.

Paragraph 2.1.2.9 of the Code makes clear that combinations of public sector bodies are not to be taken as negating the presumption of going concern. The establishment of the NTCA and decisions about accountable body status therefore have no impact on the going concern basis of the NECA accounts.

On 1 April 2020, the Accountable Body role for the North East Local Enterprise Partnership transferred to the NTCA. This includes the employment of all North East LEP staff and administration of its income and expenditure. In addition, the Invest North East England function also transferred to the NTCA on the same date.

This has been accounted for in the 2020/21 financial statements as a transfer by absorption. Assets and liabilities have been transferred at carrying value. The Comprehensive Income and Expenditure Statement shows services transferred to NTCA separately from services continuing to be reported by NECA in the prior year results, in order to aid comparatives across financial years. In the notes to the accounts, a separate line disclosing the transfer is included after the balance brought forward from the previous year.

Note 02: Expenditure and Funding Analysis

The objective of the Expenditure and Funding Analysis is to demonstrate how the funding available to the authority (i.e. government grants and contributions) for the year has been used in providing services in comparison with those resources consumed or earned by the authority in accordance with generally accepted accounting practices. The Expenditure and Funding Analysis also shows how this expenditure is allocated for decision making purposes between the authority's services. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

	2020/21				
	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	93	-	(300)	-	(207)
Skills	-	-	-	-	-
Transport - Retained Levy Budget	361	(288)	-	-	73
Transport - Durham	15,456	-	-	-	15,456
Transport - Tyne and Wear	32,719	-	-	-	32,719
Transport - Other	(2,720)	(14,029)	-	-	(16,749)
Transport - Tyne Tunnels	736	(1,653)	(50)	-	(967)
Cost of services	**46,645**	**(15,971)**	**(350)**	**-**	**30,325**
Other Income and Expenditure	**(46,050)**	(741)	20	(225)	**(46,997)**
(Surplus)/Deficit on Provision of Services	**595**	**(16,712)**	**(330)**	**(225)**	**(16,672)**
Opening General Fund Balances	(33,607)				
Transfer to NTCA 1 April 2020	13,664				
Closing General Fund Balances	**(19,348)**				

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.

	2019/20				
	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	(177)	-	840	-	663
Inward Investment	214	-	-	-	214
Local Growth Fund Programme	2,031	(1,694)	-	-	337
North East Local Enterprise Partnership	(72)	-	-	-	(72)
Skills	-	-	-	-	-
Transport - Retained Levy Budget	438	(295)	-	-	143
Transport - Durham	15,552	-	-	-	15,552
Transport - Tyne and Wear	31,010	-	-	-	31,010
Transport - Other	409	(2,277)	-	-	(1,868)
Transport - Tyne Tunnels	(3,184)	(1,235)	(50)	-	(4,469)
Cost of services	**46,221**	**(5,501)**	**790**	**-**	**41,510**
Other Income and Expenditure	**(50,540)**	(389)	20	(589)	**(51,498)**
(Surplus)/Deficit on Provision of Services	**(4,319)**	**(5,890)**	**810**	**(589)**	**(9,988)**
Opening General Fund Balances	(32,624)				
Transfer from Capital Receipts Reserve	3,336				
Closing General Fund Balances	**(33,607)**				

Note 02a: Income and Expenditure Analysed by Nature

	2019/20 £000	2020/21 £000
Expenditure		
Employee benefit expenses	3,007	218
Other service expenses	61,910	69,041
Depreciation, impairment and Revenue Expenditure Funded from Capital Under Statute (REFCUS)	39,855	10,542
Interest payments	4,196	4,037
Total expenditure	**108,968**	**83,838**
Income		
Fees, charges and other service income (Tyne Tunnels tolls)*	(15,866)	(11,393)
Interest and investment income	(2,224)	(963)
Income from business rates on enterprise zones	(2,151)	-
Income from transport levy	(49,598)	(49,350)
Government grants and contributions	(45,684)	(35,312)
Other income	(3,433)	(3,493)
Total income	**(118,956)**	**(100,511)**
Surplus/Deficit on the provision of services	**(9,988)**	**(16,673)**

* Fees, charges and other service income relates wholly to tolls paid by users of the Tyne Tunnels.

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.

2019/20				Adjustments between Accounting Basis and Funding Basis Under Statute	2020/21			
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
				Adjustments primarily involving the Capital Adjustment Account (CAA)				
				Reversal of items debited or credited to the CIES				
(2,317)	-	-	2,317	Charges for depreciation and impairment of non current assets	(2,402)	-	-	2,402
2,837	-	-	(2,837)	Other income that cannot be credited to the General Fund	2,824	-	-	(2,824)
35,904	-	-	(35,904)	Capital grants and contributions applied	7,052	-	-	(7,052)
(37,538)	-	-	37,538	Revenue expenditure funded from capital under statute	(10,391)	-	-	10,391
				Insertion of items not debited or credited to the CIES				
964	-	-	(964)	Statutory provision for the financing of capital investment	1,391	-	-	(1,391)
5	-	-	(5)	Capital expenditure charged against the General Fund	19	-	-	(19)
				Adjustments primarily involving the Capital Grants Unapplied Account				
6,036	-	(6,036)	-	Grants and contributions unapplied credited to the CIES	18,219	-	(18,219)	-
-	-	4,485	(4,485)	Application of grants to capital financing transferred to the CAA	-	-	1,895	(1,895)
				Adjustments involving the Capital Receipts Reserve				
2,481	(8,042)	-	5,561	Loan principal repayments	-	(841)	-	841
855	778	-	(1,633)	Use of Capital Receipts Reserve to finance new capital expenditure	-	-	-	-
-	878	-	(878)	Application of Capital Receipts to repayment of debt	-	841	-	(841)
				Adjustments involving the Financial Instruments Adjustment Account				
589	-	-	(589)	Amount by which finance costs charged to the CIES are different from finance costs chargeable in the year in accordance with statutory requirements	225	-	-	(225)
				Adjustments involving the Pensions Reserve				
(860)	-	-	860	Reversal of items relating to retirement benefits debited or credited to the CIES	280	-	-	(280)
50	-	-	(50)	Employer's pension contributions and direct payments to pensioners payable in the year	50	-	-	(50)
9,006	**(6,386)**	**(1,551)**	**(1,069)**	**Total Adjustments**	**17,268**	**-**	**(16,324)**	**(943)**

Note 04: Financing and Investment Income and Expenditure

	Note	2019/20 Continuing Services	2019/20 Services transferred to NTCA	2020/21
			£000	£000
Interest Payable and Similar Charges		4,176	-	4,037
Interest Payable on defined benefit liability	19	20	-	20
Interest Receivable and similar income		(1,463)	(761)	(963)
Total		**2,733**	**(761)**	**3,094**

Note 05: Taxation and Non Specific Grant Income

		2019/20 Continuing Services	2019/20 Services transferred to NTCA	2020/21
			£000	£000
Transport Levy		(49,598)	-	(49,349)
Enterprise Zones Income		-	(2,151)	-
Non-Specific Capital Grants		(1,721)	-	(741)
Total		**(51,319)**	**(2,151)**	**(50,090)**

Note 06: Grant Income

		2019/20 Continuing Services	2019/20 Services transferred to NTCA	2020/21
			£000	£000
LEP Core and Capacity Grant		-	(500)	-
Growth Hub		-	(442)	-
Local Authority Contributions to NECA		(352)	-	(161)
Local Authority Contribution to North East LEP		-	(253)	-
Local Growth Fund			(28,063)	(679)
Local Transport Plan		(7,770)	-	(7,736)
European Grants		-	(979)	(176)
North East Smart Ticketing Initiative		(202)	-	(113)
Transforming Cities Fund		(5,516)	-	(13,907)
LEP Local Industrial Strategy Grant		-	(224)	-
Office for Low Emission Vehicles		(302)		(70)
COVID-19		-	-	(6,074)
Other Grants		-	(1,082)	(5,352)
Total		**(14,142)**	**(31,543)**	**(34,268)**

The Government have provided Grants to cover some losses, identified by Local Authorities and NEXUS, due to the COVID-19 pandemic. These have been identified separately in the table above.

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 2020 £000**	**31 March 2021 £000**
North East Smart Ticketing Initiative	(114)	-
Office for Low Emission Vehicles	(141)	(127)
Other Grants	(636)	(3,229)
Total	**(891)**	**(3,356)**

Shown as Short-Term Liability on the Balance Sheet	(891)	(3,356)
Short as Long-Term Liability on the Balance Sheet	-	-
Total	**(891)**	**(3,356)**

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.

	2019/20 £000	**2020/21 £000**
Allowances	12	12
Total	**12**	**12**

Note 08: Officers' Remuneration

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

		Salary, Fees and Allowances £000	Pension Contributions £000	Total £000
Managing Director of Transport Operations	2020/21	131	-	**131**
	2019/20	127	-	**127**

All three of the Authority's statutory officers in 2020/21 were not formal employees of the authority (and are not therefore included in the statutory disclosure above). Their services are provided by Service Level Agreements between the authority and their Local Authority employers. The individuals involved received no additional remuneration for these roles.

The number of other officers who received remuneration greater than £50,000 (excluding employers' pension contributions) was as follows:

	2019/20 £000	2020/21 £000
£50,000-£54,999	5	0
£55,000-£59,999	0	1
£60,000-£64,999	2	0
£65,000-£69,999	3	0
£70,000-£74,999	0	0
£75,000-£79,999	0	0
£80,000-£84,999	0	0
£85,000-£89,999	1	0
£90,000-£94,999	0	0
£95,000-£99,999	0	1
Total	**11**	**2**

The reduction in numbers from the 2019/20 figures is due to the removal of LEP staff who were transferred to the North of Tyne Combined Authority on 01/04/2020.

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.

	2019/20 £000	2020/21 £000
Scale fee for the audit of the Statement of Accounts	19	19
Additional fee in relation to the audit of the 2019/20 Accounts (paid during 2020/21)	6	8
Total	**25**	**27**

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 2020/21 no works or services were commissioned from companies in which any members had an interest.

Officers

There has 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 2018, 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 2018, 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.

	2019/20				2020/21			
	Receivables	Income	Expenditure	Payables	Receivables	Income	Expenditure	Payables
	£000	£000	£000	£000	£000	£000	£000	£000
NECA Constituent Authorities								
Durham	(3)	(15,699)	19,330	595	-	(15,499)	18,960	1,187
Gateshead	(245)	(6,463)	4,525	2,625	-	(10,291)	1,136	137
South Tyneside	(3)	(4,689)	981	791	-	(8,112)	926	206
Sunderland	(763)	(9,582)	13,099	898	-	(14,949)	1,327	131
Remaining JTC Constituent Authorities								
Newcastle	(528)	(8,940)	3,126	1,308	-	(10)	2,879	691
North Tyneside	(433)	(8,542)	3,640	290	-	(10)	1,061	130
Northumberland	(351)	(496)	3,389	271	-	(10)	2,014	315
Other Public Bodies								
North of Tyne Combined Authority	(8)	(8)	-	-	-	-	-	-
Nexus	(845)	(81)	31,803	28,695	(695)	(761)	37,234	33,671

NECA is the accountable body for the Joint Transport Committee and as such must split revenue, expenditure and assets and liabilities into those which relate to NECA and those which relate to NTCA. The basis of dividing the levy contributions is done on a proportion of population in respect of the five Tyne and Wear authorities, with North of Tyne Authorities proportion based on Newcastle and North Tyneside population and the NECA authorities split on the population of the Gateshead, South Tyneside and Sunderland. The contribution relating to Northumberland, however, is administered by North of Tyne and therefore shown as wholly allocated within the North of Tyne accounts and Durham is wholly shown in the NECA accounts.

Note 11: Property, Plant and Equipment

	2020/21				
	Vehicles, Plant, Furniture & Equipment	Infrastructure Assets	Assets Under Construction	Total Property, Plant & Equipment	Service Concession Assets included in Property, Plant and Equipment
	£000	£000	£000	£000	£000
Cost or Valuation					
At 1 April 2020	2,204	219,358	1,049	**222,611**	219,358
Additions	-	528	189	**717**	528
Reclassification from Assets Under Construction	677	-	(677)	**-**	-
Impairment recognised in the Surplus/Deficit on the Provision of Services	-	(20)	-	**(20)**	(20)
Other Adjustments	-	(865)	-	**(865)**	(865)
At 31 March 2021	**2,881**	**219,001**	**561**	**222,443**	**219,001**

Accumulated Depreciation and Impairment					
At 1 April 2020	(754)	(28,657)	-	**(29,411)**	(28,657)
Depreciation charge for the Year	(160)	(2,222)	-	**(2,382)**	(2,222)
At 31 March 2021	**(914)**	**(30,879)**	**-**	**(31,793)**	**(30,879)**

Net Book Value					
At 1 April 2020	**1,450**	**190,701**	**1,049**	**193,200**	**190,701**
At 31 March 2021	**1,967**	**188,122**	**561**	**190,650**	**188,122**

	2019/20				
	Vehicles, Plant, Furniture & Equipment	Infrastructure Assets	Assets Under Construction	Total Property, Plant & Equipment	Service Concession Assets included in Property, Plant and Equipment
	£000	£000	£000	£000	£000
Cost or Valuation					
At 1 April 2019	1,785	209,165	10,067	**221,017**	209,165
Additions	-	-	1,594	**1,594**	-
Reclassification from Assets Under Construction	419	10,193	(10,612)	**-**	10,193
At 31 March 2020	**2,204**	**219,358**	**1,049**	**222,611**	**219,358**

Accumulated Depreciation and Impairment					
At 1 April 2019	(661)	(26,433)	-	**(27,094)**	**(26,433)**
Depreciation charge for the Year	(93)	(2,224)	-	**(2,317)**	(2,224)
At 31 March 2020	**(754)**	**(28,657)**	**-**	**(29,411)**	**(28,657)**

Net Book Value					
At 1 April 2019	**1,124**	**182,732**	**10,067**	**193,923**	**182,732**
At 31 March 2020	**1,450**	**190,701**	**1,049**	**193,200**	**190,701**

Note 12: Financial Instruments

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.

	Non-current				Current			
	Investments		Debtors		Investments		Debtors	
	31 March 2020	31 March 2021	31 March 2020	31 March 2021	31 March 2020	31 March 2021	31 March 2020	31 March 2021
	£000	£000	£000	£000	£000	£000	£000	£000
Amortised cost	-		31,935	18,715	58,236	34,383	6,926	2,242
Total financial assets	**-**	**-**	**31,935**	**18,715**	**58,236**	**34,383**	**6,926**	**2,242**
Non-financial assets	-	-	-	-	-	-	1,973	2,808
Total	**-**	**-**	**31,935**	**18,715**	**58,236**	**34,383**	**8,899**	**5,050**

Financial assets at amortised cost

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 held at amortised cost

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 the Authority.

	Non-current				Current			
	Borrowings		Creditors		Borrowings		Creditors	
	31 March 2020	31 March 2021	31 March 2020	31 March 2021	31 March 2020	31 March 2021	31 March 2020	31 March 2021
	£000	£000	£000	£000	£000	£000	£000	£000
Amortised cost	(95,072)	(94,276)	-	-	(1,298)	(1,274)	(32,487)	(33,933)
Total financial liabilities	**(95,072)**	**(94,276)**	**-**	**-**	**(1,298)**	**(1,274)**	**(32,487)**	**(33,933)**
Non-financial liabilities	-	-	-	-	-	-	(7,497)	(5,946)
Total	**(95,072)**	**(94,276)**	**-**	**-**	**(1,298)**	**(1,274)**	**(39,984)**	**(39,879)**

The contractual terms for NECA's financial liabilities give rise to cash flows that are solely payments of principal and interest, and they have been accordingly classified at amortised cost.

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 2020				31 March 2021		
£000	£000	£000		£000	£000	£000
Financial Liabilities at amortised cost	**Financial assets: measured at amortised cost**	**Total**		**Financial Liabilities at amortised cost**	**Financial assets: measured at amortised cost**	**Total**
4,176	-	4,176	Interest expense	4,037	-	**4,037**
4,176	**-**	**4,176**	**Total expense in Surplus on Provision of Services**	**4,037**	-	**4,037**
-	(2,092)	(2,092)	Investment income	-	(963)	**(963)**
-	(132)	(132)	Movement on soft loans adjustment	**-**	-	**-**
-	**(2,224)**	**(2,224)**	**Total income in Surplus on Provision of Services**	**-**	**(963)**	**(963)**
4,176	**(2,224)**	**1,952**	**Net (gain)/loss for the year**	**4,037**	**(963)**	**3,074**

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 2021, 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
- 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 2020/21 the fair values 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.
- Level 2 – fair value is calculated from inputs other than quoted prices that are observable for the asset or liability: Fair values have been estimated by discounting the loans' contractual cash flows over the whole life of the instruments at the appropriate market rates for local authority loans of equivalent remaining term. The value of "Lender's Option Borrower's Option" (LOBO) loans have been increased by the value of the embedded options: lenders' options to propose an increase to the interest rate on 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.
- Level 3 – fair value is determined using unobservable inputs: consideration of the estimated creditworthiness of the organisation receiving the loans based on their financial performance and track record of payment.

The fair values calculated are as follows:

		31 March 2020		31 March 2021	
	Level	**Carrying amount £000**	**Fair value £000**	**Carrying amount £000**	**Fair value £000**
Financial liabilities held at amortised cost	2	(96,370)	(166,167)	(95,550)	(151,970)
Total		**(96,370)**	**(166,167)**	**(95,550)**	**(151,970)**
Financial Assets at amortised cost					
Held to maturity investments		58,236	58,236	34,383	34,383
Nexus loan debtor	2	19,614	34,148	18,715	30,051
Other loan debtors	3	14,510	14,510	-	-
Total		**92,360**	**106,894**	**53,098**	**64,434**

Short-term debtors and creditors are carried at cost as this is a fair approximation of their value.

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 the loans are set out in the table below.

- Durham University - Development of Centre for Innovation and Growth, research and development facility to work with partners and private companies to develop new technologies and processes.
- Neptune Test Centre - construction of deep water test tank at Neptune Enterprise
- Cobalt Data Centre - Network improvements to support development of 23km 'superfast' broadband loop through Newcastle and North Tyneside.
- Boiler Shop - Development including office and conferencing space at South Street/Boiler Shop, Stephenson Quarter.

Since the transfer of Accountable Body responsibility for the North East LEP to the North of Tyne Combined Authority on 1 April 2020, NECA no longer holds any soft loans so no values are shown for 2020/21.

	2019/20							
Description	**Term (Years)**	**Contracted Rate**	**Fair Value Rate**	**Opening Balance Fair Value**	**Loans Repaid**	**Increase in discounted amount**	**Closing Balance (fair value)**	**Closing Balance (Nominal)**
				£000	**£000**	**£000**	**£000**	**£000**
Durham University	12	1.90%	4.95%	9,244	(1,282)	458	8,420	8,916
Neptune Test Centre	9	0.00%	4.99%	3,397	(440)	169	3,126	4,397
Cobalt Data Centre	6	6.00%	7.00%	1,589	(1,589)	-	-	-
Boiler Shop	3	4.50%	5.02%	1,699	(80)	90	1,709	1,465

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.

The following table summarises the Authority's maximum exposure to credit risk on financial assets. This analysis is based on credit rating advice received by Treasury Management advisors and focuses on the long-term investment grade rating issued to each financial institution. The highest possible rating is AAA and the lowest rating is BBB:

Rating	2019/20 £000	2020/21 £000
n/a - investments with UK local authorities	52,446	34,383
n/a - investments with unrated building societies [1]	5,790	-
Total Short-Term Investments	**58,236**	**34,383**
AAA	13,348	17,746
AA2	3,621	-
Total Cash Equivalents	**16,969**	**17,746**

[1] In line with its agreed Investment Strategy, NECA places investments for up to 1 year and up to £5m each with UK building societies without credit ratings with assets greater than £250m.

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 2021 that this was likely to crystallise. Actions are taken immediately if an institution is downgraded and deposits withdrawn in line with Treasury Management Strategy.

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.

Credit risk is taken into account in determining the appropriate rate of interest to be applied to the North East Investment Fund loans and in whether an investment decision is agreed.

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 March 2020 £000	31 March 2021 £000
Between 1-2 years	(371)	(370)
Between 2-5 years	(1,114)	(1,109)
Between 5-10 years	(557)	(185)
More than 10 years	(93,029)	(92,612)
	(95,071)	**(94,276)**
Less than 1 year	(1,298)	(1,274)
Total borrowing	**(96,369)**	**(95,550)**

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.

Interest rate sensitivity analysis: an example of the impact of a change in interest rates is calculated in the risk assessment shown below. The assessment has been carried out assuming a 1% increase in interest rates (with all other variables such as principal and maturity periods being held constant). The results of this assessment are shown in the following table:

	31 March 2020 £000	31 March 2021 £000
Increase in interest payable on variable rate borrowing	-	-
Increase in interest receivable on variable rate investments	(520)	(95)
Impact on the (Surplus)/Deficit on Provision of Services	**(520)**	**(95)**

The increase in interest payable on variable rate borrowings is nil, because all NECA's borrowings are at fixed rates. A decrease in the fair value of fixed rate borrowings liabilities would have no impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure. The impact of a 1% fall in interest rates would be as above, but with the movements being reversed. There have been no changes from the previous period in the methods and assumptions used.

If interest rates had been 1% higher with all other variables held constant, the financial effect would be a decrease of £30.616m in the fair value of fixed rate borrowings, although this would not impact on the Surplus/Deficit on the Provision of Services or Other Comprehensive Income and Expenditure.

Note 14: Short Term Debtors

	31 March 2020 £000	31 March 2021 £000
Central Government bodies	3,375	610
Other local authorities	4,327	2,303
Other entities and individuals	1,197	2,137
Total	**8,899**	**5,050**

Note 15: Long Term Debtors

	31 March 2020 £000	31 March 2021 £000
Nexus borrowing	19,614	18,715
North East Investment Fund loans	12,321	-
Total	**31,935**	**18,715**

Note 16: Cash and Cash Equivalents

	31 March 2020 £000	31 March 2021 £000
Cash held in Authority's bank account	5,048	20,437
Cash equivalents	16,969	17,746
Total	**22,017**	**38,183**

Note 17: Short Term Creditors

	31 March 2020 £000	31 March 2021 £000
Central government bodies	(38)	(33)
Other local authorities	(7,213)	(2,188)
Other entities and individuals		
- Nexus	(28,224)	(33,672)
- TT2	(1,693)	(1,212)
- Other	(2,816)	(2,774)
Total	**(39,984)**	**(39,879)**

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 vehicle 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 2020/21 the total payment under the contract was £12.717m (2019/20 £21.123m) of which £7.052m is shown in the account of NECA and £5.665m shown in the accounts of NTCA. The reduction between years is a direct result of the consequences of reduced traffic volumes in 2020/21 due to the Covid-19 pandemic.

The contribution to the capital works by the private sector partner is recognised as a deferred income balance with a 2020/21 value of £86.568m (2019/20 £91.661m), of which £48.008m is shown on the NECA balance sheet and £38.561m shown on the NTCA balance sheet

	Deferred Income Release	
	2019/20 £000	2020/21 £000
Payable in 2021/22	(2,837)	(2,824)
Payable within 2 to 5 years	(11,347)	(11,296)
Payable within 6 to 10 years	(14,183)	(14,120)
Payable within 11 to 15 years	(14,184)	(14,120)
Payable within 16 to 20 years	(8,510)	(5,648)
Total	**(51,062)**	**(48,008)**

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	
	2019/20	2020/21	2019/20	2020/21
	£000	£000	£000	£000
Comprehensive Income and Expenditure Statement				
Cost of Services:				
Current service cost	840	320	-	-
Settlement cost	-	(620)	-	-
Financing and Investment Income and Expenditure				
Interest on net defined benefit liability (asset)	-	-	20	20
Pension expense recognised in profit and loss	**840**	**(300)**	**20**	**20**
Other Post Employment Benefits charged to the Comprehensive Income and Expenditure Statement:				
Return on plan assets (in excess of)/below that recognised in net interest	2,630	(10,570)	-	
Actuarial (gains)/losses due to changes in financial assumptions	-	4,310	-	70
Actuarial (gains)/losses due to changes in demographic assumptions	(390)	-	(20)	
Actuarial (gains)/losses due to changes in liability assumptions	3,090	320	(10)	(10)
Adjustment in respect of paragraph 58	(6,170)	6,210	-	
Total amount recognised in OCI	**(840)**	**270**	**(30)**	**60**
Total amount recognised	**-**	**(30)**	**(10)**	**80**

North East Local Enterprise Partnership employees were transferred to the North of Tyne Combined Authority on 01 April 2020. The settlement cost in the table above reflects the transfer between employers.

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	
	2019/20	2020/21	2019/20	2020/21
	£000	£000	£000	£000
Opening balance at 1 April	**(39,520)**	**(42,750)**	**(900)**	**(840)**
Current service cost	(840)	(320)	-	-
Interest cost	(930)	(950)	(20)	(20)
Contributions by participants	(170)	(70)	-	-
Actuarial gains/(losses) on liabilities - financial assumptions	-	(4,310)	-	(70)
Actuarial gains/(losses) on liabilities - demographic assumptions	390	-	20	-
Actuarial gains/(losses) on liabilities - experience	(3,090)	(320)	10	10
Net benefits paid out	1,410	350	50	50
Past service costs	-	-	-	
Net increase in liabilities from disposals/acquisitions		(30)		
Settlements		1,500		
Closing balance at 31 March	**(42,750)**	**(46,900)**	**(840)**	**(870)**

Reconciliation of the fair value of the scheme assets:

	Local Government Pension Scheme		Discretionary Benefits	
	2019/20	2020/21	2019/20	2020/21
	£000	£000	£000	£000
Opening balance at 1 April	**48,300**	**45,570**	**-**	**-**
Interest income on assets	1,140	1,020	-	-
Remeasurement gains/(losses) on assets	(2,630)	10,500	-	-
Employer contributions	-	-	50	50
Contributions by scheme participants	170	70	-	-
Net benefits paid out	(1,410)	(350)	(50)	(50)
Settlements		(880)		
Closing balance at 31 March	**45,570**	**55,930**	**-**	**-**

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	2016/17	2017/18	2018/19	2019/20	2020/21
	£000	£000	£000	£000	£000
Fair value of LGPS assets	**45,050**	**45,980**	**48,300**	**45,570**	**55,930**
Present value of liabilities:					
- LGPS liabilities	(37,590)	(38,950)	(39,520)	(42,750)	(46,900)
- Impact of minimum funding	(7,460)	(7,030)	(8,780)	(2,820)	(9,030)
Deficit on funded defined benefit scheme	**-**	**-**	**-**	**-**	**-**
Discretionary benefits	(980)	(960)	(900)	(840)	(870)
Total (Deficit)	**(980)**	**(960)**	**(900)**	**(840)**	**(870)**

The split of the defined benefit obligation at the last valuation date between the various categories of members was as follows: active members 9%, deferred pensioners 13% and pensioners 78%.

The liabilities show the underlying commitments that the Authority has in the long run to pay post employment (retirement) benefits. The total liability of £54.920m has an impact on the net worth of the Authority recorded on the balance sheet, resulting in a negative pension balance of £0.870m. 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 2022 is nil. In addition, Strain on the Fund contributions may be required. Expected payments direct to beneficiaries in the year to 31 March 2022 are £0.05m in relation to unfunded benefits.

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. Due to the current and unprecedented market conditions, estimates for the pension fund are based on the latest full valuation of the scheme as at 31 March 2019.

The weighted average duration of the defined benefit obligation for scheme members is 13.5 years.

The principal assumptions used by the actuary have been:

	Local Government Pension Scheme		Discretionary Benefits	
	2019/20	**2020/21**	**2019/20**	**2020/21**
Mortality assumptions:				
Longevity at 65 for current pensioners:				
- Men	21.8	21.9	21.8	21.9
- Women	25.0	25.1	25.0	25.1
Longevity at 65 for future pensioners:				
- Men	23.5	23.6	n/a	n/a
- Women	26.8	26.9	n/a	n/a
Principal financial assumptions (% per annum)				
Rate for discounting scheme liabilities	2.3%	2.1%	2.3%	2.1%
Rate of inflation - Consumer Price Index	2.1%	2.7%	2.1%	2.7%
Rate of increase in pensions	2.1%	2.7%	2.1%	2.7%
Pension accounts revaluation rate	2.1%	2.7%	n/a	n/a
Rate of increase in salaries	3.6%	4.2%	n/a	n/a

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

	31 March 2020	31 March 2021		
	% Total	**% Quoted**	**% Unquoted**	**% Total**
Equity investments	54.8%	48.4%	7.1%	55.5%
Property	9.0%	0.0%	7.9%	7.9%
Government bonds	4.1%	2.2%	0.0%	2.2%
Corporate bonds	15.3%	19.8%	0.0%	19.8%
Cash	2.3%	4.0%	0.0%	4.0%
Other*	14.5%	4.7%	5.9%	10.6%
Total	**100.0%**	**79.1%**	**20.9%**	**100.0%**

* 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 Pension Scheme	
	2019/20	2020/21
	£000	£000
Interest Income on Assets	1,140	1,020
Remeasurement gain/(loss) on assets	(2,630)	8,620
Actual Return on Assets	**(1,490)**	**9,640**

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.

Discount rate assumption	**+0.1% per annum**	**Base Figure**	**-0.1% per annum**
Adjustment to discount rate			
Present value of total obligation (£M)	46.29	46.90	47.56
% change in present value of total obligation	-1.30%		1.40%
Projected service cost (£M)	0.41	0.42	0.43
Approximate % change in projected service cost	-2.70%		2.80%

Rate of general increase in salaries	**+0.1% per annum**	**Base Figure**	**-0.1% per annum**
Adjustment to salary increase rate			
Present value of total obligation (£M)	46.90	46.90	46.90
% change in present value of total obligation	0.00%		0.00%
Projected service cost (£M)	0.42	0.42	0.42
Approximate % change in projected service cost	0.00%		0.00%

Rate of increase to pensions in payment and deferred pensions assumption, and rate of revaluation of pension accounts assumption	+0.1% per annum	Base Figure	-0.1% per annum
Adjustment to pension increase rate			
Present value of total obligation	47.51	46.90	46.29
% change in present value of total obligation	1.30%		-1.30%
Projected service cost (£M)	0.43	0.42	0.42
Approximate % change in projected service cost	2.80%		-2.70%

Post retirement mortality assumption	- 1 year	Base Figure	+ 1 year
Adjustment to mortality age rating assumption *			
Present value of total obligation (£M)	48.59	46.90	45.26
% change in present value of total obligation	3.60%		-3.50%
Projected service cost (£M)	0.44	0.42	0.40
Approximate % change in projected service cost	4.20%		-4.10%

* 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

The Pension Fund actuaries have assessed the impact of the Covid 19 pandemic on pension liabilities. Mortality during March to May 2020 was around 30% higher than the fund average for equivalent periods in the previous 10 years. However, for the 12 months to 31 May 2020. mortality was only 10% higher. The impact of this increase in mortality was small in liability terms i.e. an estimated reduction in pensioner liabilities of 0.1%. A decision was made not to change the mortality assumption on the funding valuation.

McCloud Judgement

All public sector pension schemes were reviewed in 2011 and subsequently reformed to reduce the cost to the taxpayer. Transitional protections were provided to members who were closest to retirement. The transitional protections applied to all active members of public services schemes who were within 10 years of their normal pension age on 1 April 2012. In relation to the LGPS, all members were moved into the new 2014 Scheme, but members within 10 years of normal retirement were given an underpin (or 'better of both') promise, so their benefits would be at least as valuable in terms of amount and when they could be drawn than if they had remaining in the 2008 Scheme.

In December 2018 the Court of Appeal ruled against the Government in the 'McCloud/Sargeant' judgement which found that the transitional protection arrangements put in place when the firefighters' and judges' pensions schemes were reformed were age discriminatory. The ruling potentially has implications for all public sector schemes which were reformed around the same time and could lead to members who were discriminated against being compensated.

The Government applied to the Supreme Court for permission to appeal this judgement. On 27 June 2019, the Supreme Court denied this request for an appeal.

MHCLG published its McCloud consultation for the LGPS (in England and Wales) on 16 July 2020 setting out proposed changes aimed at removing the unlawful age discrimination in the LGPS. The consultation closed on 8 October 2020 but has not yet published its consultation response.

Although it is unknown what impact this will have on future employer pension contributions at this stage, the Pension Fund's Actuary had calculated a potential IAS 19 account liability of 2.75% of pensionable pay for 2019/20 which had been included in the current service cost for that year. Where an additional liability arises relating to past service this will result in increased employer contribution rates in the future. Employer contributions towards future service may also increase if the 'better of both' test is extended beyond members within 10 years of normal pension age at 1 April 2012. No further remeasurements have been carried out for 2020-21

Guaranteed Minimum Pension (GMP) Equalisation and Indexation

Guaranteed Minimum Pension (GMP) is a portion of pension that was accrued by individuals who were contracted out of the State Second Pension between 6 April 1978 and 6 April 1997.

Prior to 6 April 2016, public service pension schemes and the State Pension worked together to ensure pension increases on State Pension and LGPS Pension kept in line with inflation. The LGPS was not required to pay any pension increases on GMPs accrued before April 1988. The Additional Pension (AP) element of the State Pension paid top-up payments to pensioners to give inflation protection on the GMP element where this was not provided by the LGPS. However reforms were made to the State Pension system in April 2016 which scrapped AP and therefore removed the facility for central government to fully index the combined pension through AP. The government has since introduced 'interim solutions' for public sector schemes to pay full inflationary increases on GMPS for those reaching the State Pension Age (SPA) to ensure that members continue to receive full inflationary increases on the combined public sector scheme and State pensions.

The government has since introduced 'interim solutions' for public sector schemes to pay full inflationary increases on GMPS for those reaching the State Pension Age (SPA) to ensure that members continue to receive full inflationary increases on the combined public sector scheme and State pensions. This applied to those reaching SPA between 6 April 2016 and 5 April 2021. The Government has also indicated that it is committed to continuing to compensate all members of public sector pension schemes reached SAP after 5 April 2021.

On 7 October 2020 MHCLG consulted on proposed solutions to compensate members reaching SPA after 5 April 2021 which focused on making further extensions to GMP indexation followed by ultimate conversion or indefinite indexation as a permanent solutions for public sector pension schemes. The expectation is that full indexation will extend until at least April 2024 with conversion to be brought in as a longer term option.

The rate of which GMP was accrued, and the date it is payable, is different for men and women. On 26 October 2018 the High Court ruled in the Lloyds Bank case that equalisation for the effect of unequal GMPs is required. On 20 November 2020 the High Court ruled on the equalisation for GMPs of historic transfers out of the three largest Lloyds Banking Group pension schemes. The judgement requires all transfers between 17 May 1990 and 5 April 1997 with GMPs to be equalised. Schemes will be expected to pay a top-up to the receiving scheme with interest at Bank base rate +1%. At this point in time, it is unknown if there will be a blanket exemption on the application of this ruling to public sector schemes. The Pension Actuaries have not made any allowance for a potential liability resulting from this ruling in the accounting figures for this financial year.

Note 20: Usable Reserves

	Note	31 March 2020 £000	31 March 2021 £000
General Fund Balance		(21,232)	(7,894)
Earmarked Reserves	21	(12,372)	(11,452)
Capital Receipts Reserve		(8,889)	-
Capital Grants Unapplied Reserve		(13,224)	(23,686)
Total		**(55,717)**	**(43,032)**

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 but 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 2019	Transfers Out 2019/20	Transfers In 2019/20	Balance at 31 March 2020	Transfer to NTCA 1 April 2020	Transfers Out 2020/21	Transfers In 2020/21	Balance at 31 March 2021
	£000	£000	£000	£000	£000	£000	£000	£000
Metro Reinvigoration Reserve	(5,108)	-	(42)	**(5,150)**	**-**	-	(14)	(5,164)
Metro Fleet Replacement Reserve	(3,730)	-	(1,895)	**(5,625)**	**-**	-	(16)	(5,641)
North East LEP Restricted Cashable Reserve - RGF Interest	(934)	232	(628)	**(1,330)**	**1,330**	-	-	-
North East LEP Restricted Cashable Reserve - GPF Loan Repayments	-	609	(876)	**(267)**	**267**	-	-	-
Transforming Cities Fund Support	(20)	20	-	**-**	**-**	-	-	-
Metro and Rail Studies	-	-	-	**-**	**-**	-	(389)	(389)
Nexus contribution to Bus Partnership Project	-	-	-	**-**	**-**	-	(258)	(258)
Total	**(9,792)**	**861**	**(3,441)**	**(12,372)**	**1,597**	**-**	**(677)**	**(11,452)**

Note 22: Unusable Reserves

Summary

	31 March 2020 £000	31 March 2021 £000
Capital Adjustment Account	(68,818)	(53,027)
Financial Instruments Adjustment Account	3,092	309
Revaluation Reserve	(4,538)	(4,436)
Pension Reserve	840	870
Total	**(69,424)**	**(56,284)**

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.

	2019/20 £000	2020/21 £000
Opening Balance 1 April	**(67,448)**	**(68,819)**
Transferred to the NTCA	**-**	**16,282**
Reversal of items relating to capital expenditure debited or credited to the CIES:		
Charges for depreciation and impairment of non current assets	2,317	2,402
Other income that cannot be credited to the General Fund	(2,837)	(2,824)
Revenue expenditure funded from capital under statute	37,538	10,391
Write down of long term debtors	5,560	841
Adjusting amounts written out of the Revaluation Reserve	**(81)**	**(102)**
Capital financing applied in the year:		
Capital grants and contributions credited to the CIES that have been applied to capital financing	(40,389)	(8,947)
Statutory provision for the financing of capital investment	(964)	(1,391)
Capital expenditure charged against the General Fund	(5)	(19)
Debt redeemed using capital receipts	(2,510)	(841)
Balance at 31 March	**(68,819)**	**(53,027)**

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.

	2019/20	2020/21
	£000	£000
Opening Balance 1 April	**3,681**	**3,092**
Transferred to the NTCA	**-**	(2,558)
Proportion of premiums incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements	(457)	(225)
finance costs chargeable in the year in accordance with statutory requirements	(132)	-
Balance at 31 March	**3,092**	**309**

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.

	2019/20	2020/21
	£000	£000
Opening Balance 1 April	**(4,619)**	**(4,538)**
Difference between fair value depreciation and historical cost depreciation written off to the CAA	81	102
Balance at 31 March	**(4,538)**	**(4,436)**

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.

	2019/20	2020/21
	£000	£000
Opening Balance 1 April	**900**	**840**
Remeasurements of the net defined benefit liability (asset)	(870)	360
Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the CIES	860	(280)
Employer's pension contributions and direct payments to pensioners payable in the year	(50)	(50)
Balance at 31 March	**840**	**870**

Note 23: Capital Expenditure and Capital Financing

	2019/20 £000	2020/21 £000
Opening Capital Financing Requirement 1 April	**107,602**	**102,866**
Capital Investment		
Property, Plant and Equipment	1,594	717
Revenue Expenditure Funded from Capital Under Statute	37,538	10,391
Sources of Finance		
Capital receipts - repayment of principal from long term debtors	(2,510)	(841)
Government Grants and other contributions	(40,389)	(8,947)
Sums set aside from revenue		
Direct revenue contributions	(5)	(19)
Minimum Revenue Provision	(964)	(975)
Additional Voluntary Provision	-	(416)
Closing Capital Financing Requirement 31 March	**102,866**	**102,776**
Decrease in underlying need to borrow (unsupported by government financial assistance)	**(4,736)**	**(90)**

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

	2019/20 £000	2020/21 £000
Surplus/(Deficit) on the provision of services	9,988	16,673
Adjustments to Surplus/(Deficit) on Provision of Services for Non-Cash Movements		
Depreciation and Impairment	2,317	2,402
(Increase)/Decrease in Creditors	(11,144)	(86)
Increase/(Decrease) in Debtors	3,677	17,067
Movement in Pension Liability	810	(330)
Other non-cash items charged to the net surplus or deficit on the provision of services	(2,853)	(3,053)
	(7,193)	**16,000**
Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities		
Capital grants credited to surplus/(deficit) on provision of services	(41,940)	(25,271)
Net cash flow from operating activities	**(39,145)**	**7,402**

The cash flows for operating activities include the following items:

	2019/20 £000	2020/21 £000
Interest received	2,224	963
Interest paid	(4,196)	(4,057)

Note 25: Cash Flow Statement - Investing Activities

	2019/20 £000	2020/21 £000
Purchase of property, plant and equipment, investment property and intangible assets	(1,596)	150
Purchase of short-term and long-term investments	(101,107)	(41,592)
Proceeds from short-term and long-term investments	101,107	65,445
Other receipts from investing activities	48,632	27,737
Net cash flows from investing activities	**47,036**	**51,740**

Note 26: Cash Flow Statement - Financing Activities

	2019/20 £000	2020/21 £000
Repayments of short and long-term borrowing	2,406	(838)
Net cash flows from financing activities	**2,406**	**(838)**

Note 26a: Reconciliation of liabilities arising from Financing Activities

	1 April 2020	Financing Cash Flows	Changes which are not financing cash flows		31 March 2021
			Acquisition	Other	
	£000	£000	£000	£000	£000
Long term borrowings	(95,071)	796			(94,275)
Short term borrowings	(1,298)			24	(1,274)
Total Liabilities from financing activities	**(96,369)**	**796**	**-**	**24**	**(95,549)**

	1 April 2019	Financing Cash Flows	Changes which are not financing cash flows		31 March 2020
			Acquisition	Other	
	£000	£000	£000	£000	£000
Long term borrowings	(92,685)	(2,386)	-	-	(95,071)
Short term borrowings	(1,288)	-	-	(10)	(1,298)
Total Liabilities from financing activities	**(93,973)**	**(2,386)**	**-**	**(10)**	**(96,369)**

Note 27: Accounting Standards Issued, Not Yet Adopted

Impact of the adoption of new accounting standards on the 2020/21 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 a recognition exemption for low-value and short-term leases). CIPFA/LASAAC have deferred implementation of IFRS 16 for local government to 1 April 2022. Work to date has shown that NECA leases identified will not have a material effect on the 2021/22 statements.

IFRS 17 Insurance Contracts sets out the requirements for local authorities reporting information about insurance contracts it issues and reinsurance contracts it holds. The amendments are aimed at helping local authorities implement the Standard and making it easier for them to explain their financial performance. The amendments are effective from annual reporting periods beginning on or after 1 January 2023.

The following amendments have been made to the IFRS Standards and are effective from 1 January 2020.

Definition of a Business: Amendments to IFRS 3 Business Combinations determines whether an acquired set of activities and assets is a business or not. It clarifies the minimum requirements to be a business, remove the assessment of a market participant's ability to replace missing elements and narrow the definition of outputs.

Interest Rate Benchmark Reform: Amendments to IFRS9, IAS 39 and IFRS 7 enable users of financial statements to understand how the uncertainty arising from interest rate benchmark reform affects an entity's hedging relationships. These amendments provide temporary exceptions to specific hedge relationships solely due to the uncertainty arising from the reform.

Interest Rate Benchmark Reform - Phase 2: Amendments to IFRS9, IAS 39, IFRS 7 IFRS 4 and IFRS 16 do not supersede the Phase 1 amendments. The amendments are applied retrospectively and include the potential reinstatements of hedge relationships that were discontinued solely due to changes directly required by the reform.

Most of these standards will not apply to the Authority or the Group. For those that do apply, they are not anticipated to have a material impact on the financial statements.

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.

Accounting for the Transfer of the North East Local Enterprise Partnership

As set out in Note 1, on 1 April 2020 the Accountable Body role for the North East Local Enterprise Partnership transferred to NTCA.

This has been accounted for in the 2020/21 financial statements as a transfer by absorption. Assets and liabilities have been transferred at carrying value. The Comprehensive Income and Expenditure Statement shows services transferred to NTCA separately from services continuing to be reported by NECA in the prior year results, in order to aid comparatives across financial years. In the notes to the accounts, a separate line disclosing the transfer is included after the balance brought forward from the previous year.

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 2021 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.	The approximate impact of changing the key assumptions on the present value of the funded defined benefit obligation as at 31 March 2021 and the projected service cost for the year ending 31 March 2022 are set out below. Discount rate assumption, an adjustment to the discount rate of +0.1% p.a. would decrease the present value of the total obligation to £46.29m, a variance of £0.61m, whereas a decrease of (0.1%) p.a. results in an increase to £47.56m, a variance of £0.66m. The percentage change in the present value of the total obligation would be (1.3%) and 1.4% respectively.

		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 £0.61m to £47.51m, whereas a decrease of (0.1%) p.a. results in a decrease to £46.29m, a variance of £0.61m. The percentage change in the present value of the total obligation would be 1.3% and (1.3%) 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 £48.59m, an increase of £1.69m, whereas an adjustment of +1 year results in a reduction to £45.26m, a variance of £3.5m. The percentage change in the present value of the total obligation would be 3.6% and (3.5%) respectively.
Government Funding	There is no certainty about the amount of government funding for Local Authorities until the outcome of the Comprehensive Spending Review is known in 2021	Possible impact could be reductions in; - funding for the North East region's transport infrastructure and initiatives - contributions from Local Authorities - grant funding from government

Government Funding	The outcome of the Fair Funding Review which aims to distribute government funding in a fairer way to Local Authorities - expected to be implemented in 2022/23	Possible impact could be reductions in; - funding for the North East region's transport infrastructure and initiatives - contributions from Local Authorities - grant funding from government
Brexit	The outcome of Brexit negotiations has implications for each local authority in the sense that any subsequent volatility in stock markets, exchange rates, interest rates and future availability of funding could potentially impact on amounts disclosed within the financial statements.	Areas impacted could include: - The availability of grant funding and impact on other funding streams. - The fair value of long-term borrowing (but not the principal sum or interest payable). - The liability related to defined benefit pension schemes, which is dependent on a large number of factors including investment performance, bond yields and inflation. - Unusable reserves - any movement in the liability related to defined benefit pension schemes will be offset within unusable reserves.

Covid-19	The exact consequences of the outbreak of the Covid-19 virus are currently unknown. Some possible areas of concern are:- - Possible reduction in Government Funding to Local Authorities - Possible reduction in income from the Tyne Tunnels due to changes in working practices and Government guidelines - Pension Scheme Assets	Possibility of Local Authorities reducing their spend on Transport related services / schemes as they prioritise services. This would lead to a reduction of levy income. Reduction of Tunnel use due to employers' new ways of working, which would, in turn, reduce the income from the Tunnels This would impact on the finances of the company who run the Tunnels on behalf of the authority. The Authority's net pensions liability includes a share of the overall Pension Fund investment assets. The Pension Fund has disclosed an uncertainty, due to Covid-19, in respect of mortality rates and the impact of longevity for the Fund's members which could be positive or negative.

Note 30: Accounting Policies

1. General Principles

The Statement of Accounts summarises the Authority's transactions for 2020/21 financial year and its position at the year-end of 31 March 2021. 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 2020/21, 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

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 reliability 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 eon 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 services 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 a 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 2020/21

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.

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:

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

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

- 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.

- 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.

- Net interest on the net defined liability (asset), i.e. net interest expense for the Authority – the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of 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 (asset) at the beginning of the period, taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.

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

- Remeasurements comprising:

o The return on plan assets, excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.

o 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.

o 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 charged 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 as 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 can make 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 that 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 form 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 (FVOCI)

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 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 Funded from Capital Under Statute) or Taxation and Non-Specific Grant Income (non-ringfenced revenue grants and 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

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).

The following useful economic lives are used for NECA's PPE assets: Tyne Tunnels 120 years, Tunnels Vehicles, Plant and Equipment 30 years.

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 2020, 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 arrangments 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 2020/21.

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 2019/20 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 2019/20 accounts, NECA has fully complied with the requirements of the Code, providing Group figures for 2019/20 and comparators for 2018/19. 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; and
- 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.

Note 31: Events After the Balance Sheet Date

Adjusting events after the Balance Sheet date

Where events take place after 31 March which provide information about conditions existing at 31 March, the financial statements and notes are adjusted to reflect the impact of this information. No such events have taken place.

Non-adjusting Events after the Balance Sheet date

Where events take place after 31 March which do not relate to conditions at 31 March but which provide information that is relevant to an understanding of the Authority's financial position, the financial statements and notes are not adjusted but the relevant information is disclosed. No such events have taken place.

3.1 Group Movement in Reserves Statement

	Note	NECA Usable Reserves	NECA Unusable Reserves	Total NECA Reserves	Authority Share of Nexus	Total Group Reserves
		£000	£000	£000	£000	£000
Balance at 1 April 2019 carried forward		**(46,798)**	**(67,485)**	**(114,283)**	**(245,804)**	**(360,087)**
Total Comprehensive Income and Expenditure		(9,988)	(870)	**(10,858)**	(18,084)	(28,942)
Adjustments between accounting basis & funding basis under regulations		1,068	(1,068)	-	-	-
(Increase)/Decrease in 2019/20		**(8,920)**	**(1,938)**	**(10,858)**	**(18,084)**	**(28,942)**
Balance at 31 March 2020 carried forward		**(55,718)**	**(69,423)**	**(125,141)**	**(263,888)**	**(389,029)**
Transfer of Services to the NTCA at 1 April 2020		**28,415**	**13,724**	**42,138**	**-**	**42,138**
Total Comprehensive Income and Expenditure		(16,673)	360	**(16,313)**	(6,879)	(23,193)
Adjustments between accounting basis & funding basis under regulations		943	(943)	-	-	-
(Increase)/Decrease in 2020/21		**(15,730)**	**(583)**	**(16,313)**	**(6,879)**	**(23,193)**
Balance at 31 March 2021 carried forward		**(43,033)**	**(56,282)**	**(99,316)**	**(270,767)**	**(370,084)**

3.2 Group Comprehensive Income and Expenditure Statement

2019/20 Gross Expenditure	2019/20 Gross Income	2019/20 Net Expenditure		Note	2020/21 Gross Expenditure	2020/21 Gross Income	2020/21 Net Expenditure
£000	£000	£000			£000	£000	£000
			Continuing NECA Services				
1,341	(597)	744	Corporate		574	(781)	(207)
290	(290)	-	Skills		-	-	-
143	-	143	Transport - Retained Levy Budget		73	-	73
15,552	-	15,552	Transport - Durham		15,456	-	15,456
95,268	(44,887)	50,381	Transport - Tyne and Wear		102,107	(47,022)	55,085
9,983	(13,609)	(3,626)	Transport - Other		7,576	(27,606)	(20,030)
14,250	(18,719)	(4,469)	Transport - Tyne Tunnels		13,267	(14,234)	(967)
-	-	-	Covid-19 Grants		3,878	(3,878)	-
136,827	**(78,102)**	**58,725**	**Cost of Services relating to continuing services excluding operations transferred to the NTCA**		**142,931**	**(93,520)**	**49,411**
375	(161)	214	Inward Investment		-	-	-
23,562	(26,053)	(2,491)	Local Growth Fund Programme		-	-	-
3,680	(3,752)	(72)	North East Local Enterprise Partnership		-	-	-
27,617	**(29,966)**	**(2,349)**	**Cost of Services relating to services transferred to the NTCA**		**-**	**-**	**-**
164,444	**(108,068)**	**56,376**	**Cost of Services**		**142,931**	**(93,520)**	**49,411**
			Financing and Investment Income and Expenditure	G03			
5,373	(1,058)	4,315	- From continuing services		9,039	(4,195)	4,844
-	(761)	(761)	- From services transferred to the NTCA		-	-	-
			Taxation and Non-Specific Grant Income	G04			
-	(74,763)	(74,763)	- From continuing services		-	(81,465)	(81,465)
-	(2,151)	(2,151)	- From services transferred to the NTCA		-	-	-
		116	**(Gain)/Loss on disposal or derecognition of non-current assets**				**-**
		(16,868)	**(Surplus)/Deficit on Provision of Services**				**(27,210)**
		(437)	**Taxation of Group Entities**				**(311)**
		(17,305)	**Group (Surplus)/Deficit**				**(27,521)**
		(10,648)	Re-measurement of the defined benefit liability	G12			4,331
		(988)	Gains on Revaluation of Property	G06			-
		(11,636)	**Other Comprehensive Income and Expenditure**				**4,331**
		(28,941)	**Total Comprehensive Income and Expenditure**				**(23,191)**

3.3 Group Balance Sheet

31 March 2020 £000		Note	31 March 2021 £000
479,019	Property, Plant and Equipment	G6	492,886
2,501	Intangible Assets	G7	2,974
12,321	Long Term Debtors	G8	-
1	Long Term Investments	G8	1
493,842	**Long Term Assets**		**495,860**
58,236	Short Term Investments	G8	34,383
17,008	Short Term Debtors	G9	14,806
38,685	Cash and Cash Equivalents	G10	52,493
2,007	Inventories		504
115,936	**Current Assets**		**102,185**
(1,298)	Short Term Borrowing	G8	(1,274)
(28,118)	Short Term Creditors	G11	(26,065)
(891)	Grants Receipts in Advance	G5	(3,356)
(2,837)	New Tyne Crossing Deferred Income		(2,824)
(33,144)	**Current Liabilities**		**(33,519)**
(48,224)	New Tyne Crossing Deferred Income		(45,184)
(95,072)	Long Term Borrowing	G8	(94,276)
(39,251)	Pension Liability	G12	(50,015)
(2,898)	Provisions		(3,152)
(2,161)	Deferred Taxation	G13	(1,816)
(187,606)	**Long Term Liabilities**		**(194,443)**
389,028	**Net Assets**		**370,083**
(76,530)	Usable Reserves	G14	(71,372)
(312,498)	Unusable Reserves	G15	(298,711)
(389,028)	**Total Reserves**		**(370,083)**

Chief Finance Officer Certificate

I certify that the accounts set out on pages 79 to 109 give a true and fair view of the financial position of the North East Combined Authority Group as at the 31 March 2021.

Signed: Paul Darby, Chief Finance Officer

3.4 Group Cash Flow Statement

2019/20 £000		Note	2020/21 £000
16,868	Surplus/(Deficit) on the provision of services	G16	27,211
23,586	Adjustments to net surplus or deficit on the provision of services for non-cash movements	G16	47,919
(69,297)	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	G16	(58,890)
(28,843)	**Net cash flows from Operating Activities**	G16	**16,240**
44,584	Investing Activities	G17	43,089
981	Financing Activities	G18	(3,383)
16,722	**Net (Decrease)/Increase in cash and cash equivalents**		**55,946**
21,964	Cash and cash equivalents at the beginning of the reporting period		38,685
-	Transfer to the NTCA		(42,138)
38,686	**Cash and cash equivalents at the end of the reporting period**	G10	52,493

3.5 Explanatory Notes to the Group Financial Statements

Note G1: Group Accounts

Under 9.1.17 of the Code of Practice for Local Authority Accounting 2020/21, 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 70 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

As described in Note 1 to the single entity accounts, the establishment of the North of Tyne Combined Authority (NTCA) and the North East Joint Transport Committee on 2 November 2018 necessitates the division of income and expenditure, assets and liabilities relating to Joint Transport Committee activity between the NECA and NTCA accounts. Since all Nexus activity reported in the NECA group accounts relates to Transport at the Tyne and Wear level, it has been fully apportioned between NECA and NTCA on the basis of Tyne and Wear population using the ONS statistics used as the basis of dividing the levy contributions.

For more details see Note 1 on page 8.

Note G02: Expenditure and Funding Analysis

	2020/21				
	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	93	-	(300)	-	(207)
Skills	-	-	-	-	-
Transport - Retained Levy Budget	361	(288)	-	-	73
Transport - Durham	15,456	-	-	-	15,456
Transport - Tyne and Wear	24,178	16,352	14,568	-	55,098
Transport - Other	(6,001)	(14,029)	-	-	(20,030)
Transport - Tyne Tunnels	736	(1,653)	(50)	-	(967)
Covid-19 Grants	-	-	-	-	-
Cost of services	**34,824**	**382**	**14,218**	**-**	**49,423**
Other Income and Expenditure	(41,443)	(34,952)	-	(225)	**(76,621)**
(Surplus)/Deficit on Provision of Services	**(6,620)**	**(34,571)**	**14,218**	**(225)**	**(27,198)**
Opening General Fund Balances	(54,418)				
Transfer of services to NTCA 1 April 2020	13,664				
Closing General Fund Balances	**(47,374)**				

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.

	2019/20				
	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	(96)	-	840	-	744
Inward Investment	214	-	-	-	214
Local Growth Fund Programme	(797)	(1,694)	-	-	(2,491)
North East Local Enterprise Partnership	(72)	-	-	-	(72)
Skills	-	-	-	-	-
Transport - Retained Levy Budget	438	(295)	-	-	143
Transport - Durham	15,552	-	-	-	15,552
Transport - Tyne and Wear	22,363	12,644	15,374	-	50,381
Transport - Other	(1,349)	(2,277)	-	-	(3,626)
Transport - Tyne Tunnels	(3,184)	(1,235)	(50)	-	(4,469)
Cost of services	**33,068**	**7,143**	**16,164**	**-**	**56,376**
Other Income and Expenditure	(46,755)	(28,339)	1,014	399	**(73,681)**
(Surplus)/Deficit on Provision of Services	**(13,687)**	**(21,196)**	**17,178**	**399**	**(17,305)**
Opening General Fund Balances	(44,067)				
Transfer from Capital Receipts Reserve	3,336				
Closing General Fund Balances	**(54,418)**				

Note G02a: Income and Expenditure Analysed by Nature

	2019/20 £000	2020/21 £000
Expenditure		
Employee benefit expenses	31,879	23,253
Other service expenses	77,150	94,071
Support Services Recharges	-	2,940
Depreciation, impairment and Revenue Expenditure Funded from Capital Under Statute (REFCUS)	55,531	23,263
Interest payments	5,372	5,238
Total expenditure	**169,932**	**148,765**
Income		
Fees, charges and other service income	(44,513)	(23,509)
Interest and investment income	(1,818)	(414)
Income from business rates on enterprise zones	(2,151)	-
Income from transport levy	(49,598)	(49,350)
Government grants and contributions	(85,333)	(99,972)
Other income	(3,388)	(2,732)
Total income	**(186,801)**	**(175,977)**
Surplus/Deficit on the provision of services	**(16,869)**	**(27,212)**

Note G03: Financing and Investment Income and Expenditure

	Note	2019/20 Continuing Services	2019/20 Services transferred to NTCA	2020/21
			£000	£000
Interest Payable and Similar Charges		4,358	-	4,211
Interest Payable on defined benefit liability	G12	1,014	-	1,027
Interest Receivable and similar income		(1,058)	(761)	(394)
Total		**4,314**	**(761)**	**4,844**

Note G04: Taxation and Non-Specific Grant Income

	Note	2019/20 Continuing Services	2019/20 Services transferred to NTCA	2020/21
			£000	£000
Transport Levy		(49,598)	-	(49,349)
Enterprise Zones Income		-	(2,151)	-
Non-Specific Capital Grants		(25,165)	-	(32,115)
Total		**(74,763)**	**(2,151)**	**(81,464)**

Note G05: Grant Income

		2019/20 Continuing Services	2019/20 Services transferred to NTCA	2020/21
			£000	£000
LEP Core and Capacity Grant		-	(500)	-
Growth Hub		-	(442)	-
Local Authority Contributions to NECA		(352)	-	(161)
Local Authority Contribution to North East LEP		-	(253)	-
Local Growth Fund			(28,063)	(679)
Local Transport Plan		(7,770)		(7,736)
European Grants		-	(979)	(176)
North East Smart Ticketing Initiative		(202)		(113)
Transforming Cities Fund		(5,516)		(13,907)
LEP Local Industrial Strategy Grant		-	(224)	-
Office for Low Emission Vehicles		(302)		(70)
COVID-19		-	-	(23,371)
Other Grants		(1,527)	(1,082)	(6,449)
Metro Rail Grant		(14,534)	-	(14,746)
Heavy Rail Grant		(144)	-	(146)
Nexus Non-Specific Grants		(23,444)	-	(31,374)
Total		**(53,791)**	**(31,543)**	**(98,928)**

Note G06: Property, Plant and Equipment

	2020/21					
	Vehicles, Plant, Furniture & Equipment £000	Infrastructure Assets £000	Assets Under Construction £000	Land and Buildings £000	Total Property, Plant & Equipment £000	Service Concession Assets included in PPE £000
Cost or Valuation						
At 1 April 2020	21,210	633,935	25,743	1,957	682,845	219,356
Additions	-	528	36,354	-	36,882	528
Transfers from Assets Under Construction	677	26,727	(27,404)	-	-	-
Transfers to Intangibles	-	-	-	-	-	-
Derecognition - Disposals	(1,679)	(2,702)	(25)	(193)	(4,599)	-
Revaluation Recognised in Revaluation Reserve	-	-	-	-	-	-
Impairment recognised in the Surplus/Deficit on the Provision of Services	-	(20)	-	-	(20)	(20)
Other Adjustments	-	(2,148)	-	-	(2,148)	(865)
At 31 March 2021	**20,209**	**656,320**	**34,668**	**1,764**	**712,961**	**218,999**

Accumulated Depreciation and Impairment						
At 1 April 2020	(14,075)	(189,337)	-	(415)	(203,828)	(28,658)
Depreciation charge	(858)	(17,948)	-	(23)	(18,829)	(2,222)
Derecognition - Disposals	675	1,775	-	130	2,580	-
At 31 March 2021	**(14,258)**	**(205,510)**	**-**	**(308)**	**(220,077)**	**(30,880)**

Net Book Value						
At 1 April 2020	**7,135**	**444,598**	**25,743**	**1,541**	**479,018**	**190,698**
At 31 March 2021	**5,950**	**450,810**	**34,668**	**1,455**	**492,884**	**188,119**

	2019/20					
	Vehicles, Plant, Furniture & Equipment £000	Infrastructure Assets £000	Assets Under Construction £000	Land and Buildings £000	Total Property, Plant & Equipment £000	Service Concession Assets included in PPE £000
Cost or Valuation						
At 1 April 2019	20,852	608,268	23,725	969	653,814	209,163
Additions	-	-	31,126	-	31,126	-
Transfers from Assets Under Construction	420	27,516	(27,935)	-	-	10,193
Transfers between categories	-	145	-	(145)	-	-
Transfers to Intangibles	-	-	(824)	-	(824)	-
Derecognition - Disposals	(61)	(1,848)	(349)	-	(2,258)	-
Revaluation Recognised in Revaluation Reserve	-	-	-	988	988	-
At 31 March 2020	**21,210**	**634,081**	**25,743**	**1,812**	**682,846**	**219,356**
Accumulated Depreciation and Impairment						
At 1 April 2019	(13,065)	(173,640)	-	(393)	(187,098)	(26,434)
Depreciation charge	(1,071)	(16,736)	-	(22)	(17,829)	(2,224)
Derecognition - Disposals	61	1,039	-	-	1,101	-
At 31 March 2020	**(14,075)**	**(189,337)**	**-**	**(415)**	**(203,827)**	**(28,658)**
Net Book Value						
At 1 April 2019	**7,787**	**434,628**	**23,725**	**576**	**466,716**	**182,729**
At 31 March 2020	**7,135**	**444,744**	**25,743**	**1,396**	**479,020**	**190,698**

Note G07: Intangible Assets

Intangible assets in the Group Accounts relate wholly to Nexus.

	2019/20 £000	2020/21 £000
Cost or Valuation		
Opening Balance	4,780	5,962
Additions	397	767
Transfers from assets under construction	824	-
Derecognition - Disposals	(39)	(24)
Total	**5,962**	**6,705**
Amortisation		
Opening Balance	(3,297)	(3,461)
Amortisation provided during the period	(164)	(271)
Total	**(3,461)**	**(3,732)**
Net Book Value at 31 March	**2,501**	**2,973**

Note G08: Financial Instruments

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.

	Non-current				Current			
	Investments		Debtors		Investments		Debtors	
	31 March 2020	31 March 2021	31 March 2020	31 March 2021	31 March 2020	31 March 2021	31 March 2020	31 March 2021
	£000	£000	£000	£000	£000	£000	£000	£000
Amortised cost	1	1	12,321	-	58,236	34,383	12,653	11,998
Total financial assets	1	1	12,321	-	58,236	34,383	12,653	11,998
Non-financial assets	-	-	-	-	-	-	4,354	2,808
Total	**1**	**1**	**12,321**	**-**	**58,236**	**34,383**	**17,007**	**14,806**

Financial assets at amortised cost

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 held at amortised cost

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.

	Non-current				Current			
	Borrowings		Creditors		Borrowings		Creditors	
	31 March 2020	31 March 2021	31 March 2020	31 March 2021	31 March 2020	31 March 2021	31 March 2020	31 March 2021
	£000	£000	£000	£000	£000	£000	£000	£000
Amortised cost	(95,072)	(94,276)	-	-	(1,298)	(1,274)	(18,458)	(20,094)
Total financial liabilities	(95,072)	(94,276)	-	-	(1,298)	(1,274)	(18,458)	(20,094)
Non-financial liabilities	-	-	-	-	-		(9,570)	(5,946)
Total	**(95,072)**	**(94,276)**	**-**	**-**	**(1,298)**	**(1,274)**	**(28,028)**	**(26,040)**

The contractual terms for NECA's financial liabilities give rise to cash flows that are solely payments of principal and interest, and they have been accordingly classified at amortised cost.

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 2020				31 March 2021		
£000	£000	£000		£000	£000	£000
Financial Liabilities at amortised cost	**Financial assets: measured at amortised cost**	**Total**		**Financial Liabilities at amortised cost**	**Financial assets: measured at amortised cost**	**Total**
4,358	-	4,358	Interest expense	4,211		4,211
4,358	**-**	**4,358**	**Total expense in Surplus on Provision of Services**	**4,211**	**-**	**4,211**
-	(1,686)	(1,686)	Investment income		(394)	(394)
-	(132)	(132)	Movement on soft loans	-	-	-
-	**(1,818)**	**(1,818)**	**Total income in Surplus on Provision of Services**	**-**	**(394)**	**(394)**
4,358	**(1,818)**	**2,540**	**Net (gain)/loss for the year**	**4,211**	**(394)**	**3,817**

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 2020, 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 31 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.

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.
- Level 2 – fair value is calculated from inputs other than quoted prices that are observable for the asset or liability: Fair values have been estimated by discounting the loans' contractual cash flows over the whole life of the instruments at the appropriate market rates for local authority loans of equivalent remaining term. The value of “Lender’s Option Borrower’s Option” (LOBO) loans have been increased by the value of the embedded options: lenders’ options to propose an increase to the interest rate on 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.
- Level 3 – fair value is determined using unobservable inputs: consideration of the estimated creditworthiness of the organisation receiving the loans based on their financial performance and track record of payment.

The fair values calculated are as follows:

	Level	31 March 2020 Carrying amount £000	31 March 2020 Fair value £000	31 March 2021 Carrying amount £000	31 March 2021 Fair value £000
Financial liabilities held at amortised cost	2	(96,370)	(166,167)	(95,550)	(151,970)
Total		**(96,370)**	**(166,167)**	**(95,550)**	**(151,970)**
Financial Assets at amortised cost					
Held to maturity investments		58,236	58,236	34,383	34,383
Loan debtors [1]	3	14,510	14,510	-	-
Total		**72,746**	**72,746**	**34,383**	**34,383**

[1] For details of soft loans held by NECA, please see note 12 of the single entity accounts.

Short-term debtors and creditors are carried at cost as this is a fair approximation of their value.

Details of the nature and extent of risks arising from Financial Instruments are set out in Note 13 of the single entity accounts.

Note G09: Short Term Debtors

	31 March 2020 £000	31 March 2021 £000
Central Government bodies	10,281	6,153
Other local authorities	6,419	6,221
NHS bodies	2	1
Other entities and individuals	305	2,431
Total	**17,007**	**14,806**

Note G10: Cash and Cash Equivalents

	31 March 2020 £000	31 March 2021 £000
Cash	21,716	34,747
Short-term deposits with financial institutions	16,969	17,746
Total	**38,685**	**52,493**

Note G11: Short Term Creditors

	31 March 2020 £000	31 March 2021 £000
Central government bodies	(1,439)	(3,262)
Other local authorities	(7,844)	(4,392)
Other entities and individuals	(18,835)	(18,387)
Total	**(28,118)**	**(26,041)**

Note G12: Defined Benefit Pension Schemes

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

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

Consolidated Pension Liability

The Group pension liability of £57.541m (2020 £39.251m) is the sum of the NECA, Nexus and NEMOL pension liability. The details of the total NEMOL pension liability of £nil (2020 £13.702m) are set out within the NEMOL Annual Report and Accounts using the FRS 101 disclosure framework.

Following the TUPE of employees from Nexus to Stadler Rail Service UK Limited on 4 October 2020, the pension assets and liabilities in connection with active employees have transferred to Stadler. In addition, the remaining pension assets and liabilities associated with pensioners and deferred members in NEMOL have been subsumed by Nexus. In the Nexus Group accounts this has resulted in a one-off gain of £1.839m arising from differences in actuarial assumptions between NEMOL and Nexus. This is presented in the disclosures below as well as in the Comprehensive Income and Expenditure Statement as an exceptional item.

Transactions Relating to Post-employment Benefits

The following transactions relating to the Local Government Pension Scheme and Unfunded Benefits provided by the NECA Group have been included in the Comprehensive Income and Expenditure Statement and in the Movement in Reserves Statement during the year.

Comprehensive Income and Expenditure Statement

	LGPS		Discretionary Benefits	
	2019/20	2020/21	2019/20	2020/21
	£000	£000	£000	£000
Cost of Services:				
Current service cost [1]	8,222	9,535	-	-
Past service cost	65	-	-	-
Settlement cost	-	(620)		-
Exceptional loss on transfer of pension liability	1,693	(992)	-	-
Financing and Investment Income and Expenditure				
Interest cost	5,086	976	65	53
Expected Return on Scheme Assets	(4,137)	-	-	-
Total Post-Employment benefit charged to the Surplus or Deficit on the Provision of Services	**10,929**	**8,900**	**65**	**53**
Other Post Employment Benefits charged to the Comprehensive Income and Expenditure Statement:				
Return on plan assets (in excess of)/below that recognised in net interest	(14,941)	30,432	-	-
Remeasurement of the net Defined Benefit Liability	10,789	(38,227)	(325)	127
Adjustment in respect of paragraph 58	(6,170)	4,330	-	-
Total amount recognised in Other Comprehensive Income and Expenditure	**(10,322)**	**(3,465)**	**(325)**	**127**
Total amount recognised in CIES	**607**	**5,435**	**(260)**	**180**

1. The Current Service cost includes an allowance for administration expenses of £0.01m for NECA and £0.170m for the Nexus Group (of which £0.094m attributable to NECA).

Reconciliation of the Present Value of Scheme Liabilities:

	LGPS		Discretionary Benefits	
	2019/20	2020/21	2019/20	2020/21
	£000	£000	£000	£000
Opening balance at 1 April	**(251,679)**	**(271,818)**	**(2,880)**	**(2,381)**
Current service cost	(8,206)	(9,537)	-	-
Interest cost	(6,016)	(5,725)	(65)	(53)
Contributions by participants	(1,680)	(1,678)	-	-
Remeasurement of the net Defined Benefit liability	(10,789)	(47,487)	325	(200)
Net benefits paid out	8,312	6,600	239	227
Past service costs	(67)	-	-	-
Net (increase)/decrease in liabilities from NEMOL/Stadler transfer	(1,693)	(30)	-	-
Closing balance at 31 March	**(271,818)**	**(329,645)**	**(2,381)**	**(2,407)**

Reconciliation of the Fair Value of the Scheme Assets:

	LGPS		Discretionary Benefits	
	2019/20	2020/21	2019/20	2020/21
	£000	£000	£000	£000
Opening balance at 1 April	**220,326**	**237,768**	**-**	**-**
Interest income on assets	5,279	4,819	-	-
Remeasurement gains/(losses) on assets	14,940	47,742	-	-
Employer contributions	3,855	2,118	239	227
Contributions by scheme participants	1,680	1,678	-	-
Net benefits paid out	(8,312)	(6,600)	(239)	(227)
Settlement costs	-	(880)	-	-
Net decrease in assets from Stadler transfer	-	(8,562)	-	-
Closing balance 31 March	**237,768**	**278,083**	**-**	**-**

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	2016/17	2017/18	2018/19	2019/20	2020/21
	£000	£000	£000	£000	£000
Fair value of LGPS assets	**271,850**	**335,520**	**220,327**	**237,767**	**278,083**
Present value of liabilities:					
- LGPS liabilities	(301,460)	(395,160)	(251,678)	(271,818)	(320,120)
- Impact of minimum funding	(7,460)	(7,030)	(8,780)	(2,820)	(5,650)
Deficit on funded defined benefit scheme	**(37,070)**	**(66,670)**	**(40,131)**	**(36,871)**	**(47,687)**
Discretionary benefits	(5,130)	(4,870)	(2,880)	(2,380)	(2,406)
Total (Deficit)	**(42,200)**	**(71,540)**	**(43,011)**	**(39,251)**	**(50,092)**

The split of the defined benefit obligation at the last valuation date between the various categories of members was as follows:

	NECA	Nexus	NEMOL
Active members	9%	37%	85%
Deferred pensioners	13%	13%	5%
Pensioners	78%	50%	10%

The weighted average duration of the defined benefit obligation for scheme members is 13.5 years for NECA, 19.3 years for Nexus and 25.6 years for NEMOL.

The liabilities show the underlying commitments that the Authority has in the long run to pay post employment (retirement) benefits. The total liability of £328.351m has an impact on the net worth of the Authority recorded on the balance sheet, resulting in a negative pension balance of £57.541m. 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 2021 is nil for NECA, £3.600m for Nexus (of which £1.996m is attributable to NECA) and nil for NEMOL. Additional contributions may also become due in respect of any employer discretions to enhance members' benefits in the Fund over the next accounting period.

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 2019.

The principal assumptions used by the actuary have been:

NECA and Nexus	**LGPS**		**Discretionary Benefits**	
	2019/20	**2020/21**	**2019/20**	**2020/21**
Mortality assumptions:				
Longevity at 65 for current pensioners:				
Men	21.8	21.9	21.8	21.9
Women	25.0	25.1	25.0	25.1
Longevity at 65 for future pensioners:				
Men	23.5	23.6	n/a	n/a
Women	26.8	26.9	n/a	n/a
Rate for discounting scheme liabilities	2.3%	2.1%	2.3%	2.1%
Rate of inflation - Retail Price Index	n/a	n/a	n/a	n/a
Rate of inflation - Consumer Price Index	2.0%	2.7%	2.0%	2.7%
Rate of increase in pensions	2.0%	2.7%	2.0%	2.7%
Pension accounts revaluation rate	2.0%	2.7%	n/a	n/a
Rate of increase in salaries	3.5%	4.2%	n/a	n/a

NEMOL

	LGPS	
	2019/20	**2020/21**
Mortality assumptions:		
Longevity at 65 for current pensioners:		
Men	21.8	21.9
Women	25.0	25.1
Longevity at 65 for future pensioners:		
Men	23.5	23.6
Women	26.8	26.9
Rate for discounting scheme liabilities	2.3%	1.6%*
Rate of inflation - Retail Price Index	n/a	n/a
Rate of inflation - Consumer Price Index	1.9%	2.2%*
Rate of increase in pensions	1.9%	2.2%*
Pension accounts revaluation rate	1.9%	2.2%*
Rate of increase in salaries	3.4%	3.7%*

* At date of transfer (4 October 2020)

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

	31 March 2020	31 March 2021		
	% Total	% Quoted	% Unquoted	% Total
Equity investments	54.8%	48.4%	7.1%	55.5%
Property	9.0%	0.0%	7.9%	7.9%
Government bonds	4.1%	2.2%	0.0%	2.2%
Corporate bonds	15.3%	19.8%	0.0%	19.8%
Cash	2.3%	4.0%	0.0%	4.0%
Other*	14.5%	4.7%	5.9%	10.6%
Total	**100.0%**	**79.1%**	**20.9%**	**100.0%**

* 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 Pension Scheme	
	2019/20	**2020/21**
	£000	**£000**
Interest Income on Assets	5,279	3,799
Remeasurement gain/(loss) on assets	14,940	32,520
Actual Return on Assets	**20,219**	**36,319**

Sensitivity Analysis

Sensitivity analysis of NECA pension liabilities is set out in Note 19 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 for Nexus as at 31 March 2021 and the projected cost for the period ending 31 March 2022 is set out below. In each case, only the assumption mentioned is altered; all other assumptions remain the same and are summarised above. The NEMOL sensitivity analysis, data summary and pensioner numbers are set out within the NEMOL Annual Report.

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

Discount rate assumption	**+0.1% per annum**	**Base Figure**	**-0.1% per annum**
Adjustment to discount rate			
Present value of total obligation (£M)	480.66	489.97	499.28
% change in present value of total obligation	-1.90%		1.90%
Projected service cost (£M)	18.25	18.89	19.55
Approximate % change in projected service cost	-3.40%		3.50%

Rate of general increase in salaries	**+0.1% per annum**	**Base Figure**	**-0.1% per annum**
Adjustment to salary increase rate			
Present value of total obligation (£M)	491.93	489.97	488.50
% change in present value of total obligation	1.40%		-0.30%
Projected service cost (£M)	18.89	18.89	18.89
Approximate % change in projected service cost	0.00%		0.00%

Rate of increase to pensions in payment and deferred pensions assumption, and rate of revaluation of pension accounts	**+0.1% per annum**	**Base Figure**	**-0.1% per annum**
Adjustment to pension increase rate			
Present value of total obligation	497.32	489.97	482.13
% change in present value of total obligation	1.60%		-1.60%
Projected service cost (£M)	19.55	18.89	18.25
Approximate % change in projected service cost	-3.40%		3.50%

Post retirement mortality assumption	**-1 year**	**Base Figure**	**+1 year**
Adjustment to mortality age rating assumption *			
Present value of total obligation (£M)	506.61	489.97	472.82
% change in present value of total obligation	3.60%		-3.50%
Projected service cost (£M)	19.68	18.89	18.12
Approximate % change in projected service cost	4.20%		-4.10%

* 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 G13: Deferred Taxation

The movement for the year comprises:

	2019/20 £000	2020/21 £000
Capital Allowances	(312)	153
Roll over relief on capital gains	-	-
Other timing differences	(105)	49
Tax effect of losses	-	(539)
Total	**(417)**	**(337)**

The balance at the year end comprises:

	31 March 2020 £000	31 March 2021 £000
Excess of capital allowances over depreciation	(1,580)	(1,580)
Roll over relief on capital gains	(687)	(687)
Other timing differences	105	115
Tax effect of losses	-	-
Total	**(2,162)**	**(2,152)**

Note G14: Usable Reserves

	31 March 2020 £000	31 March 2021 £000
General Fund Balance	(49,684)	(36,599)
Earmarked Reserves	(12,372)	(10,776)
Capital Receipts Reserve	(8,889)	-
Capital Grants Unapplied Reserve	(13,224)	(23,686)
Pensions (NEMOL)	7,638	-
Total	**(76,531)**	**(71,061)**

Note G15: Unusable Reserves

Summary

	31 March 2020 £000	31 March 2021 £000
Capital Adjustment Account	(341,308)	(343,375)
Financial Instruments Adjustment Account	3,093	309
Revaluation Reserve	(5,908)	(5,805)
Pension Reserve	31,625	50,161
Total	**(312,498)**	**(298,711)**

Details of movements on the Financial Instruments Adjustment Account is shown in Note 22 of the NECA single entity accounts. This reserve relates 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
- 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
Opening Balance 1 April 2019	**(5,000)**
Difference between fair value depreciation and historical cost depreciation written off to the CAA	81
Revaluation Gain recognised in Revaluation Reserve	(988)
Balance at 31 March 2020	**(5,907)**
Difference between fair value depreciation and historical cost depreciation written off to the CAA	102
Revaluation Gain recognised in Revaluation Reserve	-
Balance at 31 March 2021	**(5,805)**

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
Balance at 1 April 2019	**25,095**
Remeasurements of the net defined benefit liability to 31 March 2020	(10,648)
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 2020	11,784
Employer's pension contributions and direct payments to pensioners to 31 March 2020	(2,724)
NEMOL pension transfer	8,118
Balance at 31 March 2020	**31,625**
Remeasurements of the net defined benefit liability to 31 March 2021	4,331
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 2020	16,435
Employer's pension contributions and direct payments to pensioners to 31 March 2020	(2,229)
NEMOL pension transfer	-
Balance at 31 March 2021	**50,160**

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.

	£000

Balance at 1 April 2019	**(325,619)**
Reversal of items relating to capital expenditure debited or credited to the CIES:	
Charges for depreciation and impairment of non current assets	17,019
Other income that cannot be credited to the General Fund	(2,837)
Revenue expenditure funded from capital under statute	37,538
Write down of long term debtors	5,560
Non Current Assets written off on disposal	988
Adjusting amounts written out of the Revaluation Reserve	**(81)**
Capital financing applied in the year:	
Capital grants and contributions credited to the CIES that have been applied to capital financing	(68,339)
Statutory provision for the financing of capital investment	(964)
Capital expenditure charged against the General Fund	(2,063)
Debt redeemed using capital receipts	(2,510)
Balance at 31 March 2020	**(341,308)**
Transfer to NTCA	**16,282**
Reversal of items relating to capital expenditure debited or credited to the CIES:	
Charges for depreciation and impairment of non current assets	18,300
Other income that cannot be credited to the General Fund	(2,824)
Revenue expenditure funded from capital under statute	10,391
Write down of long term debtors	841
Non Current Assets written off on disposal	2,028
Adjusting amounts written out of the Revaluation Reserve	**(102)**
Capital financing applied in the year:	
Capital grants and contributions credited to the CIES that have been applied to capital financing	(43,158)
Statutory provision for the financing of capital investment	(1,391)
Capital expenditure charged against the General Fund	(1,593)
Debt redeemed using capital receipts	(841)
Balance at 31 March 2020	**(343,375)**

Note G16: Adjustments to net surplus or deficit on the provision of services for non-cash movements and items that are Investing or Financing activities

	2019/20 £000	2020/21 £000
Surplus/(Deficit) on the provision of services	16,868	27,211
Adjustments to Surplus/(Deficit) on Provision of Services for Non-Cash Movements		
Depreciation, Impairment and Amortisation	17,596	19,119
Loss on disposal of non-current assets	1,185	2,043
(Increase)/Decrease in Creditors	(432)	19,973
Increase/(Decrease) in Debtors	1,044	170
Increase/(Decrease) in Inventories	(361)	1,495
Movement in Pension Liability	6,900	6,606
Other non-cash items charged to the net surplus or deficit on the provision of services	(2,346)	(1,487)
	23,586	**47,919**
Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities		
Capital grants credited to surplus/(deficit) on provision of services	(69,889)	(60,641)
Other adjustments for items that are financing or investing activities	592	1,751
Net cash flow from operating activities	**(28,843)**	**16,240**

The cash flows for operating activities include the following items:

	2019/20 £000	2020/21 £000
Interest received	2,224	963
Interest paid	(4,196)	(4,057)

Note G17: Cash Flow Statement - Investing Activities

	2019/20 £000	2020/21 £000
Purchase of property, plant and equipment, investment property and intangible assets	(31,207)	(36,794)
Purchase of short-term and long-term investments	(101,107)	(41,592)
Other payments for investing activities	-	-
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	11	-
Proceeds from short-term and long-term investments	101,139	61,973
Other receipts from investing activities	75,748	59,502
Net cash flows from investing activities	**44,584**	**43,089**

Note G18: Cash Flow Statement - Financing Activities

	2019/20 £000	2020/21 £000
Repayments of short and long-term borrowing	1,529	(1,679)
Other payments for financing activities	(548)	(1,704)
Net cash flows from financing activities	**981**	**(3,383)**

Note G18a: Reconciliation of liabilities arising from Financing Activities

	1 April 2020	Financing Cash Flows	Changes which are not financing cash flows		31 March 2021
			Acquisition	Other	
	£000	£000	£000	£000	£000
Long term borrowings	(95,072)	796	-	-	(94,276)
Short term borrowings	(1,298)	-	-	24	(1,274)
Total Liabilities from financing activities	**(96,370)**	**796**	**-**	**24**	**(95,550)**

	1 April 2019	Financing Cash Flows	Changes which are not financing cash flows		31 March 2020
			Acquisition	Other	
	£000	£000	£000	£000	£000
Long term borrowings	(92,508)	(2,564)	-	-	(95,072)
Short term borrowings	(1,288)	-	-	(10)	(1,298)
activities	**(93,796)**	**(2,564)**	**-**	**(10)**	**(96,370)**

Note G19: Capital Expenditure and Capital Financing

	£000
	£000
Opening Capital Financing Requirement 1 April 2019	**107,602**
Capital Investment	
Property, Plant and Equipment	31,204
Intangible Assets	397
Revenue Expenditure Funded from Capital Under Statute	37,538
Capital receipts - repayment of principal from long term debtors	(2,510)
Government Grants and other contributions	(68,338)
Sums set aside from revenue	
Direct revenue contributions	(2,063)
Minimum Revenue Provision	(964)
Additional Voluntary Provision	-
Closing Capital Financing Requirement 31 March 2020	**102,866**
assistance)	**(4,736)**

Opening Capital Financing Requirement 1 April 2020	**102,866**
Capital Investment	
Property, Plant and Equipment	36,882
Intangible Assets	779
Revenue Expenditure Funded from Capital Under Statute	10,391
Sources of Finance	
Capital receipts - repayment of principal from long term debtors	(841)
Government Grants and other contributions	(44,317)
Sums set aside from revenue	
Direct revenue contributions	(1,593)
Minimum Revenue Provision	(975)
Additional Voluntary Provision	(416)
Closing Capital Financing Requirement 31 March 2021	**102,776**
assistance)	**(90)**

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.

Appendix 3

north east combined authority

ANNUAL GOVERNANCE STATEMENT 2020/21

In partnership with

Durham County Council | Gateshead Council | South Tyneside Council | Sunderland City Council | North East LEP | NEXUS

Annual Governance Statement 2020/21

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.

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 2021 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 (Amended 2020) (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 principles 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 During the COVID 19 pandemic meetings have been held remotely up until April 2021. The AGM for NECA was held in June 2021 in person in line with the change in Governments Policy.

1.5 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.

1.6 Our Freedom of Information Scheme is published on our website.

1.7 The Authority maintains a list of significant partners which set out the purpose of the partnerships, link officers ad review dates.

1.8 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 We have arrangements in place to manage significant change evidenced by the establishments of the Combined Authorities Reconfiguration Programme to oversee the implementation of the governance arrangements for NECA following its split with the North of Tyne Authorities.

5.4 The control and financial management arrangements are reviewed by Internal and External Audit throughout the year. The outcome for 2020/21 are noted in Section 5 of this Statement - Annual Review of Effectiveness of Governance Framework.

5.5 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.

5.6 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 2020/21 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 2018.

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 will be reported to 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 Annual Internal Audit Opinion for 2020/21 is that the authority has good control arrangements in place. The internal Audit service complies with the CIPFA Statement on the Role of the Head of Internal Audit (2010) and the Public Sector Internal Audit Standards. The service receives a regular independent review against these standards, the last being in December 2018 which concluded:

'We conclude that the IA is compliant with the requirements of the PSIAS and the CIPFA Application Note.'

(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 Completion Report.

(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 (Appendix 2 of the Annual Governance Review 2020/21 Report).

(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) An Assurance Statement from Nexus has been obtained and is attached at Appendix 4 of the Annual Governance Statement 2020/21 Report. The opinion of the Nexus Chief Internal Auditor for 2020/21 is "*The opinion of the Chief Internal Auditor (Nexus), based on the internal audit work undertaken in year, is that there is an adequate and effective framework of governance, risk management and control.*"

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 Transport Strategic Unit (formerly named 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 2020/21.

Section 8: Conclusion

We consider the governance and internal control environment operating during 2020/21 to provide reasonable and objective assurance that any significant risks impacting on the achievement of our principal objectives will be identified and actions taken to avoid or mitigate their impact.

Systems are in place to continually review and improve the governance and internal control environment. 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 2020/21 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:**

Appendix 4

North East Combined Authority

DURHAM • GATESHEAD • SOUTH TYNESIDE • SUNDERLAND

Narrative Report for the Year ended 31 March 2021

North East Combined Authority Narrative Report 2020/21

1. Introduction

This Narrative Report provides information about the North East Combined Authority (NECA), including the key issues affecting the Authority and its accounts. It 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 2020/21 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 2021 and its financial position at that date.
- A look ahead to 2021/22 and beyond.

The Statement of Accounts sets out the financial performance of the Authority for the year ending 31 March 2021 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 information 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.

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 changed in 2018/19 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 2 November 2018.

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 2021/22, available on the NECA website (www.northeastca.gov.uk) sets out how we will do this looking forward. The Statement of Accounts accompanying this report looks back at our performance over the past year. Reviewed together they provide the reader with an understanding of the financial position of the Authority.

2. What is the North East Combined Authority?

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

The North of Tyne authorities secured a devolution deal with devolution funding for the North of Tyne area, which required the establishment of a separate North of Tyne Mayoral Combined Authority during 2018/19. On the 2 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 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 4 July 2018 between the seven Constituent Authorities in the area that outlines a framework for collaborative working across the region, the Deed of Co-operation was updated in March 2020. On 20 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) until the North of Tyne Mayoral Combined Authority (NTCA) was fully established. The role of accountable body for the North East LEP transferred on 1 April 2020.

NECA continues to work closely with other bodies in the region to secure external funding, including funding for transport; infrastructure; economic development; skills and employment activities.

NECA works 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.

Revenue Financial Summary 2020/21

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 £125.049m was slightly higher than the revenue budget of £124.794m due to slightly higher than forecast payments made to constituent authorities for Covid 19 transport grants. Income received was £118.463m, which resulted in a net deficit to fund from reserves of £6.586m. This was in line with forecasts presented to the Leadership Board and the JTC during the year and included an advance to TT2 Ltd in connection with the Tyne Pass project, funded from Tyne Tunnels reserves.

Table 1: Summary of Revenue Expenditure

	2020/21 Revised Budget	2020/21 Actual	Variance
	£000	£000	£000
Expenditure			
Joint Transport Committee			
- Retained Levy Budget	1,991	1,907	(84)
- Grant to Durham	15,456	15,456	-
- Grant to Nexus	59,000	59,000	-
- Grant to Northumberland	6,224	6,224	-
Tyne Tunnels			
- Contract Payments	13,933	12,717	(1,216)
- TT2 Advance (Tyne Pass)	6,670	6,670	-
- JTC costs	263	457	194
- Financing Costs	6,507	7,428	921
Other Transport Activity			
- Transport Strategy Unit	1,273	1,062	(211)
- Covid Grants	13,211	13,868	657
Corporate/Central Budget	266	260	(6)
Total Expenditure	**124,974**	**125,049**	**255**
Income			
External Grant Funding	(14,114)	(14,655)	(541)
Transport Levies	(82,800)	(82,800)	-
Tolls Income	(20,650)	(20,544)	106
Interest/Investment Income	(80)	(107)	(27)
Contributions from Constituent Authorities	(161)	(161)	-
Other Income	(178)	(196)	(18)
Total Income	**(117,983)**	**(118,463)**	**(480)**
Net Revenue Expenditure to fund from Reserves	**6,811**	**6,586**	**(225)**

This statement provides a comparison of the outturn position with the NECA (including JTC) revised revenue budget for 2020/21, before any allocation of costs and income between the accounts of NECA and NTCA. The purpose of this statement is to give the reader an understanding of overall spending and income for the whole year, in comparison with the revised budget.

Within the accompanying Statement of Accounts document the **Comprehensive Income & Expenditure Statement** (CIES, page 6 of 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. The figures presented in the accounts can appear different from the budgeted revenue income and expenditure as they include accounting adjustments for costs such as Depreciation, Revenue Expenditure Funded by Capital Under Statute and certain pensions account adjustments not included in the revenue budget.

The **Movement in Reserves Statement** (MIRS, page 5 of the Statement of Accounts) reflects these statutory adjustments and shows how the financial performance for the year has impacted on the Authority's reserves. There has been a decrease in reserves from £125.141m at 31 March 2020 to £99.316m at 31 March 2021, mainly due to the transfer of reserves relating to the North East LEP to the North of Tyne Combined Authority on 1 April 2020.

The gross cost of services during the year including capital grants to third parties as well as revenue expenditure was £79.781m (£104.772m). This includes a significant amount of '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 £30.325m (£41.510m in 2019/20). This was funded form sources including the Transport Levy, other contributions from Constituent Authorities and Government Grants. The net cost was lower than in 2019/20 because the previous year included income and expenditure relating to the North East LEP which is now accounted for by the NTCA.

The balance of usable reserves at the year-end was £43.032m, which is a £12.685m decrease on the previous year. This is made up of a number of different elements, most of which are held for specific purposes. The decrease is due to the transfer of usable reserves to the NTCA partially offset by an increase in capital grants received which have not yet been applied to fund expenditure (known as the Capital Grants Unapplied reserve) and the creation of new earmarked reserves to hold funds relating to the Bus Partnership and Metro Studies projects.

3. Capital Investment

Capital investment (including Nexus as part of the NECA Group) during the year totalled £83.449m. Expenditure consisted of capital expenditure on the Authority's own assets and capital expenditure via capital grants to third parties. An analysis of capital investment by programme are shown in the following table.

Table 2: Capital Expenditure by Programme

	2020/21 Revised Programme	2020/21 Actual	2020/21 Variance
	£000	£000	£000
Transforming Cities Fund Tranche 1	2,725	1,932	(793)
Transforming Cities Fund Tranche 2	1,517	726	(791)
Go Ultra Low	384	426	42
Ultra-Low Emission Vehicles - Taxi Project	497	419	(78)
Metro Asset Renewal Plan	24,635	20,990	(3,645)
Metro Fleet Replacement	48,605	43,689	(4,916)
Nexus Other Capital Projects	2,074	770	(1,304)
Metro Flow	1,702	1,142	(560)
Tyne Tunnels	1,007	952	(55)
Local Transport Plan *	11,309	11,246	(63)
Active Travel Fund (capital elements)	1,157	1,157	-
Total Capital Programme	**95,612**	**83,449**	**(12,163)**

***** Amounts shown in these lines are net of LTP funded expenditure included within the Metro Asset Renewal Plan to avoid double-counting.

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

Table 3: Capital Funding 2020/21

	2020/21 Actual	2020/21
	£000	%
Local Growth Fund Grant	1,057	1.3%
Local Transport Plan Grant	14,226	17.0%
Metro Capital Grant	23,605	28.3%
Metro Fleet Grant	35,800	42.9%
Transforming Cities Fund Grant	3,883	4.7%
Other Capital Grants	2,032	2.4%
Reserves	2,846	3.4%
Total Funding	**83,449**	**100.0%**

4. Treasury Management

The Balance Sheet on page 7 of the accounts shows external borrowing of £95.550m at the end of the year, which is split between short term borrowing (£1.274m) and long term borrowing (£94.276m), after the allocation of part of the transport borrowing to NTCA accounts. This is a small decrease compared to balance of £96.37m the previous year due to repayments made on Equal

Instalment of Principal (EIP) loans during the year. 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 £29.946m in the NECA accounts at the end of the year compared to £58.236m at the end of the previous year. The total of investments included £6.655m of investments held on behalf of Nexus. A further £22.182m cash equivalents were held, including £11.091m on behalf of Nexus. The decrease compared to the previous year is due to NECA no longer holding balances on behalf of the North East LEP since these were transferred to NTCA.

5. Debtors

The Balance Sheet on page 7 of the accounts shows a short-term debtors balance at 31 March 2021 of £5.050m (£8.899m at 31 March 2020). This relates mainly to interest and principal repayments due within 12 months on borrowing by Nexus and is analysed in more detail in Note 14.

6. Creditors

Short term creditors at 31 March 2021 were £39.879m (£39.984m at 31 March 2020). These balances are analysed in more detail in Note 17. This includes a creditor for balances owed to Nexus for short term investments and cash equivalents placed on their behalf (£54m total creditor of which £28.715m is shown in the NECA accounts).

7. 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 of -

- 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 £9.03m at 31 March 2021, compared with £2.82m at 31 March 2020. The increase in year is due to market conditions at 31 March 2021 and the impact on asset values. For accounting purposes this surplus is restricted to nil on the NECA balance sheet. NECA 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.

Unfunded or discretionary benefits (such as 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 relate to former Tyne Tunnels employees and are paid from the Tyne Tunnels revenue account, at a cost of approximately £50,000 in 2020/21. At the end of the year there was an unfunded liability of £0.87m (£0.84m at 31 March 2020) and this is disclosed on the Balance Sheet.

The deficit as at 31 March 2021 takes into account the national judgements on McCloud and Guaranteed Minimum Pensions (GMP). The actuarial valuation is influenced by a number of economic factors. Note 19 to the accounts provides further analysis and disclosure of the Pension Fund liability.

8. Net Assets

Net assets in the NECA accounts have decreased from £125.141m at 31 March 2020 to £99.316m at 31 March 2021. The decrease in total net assets is due to the transfer of net assets relating to the North East LEP to NTCA on 1 April 2020.

9. 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 G01 on page 81.

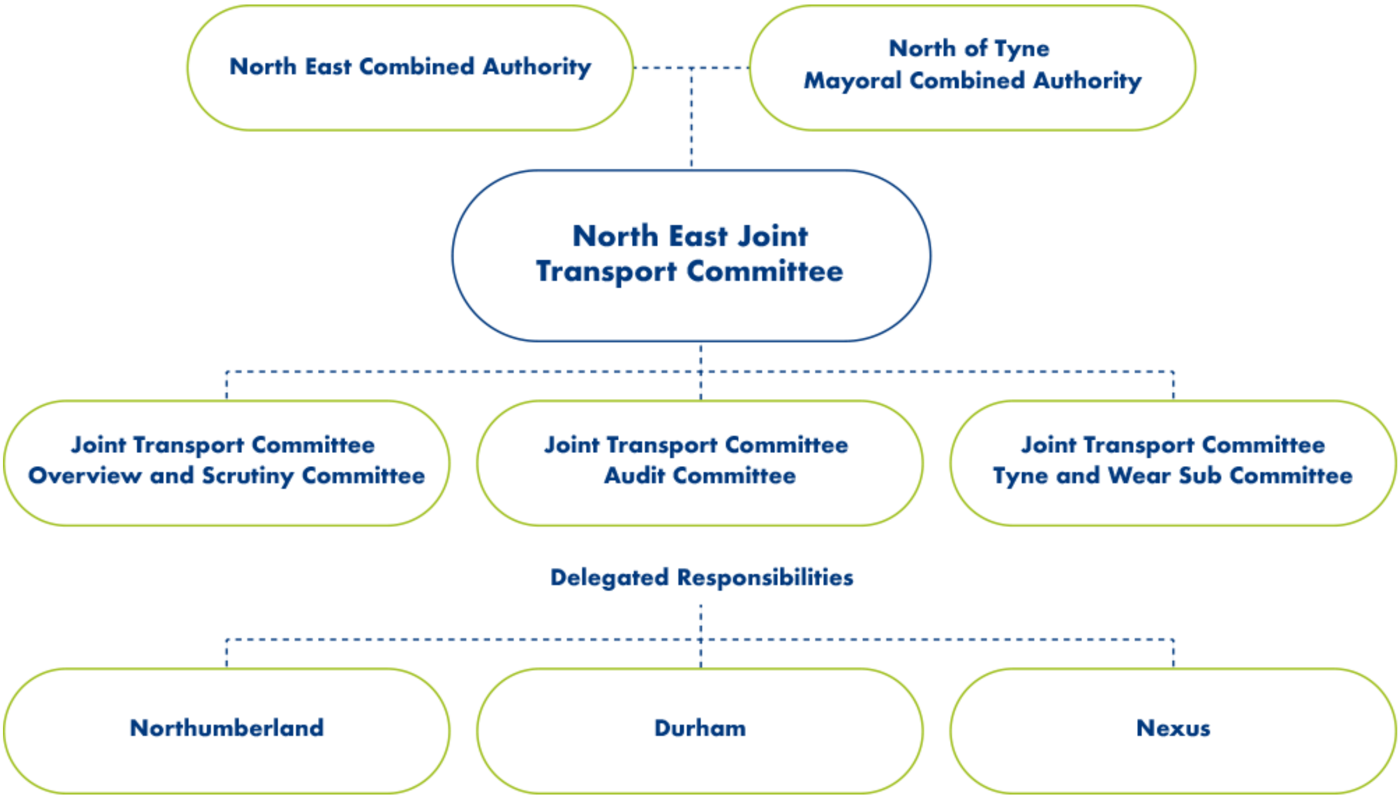
The Nexus accounts are apportioned between NTCA and NECA accounts (after elimination of intra-Group transactions), with the balance sheet information at 31 March 2021 allocated between the two Combined Authorities in proportion to their relative share of Tyne and Wear Population as set out in table 4. The full accounts for the Nexus Group and more information about their activity and performance can be obtained from the Nexus website at https://www.nexus.org.uk.

10. Accounting for 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 structure for Transport that was established in November 2018 is shown in the diagram below.



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 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 be divided into that which relates wholly to the NECA or NTCA area and that which relates to activities now 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 indicates that resident populations shall be used as a basis of apportionment.

For the 2020/21 accounts the mid-year estimated population published by the Office of National Statistics as at June 2018 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 31 March 2021 is shown in Table 4 below.

Table 4 - Population used to allocate Transport Assets/Liabilities between NECA and NTCA

	Mid-Year 2018 Population	Proportion
	People	Proportion
NECA		
- Gateshead	202,508	
- South Tyneside	150,265	
- Sunderland	277,417	
	630,190	0.55456
NTCA		
- Newcastle	300,196	
- North Tyneside	205,985	
	506,181	0.44544
Tyne and Wear Total	**1,136,371**	

11. 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 5)

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 7)

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".

Cash Flow Statement (Statement of Accounts page 8)

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.

Group Financial Statements and Notes (Statement of Accounts page 77 onwards)

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

12. 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.

13. Non-Financial Performance

The Statement of Accounts is focused on the financial performance of the Authority. NECA also reports non-financial Performance through thematic updates on Economic Development and Digital, Transport and Finance, Skills & Employability. These are available on the NECA website under the Leadership Board agendas, with some examples picked out below:

Economic Development and Digital

- Inward Investment – 2020/21 was a challenging year for inward investment due to Covid-19, with a significant decrease in active inward investment project numbers and a very difficult environment in which to attract new investment. Provisional full-year success figures for the North East LEP area for 2020/21 are as follows: a total of 68 inward investment projects resulting in 2,935 jobs. Of these, 53 were foreign direct investment (FDI) projects leading to 2,713 jobs, the rest were new UK companies locating to the North East. The new jobs figure was helped significantly by Amazon's investment in County Durham which led to 1,500 new jobs.
- There has been excellent collaboration on Digital Connectivity across the NECA area through the Digital Durham programme to boost superfast broadband (30mbps) across the NECA area. Digital Durham allows subsidised (through Government and Local Authority funding) rollout to areas which would not have been commercially viable. Subsequently, over 87,000 premises in the NECA area can now access superfast broadband as a result:
    - Durham – Over 63,700 (with some delivery left to complete)
    - Gateshead – Over 14,100
    - South Tyneside – Over 4,600
    - Sunderland – Over 4,600

- Current broadband coverage in the NECA area is ahead of the national average for superfast and ultrafast, but behind on gigabit-capable connectivity.

Finance, Skills and Employability

- Central to the Skills and Employability agenda are the issues of financing particularly the reliance on external funding as we approach the final stages of the current European Structural Investment Fund (ESIF) programme with little detail as yet as to the operation of the UK Shared Prosperity fund after the current Community Renewal Fund pilot exercise, alongside the ongoing development of good partnership and inter authority working arrangements that have been developed.

Transport

In March 2021, the JTC approved the first region-wide Transport Plan for the North East. The approval of the Transport Plan represents a significant milestone for the JTC and sets out collective ambitions up to 2035 to create a modern transport network, with schemes totalling £6.8 billion included.

The Plan seven Delivery Plan categories for implementing the objectives of the Plan and achieving the vision of ‘moving to a green, healthy, dynamic and thriving north-east’.

- Helping people make the right travel choice
- Upgrading north east active travel infrastructure
- Bus, ferry and first and last mile
- Local rail and Metro
- Road infrastructure
- Maintaining and renewing our transport network
- National and international connectivity

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 income raised, i.e. there is no call on the Authority’s budget or local taxpayers to support them, and assets and liabilities associated with the tunnels are ringfenced to the Tyne and Wear constituent councils within the Authority. The Tyne Pedestrian and Cyclist Tunnels reopened to the public in August 2019 and have been well received and well used, although work is still ongoing on the completion of the glass inclined lifts. This was delayed in 2020/21 due to the impact of the Covid-19 pandemic.

Traffic flows at the Tyne Tunnel have been significantly reduced since March 2020 when the impact of the Covid-19 pandemic took effect. The normal level of traffic pre-Covid was approximately 55,000 vehicles per day. As a result of Covid-19 lockdown measures, traffic levels dropped drastically during March and April 2020 to approximately 17,000 vehicles per day which is 30% of normal levels. This is the lowest level of traffic seen during the life of the TT2 contract.

During the summer months of 2020 traffic increased and by the end of August was almost 85% of normal levels. However, local Covid-19 restrictions put in place from mid-September onwards saw usage levels drop off again. Traffic during the November national lockdown was 73% of normal levels. During the early months of 2021 traffic dropped again to 65% under the January national lockdown restrictions and has remained around 70-75% of normal levels during March.

Table 5 – Tyne Tunnel Traffic Flow data

	Class 1	Class 2	Class 3	Exempt	Total
2020/21	99,990	10,441,472	775,745	423,317	11,740,524
2019/20	153,474	14,928,809	824,798	648,435	16,555,516
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 25 August 2020 from £3.60 to £3.70 (or £3.33 with a pre-paid permit) for Class 3 vehicles. There was no increase applied during the financial year for Class 2 vehicles which remained at £1.80 (or £1.62 with a pre-paid permit).

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 performance indicators describe the general performance of public transport in Tyne and Wear during 2020/21.

- The number of passenger journeys across all modes within Tyne and Wear in 2020/21 was estimated at 49.6 million; a 67.9% decline when compared to 154.5 million in the previous year:
  - Bus patronage reduced to 39.8 million in 2020/21; a 66.7% decline when compared to 119.4 million in the previous year.
  - Metro patronage reduced to 9.4 million; a 71.6% decline when compared to 33.1 million in the previous year;
  - Ferry patronage reduced to 0.154 million passengers in 2020/21; a 56.4% decline when compared to 0.353 million journeys in the previous year.
  - Rail patronage reduced to 0.250 million journeys in 2020/21; am 85.1% decline when compared to 1.680 million journeys in the previous year.
- Metro reliability (operated mileage) was 95.8% during 2020/21, stable versus the figure of 95.7% achieved in the previous year.
- Metro reliability (Charter punctuality) was 87.4% during 2020/21, an increase on the 80.8% achieved in the previous year.

NECA Staffing

- NECA continues to adapt and change to meet the requirements of the area, while keeping costs to a minimum. Many services are provided through Service Level Agreements with constituent local authorities.
- On 1 April 2020 the Accountable Body responsibility for the North East LEP transferred to NTCA and the TUPE transfer of LEP and Invest North East England staff to NTCA was also completed.
- On the same date, the TUPE transfer of 10 staff previously employed by Newcastle City Council and Nexus and seconded to NECA was completed. The majority of these staff work in the North East Transport Strategy Unit.

- Changes have been made to support arrangements during 2020/21, including the transfer of provision of financial systems support from Newcastle City Council to Durham County Council, and the provision of ICT support from Newcastle City Council to Gateshead Council.

Table 6 – Change in Staffing numbers since 2015/16

	Total NECA Employees at the year end	Employed on behalf of North East LEP
2020/21	16	0
2019/20	63	56
2018/19	43	39
2017/18	29	21
2016/17	21	18
2015/16	15	11

14. Impact of the Covid-19 pandemic

It is clear that the pandemic has had a profound economic impact with the NECA area hit hard given the high proportion of jobs across the area in at-risk sectors (particularly hospitality, retail, visitor economy and travel). Town and city centres were hit by the major drop in footfall and national retailer restructuring and store closures, while manufacturers, particularly automotive, experienced supply chain issues. Many firms exhausted reserves and cash flows, with real concerns about survival.

The impact on the labour market was also significant, with a rise in total unemployment since March 2020 (5.4% in North East compared to 4.8% nationally) and the unemployment claim count in the NECA area up from 4.7% in March 2020 to 7.5% in April 2021, particularly amongst 18-24s (up 4,000). The rate has flatlined since the Autumn with Furlough keeping this down; circa 60,000 workers (13% of workforce) were on Furlough at the end of March 2021.

Over the past year transport has also been dominated by Covid-19. The major reductions in public transport use, and uncertainties over the scale and pace of any recovery in this remains a major challenge for the area. At the same time the rapid recovery of general traffic levels, in some cases to levels above those seen before the pandemic, emphasise the continued need to focus investment on more sustainable and less polluting forms of transport.

The NECA Response

The four Local Authorities have supported businesses throughout the pandemic, including:

- Restart Grants
- Open, Closed & Sector Local Restriction Support Grant schemes
- Additional Restrictions Grants
- Christmas Support Payments for Wet-led Pubs
- Helping businesses to access Government loans
- Signposting to support (particularly on import/export re EU Exit)
- Coordinating Kickstart six-month placements
- Accessing Getting Building Funds to accelerate key projects

This is alongside monitoring the impact upon key sectors and trends (an anecdotal rise in start-up activity and industrial unit demand is being seen) and reporting feedback and concerns to BEIS and MHCLG, such as issues around those excluded from support.

In Transport, NECA acting through the JTC has provided support to TT2 Ltd which experienced significant reductions in traffic volumes using the tunnels. Bids have been coordinated by Transport North East to obtain much needed grant funding support for transport activity for the seven north east councils and Nexus.

Staff working through our delivery partners including Nexus and TT2 have continued working on the front line throughout the pandemic delivering excellent customer service, often in difficult circumstances, to enable essential journeys to continue.

Delays have been experienced on some areas of the capital programme in 2020/21 as a result of the pandemic, particularly on Transforming Cities Fund schemes. This presents a challenge for future years as funding is time-limited and significant works are required by local authority scheme promoters to complete delivery.

15. Looking Ahead

Transport

During 2021/22 the North East Joint Transport Committee will need to publish a Bus Service Improvement Plan by the end of October, and by April 2022 will need to have a formal Enhanced Partnership with operators in place or be following the statutory process to decide whether to implement a franchising scheme.

Transport Programmes coordinated by Transport North East on behalf of the JTC area include Transforming Cities Fund (TCF) and Active Travel Fund. TCF will deliver major improvements to the area's sustainable transport infrastructure. The 'Metro Flow' project will deliver dualling of the single-track sections of Metro between Pelaw and Bede on the South Shields route. This will allow for improved reliability and potentially higher frequency services over much of the Metro network. Other schemes being funded from this source include a new bus station for Durham, improvements to Sunderland rail station and major improvements to pedestrian and cycle routes in Gateshead. A region wide scheme providing improvements to traffic signals on the main bus routes is also under development.

The Government's strategy for walking and cycling, Gear Change, published in July 2020, sets out a commitment to further investment in improving active travel. Local authorities are already developing ambitious proposals for improving active travel infrastructure and the additional funding promised in the strategy should help build on current work to provide further improvements in future.

Publication of the Government's Integrated Rail Plan (IRP) is still awaited. This will give greater clarity on future priorities for investment in key connections such as the East Coast Main Line. A programme board has been established to develop the business case for re-opening of the Leamside Line. This will bring together the various projects and interests involved in this to develop a single focused approach to re-opening the full extent of the line between Pelaw and Ferryhill.

Further improvements to infrastructure for Electric Vehicles, including the new Electric Vehicle filling station in Sunderland, have been delivered as part of the Go Ultra Low (North East) project. Further funding has now also been secured by the North East Joint Transport Committee from the Local Growth Fund to fund further expansion of the network of charge points available.

It is estimated that increases in traffic levels at the Tyne Tunnels will occur at each stage of lockdown easing in spring/summer 2021, but there is no certainty that traffic levels will again reach the previous pre-covid levels. Many businesses and individuals have changed their journey habits due to Covid, for example shifts in modes of transport, more online meetings and more home-working, all of which may mean fewer journeys overall on a permanent basis.

Work is continuing in developing the ‘Tyne Pass’ project to introduce a fully automated payment system using Automatic Number Plate Recognition (ANPR) technology at the Tyne Tunnels, to replace the existing coin and permit systems, and it is planned to launch later in the 2021/22 financial year.

Economic Development and Digital

The inward investment outlook for 2021/22 is more promising, with a number of big projects opening or shortly to be announced.

Invest North East England continues working with partners on significant new projects in a variety of sectors which involve many thousands of new jobs. A particular focus this year will be on developing a Northshoring campaign; attracting energy sector projects; strengthening relationships with key overseas Department of International Trade posts, particularly in Europe, USA and India; contracting with Department for International Trade and programme managing the Northern Powerhouse Key Account Management programme in the North East and continuing to work on proactive lead generation.

Local Authorities are working on applications for the Levelling Up Fund, launched by Government in March 2021.

There has been excellent progress on broadband coverage following Digital Durham collaboration and the attraction of commercial rollout. There is now a need to collaborate further with the private sector and Government to drive gigabit-capable coverage.

Finance, Skills and Employability

Employment and Skills issues and opportunities for development remain under development through meetings of the Skills and Employment Working Group. In responding to the Further Education Reform White Paper, areas of interest and focus currently being examined by member authorities as part of the development of improved Employment and Skills working across the NECA area include:

- Strategic Development Funding to foster College-LA collaboration;
- Create a further Institute of Technology (based around digital or green growth) and/or widen sector focus of current North East IoT at New College Durham
- Pilot a sector-specific Skills Bootcamp linked to the National Retraining Strategy in a skills shortage area (i.e. manufacturing)
- Marketing push from Gov on Lifetime Skills Guarantee across LA7 (and potentially piloting something similar for higher level technical skills)
- Offer to be a pilot are for the new Skills and Productivity Board to look at employment projections and labour market needs analysis (with a real focus on reskilling and progression)
- Dedicated College Business Centres linked to key business sites
- Prioritise North East bids to FE Capital Transformation Fund

- AEB devolution across whole area LA7 so ensuring the whole of the North East can shape provision (with ability to tailor Skills Guarantee)
- DfE to work in partnership to ensure coherent place-based offer (by devolving Traineeship funds too)
- Raise 25% apprenticeship levy transfer threshold to 50% (and recycle levy underspend)
- Funding for more trained and qualified careers guidance specialists in schools and communities (pilot more locally based activity with the aim of reducing NEET levels)
- Creation of an Adult Education Maintenance Allowance to meet living costs (if UC changes allowing people to train full time covers training costs)
- Strengthened partnership with National Careers Service (beyond the new website being created) to realise their aim of an all-age careers system
- Further support for Furloughed employees who will need to change jobs/retraining

16. 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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