North East Combined Authority

DURHAM • GATESHEAD • SOUTH TYNESIDE • SUNDERLAND

Leadership Board

Tuesday 28 November 2023 at 2.00pm

Meeting to be held at: Reception Room, South Shields Town Hall, NE33 2RL

www.northeastca.gov.uk

AGENDA

14. **Date and Time of Next Meeting:** 23 January 2024 at 2.00pm.

Contact Officer: Toby Ord Tel: 0191 424 7541

Email: toby.ord@northeastca.gov.uk

Item 3

Leadership Board

DRAFT MINUTES TO BE APPROVED

6 June 2023

(2.00pm – 2.28pm)

Meeting held at: Committee Room 1A, Durham County Hall, DH1 5UL

Present:

Councillors Dixon (Chair), Gannon, Hopgood

Lucy Winskell (North East LEP)

Officers John Hewitt (Chief Executive, Durham County Council), Patrick Melia (Head of Paid Service, NECA), Eleanor Goodman (Finance Manager, NECA), Mike Barker (on behalf of Chief Executive, Gateshead and Monitoring Officer, NECA), Jonathan Tew (Chief Executive, South Tyneside Council), Gavin Barker (Audit Director, Mazars), Eleanor Goodman (Finance Manager, NECA), Gavin Armstrong (Scrutiny Officer, NECA) and Toby Ord (Strategy and Democratic Services Asst., NECA)

1 **APOLOGIES FOR ABSENCE**

Apologies for absence were received from Councillor Miller, Councillor Rowntree, Sheena Ramsey, Nicola Robason, Lucy Winskell and Helen Golightly.

2 **DECLARATIONS OF INTEREST**

None.

3 **MEMBERSHIP OF THE LEADERSHIP BOARD, APPOINTMENT OF CHAIR AND VICE-CHAIR AND DESIGNATION OF THEMATIC LEADS**

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

It was noted that there were no changes to the Membership of the Leadership Board nor Chair and Vice-Chair and Thematic Leads between 2022-23 and 2023-2024.

RESOLVED that: -

i. Membership for the municipal year 2023/24 be confirmed.
ii. Chair and Vice Chair be reappointed for the municipal year 2023/24.
iii. Thematic Leads for the municipal year 2023/24 be reappointed for the following Thematic Lead Areas: (i) Chairs Thematic Portfolio, (ii) Economic Development and Digital, (iii) Finance and Skills & Employability and (iv) Transport.
iv. The appointment of the current representative and an alternative substitute member from the North East Local Enterprise Partnership (North East LEP) on the Leadership Board as a non-voting Member and a Substitute Member be confirmed for the municipal year 2023/24.

4 **MINUTES OF THE PREVIOUS MEETING HELD ON 4 APRIL 2023**

The minutes of the previous meeting held on 4 April 2023 were approved as a correct record.

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

The Head of Paid Service notified Members of a programme proposed by the Department of Science for eight to ten 5G innovation research zones in the UK. It was proposed that the seven Authorities poised to make up the new North East Mayoral Combined Authority (NEMCA) submit a regional bid to secure one of these zones in the region. With the programme only providing a sum of £50m, the amount received will average between £5m-£10m per Authority.

6 **APPOINTMENT OF NECA'S COMMITTEES AND SUB-COMMITTEES, INCLUDING CONFIRMATION OF MEMBERSHIP AND APPOINTMENT OF CHAIRS, VICE-CHAIRS AND INDEPENDENT PERSONS, APPOINTMENTS TO THE NORTH EAST JOINT TRANSPORT COMMITTEES AND APPOINTMENT TO OUTSIDE BODIES FOR THE MUNICIPAL YEAR 2023/24**

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

It was noted that due to a publication error, an incorrect copy of the LEP appointments were published, in which Councillor Dixon was listed as a Main LEP Board Member and Vice-Chair, and Councillor Gannon as the Observer. It was noted that Councillor Gannon will now be Vice-Chair with Councillor Dixon as the Observer.

RESOLVED that: -

i. Committees for the municipal year 2023/24 be appointed as set out in Appendix A (Parts A to D).
ii. The nominations for the membership of the committee and subcommittees, which have been received from the constituent authorities for the municipal year 2023/24 be accepted, as set out in Appendix A (parts A to D).
iii. The term of office of the Independent Chair of the Audit and Standards Committee, Mr Mark Scrimshaw, be extended and Stuart Green be appointed as Vice Chair for a further one-year term.
iv. The term of office of the Independent Members of the Overview and Scrutiny Committee, and its Chair and Vice-Chair respectively, Mr David Taylor-Gooby and Mr Simon Hart be extended for a further one-year term.
v. The Chairs and Vice-Chairs of the committees be appointed, or the continued appointment of be confirmed for the municipal year 2023/24 or, in the absence of an appointment, delegation of the appointment to the relevant committees be agreed where and appropriate.
vi. Members and substitute Members to the North East Joint Transport Committee be appointed as set out in Appendix A (Part E).
vii. Members and substitute Members to the committees and subcommittees of the North East Joint Transport Committee be nominated for consideration by the Joint Transport Committee as set out in Appendix A (Part F to H).
viii. A Member and substitute Member be appointed and a Member and substitute Member be nominated to represent NECA on the Transport for the North Board and Scrutiny Committee respectively, as set out in Appendix A (Part I).
ix. The three nominated Members to the North East LEP Board be confirmed for 2023/2024 and the observer Member for 2023/24 be confirmed as set out in Appendix A (Part I).
x. The position in relation to the continued appointment of Mazars as the External Auditor for 2023/24 be noted; and
xi. The Independent Person for the purpose of Standards Regime is currently vacant be noted and the delegation of appointment of an Independent Person to the Monitoring Officer (Core) in consultation with the NECA Chair be agreed.

7 **PROGRAMME OF COMMITTEE MEETINGS MUNICIPAL YEAR 2023/24**

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

There were no comments to add to the programme.

RESOLVED that: -

i. The proposed programme of committee meetings be agreed, as set out in Appendix A.
ii. The proposed programme of Joint Transport Committee meetings, which will be considered for approval at the Annual Meeting of the Joint Transport Committee on 20 June 2023, be noted.

8 **REVIEW OF THE CONSTITUTION**

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

It was noted that there were no changes to the constitution.

RESOLVED that: -

i. It be noted that no changes are proposed to the Constitution for NECA for the municipal year 2023/2024.
ii. Authority be delegated to the Monitoring Officer to finalise the wording of an amendments to the Constitution that may arise as a consequence of the NECA Annual Meeting discussion, in consultation with the Chair and Head of Paid Service; and
iii. It be noted that the Constitution for 2023/2024 will be published on the NECA website.

9 **CHAIR'S THEMATIC PORTFOLIO UPDATE (VERBAL ITEM)**

Submitted: Report of the Chair (verbal item, not previously circulated nor attached to official minutes).

In absence of both the Chair and his Substitute, Councillor Rowntree, the verbal update was not delivered.

10 **ECONOMIC DEVELOPMENT AND DIGITAL THEME 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 provided a brief overview on the NECA economy and labour market, as well as comments from Invest North East England (INEE).

It was noted that regional businesses are continuing to feel the effects of inflation and the skill shortage in the labour market. Wholesale energy costs were said to be falling though fixed deals continue to keep costs high. Subsequently residents are feeling the challenge of the cost of living crisis. There was also mention of significant skills shortages in the hospitality and social care sectors.

Members were informed that there have been positive signs in employment measures and surveys which have secured some business confidence. GDP figures have shown a rebound across the NECA area, though 2021 figures were still lower than that of 2019.

Expectations of a recession were said to have faded, with a continued welcome reduction in unemployment and economically inactive though the region continues to lag behind others statistically. There have been recent improvements in economic inactivity in women but figures for men aged 25-49 continue to deteriorate.

Turning to updates received from Invest North East England (INEE), it was noted that the region has attracted investment to the tune of 1,900 new jobs in 2022/23, particularly within digital technology. Significant investment was said to have taken place over the last year within advanced manufacturing and renewables around the region, including the new Endiprev headquarters in Sunderland, the investment by Ewin Hyman Group in Consett, and investment in the Operations and Maintenance base for Equinor and SEE and an investment in Hitachi Construction, both in South Tyneside.

Invest North East England was said to have a number of further projects and visits planned for the coming year to help local areas secure further investment, particularly in Digital Technology, Energy, Life Sciences and Advanced Manufacturing.

RESOLVED that: -

i. the report be noted.

11 **TRANSPORT THEMATIC PORTFOLIO UPDATE**

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

The Thematic Lead for Transport delivered a brief update on the Transport Portfolio for the region.

The Board was informed that £1 single fares have been introduced for under 21s in an attempt to incentivise the use of public transport, particularly local buses. The Government have also announced a £2 flat rate for all general bus users.

There was said to have been increased uncertainty for bus service funding – the bus recovery grant payable to operators following the pandemic was due to cease in April, lead
ing to operators assessing a 17% service reduction. In response, the Government had extended the scheme until the end of July 2023. It remains unclear how the will pan out, and what situation operators will be in upon losing this funding. Funding going forward will be considerably reduced and will target those not already in receipt of a Bus Service Improvement Plan (BSIP), to which the North East is the largest recipient. It was asserted that the BSIP funding is not supposed to improve existing services, but rather expand and enhance services.

The situation was said to remain unclear – bus operators will continue to receive funding from the continuation of the recovery grant but it will not be sufficient to uphold the services currently held.

At this point, Councillor Hopgood added a few notes regarding the Finance, Skills and Employability Portfolio, though this was not included on the agenda. The brief verbal update noted that the local skills improvement plan feedback received from the Department of Education hasn't yet been submitted, and there was reference to a wider skills strategy piece.

RESOLVED that: -

i. the report and verbal update be noted.

12 **NORTH EAST DEVOLUTION**

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

Mike Barker, standing in for the Monitoring Officer (Core), delivered a quick brief of the report on the upcoming devolution plans.

Members were informed that the creation of NEMCA will simultaneously see the abolition of NECA and NTCA. The report wasn't covered in much detail as all Members will have likely seen a similar report carried by their respective Authorities in the weeks prior. Lots of detail in the report was noted, particularly regarding consultation and next steps to progress towards the mayoral combined authority.

Councillor Hopgood added that the devolution deal is monumental for the region, expressing optimism for the future of the North East. The LA7 working together in partnership was said to be a strong step in the right direction, demonstrated by our harmonious approach to the pandemic response.

RESOLVED that: -

i. The content of this report and the attached consultation report be noted;
ii. the proposals to establish a new mayoral combined authority for the North East region (NEMCA) be endorsed;
iii. the proposal for NECA to be abolished be agreed, as a necessary step to allow NEMCA to be brought into existence;
iv. consent be given to the order to abolish NECA and NTCA and create NEMCA; and
v. the NECA Head of Paid Service be authorised to take such steps as are required to facilitate the creation of NEMCA.

13 **AUDIT COMPLETION REPORT 2020/21**

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

Gavin Barker, the Audit Director of Mazars, delivered the report.

It was noted that the External Auditors are working to get up to date with the audits before NEMCA's creation, though a technical issue arising in March 2022 affected all Authorities with material infrastructure – which NECA does.

This caused a substantial delay, though CIPFA's guidance at the turn of the year spurred the Government to allow a statutory override, in turn allowing Mazars to audit the accounts, all of which is resolved as laid out within the report, including a trail of audit findings.

It was emphasised that NECA produces a good, high quality set of financial statements. There remains an outstanding infrastructural issue though it was stressed that this is an entirely technical issue and has not affected reserves, only accounting. The value for money arrangements were said to be complete for 2021 though these cannot be reported upon until an opinion on the accounts is issued.
There were no significant weaknesses or recommendations identified.

It was clarified that a certificate cannot be issued, which formerly closes the audit, until clearance is received from the national audit office who reserve the right to query if Authorities have had any additional work done. It was noted that an audit opinion can be issued once the accounts are signed off on the following item.

RESOLVED that: -

i. the report and follow up letters be noted.

14 **STATEMENT OF ACCOUNTS 2020/21**

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

Paul Darby, the Chief Finance Officer, delivered a briefing on the statement of accounts for the year 2020/21.

It was noted that these were ready for February 2022 though the aforementioned technical issue was prohibitive. An updated code of practice led to the accounts being amended accordingly.

There have been no changes to reserve balances, asset values or alike. Amendments have been made in line with code of practice to allow the audit completion.

The 2021/22 accounts have now been delayed due to a change in code of practice, as well as another issue surrounding pension funds.

RESOLVED that: -

i. The Chief Finance Officer be authorised to sign the Letter of Representation on behalf of the Authority;
ii. the Statement of Accounts for 2020/21 be approved, taking into account any views from the Audit and Standards Committee meeting on 11 April;

iii. the Chair of the Leadership Board and the Chief Finance Officer be authorised 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. the Annual Governance Statement be approved; and
v. the Chair of the Leadership Board and the Head of Paid Service be authorised to sign the Annual Governance Statement; and
vi. the update provided on the 2021/22 and 2022/23 Statements of Accounts be noted.

15 **DATE AND TIME OF NEXT MEETING**

Tuesday 28 November 2023 at 2.00pm.

North East Combined Authority

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Item 4

Leadership Board

DRAFT MINUTES TO BE APPROVED

7 November 2023

(2.13pm – 2.20pm)

Meeting held at: Meeting Room 5028, Sunderland City Hall, SR1 3AA

Present:

Councillors	Miller (Chair), Dixon, Scott
Officers	John Hewitt (Chief Executive, Durham County Council), Jill Laverick (on behalf of Patrick Melia, Head of Paid Service, NECA), Nicola Robason (Monitoring Officer, NECA), and Toby Ord (Strategy and Democratic Services Asst., NECA)

1 APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillor Gannon, Councillor Hopgood, Lucy Winskell, Paul Darby, Jonathan Tew, Sheena Ramsey and Gavin Armstrong.

2 DECLARATIONS OF INTEREST

None.

3 **NORTH EAST DEVOLUTION**

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

Durham's Chief Executive, John Hewitt, delivered the report, outlining the timeline for next steps in the minded-to devolution deal subject to NECA agreeing the recommendations laid out below.

It was noted that all constituent Local Authorities and the two Combined Authorities all have, or all will, make the same decisions set out within the report at present.

Councillors Dixon and Scott noted that their respective authorities have already agreed with the proposals, expressing optimism over the new Mayoral Combined Authority and eagerness for the opportunities this may bring. This move was said to be a historic one which is a huge opportunity both at the individual and collective levels. Councillor Miller noted that Sunderland was yet to table discussions though there is a full expectation for his cabinet to agree with the recommendations, noting that his delight for the prospect of the Secretary of State delivering the statute booking in January 2024.

RESOLVED that: -

i. it be agreed in principle that the Leadership Board consent to the making of the order;

ii. the Chief Executive be authorised;
   a. in consultation with the Chair of the NECA Leadership Board, to issue consent on behalf of NECA to the Secretary of State when requested;
   b. in consultation with Chair of the NECA Leadership Board, to finalise the terms of the side agreement regarding the support arrangements associated with these proposals; and
   c. to take all other steps necessary to implement these proposals.

4 **DATE AND TIME OF NEXT MEETING**

Tuesday 28 November 2023 at 2.00pm.

North East Combined Authority

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Item 7

Leadership Board

Date: **28 November 2023**

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 made under the Economic Development and Digital (EDD) theme of the North East Combined Authority.

The report provides an update on the economy and labour market across the NECA area (highlighting concerns around slow growth, inflation, business and consumer confidence), describes recent and upcoming major Government announcements (in the form of the Kings Speech and Autumn Statement) and outlines the activities of Invest North East England on the attraction of inward investment to the NECA, and wider North East, areas.

Recommendations

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

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Leadership Board

1.0 Background Information

1.1 This report provides an update on activity and progress made under the Economic Development and Digital theme of the Combined Authority, specifically:

- Economy and Labour Market;
- Government announcements;
- Inward Investment.

2.0 Economy and labour market

2.1 The economy in the NECA area continues to be impacted by national factors, particularly inflation and skills shortages. While the overall picture appears less gloomy than in previous months with positive employment and business sentiment indicators, consumer confidence remains fragile given the high cost of living (particularly in the run up to Christmas) and national economic growth is stagnant.

2.2 According to the latest Deloitte Consumer Tracker, consumer confidence in the North East has fallen by five percentage points between April and June, while the region's sentiment on the UK economy dropped by 14 percentage points, higher than the national average.

2.3 The most recent business reports, and feedback from local authorities in the NECA area, suggests that the economy continues to be impacted by high inflation (input prices remain high for businesses with many struggling to pass them on) and energy costs (while wholesale rates are falling, many SMEs continue to be impacted, particularly those on fixed deals).

2.4 Despite a more positive market landscape than for a number of months (a finding supported by recent North East Chamber of Commerce and other regional reports), familiar supply chain pressures and cost headwinds have affected many North East businesses, including, but not limited to, utility and heavy manufacturing companies.

2.5 Covid's lingering impact on Far East manufacturers, market turmoil sparked by the conflict in Ukraine and energy price hikes at the end of fixed term contracts were said to have posed challenges for many. In addition, anticipated energy costs as we enter winter is said to be creating anxiety amongst North East businesses, particularly hospitality and visitor economy firms.

2.6 The sector are also reporting that access to affordable finance is reportedly challenging for companies whose business model relies on debt-based finance. Additionally, it has been reported that there is a large time lag for invoices to be paid across the visitor economy and hospitality supply chain making this situation worse with cashflow causing major problems for North East businesses.

2.7 In addition, the cost of living is having a significant continued impact upon residents across the NECA area with food inflation remaining at really high levels, despite a reduction in the overall rate of inflation. The Bank of England are also inflation to rise in September before than falling again.

2.8 Skills shortages continue to be reported by businesses. There is continued tightness in the labour market impacting, particularly but not exclusively, the care sector (especially domiciliary and care homes as well as the NHS), early years childcare, hospitality (particularly chefs) and the visitor economy.

2.9. Positive news in the NECA area includes growth in video game development employment in the North East of 45.7 per cent, now accounting for 5.4% of all UK games development workforce, one of the biggest increases in employment in the UK video games development sector, according to new research.

2.10 In addition, positive stories from the expansion of Netpark, along with the logistics, digital and low-carbon sectors. However, Wilkos collapse into administration have put a number of jobs at risk.

2.11 Economic survey results released by the North East England Chamber of Commerce also show that business confidence has improved, with an average -13% reduction across all indicators of concern. It found that more organisations are preparing for future workforce growth and expecting inflation to stabilise, although issues around recruitment and cashflow remain.

2.12 Price pressures around labour costs, utilities and fuel costs continue to be a challenge for businesses, and further data from the NEEC economic survey shows that businesses are experiencing long-term challenges with their workforce.

2.13 Energy costs remain a key issue, and this quarter 71.3% of survey respondents were concerned about energy prices. Feedback from local authorities across the NECA area suggest continued concern about the impact of inflation upon hospitality, accommodation, leisure and retail businesses in particular. Moreover, reports from Deloitte suggest a sharp rise in business failures in the region.

2.14 Nationally, forecasts for the UK economy from most major forecasters are for continued little growth in 2024 with ONS figures confirming that while the economy is not in recession, it registered no growth in the three months from July to Sept 2023.

2.15 In terms of the labour market, the latest unemployment data (for June) showed a slight uptick in unemployment a line with national trends. As the North East LEP described, "*despite a rise in the headline unemployment rate in the latest figures, the North East labour market continues to perform well, with both our employment and economic inactivity rates significantly improved on a year ago. That's testament to North East businesses, who have performed remarkably, even in the face of wider uncertainty."*

2.16 The May to July employment total in the North East region was more than 49,000 higher than in the same period of 2022. The working age employment rate increased by 2.7 percentage points over the year, from around 71.4% to 74.1%, the largest increase among the nine English regions.

2.17 The rise in employment was accompanied by a decrease of about 55,000 in the number of working age economically inactive people, who had been absent from the labour market a year earlier. The number of unemployed people in the North East increased by just over 9,000 in the year.

2.18 The data for the NECA area (which, as it is local authority-level data is more time-lagged) is below.

	NECA	North East	Great Britain
Wider measure of unemployment (June 23)	4.5%	4.2%	3.8%
Claimant Count (Sept 23)	3.9%	4.0%	3.7%
Economic activity (June 22)	74.5%	74.4%	78.6%

Leadership Board

2.19 Nationally, vacancy rates continue to fall due to economic uncertainty and pay continues to fail to keep up with inflation.

3.0 Government announcements

3.1. The economic and labour market context in the NECA area is likely to be impacted by two major events taking place in the November.

3.2 Firstly, the Kings Speech on 7th November 2023 set out the Government's legislative programme for the next Parliamentary session.

3.3. There were 21 proposed Bills announced by the King, framed around the economy, energy independence, health and crime and focussed, according to the Prime Minister, on "taking the long-term decisions to address the challenges this country faces."

3.4. Those related to economic development and digital include:

- Oil and Gas Licensing Bill to legislate for new North Sea licensing rounds every year to, according to the Government, boost energy security and the transition to Net Zero. Such auctions already occur every year;
- Draft Rail Bill to bring in Great British Railways as the single point of accountability for the railways (many other measures talked about, including investment in rail in the North, do not require primary legislation);
- Legislation to bring in Minimum service levels for rail workers, ambulance staff and Border Force employees (via the Strikes Act 2022);
- The Digital Markets, Competition and Consumers Bill which aims to stop companies adding extra fees to advertised prices, particularly predominant with airlines, as well as fake reviews;
- The Data Protection and Digital Information Bill to provide more flexibility for organisations to comply with data protection legislation, reform the role of the information commissioner and boost digital verification;
- Renters (Reform) Bill to "deliver a fairer and higher quality private rented sector," notably pledging (as Government have done a number of times over the past 4 years) to end Section 21 no fault evictions (although subject to changes to the court process first).

Leadership Board

3.5 There were also mentions of future plans around A-level reform (after recent changes floated by the Prime Minister), investment in towns (following the recent Long Term Plan for Towns) and maximising “Brexit opportunities.” The Speech did not include any proposed legislation on local government funding, business rates, Net Zero or planning.

3.6 However, the next major Government announcement is due to take place on the 22nd November 2023. The Chancellor’s Autumn Statement will set out state of the public finances, projections from the Office of Budget Responsibility and outline fiscal and spending priorities (22nd November).

4.0 **Invest North East England**

4.1 Invest North East England (INEE) presented to the last Economic Development and Digital Board meeting in September, providing an overview of inward investment activity to date and plans going forward.

4.2 INNE are a small team that work on behalf of, and are funded by, the LA7 to attract strategic inward investment into the area. They work closely with both Combined Authorities in the LA7 area, along with the LEP, regional universities, the Department of Business and Trade and the private sector.

4.3 The targeted priority sectors for inward investment are based upon NELEP’s Strategic Economic Plan and areas of growth or innovation expertise. These are:

- Advanced manufacturing (including automotive, electrification, space and rail);
- Life sciences (including pharma and healthy ageing);
- Digital (including immersive tech, fintech, gaming and creative/screen industries);
- Energy (including offshore wind, subsea, heat networks and hydrogen);
- Business Services (including shared services, consultancy and legal)

4.4. INEE have demonstrated consistently strong performance compared to other UK regions year on year with 8,000 new jobs in 2021/22, 5,800 of these FDI. The North East was the top UK region for FDI jobs created (per 100,000 population) in 2021/22 and in the top 4 in 2022/23.

Leadership Board

4.5 In particular, there has been growth in offshore and renewable strategic projects, in the number of digital and tech firms locating in North East cities and in electrification activity. These have led to a demonstrable multiplier effect.

4.6. Some key successes in 2021/22 in the NECA area included Just Eat, Envision and Saietta, while in 2022/23 they included SSE/Equinor. A number of projects are in the pipeline including Rolls-Royce and Lockheed Martin.

4.7 There are a number of overseas target markets for the next year (particularly the USA and Japan), reflecting the North East's strategic sectors and top-tier investors. In addition, innovation and R&D are increasingly a driver for new enquiries. Universities are investment hungry, industry friendly and globally active.

4.8 There are a number of sector-based opportunities for growth in investment including clean growth (offshore renewables), electrification, life sciences (large scale capital investment opportunity for pharma manufacturing) and defence, space and satellites (both upstream and downstream opportunities). Key issues going forward include Investment Zones, skills and infrastructure.

5.0 Reasons for the Proposals

This report provides an update on Economic Development and Digital theme.

6.0 Alternative Options Available

There are no alternative options associated with this report.

7.0 Next Steps and Timetable for Implementation

A further update will be provided to the Board at subsequent meetings.

8.0 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.

Leadership Board

9.0 Financial and Other Resources Implications

There are no financial or other resource implications directly associated with this report as it is for information only.

10.0 Legal Implications

There are no legal implications arising from this report.

11.0 Key Risks

There are no specific risk management issues arising from this report.

12.0 Equality and Diversity

There are no specific equality and diversity issues arising from this report.

13.0 Crime and Disorder

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

14.0 Consultation/Engagement

There are no specific consultation and engagement issues arising from this report.

15.0 Other Impact of the Proposals

There are no further impacts arising from the proposals.

16.0 Appendices

None

17.0 Background Papers

None.

18.0 Contact Officers

Rory Sherwood-Parkin, Corporate Lead – Policy & Insight, South Tyneside Council, rory.sherwood-parkin@southtyneside.gov.uk

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John Scott, Head of Economic Growth, South Tyneside Council
john.scott@southtyneside.gov.uk

19.0 Sign off

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

20.0 Glossary

None.

Item 8

Leadership Board

Date:	**28 November 2023**
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.

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Leadership Board

1. Background Information

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

Government Announcements

1.2 As Members will be aware, in October the government announced the cancellation of HS2 and the reallocation of funding to 'Network North' and its new 'Plan for Drivers'.

1.3 'Network North' is a package of transport investment across the North. For the North East this includes £1.85bn for the City Region Sustainable Transport Settlement 2 and £11.2 million additional bus funding, with future funding expected to be announced soon.

1.4 The 'Plan for Drivers' is a 30-point plan that the Secretary of State for Transport announced during his keynote speech at the Conservative Party Conference. The plan outlines how the government is reviewing its powers to prevent 'overzealous use of traffic management' amongst other things. Measures could include cutting councils off from the DVLA database if they don't follow the rules.

1.5 Following these announcements letters have been sent to various ministers, on behalf of the North East Joint Transport Committee, expressing concerns and requesting clarity.

1.6 During the King's Speech on 7 November, there were a number of notable points mentioned, as well as notable omissions. The key points to note are:

- 'Network North' was recommitted to, with mention of 'prioritising improving the journeys that people make most often'.
- However, there was no mention of the 'Plan for Drivers' or the schemes included within it. This means that any of the proposals from the Plan will either be non-binding or minor legislative changes that can be enacted without a vote.
- A new legal framework will be introduced to support the safe commercial development of self-driving vehicles.
- The government recommitted to implementing Great British Railways (GBR), GBR was first proposed in May 2021. However, this bill was only brought forward in draft form to allow more time for plans to be scrutinised by parliamentarians and industry experts. The Bill only being brought forward in draft form means it is unlikely the legislation will be finalised in this parliamentary session or before the next general election.

- Other notable absences from the Speech included anything on powers to reform buses or micromobility legislation.

Buses

1.7 Go North East drivers under the Unite union are continuing to take industrial action over a proposed 2 year pay deal, a first week of strikes took place between 30th September and 6th October, and the second week between 14th October and 20th October, and a prolonged period of action starting on 28th October. The impact across the region has been highly damaging; with Gateshead, Washington, North West Durham and parts of Jarrow, Boldon and Hebburn being particularly affected with major disruption to passengers who are reliant on these services.

1.8 Go North East has recently announced that they are in a position to operate a select number of off-peak journeys on some routes. These services are designed to operate between dedicated scholar and workers services, which have already been running during the action so far. These services began on Tuesday 14 November 2023 running between 09:30 & 14:30 Monday to Friday with details available from the Go North East website. This initial list of services covered various parts of the NECA area excepting South Tyneside.

1.9 A new package of BSIP-funded adult day tickets to make bus travel cheaper and simpler throughout the region was launched on 5 November 2023, price points of these products are summarised in the table below:

Product name	Product scope	Product price
Tyne & Wear Day Rover	Tyne & Wear adult day ticket (multi-modal)	£6
Durham Day Rover	County Durham adult day ticket (multi-operator)	£4
Northumberland Day Rover	Northumberland county adult day ticket (multi-operator)	£5
TNE Day Saver	Regionwide adult (multi-modal)	£6.80

1.10 The October 2023 meeting of the North East Joint Transport Committee approved the second annual Bus Service Improvement Plan (BSIP) refresh. The refresh presented the opportunity to reengage with the public and stakeholders including undertaking the public engagement campaign ‘The Big Bus Conversation’ which was first completed in 2021. The data which informed the BSIP was also updated and its ambitions for bus travel in the region were reconfirmed.

1.11 The bus partnership has been nominated for ‘Marketing Campaign of the Year’ award at the 2023 UK Bus Awards. The ‘Get ‘round for a pound’ marketing campaign, which accompanied the May 2023 launch of £1 bus single fare for all young people 21 and under in the region, has been recognised.

1.12 Other members of the partnership have also been nominated for awards for achievements prior to the making of the North East Enhanced Partnership. This includes the 2022 Great North Run (Partnership for Excellence) and Care Experienced travel pilot in Newcastle and Gateshead (Bus and the Community).

Rail

1.13 Following the submission of a Strategic Outline Business Case, the reopening of Ferryhill Station was part of the Network North announcement. The reopened station will be located at the junction of the East Coast Mainline and the Stillington Line and facilitate passenger services from Ferryhill to Teesside as well as offering the potential to link North to Durham and Newcastle. Dialogue has commenced with Network Rail and Northern regarding next steps and discussions with the Department for Transport will follow.

1.14 Plans to close the majority of ticket offices in England, proposed by train operators, have been cancelled. Transport Secretary Mark Harper said the proposals did not meet “the high thresholds” set by the government. Train operators were required to consult Transport Focus and London Travel Watch to provide passengers a chance to have their say. The consultation received 750,000 responses and had sparked concern from disability groups and unions.

1.15 The latest meeting of the All Party Parliamentary Group (APPG) for re-opening the Leamside Line took place on 25 October. Regional MPs were joined by Rail Minister Huw Merriman to hear about the vital local connectivity and the boost to capacity and resilience on the East Coast Main Line the Leamside Line will bring. An update was also given on the development of the business case as well as the benefits the line with brig to our region’s business community.

1.16 The Metro Flow project, which involved the dualling of three sections of the Metro line between Pelaw and Bede, which was recently been awarded both the ‘Major Project of the Year’ at the National Rail Awards and the ‘Outstanding Engineering Achievement’ award at the Global Light Rail Awards.

Electric Vehicles

1.17 Work continues on our region’s application to the LEVI capital fund, with the deadline of 30 November. The application follows an indicative £15.8m allocation and invitation to proceed to with stage 2 of the process.

Leadership Board

1.18 A 5-week public consultation for the North East Zero Emission Vehicle Strategy closed on 7 November. The consultation included drop in events in each of the seven local authorities, three online events and an online survey. Key findings will be shared with the North East Joint Transport Committee in December.

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.

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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 remains 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

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19. Sign off

19.1

- 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.

Leadership Board

Item 9

Leadership Board

Date: 28 November 2023

Subject: Finance, Skills & Employability - Thematic Update

Executive Summary

This report seeks to provide an update on current Finance, Skills and Employability portfolio activity, including the implications of the recent provisional local government finance settlement and on the wide-ranging Skills and Employability drivers which may impact on the delivery of Employment & Skills services in the coming years.

The North East Devolution Deal which subject to further detailed development and government orders provides further opportunities to progress and integrate skills development and employability support measures in line with policy priorities and delivery opportunities detailed in previous updates.

Recommendations

The Leadership Board is recommended to receive this report for information.

1. Background Information

1.1 Further to the agreed portfolio leads and the update provided to the Leadership Board in November, activity continues to progress all aspects of the Finance, Skills and Employment needs and opportunities across NECA. Identification of the main issues and progress being made under each element is as follows:

2. Finance Theme

2.1 It is vital that the functions that NECA oversees as accountable body are properly resourced. At the time of writing this report details of the Chancellor's Autumn Statement, which will be presented to Parliament on 22 November 2023, were not yet available.

2.2 The Local Government Association (LGA) submission in advance of the Autumn Statement highlights that councils are facing funding gaps of £2.4 billion in 2023/24 and £1.6 billion in 2024/25.

2.3 Transport budgets will be presented to the Joint Transport Committee for agreement on 16 January and confirmed by the NECA Leadership Board and NTCA Cabinet in advance of the creation of the proposed Mayoral Combined Authority. Significant pressures remain in relation to transport budgets in 2024/25, particularly on the Tyne and Wear levy where the cost of high voltage power and other inflationary conditions, as well investments in security and front-line services remain cost pressures.

2.4 The budget for the proposed North East Mayoral Combined Authority (NEMCA) is the subject of a separate report on this agenda.

3. Skills Theme

3.1 **Local Skills Improvement Plan**

3.1.1 The North East Automotive Alliance (NEAA) has confirmed that the final report and recommendations on the North East Local Skills Improvement Plan (NELSIP) submitted to the Department for Education (DfE) at the end of May, have been approved.

3.1.2 The NEAA, which is the employer related body (ERB) identified to lead the NELSIP across Durham, Gateshead, South Tyneside and Sunderland, also confirms that East Durham College has been selected as the lead applicant in the delivery of the Local Skills Improvement Fund (LSIF).

3.1.3 The NEAA has been working closely with education and training providers, employers, key stakeholders and cross-sector employer representative bodies to establish and build an evidence base which has helped to form the final report.

3.1.4 Being employer-led, LSIPs highlight the skills employers need most in the workplace. LSIPs will provide an agreed set of actionable priorities that employers, providers and stakeholders in a local area can get behind to drive change.

3.1.5 The NELSIP focuses on the technical education and training requirements identified by the Nort East Local Enterprise Partnership (NELEP) which have a significant presence in the South of Tyne region.

3.1.6 The following priorities have been put forward in the NELSIP report:

- Provide essential digital skills required by all learners at the appropriate level. Including upskilling and reskilling support for employers and adult learners and ensuring a work-ready supply of specialist digital skills.
- Align 16+ technical education and training provision to ensure the key technical skills required by the five LSIP sectors are prioritised.
- Increase the supply of level 3+ technical skills to meet current and future regional requirements.
- Collaborate to deliver key technical skills for regional growth.
- Employer focussed – Enable employers, including SMEs, to identify their technical skill requirements and access high quality technical skills development for their current and future workforce.
- Prioritise Social Inclusion – aligned approach to enable those from under-represented and disadvantaged groups to develop the skills needed and provide the support required to remove barriers to access good jobs and careers.

3.1.7 A copy of the final report for review can be downloaded from the NELSIP website at www.nelsip.com

3.1.8 The Government has recently announced guidance for the second stage of LSIPs with designated ERBs expected to produce and publish a progress report in years two and three (2024 and 2025).

3.1.9 The report should be no longer than 20 pages and should contain:

• which of the actions/changes set out in the LSIP have been achieved;

• what has the impact and benefits of the actions/changes been; and

• what still needs to be achieved, including any new or more granular intelligence and/or more specific actions that will help achieve this

3.1.10 The progress report will be published by the end of June in 2024 and 2025. Although the progress report is not approved or signed off by DfE, it is a key condition of stage 2 funding. If it is not produced and published to the specification and timescale set out above, the DfE may take action to terminate the grant agreement and/or clawback a portion of the funding.

3.1.11A separate LSIP exists for the NTCA area and under the NEMCA portfolio discussions it has still to be determined when the region will be covered by a single LSIP.

3.2 **New Skills Minister**

3.2.1 Following the Cabinet reshuffle in November, former education secretary Damian Hinds has returned to the Department for Education as a minister of state.

3.2.2 If he is appointed to the schools' brief, he will be the sixth person to hold the role in 18 months.

3.2.4 Hinds led the DfE between January 2018 and July 2019, during which time the government completed its reforms to technical education, including forcing through the 2020 introduction of T Levels programme.

4. Employment Theme

4.1 Quarterly ONS labour market figures (Sept / October releases)

4.1.1 The release includes data for the North East statistical region for the three-month period of May to July 2023. The region includes the North East LEP area and Tees Valley.

4.1.2 The May to July employment total in the North East region was more than 49,000 higher than in the same period of 2022. The working age employment rate increased by 2.7 percentage points over the year, from around 71.4% to 74.1%, the largest increase among the nine English regions. The rise in employment was accompanied by a decrease of about 55,000 in the number of working age economically inactive people, who had been absent from the labour market a year earlier. The number of unemployed people in the North East increased by just over 9,000 in the year.

4.1.3 A publication of the latest labour market statistics from the Labour Force Survey was due in October. Unfortunately however, issues with the reliability of the survey mean that instead only three figures were published: experimental estimates of employment, unemployment and economic inactivity which have been derived instead from administrative data from the tax and benefits system.

4.1.4 The issues with the reliability of the LFS have been building for some time, with response rates to the survey having declined significantly in recent years – from an average of nearly 50% of surveyed households a decade ago to under 15% in the most recent data. This accelerated with the pandemic, as the first wave of the survey moved from being face-to-face to telephone-based. Falling response rates in themselves are not necessarily a problem, as long as samples are big enough and we know enough about the people who do not reply (so that responses can be weighted properly). However it seems that the scale of recent falls and the impact of the shift to phone-based interviewing has made it impossible to produce reliable, weighted estimates based on the dwindling numbers of people who do complete the survey.

4.1.5 The ONS has tried to address these issues in recent years, with extensive changes to how data is weighted and also a doubling of the number of households contacted in order to boost sample sizes. However, it appears that these efforts ultimately have not been successful. As a result we are left in the unsatisfactory position of not being able to use LFS data at all, at least for the time being.

4.1.6 As noted, the figures that have been published appear to be based on the most recent LFS data, then rolled forward and adjusted based on changes in estimates of employee jobs from HMRC data and changes in unemployed benefit claimants from Universal Credit and Jobseeker's Allowance systems. All these data sources have had their own issues in the recent past, but in as far as they can tell us anything, they suggest that the overall labour market picture is broadly unchanged on recent months.

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4.1.7 Looking forward, it is not yet clear whether LFS data will be published again. If it is not, then we may not need to wait too long for a decent replacement, as thankfully the ONS has also been working on a replacement, 'Transformed' LFS which uses a combination of online, telephone and face-to-face collection. The ONS intends to start publishing findings from this in early 2024. However given the importance of having a full understanding of what is happening in the labour market, it is hoped that they will be exploring the scope to bring these plans forward – even on an experimental basis.

4.1.8 Finally, it is important to note that other data on the labour market continues to be published as normal, including on earnings, vacancies and on data from HMRC and Universal Credit systems.

4.3 **Commission on the Future of Employment support**

4.3.1 The Commission on the Future of Employment Support has been set up to develop evidence-led proposals for reform of our system of employment support and services, so that it can better meet the needs of individuals, employers and our economy. It is developing options for future reform – building on the analysis from their launch report, Call for Evidence and interim findings that we published in the summer.

4.3.2 The commission want these proposals to fully involve people and organisations who use employment services now or who would want to use them in a reformed system, those who deliver or commission them, and wider stakeholders. As far as possible, they want to develop proposals that are co-designed, evidence-led and that can command broad support.

4.3.3 A recent release from the Commission seeks to hear from employers about what they need and want from the public employment service, which they're defining as any public or publicly-funded services that:

- help employers to find, recruit and retain the right people for their jobs, and
- help people who want to move into work, stay in work or progress in work.

4.4.1 **DWP Universal Support**

4.4.2 New support commencing September 2023 aims to help 25,000 out of work long-term sick and disabled people who face barriers to employment. The £53 million scheme ims to help people find and sustain jobs through personal adviser-based support. Uaniversal Support (US) comes as part of the first phase of the Universal Support Employment Programme, announced in the Spring Budget

4.4.3 The new scheme will provide personalised help to people facing complex barriers to work across England and Wales as part of the Government's plan to tackle economic inactivity and spread the benefits of employment more widely.

4.4.4 Participants will be identified and referred by work coaches as well as contracted providers and it is expected to have helped 25,000 people move towards employment by September 2024.

4.4.5 The new scheme is one part of the new US programme, announced as part of a £2bn package at the Spring Budget, which will help disabled people, people with health conditions and people with additional barriers to employment into sustained work.

4.4.6 Jobcentre Work Coaches will make referrals to the new programme, as will providers of the DWP's Work and Health Programme, who will be able to use their local networks to identify people who want to find work but are not yet being assisted by Work Coaches.

4.4.7 After an initial assessment, participants will be introduced to suitable employers based on their preferences, strengths and any lessons learned from previous work experience, to ensure they find a job that is right for them.

4.4.8 They will then receive wraparound in-work support provided by a personal adviser in person and online as they start and sustain employment, which may include debt advice or help with networking or housing and will include frequent engagement with their employer.

4.4.9 This is different to traditional employment support, as it ensures participants receive a job from the outset followed up by highly personalised support to overcome challenges as they arise, rather than having to train before being allowed to start employment.

4.4.10 US will ramp up over time, expanding to support at least 50,000 people a year from 2025/26, and will include help with issues like managing health conditions, debt, and navigating any workplace adjustments required to accommodate individual needs.

4.4.12 The investment comes as the government is consulting on changes to the Work Capability Assessment, with proposals to ensure it is delivering the right outcomes for supporting those most in need. The consultation represents the next step in welfare reform, reflecting the rise of flexible and home working and better employer support for disabled people and people with health conditions – as well as new government help including US.

4.5 Make It Local: local government's vital role in addressing economic activity

4.5.1 Nearly nine million people who are economically inactive risk being left out of the labour market for even longer due to a complex patchwork of disconnected national schemes and services which fail to directly address their needs, councils warn.

4.5.2 Research for the Local government Association (LGA) shows there are at least 51 national programmes, services or initiatives in England designed to support people back to work in various ways, but none of these join up, with very few designed specifically to address economic inactivity.

4.5.3 The LGA said councils are ready and willing to work with government on finding a way through to encourage more people into work, whether through job-matching, retraining, upskilling or improving confidence and self-esteem. It comes ahead of the publication of latest official figures, which are expected to show the number of people who are economically inactive remains at around record highs.

4.5.4 People who are economically inactive - those who are not in employment, who are not looking for a job or are not able to start work - has reached a record high of 8.7 million in the UK and remains stagnant. Not all of them will be able to work, but for those that can and want to, many are ineligible for national job support from jobcentres if they are not claiming out-of-work benefits. This means people who want to get back to work miss out, leaving vacancies unfilled, leading to falling productivity and sluggish economic growth.

4.5.5 The reasons for economic inactivity range from physical and mental health conditions, a loss of confidence or self-esteem, to more practical factors such as access to transport and the need to upskill and earn new qualifications.

4.5.6 The LGA is advocating a more joined up approach across the Government and a commitment to work through local government to design and target support is vital to addressing the underlying causes of why so many people are out of the jobs market and unable or unwilling to return.

4.5.7 The report by Shared Intelligence, commissioned by the LGA, recommends giving local government a leading role in helping people back to work in their areas with long-term, simplified funding. Eligibility for existing programmes should be broadened out to better reach people that are economically inactive, and that any support must be linked to other frontline services such as public health, housing, adult and community learning and the NHS.

4.5.8 Evidence in the report shows that local government is also able to bring together a range of agencies and local partners with first-hand experience of how to support people back into work.

4.5.9 It also finds that deep seated causes of why a person is economically inactive can take time to diagnose and highlights the need for longer term funding and joined up services across a place, so professionals can work together. Providing in-work support is also a vital component in helping people hold down new jobs, the report says

4.5.10 Routing long-term support and funding through councils and devolved authorities, rather than being limited to specific programmes or timeframes managed by different agencies or Whitehall departments, will bring partners such as employers and providers closer together, provide flexibility to changing local market conditions and make the most of public funding.

4.5.11 Issues of timely accurate data, emerging DWP US programme and the longstanding view of councils articulated by the LGA will form part of the considerations informing the NEMCA Education, Inclusion and Skills portfolio development.

5. Next Steps and Timetable for Implementation

5.1 Employment & Skills issues and opportunities for development remain under consideration through meetings of the Skills and Employment Working Group. Working arrangements in this thematic area are likely to change over the coming months in line with the further developments for NEMCA.

6. Potential Impact on Objectives

6.1 This report is for information only.

7. Financial and Other Resources Implications

7.1 There are no additional financial implications as this report is for information only.

8. Legal Implications

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

9. Key Risks

9.1 This report is for information.

10. Equality and Diversity

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

11. Crime and Disorder

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

12. Consultation/Engagement

12.1 Economic Directors have been fully consulted on the contents of this paper

13. Other Impact of the Proposals

13.1 There are no other impacts arising from this report

14. Appendices

14.1 None

15. Background Papers.

15.1 Thematic Portfolio Update 4 April 2023

16. Contact Officers

16.1 Amy Harhoff, Corporate Director Regeneration Economy & Growth,

Amy.Harhoff@durham.gov.uk Tel: 03000 267330

17. Sign off

17.1

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

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18. Glossary

18.1

DfE	Department for Education
ERB	Employer Related Body
HMRC	His Majesty's Revenue and Customs
LEP	Local enterprise Partnership
LFS	Labour Force Survey
LGA	Local Government Association
LSIF	Local Skills Improvement Fund
LSIP	Local Skills Improvement Plan
NEAA	North East Automotive Alliance
NEMCA	North East Mayoral Combined Authority
NHS	National Health Service
NTCA	North of Tyne Combined Authority
US	Universal Support

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Item 10

Leadership Board

Date: **28 November 2023**

Subject: **Treasury Management Mid-Year Update**

Report of: **Chief Finance Officer**

Executive Summary

This report provides a summary of NECA's treasury position, borrowing activity, investment activity, treasury management and prudential indicators.

NECA held £149.000m in borrowing and had £234.508m cash balances invested at 30 September 2023. During the half year period, borrowing of £0.333m was repaid on equal instalment of principal (EIP) loans, early repayment of one £20.000m loan was made, and no new additional borrowing was taken out.

All investments have been undertaken in line with both the Chartered Institute of Public Finance and Accountancy (CIPFA) Code and government guidance which requires the Authority 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.

During the half year period to 30 September 2023, NECA has complied with Treasury Management Indicators relating to interest rate exposure, maturity structure of borrowing and sums invested for more than one year. NECA has also complied with Prudential Code Indicators which relate to the capital programme and how much the Authority can afford to borrow.

Recommendations

The Leadership Board is recommended to note the report.

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1. Background Information

1.1 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’.

1.2 NECA operates a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. 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 a main aim of providing sufficient liquidity, ahead of the achievement of the best possible investment returns.

1.3 The second main function of the treasury management service (provided for NECA by Durham County Council under a service level agreement) is to arrange the funding of the Authority’s capital programme. 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.

1.4 NECA adopts the latest CIPFA Code of Practice on Treasury Management (the Code) which is regarded as best practice in ensuring adequate monitoring of its capital expenditure plans and its Prudential Indicators (PIs).

1.5 This mid-year report provides a summary of the following:

a) Summary treasury position;
b) Borrowing activity;
c) Investment activity;
d) Treasury management indicators;

Prudential code indicators.

2. Proposals

Summary Treasury Position

2.1 NECA’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.

2.2 At the beginning and mid-year point of 2023/24, NECA's treasury position was as follows:

	1 April 2023	Rate / Return	Average Life	30 Sept 2023	Rate / Return	Average Life
	£m	**%**	**Years**	**£m**	**%**	**Years**
Total Debt	169.333	4.25	37.4	149.000	4.25	36.2
Total Investments	273.383	4.28	0.52	234.508	5.02	0.32
Net Debt	**(104.050)**			**(85.508)**		

2.3 As at 30 September 2023, NECA had £149.000m of borrowing and £234.508m of cash balances invested. The main factor in the reduction in cash balances over the period has been the payment of grants to project sponsors.

Borrowing Activity

2.4 At 30 September 2023, NECA held £149.000 of loans, a decrease of £20.333m from the start of the year. The mid-year borrowing position and the change since the start of the year is shown in the following table.

	1 April 2023	Rate / Return	Average Life	30 Sept 2023	Rate / Return	Average Life
	£m	**%**	**Years**	**£m**	**%**	**Years**
Public Works Loan Board	80.333	4.09	22.1	80.000	4.09	22.1
Private Sector	89.000	4.39	47.6	69.000	4.43	46.7
Total Borrowing	**169.333**			**149.000**		

2.5 During the half year period, borrowing of £0.333m was repaid on equal instalment of principal (EIP) loans, early repayment of one £20.000m loan was made, and no new additional borrowing was taken out.

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2.6 NECA continues to temporarily invest cash balances, representing monies received in advance of expenditure plus balances and reserves held. During the half-year to 30 September 2023, investment balances ranged between £234.508m and £273.383m.

2.7 As at 30 September 2023, NECA held balances and investments totalling £234.508m. The following table provides a breakdown of these investments split by the type of financial institution and maturity period:

Financial Institution	0-3 months	3-6 months	6-12 months	Total
	£m	£m	£m	£m
Banks	58.000	85.000	37.000	180.000
Building Societies	29.000	0.000	0.000	29.000
Other Local Authorities	0.000	0.000	0.000	0.000
Money Market Funds	25.508	0.000	0.000	25.508
Total	**112.508**	**85.000**	**37.000**	**234.508**
% of Total	48%	36%	16%	100%

2.8 NECA's investment policy is governed by Department of Levelling Up, Housing and Communities (DLUHC) guidance, which has been implemented in the annual investment strategy approved by the Leadership Board on 24 January 2023. 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.

Treasury Management Indicators

2.9 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.

2.10 **Interest Rate Exposures:** This indicator is set to control NECA'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 was:

	30 Sept 2023 Actual	30 Sept 2023 Actual	2023/24 Limit	Complied
Upper limit on fixed interest rate exposure	£149.000m	100%	100%	✓
Upper limit on variable interest rate exposure	£0.000m	0%	70%	✓

2.11 **Maturity Structure of Borrowing**: This indicator is set to control NECA's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing were:

	Lower Limit	Upper Limit	30 Sept 2023 Actual	Complied
Under 12 months	0%	20%	£0.667m	✓
12 months to 2 years	0%	40%	£0.667m	✓
2 years to 5 years	0%	60%	£0.666m	✓
5 years to 10 years	0%	80%	£5.000m	✓
10 years and above	0%	100%	£142.000m	✓

2.12 **Principal Sums Invested for Periods Longer than 364 days:** The purpose of this indicator is to control NECA's exposure to the risk of incurring losses by seeking early repayment for its investments:

	Limit	At 31 March 2023	Complied

Actual principal invested beyond one year	£75.000m	£0.000m	✓

Prudential Code Indicators

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

2.14 The objective of the Prudential Code is 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.

2.15 **Capital Expenditure:** The table below summarises planned capital expenditure and financing when the 2023/24 budget was set in January 2023 (relating to the Joint Transport Committee, in NECA's role as Accountable Body), and compares it to the estimated full year outturn position at 30 September

	2023/24 Original Estimate	**2023/24 Estimate at 30 Sept 2023**	**Difference**
	£m	**£m**	**£m**
Capital Programme	238.994	262.028	23.034
Financed by:			
Capital Grants	225.216	250.148	24.932
Revenue and Reserves	13.778	11.880	(1.898)
Net borrowing financing need for the year	0.000	0.000	0.000

2.16 **Actual Debt:** NECA's actual debt at 30 September 2023 is as follows:

	1 April 2023 Actual	**30 Sept 2023 Actual**	**Difference**
	£m	**£m**	**£m**

Borrowing	169.333	149.000	(20.333)

2.17 **Operational Boundary:** This is the limit beyond which external borrowing is not normally expected to exceed. Periods where the actual position is either below or over the boundary is acceptable subject to the authorised limit not being breached.

	2023/24 Operational Boundary	**30 Sept 2023 Actual**	**Complied**
	£m	**£m**	**£m**
Borrowing	205.000	149.000	✓

2.18 **Authorised Limit for external borrowing:** This 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.

	2023/24 Authorised Limit	**30 Sept 2023 Actual**	**Complied**
	£m	**£m**	**£m**
Borrowing	210.000	149.000	✓

3. Reasons for the Proposals

3.1 It is a requirement of NECA's Treasury Management Strategy to present a mid-year update to Members, and this report fulfils that requirement.

4. Alternative Options Available

4.1 This report is for information. No alternative options are considered necessary.

5. Next Steps and Timetable for Implementation

5.1 The Treasury Management Strategy for 2024/25 and future years will be presented to the Leadership Board for approval along with the budget at its meeting on 23 January 2024.

6. Potential Impact on Objectives

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

7. Financial and Other Resources Implications

7.1 The report details NECA's cash management, loans and investment activity during 2023/24 in the first half of the year to 30 September 2023. The report also provides the overall financing of NECA's capital expenditure along with borrowing and investment income returns.

8. Legal Implications

8.1 There are no legal implications arising from this report which is for information. NECA must have regard to CIPFA's Prudential Code for Capital Finance in Local Authorities when determining how much money it can afford to borrow, as required by the Local Government Act 2003.

9. Key Risks

9.1 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 There are no consultation requirements arising from this report.

13. Other Impact of the Proposals

13.1 There are no other impacts arising from these proposals.

14. Appendices

14.1 None

North East Combined Authority

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Leadership Board

15. Background Papers

15.1 NECA Treasury Management Strategy – Leadership Board 24 January 2023 northeastca.gov.uk/wp-content/uploads/2023/01/Leadership-Board-Agenda-Pack-FINAL-24-January-2023.pdf

16. Contact Officers

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

17. Sign off

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

North East Combined Authority
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Item 11

Leadership Board

Date: **28 November 2023**

Subject: **Statement of Accounts 2021/22**

Report of: **Chief Finance Officer**

Executive Summary

This report presents the updated and finalised 2021/22 Statement of Accounts for approval by Leadership Board. The NECA Leadership Board previously considered the 2021/22 accounts in November 2022 but final sign off was prevented due to a national issue arising in relation to accounting for infrastructure assets, and a subsequent issue that emerged. The NECA Audit and Standards Committee will consider the final audited accounts and external auditor's reports on 21 November and any comments or feedback from that meeting will be reported verbally to the Leadership Board.

A temporary solution to the infrastructure issue has been put in place and an update to the CIPFA Code of Practice produced. The temporary solution has been put in place until 31 March 2025.

The Statement of Accounts included as Appendix 2 have been updated to reflect the temporary infrastructure accounting solution in line with CIPFA guidance issued on the topic. The changes in relation to Infrastructure are disclosures and have had no impact on the Balance Sheet or any of the other core financial statements, and no impact on the usable reserves of the Authority.

As a result of the Infrastructure delay, a further issue was identified in relation to the availability of more up-to-date information on pensions resulting from completion of the triennial revaluation of the Tyne and Wear Pension Fund as at 31 March 2022, and meaning that NECA should reflect this in its 2021/22 financial statements.

NECA obtained an updated IAS19 valuation report and has revised the accounts to reflect updated pension figures. These have an impact on the NECA Balance Sheet which now shows a surplus pension position, but this has no impact upon the usable reserves of the Authority.

Recommendations

The Leadership Board is recommended to:

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Leadership Board

i. Authorise the Chief Finance Officer to sign the Letter of Representation (Appendix 1) on behalf of the Authority;
ii. Approve the Statement of Accounts for 2021/22 (Appendix 2), taking into account any views from the Audit and Standards Committee meeting on 21 November;
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 2021/22;
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.

North East Combined Authority
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Leadership Board

1. Background Information

1.1 The audited Statement of Accounts for 2021/22 was presented to the NECA Audit and Standards Committee on 22 November 2022 and Leadership Board on 29 November 2022, pending resolution of the national issue which arose in relation to accounting for subsequent expenditure on Infrastructure Assets. A temporary solution has now been put in place to address this and an update to the CIPFA Code of Practice produced.

1.2 The CIPFA Code has been updated in respect of Infrastructure Assets, including a temporary relief so that local authorities are not required to report the gross book value and accumulated depreciation for infrastructure assets. This temporary relief is applicable form the 2021/22 Code up to and including the Code applicable to the 2024/25 financial year.

1.3 A subsequent issue arose in relation to pension valuations and the availability (given the significant delays in completing the audit which had already arisen as a result of the Infrastructure issue) of more up-to-date information following the completion of the triennial revaluation of the Tyne and Wear Pension Fund as at 31 March 2022. NECA has updated its financial statements to reflect the most up-to-date information on pensions assets and liabilities.

2. Proposals

2.1 The final audited Statement of Accounts for 2021/22 is included at Appendix 2. The Leadership Board is recommended to approve the Statement of Accounts.

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 NECA Audit and Standards Committee.

3.2 The Statement of Accounts must be signed by the Chair of the Leadership Board and the Chief Finance Officer and published online.

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 2021/22, with a supporting external audit opinion and this report seeks to discharge that responsibility.

5. Next Steps and Timetable for Implementation

5.1 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 direct impacts on objectives arising from this report. Sound financial stewardship improves the ability of the Authority to meet its objectives. The Accounts presented reflect a true and fair view of the financial position of NECA and the Group during 2021/22 and as at 31 March 2022. 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 2021/22. The Statement of Accounts details the financial position of the authority as at 31 March 2022.

8. Legal Implications

8.1 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2022 SI 1232/2022 – new regulation 30M (3) provides that where a local authority replaces a component of an infrastructure asset, the authority has a choice of how to identify the carrying amount to be derecognised in respect of that component (i.e. either a nil amount or to follow the Code). New regulation 30M applies to statements of accounts for financial years beginning on or before 1 April 2024, and to those statements of accounts that have not already been certified by a local auditor.

9. Key Risks

9.1 There are no risk implications 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

Leadership Board

12.1 Consultation on this report has taken place with NECA statutory officers. 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 2021/22

Appendix 3 – Annual Governance Statement 2021/22

Appendix 4 – Narrative Report 2021/22

15. Background Papers

15.1 Statement of Accounts 2021/22 – Leadership Board 29 November 2022 FINAL-Leadership-Board-29-November-2022.pdf (northeastca.gov.uk)

Statement of Accounts 2021/22 – Audit and Standards Committee 21 November 2023 northeastca.gov.uk/wp-content/uploads/2023/11/Audit-and-Standards-Committee-21-November-2023.pdf

16. Contact Officers

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

17. Sign off

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

18. Glossary

18.1 CIPFA – Chartered Institute of Public Finance and Accountancy

Appendix 1

To: Mr Gavin Barker
Director
Mazars LLP

Date: 28 November 2023

North East Combined Authority and Group - audit for year ended 31 March 2022

This representation letter is provided in connection with your audit of the financial statements of the North East Combined Authority (NECA) and Group for the year ended 31 March 2022 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 2021/22 (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.

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 the 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.

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.

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

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.

Reinforced Autoclaved Aerated Concrete

I confirm that NECA has assessed the potential impact of Reinforced Autoclaved Aerated Concrete on NECA, and in particular whether there are indications of a need for an impairment of NECA's property, plant and equipment. I confirm there are no such indications of impairment in those assets.

Yours faithfully

Chief Finance Officer: ………………………

Date: ………………………

Appendix 2

North East Combined Authority

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North East Combined Authority

Statement of Accounts 2021/22

Contents **Page**

The values within the financial statements are disclosed with roundings which are appropriate to their individual presentation. Consequently, the tables in the Statement of Accounts may contain rounding differences.

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 and Group 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 2022, 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 and Group at 31 March 2022 and its income and expenditure for the year ended 31 March 2022.

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 2020		**(9,166)**	**(10,777)**	**-**	**(7,363)**	**(27,304)**	**(55,699)**	**(83,003)**
Total Comprehensive Income and Expenditure		(16,672)	-	-	-	(16,672)	360	(16,312)
Adjustments between accounting basis & funding basis under regulations	3	17,268	-	-	(16,324)	944	(944)	-
Net (Increase)/Decrease before transfers to Earmarked Reserves		**596**	**-**	**-**	**(16,324)**	**(15,728)**	**(584)**	**(16,312)**
Transfers (To)/From Earmarked Reserves	21	677	(677)	-	-	**-**	-	-
(Increase)/Decrease in 2020/21		1,273	(677)	-	(16,324)	**(15,728)**	(584)	(16,312)
Balance at 31 March 2021 carried forward		**(7,893)**	**(11,454)**	**-**	**(23,687)**	**(43,032)**	**(56,283)**	**(99,315)**
Total Comprehensive Income and Expenditure		(39,383)	-	-	-	(39,383)	(6,720)	(46,103)
Adjustments between accounting basis & funding basis under regulations	3	38,853	-	-	(37,300)	1,553	(1,553)	-
Net (Increase)/Decrease before transfers to Earmarked Reserves		**(530)**	**-**	**-**	**(37,300)**	**(37,830)**	**(8,723)**	**(46,103)**
Transfers (To)/From Earmarked Reserves	21	(148)	148	-	-	**-**	-	-
(Increase)/Decrease in 2021/22		(678)	148	-	(37,300)	(37,830)	(2,033)	(46,103)
Balance at 31 March 2022 carried forward		**(8,571)**	**(11,306)**	**-**	**(60,987)**	**(80,862)**	**(64,556)**	**(145,418)**

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.

2020/21					2021/22		
Gross Expenditure	Gross Income	Net Expenditure		Note	Gross Expenditure	Gross Income	Net Expenditure
£000	£000	£000			£000	£000	£000
			Continuing NECA Services				
574	(781)	(207)	Corporate		941	(162)	779
73	-	73	Transport - Retained Levy Budget		338	-	338
15,456	-	15,456	Transport - Durham		15,457	-	15,457
32,719	-	32,719	Transport - Tyne and Wear		33,264	-	33,264
11,618	(28,367)	(16,749)	Transport - Other		16,012	(53,998)	(37,986)
13,267	(14,234)	(967)	Transport - Tyne Tunnels		13,673	(17,983)	(4,310)
6,074	(6,074)	-	Covid-19 Grants		893	(1,419)	(526)
79,781	**(49,456)**	**30,325**	**Cost of Services**		**80,578**	**(73,562)**	**7,016**
4,057	(963)	3,094	Financing and Investment Income and Expenditure	4	3,820	(950)	2,870
-	(50,091)	(50,091)	Taxation and Non-Specific Grant Income	5	-	(49,270)	(49,270)
		(16,672)	**(Surplus) on Provision of Services**				**(39,384)**
		360	Re-measurement of the defined benefit liability	19			(6,720)
		360	**Other Comprehensive Income and Expenditure**				**(6,720)**
		(16,312)	**Total Comprehensive Income and Expenditure**				**(46,104)**

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 2021 £000		Note	31 March 2022 £000
190,648	Property, Plant and Equipment	11, 11a	188,013
18,715	Long Term Debtors	15	17,870
-	Net Pension Asset	19	5,570
209,363	**Long Term Assets**		**211,453**
34,383	Short Term Investments	12	89,792
5,050	Short Term Debtors	14	1,890
38,183	Cash and Cash Equivalents	16	40,013
77,616	**Current Assets**		**131,695**
(1,274)	Short Term Borrowing	12	(1,266)
(39,879)	Short Term Creditors	17	(56,654)
(3,356)	Grants Receipts in Advance	6	(1,220)
(2,824)	New Tyne Crossing Deferred Income	18	(2,814)
(47,333)	**Current Liabilities**		**(61,954)**
(45,184)	New Tyne Crossing Deferred Income	18	(42,207)
(94,276)	Long Term Borrowing	12	(93,568)
(870)	Pension Liability	19	-
(140,330)	**Long Term Liabilities**		**(135,775)**
99,316	**Net Assets**		**145,419**
(43,032)	Usable Reserves	20	(80,862)
(56,284)	Unusable Reserves	22	(64,557)
(99,316)	**Total Reserves**		**(145,419)**

Chief Finance Officer Certificate

I certify that the accounts set out on pages 5 to 76 give a true and fair view of the financial position of the North East Combined Authority as at the 31 March 2022.

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.

2020/21 £000		Note	2021/22 £000
16,672	Net Surplus on the provision of services		39,383
16,000	Adjustments to net surplus or deficit on the provision of services for non-cash movements	24	20,807
(25,271)	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	24	(49,259)
7,401	**Net cash flows from Operating Activities**		**10,931**
51,740	Investing Activities	25	(8,209)
(838)	Financing Activities	26	(893)
58,303	**Net (Decrease)/Increase in cash and cash equivalents**		**1,829**
22,017	Cash and cash equivalents at the beginning of the reporting period	16	38,183
(42,138)	Transfer to the NTCA		-
38,182	**Cash and cash equivalents at the end of the reporting period**		**40,012**

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.

	2021/22				
	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	279	-	500	-	779
Transport - Retained Levy Budget	625	(287)	-	-	338
Transport - Durham	15,457	-	-	-	15,457
Transport - Tyne and Wear	33,264	-	-	-	33,264
Transport - Other	(1,094)	(36,892)	-	-	(37,986)
Transport - Tyne Tunnels	(2,487)	(1,773)	(50)	-	(4,310)
Covid-19 Grants	(526)	-	-	-	(526)
Cost of services	**45,518**	**(38,952)**	**450**	**-**	**7,016**
Other Income and Expenditure	**(46,049)**	(41)	(170)	(140)	**(46,400)**
(Surplus)/Deficit on Provision of Services	**(531)**	**(38,993)**	**280**	**(140)**	**(39,384)**
Opening General Fund Balances	(19,348)				
Closing General Fund Balances	**(19,879)**				

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.

	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**	**(15,970)**	**(350)**	**-**	**30,325**
Other Income and Expenditure	**(46,050)**	(741)	20	(225)	**(46,996)**
(Surplus)/Deficit on Provision of Services	**595**	**(16,711)**	**(330)**	**(225)**	**(16,671)**
Opening General Fund Balances	(33,607)				
Transfer to NTCA 1 April 2020	13,664				
Closing General Fund Balances	**(19,348)**				

Note 02a: Income and Expenditure Analysed by Nature

	2020/21 £000	2021/22 £000
Expenditure		
Employee benefit expenses	511	541
Other service expenses	66,477	65,527
Depreciation, impairment and Revenue Expenditure Funded from Capital Under Statute (REFCUS)	12,793	14,510
Interest payments	4,057	3,820
Total expenditure	**83,838**	**84,398**
Income		
Fees, charges and other service income (Tyne Tunnels tolls)*	(11,393)	(15,948)
Interest and investment income	(963)	(950)
Income from transport levy	(49,349)	(49,271)
Government grants and contributions	(34,268)	(53,560)
Other income	(4,537)	(4,053)
Total income	**(100,510)**	**(123,782)**
Surplus/Deficit on the provision of services	**(16,672)**	**(39,384)**

* 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.

2020/21					2021/22			
General Fund	Capital Receipts Reserve	Capital Grants Unapplied	Unusable Reserves	Adjustments between Accounting Basis and Funding Basis Under Statute	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				
(2,402)	-	-	2,402	Charges for depreciation and impairment of non current assets	(2,385)	-	-	2,385
2,824	-	-	(2,824)	Other income that cannot be credited to the General Fund	2,814	-	-	(2,814)
7,052	-	-	(7,052)	Capital grants and contributions applied	6,584	-	-	(6,584)
(10,391)	-	-	10,391	Revenue expenditure funded from capital under statute	(12,125)	-	-	12,125
				Insertion of items not debited or credited to the CIES				
1,391	-	-	(1,391)	Statutory provision for the financing of capital investment	993	-	-	(993)
19	-	-	(19)	Capital expenditure charged against the General Fund	437	-	-	(437)
				Adjustments primarily involving the Capital Grants Unapplied Account				
18,219	-	(18,219)	-	Grants and contributions unapplied credited to the CIES	42,675	-	(42,675)	-
-	-	1,895	(1,895)	Application of grants to capital financing transferred to the CAA	-	-	5,375	(5,375)
				Adjustments involving the Capital Receipts Reserve				
-	(841)	-	841	Loan principal repayments	-	(807)	-	807
-	841	-	(841)	Application of Capital Receipts to repayment of debt	-	807	-	(807)
				Adjustments involving the Financial Instruments Adjustment Account				
225	-	-	(225)	Amount by which finance costs charged to the CIES are different from finance costs chargeable in the year in accordance with statutory requirements	140	-	-	(140)
				Adjustments involving the Pensions Reserve				
280	-	-	(280)	Reversal of items relating to retirement benefits debited or credited to the CIES	(330)	-	-	330
50	-	-	(50)	Employer's pension contributions and direct payments to pensioners payable in the year	50	-	-	(50)
17,268	**-**	**(16,324)**	**(943)**	**Total Adjustments**	**38,853**	**-**	**(37,300)**	**(1,553)**

Note 04: Financing and Investment Income and Expenditure

	Note	2020/21	2021/22
		£000	£000
Interest Payable and Similar Charges		4,037	3,990
Interest Payable on defined benefit liability	19	20	(170)
Interest Receivable and similar income		(963)	(950)
Total		**3,094**	**2,870**

Note 05: Taxation and Non Specific Grant Income

		2020/21	2021/22
		£000	£000
Transport Levy		(49,349)	(49,230)
Non-Specific Capital Grants		(741)	(41)
Total		**(50,090)**	**(49,271)**

Note 06: Grant Income

		2020/21	2021/22
		£000	£000
Local Authority Contributions to NECA		(161)	(276)
Local Growth Fund		(679)	(15)
Local Transport Plan		(7,736)	(7,755)
European Grants		(176)	-
North East Smart Ticketing Initiative		(113)	-
Transforming Cities Fund		(13,907)	(31,595)
Office for Low Emission Vehicles		(70)	(41)
COVID-19 Grants		(6,074)	(1,419)
Active Travel Fund		-	(10,188)
Bus Recovery Grant		-	(689)
Other Grants		(5,352)	(1,582)
Total		**(34,268)**	**(53,560)**

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 2021 £000	31 March 2022 £000
Office for Low Emission Vehicles	(127)	(29)
Other Grants	(3,229)	(1,192)
Total	**(3,356)**	**(1,221)**

Shown as Short-Term Liability on the Balance Sheet	(3,356)	(1,221)
Short as Long-Term Liability on the Balance Sheet	-	
Total	**(3,356)**	**(1,221)**

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.

	2020/21 £000	2021/22 £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	2021/22	133	-	**133**
	2020/21	131	-	**131**

All three of the Authority's statutory officers in 2021/22 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:

	2020/21 £000	**2021/22 £000**
£50,000-£54,999	0	1
£55,000-£59,999	1	2
£60,000-£64,999	0	0
£65,000-£69,999	0	0
£70,000-£74,999	0	1
£75,000-£79,999	0	0
£80,000-£84,999	0	0
£85,000-£89,999	0	0
£90,000-£94,999	0	0
£95,000-£99,999	1	1
Total	**2**	**5**

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.

	2020/21 £000	2021/22 £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)	8	-
Total	**27**	**19**

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 2021/22 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.

	2020/21				2021/22			
	Receivables	Income	Expenditure	Payables	Receivables	Income	Expenditure	Payables
	£000	£000	£000	£000	£000	£000	£000	£000
NECA Constituent Authorities								
Durham	-	(15,499)	18,960	1,187	(12)	(15,508)	19,598	701
Gateshead	-	(10,291)	1,136	137	-	(10,847)	1,139	106
South Tyneside	-	(8,112)	926	206	-	(8,111)	576	6
Sunderland	-	(14,949)	1,327	131	-	(14,903)	2,101	24
Remaining JTC Constituent Authorities								
Newcastle	-	(10)	2,879	691	-	(10)	2,600	1,005
North Tyneside	-	(10)	1,061	130	-	(10)	1,895	1,157
Northumberland	-	(10)	2,014	315	-	(10)	1,173	90
Other Public Bodies								
North of Tyne Combined Authority	-	-	-	-	-	-	-	-
Nexus	(695)	(761)	37,234	33,671	(101)	(834)	34,208	54,268

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 (excluding Highways Infrastructure Assets)

	2021/22			
	Vehicles, Plant, Furniture & Equipment	Assets Under Construction	Total Property, Plant & Equipment (excluding Highways Infrastructure Assets)	Service Concession Assets included in Property, Plant and Equipment (excluding Highways Infrastructure Assets)
	£000	£000	£000	£000
Cost or Valuation				
At 1 April 2021	2,881	561	**3,442**	-
Additions	-	177	**177**	-
Reclassification from Assets Under Construction	76	(76)	**-**	-
Impairment recognised in the Surplus on the Provision of Services	-	-	**-**	-
Other Adjustments	-	-	**-**	-
At 31 March 2022	**2,957**	**662**	**3,619**	**-**

Accumulated Depreciation and Impairment				
At 1 April 2021	(914)	-	**(914)**	-
Depreciation charge for the Year	(167)	-	**(167)**	-
At 31 March 2022	**(1,081)**	**-**	**(1,081)**	**-**

Net Book Value				
At 1 April 2021	**1,967**	**561**	**2,528**	**-**
At 31 March 2022	**1,876**	**662**	**2,538**	**-**

	2020/21			
	Vehicles, Plant, Furniture & Equipment	Assets Under Construction	Total Property, Plant & Equipment (excluding Highways Infrastructure Assets)	Service Concession Assets included in Property, Plant and Equipment (excluding Highways Infrastructure Assets)
	£000	£000	£000	£000
Cost or Valuation				
At 1 April 2020	2,204	1,049	**3,253**	-
Additions	-	189	**189**	-
Reclassification from Assets Under Construction	677	(677)	**-**	-
Impairment recognised in the Surplus on the Provision of Services	-	-	**-**	-
Other Adjustments	-	-	**-**	-
At 31 March 2021	**2,881**	**561**	**3,442**	**-**

Accumulated Depreciation and Impairment				
At 1 April 2020	(754)	-	**(754)**	-
Depreciation charge for the Year	(160)	-	**(160)**	-
At 31 March 2021	**(914)**	**-**	**(914)**	**-**

Net Book Value				
At 1 April 2020	**1,450**	**1,049**	**2,499**	**-**
At 31 March 2021	**1,967**	**561**	**2,528**	**-**

Note 11a: Property, Plant and Equipment (Highways Infrastructure Assets)

Movements on balances

In accordance with the temporary relief offered by the Update to the Code on Infrastructure assets this note does not include disclosure of gross cost and accumulated depreciation for infrastructure assets because historical reporting practices and resultant information deficits mean that this would not faithfully represent the asset position to the users of the financial statements.

The authority has chosen not to disclose this information as the previously reported practices and resultant information deficits mean that gross cost and accumulated depreciation are not measured accurately and would not provide the basis for the users of the financial statements to take economic or other decisions relating to infrastructure assets.

	2020/21	2021/22
	£000	£000
Net book value (modified historical cost)		
At 1 April	**190,701**	**188,122**
Additions	528	260
Derecognition	-	-
Depreciation	(2,222)	(2,218)
Impaiment	(20)	-
Other movements in cost	(865)	(688)
At 31 March	**188,122**	**185,476**

Reconciliation to Balance Sheet

	2020/21	2021/22
	£000	£000
Infrastructure assets	188,122	185,476
Other PPE assets	2,528	2,538
Total PPE assets	**190,650**	**188,014**

The authority has determined in accordance with Regulation 30M of the Local Authorities (Capital Finance and Accounting) (England/Wales) (Amendment) Regulations 2022 that the carrying amounts to be derecognised for infrastructure assets when there is replacement expenditure is nil.

Structures - net book value

NECA has estimated a net book value at 31 March 2022 for its structures at £185.476m. This is fully represented by the tunnels owned by the authority. The remaining useful lives for its tunnels are assessed to be as follows:

Northbound vehicle tunnel	61 years
Southbound vehicle tunnel	109 years
Pedestrian and cyclist tunnels	61 years

Depreciation for the tunnels (and total annual depreciation for 2021/22 on structures) is £2.218m.

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 2021 £000	31 March 2022 £000	31 March 2021 £000	31 March 2022 £000	31 March 2021 £000	31 March 2022 £000	31 March 2021 £000	31 March 2022 £000
Amortised cost	-	-	18,715	17,870	34,383	89,792	2,242	658
Total financial assets	**-**	**-**	**18,715**	**17,870**	**34,383**	**89,792**	**2,242**	**658**
Non-financial assets	-	-	-		-	-	2,808	1,232
Total	**-**	**-**	**18,715**	**17,870**	**34,383**	**89,792**	**5,050**	**1,890**

Financial assets at amortised cost

Financial assets are classifed 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 2021 £000	31 March 2022 £000	31 March 2021 £000	31 March 2022 £000	31 March 2021 £000	31 March 2022 £000	31 March 2021 £000	31 March 2022 £000
Amortised cost	(94,276)	(93,568)	-	-	(1,274)	(1,266)	(33,933)	(21,788)
Total financial liabilities	**(94,276)**	**(93,568)**	**-**	**-**	**(1,274)**	**(1,266)**	**(33,933)**	**(21,788)**
Non-financial liabilities	-				-		(5,946)	(34,866)
Total	**(94,276)**	**(93,568)**	**-**	**-**	**(1,274)**	**(1,266)**	**(39,879)**	**(56,654)**

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 classifed 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 2021				31 March 2022		
£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
4,037	-	**4,037**	Interest expense	3,990	-	**3,990**
4,037	**-**	**4,037**	**Total expense in Surplus on Provision of Services**	**3,990**	**-**	**3,990**
-	(963)	**(963)**	Investment income	-	(950)	**(950)**
-	**(963)**	**(963)**	**Total income in Surplus on Provision of Services**	**-**	**(950)**	**(950)**
4,037	**(963)**	**3,074**	**Net (gain)/loss for the year**	**3,990**	**(950)**	**3,040**

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 2022 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.

For 2021/22 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 2021		31 March 2022	
	Level	**Carrying amount £000**	**Fair value £000**	**Carrying amount £000**	**Fair value £000**
Financial liabilities held at amortised cost	2	(95,550)	(151,970)	(94,834)	(136,768)
Total		**(95,550)**	**(151,970)**	**(94,834)**	**(136,768)**
Financial Assets at amortised cost					
Held to maturity investments		34,383	34,383	89,792	89,792
Nexus loan debtor	2	18,715	30,051	17,870	26,018
Total		**53,098**	**64,434**	**107,662**	**115,810**

Short-term debtors and creditors are carried at cost as this is a fair approximation of their value.

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: The UK's former AAA rating has been affected by the global financial crisis and the decision to leave the European Union.

Rating	2020/21 £000	2021/22 £000
n/a - investments with UK local authorities	34,383	34,535
n/a - investments with banks		38,679
n/a - investments with unrated building societies [1]	-	16,577
Total Short-Term Investments	**34,383**	**89,791**
AAA	17,746	
A-1	-	15,196
Total Cash Equivalents	**17,746**	**15,196**

[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 2022 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 2021 £000	31 March 2022 £000
Between 1-2 years	(370)	(368)
Between 2-5 years	(1,109)	(921)
Between 5-10 years	(185)	-
More than 10 years	(92,612)	(92,278)
	(94,276)	**(93,567)**
Less than 1 year	(1,274)	(1,266)
Total borrowing	**(95,550)**	**(94,833)**

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 2021 £000	31 March 2022 £000
Increase in interest payable on variable rate borrowing	-	
Increase in interest receivable on variable rate investments	(95)	(458)
Impact on the (Surplus)/Deficit on Provision of Services	**(95)**	**(458)**

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 £26.205m 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 2021 £000	31 March 2022 £000
Central Government bodies	610	1,232
Other local authorities	2,303	374
Other entities and individuals	2,137	284
Total	**5,050**	**1,890**

Note 15: Long Term Debtors

	31 March 2021 £000	31 March 2022 £000
Nexus borrowing	18,715	17,049
Total	**18,715**	**17,049**

Note 16: Cash and Cash Equivalents

	31 March 2021 £000	31 March 2022 £000
Cash held in Authority's bank account	20,437	24,817
Cash equivalents	17,746	15,196
Total	**38,183**	**40,013**

Note 17: Short Term Creditors

	31 March 2021 £000	31 March 2022 £000
Central government bodies	(33)	(43)
Other local authorities	(2,188)	(4,984)
Other entities and individuals		
- Nexus	(33,672)	(49,731)
- TT2	(1,212)	-
- Other	(2,774)	(1,896)
Total	**(39,879)**	**(56,654)**

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 2021/22 the total payment under the contract was £20.012m (2020/21 £12.717m) of which £11.058m is shown in the account of NECA and £8.954m shown in the accounts of NTCA. The increase 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 2021/22 value of £81.476m (2020/21 £86.568m), of which £45.021m is shown on the NECA balance sheet and £36.455m shown on the NTCA balance sheet

	Deferred Income Release	
	2020/21 £000	2021/22 £000
Payable in 2021/22	(2,824)	(2,814)
Payable within 2 to 5 years	(11,296)	(11,255)
Payable within 6 to 10 years	(14,120)	(14,069)
Payable within 11 to 15 years	(14,120)	(14,069)
Payable within 16 to 20 years	(5,648)	(2,814)
Total	**(48,008)**	**(45,021)**

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	
	2020/21	2021/22	2020/21	2021/22
	£000	£000	£000	£000
Comprehensive Income and Expenditure Statement				
Cost of Services:				
Current service cost	320	500	-	-
Settlement cost	(620)	-	-	-
Financing and Investment Income and Expenditure		-		-
Interest on net defined benefit liability (asset)	-	(190)	20	20
Pension expense recognised in profit and loss	**(300)**	**310**	**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	(10,570)	1,430	-	-
Actuarial (gains)/losses due to changes in financial assumptions	4,310	(1,990)	70	(20)
Actuarial (gains)/losses due to changes in demographic assumptions	-	(40)	-	(10)
Actuarial (gains)/losses due to changes in liability assumptions	320	(5,950)	(10)	(140)
Adjustment in respect of paragraph 64	6,210	-	-	-
Income	**270**	**(6,550)**	**60**	**(170)**
Total amount recognised	**(30)**	**(6,240)**	**80**	**(150)**

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	
	2020/21	2021/22	2020/21	2021/22
	£000	£000	£000	£000
Opening balance at 1 April	**(42,750)**	**(46,900)**	**(840)**	**(870)**
Current service cost	(320)	(500)	-	-
Interest cost	(950)	(980)	(20)	(20)
Contributions by participants	(70)	(80)	-	-
Actuarial gains/(losses) on liabilities - financial assumptions	(4,310)	1,990	(70)	20
assumptions	-	40	-	10
Actuarial gains/(losses) on liabilities - experience	(320)	(3,080)	10	140
Net benefits paid out	350	600	50	50
Past service costs	-	-	-	-
Net increase in liabilities from disposals/acquisitions	(30)	-	-	-
Settlements	1,500	-	-	-
Closing balance at 31 March	**(46,900)**	**(48,910)**	**(870)**	**(670)**

Reconciliation of the fair value of the scheme assets:

	Local Government Pension Scheme		Discretionary Benefits	
	2020/21	2021/22	2020/21	2021/22
	£000	£000	£000	£000
Opening balance at 1 April	**45,570**	**55,930**	**-**	**-**
Interest income on assets	1,020	1,170	-	-
Remeasurement gains/(losses) on assets	10,500	(1,430)	-	-
Employer contributions	-	-	50	50
Contributions by scheme participants	70	80	-	-
Net benefits paid out	(350)	(600)	(50)	(50)
Settlements	(880)	-	-	-
Closing balance at 31 March	**55,930**	**55,150**	**-**	**-**

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	2017/18	2018/19	2019/20	2020/21	2021/22
	£000	£000	£000	£000	£000
Fair value of LGPS assets	**45,980**	**48,300**	**45,570**	**55,930**	**59,310**
Present value of liabilities:					
- LGPS liabilities	(38,950)	(39,520)	(42,750)	(46,900)	(48,910)
- Impact of minimum funding	(7,030)	(8,780)	(2,820)	(9,030)	-
Surplus/(Deficit) on funded defined benefit scheme	**-**	**-**	**-**	**-**	**6,240**
Discretionary benefits	(960)	(900)	(840)	(870)	(670)
Total Surplus/(Deficit)	**(960)**	**(900)**	**(840)**	**(870)**	**5,570**

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 £49.58m and the unfunded liability of £0.670m have an impact on the net worth of the Authority recorded on the balance sheet, resulting in a net pension surplus balance of £5.570m. However, statutory arrangements for funding the liabilities mean that the financial position of the

- 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 2023 is nil. In addition, Strain on the Fund contributions may be required. Expected payments direct to beneficiaries in the year to 31 March 2023 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	
	2020/21	2021/22	2020/21	2021/22
Mortality assumptions:				
Longevity at 65 for current pensioners:				
- Men	21.9	21.5	21.9	21.8
- Women	25.1	24.5	25.1	25.0
Longevity at 65 for future pensioners:				
- Men	23.6	22.8	n/a	n/a
- Women	26.9	26.0	n/a	n/a
Principal financial assumptions (% per annum)				
Rate for discounting scheme liabilities	2.1%	2.8%	2.1%	2.8%
Rate of inflation - Consumer Price Index	2.7%	3.1%	2.7%	3.1%
Rate of increase in pensions	2.7%	3.1%	2.7%	3.1%
Pension accounts revaluation rate	2.7%	3.1%	n/a	n/a
Rate of increase in salaries	4.2%	4.6%	n/a	n/a

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

	31 March 2021	31 March 2022		
	% Total	% Quoted	% Unquoted	% Total
Equity investments	55.5%	47.8%	9.2%	57.0%
Property	7.9%	0.0%	8.4%	8.4%
Government bonds	2.2%	2.0%	0.0%	2.0%
Corporate bonds	19.8%	18.8%	0.0%	18.8%
Cash	4.0%	1.8%	0.0%	1.8%
Other*	10.6%	4.8%	7.2%	12.0%
Total	**100.0%**	**75.2%**	**24.8%**	**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	
	2020/21	2021/22
	£000	£000
Interest Income on Assets	1,020	1,170
Remeasurement gain/(loss) on assets	10,500	(1,430)
Actual Return on Assets	**11,520**	**(260)**

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)	48.27	48.91	49.59
% change in present value of total obligation	-1.3%	0	1.4%
Projected service cost (£M)	0.47	0.48	0.49
Approximate % change in projected service cost	-2.8%	0	2.8%

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)	48.91	48.91	48.91
% change in present value of total obligation	0.0%	0	0.0%
Projected service cost (£M)	0.48	0.48	0.48
Approximate % change in projected service cost	0.0%	0	0.0%

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	49.55	48.91	48.27
% change in present value of total obligation	1.3%	0	-1.3%
Projected service cost (£M)	0.49	0.48	0.47
Approximate % change in projected service cost	2.8%	0	-2.8%

Post retirement mortality assumption	- 1 year	Base Figure	+ 1 year
Adjustment to mortality age rating assumption *			
Present value of total obligation (£M)	50.62	48.91	47.25
% change in present value of total obligation	3.5%	0	3.4%
Projected service cost (£M)	0.50	0.48	0.46
Approximate % change in projected service cost	4.1%	0	4.0%

* 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. The assumed rates of future mortality have been increased to reflect a slightly more negative outlook, however, uncertainty still remains.

McCloud Judgement

In December 2018 the Government lost a Court of Appeal case (the "McCloud/Sargeant" judgement) which found that the transitional protection arrangements put in place when the firefighters' and judges' pension schemes were reformed amount to illegal age discrimination. The Government has acknowledged that the difference in treatment will need to be remedied across all public service schemes, including the LGPS. Protections applied to all active members of schemes who were within 10 years of their Normal Pension Age on 1 April 2012. In relation to the LGPS all members joined the new Scheme for membership after 1 April 2014 (2015 for NI), but members within 10 years of normal retirement were given an underpin (or "better of both") promise, so their benefits earned after that date would be at least as valuable in terms of amount and when they could be drawn, as if they had remained in the pre-reformed final salary scheme.

Figures produced by Aon last year included a McCloud "underpin" liability within the current service cost, together with an allowance within the balance sheet reflecting service since the scheme reforms (2014 in England and Wales, and 2015 in Northern Ireland). For accounting periods ending in 2022 the same approach as last year has been adopted, using a roll-forward method based on last year's results.

In summary it was assumed the remedy applies to all members in service on 1 April 2012 for service after the scheme reform date, on retirement or prior withdrawal, and with extension to benefits payable to the dependents of those members. Figures are calculated using an average cost factor for each individual active member based on their age, sex, and pensionable pay in the latest valuation data. On grounds of practicality and pragmatism only the active membership data in the latest valuation is considered (any potential liabilities for members who have left employment between the date of the scheme reforms and the latest valuation data are unlikely to be significant for most employers).

The method for valuing the McCloud remedy is closely aligned with the method proposed by MHCLG (now DLUHC) in its consultation issued in July 2020.

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 on or after 6 April 2016.

On 7 October 2020 MHCLG (now DLUHC) 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 Government announced on 23 March 2021 that it would compensate members in line with full indexation for members whose SPA is on or after 06 April, 2016.

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, the Government has not indicated an approach to rectifying this 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 2021 £000	31 March 2022 £000
General Fund Balance		(7,894)	(8,572)
Earmarked Reserves	21	(11,452)	(11,305)
Capital Receipts Reserve		-	-
Capital Grants Unapplied Reserve		(23,686)	(60,986)
Total		**(43,032)**	**(80,863)**

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 2020	Transfers Out 2020/21	Transfers In 2020/21	Balance at 31 March 2021	Transfers Out 2021/22	Transfers In 2021/22	Balance at 31 March 2022
	£000	£000	£000	£000	£000	£000	£000
Metro Reinvigoration Reserve	(5,150)	-	(14)	**(5,164)**	891	-	(4,273)
Metro Fleet Replacement Reserve	(5,625)	-	(16)	**(5,641)**	-	(31)	(5,672)
Metro and Rail Studies	-	-	(389)	**(389)**	-	(712)	(1,101)
Nexus contribution to Bus Partnership Project	-	-	(258)	**(258)**	-	-	(258)
Total	**(10,775)**	**-**	**(677)**	**(11,452)**	**891**	**(743)**	**(11,304)**

Note 22: Unusable Reserves

Summary

	31 March 2021 £000	31 March 2022 £000
Capital Adjustment Account	(53,027)	(54,816)
Financial Instruments Adjustment Account	309	170
Revaluation Reserve	(4,436)	(4,340)
Pension Reserve	870	(5,570)
Total	**(56,284)**	**(64,556)**

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.

	2020/21 £000	2021/22 £000
Opening Balance 1 April	**(68,819)**	**(53,027)**
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	2,402	2,385
Other income that cannot be credited to the General Fund	(2,824)	(2,814)
Revenue expenditure funded from capital under statute	10,391	12,125
Write down of long term debtors	841	807
Adjusting amounts written out of the Revaluation Reserve	**(102)**	**(96)**
Capital financing applied in the year:		
Capital grants and contributions credited to the CIES that have been applied to capital financing	(8,947)	(11,959)
Statutory provision for the financing of capital investment	(1,391)	(993)
Capital expenditure charged against the General Fund	(19)	(437)
Debt redeemed using capital receipts	(841)	(807)
Balance at 31 March	**(53,027)**	**(54,816)**

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.

	2020/21	2021/22
	£000	£000
Opening Balance 1 April	**3,092**	**309**
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	(225)	(140)
Balance at 31 March	**309**	**169**

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.

	2020/21	2021/22
	£000	£000
Opening Balance 1 April	**(4,538)**	**(4,436)**
Difference between fair value depreciation and historical cost depreciation written off to the CAA	102	96
Balance at 31 March	**(4,436)**	**(4,340)**

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.

	2020/21	2021/22
	£000	£000
Opening Balance 1 April	**840**	**870**
Remeasurements of the net defined benefit liability (asset)	360	(6,720)
Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the CIES	(280)	330
Employer's pension contributions and direct payments to pensioners payable in the year	(50)	(50)
Balance at 31 March	**870**	**(5,570)**

Note 23: Capital Expenditure and Capital Financing

	2020/21 £000	2021/22 £000
Opening Capital Financing Requirement 1 April	**102,866**	**102,776**
Capital Investment		
Property, Plant and Equipment	717	437
Revenue Expenditure Funded from Capital Under Statute	10,391	12,125
Sources of Finance		
Capital receipts - repayment of principal from long term debtors	(841)	(807)
Government Grants and other contributions	(8,947)	(11,959)
Sums set aside from revenue		
Direct revenue contributions	(19)	(437)
Minimum Revenue Provision	(975)	(993)
Additional Voluntary Provision	(416)	-
Closing Capital Financing Requirement 31 March	**102,776**	**101,142**
Decrease in underlying need to borrow (unsupported by government financial assistance)	**(90)**	**(1,634)**

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

	2020/21 £000	2021/22 £000
Surplus on the provision of services	16,673	39,383
Adjustments to Surplus on Provision of Services for Non-Cash Movements		
Depreciation and Impairment	2,402	2,385
Increase/(Decrease) in Creditors	(86)	16,778
(Increase)/Decrease in Debtors	17,067	4,178
Movement in Pension Liability	(330)	280
Other non-cash items charged to the net surplus on the provision of services	(3,053)	(2,814)
	16,000	**20,807**
Adjustments for items included in the net surplus on the provision of services that are investing and financing activities		
Capital grants credited to surplus on provision of services	(25,271)	(49,259)
Net cash flow from operating activities	**7,402**	**10,931**

The cash flows for operating activities include the following items:

	2020/21 £000	2021/22 £000
Interest received	963	950
Interest paid	(4,057)	(3,820)

Note 25: Cash Flow Statement - Investing Activities

	2020/21 £000	2021/22 £000
Purchase of property, plant and equipment, investment property and intangible assets	150	250
Purchase of short-term and long-term investments	(41,592)	(159,968)
Proceeds from short-term and long-term investments	65,445	104,559
Other receipts from investing activities	27,737	46,950
Net cash flows from investing activities	**51,740**	**(8,209)**

Note 26: Cash Flow Statement - Financing Activities

	2020/21 £000	2021/22 £000
Repayments of short and long-term borrowing	(838)	(893)
Net cash flows from financing activities	**(838)**	**(893)**

Note 26a: Reconciliation of liabilities arising from Financing Activities

	1 April 2021	Financing Cash Flows	Changes which are not financing cash flows		31 March 2022
			Acquisition	Other	
	£000	£000	£000	£000	£000
Long term borrowings	(94,275)	708	-	-	(93,567)
Short term borrowings	(1,274)	-	-	8	(1,266)
Total Liabilities from financing activities	**(95,549)**	**708**	**-**	**8**	**(94,833)**

	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)**

Note 27: Accounting Standards Issued, Not Yet Adopted

Impact of the adoption of new accounting standards on the 2021/22 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.

Property Plant and Equipment: Amendment to IAS 16 'regarding proceeds from selling items produced while bringing an asset into the location and condition necessary for it to be capable of operating in the manner intended by management'.

The above changes in accounting requirements for 2021/22 are minor amendments and are not anticipated to have a material impact on the Authority or the Group's financial performance or financial position.

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 2022 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 2022 and the projected service cost for the year ending 31 March 2023 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 £48.27m, a variance of £0.47m, whereas a decrease of (0.1%) p.a. results in an increase to £49.59m, a variance of £0.49m. 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 £0.49m to £49.55m, whereas a decrease of (0.1%) p.a. results in a decrease to £48.27m, a variance of £0.47m. 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 £50.62m, an increase of £0.5m, whereas an adjustment of +1 year results in a reduction to £47.25m, a variance of £0.46m. The percentage change in the present value of the total obligation would be 3.5% and (3.4%) respectively.
Property, plant and equipment	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets.	The impact of a change in valuation or useful life would be to affect the carrying value of the asset in the balance sheet and the charge for depreciation or impairment in the CIES. These changes do not have an impact on the Authority's General Fund position as funding for such non-cash charges does not come from local authority contributions and grants. Accumulated depreciation totalled £32m as at 31 March 2022 and a change in methodology resulting in a 1% movement would only change the Balance Sheet by £0.32m

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 2024/25	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
Covid-19	The exact consequences of the outbreak of the Covid-19 virus are still unknown. Some areas of concern are:- - Reduction in Government Funding to Local Authorities - Possible reduction in income from the Tyne Tunnels due to changes in working practices '- Reduction to passenger numbers on Bus and Rail services due to changes in working practices - Pension Scheme Assets	Possiblity 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. Reduction in passenger numbers would impact on the finances of NEXUS the provider of passenger transport for the Authority. The Authority's gross 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 2021/22 financial year and its position at the year-end of 31 March 2022. 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 2021/22, supported by International Financial Reporting Standards (IFRS).

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

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

2. Accruals of Income and Expenditure

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

- Revenue from the sale of goods is recognised when the Authority transfers the significant risks and rewards of ownership to the purchaser and it is probable that the economic benefits or service potential associated with the transaction will flow to the Authority.
- Revenue from the provision of services is recognised when the Authority can measure 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 on the basis of the effective interest rate for the relevant financial instrument, rather than the cash flows fixed or determined by the contract.

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

3. Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in less than 90 days from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value. In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Authority's cash management.

4. Exceptional Items

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

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

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

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

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

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

6. Charges to Revenue for Non-Current Assets

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

- Depreciation attributable to the assets used by the relevant service
- Revaluation and impairment losses on assets used by the 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 2021/22

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

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

- 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 (Excluding Highways Infrastructure Assets)

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:

· 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: Plant and Equipment 10-30 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. 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 de minimis 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 de minimis level. For all capital expenditure the de minimis level is £10,000.

Impairment

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

Where impairment losses are identified, they are accounted for 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 2022, 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.

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. Property, Plant and Equipment (Highways Infrastructure Assets)

Highways infrastructure assets include carriageways, footways and cycle tracks, structures (e.g. bridges and tunnels), street lighting, street furniture (e.g. illuminated traffic signals, bollards), traffic management systems and land which together form a single integrated network. NECA holds highways infrastructure assets in the form of the Tyne Tunnels - the two vehicle tunnels and the pedestrian and cyclist tunnels.

Recognition

Expenditure on the acquisition or replacement of components of the network is capitalised on an accrual basis, provided that it is probable that the future economic benefits associated with the item will flow to the authority and the cost of the item can be measured reliably.

Measurement

Highways infrastructure assets are generally measured at depreciated historical cost. However, this is a modified form of historical cost - opening balances for highways infrastructure assets were originally recorded in balance sheets at amounts of capital undischarged for sums borrowed at 1 April 1994, which was deemed at that time to be historical cost.

Impairment

Where impairment losses are identified, they are accounted for by the carrying amount of the asset being written down to the recoverable amount.

Depreciation

Depreciation is provided on the parts of the highways infrastructure assets that are subject to deterioration or depletion and by the systematic allocation of their depreciable amounts over their useful lives. Depreciation is charged on a straight-line basis.

Annual depreciation is the depreciation amount allocated each year.

Useful lives of the various parts of the highways network have been assessed by the authority using industry standards where applicable as follows:

- Structures (Tunnels) - useful life of up to 120 years

Disposals and derecognition

When a component of the network is disposed of or decommisioned, the carrying amount of the component in the Balance Sheet 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).

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

15. Public Private Partnership (PPP) Contracts

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

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

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

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

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

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

The provisions within the Payment Mechanism for payment of toll revenue to the operator are as follows:
- In each month NECA pays a Shadow Toll to the Operator; this being a fixed amount per vehicle, adjusted for changes in RPI;
- Throughout the Term, Formula Tolls for each vehicle type are defined to equal the corresponding vehicle Shadow Tolls;
- The Formula Tolls are the initially-defined sequence of tolls to be charged to users and collected by NECA. If NECA varies a Real Toll from its corresponding Formula Toll beyond a certain level, the Operator is compensated for the effect of this adjustment on demand.

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

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

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

16. 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.

17. 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 2021/22.

18. 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.

19. 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.

20. 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.

21. 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.

22. 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.

23. Group Accounts

NECA is required by the Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 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 2021/22 accounts, NECA has fully complied with the requirements of the Code, providing Group figures for 2021/22 and comparators for 2020/21. 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.

24. 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.

In May 2022, the CIPFA LASAAC Local Authority Code Board announced an urgent consultation on temporary proposals to update of the Code of Practice on Local Authority Accounting in the United Kingdom for infrastructure assets. The proposals are intended to address issues raised by audit firms in relation to the derecognition (removal of the carrying amount) of parts of infrastructure assets when replacement expenditure is undertaken. The outcome of the consultation, which closes in June 2022, may require changes to the value of infrastructure reported in the 2021/22 accounts.

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 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	G14	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)**	**(56,283)**	**(99,316)**	**(270,767)**	**(370,084)**
Total Comprehensive Income and Expenditure		(39,383)	(6,720)	**(46,103)**	(55,578)	(101,681)
Adjustments between accounting basis & funding basis under regulations	G14	1,553	(1,553)	**-**	-	-
(Increase)/Decrease in 2021/22		**(37,830)**	**(8,273)**	**(46,103)**	**(55,578)**	**(101,681)**
Balance at 31 March 2022 carried forward		**(80,863)**	**(64,556)**	**(145,419)**	**(326,345)**	**(471,765)**

3.2 Group Comprehensive Income and Expenditure Statement

2020/21					2021/22		
Gross Expenditure	Gross Income	Net Expenditure		Note	Gross Expenditure	Gross Income	Net Expenditure
£000	£000	£000			£000	£000	£000
			Continuing NECA Services				
574	(781)	(207)	Corporate		941	(162)	779
73	-	73	Transport - Retained Levy Budget		338	-	338
15,456	-	15,456	Transport - Durham		15,457	-	15,457
102,107	(47,022)	55,085	Transport - Tyne and Wear		106,199	(50,863)	55,336
7,576	(27,606)	(20,030)	Transport - Other		13,736	(45,051)	(31,315)
13,267	(14,234)	(967)	Transport - Tyne Tunnels		13,673	(17,983)	(4,310)
3,878	(3,878)	-	Covid-19 Grants		893	(10,188)	(9,295)
142,931	**(93,521)**	**49,410**	**Cost of Services**		**151,237**	**(124,247)**	**26,991**
9,039	(4,195)	4,844	**Financing and Investment Income and Expenditure**	G03	9,650	(4,989)	**4,661**
-	(81,465)	(81,465)	**Taxation and Non-Specific Grant Income**	G04	-	(97,089)	**(97,089)**
		-	**(Gain)/Loss on disposal or derecognition of non-current assets**		17	(697)	**(680)**
		(27,211)	**Surplus on the Provision of Services**				**(66,117)**
		(311)	**Taxation of Group Entities**				**773**
		(27,522)	**Group Surplus**				**(65,344)**
		4,331	Re-measurement of the defined benefit liability	G12			(36,337)
		4,331	**Other Comprehensive Income and Expenditure**				**(36,337)**
		(23,192)	**Total Comprehensive Income and Expenditure**				**(101,681)**

3.3 Group Balance Sheet

31 March 2021 £000		Note	31 March 2022 £000
492,886	Property, Plant and Equipment	G6	521,676
2,974	Intangible Assets	G7	3,263
-	Long Term Debtors	G8	(0)
1	Long Term Investments	G8	1
-	Net Pension Asset	G12	5,570
495,860	**Long Term Assets**		**530,510**
34,383	Short Term Investments	G8	89,792
14,806	Short Term Debtors	G9	11,704
52,493	Cash and Cash Equivalents	G10	47,913
504	Inventories		503
102,185	**Current Assets**		**149,912**
(1,274)	Short Term Borrowing	G8	(1,266)
(26,065)	Short Term Creditors	G11	(34,485)
(3,356)	Grants Receipts in Advance	G5	(1,220)
(2,824)	New Tyne Crossing Deferred Income		(2,814)
(33,519)	**Current Liabilities**		**(39,785)**
(45,184)	New Tyne Crossing Deferred Income		(42,207)
(94,276)	Long Term Borrowing	G8	(93,568)
(50,015)	Pension Liability	G12	(28,518)
(3,152)	Provisions		(1,998)
(1,816)	Deferred Taxation	G13	(2,582)
(194,443)	**Long Term Liabilities**		**(168,873)**
370,083	**Net Assets**		**471,764**
(71,372)	Usable Reserves	G14	(111,559)
(298,711)	Unusable Reserves	G15	(360,205)
(370,083)	**Total Reserves**		**(471,764)**

Chief Finance Officer Certificate

I certify that the accounts set out on pages 77 to 107 give a true and fair view of the financial position of the North East Combined Authority Group as at the 31 March 2022.

Signed: Paul Darby, Chief Finance Officer

3.4 Group Cash Flow Statement

2020/21 £000		Note	2021/22 £000
27,211	Surplus on the provision of services	G16	65,344
47,919	Adjustments to net surplus or deficit on the provision of services for non-cash movements	G16	55,486
(58,890)	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	G16	(97,545)
16,240	**Net cash flows from Operating Activities**	G16	**23,285**
43,089	Investing Activities	G17	(24,389)
(3,383)	Financing Activities	G18	(3,476)
55,946	**Net (Decrease)/Increase in cash and cash equivalents**		**(4,581)**
38,685	Cash and cash equivalents at the beginning of the reporting period		52,493
(42,138)	Transfer to the NTCA		-
52,493	**Cash and cash equivalents at the end of the reporting period**	G10	**47,912**

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 2021/22, 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 in Note 30 - Accounting Policies.

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.

Note G02: Expenditure and Funding Analysis

	2021/22				
	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	279	-	500	-	779
Transport - Retained Levy Budget	625	(287)	-	-	338
Transport - Durham	15,457	-	-	-	15,457
Transport - Tyne and Wear	30,411	16,434	8,491	-	55,336
Transport - Other	5,386	(36,700)	-	-	(31,314)
Transport - Tyne Tunnels	(2,487)	(1,773)	(50)	-	(4,310)
Covid-19 Grants	(9,295)	-	-	-	(9,295)
Cost of services	**40,376**	**(22,326)**	**8,941**	**-**	**26,991**
Other Income and Expenditure	(42,575)	(49,760)	-	(773)	**(93,108)**
(Surplus)/Deficit on Provision of Services	**(2,199)**	**(72,086)**	**8,941**	**(773)**	**(66,117)**
Opening General Fund Balances	(47,685)				
Closing General Fund Balances	**(49,884)**				

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.

	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	24,323	16,352	14,410	-	55,085
Transport - Other	(6,001)	(14,029)	-	-	(20,030)
Transport - Tyne Tunnels	736	(1,653)	(50)	-	(967)
Covid-19 Grants	-	-	-	-	-
Cost of services	**34,968**	**382**	**14,060**	**-**	**49,410**
Other Income and Expenditure	(41,899)	(34,807)	-	86	**(76,620)**
(Surplus)/Deficit on Provision of Services	**(6,931)**	**(34,425)**	**14,060**	**86**	**(27,210)**
Opening General Fund Balances	(54,418)				
Transfer of services to NTCA 1 April 2020	13,664				
Closing General Fund Balances	**(47,685)**				

Note G02a: Income and Expenditure Analysed by Nature

	2020/21 £000	2021/22 £000
Expenditure		
Employee benefit expenses	23,546	21,762
Other service expenses	90,931	94,517
Support Services Recharges	2,940	3,352
Depreciation, impairment and Revenue Expenditure Funded from Capital Under Statute (REFCUS)	25,514	31,623
Interest payments	9,039	9,651
Total expenditure	**151,970**	**160,905**
Income		
Fees, charges and other service income	(24,500)	(38,369)
Interest and investment income	(4,195)	(4,989)
Income from transport levy	(49,349)	(49,271)
Government grants and contributions	(97,361)	(130,536)
Other income	(3,776)	(3,857)
Total income	**(179,181)**	**(227,022)**
Surplus on the provision of services	**(27,211)**	**(66,117)**

Note G03: Financing and Investment Income and Expenditure

	Note	2020/21	2021/22
		£000	£000
Interest Payable and Similar Charges		4,211	4,157
Interest Payable on defined benefit liability	G12	1,027	836
Interest Receivable and similar income		(394)	(331)
Total		**4,844**	**4,662**

Note G04: Taxation and Non-Specific Grant Income

	Note	2020/21	2021/22
		£000	£000
Transport Levy		(49,349)	(49,230)
Non-Specific Capital Grants		(32,115)	(47,860)
Total		**(81,464)**	**(97,090)**

Note G05: Grant Income

		2020/21	2021/22
		£000	£000
Local Authority Contributions to NECA		(161)	(276)
Local Growth Fund		(679)	(15)
Local Transport Plan		(7,736)	(7,755)
European Grants		(176)	-
North East Smart Ticketing Initiative		(113)	-
Transforming Cities Fund		(13,907)	(31,595)
Office for Low Emission Vehicles		(70)	(41)
COVID-19 Grants		(23,371)	(10,520)
Other Grants		(6,449)	(10,188)
Active Travel Fund		-	(689)
Bus Recovery Grant		-	(1,469)
Metro Rail Grant		(14,746)	(16,792)
Heavy Rail Grant		(146)	-
Nexus Non-Specific Grants		(31,374)	(1,006)
Total		**(98,928)**	**(80,346)**

Note G06: Property, Plant and Equipment

	2021/22					
	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 2021	19,618	657,747	34,748	2,209	714,322	219,001
Additions	-	260	50,156	-	50,416	260
Transfers from Assets Under Construction	76	11,535	(11,611)	-	-	-
Transfers to Intangibles	-	-	(32)	-	(32)	-
Derecognition - Disposals	(22)	(1,106)	(24)	(148)	(1,300)	-
Revaluation Recognised in Revaluation Reserve	-	-	-	-	-	-
Impairment recognised in the Surplus/Deficit on the Provision of Services	-	-	-	-	-	-
Other Adjustments	-	(3,138)	-	-	(3,138)	-
At 31 March 2022	**19,672**	**665,298**	**73,237**	**2,061**	**760,268**	**219,261**
Accumulated Depreciation and Impairment						
At 1 April 2021	(14,258)	(205,509)	-	(308)	(220,075)	(30,879)
Depreciation charge	(645)	(18,532)	-	(14)	(19,191)	(2,218)
Derecognition - Disposals	22	511	-	141	674	-
At 31 March 2022	**(14,881)**	**(223,530)**	**-**	**(181)**	**(238,592)**	**(33,097)**
Net Book Value						
At 1 April 2021	**5,360**	**452,238**	**34,748**	**1,901**	**494,247**	**188,122**
At 31 March 2022	**4,791**	**441,768**	**73,237**	**1,880**	**521,676**	**186,164**

	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	634,079	25,823	1,812	682,924	219,358
Additions	-	528	36,354	-	36,882	528
Transfers from Assets Under Construction	677	26,727	(27,404)	-	-	-
Transfers between categories	(590)	-	-	590	-	-
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	-	(2,227)	-	-	(2,227)	(865)
At 31 March 2021	**19,618**	**656,385**	**34,748**	**2,209**	**712,960**	**219,001**

Accumulated Depreciation and Impairment						
At 1 April 2020	(14,075)	(189,336)	-	(415)	(203,826)	(28,657)
Depreciation charge	(858)	(17,948)	-	(23)	(18,829)	(2,222)
Derecognition - Disposals	675	1,775	-	130	2,580	-
At 31 March 2021	**(14,258)**	**(205,509)**	**-**	**(308)**	**(220,075)**	**(30,879)**

Net Book Value						
At 1 April 2020	**7,135**	**444,743**	**25,823**	**1,397**	**479,098**	**190,701**
At 31 March 2021	**5,360**	**450,876**	**34,748**	**1,901**	**492,885**	**188,122**

Note G07: Intangible Assets

Intangible assets in the Group Accounts relate wholly to Nexus.

	2020/21 £000	2021/22 £000
Cost or Valuation		
Opening Balance	5,962	6,705
Additions	767	566
Transfers from assets under construction	-	32
Derecognition - Disposals	(24)	(1)
Total	**6,705**	**7,302**
Amortisation		
Opening Balance	(3,461)	(3,732)
Amortisation provided during the period	(271)	(307)
Total	**(3,732)**	**(4,039)**
Net Book Value at 31 March	**2,973**	**3,263**

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 2021	31 March 2022	31 March 2021	31 March 2022	31 March 2021	31 March 2022	31 March 2021	31 March 2022
	£000	£000	£000	£000	£000	£000	£000	£000
Amortised cost	1	1	-	-	34,383	89,792	14,108	11,552
Total financial assets	1	1	-	-	34,383	89,792	14,108	11,552
Non-financial assets	-	-	-	-	-	-	698	1,232
Total	**1**	**1**	**-**	**-**	**34,383**	**89,792**	**14,806**	**12,784**

Financial assets at amortised cost

Financial assets are classified at amortised cost only if both of the following criteria are
- 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 2021	31 March 2022	31 March 2021	31 March 2022	31 March 2021	31 March 2022	31 March 2021	31 March 2022
	£000	£000	£000	£000	£000	£000	£000	£000
Amortised cost	(94,276)	(93,568)	-	-	(1,274)	(1,266)	(18,138)	(700)
Total financial liabilities	(94,276)	(93,568)	-	-	(1,274)	(1,266)	(18,138)	(700)
Non-financial liabilities	-	-	-	-	-	-	(7,927)	(34,866)
Total	**(94,276)**	**(93,568)**	**-**	**-**	**(1,274)**	**(1,266)**	**(26,065)**	**(35,566)**

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 2021				31 March 2022		
£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
4,211	-	4,211	Interest expense	4,157	-	4,157
4,211	**-**	**4,211**	**Total expense in Surplus on Provision of Services**	**4,157**	**-**	**4,157**
-	(394)	(394)	Investment income	-	(501)	(501)
-	**(394)**	**(394)**	**Total income in Surplus on Provision of Services**	**-**	**(501)**	**(501)**
4,211	**(394)**	**3,817**	**Net (gain)/loss for the year**	**4,157**	**(501)**	**3,656**

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

- 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 2021 Carrying amount £000	31 March 2021 Fair value £000	31 March 2022 Carrying amount £000	31 March 2022 Fair value £000
Financial liabilities held at amortised cost	2	(95,550)	(151,970)	(94,834)	(136,768)
Total		**(95,550)**	**(151,970)**	**(94,834)**	**(136,768)**
Financial Assets at amortised cost					
Held to maturity investments		34,843	34,843	89,792	89,792
Total		**34,843**	**34,843**	**89,792**	**89,792**

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 2021 £000	31 March 2022 £000
Central Government bodies	6,153	9,375
Other local authorities	6,221	1,304
NHS bodies	1	1
Other entities and individuals	2,431	1,025
Total	**14,806**	**11,704**

Note G10: Cash and Cash Equivalents

	31 March 2021 £000	31 March 2022 £000
Cash	34,747	32,717
Short-term deposits with financial institutions	17,746	15,196
Total	**52,493**	**47,913**

Note G11: Short Term Creditors

	31 March 2021 £000	31 March 2022 £000
Central government bodies	(3,287)	(9,870)
Other local authorities	(4,392)	(5,493)
Other entities and individuals	(18,386)	(19,122)
Total	**(26,065)**	**(34,485)**

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 £22.948m (2021 £50.015m) is the sum of the NECA, Nexus and NEMOL pension liability.

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	
	2020/21	2021/22	2020/21	2021/22
	£000	£000	£000	£000
Cost of Services:				
Current service cost [1]	9,535	10,767	-	-
Past service cost	-	22	-	-
Settlement cost	(620)	-		-
Exceptional loss on transfer of pension liability	(992)	-	-	-
Financing and Investment Income and Expenditure		-		-
Interest cost	4,774	5,446	53	48
Expected Return on Scheme Assets	(3,800)	(4,658)	-	-
Total Post-Employment benefit charged to the Surplus or Deficit on the Provision of Services	**8,898**	**11,577**	**53**	**48**
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	(50,604)	-	-	(170)
Remeasurement of the net Defined Benefit Liability	48,568	(35,952)	-	(216)
Adjustment in respect of paragraph 58	6,210	-	-	-
Total amount recognised in Other Comprehensive Income and Expenditure	**4,174**	**(35,952)**	**-**	**(386)**
Total amount recognised in CIES	**13,072**	**(24,375)**	**53**	**(338)**

1. The Current Service cost includes an allowance for administration expenses of £0.01m for NECA and £0.110m for the Nexus Group (of which £0.061m attributable to NECA).

Reconciliation of the Present Value of Scheme Liabilities:

	LGPS		Discretionary Benefits	
	2020/21	2021/22	2020/21	2021/22
	£000	£000	£000	£000
Opening balance at 1 April	**(271,818)**	**(318,620)**	**(2,381)**	**(2,329)**
Current service cost	(9,537)	(10,767)	-	-
Interest cost	(5,725)	(6,616)	(53)	(48)
Contributions by participants	(1,678)	(1,566)	-	-
Remeasurement of the net Defined Benefit liability	(47,487)	24,599	(122)	391
Net benefits paid out	6,600	6,717	227	216
Past service costs	-	(22)	-	-
Net increase in liabilities from disposals/acquisitions	(30)	-	-	-
Settlements	1,500	-	-	-
Net (increase)/decrease in liabilities from NEMOL/Stadler transfer	9,555	-	-	-
Closing balance at 31 March	**(318,620)**	**(306,275)**	**(2,329)**	**(1,770)**

Reconciliation of the Fair Value of the Scheme Assets:

	LGPS		Discretionary Benefits	
	2020/21	2021/22	2020/21	2021/22
	£000	£000	£000	£000
Opening balance at 1 April	**237,768**	**279,963**	**-**	**-**
Interest income on assets	4,819	5,828	-	-
Remeasurement gains/(losses) on assets	49,622	2,494	-	-
Employer contributions	2,118	1,962	68	216
Contributions by scheme participants	1,678	1,566	-	-
Net benefits paid out	(6,600)	(6,717)	(68)	(216)
Settlement costs	(880)	-	-	-
Net decrease in assets from Stadler transfer	(8,562)	-	-	-
Closing balance 31 March	**279,963**	**285,096**	**-**	**-**

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	2017/18	2018/19	2019/20	2020/21	2021/22
	£000	£000	£000	£000	£000
Fair value of LGPS assets	**335,520**	**220,327**	**237,767**	**279,963**	**290,317**
Present value of liabilities:					
- LGPS liabilities	(395,160)	(251,678)	(271,818)	(318,620)	(306,275)
- Impact of minimum funding	(7,030)	(8,780)	(2,820)	(9,030)	-
Deficit on funded defined benefit scheme	**(66,670)**	**(40,131)**	**(36,871)**	**(47,687)**	**(21,179)**
Discretionary benefits	(4,870)	(2,880)	(2,380)	(2,329)	(1,770)
Total (Deficit)	**(71,540)**	**(43,011)**	**(39,251)**	**(50,016)**	**(22,949)**

The split of the defined benefit obligation at the last valuation date between the various categories of members was as follows:

	NECA	Nexus
Active members	9%	37%
Deferred pensioners	13%	13%
Pensioners	78%	50%

The weighted average duration of the defined benefit obligation for scheme members is 13.5 years for NECA and 19.3 years for Nexus.

The liabilities show the underlying commitments that the Authority has in the long run to pay post employment (retirement) benefits. The total liability of £306.275m has an impact on the net worth of the Authority recorded on the balance sheet, resulting in a negative pension balance of £22.948m. 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 and £3.680m for Nexus (of which £2.02m is attributable to NECA).

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	
	2020/21	2021/22	2020/21	2021/22
Mortality assumptions:				
Longevity at 65 for current pensioners:				
Men	21.9	21.5	21.9	21.8
Women	25.0	24.5	25.1	25.0
Longevity at 65 for future pensioners:				
Men	23.6	22.8	n/a	n/a
Women	26.9	26.0	n/a	n/a
Rate for discounting scheme liabilities	2.1%	2.8%	2.1%	2.8%
Rate of inflation - Retail Price Index	n/a	n/a	n/a	n/a
Rate of inflation - Consumer Price Index	2.7%	3.1%	2.7%	3.1%
Rate of increase in pensions	2.7%	3.1%	2.7%	3.1%
Pension accounts revaluation rate	2.7%	3.1%	n/a	n/a
Rate of increase in salaries	4.2%	4.6%	n/a	n/a

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

	31 March 2021	31 March 2022		
	% Total	% Quoted	% Unquoted	% Total
Equity investments	55.5%	47.8%	9.2%	57.0%
Property	7.9%	0.0%	8.4%	8.4%
Government bonds	2.2%	2.0%	0.0%	2.0%
Corporate bonds	19.8%	18.8%	0.0%	18.8%
Cash	4.0%	1.8%	0.0%	1.8%
Other*	10.6%	4.8%	7.2%	12.0%
Total	**100.0%**	**75.2%**	**24.8%**	**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	
	2020/21	2021/22
	£000	£000
Interest Income on Assets	4,819	5,828
Remeasurement gain/(loss) on assets	49,622	8,521
Actual Return on Assets	**54,441**	**14,349**

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 2022 and the projected cost for the period ending 31 March 2023 is set out below. In each case, only the assumption mentioned is altered; all other assumptions remain the same and are summarised above.

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)	467.96	477.02	486.08
% change in present value of total obligation	-1.90%		1.90%
Projected service cost (£M)	16.73	17.34	17.96
Approximate % change in projected service cost	-3.50%		360.00%

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)	478.45	477.02	486.08
% change in present value of total obligation	0.30%		-0.36%
Projected service cost (£M)	17.34	17.34	17.34
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	484.65	477.02	469.39
% change in present value of total obligation	1.60%		-1.60%
Projected service cost (£M)	17.96	17.34	16.73
Approximate % change in projected service cost	3.60%		3.50%

Post retirement mortality assumption	-1 year	Base Figure	+1 year
Adjustment to mortality age rating assumption *			
Present value of total obligation (£M)	493.72	477.02	460.80
% change in present value of total obligation	3.50%		-3.40%
Projected service cost (£M)	18.03	17.34	16.65
Approximate % change in projected service cost	4.00%		-4.00%

* 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:

	2020/21 £000	2021/22 £000
Capital Allowances	153	465
Roll over relief on capital gains	-	-
Other timing differences	49	(3)
Tax effect of losses	(539)	311
Total	**(337)**	**773**

The balance at the year end comprises:

	31 March 2021 £000	31 March 2022 £000
Excess of capital allowances over depreciation	(1,725)	2,184
Roll over relief on capital gains	(683)	681
Other timing differences	54	(57)
Tax effect of losses	539	(226)
Total	**(1,815)**	**2,582**

Note G14: Usable Reserves

	31 March 2021 £000	31 March 2022 £000
General Fund Balance	(36,234)	(38,430)
Earmarked Reserves	(11,452)	(11,453)
Capital Receipts Reserve	-	(691)
Capital Grants Unapplied Reserve	(23,686)	(60,986)
Total	**(71,372)**	**(111,560)**

Note G15: Unusable Reserves

Summary

	31 March 2021 £000	31 March 2022 £000
Capital Adjustment Account	(343,230)	(377,614)
Financial Instruments Adjustment Account	309	169
Revaluation Reserve	(5,805)	(5,709)
Pension Reserve	50,016	22,947
Total	**(298,710)**	**(360,207)**

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 depreciation
- Disposed of and the gains are realised

The RR only contains revaluation gains accumulated since 1 April 2007, the date that the reserve was created. Accumulated gains arising before that date are consolidated into the balance on the CAA.

	£000
Opening Balance 1 April 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)**
Difference between fair value depreciation and historical cost depreciation written off to the CAA	96
Revaluation Gain recognised in Revaluation Reserve	-
Balance at 31 March 2022	**(5,709)**

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 2020	**31,625**
Remeasurements of the net defined benefit liability to 31 March 2020	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	16,290
Employer's pension contributions and direct payments to pensioners to 31 March 2020	(2,229)
Balance at 31 March 2021	**50,015**
Remeasurements of the net defined benefit liability to 31 March 2021	(36,338)
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	11,625
Employer's pension contributions and direct payments to pensioners to 31 March 2020	(2,354)
Balance at 31 March 2021	**22,948**

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 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	(43,013)
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 2021	**(343,230)**
Reversal of items relating to capital expenditure debited or credited to the CIES:	-
Charges for depreciation and impairment of non current assets	18,686
Other income that cannot be credited to the General Fund	(2,814)
Revenue expenditure funded from capital under statute	12,125
Write down of long term debtors	1,498
Non Current Assets written off on disposal	611
Adjusting amounts written out of the Revaluation Reserve	**(96)**
Capital financing applied in the year:	-
Capital grants and contributions credited to the CIES that have been applied to capital financing	(61,678)
Statutory provision for the financing of capital investment	(993)
Capital expenditure charged against the General Fund	(915)
Debt redeemed using capital receipts	(807)
Balance at 31 March 2022	**(377,613)**

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

	2020/21 £000	2021/22 £000
Surplus/(Deficit) on the provision of services	27,211	65,344
Adjustments to Surplus/(Deficit) on Provision of Services for Non-Cash Movements		
Depreciation, Impairment and Amortisation	19,119	19,498
Loss on disposal of non-current assets	2,043	(69)
(Increase)/Decrease in Creditors	19,973	43,373
Increase/(Decrease) in Debtors	170	(13,948)
Increase/(Decrease) in Inventories	1,495	(2)
Movement in Pension Liability	6,606	9,447
Other non-cash items charged to the net surplus or deficit on the provision of services	(1,487)	(2,814)
	47,919	**55,485**
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	(60,641)	(99,336)
Other adjustments for items that are financing or investing activities	1,751	1,791
Net cash flow from operating activities	**16,240**	**23,285**

The cash flows for operating activities include the following items:

	2020/21 £000	2021/22 £000
Interest received	963	950
Interest paid	(4,057)	(3,820)

Note G17: Cash Flow Statement - Investing Activities

	2020/21 £000	2021/22 £000
Purchase of property, plant and equipment, investment property and intangible assets	(36,794)	(50,305)
Purchase of short-term and long-term investments	(41,592)	(159,968)
Other payments for investing activities	-	-
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	-	697
Proceeds from short-term and long-term investments	61,973	84,615
Other receipts from investing activities	59,502	100,572
Net cash flows from investing activities	**43,089**	**(24,389)**

Note G18: Cash Flow Statement - Financing Activities

	2020/21 £000	2021/22 £000
Repayments of short and long-term borrowing	(1,679)	(1,671)
Other payments for financing activities	(1,704)	(1,805)
Net cash flows from financing activities	**(3,383)**	**(3,476)**

Note G18a: Reconciliation of liabilities arising from Financing Activities

	1 April 2021	Financing Cash Flows	Changes which are not financing cash flows		31 March 2022
			Acquisition	Other	
	£000	£000	£000	£000	£000
Long term borrowings	(94,276)	708	-	-	(93,568)
Short term borrowings	(1,274)	-	-	8	(1,266)
Total Liabilities from financing activities	**(95,550)**	**708**	**-**	**8**	**(94,834)**

	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)
activities	**(96,370)**	**796**	**-**	**24**	**(95,550)**

Note G19: Capital Expenditure and Capital Financing

	£000
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**
Decrease in underlying need to borrow (unsupported by government financial assistance)	**(90)**

Opening Capital Financing Requirement 1 April 2021	**102,776**
Capital Investment	
Property, Plant and Equipment	50,416
Intangible Assets	576
Revenue Expenditure Funded from Capital Under Statute	12,125
Sources of Finance	
Capital receipts - repayment of principal from long term debtors	(807)
Government Grants and other contributions	(62,036)
Sums set aside from revenue	
Direct revenue contributions	(915)
Minimum Revenue Provision	(993)
Additional Voluntary Provision	-
Closing Capital Financing Requirement 31 March 2022	**101,142**
Decrease in underlying need to borrow (unsupported by government financial assistance)	**(1,634)**

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 2021/22

In partnership with

Durham County Council	Gateshead Council	South Tyneside Council	Sunderland City Council	North East LEP	NEXUS

Annual Governance Statement 2021/22

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 2022 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) to conduct a review of the effectiveness of the system of internal controls 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 All meetings have been held in person during 2021/22.

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 is in place 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 establishment 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 2021/22 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 2021/22 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 2021/22 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) A regular 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 Auditor's Annual Report 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 2021/22 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 2021/22 Report. The opinion of the Nexus Chief Internal Auditor for 2021/22 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 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 2021/22.

Section 8: Conclusion

We consider the governance and internal control environment operating during 2021/22 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 2021/22 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

Narrative Report for the Year ended 31 March 2022

North East Combined Authority Narrative Report 2021/22

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 2021/22 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 2022 and its financial position at that date.
- A look ahead to 2022/23 and beyond.

The Statement of Accounts sets out the financial performance of the Authority for the year ending 31 March 2022 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 2022/23, 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.

The Levelling Up White Paper was published in February 2022 and set out the Department for Levelling Up, Housing and Communities' ambition to spread opportunity more equally across the UK. The White Paper committed to extending devolution in England, including taking forward negotiations for an expanded Mayoral Combined Authority deal for the North East and reiterated the message of the Spending Review that the North East is eligible for a City Region Sustainable Transport Settlement (which could be valued between £600-650m) subject to the appropriate governance arrangements to agree and deliver funding. County Durham was named as one of nine areas selected to take forward proposals for devolved powers through a County Deal.

Revenue Financial Summary 2021/22

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 £117.289m was slightly lower than the revenue budget of £120.350m due to lower financing charges on the Tyne Tunnels and reprofiling of some Transport North East project based work, such as the Bus Service Improvement Plan/Enhanced Partnership and Active Travel Fund revenue work, into the 2022/23 financial year. Income received was £119.675m, which resulted in a net transfer to reserves of £2.386m which was used to fund capital expenditure charged to the revenue account, and carried forward to fund projects in 2022/23.

Table 1: Summary of Revenue Expenditure

	2021/22 Revised Budget	2021/22 Actual	Variance
	£000	£000	£000
Expenditure			
Joint Transport Committee			
- Retained Levy Budget	2,120	2,020	(100)
- Grant to Durham	15,457	15,457	-
- Grant to Nexus	57,813	57,813	-
- Grant to Northumberland	6,318	6,318	-
- Metro Futures Planning Studies	1,187	1,187	
- Tyne and Wear Levy Rebate	1,200	1,200	-
Tyne Tunnels			
- Contract Payments	20,411	20,011	(400)
- JTC costs	422	439	17
- Financing Costs	7,323	6,155	(1,168)
Other Transport Activity			-
- Transport North East	4,096	2,412	(1,684)
- Covid Grants	3,734	3,961	227
Corporate/Central Budget	269	316	47
Total Expenditure	**120,350**	**117,289**	**(3,061)**
Income			
External Grant Funding	(7,798)	(6,336)	1,462
Transport Levies	(84,095)	(84,095)	-
Tolls Income	(27,855)	(28,584)	(729)
Interest/Investment Income	(94)	(98)	(4)
Contributions from Constituent Authorities	(170)	(170)	-
Other Income	(395)	(392)	3
Total Income	**(120,407)**	**(119,675)**	**732**
Net Revenue Expenditure to fund from Reserves	**(57)**	**(2,386)**	**(2,329)**

This statement provides a comparison of the outturn position with the NECA (including JTC) revised revenue budget for 2021/22, 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 an increase in reserves from £99.316m at 31 March 2021 to £139.179m at 31 March 2022, mainly due to receipt during the year of capital grants (namely Transforming Cities Fund and Active Travel Fund) which are committed to fund capital expenditure in future years but which have not yet been claimed by the local authorities delivering the projects. There will be a corresponding decrease in the Capital Grant Unapplied reserve in 2022/23 as these projects are delivered and funding paid out.

The gross cost of services during the year including capital grants to third parties as well as revenue expenditure was £80.578m (£79.781m in 2020/21). 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 £7.016m (£30.325m in 2020/21). This was funded form sources including the Transport Levy, other contributions from Constituent Authorities and Government Grants. The net cost was lower in 2021/22 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.

Usable reserves totalled £80.862m at 31 March 2022, which included £11.305m earmarked reserves and £60.986m capital grants unapplied, representing funds committed to meet expenditure requirements in future years.

Capital Investment

Capital investment (including Nexus as part of the NECA Group) during the year totalled £113.112m. 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

	2021/22 Revised Programme	2021/22 Actual	Variance
	£000	£000	£000
Transforming Cities Fund Tranche 1	901	897	(4)
Transforming Cities Fund Tranche 2	12,939	7,460	(5,479)
Active Travel Fund Tranche 2	3,392	1,187	(2,205)
Electric Vehicle Charging	257	27	(230)
Ultra-Low Emission Vehicles – Taxi Project	49	1	(48)
Metro Asset Renewal Plan	23,684	17,015	(6,669)
Metro Fleet Replacement	64,215	59,206	(5,009)
Nexus Other Capital Projects	3,304	1,140	(2,164)
Metro Flow	20,632	14,131	(6,501)
Tyne Tunnels	1,200	791	(409)
Local Transport Plan	11,339	11,257	(82)
Total	**141,912**	**113,112**	**(28,800)**

***** 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 2021/22

	2021/22 Actual	
	£000	%
Local Transport Plan Grant	11,257	9.9%
Metro Capital Grant	16,149	14.3%
Metro Fleet Grant	59,206	52.3%
Transforming Cities Fund Grant	22,488	19.9%
Other Capital Grants	2,355	2.1%
Reserves	1,657	1.5%
Total Funding	**113,112**	**100.0%**

3. Treasury Management

The Balance Sheet on page 7 of the accounts shows external borrowing of £94.834m at the end of the year, which is split between short term borrowing (£1.266m) and long term borrowing (£93.568m), after the allocation of part of the transport borrowing to NTCA accounts. This is a small decrease compared to balance of £95.550m 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 £89.792m in the NECA accounts at the end of the year compared to £34.383m at the end of the previous year. The total of investments included £34.535m of investments held on behalf of Nexus. A further £15.196m cash equivalents were held on behalf of Nexus. The increase compared to the previous year is due to NECA receiving a significant amount of transport capital grants during the year which have not yet been applied to fund capital expenditure on projects within the Transforming Cities Fund and Active Travel Fund programmes.

4. Debtors

The Balance Sheet on page 7 of the accounts shows a short-term debtors balance at 31 March 2022 of £1.890m (£5.050m at 31 March 2021). 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.

5. Creditors

Short term creditors at 31 March 2022 were £56.654m (£39.879m at 31 March 2021). 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 (£90.000m total creditor of which £49.731m is shown in the NECA accounts).

6. 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 £6.240m at 31 March 2022, compared with £9.030m at 31 March 2021.

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 2021/22. At the end of the year there was an unfunded liability of £0.670m (£0.870m at 31 March 2021) and this is disclosed on the Balance Sheet.

The deficit as at 31 March 2022 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.

7. Net Assets

Net assets in the NECA accounts have increased from £99.316m at 31 March 2021 to £145.419m at 31 March 2022. The increase/decrease is due to mainly to a significant amount of transport capital grants being received during the year which have not yet been applied to fund capital expenditure.

8. 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 77.

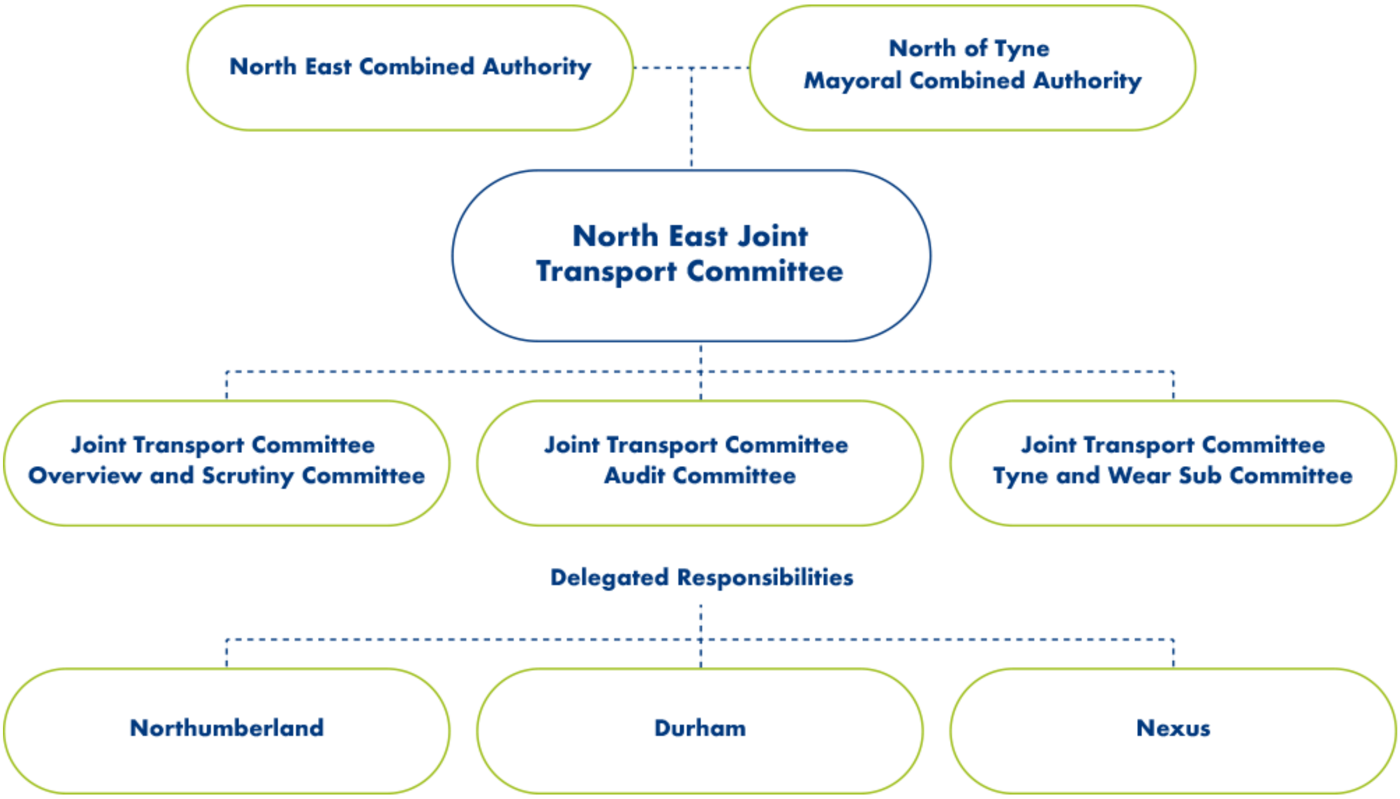
The Nexus accounts are apportioned between NTCA and NECA accounts (after elimination of intra-Group transactions), with the balance sheet information at 31 March 2022 allocated between the two Combined Authorities in proportion to their relative share of Tyne and Wear Population as set out in table 4. 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.

9. 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 2021/22 accounts the mid-year estimated population published by the Office of National Statistics as at June 2019 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 2022 is shown in Table 4 below.

Table 4 - Population used to allocate Transport Assets/Liabilities between NECA and NTCA

	Mid-Year 2019 Population	Proportion
	People	Proportion
NECA		
- Gateshead	202,055	
- South Tyneside	150,976	
- Sunderland	277,705	
	630,736	0.55257
NTCA		
- Newcastle	302,820	
- North Tyneside	207,913	
	510,733	0.44743
Tyne and Wear Total	**1,141,469**	

10. 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.

Expenditure and Funding Analysis (Statement of Accounts page 11)

The objective of the expenditure and funding analysis is to demonstrate to council tax payers how the funding available to the authority (i.e. government grants, levies, contributions) for the year has been used in providing services in comparison with those resources consumed or earned by authorities 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 service areas. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

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.

11. 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.

12. 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.

Transport

Since the formation of the North East Joint Transport Committee, the LA7 Authorities have been working together on shared transport priorities. Through the JTC we have collectively:

- Agreed a transformational Transport Plan up to 2035, backed by a pipeline of major projects aimed at delivering economic growth and reducing inequalities, carbon reduction and better health outcomes;

- Secured £208m capital funding to begin delivering on those schemes through the Transforming Cities Fund (TCF);
- Secured £362m of funding for a new fleet of Metro trains which, along with a frequency uplift delivered by the "Metro Flow" TCF scheme and the continuation of the Metro Asset Renewal Programme, will transform the quality and frequency of the Metro; and
- Been indicatively awarded £164m capital and revenue combined towards delivering our Bus Service Improvement Plan (BSIP).

In November 2021 the 'Tyne Pass' scheme for barrierless open road tolling was launched at the Tyne Tunnels. The barrierless scheme has modernised the payment system, reduced journey times and provides other benefits for the area, including significantly reduced carbon emissions and the creation of new local jobs.

Towards the end of 2021/22, traffic at the Tyne Tunnels has seen a return to almost pre-pandemic levels. It is still unclear whether the ongoing effects of Covid-19 restrictions and the 'work from home' culture combined with the increase in fuel prices will affect journey numbers throughout 2022.

Table 5 – Tyne Tunnel Traffic Flow data

	Class 1	Class 2	Class 3	Exempt	Total
2021/22	102,536	14,371,810	931,608	472,178	15,878,132
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 3.5 tonnes; Class 3 = LGV, Van or Bus more than 3.5 tonnes Exempt = emergency vehicles and blue badge holders

The tolls were increased in line with inflation on 1 May 2021 from £1.80 to £1.90 for Class 2 vehicles.

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 2021/22.

- The number of passenger journeys across all modes within Tyne and Wear in 2021/22 was estimated at 106.9 million, a 115.5% increase when compared to the 49.6 million in the previous year and a 30.8% decline when compared to 154.5 million in 2019/20.
  - Bus patronage was 81.4 million in 2021/22; a 104.5% increase when compared to 39.8 million in the previous year and a 31.8% decline when compared to 119.4 million in 2019/20.
  - Metro patronage was 24.2 million in 2021/22; a 157.4% increase when compared to 9.4 million in the previous year and a 26.9% decline when compared to 33.1 million in 2019/20.

- Ferry patronage was 0.269 million passengers in 2021/22; a 74.7% increase when compared to 0.154 million journeys in the previous year and 23.8% decline when compared to 0.353 million journeys in 2019/20.
- Rail patronage was 1.1 million journeys in 2021/22; a 340% increase when compared to 0.250 million journeys in the previous year and a 34.5% decline when compared to 1.680 million journeys in 2019/20.

- Metro reliability (operated mileage) was 95.3% during 2021/22, stable versus the figure of 95.8% achieved in the previous year.
- Metro reliability (Charter punctuality) was 82.8% during 2021/22, a decrease on the 87.4% 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 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 from Newcastle City Council and Nexus of staff working on regional Transport matters was completed.
- The majority of the NECA employees work on behalf of Transport North East with numbers growing in 2021/22 as the responsibilities of the team increase following successful bids for grant funding.

Table 6 – Change in Staffing numbers since 2015/16

	Total NECA Employees at the year end	Employed on behalf of North East LEP
2021/22	26	0
2020/21	16	0
2019/20	63	56
2018/19	43	39
2017/18	29	21
2016/17	21	18
2015/16	15	11

13. Looking Ahead

NECA continues to focus on working with delivery partners on its thematic areas of Transport, Economic Development and Digital, and Finance, Skills and Employability. Key areas of focus for the year ahead are detailed below.

Transport

During 2022/23 the North East Joint Transport Committee will put in place a formal Enhanced Partnership (EP) with bus operators. An EP is where local transport authorities and bus operators agree a detailed partnership plan (a Bus Service Improvement Plan) that is refined through consultation. A series of partnership schemes are built into the final agreed EP plan. The region's first BSIP unveiled a £804m bid to government which would dramatically transform bus services across the North East. In response, an indicative funding allocation of £73.758m capital and £89.763m revenue funding across 3 years (one of the highest allocations in the country) has been indicatively announced by government, pending the consideration of the draft EP scheme.

2022/23 is the planned final year of the Transforming Cities Fund Programme, which

Building on the initiatives and infrastructure improvements delivered in the first two rounds of the Active Travel Fund, in 2022/23 TNE will deliver improvements to the region's walking and cycling network totalling £17.9m awarded through Tranche 3 of the fund. Schemes in Newcastle, North Tyneside, Northumberland and Sunderland will be supported.

In 2022/23 the JTC will adopt its first North East Rail and Metro Strategy – a new blue print which outlines regional plans to upgrade the East Coast Main Line (ECML), reopen the Leamside Line and extend the Tyne and Wear Metro. Some of the main actions which the region will take forward include:

- Obtaining a Government commitment to increasing capacity of the ECML for passengers and freight;
- Extending the Tyne and Wear Metro, upgrading existing networks and adding new stations and routes – including the Leamside Line and Northumberland Line;
- Working with Great British Railways to form a new partnership which represents the North East, ensuring local needs are taken into account;
- Introducing new trains – including a more efficient electric fleet on Metro and electric/battery/hydrogen local rail trains;
- Improvements to several regional railway stations including Newcastle and Sunderland and new stations such as Gateshead East.

Work continues with government to agree revised governance structures, in the form of a new devolution deal, to enable the North East to access funding through the City Region Sustainable Transport Settlement.

Economic Development and Digital

The economic picture across the NECA area is currently one of challenges as businesses continue to recover from the impact of the pandemic and are now being buffeted by both skills shortages and, most pointedly, the surge in inflation.

Project Gigabit delivered by Building Digital UK (BDUK) was launched in March 2021 and will deliver gigabit-capable connectivity to at least 5% of premises across the UK in hard-to-reach areas by the end of 2025, supporting the government's target of at least 85% through a combination of commercial and subsidised build.

Finance, Skills and Employability

Activity continues to progress all aspects of the Finance, Skills and Employment needs and opportunities across NECA. The UK Shared Prosperity Fund (UKSPF) provides £2.6bn of funding for local investment by March 2025. Every place in the UK has been allocated a share of the UKSPF. In order to access UKSPF funding, lead local authorities are being asked to complete an investment plan, setting out how they intend to use and deliver the funding, in conjunction with local stakeholders. This work will take place during 2022/23 with an anticipated date for first investment plans to be approved of October 2022.

14. 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:

Eleanor Goodman
Finance Manager, NECA
Eleanor.goodman@northeastca.gov.uk

North East Combined Authority

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Item 12

Leadership Board

Date: **28 November 2023**

Subject: **2021/22 Audit Completion Report, Follow Up Letter and draft Auditor's Annual Report**

Report of: **External Auditor**

Executive Summary

This report presents the Audit Completion Report 2021/22, Follow up Letter to the Audit Completion Report, dated 1 November 2023, and the Draft Auditor's Annual Report 2021/22. Together these documents provide a complete record of the matters arising from the audit and how the audit has been concluded.

Recommendations

The Leadership Board is recommended to review the Audit Completion Report, follow up letter and draft Auditor's Annual Report 2021/22.

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Leadership Board

1. Background Information

1.1 There has been a substantial delay in being able to conclude the 2021/22 Audit. Mazars initially reported the Audit Completion Report to the NECA Audit and Standards Committee in November 2022 but it has not yet been considered by the Leadership Board and is attached here as Appendix 1. Following a substantial delay in relation to infrastructure an issue was identified, following the length of the delays, in relation to the triennial revaluation of the Tyne and Wear Pension Fund as at 31 March 2022. The Follow Up Letter (Appendix 2) provides information on the conclusion of these issues and all areas of work reported in the Audit Completion Report.

1.2 At the time of preparing the update letter, Mazars anticipate being able to issue an unqualified audit opinion, without modification, on the 2021/22 financial statements. The audit opinion will be issued when the financial statements have been approved by the Leadership Board and the letter of representation from the Chief Finance Officer has been received.

1.3 The Auditor’s Annual Report is presented in draft as it cannot be finalised until the audit opinion has been issued. This report summarises the work undertaken by Mazars as the auditor for NECA for the year ended 31 March 2022, and includes commentary on Value For Money arrangements which has not previously been reported to the Leadership Board.

2. Proposals

2.1 Appendices 1-3 contain the Audit Completion Report, Follow Up Letter and Draft Auditor’s Annual Report.

3. Reasons for the Proposals

3.1 The Audit Completion Report is presented to the Leadership Board for consideration. The Leadership Board is asked to consider the content of the Audit Completion Report, follow up letter and draft Auditor’s Annual Report and take the findings into account in their consideration of the Statement of Accounts for approval.

4. Alternative Options Available

4.1 There are no alternative options associated with this report.

5. Next Steps and Timetable for Implementation

Leadership Board

5.1 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 direct 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 2021/22. There are no financial or other resources implications arising from this report.

8. Legal Implications

8.1 It is a requirement of the Local Government Act 2003 and the Accounts and Audit (England) Requirements 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 Consultation on this report has taken place with NECA statutory officers. The reports will be considered by NECA Audit and Standards Committee at their meeting on 21 November 2023 and any comments or feedback from that committee reported verbally to the Leadership Board. The Statement of Accounts was subject to a period of public inspection from 1 July to 11 August 2022. 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.

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Leadership Board

14. Appendices

14.1 Appendix 1 – Audit Completion Report, November 2022

Appendix 2 – Follow Up Letter to the Audit Completion Report, 1 November 2023

Appendix 3 – Draft Auditor's Annual Report 2021/22, November 2023

15. Background Papers

15.1 None

16. Contact Officers

16.1 Gavin Barker, Director, Mazars

Gavin.barker@mazars.co.uk

17. Sign off

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

Appendix 1

Audit Completion Report

North East Combined Authority (NECA)
Year ended 31 March 2022

November 2022

mazars

Contents

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

9 November 2022

Dear Members

Audit Completion Report – Year ended 31 March 2022

We are pleased to present our Audit Completion Report for the year ended 31 March 2022. 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 21 July 2022. We have reviewed our Audit Strategy Memorandum and concluded that the original significant audit risks and other areas of management judgement remain appropriate.

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

If you would like to discuss any matters in more detail then please do not hesitate to contact me on 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 2021/22 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 4 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 2022. At the time of preparing this report, significant matters remaining outstanding as outlined in section 2. We will provide an update to you in relation to the significant 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. The most significant matter outstanding relates to a national issue on accounting for infrastructure, which is explained on page 7.

Value for Money

We are yet to complete our work in respect of NECA's arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2022. We anticipate having no significant weaknesses in arrangements to report. Further detail on our Value for Money work is provided in section 7 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. We note that there is a significant delay in WGA work, and the current focus is on 2020/21 work, meaning there is likely to be a substantial delay before we will be able to address WGA for 2021/22.

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.

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 resolution of the outstanding matters detailed below.

Audit area	Status	Description of the outstanding matters
Pensions	Amber	Work is ongoing in this area. In addition, we are awaiting a response from the auditor of Tyne & Wear Pension Fund. The pension fund auditor has been unable to confirm a date for reporting to us, and we are concerned that this may be indicative of a potential delay beyond the end of November 2022.
Infrastructure	Amber	As NECA is aware, there is a national issue in relation to accounting for infrastructure which has impacted on every local authority related entity with material infrastructure balances. Although this does not impact on the resources available to NECA, and is technical in nature, it could have a significant impact on the financial statements, depending on how it is resolved. We will be unable to issue our audit opinion until a resolution is reached in relation to this. It is now envisaged that the likely solution to this issue will not be available until the end of December 2022 at the earliest. Resolution may involve the Authority undertaking some additional procedures and updating the draft accounts, and likewise require us to carry out some additional audit procedures, meaning that we are unlikely to conclude on the matter until later in January 2023 at the earliest.
Fraud	Green	Work is ongoing in relation to Fraud and Related Parties.
Laws and Regulations	Green	We are awaiting responses to our letters sent to Those Charged with Governance and also Management.

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.

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 resolution of the outstanding matters detailed below.

Audit area	Status	Description of the outstanding matters
Investments	Amber	We are awaiting a number of external confirmations.
Loans	Amber	We are awaiting one external confirmation.
WGA	Green	We are awaiting group instructions from the National Audit Office. This will impact on the timing of issuing our audit certificate to formally conclude and close the audit.
Post balance sheet events	Green	Our review is ongoing up until the date of signing the auditor's report (the opinion).
Closing procedures	Green	Including reviews of completed work, checking the final version of the financial statements and final review processes.

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 September 2022. 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 £11.961m for the Group and £5.740m for NECA using a benchmark of 2% of total assets. Our final assessment of materiality, based on the final financial statements is £13.519m and £6.752m for the Group and NECA respectively, using the same benchmark.

Group audit approach

The Group consists of Nexus and Tyneside Transport Services Limited. We are responsible for the direction, supervision and performance of the group audit.

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 significant risks, any enhanced risk and any 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 14 we have concluded whether the financial statements have been prepared in accordance with the financial reporting framework and commented on any significant accounting policy changes that have been made during the year;
- any further significant matters discussed with management; and
- any significant difficulties we experienced during the audit.

Significant risks

Management override of controls (single entity and group accounts)	**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 • review of journals recorded in the general ledger and other adjustments made in preparation of the financial statements.
	Audit conclusion There are no issues arising from our work that we are required to report to you.

4. Significant findings

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; 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 has in place to ensure income is recognised in the correct period; • Tyne Tunnel toll income around the year end to ensure it has been recognised in the right year; • the judgements made by management in determining when grant income is recognised; • for Tyne Tunnel toll income, perform a substantive analytical review; and • for major grant income, obtaining counterparty confirmation.
	Audit conclusion There are no issues arising from our work that we are required to report to you.

Defined benefit liability valuation (relevant to group accounts only)	
	Description of the risk The financial statements contain material pension entries in respect of 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 discussed with key contacts any significant changes to the pensions estimates prior to the preparation of the final accounts. In addition to our standard programme of work in this area, we also: • evaluated 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 outputs, referring to an expert's report on all actuaries nationally which is commissioned annually by the National Audit Office.
	Audit conclusion Work is ongoing in this area. The main issue to be aware of is that we are awaiting the assurance letter from the Pension Fund auditor and there is uncertainty on when this will be received as explained on page 7.

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 2021/22 Code of Practice on Local Authority Accounting, appropriately tailored to NECA's circumstances.

Draft accounts were received from NECA on 30 June 2022 and were of good quality.

Significant matters discussed with management

There were no significant matters arising from the audit which required discussion with management.

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 2021/22 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 such objections have been raised.

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 control 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 control we might have identified more deficiencies to be reported or concluded that some of the reported deficiencies need not in fact have been reported. Our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

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

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

5. Internal control recommendations

Other deficiencies in internal control – Level 2

Description of deficiency

Related Party Declarations

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

We first identified this deficiency in 2017/18 which was rectified in recent years however our work has identified that in 2021/22 this has not been implemented and therefore the deficiency in internal control has been raised again.

Potential effects

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

Recommendation

Ensure that related party declarations are completed and received annually.

Management response

Despite issuing the request for these to be completed and submitted and chasing up those that did not return a full complement was not received. Management will raise this issue at the Leadership Board and at the Joint Transport Committee and ensure that leaders are aware of the need to ensure their group members complete and submit these returns in a timely manner.

5. Internal control recommendations

Other deficiencies in internal control – Level 2

Description of deficiency

Related Party Declarations Register

NECA does not have a centralised register which documents all current and historic declared member interests.

Potential effects

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

Recommendation

Ensure that there is a centralised register which documents all declared member interests.

Management response

A detailed centralised register of all declared interests will be established and kept up to date during the year.

5. Internal control recommendations

Other recommendations in internal control – Level 3

Description of deficiency

Accounts Payable Reconciliation

We note that whilst the AP reconciliation is reviewed there is no formal documentation / sign off to state that the review has been completed.

Potential effects

The accounts payable reconciliation should contain a formal sign off once it has been reviewed. A formal signoff evidences that a review has actually taken place, and also evidences to other members of the team who may use the reconciliation that this document has been appropriately reviewed. As such this reduces the risk of a material misstatement arising within the creditor and expenditure balances.

Recommendation

Finance team to ensure that the accounts payable reconciliation contains a formal signoff evidencing that a review has taken place.

Management response

The reconciliations are undertaken on a regular and routine basis and are reviewed by a separate officer. We will ensure that these are signed and dated in future.

5. Internal control recommendations

Follow up on previous internal control points

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.

Recommendation

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

Management response

This recommendation was fully implemented following the audit of the 2020/21 accounts. Reconciliations are undertaken on a regular and routine basis. They are reviewed by a separate officer in a timely manner and are signed and dated to confirm this has taken place.

Group position - Nexus reporting issues

Pages 21 to 24 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 2

Description of deficiency

We have identified difficulties confirming the existence and condition of assets in the fixed asset register (FAR) due to:

- Asset descriptions used in FAR were sometimes being too vague for us to easily agree to a specific asset;
- In some cases, a single asset in the FAR covers capital works across many sites;
- In some cases, asset descriptions were not specific enough for us to be easily certain that the asset we look at is the one in the register; and
- Some of the headline assets appear to be too broad in scope to be effective.

Potential effects

The current situation in relation to the FAR does not easily allow identification of the Existence of individual assets, whether Nexus have Rights and Obligations of these assets nor identify signs of damage or obsolescence to individual assets.

Recommendation

Ensure all future additions to the FAR are appropriately componentised and identifiable against an agreed list of Nexus "headline" assets. Thereafter, work towards allocating all existing assets to the newly created "headline" assets and where necessary review and update the componentisation. We understand that work is already in progress to do this.

Management response

Nexus has an established process to ensure that all new additions are appropriately componentised when capitalised and can be easily identified.

It is accepted that descriptors and supporting detail for historic assets could be improved and Nexus has already began to address this. This will include the grouping of assets under "headline" categories, together with componentisation, where possible.

5. Internal control recommendations

Nexus - Other recommendations in internal control – Level 3

Description of deficiency

Related Party Disclosures

As part of our 2020/21 audit, It w as identified that some officers w ho had left the organisation during the year had not completed a related party confirmation return as part of the exit process. (See Follow up on previous internal control points - Related Party Disclosures).

As part of the 2021/22 audit, It w as noted that, w hilst controls have since been implemented to obtain Related Party Transaction (RPT) returns from Officers w ho w ere leaving the organisation, there w as one instance w here an officer w ho left Nexus did not complete an RPT return as part of the exit process.

Potential effects

There is a risk that at year end any material related party transactions w ith officers w ho have left the organisation during the year may not be appropriately disclosed w ithin the accounts.

Recommendation

Officers leaving the organisation should complete an RPT declaration form as part of the exit process. This w ill help ensure that appropriate related party transactions have been disclosed to Nexus and the relevant disclosures have been made in the accounts.

Management response

Recommendation addressed. New process in place w hich is compliant w ith the recommendation made. Relevant officers reminded of requirement to ensure that a RPT is completed as part of the exit process.

5. Internal control recommendations

Nexus - Follow up on previous internal control points

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.

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.

Recommendation

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.

Management response

Recommendation addressed. New process in place which is compliant with the recommendation made.

5. Internal control recommendations

Nexus - Follow up on previous internal control points

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

Recommendation addressed. New process in place which is compliant with the recommendation made.

06

Section 06:

Summary of misstatements

6. Summary of misstatements

This section outlines the misstatements identified during the course of the audit, above the trivial threshold for adjustment of £203k (NECA) and £406k (Group). The first table outlines the misstatements that were identified during the course of our audit which management has assessed as not being material either individually or in aggregate to the financial statements and does not currently plan to adjust.

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

Unadjusted misstatements

There are no unadjusted misstatements.

Adjusted misstatements

		Comprehensive Income and Expenditure Statement		Balance Sheet	
		Dr (£'000)	**Cr (£'000)**	**Dr (£'000)**	**Cr (£'000)**
1	Dr: COVID-19 Grants	10,188			
	Cr: Transport Other		10,188		
	Based on the Income audit work performed we note that the Active Travel Fund (ATF) grants have been incorrectly classified as a COVID-19 grant. As such this adjustment reclassifies the ATF grants from the "COVID-19 Grants" line on the CIES to the "Transport - Other" line within the CIES.				
2.	Dr: Transport Other	1,419			
	Cr: COVID-19 Grants		1,419		
	Based on the Income audit work performed we note that the COVID-19 Bus Service Support Grants and Additional Dedicated Home to School and College Transport Grants have been incorrectly classified within the "Transport Other" line on the CIES. As such this adjustment has been proposed to reclass the these grants from the "Transport - Other" line on the CIES to the "COVID-19 Grants" line within the CIES.				
	Total adjusted misstatements	**11,607**	**11,607**	**0**	**0**

6. Summary of misstatements

Disclosure amendments

Disclosure amendments made include the following:

- Various minor presentational points.
- **Note 2 (Expenditure & Funding Analysis)** – Note has been updated to ensure that Transport - Other (value of £38,512k) is consistent with the Comprehensive Income & Expenditure Statement (CIES).
- **Note 22 - Unusable Reserves** – The Capital Adjustment Account note did not agree to Note 3. The 2021/22 figure for Debt redeemed using capital receipts should have been £807k, rather than £Nil.
- **Annual Governance Statement** - Reference should have been to the Auditor's Annual Report not the Annual Audit Letter
- **Narrative Statement** - Page 4, paragraph 4 - the 2021/22 figure for the "gross cost of services during the year including capital grants to third parties as well as revenue expenditure" does not agree with the Statement of Accounts. Was noted £82.452m but is 80,578 in the statement of accounts
- **Narrative Statement** - Page 4, paragraph 6 - the figure for unusable reserves did not agree with the Statement of Accounts. The figure was noted as £80.862m at 31 March 2022 however in the statement of accounts the figure was £80.865.

Other issues

The financial statements for NECA include a share of the Joint Transport Committee assets and liabilities. Each year there is a difference in relation to cash balances between NECA and NTCA (the North of Tyne Combined Authority), and for 2021/22 the value of the difference is £260k. This is not reported as an unadjusted misstatement. 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; and
- **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.

We did not identify any risks of significant weaknesses in arrangements as part of our planning procedures or our work to date.

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 3 months after we issue the audit opinion on the financial statements.

Status of our work

We are yet to complete our work in respect of NECA's arrangements for the year ended 31 March 2022. 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 at a future date.

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:

NECA and Group - audit for year ended 31 March 2022

This representation letter is provided in connection with your audit of the financial statements of NECA and Group for the year ended 31 March 2022 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 2021/22 (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 the 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

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 [only needed where there are unadjusted misstatements]

I confirm that the effects of the uncorrected misstatements are immaterial, both individually and in aggregate, to the financial statements as a whole. *[Please ensure an appendix is attached to the letter setting out all unadjusted misstatements]*

Yours faithfully

Chief Finance Officer: ………………………

Date: ………………………

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Independent auditor's report to the Members of the 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 the Group for the year ended 31 March 2022, 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 2021/22.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the North East Combined Authority and the Group as at 31st March 2022 and of the North East Combined Authority and the 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 2021/22.

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 the 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 the Chief Finance Officer's 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'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 2021/22, 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 2021/22 and prepare the financial statements on a going concern basis, on the assumption that the functions of the North East Combined Authority and the 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 the North East Combined Authority and the 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 the North East Combined Authority and the 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 Act 1988 (as amended), 1992 and 2012, the Local Audit and Accountability Act 2014 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.

Appendix B: Draft audit report

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.

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 the Audit and Standards Committee 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 the 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 the Audit and Standards Committee 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 the Audit and Standards Committee. 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 September 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.

Appendix B: Draft audit 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 opinion, we are not satisfied that the 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 2022.

We have not completed our work on the 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 December 2021, we have not identified any significant weaknesses in arrangements for the year ended 31 March 2022.

We will report the outcome of our work on the 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.

Responsibilities of the North East Combined Authority

The 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 the 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 the 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 December 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.

Appendix B: Draft audit report

Use of the audit report

This report is made solely to the Members of the 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 the 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.

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.

[*Signature*]

Gavin Barker – Director
For and on behalf of Mazars LLP

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

Date: *to be confirmed*

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 issues with respect to obtaining external confirmations.
Related parties	A low level issue was identified in respect of related parties disclosures, as set out in an 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

Appendix 2

mazars

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

Direct Dial +44 (0)191 383 6300
Email gavin.barker@mazars.co.uk

1 November 2023

Dear Members

Update/conclusion of pending matters – Audit Completion Report 2021/22

As required by International Standards on Auditing (UK), I am writing to communicate an update on those matters that were marked as outstanding within our Audit Completion Report dated 9 November 2022 and including any other matters arising since that date.

The outstanding matters and the conclusions we reached are detailed below:

Matter	Update/conclusion reached
Significant risk: Net defined pension liability valuation	Following a substantial delay in relation to infrastructure (considered later in this letter) an issue was identified, following the length of the delays, in relation to the availability of more up-to-date information on pensions resulting from completion of the triennial revaluation of the Tyne & Wear Pension Fund as at 31 March 2022, and meaning that management should reflect this in the 2021/22 financial statements. The way forward was then agreed that: • Authorities (including NECA) were to obtain updated IAS19 valuation reports and amend the 2021/22 financial statements for the new figures; and • Pension Fund auditors were required to complete testing on the reliability and accuracy of the updated pension fund membership data used in the triennial revaluation. We can confirm that management obtained updated IAS19 valuation reports and our work on the revised pension figures in the 2021/22 financial statements is complete. The adjustments summarised on page 4 of this letter have been made by management. The Pension Fund auditor reported the findings from their testing of triennial membership data on 29 August 2023. We had a number of queries in relation to their findings, although we are pleased to report that on 10 October 2023 we

Matter	Update/conclusion reached
	concluded our follow up work and there were no further matters requiring reporting to NECA.
Infrastructure	As Members are aware, there has been a national issue in relation to accounting for infrastructure which has impacted on every local authority related entity with material infrastructure balances. The issue identified that there was insufficiently detailed information available to allow NECA to demonstrate the material accuracy of the gross carrying value of infrastructure assets. Specifically, the information deficits related to the type of assets held within the infrastructure balance, their useful lives and whether or not any capitalised expenditure was incurred to replace existing components. Members should note that this issue was entirely technical in nature and it did not impact on the resources available to NECA or the level of usable reserves held by NECA. A statutory override was put in place by Government to address the information deficits and CIPFA guidance was issued to allow authorities to disclose net infrastructure and not disclose gross infrastructure and gross depreciation in the financial statements. The statutory override made it clear that adjustments were not required to previous infrastructure balances even where errors may have existed. NECA has adopted the statutory override in full. NECA also made amendments to the disclosures about infrastructure in the financial statements, as required by the guidance, but the figures relating to infrastructure have not been amended. As part of our review of NECA's application of CIPFA's "Update to the Code and Specifications for Future Codes for Infrastructure Assets (Code update)", we considered NECA's asset lives per its accounting policies for infrastructure assets. We considered CIPFA Bulletin 12, which includes a commentary on the useful lives of the components of the highways network by the "UK Roads Leadership Group Asset Management Board". The guidance includes a range of "reasonable useful lives" for different parts of the highways network which we compared to those applied by NECA. As part of our work, we completed a sensitivity analysis to estimate the impact on in-year depreciation using NECA's existing asset lives compared to the reasonable asset lives provided in the CIPFA guidance. This test was completed to gain assurance that depreciation in 2021/22 is materially accurate when compared to depreciation calculated using CIPFA's reasonable useful lives. Following completion of our work, we were satisfied that NECA had followed the relevant guidance when reviewing its infrastructure assets and had made the required disclosures in the financial statements. Our review highlighted a number of differences between the useful economic lives of some assets against those set out by CIPFA. However, we are satisfied that this does not have a material impact on the financial statements for 2021/22.
Fraud	Work completed – no issues to report

Matter	Update/conclusion reached
Laws and Regulations	Work completed – no issues to report
Investments	All external confirmations received and no issues to report.
Loans	All external confirmations received and no issues to report.
Whole of Government Accounts	We have received group audit instructions and will be able to report to National Audit Office once we have issued our audit opinion. As for 2020/21, we anticipate a significant delay before we will be able to issue our audit certificate for 2021/22. This is because NAO are unable to confirm that the Authority will not be selected for additional procedures as a sampled component. The NAO timetable is to report on WGA for 2021/22 by the end of March 2024, so we anticipate being able to issue our audit certificate for 2021/22 in March 2024.
Closing procedures	Including reviews of completed work, checking the final version of the financial statements, Post Balance Sheet Events and final review processes.

At the time of preparing this update letter, we anticipate being able to issue an unqualified audit opinion, without modification, on the 2021/22 financial statements. We plan to issue our opinion when the financial statements have been approved by the Board, and we have received a letter of representation from the Chief Finance Officer.

If you wish to discuss these or any other points, please do not hesitate to contact us.

Yours faithfully

Gavin Barker

Gavin Barker
Director
For and on behalf of Mazars LLP

Appendix 1: 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 £203k.

Adjusted misstatements: the table below shows the misstatements identified during the course of the audit that have been adjusted by management.

(areas in blue italics were included in the Audit Completion Report)

	Description	CIES DR £000	CIES CR £000	Balance Sheet DR £000	Balance Sheet CR £000
1	*DR COVID-19 Grants*	*10,188*			
	CR Transport Other		*10,188*		
	Based on the Income audit work performed we note that the Active Travel Fund (ATF) grants have been incorrectly classified as a COVID-19 grant. As such this adjustment reclassifies the ATF grants from the "COVID-19 Grants" line on the CIES to the "Transport - Other" line within the CIES.				
2	*DR Transport Other*	*1,419*			
	CR COVID-19 Grants		*1,419*		
	Based on the Income audit work performed we note that the COVID-19 Bus Service Support Grants and Additional Dedicated Home to School and College Transport Grants have been incorrectly classified within the "Transport Other" line on the CIES. As such this adjustment has been proposed to reclass the these grants from the "Transport - Other" line on the CIES to the "COVID-19 Grants" line within the CIES.				
3	DR Pension Liability			6,240	
	CR Pension Asset				6,240
	DR MIRS adjustment	6,240			
	DR Other Comprehensive Income		6,240		
	This reflects the adjustment from recalculating pension disclosures using an updated IAS19 report from the actuary, which takes into account the results of the triennial revaluation at 31 March 2022.				
	Total adjusted misstatements	17,847	17,847	6,240	6,240

Infrastructure amendments:

In accordance with CIPFA guidance, NECA updated its Accounting Policies and Infrastructure Assets notes to include:

- Clarification that the statutory override was claimed;

- To ensure that only net infrastructure assets are disclosed rather than the gross value and gross depreciation; and

- More information on the nature of the infrastructure assets and NTCA's accounting treatment of them.

The values of infrastructure disclosed in the financial statements were unchanged.

Unadjusted misstatements

There are no unadjusted misstatements

Disclosure amendments made include the following:

- ***Various minor presentational points***
- ***Note 2 (Expenditure & Funding Analysis)*** *– Note has been updated to ensure that Transport - Other (value of £38,512k) is consistent with the Comprehensive Income & Expenditure Statement (CIES).*
- ***Note 22 - Unusable Reserves*** *– The Capital Adjustment Account note did not agree to Note 3. The 2021/22 figure for Debt redeemed using capital receipts should have been £807k, rather than £Nil.*
- ***Annual Governance Statement*** *- Reference should have been to the Auditor's Annual Report not the Annual Audit Letter*
- ***Narrative Statement*** *- Page 4, paragraph 4 - the 2021/22 figure for the "gross cost of services during the year including capital grants to third parties as well as revenue expenditure" does not agree with the Statement of Accounts. Was noted £82.452m but is 80,578 in the statement of accounts*
- ***Narrative Statement*** *- Page 4, paragraph 6 - the figure for unusable reserves did not agree with the Statement of Accounts. The figure was noted as £80.862m at 31 March 2022 however in the statement of accounts the figure was £80.865.*
- Note 19 (Pensions) – A number of disclosure amendments were required due to management obtaining updated IAS19 valuation reports.

Other issues

The financial statements for NECA include a share of the Joint Transport Committee assets and liabilities. Each year there is a difference in relation to cash balances between NECA and NTCA (the North of Tyne Combined Authority), and for 2021/22 the value of the difference is £260k. This is not reported as an unadjusted misstatement. 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.

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 control 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 control we might have identified more deficiencies to be reported or concluded that some of the reported deficiencies *need not in fact have been reported. Our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.*

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

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

Description of deficiency – Related Party Transactions – Level 2

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

We first identified this deficiency in 2017/18 which was rectified in recent years however our work has identified that in 2021/22 this has not been implemented and therefore the deficiency in internal control has been raised again.

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

Recommendation
Ensure that related party declarations are completed and received annually.

Management comments
Despite issuing the request for these to be completed and submitted and chasing up those that did not return a full complement was not received. Management will raise this issue at the Leadership Board and at the Joint Transport Committee and ensure that leaders are aware of the need to ensure their group members complete and submit these returns in a timely manner.

Description of deficiency – Related Party Declarations Register – Level 2

NECA does not have a centralised register which documents all current and historic declared member interests.

Potential effects

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

Recommendation

Ensure that there is a centralised register which documents all declared member interests.

Management comments

A detailed centralised register of all declared interests will be established and kept up to date during the year.

Description of deficiency – Accounts Payable Reconciliation – Level 3

We note that whilst the AP reconciliation is reviewed there is no formal documentation / sign off to state that the review has been completed.

Potential effects

The accounts payable reconciliation should contain a formal sign off once it has been reviewed. A formal signoff evidences that a review has actually taken place, and also evidences to other members of the team who may use the reconciliation that this document has been appropriately reviewed. As such this reduces the risk of a material misstatement arising within the creditor and expenditure balances.

Recommendation

Finance team to ensure that the accounts payable reconciliation contains a formal signoff evidencing that a review has taken place.

Management comments

The reconciliations are undertaken on a regular and routine basis and are reviewed by a separate officer. We will ensure that these are signed and dated in future.

Appendix 3

Auditor's Annual Report - DRAFT

North East Combined Authority – year ended 31 March 2022

November 2023

mazars

Contents

01

Section 01:

Introduction

1. Introduction

Purpose of the Auditor's Annual Report

Our Auditor's Annual Report (AAR) summarises the work we have undertaken as the auditor for North East Combined Authority (NECA) for the year ended 31 March 2022. Although this report is addressed to NECA, it is designed to be read by a wider audience including members of the public and other external stakeholders. This is a DRAFT report, as we have not yet issued our audit opinion. The report will be finalised when we issue our audit opinion following approval of the financial statements by the Leadership Board in November 2023.

Our responsibilities are defined by the Local Audit and Accountability Act 2014 and the Code of Audit Practice ('the Code') issued by the National Audit Office ('the NAO'). The remaining sections of the AAR outline how we have discharged these responsibilities and the findings from our work. These are summarised below.

Opinion on the financial statements
We issued our audit report on zz November 2023. Our opinion on the financial statements was unqualified. [At this stage, we anticipate being able to issue an unqualified opinion.]

Value for Money arrangements
In our audit report issued [not yet issued] we reported that we had completed our work on NECA's arrangements to secure economy, efficiency and effectiveness in its use of resources and had not identified any significant weaknesses in arrangements or recommendations to report. [We anticipate this as the final position in relation to our VFM work.]

Whole of Government Accounts (WGA)
The NAO, as group auditor, requires us to complete the WGA Assurance Statement in respect of its consolidation data and to carry out certain tests on the data. We are unable to respond to NAO until we have issued our audit opinion [not yet issued]. As for 2020/21, we anticipate a significant delay before we will be able to issue our audit certificate, as we await NAO clearance on whether we will be required to undertake additional procedures as a sampled component.

Wider reporting responsibilities
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 such correspondence from electors has been received.

02

Section 02:

Audit of the financial statements

2. Audit of the financial statements

The scope of our audit and the results of our opinion

Our audit was conducted in accordance with the requirements of the Code, and International Standards on Auditing (ISAs).

The purpose of our audit is to provide reasonable assurance to users that the financial statements are free from material error. We do this by expressing an opinion on whether the statements are prepared, in all material respects, in line with the financial reporting framework applicable to NECA and whether they give a true and fair view of NECA and Group's financial position as at 31 March 2022 and of its financial performance for the year then ended.

Our audit report, issued on zz November 2023, gave an unqualified opinion on the financial statements for the year ended 31 March 2022. [At this stage, we anticipate being able to issue an unqualified opinion.]

Qualitative aspects of NECA's accounting practices

We reviewed NECA's accounting policies and disclosures and concluded they comply with the 2021/22 Code of Practice on Local Authority Accounting, appropriately tailored to NECA's circumstances.

Significant difficulties during the audit

We had positive co-operation from management throughout the audit and we would like to thank management for their assistance, courtesy and patience during our work.

There was a national issue in relation to accounting for infrastructure which impacted on every local authority related entity with material infrastructure balances in the 2021/22 audit. This led to a substantial delay in the audit. Although this issue was resolved early in 2023, with a statutory override put in place and revised guidance from CIPFA, a further issue arose.

The new national issue related to the impact of the delay in 2021/22 audit work, initially caused by the infrastructure issue, and then exacerbated in NECA's case by a delay in receiving the Pension Fund Auditor Assurance letter until 24 March 2023 (the Pension Fund auditor is a different audit firm to Mazars). This meant that the triennial revaluation of the Tyne & Wear Pension Fund as at 31 March 2022 was now available as more up-to-date information for management to reflect in the 2021/22 financial statements.

The way forward took a little time to confirm as the situation was unprecedented, and added further to what had already been a considerable delay in completing the audit.

The way forward was then agreed that:

- Authorities (including NECA) were to obtain updated IAS19 valuation reports and amend the 2021/22 financial statements for the new figures; and
- Pension Fund auditors were to complete testing on the reliability and accuracy of the updated pension fund membership data.

Although this work was eventually completed, it explains the delays and the additional costs relating to the 2021/22 audit. [At this stage, we anticipate being able to issue an unqualified opinion when the financial statements have been approved by the Leadership Board.]

03

Section 03:

Commentary on VFM arrangements

3. Commentary on VFM arrangements

Overall summary

3. VFM arrangements – Overall summary

Approach to value for money arrangements work

We are required to consider whether NECA has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The National Audit Office (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.

Our work is carried out in three main phases.

Phase 1 - Planning and risk assessment
At the planning stage of the audit, we undertake work so we can understand the arrangements that NECA has in place under each of the reporting criteria; as part of this work we may identify risks of significant weaknesses in those arrangements.

We obtain our understanding or arrangements for each of the specified reporting criteria using a variety of information sources which may include:

- NAO guidance and supporting information;
- information from internal and external sources including regulators;
- knowledge from previous audits and other audit work undertaken in the year; and
- interviews and discussions.

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 there are further risks of significant weaknesses.

Phase 2 - Additional risk-based procedures and evaluation
Where we identify risks of significant weaknesses in arrangements, we design a programme of work to enable us to decide whether there are actual significant weaknesses in arrangements. We use our professional judgement and have regard to guidance issued by the NAO in determining the extent to which an identified weakness is significant.

We did not identify a risk of significant weakness in NECA's arrangements for 2021/22.

Phase 3 - Reporting the outcomes of our work and our recommendations
We are required to provide a summary of the work we have undertaken and the judgments we have reached against each of the specified reporting criteria in this Auditor's Annual Report. We do this as part of our commentary on VFM arrangements which we set out for each criteria later in this section.

We also make recommendations where we identify weaknesses in arrangements or other matters that require attention from NECA. We refer to two distinct types of recommendation through the remainder of this report:

- **Recommendations arising from significant weaknesses in arrangements**
  We make these recommendations for improvement where we have identified a significant weakness in NECA's arrangements for securing economy, efficiency and effectiveness in its use of resources. Where such significant weaknesses in arrangements are identified, we report these (and our associated recommendations) at any point during the course of the audit.

- **Other recommendations**
  We make other recommendations when we identify areas for potential improvement or weaknesses in arrangements which we do not consider to be significant but which still require action to be taken.

The table on the following page summarises the outcomes of our work against each reporting criteria, including whether we have identified any significant weaknesses in arrangements or made other recommendations

3. VFM arrangements – overall summary

Overall summary by reporting criteria

Reporting criteria	Commentary page reference	Identified risks of significant weakness?	Actual significant weaknesses identified?	Other recommendations made?
Financial sustainability	11	No	No	No
Governance	14	No	No	No
Improving economy, efficiency and effectiveness	18	No	No	No

3. Commentary on VFM arrangements

Financial Sustainability

How the body plans and manages its resources to ensure it can continue to deliver its services

3. VFM arrangements – Financial Sustainability

Risks of significant weaknesses in arrangements

We identified no risks of significant weaknesses in arrangements.

Overall commentary on the Financial Sustainability reporting criteria

How NECA identifies significant financial pressures that are relevant to its short and medium-term plans

The North East Combined Authority (the Authority) covers the Local Authorities of Durham, Gateshead, South Tyneside and Sunderland.

The 2021/22 Revenue Budget and Medium-Term Financial Strategy (MTFS), covering the period up to and including 2023/24 was approved by the Leadership Team on 2 February 2021 and is available on the Authority's website.

Due to Transport being of such a strategic importance to the North East, collaborative working of both Combined Authorities allows effective decision making across the region, which helps to ensure that the local needs and priorities are delivered. This resulted in the introduction of the North East Joint Transport Committee (JTC) which brings together all seven of the Constituent Authorities of the region, being the four Members from the North East Combined Authority and three Members from the North of Tyne Combined Authority (NTCA) in accordance with the Order that was created on the 2nd November 2018.

Regular budget monitoring reports are presented to the Authority's Leadership Board and JTC throughout the year. These reports monitor financial pressures and delivery of savings to help ensure that the Authority remains within budget. The Authority's Leadership Board (NELB) reports are agreed by the constituent authorities Chief Executives and are scrutinised by the Overview and Scrutiny Committee. In addition, JTC reports are agreed with the Transport North East Senior Officers Oversight Group, the Transport Strategy Board and are scrutinised by JTC Overview and Scrutiny Committee.

As at 31 March 2022, the Authority reported useable reserves of £80.9 million in the draft accounts.

A timetable for the production and consultation of the 2022/23 Revenue Budget/MTFS was in place and builds in financial information from JTC's delivery bodies (Nexus, Durham, Northumberland) as well as the Transport Strategy Unit and Tyne Tunnels.

How NECA plans to bridge its funding gaps and identifies achievable savings

The annual budget/MTFS process sets out the Authority's spending plans over the period and how any funding gaps will be met. This process is developed through working with key delivery partners for public transport services (the Authority, Durham and Northumberland) and the constituent local authorities of the Authority and the JTC.

Regular budget monitoring/forecast of outturn reports highlight any financial pressures developing, allowing action to be taken at an early stage.

How NECA plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities

The budget development process enables resources to be identified to support the delivery of services in accordance with the strategic priorities of the Authority and the JTC. This is developed through working with key delivery partners for public transport services (the Authority, Durham, Northumberland) and the constituent local authorities of the Authority and the JTC.

3. VFM arrangements – Financial Sustainability

Overall commentary on the Financial Sustainability reporting criteria - continued

How NECA ensures that its financial plan is consistent with other plans

Consultation on budget proposals is built into Part 4.4 (Budget and Policy Framework Rules of Procedure) of the Authority's Constitution (updated June 2022) and aims to ensure that appropriate and effective consultation takes place with all Members and other stakeholders on the content of the Budget.

In line with the Prudential Code, revenue implications of capital investment decisions are fully considered and form part of the budget setting process ensuring that investments are fully funded – e.g. agreement of Minimum Revenue Provision (MRP) strategy.

The annual budget/MTFS report considers relevant implications including resources, equality, legal, human rights and risks as part of the approval process.

How NECA identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans

There is an established risk management framework for the Authority and the JTC with regular reviews and reporting to the Authority's Audit & Standards Committee and JTC Audit Committee. This includes risks to financial resilience. Support is provided to the Authority by Sunderland City Council through a service level agreement.

As set out in the Risk Management Policy and Strategy Framework, Designated Officers are responsible for ensuring that risk management is an integral part of their management processes and activities within their respective areas of responsibility.

Budget managers have direct access to the financial management system for up-to-date financial information but also get the support of the Authority's finance officers. The Authority uses Durham County Council's (DCC) financial systems. DCC has been streamlining its financial systems which are continuously being developed to meet the need of service users and to enable the Authority to meet internal deadlines and statutory reporting. Systems have been developed to enable more up-to-date budget information to be obtained from Service budget managers and finance staff.

Revenue Budget Monitoring/Forecast of Outturn reports are brought to the Leadership board and JTC on a regular basis for challenge and comment before subsequently being reported to the relevant Overview & Scrutiny Committee.

The Chief Finance Officer and Finance Manager are part of the Transport North East (TNE) Senior Officers Oversight Group which meets monthly to discuss TNE service and budget issues with the JTC Statutory Officers. There is a monthly meeting with all TNE budget managers and the Authority's Finance Manager to discuss any service and budget issues.

Financial Management Standards support the Authority's Financial Regulations set out in the Constitution. The Financial Regulations provide the overall high-level framework for managing the authority's financial affairs, and Financial Procedure Notes set out in more detail how these procedures are implemented to embed sound financial management across the authority.

The 2021/22 Revenue Budget and Medium-Term Financial Strategy (MTFS), covering the period up to and including 2023/24 was approved by the Leadership Team on 2 February 2021 and is available on the Authority's website.

The Authority has a history of achieving financial targets as evidenced by financial and performance reports.

The 2021/22 Outturn position identified an underspend of £2.329 million at the year end.

Relevant HR policies and procedures are in place.

North East Devolution

The leaders of County Durham, Gateshead, Newcastle, Northumberland, North Tyneside, South Tyneside and Sunderland councils have agreed to a devolution deal which the Government has confirmed.

This new combined authority will be led by a Mayor elected by residents across the area, and together with one representative from each of the seven constituent councils will form a Cabinet which will make decisions for the new combined authority.

The North East mayoral election is due to be held on 2 May 2024 to elect the mayor of the North East and the North East Mayoral Combined Authority is due to come into existence 4 days after the completion of this election. The authority will replace the North of Tyne and the North East Combined Authorities.

3. Commentary on VFM arrangements

Governance

How the body ensures that it makes informed decisions and properly manages its risks

3. VFM arrangements – Governance

Risks of significant weaknesses in arrangements

We identified no risks of significant weaknesses in arrangements.

Overall commentary on the Governance reporting criteria

How NECA monitors and assesses risk and how NECA gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud

The Authority has an Anti-Fraud and Corruption Policy in place and seeks in the first instance to prevent fraud and corruption through staffing policies, making members aware of their responsibilities, internal control systems and liaison with outside agencies.

The Authority is a participant in the National Fraud Initiative, a data matching exercise that helps prevent and detect fraud across the public sector.

The Authority endeavours to deal effectively with fraud and corruption, misuse of power and breaches of legal and regulatory provisions. They also seek to align the risk management strategy and policies on internal control with achieving objectives, as well as evaluating and monitoring risk management and internal control on a regular basis.

The Authority uses an Internal Audit service provided by Sunderland City Council. They produce a risk-based Internal Audit plan to determine the priorities of the internal audit activity, consistent with the authority's goals.

Internal audit reviews highlight weaknesses and recommend action when required to strengthen process/ procedures. These are regularly reported to Audit Committee.

How NECA approaches and carries out its annual budget setting process

The Constitution (updated June 2022) sets out the Authority's budget setting process, including in its role as accountable body for the JTC. This must be followed to ensure that appropriate and effective consultation takes place with all Members and other stakeholders on the content of the Budget and that it is agreed in accordance with the requirements of the Constitution and the JTC Standing Orders.

Outline proposals are developed in discussion with member and officer groups, In addition, Finance Directors across the Authority area will be involved throughout the process.

Proposals made by the JTC, in relation to levies and the distribution of those levies to the Constituted Authorities and Combined Authorities, will be considered by the Leadership Board. The Leadership Board also consider the funding necessary to discharge the functions of the Authority and make proposals for the funding of the Authority taking into account the JTC's proposals or decisions in relation to the levies and the wider transport budget.

Once the consultation process has been completed, details of the finalised proposals will be referred to the Overview and Scrutiny Committee together with the relevant background information on which the proposals have been based. It is the responsibilities of the Chair of the Leadership Board and relevant officers to ensure that the Overview and Scrutiny Committee has sufficient background information to enable it to evaluate the proposals against that background information.

The proposals will then be referred back to the Leadership Board, together with any recommendations and/or observations from the Overview and Scrutiny Committee.

The final proposals (including consideration of the final proposals and decision of the JTC) will then be considered by the Leadership Board, which may or may not include the recommendations and/or observations from the Overview and Scrutiny Committee. The Leadership Board must agree the final proposals in relation to the Authority's budget unanimously. The JTC must approve the final proposals in relation to the North East Transport Budget unanimously.

The 2021/22 opinion of the Chief Internal Auditor, based on the internal audit work undertaken in year, was that there was an adequate and effective framework of governance, risk management and control.

3. VFM arrangements – Governance

Overall commentary on the Governance reporting criteria - continued

How NECA ensures effective processes and systems are in place to ensure budgetary control

Quarterly forecasts of outturn reports were presented to the Chief Officers' Group, Cabinet and Scrutiny Committees during the 2021/22 financial year. The reports included details of movements in the budget between quarters and remedial measures taken. These did not indicate a weakness in monitoring and reporting arrangements.

Our audit of the financial statements did not identify any matters to indicate a significant weakness in the accuracy of the financial information reported or the process for preparing the accounts. It is our experience that management takes action to address audit matters in a timely and appropriate manner.

How NECA ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency

There is an up to date Constitution (June 2022) in place which is available on the website.

Principles of decision making are set out in the Authority's constitution and all decisions are made in accordance with these. Report templates are set out to prompt consideration of each of the principles/implications of the decision under consideration.

The Authority has an Overview and Scrutiny Committee established to enable local councillors, on behalf of their communities, to scrutinise and challenge all matters within the remit of the Combined Authority. The Overview and Scrutiny Committee also investigates matters of significant importance to residents within the areas covered by the four councils with a view to influencing decisions made in respect of all matters within the remit of the Combined Authority.

There is also an established JTC Overview and Scrutiny Committee, which also enables local councillors to scrutinise and challenge the JTC, its committees and the Authority, and to investigate matters of strategic importance to residents within the LA7 Area (being the 5 Councils of Tyne and Wear along with Durham and Northumberland Counties) with a view to influencing and adding value to the decisions.

The North East Leadership Board is made up of the Leaders of the four constituent bodies and is supplemented by elected members who serve on a number of committees along with non-executives.

The Authority publishes a Forward Plan which lists all decisions that committees or officers of the Authority intend to take in the coming months. Details of each are usually included 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, to review any related reports and background papers, and to submit comments to the decision maker in advance of the decision being made.

Briefings for members are held between key public meetings to discuss particular topics in depth and allow for challenge and informed decision making by members of committees such as the Joint Transport Committee and the Tyne and Wear Sub Committee.

The Authority's Leadership Board receive appropriate and regular reports on the financial position of the Authority.

The Head of Paid Service and Chief Executive leads a very experienced senior officer team at the Authority.

Risk management arrangements along with an up-to-date risk register are in place. A risk update is reported regularly to the Audit and Standards Committee, who provide challenge in this area.

An annual governance statement is prepared, reviewed and approved before being included in the financial statements.

3. VFM arrangements – Governance

Overall commentary on the Governance reporting criteria - continued

How NECA monitors and ensures appropriate standards are maintained

The Authority's constitution sets out the how the authority operates, how decisions are made and the procedures that are followed to ensure that the Authority operates efficiently, effectively and is both transparent and accountable.

The Authority has an agreed Code of Conduct for Members which sets out the conduct that is expected of elected members appointed to the Authority when they are acting in that capacity, and which is consistent with Nolan's Seven Principles of Public Life.

In addition, the Authority has a Code of Conduct for Officers which is intended to support officers in maintaining standards and to help protect officers from misunderstanding or criticism. The Code applies to all officers of the Authority.

A Member/Officer Relations Protocol tis also in place o provide general guidance for Members and Officers in their relations with one another. It reflects the basic principles underlying the respective rules of conduct that apply to Members and Officers and is intended to offer guidance on some of the issues that commonly arise.

With the exception of co-opted Independent Members on the Audit & Standards and Overview & Scrutiny Committees, Members are elected councillors of constituent local authorities and also subject to their own Council's Codes of Conduct.

The Authority has an Audit and Standards Committee, which seeks to promote and maintain high standards of conduct by the Authority's members and co-opted members, and ensure the Authority's members and co-opted members observe the Members' Code of Conduct.

An Authority Register of Members Interests is in place which contains declarations of any Disclosable Pecuniary Interest and any other interest. These are published on the Authority website and must be registered within 28 days of appointment as a member of the Authority or any change taking place. Non-registerable interests in an item of business must be disclosed by members to the meeting before consideration of that item begins, and this is a standing item on the meeting agendas. Interests for Senior Officers are also recorded

3. Commentary on VFM arrangements

Improving economy, efficiency and effectiveness

How the body uses information about its costs and performance to improve the way it manages and delivers its services

Risks of significant weaknesses in arrangements

We identified no risks of significant weaknesses in arrangements.

Overall commentary on the Improving Economy, Efficiency and Effectiveness reporting criteria

How financial and performance information has been used to assess performance to identify areas for improvement

The Narrative Report accompanying the Statement of Accounts includes key financial performance information to help inform users of the accounts.

Final Outturn reports build on the quarterly reporting during the year to set out financial performance against budget for the Authority and JTC for both revenue budgets and Capital Programme. The outturn is used to update the forecasts for the year as part of the regular forecast of outturn reports.

Treasury Management Prudential Indicators are set and updated through the Treasury Management Policy and Strategy, mid-year update and outturn update..

How NECA evaluates the services it provides to assess performance and identify areas for improvement

Durham County Council and Northumberland County Council report to the JTC on the Discharge of Transport Functions setting out performance against the Transport Functions delegated to them by the JTC.

The Authority report to the Tyne and Wear Sub Committee on its performance against its agreed Corporate Plan priorities.

The new Transport Plan for the whole JTC area sets out Key Performance Indicators that are designed to monitor the overall progress of the Transport Plan with respect to the 5 key objectives (Carbon neutral North East, Overcome inequality and grow our economy, Healthier North East, Sustainable transport choices and Safe, secure network).

How NECA ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve

The Authority's Constitution sets out that the Procurement Procedure Rules for the Constituent Authority designated as lead authority for the following exercises shall apply and be followed wherever the Combined Authority wishes to arrange for:

- The purchases of goods, materials and related services;
- The execution of works; or
- The provision of other services (including consultancy).

The Authority receives procurement services from Durham County Council via a Service Level Agreement. The service specification includes the undertaking of legally compliant procurement and production of procurement documentation and correspondence via competitive quote/tender process.

All Procurement staff are either fully qualified or studying for Chartered Institute of Procurement and Supply to ensure the highest performance standards are achieved and is the first Council team to achieve the CIPS Corporate Ethics Standard.

A service concession exists in relation to the Tyne Tunnel. This is subject to a detailed 30 year agreement with the operator TT2 Ltd which was introduced in 2008. The partnership with TT2 Ltd is governed by the Project Agreement which specifies levels of performance which must be met and roles and responsibilities of both partners, and is managed by the Tyne Tunnels Contract Manager.

Overall commentary on the Improving Economy, Efficiency and Effectiveness reporting criteria - continued

How NECA ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve - continued

The Authority works very closely with the North East Local Enterprise Partnership (NELEP). This is a business-led, strategic partnership responsible for promoting and developing economic growth in the area. The Authority supports the work of the enterprise partnership and they work together to ensure co-ordination across their range of activities.

The NELEP Board includes representatives from across the private and public sectors. Each of the leaders and the elected Mayor representing the seven local authorities councils that are members of the NELEP and the Chair of the NELEP is a non-voting member of the NELB.

The Combined Authority provides the formal accountability arrangements for the local enterprise partnership

There is a register which sets out associated partners to the Authority, the purpose of the partnerships, link officer and review dates for each one.

Nexus is not included in the significant partner register due to its status as an officer of the Combined Authority. The Authority reports regularly to the Joint Transport Committee and the Tyne and Wear Sub Committee on its financial performance, and performance against its Corporate Business Plan and Risk Register. The relationship between the Authority and Nexus is set out in the Constitution.

04

Section 04:

Other reporting responsibilities and our fees

4. Other reporting responsibilities and our fees

Matters we report by exception

The Local Audit and Accountability Act 2014 provides auditors with specific powers where matters come to our attention that, in their judgement, require specific reporting action to be taken. Auditors have the power 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 the law; and
- issue an advisory notice.

We have not exercised any of these statutory reporting powers.

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. We did not receive any such objections or questions.

Reporting to the National Audit Office (NAO) in respect of Whole of Government Accounts consolidation data

The NAO, as group auditor, requires us to complete the WGA Assurance Statement in respect of its consolidation data and to carry out certain tests on the data. We are unable to respond to NAO until we have issued our audit opinion [not yet issued].

As for 2020/21, we anticipate a significant delay before we will be able to issue our audit certificate, as we await NAO clearance on whether we will be required to undertake additional procedures as a sampled component.

4. Other reporting responsibilities and our fees

Fees for work as the Authority's auditor

We reported our proposed fees for the delivery of our work under the Code of Audit Practice in our Audit Strategy Memorandum presented to the Audit and Standards Committee in September 2022. Now we have completed the 2021/22 audit, we can confirm our final fees, which include additional costs arising from the national infrastructure issue and the ongoing issues in relation to pensions.

Area of work	2021/22 fees	2020/21 fees
Planned fee in respect of our work under the Code of Audit Practice	£18,709	£18,709
Additional fees in respect of the new VFM approach (recurring)	£7,500	£7,500
Additional fees in respect of new ISA540 requirements in relation to Accounting estimates and related disclosures (recurring)	£2,500	£2,500
Additional fees in respect of resolving the national infrastructure issue (these costs have been divided equally between 2020/21 and 2021/22 audits) – this cost is non-recurring	£5,000	£5,000
Additional fees in respect of the delays in Pension Fund auditor assurance and the need for revised pensions figures for the triennial revaluation – this cost is non-recurring	£5,000	£nil
Total fees	**£38,709**	**£33,709**

All fees are subject to VAT. All additional fees are subject to Public Sector Auditor Appointments (PSAA) approval.

Fees for other work

We did not undertake any non-audit services in 2021/22.

Gavin Barker, Director

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Item 13

North East Combined Authority
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Leadership Board

Date: **28 November 2023**

Subject: **North East Mayoral Combined Authority 2025-2029 Initial Draft Budget and Medium Term Financial Plan Proposals**

Report of: **Chief Finance Officer**

Executive Summary

On 28 December 2022 HM Government announced a "minded to" devolution deal with the North East Combined Authority, North of Tyne Combined Authority and the seven councils across the North East (i.e. Durham, Gateshead, Newcastle, North Tyneside, Northumberland, South Tyneside and Sunderland). The proposed devolution deal provides at least £4.2 billion of investment into the region over 30 years and requires the councils to establish a new mayoral combined authority and abolish the North East Combined Authority (NECA) and the North of Tyne Combined Authority (NTCA) which is dependent on the Secretary of State making a statutory order under the Local Democracy, Economic Development and Construction Act 2009.

The 7 constituent authorities as well as NECA and NTCA have now all given their formal consent to the making of the order and have authorised their Chief Executives to issue formal consent to the final order when requested to do so by the Secretary of State. It is anticipated that the Secretary of State will issue his request for the councils and combined authorities to consent to the making of the order in December or January. This will allow the Secretary of State to lay the order before Parliament and for it to be made (i.e., take effect) by March 2024. This will then allow for the mayoral election to be held in May 2024 and NEMCA to come into existence on 7 May 2024.

Work on the statutory order has been ongoing, with the new combined authority being created when the mayor is due to take office on 7 May 2024 (with the existing combined authorities being abolished at that point). To this end the NECA and NTCA will extend their financial current year end to 6 May 2024. To deliver the deal there is a need to be ready with a single corporate plan and budget for the first period of 7 May 2024 through to 31 March 2025. The deal provides a framework for the development of the initial budgets and financial plans for the new authority, however until the new authority comes into existence, the current decision-making arrangements apply; therefore the single corporate plan and budget are set out in this report for consideration by the current decision-makers (NECA,

Leadership Board

NTCA and Joint Transport Committee (JTC)) in a manner that fits current arrangements and can be seen as a combined budget in May 2024.

The timing of this report is such that the initial budget proposals have been developed prior to the announcement of the Autumn Statement, any implications flowing from this announcement will be reflected in the Final Budget Proposals to the NECA Leadership Board and NTCA Cabinet in January 2024.

Recommendations

The Leadership Board is recommended to:

i. Agree the draft NEMCA Corporate Budget for 2024/25 as set out in section 2.5-2.8 which will then be subject to consultation with Overview and Scrutiny Committee;
ii. Agree the overarching delivery budgets as set out in section 2.13-2.26, which will then be subject to consultation with Overview and Scrutiny Committee;
iii. Note the Transport Levies will be agreed by the North East Joint Transport Committee on the 16 January 2024 and issued by the Combined Authorities preceding the commencement of the financial year in respect of which they are to be issued, in line with the Transport Levying Bodies Regulations; and
iv. Note the reserves position as set out in section 2.29 which will be kept under review in consideration of NEMCA developments and new information becomes available about the financial risks facing the authority.

North East Combined Authority
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1. Background Information

1.1 On 28 December 2022 HM Government announced a “minded to” devolution deal with North East Combined Authority, North of Tyne Combined Authority and the seven councils across the North East (i.e. Durham, Gateshead, Newcastle, North Tyneside, Northumberland, South Tyneside and Sunderland). The “minded to” devolution deal would see a significant shift of powers, funding and responsibility which would enable the Councils to pursue their ambitions for inclusive growth. In total, it is expected to provide at least £4.2 billion of additional funding for transport, education and skills, housing, and regeneration. This would enable into projects which reflect local needs and opportunities, making a real difference for residents, communities, and the local economy.

1.2 The deal requires the councils to establish a new mayoral combined authority. This will be dependent on the Secretary of State making a statutory order under the Local Democracy, Economic Development and Construction Act 2009 to deliver the following proposals:

a. The abolition of the two existing combined authorities, i.e. North East Combined Authority (NECA) and the North of Tyne Combined Authority (NTCA); and

b. The creation of a new mayoral combined authority which covers the area of all 7 councils, which will be called the North East Mayoral Combined Authority (NEMCA).

(N.B. the changes above would also entail the abolition of the Joint Transport Committee (JTC) as NEMCA would be responsible for the exercise of transport functions across the regions in the future.)

1.3 Discussions have taken place with DLUHC officials over several months regarding the content of the statutory order. The order will provide for the election of a mayor for the new combined authority in May 2024 and for the new combined authority to come into existence when the mayor is due to take office on 7 May 2024 (with the existing combined authorities being abolished at that point). To this end the NECA and NTCA will extend their financial current year end to 6 May 2024.

1.4 To deliver the deal there is a need to be ready with a single corporate plan and budget for the first period of 7 May 2024 through to 31 March 2025. Subject to the necessary order being laid, the deal provides a framework for the development of the initial budgets and financial plans for the new authority, however until the new authority comes into existence, the current decision-making arrangements apply; therefore the single corporate plan and budget are set out in this report in line with the current decision-makers (NECA, NTCA and JTC) in a manner that fits current arrangements and can be seen as a combined budget in May 2024.

1.5 The timing of this report is such that the initial budget proposals have been developed prior to the announcement of the Autumn Statement, any implications flowing from this announcement will be reflected in the Final Budget Proposals to the Leadership Board.

2. Proposals

Implications for NECA, NTCA and the Joint Transport Committee

2.1 To establish the new regional NEMCA, the existing combined authorities – NECA and NTCA – will need to be abolished. The Leadership Board of NECA and the Mayor and Cabinet of NTCA will need to consent to the statutory order which provides for their abolition and the creation of NEMCA, which will take place simultaneously when the elected mayor for NEMCA takes office in early May 2024.

2.2 The Leadership Board are aware that the draft statutory order provides appropriate continuity and transitional arrangements so that any acts of the existing combined authorities are to be treated as the acts of the new mayoral combined authority. The order will also provide for the staff, assets, rights and liabilities of the existing combined authorities to transfer to NEMCA. This will ensure that the existing funding programmes of NTCA and the regional transport arrangements which are currently overseen by the JTC are maintained by NEMCA without interruption. Officers from both combined authorities and the local authorities are liaising on the operational requirements of the transition, which will include the arrangements for Transport North East (TNE) and the integration of the North East Local Enterprise Partnership (NELEP) in line with central government policy.

2.3 Implementing the devolution deal would enable the region to access over £4bn of funding over a 30-year deal cycle, together with new powers to better shape local skills provisions to ensure these meet the needs of the local economy. This would include devolution of adult education functions and the core adult education budget, as well as input into the new local skills improvement plans. The ”minded to” deal also secures significant investment in regional transport. Over time the region would also expect to benefit from access to additional funding streams reserved for mayoral combined authorities. Detailed discussions will be progressed with the existing combined authorities and the other councils regarding the financial arrangements associated with the transition to the new arrangements.

2.4 An initial Corporate Plan for 2024 (Appendix A) has been agreed through the transition governance arrangements by the 7 Local Authority Leaders and the

Mayor of North Tyneside. The plans sets out the seven interim portfolio areas and early priorities that will be supported by the various funding streams, which are detailed in Section 2.13-2.26 report. The plan also describes the various roles the Combined Authority undertakes as part of its remit to deliver the North East devolution deal and that has formed some of the consideration in developing the Corporate Budget.

Developing the Corporate Budget

2.5 This draft budget as set out in Table 1 below is based on the following central assumptions and worked through the current Transition Governance arrangements, with collaborative work across the Chief Executives and Financial Directors and using experience of what it takes to run an effective Mayoral Combined Authority.

a) A balanced budget is proposed for the 11-month period between May 2024 and March 2025 – the first operating year of NEMCA.
b) Constituent authorities will see no material increase in revenue funding to establish NEMCA – and will thus continue to contribute the current 2023-24 funding arrangements across NECA, NTCA, NELEP, INEE and TNE.
c) Additional funding for costs is secured from new income into the region through prudent top slicing of the investment fund and additional income, in line with the approach taken by other Mayoral Combined Authorities.
d) The budget enables the integration of five organisations. Most of this activity is already funded by the region; this budget identifies the marginal budget growth needed to enable key new senior posts that are required to deliver the outcomes set out in the devolution deal.
e) It is a prudent year one budget that enables a TUPE process and ‘day 1’ continuity for NEMCA, but with opportunities for integration anticipated to deliver efficiencies for investment where capacity gaps are identified.

Additional budget assumptions:

a) Prudent assumption on staff turnover of less than 3%. Recently staff turnover rates have been as high as 10% being representative of the market conditions in respect of recruitment and retention and will be kept under review as part of the usual financial management and resource management actions of NEMCA.
b) The current employer pension contributions rates for NECA and NTCA differ; NECA being 0% and NTCA being 15.1%. The draft budget includes a blended rate across the new organisation while dialogue progresses with the Tyne and Wear Pension fund regarding a rate for the new authority. It is

reasonable to expect the new contribution rate to be lower than currently assumed.

c) The budget assumes a £400k contribution to an Election Reserve to start the build-up for 2029.
d) The budget is prudent, it is reasonable to anticipate upside from higher interest earning reflecting higher cash balances, and from the possibility of additional in-year income that has been realised for each year of the NTCA to date.

2.6 The preparation of these initial budget proposals has taken into consideration the existing organisations (under the rubric of NECA and NTCA) that will transfer to NEMCA. Consideration has been given to the NEMCA being the “sum of its parts” of the 5 organisations coming together but being cognisant of any known additional capacity requirements where there are known increased delivery requirements. The draft corporate plan sets out some clear priority areas for early delivery and there will be programme/project activity that whilst started in NTCA, the NELEP and TNE will continue into future years. Current indications are that total investment funding for 2024-25 will be in the region of £388m, so the relatively small amount of additional staffing capacity at £0.835m delivers an excellent return on investment.

2.7 A full review of Service Level Agreements has been undertaken on behalf of LA7 Finance Directors to consider where appropriate activity should be delivered directly by NEMCA and where service level agreements will need to continue (based on a judgement of the right balance between delivery capacity, risk, and public value). These will continue to be reviewed in line with good practice as NEMCA evolves over time. Plans are in development to ensure smooth transition from current to new arrangements as part of the overall Transition Programme.

2.8 Table 1 below sets out an initial Operational Budget for NEMCA. For illustrative purposes, an estimated full year budget is shown but in essence the authority will only exist for 11 months of 2024-25. The constituent elements to this budget are set out in Appendix B to this report.

Table 1 Initial Operational Budget		2024-25 Full year estimate	7 May 2024- 31 March 2025
Expenditure		£m	£m
Employees Baseline		12.649	11.595
Employees Growth		0.911	0.835
Transport		0.174	0.159
Premises		0.625	0.573
Supplies and Services		2.024	1.771

Programme delivery costs		1.027	0.941
Support Services		0.797	0.731
Cost of Capital		9.445	8.658
Contribution to Election Reserves		0.400	0.367
Total Expenditure		28.052	25.629
Income			
Top-slice		(8.623)	(8.451)
Transport Grants		(1.405)	(1.288)
Other grants, reimbursements, and contributions ECMA and Levies, TNE		(2.145)	(1.966)
Grants		(2.930)	(2.686)
Mayoral Capacity Fund		(1.000)	(1.000)
Direct Grant Recharges		(1.501)	(1.376)
Tyne Tunnel		(8.357)	(7.661)
Interest		(0.384)	(0.352)
Recharges - Nexus and Northumberland		(0.186)	(0.171)
Local Authority Contributions		(0.741)	(0.679)
Total Income		(27.272)	(25.629)
Net Budget		0.779	0.000

Developing an Investment Plan for the North East

2.9 The overarching objectives of the devolution deal are set out in summary below:

- Integrating economy, skills, transport, housing, and public sector reform
- Shared principles of inclusive growth, addressing disparities and bringing communities together in a smart, skilled, sustainable region
- Accelerate rural growth.
- Amplify global assets.
- Bring forward fiscal innovation, working on a public service reform programme, and influencing integrated care system.
- Creating an integrated transport system, including unlocking transformative schemes
- Incentivising investment in digital connectivity, 5G-ready infrastructure
- Decisions reflect diverse geography, assets and needs and each partners sees benefits of cross-regional investment.

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2.10 An Investment Strategy for NEMCA will be brought together which considers the future deployment of the Investment Fund (e.g., £48m per annum) alongside the other funding streams inherent to the Combined Authority – such as for brownfield housing, economic development, and inclusive growth. The purpose of the NEMCA investment fund is to improve the trajectory of the North East economy – improving productivity and public services, not substituting, or displacing existing investment. The following financial principles are designed to support that aim.

2.11 Specifically for the £1.4bn (£48m per annum Investment Fund), the financial principles to be followed – as discussed and agreed with a steering group of political leaders, in lieu of a NEMCA establishment, – include:

- **Value for money** – projects must make a tangible contribution to our strategic objectives and provide good value for money in terms of outputs and outcomes.
- **Social value** – investments will meet established social value requirements, as well as articulating their relationship to the strategic outcomes set out in the investment plan and assurance framework. e.g., a commitment to good work
- **Additionality** – investments will be in addition to existing funding available at regional and local levels, avoiding displacement, deadweight, leakage, and substitution.
- **A programme approach** – we will develop coherent programmes of investments. This includes looking for opportunities to take a pan-regional approach to sectoral growth whilst considering how more localised initiatives can work together to address the opportunities and challenges of specific places and communities.
- **Novel approaches** – the authority will explore opportunities to introduce new financial instruments (for instance tax increment finance, land value capture, energy delivery vehicles, etc where their introduction could increase outcomes within the region, with appropriate review by scrutiny and the investment board to manage risk.

2.12 For capital projects specifically:

- **Co-investment and leverage** – investments will be made in ways that maximise private sector leverage, either through up-front co-investment commitments, or through additional investment unlocked by funding.
- **Recyclability** – the expectation will be that where returns on investment are collected, they will be used to service any debt accrued in financing the upfront investment, and then will be recycled into the regional investment fund for re-investment.

Leadership Board

- **Borrowing** – borrowing against the investment fund will only be pursued for strategic regional investments with substantial co-investment of and expected returns on investment as set out in the forthcoming Investment Strategy.

Funding Streams Financial Year 2024/25 through to 2028/29

2.13 The Tables below set out indicative funding streams for 2024/25 and across the first four years of the MCA. It is reasonable to expect (based on NTCA and wider MCA performance to date) that the funding streams will grow and future allocations of UKSPF and Brownfield Housing Funding, for example, are confirmed beyond 2024/25.

2.14 These are clearly delivery funding streams and will be split between revenue and capital programmes and projects as illustrated in the Tables.

Table 2 Draft Investment Fund: This Table starts by illustrating the programme commitments made by NTCA over the course of the first five years. Activity continues over most programme areas, but some examples include projects such as Access to Finance, North Bank of the Tyne Walker Key phase II, ongoing Skills programmes in respect of the Inclusive Economy Programme and on-going delivery of the Culture, and Creative Zones

Draft Investment Fund	**2024-25 £m**	**2025-26 £m**	**2026-27 £m**	**2027-28 £m**	**2028-29 £m**	**Total £m**
NTCA – current programme commitments Revenue and Capital into future years	25.234	15.525	5.854	1.138	6.020	53.770
Funded by NTCA Investment fund Reserve forecast as of 6 May 2024	(19.525)	0.000	0.000	0.000	0.000	(19.525)
Balance of funding requirement 2024-25 and future years	**5.709**	**15.525**	**5.854**	**1.138**	**6.020**	**34.245**
NEMCA Capital Funding	14.000	14.000	14.000	14.000	14.000	70.000
Capital top slice	(1.400)	(1.400)	(-1.400)	(-1.400)	(-1.400)	(71.400)
Early Capital match	(12.600)	(1.610)	0.000	0.000	0.000	(14.210)
Available for New Investment	**0.000**	**17.010**	**15.400**	**15.400**	**15.400**	**71.400**
NEMCA Revenue Funding	34.000	34.000	34.000	34.000	34.000	170,000

Revenue top slice	(3.400)	(3.400)	(3.400)	(3.400)	(3.400)	(17.000)
Cost of Borrowing – currently based on an £50m borrowed in 24-25	(1.125)	(2.504)	(2.513)	(2.523)	(2.532)	(11.197)
Funding NTCA current programme commitments	(5.709)	(15.525)	(5.854)	(1.138)	(6.020)	(34.245)
Available for New Investment	**23.766**	**12.571**	**22.233**	**26.939**	**22.048**	**107.557**

2.15 **Table 3 Strategic Place based funding – Brownfield Housing Fund**: 2024/25 will be the final year of funding for NTCA for the North of Tyne sites bringing the total investment to £31.820m by 31 March 2025. As part of the early priorities in negotiation the NEMCA deal £35.400m has been secured for Brownfield housing sites across the South of Tyne Local Authorities area. This year sites have been proposed and are currently progressing through the NTCA Assurance process that will allow the project to start in 2023/24 and conclude delivering of the expenditure during 2024/25. Currently 2024/25 this is the final year of the allocation of Brownfield Housing funding but again it is anticipated further funding will be provided for the NEMCA geography over the course of 2024/25.

Brownfield Housing Fund - Year 2	**2024-25**	**2025-26**	**2026-27**	**2027-28**	**2028-29**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
NTCA	8.669	0.000	0.000	0.000	0.000	8.669
NEMCA	15.400	0.000	0.000	0.000	0.000	15.400
Total	**24.069**	**0.000**	**0.000**	**0.000**	**0.000**	**24.069**

2.16 **Table 4 Early Capital funding:** The Leadership Board are aware that as part of securing the NEMCA devolution deal a £20m capital fund was secured. Projects have been agreed are currently progressing through the NTCA assurance process to start delivery and spending in 2023/24. This table sets out the current forecast final year of the early capital spend and funding alongside the proposed match funding from the Investment Fund.

Early Capital Programme	**2024-25 £m**	**2025-26 £m**	**2026-27 £m**	**2027-28 £m**	**2028-29 £m**	**Total £m**
Early Capital Funding	0.240	0.000	0.000	0.000	0.000	0.240
NEMCA Early Capital match from Investment Fund Capital	12.600	1.610	0.000	0.000	0.000	14.210
Total	**12.840**	**1.610**	**0.000**	**0.000**	**0.000**	**14.450**

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2.17 **Table 5 Indicative Investment Zones Funding**: the table sets out the indicative profile of the £35m Flexible funding, alongside an indication of the additional flexible fund to be received where the Tax site proposed in Blyth is 100Ha as opposed to the maximum 200Ha. This is in line with the over-arching principles and operational model for the Investment Zone agreed with political leaders across the LA7 and Government.

Investment Zones	**2024-25 £m**	**2025-26 £m**	**2026-27 £m**	**2027-28 £m**	**2028-29 £m**	**Total £m**
Flexible Revenue Funding	2.000	3.000	3.000	3.000	3.000	14.000
Additional Flexible Revenue Funding	0.000	0.250	0.250	0.250	0.250	1.000
Capital Funding	2.500	5.000	5.000	4.500	4.000	21.000
Additional Flexible Capital	3.000	4.750	4.750	4.750	4.250	21.500
Total	**7.500**	**13.000**	**13.000**	**12.500**	**11.500**	**57.500**

2.18 **Table 6 Indicative Overall Skills Funding**: this table sets out the range of funds to deliver skills and adult education across the first 5 years. Currently Bootcamps funding is secured through an annual process with no indication of funding beyond 2024/25 financial year – albeit the case is being made by the region to Government to provide additional assurance as to future funding rounds. It is anticipated more funds will be made available to deliver skills over the course of 2024/25.

Skills Funding	**2024-25 £m**	**2025-26 £m**	**2026-27 £m**	**2027-28 £m**	**2028-29 £m**	**Total £m**
AEB devolved funding NTCA April-July 2024	7.991	0.000	0.000	0.000	0.000	7.991
NTCA FCFJ April-July 2024	0.559	0.000	0.000	0.000	0.000	0.559
AEB devolved funding NEMCA August-March 2025	42.667	64.000	64.000	64.000	64.000	298.667
Bootcamps						
Residual NELEP	1.206	0.000	0.000	0.000	0.000	1.206
NEMCA	17.999	0.000	0.000	0.000	0.000	17.999
Total	**70.421**	**64.000**	**64.000**	**64.000**	**64.00**	**326.421**

2.19 **Table 7 Transport Programmes Funding:** the table below gives a high-level summary of the transport funding to be channelled through NEMCA up to the year ending 31 March 2027. Recent announcements following the abandonment of the HS2 project have indicated a significant increase of funding from April 2027, but indicative allocations and capital/revenue splits are not yet confirmed. It is anticipated these can be made clearer in the report to the Mayor and Cabinet in January 2024. The Joint Transport Committee Report that sets out the proposed budget for 2024/25 across the Transport programme is attached at Appendix E.

	2024-25 £m	2025-26 £m	2026-27 £m	Total £m
CRSTS Revenue	2.841	0.000	0.000	2.841
CRSTS Capital	49.000	49.000	49.000	147.000
BSIP Revenue	29.300	0.000	0.000	29.300
BSIP Capital	32.776	0.000	0.000	32.776
Highways Maintenance Block Capital (CRSTS)	52.143	52.143	52.143	156.429
LTP Integrated Transport Block Capital (CRSTS)	14.057	14.057	14.057	42.171
Indicative LEVI Capital	7.900	7.900	0.000	15.800
Total	**188.017**	**123.100**	**115.200**	**426.317**

Final Year Funding Programmes for North of Tyne

2.20 In terms of UKSPF 2024/25 will be the final year for the current round of allocations. NEMCA will be the accountable body for this final year of delivery of the North of Tyne allocation with indicative spend of £13.788m Revenue and £3.372m capital. The 7 local authorities will continue to deliver their own UKSPF programmes through their direct awards, all with the expectation that all expectation nationally that all spend is completed by 31 March 2025. At the current time, the NTCA programme is substantially committed with projects in delivery.

2.21 North of Tyne CA is the accountable body for the LA7 for the Creative Growth Programme funded by DCMS. 2024/25 is the final year of funding of £0.588m.

2.22 The picture below illustrates for 2024/25 a total investment pot of £388m.

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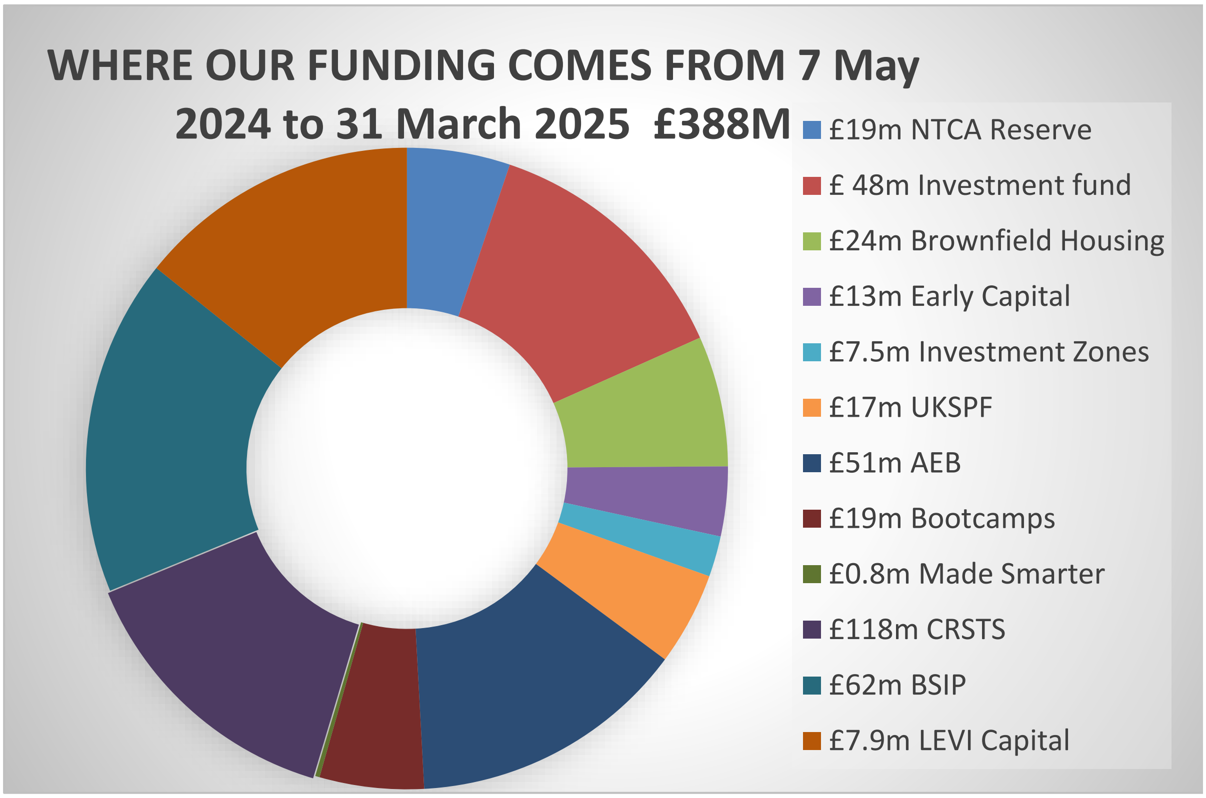

NELEP – Ongoing Programmes

2.23 There are a range of regional programmes delivered through the NELEP that will continue into 2024/25 and beyond. Programmes such as the North East Investment Fund (NEIF) and the Enterprise Zones (EZs) continue well beyond 2024/25 and will continue to deliver economic activity in line with the Investment Strategy priorities and plans as developed by NEMCA. Table 8 below give an indication of current programmes and assumptions made at the current time re their continuance into 2024/25.

Table 8 NELEP ongoing programmes

Programme	Funded by	Period of activity/confirmed funding	Notes/ MTFP Implications
North East Growth Hub	UKSPF/ Gov £420k/annum	To March 2024	Value to be confirmed for 2024-25 A review in March 2025 and decision made then on future options and direction of travel.

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Made Smarter	£800k/annum	To March 2025	Includes Tees Valley CA– promotes digital adoption by advanced manufacturers. Confirmation of funding for 2024-25 has been received. The programme will continue to 2030 with awards confirmed during 2024-25.
Challenge North East	£880k	To March 2024	Collaboration with Innovation SuperNetwork – independent appraisal of performance due January 2024.
Local Growth Fund	Balance to fund closure		Programme closure and performance reporting.
Get Building Fund	Balance to fund closure		Programme closure and performance reporting.
EZ Programme	Business Rates Retention.		Ongoing –will transition into NEMCA see paragraph 4.8 below.
North East Investment Fund (NEIF)	Evergreen Loans fund		Programme monitoring and performance management with FW capital – fund managers, and fund returns continuing – see paragraph 4.9 below.

Enterprise Zones

2.24 The Leadership Board will be aware of the existing Enterprise Zones (EZs) across the LA7 geography. There are two rounds of zones in existence. The EZs are expected to continue to March 2037 for round 1 sites and 2042 for round 2 sites. The table below, previously shared at the NELEP Investment Panel and Board, give a broad indication of potential surplus income for investment into future years. A prudent approach has always been taken as to the timing of decisions on the use of any surplus, with the expectation that it was dependant on "cash" being in the bank. The budget for 2024-25 and forecast into future years will be updated once the year end position 2023-24 is concluded early in June 2024.

Table 9 Forecast BRGI in the Enterprise Zones

2.25

	23/24 £m	24/25 £m	25/26 £m	26/27 £m	27/28 £m	28/29 £m
BRGI Income (Excluding Cat 4)	8.570	11.990	15.970	17.720	19.020	19.700
Capital Financing Costs	(4.200)	(6.240)	(8.440)	(9.630)	(9.990)	(9.960)

Net Revenue Costs	(0.140)	(0.180)	(0.160)	(0.100)	(0.110)	(0.150)
Annual Surplus	4.230	5.570	7.370	7.990	8.930	9.600
Cumulative Surplus b/f	11.540	13.510	15.540	19.070	23.550	29.690
Current assumption - use for LEP Budget Support	(0.410)	(0.500)	(0.500)	(0.500)	(0.500)	(0.500)
Agreed Performance Incentive Reward	(0.960)	(0.960)	(0.960)	(0.960)	(0.960)	(0.960)
Provision for CPIF Incentives	(1.000)	(1.000)	(1.000)	(1.000)	(1.000)	(1.000)
Funding GBF Top Up	0.000	(1.000)	(1.000)	0.000	(1.000)	0.000
Provision for Strategic Grants	(1.000)	(1.000)	(1.000)	(1.000)	(1.000)	0.000
Repayment of Project development fund	(0.230)	(0.730)	0.000	0.000	0.000	0.000
LGF swaps	0.000	(0.150)	0.000	0.000	0.000	0.000
Retained Surplus after uses	**7.940**	**8.170**	**11.080**	**14.610**	**20.090**	**27.230**

The North East Investment Fund

2.25 The Mayor and Cabinet will be aware that the North East Investment fund (NEIF) has been in operation since March 2013 as recyclable loans fund to support business in the region. The fund was set up with Regional Growth Fund and Growing Places fund a set out in the table below. Investments made and recycled funds have resulted in £79m of loans made to date against an original cash injection of £54m. Repayments into the fund will continue to 2037-38. Currently funds are fully committed with the cash balance of £11.734m at the end of September 2023 committed to a range of projects including the Commercial Property Fund. Current agreements indicate funds will become available for investment in Q4 2026-27.

2.26 **Table 10 North East Investment Fund – 30 September 2023**

RGF Grant	£29.3m
GPF Grant	£24.7m
Fund Budget (plus interest)	£54m (+£1.1m)
Total Investment Made to date (No. of Projects)	£79m (31)
Current Cash balance on the NEIF	£11.7m*
Bad Debt Provision	£2.6m

Capital Investment and Borrowing

2.27 The range of funds set out above illustrate the significant level of resources for both revenue and capital investment across the region in 2024-25 and beyond. However, like existing combined authorities NEMCA will secure borrowing power for all activities including non-transport activities. In securing those powers the authority will be required to negotiate a debt cap with Treasury giving an indication of the type of activity the authority may wish to borrow for. NTCA currently has a debt cap of £21.5million which is starting point for early negotiations with Treasury.

2.28 A draft Treasury management strategy and Prudential Indicators are set out as Appendix D to this report. These will be finalised and updated once the debt cap has been secured.

Reserves

2.29 As NEMCA comes into existence on 7 May any reserves and balances remaining on 6 May will transfer to NEMCA. The current forecast outturn of those reserves is set out in Appendix C but will be reviewed and updated as the year end approaches. Consideration will be given to the level of the Strategic (risk) reserve the new authority should hold. This is not expected to be material in the context of the funding the authority receives and the role it pays across the region.

3. Reasons for the Proposals

3.1 The report is provided to enable initial budget proposals for NEMCA to be agreed and subject to consultation with Overview and Scrutiny Committee.

4. Alternative Options Available

4.1 There are no alternative options proposed.

5. Next Steps and Timetable for Implementation

5.1 Final budget proposals for 2024/25 will be presented to the NECA Leadership Board and NTCA Cabinet in January 2024. A timetable is set out in Appendix F.

6. Potential Impact on Objectives

6.1 The potential impact on objectives is set out in the body of the report.

7. Financial and Other Resources Implications

7.1 Implementing the devolution deal would enable the region to access over £4bn of funding over a 30-year deal cycle, together with new powers to better shape local skills provisions to ensure these meet the needs of the local economy. This would include devolution of adult education functions and the core adult education budget, as well as input into the new local skills improvement plans. Over time the region would also expect to benefit from access to additional funding streams reserves for mayoral combined authorities as set out in this report.

8. Legal Implications

8.1 The Authority is required to agree a balanced budget annually and to monitor that budget throughout the year. NEMCA also has a fiduciary duty not to waste public resources and to secure value for money. The Authority must also make provision for an adequate level of un-earmarked reserves. It is also required to ensure that good financial governance arrangements are in place.

9. Key Risks

9.1 It is considered that failure to establish the mayoral combined authority would risk the region falling behind other major city regions such as Greater Manchester, Liverpool City Region and Tees Valley, which have received new powers and funding.

9.2 Prudent financial planning assumptions have been made in terms of forecasting the base budget pressures and issues NEMCA will face in 2024/25 and over the coming years. The budget and corporate plan will be underpinned by a robust Assurance Framework and process.

9.3 Key risks underpinning the budget estimates include inflation risk and deliverability/slippage in expected programmes of work. Service Level Agreements costing is still underway, and this may change the budget estimates once completed.

10. Equality and Diversity

10.1 In developing these proposals, the constituent local authorities of NEMCA have taken account of their obligations under section 149 of the Equality Act 2010 (i.e. the public sector equality duty.) It is not expected that the proposals described in this report will have any adverse impacts on people with protected characteristics. Indeed, the aim of promoting inclusive growth within the region is expected to boost the efforts of the councils to advance equality of opportunity and foster good relations between different groups. Throughout the public consultation to date, the councils collected data on those who responded, including those who identified as having a protected characteristic and an Equality Impact Assessment was undertaken.

11. Crime and Disorder

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

Leadership Board

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

12. Consultation/Engagement

12.1 The overall devolution proposals have been developed from close collaboration working across the local authorities and specifically the LA7 Finance Directors and a wide range of stakeholders and the public. Engagement continues among key stakeholders across the region.

13. Other Impact of the Proposals

13.1 The green agenda is a critical element of the minded to devolution deal and therefore the governance changes proposed in this report, if implemented, would help to deliver those initiatives identified in the minded to deal.

14. Appendices

14.1 Appendix A – Draft 2024-25 Corporate Plan

Appendix B – Budget Analysis of 5 organisations

Appendix C – Reserves and Balances

Appendix D – Draft Treasury Management Strategy and Prudential Indicators

Appendix E – Joint Transport Committee Report

Appendix F – Timetable

15. Background Papers

15.1 Report to Leadership Board 7 November 2023 – North East Devolution Leadership-Board-extraordinary-7-November-2023.pdf (northeastca.gov.uk)

16. Contact Officers

16.1 Paul Darby, Chief Finance Officer NECA – paul.darby@durham.gov.uk

Janice Gillespie, Director of Finance NTCA –

janice.gillespie@northoftyne-ca.gov.uk

17. Sign off

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

North East Combined Authority

DURHAM • GATESHEAD • SOUTH TYNESIDE • SUNDERLAND

Leadership Board

18. Glossary

18.1 INEE – Invest North East England

LA7 – Seven North East local authorities i.e. Durham, Gateshead, Newcastle, North Tyneside, Northumberland, South Tyneside and Sunderland

NECA – North East Combined Authority

NELEP – North East Local Enterprise Partnership

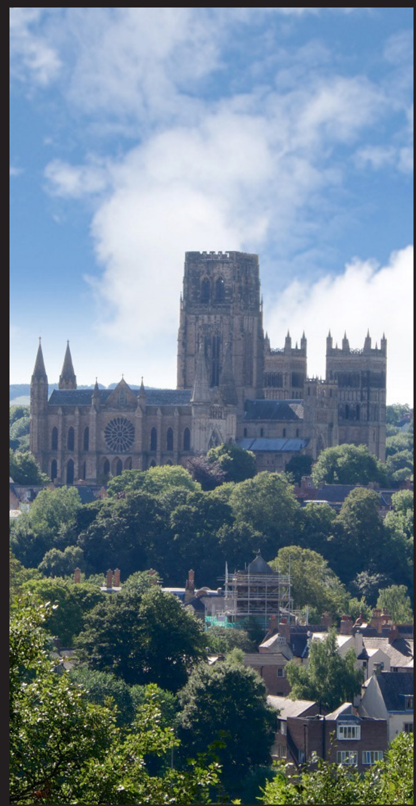
NEMCA – North East Mayoral Combined Authority

NTCA – North of Tyne Combined Authority

TNE – Transport North East

Appendix 1

North East Devolution



Interim Corporate Plan for a new North East Mayoral Combined Authority

Durham County Council
Gateshead Council
Newcastle City Council
North Tyneside Council
Northumberland County Council
South Tyneside Council
Sunderland City Council

Introduction

A historic devolution deal means more funding and local decision-making powers are coming to the North East. The deal involves the creation of a new Mayoral Combined Authority covering County Durham, Gateshead, Newcastle, North Tyneside, Northumberland, South Tyneside and Sunderland. Following an order being laid in Parliament to establish the new Mayoral Combined Authority an election will take place in May 2024 to elect a Mayor for the region. The new authority will be formed on May 7.

Dame Norma Redfearn DBE

Chair of the Combined Authority Steering Group and Elected Mayor of North Tyneside.

"Our devolution deal is the result of collaboration across seven local authorities, two combined authorities and with our businesses, voluntary sector and public services.

"We all share an ambition for this region – to make a difference for our people and our places.

"With greater powers and more resources, this new deal promises to deliver bigger and better outcomes for everyone.

"We will invest in skills, transport, homes and jobs to have a real impact on people's lives. We're investing in the future of the North East and giving new hope to our residents."

Dr Henry Kippin

Interim Chief Executive for the new Mayoral Combined Authority

"This Corporate Plan sets out how we will turn our devolution deal into a reality, through establishing a North East Mayoral Combined Authority that is innovative, collaborative and fit for purpose.

"Our organisational design principles are driven by the deal and our shared commitments. They are underpinned by a strong set of values that guide what we do and why we do it.

"The new Combined Authority will have clear governance and accountability that demonstrates strong public value and clear commitments to maximising impact for our economy, people and places.

"Collaboration is key to our success. We will convene at scale and across sectors to deliver on the vision and ambition of the political team."

What does NEMCA need to do?

Convening – at scale & across sectors

Commissioning and delivering

Managing multi-billion investment

Making and shaping policy

NORTH EAST DEVOLUTION DEAL

Stimulating & investing in innovation

Leading on behalf of the region

Supporting and enabling

Driving social and economic impact

The region

A diverse geography with strong urban, rural and coastal communities - the North East has enormous potential. We have four universities, innovation centres in offshore wind and manufacturing and nine further education colleges. The region has great connectivity through Newcastle International Airport and deep-water ports, alongside mainline rail and road connections. Challenges include having below national average growth, productivity and skills and wages, as well as relatively high inactivity and poor health outcomes.

There are multiple economic opportunities, including a thriving clean energy industry and an innovative health and life-science sector that supported the UK's response to the pandemic. The region has a growing specialism in digital and data that catalyse growth of our other sectors such as cyber security, fintech, and advanced manufacturing.

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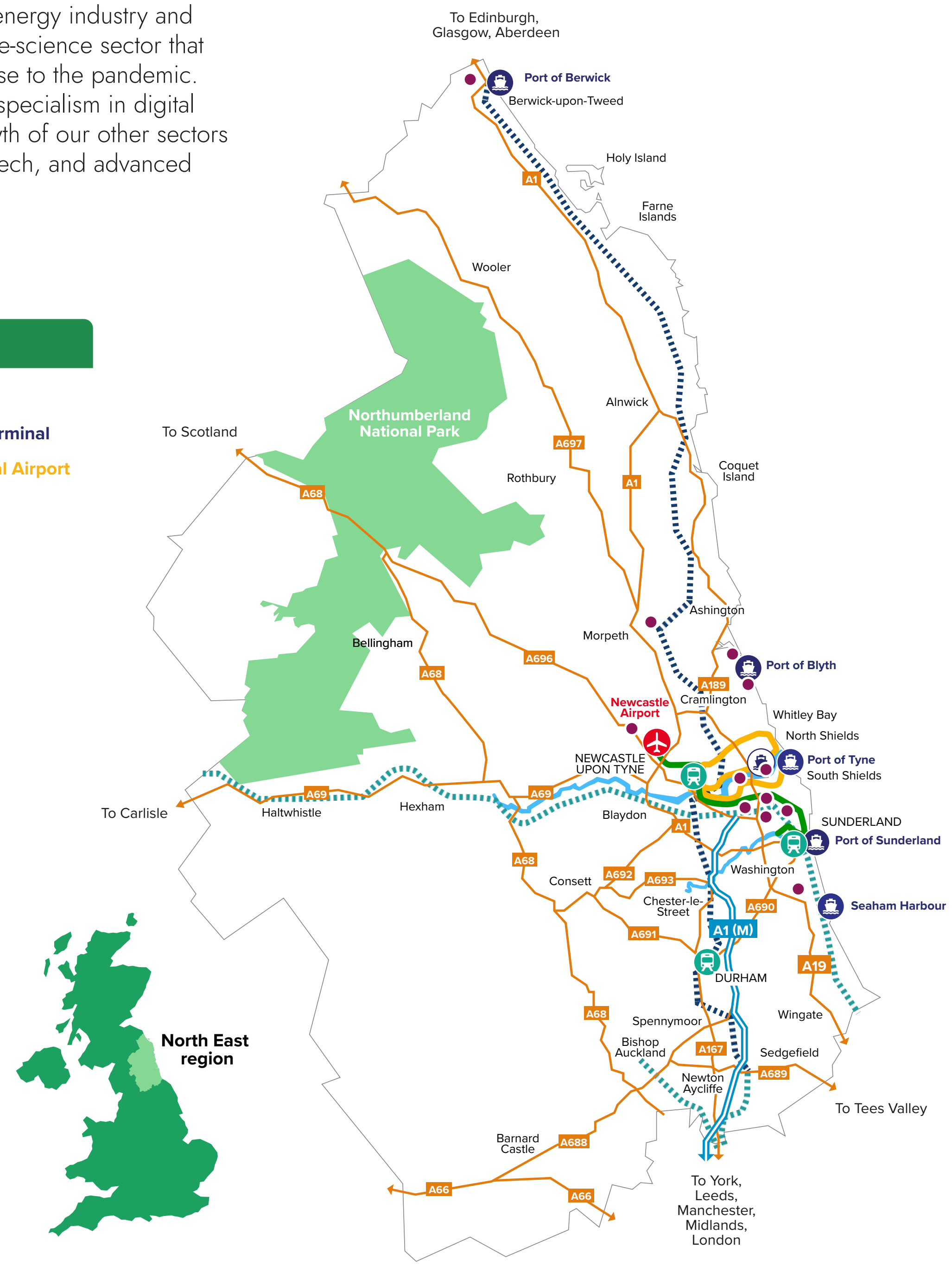
Key

- Ports
- Port of Tyne – Ferry Terminal
- Newcastle International Airport
- Tyne and Wear Metro
- Railway Line
- East Coast Main Line
- Motorway
- Major Road Network
- National Park



A snapshot of the region

Jobs **820,000**

Population of **1,968,000**

48.8m
Annual visitors to the North East

An economy worth
£40.7bn

Business population of
55,340

105,000 Residents who are unemployed or inactive and want a job

£25,404
Median Gross Annual Salary

Halved Annual CO^2 emmissions since 2005

How we will deliver

The transition is being led by the leaders of the seven local authorities. Dame Norma Redfearn, DBE, Elected Mayor of North Tyneside, chairs a steering group and each leader has an interim portfolio. There are a number of cross-cutting themes and strong collaboration across portfolios.

In May 2024 the people of the North East will elect a new Mayor who will work with portfolio leads to further develop areas of focus, in line with their election manifesto.

STRONG COLLABORATION ACROSS PORTFOLIOS WITH ENVIRONMENT, DIGITAL, PUBLIC SECTOR REFORM AND ADDRESSING HEALTH INEQUALITIES AS CROSS CUTTING AND FUNDAMENTAL TO ALL PORTFOLIOS

Cllr Graeme Miller
Leader Sunderland City Council

FINANCE & INVESTMENT

Cllr Tracey Dixon
Leader South Tyneside Council

EDUCATION, SKILLS & INCLUSION

Cllr Nick Kemp
Leader NewcastleCity Council

ECONOMY

Mayor Norma Redfearn DBE
Mayor of North Tyneside

HOUSING & LAND

Cllr Martin Gannon
Leader Gateshead Council

TRANSPORT

Cllr Amanda Hopgood
Leader Durham County Council

CULTURE, CREATIVE, TOURISM & SPORT

Cllr Glen Sanderson
Leader Northumberland County Council

ENVIRONMENT, COASTAL AND RURAL

Interim portfolios

TRANSPORT

Ambition
Through a transport plan move to a green, healthy, dynamic and thriving North East.

Scope – What is in the Deal?
The Deal recognises and builds on the work of the Joint Transport Committee and conveys a wide range of powers and funding to the Combined Authority including the City Region Sustainable Transport Fund and the Bus Services Improvement Plan funding.

The Deal also highlights the significant economic and social benefits of the Tyne and Wear Metro, conveys new powers related to developing a strategy for the Key Route network, smart ticketing and improving bus services.

FINANCE AND INVESTMENT

Ambition
Ensure that investment decisions are underpinned by a clear investment strategy that maximises leverage of the investment fund, set within a plan for generating positive jobs, skills and inclusive growth outcomes.

Scope – What is in the Deal?
This portfolio provides the overarching financial and assurance frameworks that underpin all the activities of the new authority.

The portfolio will ensure that the collective financial, legislative and convening powers, including the North East Investment Fund, are squarely focused on achieving positive economic, social and environmental outcomes across all portfolios. This includes the development of proposals for inward investment co-ordination alongside fiscal and financial innovation.

The deal sets out a requirement to develop an Assurance Framework, to be agreed with government.

ENVIRONMENT, COASTAL AND RURAL

Ambition
Place the environment, the coast, and the growth of our rural areas at the core of the economic strategy for the North East.

Scope – What is in the Deal?
The deal recognised the unique natural assets and complex coastal and rural environment of the North East and the work already done in the North Of Tyne to embed stewardship and rural growth in overall economic policy. The deal sets out additional powers and measures to further build on this including:

- Proactive collaboration with government to stimulate housing and economic growth in rural areas.
- Promoting close collaboration with Scotland along the North East Coast Corridor.
- Agreeing priorities for and increased investment in nature recovery.

CULTURE, CREATIVE, TOURISM AND SPORT

Ambition
Seek to deliver a vibrant and inclusive regional economy with culture, creativity, the visitor economy, leisure and sport at its heart.

Scope – What is in the Deal?
The deal recognises and builds on regional opportunities to drive inclusive and sustainable growth through investment in cultural, creative and visitor economy sectors by:

- Supporting the development of an ambitious cultural framework that makes the most of our distinctive natural, cultural and heritage assets.
- Aligning government and government funding with the authority and promoting joint investment and collaboration and decision making
- Promoting grassroots sport and physical activity.
- Investing in the film and media sector.
- Coordinating activity across the region to promote the visitor economy.
- Promoting the region as a location for world-class events.

ECONOMY

Ambition
A bold overall economic strategy that guides investment in the region, boosts growth and productivity and proactively guides our economic transition while reducing inequality.

Scope – What is in the Deal?
The deal sets out three key areas where the economy portfolio must lead:

- The development of an overall economic strategy and narrative underpinned by an ambitious industrial strategy.
- The establishment of an economic intelligence and insights hub to support decision making.
- The provision of ongoing economic policy and influencing positions to support priorities.
- Progress that builds on the economic priorities, assets and potential across the seven local authority areas.

HOUSING AND LAND

Ambition
Set out bold and ambitious plans for the North East: to improve the range, quality and affordability of housing; drive economic growth and productivity; and, support the most vulnerable.

Scope – What is in the Deal?
The deal sets out a broad set of powers and functions that – alongside partners - will drive growth and regeneration and will enable the authority to:

- Acquire and dispose of land to assemble sites and build homes and commercial space.
- Designate mayoral development areas and create mayoral development corporations.
- Drive place-based economic regeneration across key sites in the region.
- Take a collaborative approach to infrastructure investment and place shaping.
- Support a sustainable future for our high streets, towns, and city centres.
- Develop infrastructure plans and collaborative approaches to funding and investment in affordable homes.

EDUCATION, SKILLS AND INCLUSION

Ambition
Build an inclusive and sustainable economy that everyone can contribute to and benefit from, equipping residents with the skills and support needed for our economy to thrive.

Scope – What is in the Deal?
The deal provides an expansive range of powers and investment opportunities to promote inclusive growth and a skilled, motivated workforce.

These include:

- A fully devolved Adult Education Budget.
- A commitment to provide local leadership of the overall skills system across the region including support for Local Skills Improvement Plans.
- Ensuring collaboration across the local education system to improve standards.
- A commitment to tackle and prevent child poverty.
- Measures to work collaboratively on improving employability and future employment programmes.
- An expanded inclusive economy approach for the North East.

Resources

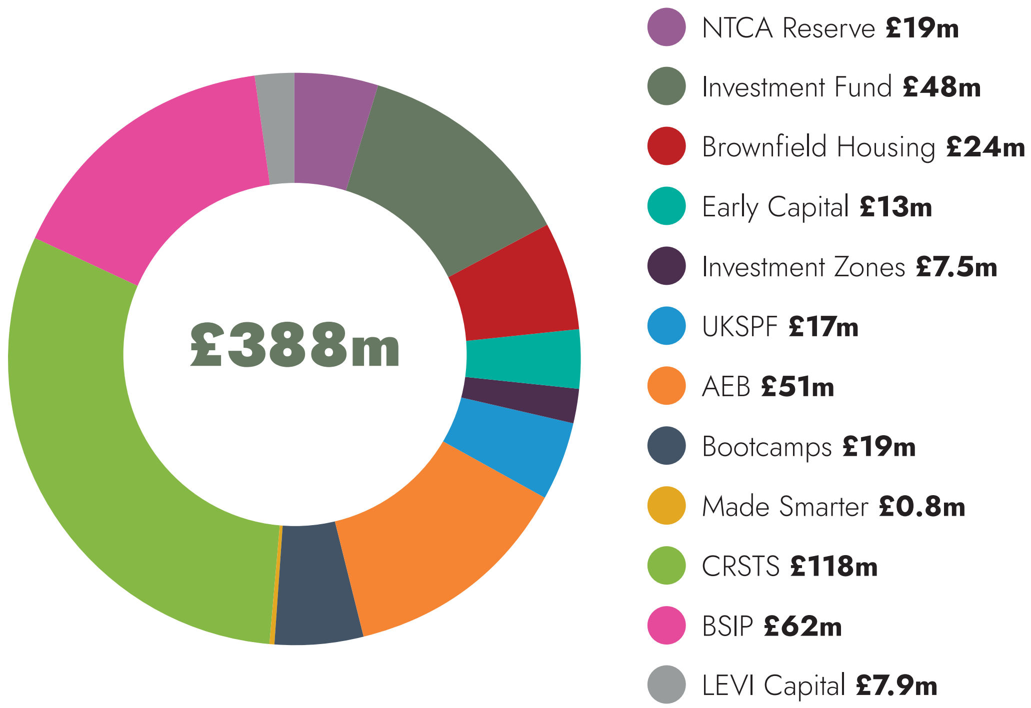
In preparing a draft budget, investment plans are designed for delivery of the portfolio activity that has been set out in this plan.

The budget enables the integration of five organisations that will be disbanded and reformed as the new authority.

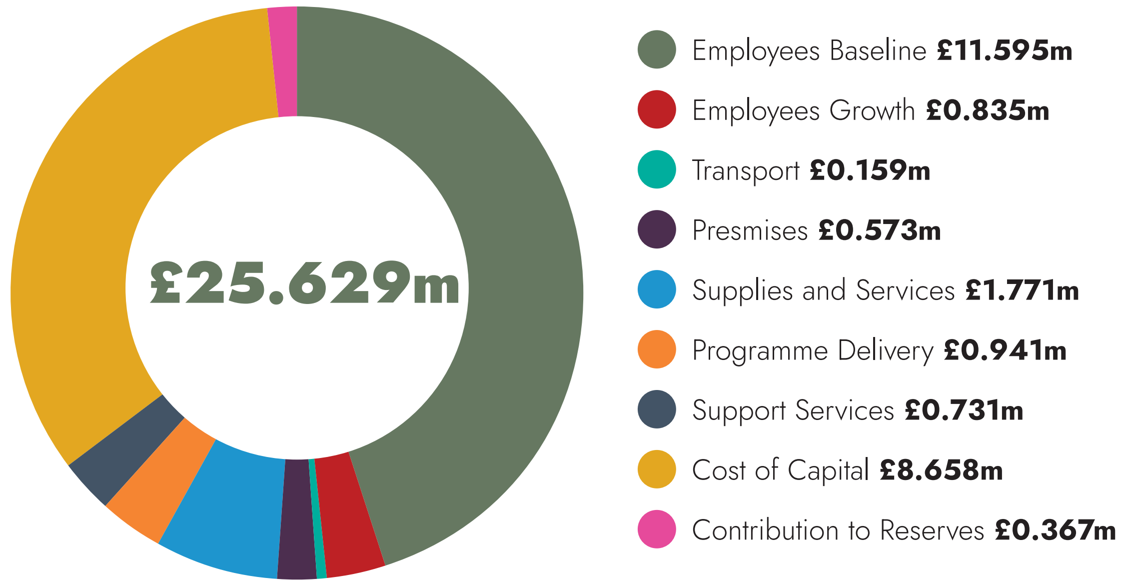
These are:

- The North of Tyne Combined Authority
- The North East Local Enterprise Partnership
- Transport North East
- Invest North East England
- The North East Combined Authority

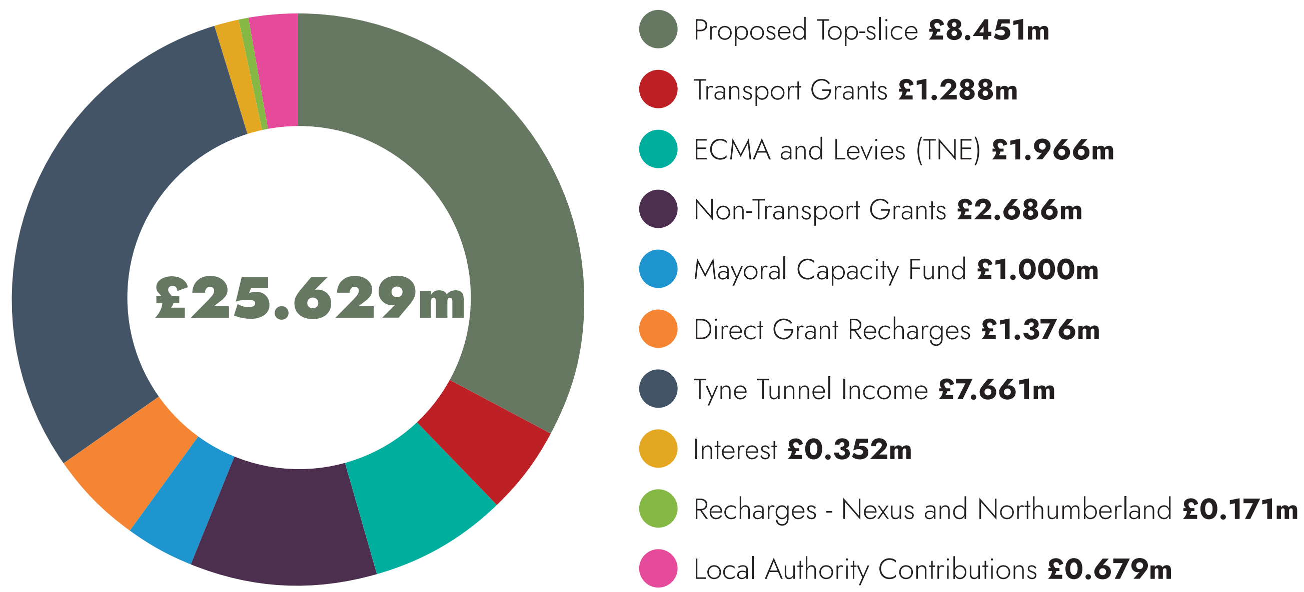
What the authority will invest



Corporate Budget



Funding of the corporate budget



Organisational design principles

We will operate to a set of design principles that guide an ethos for the new combined authority through effective leadership, governance, organisational design, resources and processes.

LEVEL 1 DESIGN PRINCIPLES – THE ETHOS OF THE NEW MCA	
LEADERSHIP	· Highly collaborative, inclusive and joined up · Delivering shared strategic priorities through strong relationships and high-quality standards · Innovative, forward looking and constantly learning
GOVERNANCE	· Mayor-and-Cabinet model which maximises collaboration and cross-party, cross-regional working · Pulling down – not drawing up – powers from the region and achieving more through collaboration · Fit for purpose but not over-bureaucratised
ORGANISATIONAL DESIGN	· Driven by policy, purpose and values – with innovation in staffing and delivery models · Efficient, effective and agile structures that enable streamlined decision making and delivery · A resilient and flexible organisation which attracts top talent through being an exciting and different place to work
RESOURCES	· Investment framed by coherent long-term planning – making the biggest possible economic, social and environmental impact · Enabling high performance, quality delivery and achieving things that would otherwise be impossible · Inclusion, equalities and a strong value-set at the heart of everything we do
PROCESSES	· Strong alignment to strategic outcomes and policy intent · High levels of collaboration, integration and streamlined, cross-silo working · Clear governance, scrutiny and business processes linked to appropriate political oversight

Our principles are driven by the deal, our shared commitments, agreed ways of working and experience of what 'fit for purpose' looks like given the scale and nature of what is to be done.

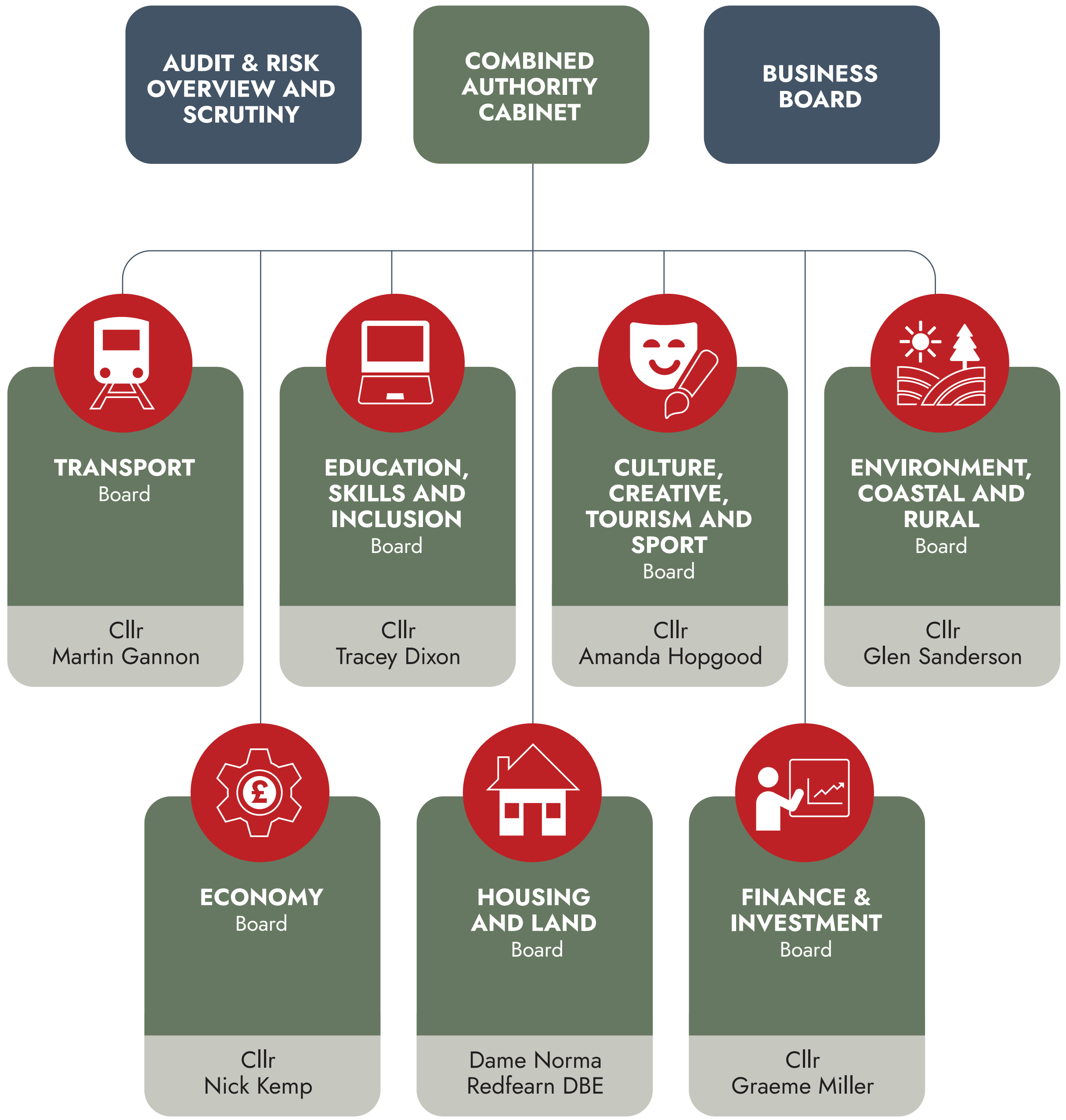
We will deliver through a clear ethos – a balance between ambition, high performance and capability – and the need to demonstrate public value and delivery through collaboration and clear value-add.

Governance

The combined authority Cabinet will comprise of the newly-elected Mayor, seven elected members with one appointed from each constituent council. There will also be the Chair of the Business Board and a representative of the community and voluntary sector. These two members will be non-voting.

We will work with the current Local Enterprise Partnership board to ensure a smooth transition in setting up a business board.

Advisory boards will be chaired by portfolio leads from constituent councils, with strong links to sector stakeholders.



Timeline

2023

JANUARY 2023
Deal is signed with the Secretary of State for Levelling Up, Housing and Communities

MARCH 2023
A public consultation ends with overall support for the changes

NOVEMBER 2023
Each council and the two combined authorities gave local approval for the formation of a new combined authority

2024

EARLY 2024
An order will be laid in Parliament paving the way for the new authority

MARCH 2024
The order will be made in Parliament

MAY 2 2024
The public will elect a new Mayor

JUNE 2024
First meeting of the new combined authority

	NECA	TNE/JTC	NTCA	LEP	INEE	Total		Proposed adjustments. Note 1	Estimated Growth	Estimated Gross NEMCA cost
Expenditure	**£**	**£**	**£**	**£**	**£**	**£**		**£**	**£**	£
Employees Baseline	71,330	2,220,000	6,518,653	3,271,536	237,000	**12,318,519**		330,890		**12,649,409**
New Funding Streams employee growth									910,599	**910,599**
Transport	1,000	81,575	70,000	20,000	1,000	**173,575**				**173,575**
Premises	0	120,150	350,000	154,576	0	**624,726**				**624,726**
Supplies and Services	35,640	432,670	926,624	794,945	209,000	**2,398,879**		(395,000)	20,000	**2,023,879**
Programme Delivery Costs	0	0	245,000	782,507	0	**1,027,507**				**1,027,507**
Support Services	154,000	428,760	433,610	109,000	3,000	**1,128,370**		(330,890)		**797,480**
Capital Financing Costs	0	9,444,680	0	0	0	**9,444,680**				**9,444,680**
Election Reserve	0	0	0	0	0	0		400,000		**400,000**
Total Expenditure	**261,970**	**12,727,835**	**8,543,887**	**5,132,564**	**450,000**	**26,491,530**		**5,000**	**910,500**	**28,051,855**

Appendix 2

Note 1 cost adjustments

Estimate of current SLA provision being delivered in house £330,890,

Adjust for LEP pension contribution ££395,000

Start annual contribution to the creation of election Reserve for 2029 £400,000

Appendix 3

Draft Reserves and Balances Position at 31 March 2024. **Appendix C**

Reserve/Balance	Opening Balance 2023/24 £m	Forecast Balance on Reserves at 31/03/2024 £m
NTCA		
Strategic Reserve	0.200	0.200
Investment Fund Reserve	50.046	19.779
Election Fund Reserve	0.000	1.100
Adult Education Budget Grant	8.760	8.760
DLUHC Capital Grant	12.302	0.000
Create Growth Programme	0.425	0.163
United Kingdom Social Prosperity Fund	3.950	4.177
Strategic Capacity Reserve	1.252	1.252
Bootcamp Wave 3	1.134	0.000
Net Zero North East England	0.151	0.000
Brownfield Housing Fund	12.763	2.545
Reserves less than £0.100m	0.333	0.086
Total Reserves NTCA	**91.316**	**38.063**
NECA and JTC		
NECA Corporate	0.416	0.413
JTC Unallocated	1.096	1.096
JTC Tyne Tunnels	9.626	9.339
JTC Metro and Local Rail Studies	1.963	0.943
JTC Nexus POP Truth on Server	0.461	0.000
JTC Transport Devolution Preparation	2.573	1.655
Nexus Metro Reinvigoration	8.267	2.967
Nexus Metro Fleet Replacement	10.367	5.456
Total Reserves NECA and JTC	**34.769**	**21.869**
NELEP		
NIEF Reserve	12.156	12.156
EZ Reserve	7.431	7.431
LGF SWAP Reserve	-0.350	0.000
Tyne Tunnel Reserve (LEP)	0.350	0.000
GBF Reserve	1.390	0.000
DFE Funding	0.117	0.000
North East Ambition Reserve	0.341	0.000
LEP General reserves	0.675	0.128
CEC Enterprise Advisor	0.128	0.000
Collaboration of Digital Expertise	0.386	0.000
Balances < £0.100m	0.048	0.048
Total NELP Reserves	**22.672**	**19.763**
General Fund Balances (LEP)	**0.613**	**1.202**
Total Reserves and Balances	**149.370**	**80.897**

Appendix D – Draft North East Mayoral Combined Authority Treasury Management Strategy 2024/25 and Prudential Indicators

Purpose

1 In accordance with statutory guidance and the Authority's Financial Procedure rules, this report presents the 2024/25 position for the proposed Treasury Management Strategy, the Annual Cash Investment Strategy, Prudential Indicators, Minimum Revenue Provision (MRP) Policy and Treasury Management Policy Statement.

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 the Authority's 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 the Authority's risk or cost objectives. The North East Mayoral Combined Authority ('The Authority') will have powers to borrow for Transport responsibilities inherited from the former Tyne and Wear Integrated Transport Authority and will have powers to borrow for other activities subject to the negotiation of a debt cap with His Majesty's Treasury.

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;
iii. An annual review following the end of the year describing the activity compared to the strategy.

The 2021 Prudential Code introduced a requirement for the monitoring and reporting of treasury management performance against forward looking indicators at least quarterly, and this information will be reported as part of the Combined Authority's revenue and capital monitoring.

6 This report provides a summary of the following for 2024/25:

- 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.

Borrowing Strategy

8 Prior to the formation of the proposed Mayoral Combined Authority, borrowing is held by the North East Combined Authority (NECA) which primarily relates to Transport activity. On creation of the proposed Mayoral Combined Authority, borrowing liabilities will be transferred from NECA.

9 NECA held £169.333m of loans at 31 March 2023. The balance had decreased to £149.667m at 30 September 2023 and is expected to be £149.333m at 31 March 2024, as detailed below:

	1 April 2023	**2023/24**	**31 March 2024**	**Average**	**31 March 2024**
	Actual Balance	**Estimated Movement**	**Estimated Balance**	**Interest Rate**	**Average Life**
	£m	**£m**	**£m**	**%**	**years**
Public Works Loan Board (PWLB)	81.000	(0.667)	80.333	4.09	22.8
Private Sector	89.000	(20.000)	69.000	4.39	48.3
Total borrowing	**170.000**	**(20.667)**	**149.333**		

10 NECA'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.

11 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.

12 No new borrowing has been undertaken during 2023/24 to date and none is anticipated for the remainder of the financial year.

13 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)

14 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.

15 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

16 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.

17 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

18 As short-term borrowing rates will likely be 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).

19 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.

Other Debt and Long Term Liabilities Plans

20 The Combined Authority does not currently have any capital finance liabilities in the form of finance leases.

Cash Investment Strategy

21 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.

22 The revised 2021 Treasury Management Code requires all investments and investment income to be attributed to one of the following three purposes:

a) Treasury Management – arising from the organisation’s cash flows or treasury risk management activity, this type of investment represents balances which are only held until the cash is required for use.
b) Service Delivery – investments held primarily and directly for the delivery of public services including housing, regeneration and local infrastructure. Returns on this category of investment which are funded by borrowing are permitted only in cases where the income is “either related to the financial viability of the project in question or otherwise incidental to the primary purpose”.
c) Commercial return – investments held primarily for financial return with no treasury management or direct service provision purpose. Risks on such investments should be proportionate to an authority’s financial capacity – i.e. that ‘plausible losses’ could be absorbed in budgets or reserves without unmanageable detriment to local services. An authority must not borrow to invest primarily for financial return.

The Combined Authority’s investments primarily relate to category a) and it holds no investments primarily for commercial return (category c). This strategy relates to the category a) Treasury Management investments.

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 The Combined Authority uses Link Group, Treasury solutions as its external treasury management advisors. The Combined Authority recognises that responsibility for treasury management decisions remains with the organisation and seeks to ensure that undue reliance is not placed upon external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisors. The Combined Authority recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Combined Authority will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed, documented, and subjected to regular review

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-	£20m	1 year
Banks / Building Societies*	A	£20m	1 year
Banks / Building Societies*	A-	£15m	6 months
Banks – part-nationalised*	N/A	£20m	1 year
Banks– Council's banker*	A-	£20m	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	£10m	6 months
Investment Type	**Fund Rating**	**Money Limit**	**Time Limit**
Money Market Funds	AAA	£40m total	liquid
Money Market Funds CNAV	AAA	£10m each	liquid
Money Market Funds LVNAV	AAA	£10m each	liquid
Money Market Funds VNAV	AAA	£10m 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

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.

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. This type of investment will require greater consideration by members and officers before being authorised for use.

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:

	2024/25 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:

	2024/25	2025/26	2026/27
Principal sums invested > 365 days	£15m	£15m	£15m

a) 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 – this indicator summarises the Combined Authority's capital expenditure plans for the current financial year and the three subsequent years, together with the proposed sources of financing. This will be updated following finalisation of initial capital expenditure proposals for the first year of the Combined Authority.

51 Capital Financing Requirement (CFR) – the CFR is a measure of the Authority's underlying borrowing need for a capital purpose. The table below sets out the CFR relating to Transport activity which will be inherited on creation of the new Combined Authority and initial estimates of a new NEMCA capital financing requirement which will be subject to updating as plans are refined.

	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m	2027/28 Estimate £m
Transport Capital Financing Requirement	180.693	177.123	173.550	169.970	166.377

New NEMCA Capital Financing Requirement	0.000	50.000	50.000	50.000	50.000
Total CFR	**180.693**	**227.123**	**223.550**	**219.970**	**216.377**
Movement in CFR represented by:	(3.599)	46.430	(3.573)	(3.580)	(3.593)
Net borrowing financing need for the year	0.000	50.000	50.000	50.000	0.000
Less MRP/VRP and other financing movements	(3.599)	(3.570)	(3.573)	(3.580)	(3.593)
Movement in CFR	**(3.599)**	**46.430**	**(3.573)**	**(3.580)**	**(3.593)**

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:

	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m	2027/28 Estimate £m
Debt at 1 April	169.333	148.666	198.000	197.333	197.333
Expected change in debt	(20.667)	49.334	(0.667)	0.000	0.000
Gross Debt at 31 March	**148.666**	**198.000**	**197.333**	**197.333**	**197.333**
Capital Financing Requirement	**180.693**	**227.123**	**223.550**	**219.970**	**216.377**
Over/(Under) borrowing	**(32.027)**	**(29.123)**	**(26.217)**	**(22.637)**	**(19.044)**

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.

The majority of the borrowing, and therefore the majority of the limits, relate to transport activity. An extra provision has been included for potential NEMCA borrowing which will be subject to the agreement of a debt cap with HMT.

	2021/22 Actual £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m

Operational Boundary	205.000	255.000	255.000	255.000	255.000
Authorised Limit	210.000	260.000	260.000	260.000	260.000

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.

	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
Ratio of financing costs to net revenue stream:					
Tyne and Wear Levy	1.88%	1.74%	1.68%	1.67%	1.63%
Tyne Tunnels Account	19.38%	21.52%	21.18%	21.44%	20.73%

The estimates of financing costs include current commitments and the proposals in the budget report, and currently relate to Transport borrowing only.

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.

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

58 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.
- For new (unsupported) borrowing for the Combined Authority's capital plans, the Combined Authority intends to take a more nuanced, principles-based approach to the calculation of MRP. The approach to the calculation will be guided by whether the borrowing is related to the creation or enhancement of an asset or whether the borrowing is to support the provision of a loan or other form of investment within another organisation.

59 Where the borrowing underpins the acquisition and enhancement of assets funded through borrowing, an Asset Life Method will b used to calculate MRP (Option 3 under the guidance). Under the guidance, there are two approaches that can be applied: Equal Instalments or the Annuity Method. The Authority will make the decision as to the specific approach to be adopted on a case-by-case basis determining what is most appropriate and prudent based on the underlying asset.

60 For capital expenditure that is classified as such under Regulation 25(1) of the Local Government Act 2003, the rebuttable presumption will be that a revenue provision will be made and that MRP will be calculated in accordance with Option 3 (Asset Life Method) applying the maximum life value detailed in the statutory guidance.

61 This presumption will be challenged on a case-by-case basis to the extent that the Authority is seeking to make a loan to a third party, the approach to making a prudent provision will be made giving due consideration to a variety of factors including the following:

- Whether the loan is being made on commercial or sub commercial rates.
- The duration of the loan.
- The financial standing of the borrower.
- The degree of perceived risk to the underlying capital sums invested.
- The strength or existence of covenants that underpin any loans; and
- The structure of the loan and subsequent repayments.

Where loans are made to support policy objectives or there is a degree of risk that the capital will not be repaid either in full or in part, then a revenue provision will be made using Option 3 as detailed above.

62 Where loans are made where there is a higher degree of confidence in repayment and the regular repayment over the life of the agreement, then the Authority will seek to set aside capital receipts arising from the repayment of the loan to reduce the Capital Financing Requirement.

63 Where loans are made where there is a high degree of confidence in repayment but where repayment is irregular or is on expiration of the loan, then the Authority will make a revenue provision in accordance with Option 3 using an asset life as determined through this method. To the extent that the loan is repaid over a shorter timescale, capital receipts from the repayment would be used to write down any remaining CFR liability relating to the loan.

64 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. The Authority retains the right to make additional voluntary payments to reduce debt if deemed prudent.

Other Matters

Training

65 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

66 The Combined Authority uses Link Group, Treasury solutions as its external treasury management advisors. The Combined Authority recognises that responsibility for treasury management decisions remains with the organisation and seeks to ensure that undue reliance is not placed upon external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisors. The Combined Authority recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Combined Authority will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed, documented, and subjected to regular review

67 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

North East Joint Transport Committee

Date: **21 November 2023**

Subject: **Revenue Budget Proposals 2024/25 and Updated Forecast of Outturn 2023/24**

Report of: **Chief Finance Officer**

Executive Summary

This report provides the North East Joint Transport Committee (JTC) with an updated forecast of outturn for the transport revenue budgets for 2023/24, based on the position to 30 September 2023 and a summary of the draft transport budget and levies for 2024/25.

The transport levies and grants to Durham, Northumberland and Nexus are fixed for the current year so the outturn is in line with the original budget allocations.

Durham County Council are forecasting an overspend of £0.185m in the current year which will be funded by their own reserves. This relates to increased costs on subsidised bus services. Work is under way on finalising the budget estimates for 2024/25 and these will be reported to JTC in January.

Northumberland County Council forecast of outturn shows a projected underspend against the transport grant of £0.387m relating to concessionary fares reimbursement. Work is under way on finalising the budget estimates for 2024/25 and these will be reported to JTC in January.

Nexus is forecasting an improved financial position for 2023/24, with improvements in Metro fare revenue and the generation of greater interest income on investment balances being the most significant factors. Nexus is now forecasting it will need to use £0.258m of reserves to balance the budget for the current year, which is a reduction of £7.734m against the amount originally budgeted. The outturn position is after the use of £6.300m of one-off Metro Rail Grant, which falls out next year. The 2024/25 forecasts indicate that if Nexus is to protect front line services, an increase in the 2024/25 Tyne and Wear Transport levy of £2.5m (3.7%) will be required, which is in line with the MTFP forecasts presented to the JTC in January 2023.

A break-even position is forecast on the Tyne Tunnels revenue account, where increased investment income will cover the deficit previously forecast for the year. For

2024/25 a break even budget is also forecast, on the assumption that toll increases in line with RPI are applied when the Tyne and Wear Sub Committee take their decision on tolls in January 2024.

It is proposed to continue the contribution of £10,000 per authority towards TNE which is retained from the Durham and Northumberland levies, and which contributes towards the team's work on behalf of the region. The contribution from the Tyne and Wear levy to fund central activity next year will be £2.1m (in line with current budgets) which also contributes to the work of TNE but is mainly used to meet costs relating to the former Tyne and Wear Integrated Transport Authority, namely charges for historic debt.

It is proposed that funding for TNE from the Local Transport Plan Integrated Transport Block is continued at £500,000 (£62,500 per council and Nexus).

Increased interest on revenue balances is forecast and it is proposed that £8.125m is held in an earmarked reserve at the end of this financial year to be applied to support Transport activity in future years following transition to the proposed North East MCA.

Recommendations

The North East Joint Transport Committee is recommended to:

i) Receive the report for information and comment;
ii) Note the updated forecast of outturn for the 2023/24 Transport Revenue Budgets, as set out in the report;
iii) Consider the budget assumptions and proposals set out in the report, forming the basis of consultation on the 2024/25 Transport Revenue Budget;
iv) Note that the budget proposals for Transport will be subject to a consultation process including reports to the JTC Overview and Scrutiny Committee, relevant officer groups and the Leadership Board of NECA and the NTCA Cabinet; and
v) Note the intention to consider and approve the final budget proposals and agree the Transport levies at the meeting of the JTC on 16 January 2024.

1. Background Information

1.1 The JTC receives funding from a variety of sources including the levies on Durham, Northumberland and Tyne and Wear councils, Tyne Tunnels income, grant funding and interest on the investment of its cash balances. This funding is used to deliver the transport objectives of the Committee through the provision of revenue grants to Durham and Northumberland councils and Nexus for the delivery of public transport services, the funding of the Tyne Tunnels and the central strategic support provided by Transport North East (TNE).

1.2 In line with the Transport Levying Bodies Regulations 1992, the transport levies must be issued by 15 February preceding the commencement of the financial year in respect of which they are to be issued.

1.3 This report provides the JTC with an updated forecast of outturn for the transport revenue budgets for 2023/24, based on the position to 30 September 2023, and an update on the budget planning assumptions and proposals for the levies and other aspects of the Transport revenue budget for 2024/25, decisions on which will be taken by the JTC on 16 January 2024. Decisions on Tyne Tunnels tolls and Metro Fares will be taken by the Tyne and Wear Sub Committee (TWSC) on 18 January 2024.

2. Proposals

Transport Levies 2023/24 and Indicative Levies 2024/25

2.1 As the transport levies and revenue grants are normally fixed for the year there is no change in the levies payable and the grants payable between the original budget and the forecast outturn, and minimal change in the retained transport levy budget. Any surplus or deficit against the budgets for the three main delivery agencies (Durham County Council, Northumberland County Council and Nexus) is retained or managed within the reserves of that organisation.

2.2 A proportion of the levies is retained to support the work of the JTC through TNE and to meet historic costs relating to the former Tyne and Wear Integrated Transport Authority (TWITA), which primarily relate to historic debt charges. This area of the budget is expected to break even in the current year.

2.3 The updated forecast of outturn for the current year, together with initial budget proposals for 2024/25 are set out in table 1 below, with further explanations provided in the sections that follow.

Table 1: 2023/24 Forecast and indicative 2024/25 Transport Levies and Grants

	2023/24 Original Budget	Spend to Date Q2	2023/24 Forecast Outturn	2023/24 Forecast Variance	2024/25 Initial Draft Budget
	£m	£m	£m	£m	£m
Total Levy Income	**(91.170)**	**(45.157)**	**-**	**-**	**(93.670)**
Grant to Durham	16.902	8.451	16.902	-	16.902
Grant to Northumberland	6.448	3.224	6.448	-	6.448
Grant to Nexus	65.700	32.850	65.700	-	68.200
Levy contribution to JTC central costs	2.120	0.632	2.120	-	2.120
Total Expenditure	**91.170**	**45.157**	**91.170**	**-**	**93.670**
Contribution (to)/from JTC reserves	**0.000**	**0.000**	**0.000**	**-**	**0.000**

Tyne and Wear Levy

2.4 The majority of the Tyne and Wear levy is paid as a revenue grant to Nexus for the delivery of public transport services on behalf of the five Tyne and Wear Councils. The budget proposals for next year include an increase in the levy on Tyne and Wear councils from £67.800m to £70.300m, an increase of £2.500m or approximately 3.7%. This would increase the grant paid to Nexus for the provision of public transport services from £65.700m to a proposed £68.200m. The centrally retained budget of £2.100m, retained to fund Tyne and Wear transport costs (primarily relating to the former TWITA debt charges) and contribute to the central TNE budget would be held at the current level next year.

Nexus Revenue Budget

Updated Forecast of Outturn 2023/24

2.5 The JTC approved Nexus' revenue budget for 2023/24 on 17 January 2023. The budget included a levy increase of £2.6m, the utilisation of £8.0m Nexus' reserves and the use of £3.3m of additional Metro Rail Grant received in 2021/22.

2.6 When the 2023/24 was set, significant budget pressures in relation to HV power costs existed, with costs being incurred outstripping the budget. Although this remains the case (paragraph 2.12 refers), additional Metro Rail Grant was received at the end of 2022/23 totalling £3.0m to assist with this pressure which has been reflected within the updated forecast of outturn.

2.7 Over the last few months Nexus has continued to see an improvement in the financial position for 2023/24, particularly relating to the recovery of Metro fare revenue and the generation of greater interest income on investment balances. The updated forecasts show that Nexus is now expecting to need to use only £0.258m of its reserves to balance the budget this year, which is a reduction of £7.724m against the amount originally expected. The updated forecast reflects the use of £6.300m of one-off Metro Rail Grant (referred to in paragraph 2.5 and 2.6 above) which is non-recurrent.

2.8 Detailed budget setting for 2024/25 is well underway and despite the more positive position in respect of the current year, the position for next financial year has worsened relative to the Medium-Term Financial Plan (MTFP) presented to the JTC in January 2023. It is now expected that a greater reliance on reserves will be required next year, as well as in the following two years up to 2026/27. It is clear that Nexus' financial outlook remains very challenging, and it will be necessary to earmark reserves that were previously expected to be used in 2023/24 to balance the budget across the MTFP.

2.9 The table below shows expenditure to the end of period 6 (16 September 2023), together with the forecast to the year end (based on current estimates of the likely outturn) against budget. There is narrative following the table explaining the variances against budget against the main service areas.

Table 2: Nexus forecast of outturn 2023/24

	Original Budget	**Spend to P6**	**Forecast at P6**	**Variance**
	£m	**£m**	**£m**	**£m**
Concessionary Fares	30.791	14.016	29.895	(0.896)
Metro	25.661	9.022	23.238	(2.423)
Bus Services	14.969	6.492	15.754	0.785
Other	5.571	2.259	5.052	(0.519)
	76.992	**31.789**	**73.939**	**(3.053)**
Grant from Levy	(65.700)	(30.337)	(65.700)	-
MRG 2021/22 (reserves)	(3.300)	(0.961)	(3.300)	-
MRG 2022/23 (reserves)	-	-	(3.000)	(3.000)
LTF	-	(0.276)	(1.053)	(1.053)
BSIP	-	(0.215)	(0.628)	(0.628)
	7.992	**-**	**0.258**	**(7.734)**
Reserves	(7.992)	-	(0.258)	7.734
	-	-	-	

Metro

2.10 At the end of period 6, financial performance on Metro shows net expenditure at £2.423m better than budget, before application of one-off grant and reserves. Metro fare revenue (including car park and PFN income) at the end of period 6 was £21.888m which exceeded the budget by £2.272m (12%). This includes a one-off adjustment of £0.250m in relation to Network Ticketing (NTL) share of revenue redistribution for the prior year.

2.11 The year end Metro fare revenue forecast is a positive variance of £2.233m. Given the uncertainties surrounding Metro performance and patronage growth since the pandemic, the forecast continues to be cautious and reflects actual growth against the profiled budget at the end of period 6. The introduction of the £6.00 NTL multi-modal BSIP funded fare could have a detrimental impact on Metro fare revenue in the second part of the year because of the need to reduce the price of the all zone daysaver product, as well as the risk associated with Metro customers switching to the NTL product. The forecast for the year therefore remains prudent and careful monitoring of this budget will continue as the year progresses.

2.12 The Metro forecast reflects the continued pressure on HV power costs for the year, which is estimated to be £2.398m higher than the £15.230m original budget. At this stage 86% of the required electricity for the year has been purchased. This creates a level of budget certainty, although as the remainder is purchased there is still scope for further movement in the forecast. As outlined in paragraph 2.6, £3.0m of additional Metro Rail Grant was received in the previous financial year to assist with this pressure and is also now reflected within the forecast.

2.13 The forecast includes net additional cost pressures of £0.573m directly relating to Metro. This reflects the deployment of additional security on the Metro to tackle anti-social behaviour in the evenings and investment in front-line teams to operate gatelines for longer, address backlogs in maintenance and provide greater capacity and resilience in Metro's Control Room. It also includes additional contractual inflation, where this has been higher than was included at the time of budget setting, particularly in respect of the Stadler contract for the maintenance of Metrocars, although this has been offset by additional income in relation to penalties being imposed for non-delivery of key contracts.

2.14 All service areas receive a share of interest income, and at the end of period 6, interest income was £1.945m better than budget. Interest rates are higher than they were at the time of budget setting, and cash balances are also higher than was anticipated, due to the sizeable amount of capital grants that Nexus has access to which are paid in advance. It is currently expected that interest income may be as high as £4.400m for the year, representing a £4.000m improvement against the original budget which is reflected in the updated forecasts. £2.916m of this improvement is allocated to Metro.

2.15 Metro also benefits from savings in overheads (which are also applicable to other service areas) which have increased since the previous report and include areas such as ICT licencing, support services costs and unused contingencies. The overhead savings reflected in the forecast for Metro are currently £0.245m.

Concessionary Fares

2.16 At the end of period 6, concessionary fares include higher than budgeted school income of £0.138m and £0.024m of lower concessionary travel payments made to operators. The forecast outturn for the year reflects £0.150m of additional school income, a £0.400m prior year adjustment for the reimbursement of concessionary travel payments relating to 2021/22 and £0.132m of reductions in concessionary travel payments to operators. In addition, the share of increased interest income and overhead savings allocated within the forecast is £0.214m.

Bus Services

2.17 At the end of period 6, the forecast outturn for bus services is £0.785m higher than budget. This reflects additional expenditure in relation to those services funded by the Local Transport Fund (LTF) and the Bus Services Improvement Plan (BSIP). The total LTF included within the forecast for the year is £1.053m, and in addition, there is spend amounting to £0.628m relating to BSIP.

2.18 The forecast also reflects higher than budgeted secured services revenue of £0.192m, as well as savings on secured services contracts of £0.117m and a saving of £0.022m relating to the Taxi Card scheme. In addition to this, the share of additional interest income and overhead savings allocated within the forecast is £0.565m.

Other

2.19 Other includes Ferry, Bus Infrastructure and Passenger Transport Information and at the end of period 6, financial performance shows net expenditure at £0.519m better than the revised budget, before application of one-off grant and reserves. The forecast reflects £0.067m of higher than budgeted income relating to the ferry, departure charges and bus information, offset by £0.023m of additional ferry operating costs and bus shelter installation costs. In addition to this, the share of additional interest income and overhead savings allocated within the forecast is £0.475m.

Nexus Revenue Budget 2024/25

Background

2.20 If Nexus is to continue to protect front line services, an increase in the Tyne and Wear Transport levy commensurate with that which was signalled in the budget and MTFP report to the JTC in January 2023 will be required next year, with further increases forecast to be necessary in 2025/26 and 2026/27.

2023/34 Budget and Forecast Outturn

2.21 At its January 2023 meeting, the JTC approved a levy increase of 4% (£2.6m) and agreed a contribution of £8.0m from Nexus' reserves in 2023/24, to allow for a balanced budget and enable Nexus' services to be maintained.

2.22 The cost of high voltage power, higher levels of inflation and the need for further investment in safety and security across the Metro network are all contributing to the challenges Nexus is facing in managing its revenue budget. However, Nexus received additional Metro Rail Grant (MRG) from the DfT at the end of 2022/23 which is being applied to offset the increased cost of high voltage power in the current year. In addition, Nexus has seen a recovery in Metro patronage and fare box revenue beyond that which was anticipated in the 2023/24 budget and will also generate more investment income than budget, because of both the rapid increase in interest rates and the extent of cash balances it is currently holding.

2.23 It is therefore expected that Nexus will use less reserves in the current year than originally planned, as set out earlier in this report. The position is summarised in the table below:

Table 3: Reconciliation between original Nexus deficit and forecast outturn 2023/24

	£m	£m
Original Deficit		8.0
Additional Budget Pressures		
Metro high voltage power	2.2	
Additional inflation	0.4	
Investment in security/frontline	1.0	3.6
		11.6
Efficiencies/Income		
Metro fare revenue	(2.2)	
Interest on balances	(4.0)	
Other efficiencies	(2.1)	(8.3)
		3.3
Funded By:		
Additional MRG	(3.0)	
Use of reserves	(0.3)	(3.3)
Revised Surplus/Deficit		-

2.24 Despite this improvement, Nexus' underlying deficit will continue into subsequent years. The pressures highlighted in the table above are all permanent, whereas the efficiencies / additional income is largely temporary or one off. For example, the additional MRG is a one-off grant allocation, interest on balances is expected to reduce in future years as interest rates and cash balances reduce and the efficiencies being delivered in the current year are also largely one-offs e.g. salary slippage from employee turnover and penalties being imposed for non-delivery of key contracts. The recovery in Metro fare revenue should however continue.

Understanding Nexus' Structural Deficit

2.25 Nexus has had an underlying, structural deficit for some time. This was highlighted in the budget report considered by the JTC in January 2020, prior to the outbreak of the Covid pandemic. At that time JTC acknowledged that further discussions in relation to resourcing and service levels were necessary.

2.26 During the pandemic and at the outset of the cost of living / energy crisis, Nexus benefited from a significant amount of financial support from central government, which has had the effect of masking the underlying deficit, with a break-even position achieved in 2020/21 and surpluses (underspends) generated in 2021/22 and 2022/23.

2.27 For the 2022/23 financial year, the Tyne and Wear transport levy was increased by 6.75% (£4.1m) to compensate and offset the loss of fare revenue, which remained below pre-pandemic levels from 2021/22 onwards. The levy increased again in the current year by 4.0% or £2.6m. However, Nexus' budget has been under considerable pressure from a combination of the ongoing impact of Covid, the cost-of-living crisis and high inflation, impacting on pay and energy costs in particular.

2.28 The table below shows a reconciliation from 2020/21 through to the budget estimate that has been compiled for 2024/25.

Table 4: Movements in Nexus budget 2020/21 to 2024/25

	£m	£m
Inflation		
Cost Pressures	24.8	
Funding Uplift	(14.0)	10.8
Savings/Redirection of resources		
Investment in services	10.7	
Efficiencies/Savings Delivered	(16.7)	(6.0)
Net Position		**4.8**

2.29 As can be seen, cost pressures have outstripped available funding (including £9.2m of additional levy support granted during the period)[1] and although Nexus has delivered significant base budget efficiencies, the need to invest in safety and security as well as front line services has meant that the underlying deficit has not been eradicated.

Strategic Approach to Development of the MTFP

2.30 When the JTC endorsed Nexus' 2023/24 budget and MTFP forecasts in January 2023, the call on reserves in 2022/23 was expected to be £0.5m. As reported to the JTC in July 2023, Nexus achieved a surplus of £7.0m in 2022/23 (acknowledging that total unbudgeted grant support amounted to £19.4m and had it not been for this, Nexus would have reported a deficit of over £10.0m).

2.31 As at 31 March 2023, Nexus' total reserves amounted to £62.5m, the majority of which is earmarked in general reserves, to accommodate any unforeseen pressures arising in-year or for capital investment. Nexus has earmarked £19.7m of its total reserve to underpin the MTFP.

2.32 Should the financial performance in the year to date be maintained to the year-end (refer to paragraph 2.23), Nexus will have sufficient reserves to underpin its revenue budget across the period of the revised MTFP (to 2026/27), thereby helping to protect fare revenue, operational performance and maintain key transport services. This is shown in the table below, which attempts to forecast the call on reserves across this timeframe[2] :

Table 5: Nexus forecast use of reserves 2023/24-2026/27

	As at Oct 2023
	£m
Reserves earmarked to support the revenue budget	**19.7**

[1] This includes £4.1m in 2022/23, £2.6m in 2023/24 and an estimated yet to be agreed £2.5m in 2024/25

[2] The estimates for 2025/26 and 2026/27 are still being refined

2023/24	0.3
2024/25	4.8
2025/26	5.5
2026/27	5.2
Reserves Requirement	**15.8**

2.33 It should be recognised that these forecasts include an increase in the levy in each of the three years commencing 2024/25, in line with the current MTFP assumptions. Should Nexus' financial performance across the period of its MTFP prove to be better than is currently estimated and its base position were to improve, consideration will be given to whether future levy increases will still be required, as opposed to Nexus adding to the reserves it has earmarked to underpin the MTFP. In determining whether this is possible, the Committee will need to carefully consider that Nexus is still forecasting budget deficits in each of the next three financial years, even with the levy increases that are proposed. Any future changes to the levy will also need to consider the affordability impact upon councils balanced against the effect upon transport services.

2.34 Should the JTC endorse this approach, the benefits are that in addition to Nexus being able to protect fare revenue, operational performance and the delivery of key transport services, it will also provide stability surrounding the introduction of the Mayoral Combined Authority; the alternative to this would be the need to immediately address the underlying, structural deficit which would likely require cuts to key transport services.

Budget Preparation 2024/25 to 2026/27

2.35 During budget setting for 2023/24, it was highlighted that it may be necessary to increase the Tyne and Wear Transport Levy in 2024/25 by 3.7% (£2.5m).

2.36 The table below outlines how the budget for 2024/25 is taking shape (Nexus is currently finalising its budget estimates for 2024/25). This demonstrates that after various interventions, it is still necessary to increase the Tyne and Wear transport levy to enable services to be maintained (NB – at 3.7% this is below the prevailing rate of inflation):

Table 6: Initial Nexus Budget 2024/25

	£m	**£m**
Base Deficit		**6.1**
Pressures		
Inflationary pressures	1.6	
Investment in security/frontline and statutory services	2.9	
Impact of delay in new fleet (net incl. high voltage power)	2.2	6.7
Efficiencies/Additional Income		
Fare revenue (incl. secured bus and ferry)	(3.1)	
Interest on balances	(2.4)	
Levy increase (3.7%)	(2.5)	(8.0)

		4.8
Use of reserves		(4.8)
Surplus/Deficit		-

2.37 In terms of cost pressures:

i. Inflationary pressures relate to contract price adjustments and employee costs;

ii. The investment in security/frontline and statutory services reflects the ongoing impact of additional security to tackle anti-social behaviour on the Tyne and Wear Metro together with investment in train operations and infrastructure maintenance;

iii. In addition, provision has been made for an increase in concessionary fares, although this will be assessed against a backdrop of concessionary journeys still forecast to be lower than pre-pandemic levels;

iv. The delay in the introduction of the new fleet will have an adverse impact on expected revenues and high voltage power consumption, although this is offset by a reduction in the unit price of high voltage power.

2.38 In terms of efficiencies/income:

i. Growth in Metro fare revenue is expected to continue into the following year, which together with the annual fares review that the Tyne and Wear Sub-Committee will consider in January 2024, will generate additional income;

ii. Interest on balances will continue to accrue at a higher rate, although not at the level of the prior year, mainly because cash balances will be lower, given that some of Nexus' major capital investment has been delivered, e.g. Metro Flow.

2.39 Taking all of this into account means that after a levy increase of 3.7%, the deficit for 2024/25 is forecast at £4.8m, which represents a reduction of £1.3m on the underlying, structural deficit.

Impact on Tyne and Wear Councils in 2024/25

2.40 The table below shows the provisional impact on the Tyne and Wear Councils from a proposed 3.7% increase in the levy:

Table 7: Initial estimates 2024/25 Tyne and Wear Levy

	2023/24 Levy (before population change)	**Proposed increase (3.7%)**	**2024/25 Proposed Levy**
	£m	**£m**	**£m**
Gateshead	11.814	0.436	12.250
Newcastle	17.964	0.663	18.627
North Tyneside	12.597	0.464	13.061
South Tyneside	8.909	0.328	9.237

Sunderland	16.516	0.609	17.125
Total	**67.800**	**2.500**	**70.300**

2.41 It should be noted that the 2022 mid-year population estimates, which is the basis upon which the 2024/25 levy will be apportioned amongst the Tyne and Wear Councils have not yet been published, so depending on changes in population, some Councils might see an increase on their 2023/24 share of the levy that is higher or lower than 3.7%. It is understood that the Office of National Statistics (ONS) will not release the 2022 mid-year population estimates until later in November or possibly even into December 2023.

2.42 Further work is being undertaken in relation to the development of budget estimates for 2025/26 and 2026/27 to better inform the MTFP and these will be brought to the JTC in January 2024 (as well as the final budget for 2024/25, once this has been finalised). At this point in time, as signalled in paragraph 2.33, increases in the levy are anticipated in each of the next three years as outlines in the table below:

Table 8: Expected Tyne and Wear Levy Increases 2024/25-2026/27

2.43

Expected Levy Increases	**£m**	**%**
2024/25	2.5	3.7
2025/26	2.1	3.0
2026/27	2.2	3.0

Key Risks

2.44 There are several risks associated with Nexus' 2024/25 budget and MTFP forecasts, not least of which is the Tyne and Wear levy itself. If it does not increase at the level proposed / required, the alternative would be to immediately address the underlying, structural deficit which would likely require cuts to transport services.

2.45 Other key risks relate to the following:

i. Fare Revenue – which has growth targets associated with annual fares reviews and the delivery of key interventions, for example when the new fleet of Metrocars is fully operational;
ii. Metro Rail Grant – which is assumed to increase in line with inflation;
iii. Concessionary Fares – which could be subject to upward pressures arising from technical work that the DfT commissioned during the early part of 2023; and
iv. Inflation – which is forecast to reduce across the timeframe of the MTFP, something that will adversely affect key contracts and employee costs if it does not reduce in accordance with current forecasts.

Durham

2.46 The Q2 forecast of outturn for Durham shows an estimated overspend of £0.185m. As usual, any projected over or underspends at the year end will be retained by Durham County Council.

Table 9: Durham Updated Forecast of Outturn 2023/24

	2023/24 Original Budget	Spend to Date Q2	2023/24 Forecast Outturn	Variance	2024/25 Initial Draft Budget
	£m	£m	£m	£m	£m
Concessionary Fares	11.155	2.211	9.255	(1.900)	1.155
Subsidised Services	4.888	3.381	6.785	1.897	4.888
Bus Stations	0.276	0.589	0.292	0.016	0.276
Bus Shelters	(0.278)	0.077	(0.088)	0.180	(0.278)
Passenger Transport Information	0.089	0.066	0.081	(0.008)	0.089
Staffing	0.762	0.381	0.762	0.000	0.793
Share of JTC central costs	0.010	0.010	0.010	0.000	0.010
Net Expenditure	**16.912**	**6.715**	**17.097**	**0.185**	**16.933**
JTC Grant	**(16.912)**	**(8.456)**	**(16.912)**	**0.000**	**(16.933)**
(Surplus)/Deficit for the Year	**-**	**(1.741)**	**0.185**	**0.185**	**-**

2.47 The main reasons for the reported variances are shown below:

i. Concessionary Fares -£1.900 million – Due to the reduction in Concessionary travel passengers post Covid, an underspend is anticipated. These underspends are offsetting the additional support being provided to the Passenger Transport Network through subsidised services.

ii. Subsidised Services £1.897 million – Overspend relates to increased contract costs to bus operators for services that are deemed as no longer being commercially viable to the operator. Concessionary Fares underspends are being utilised to offset these costs and support the Passenger Transport Network.

iii. Bus Stations £0.016 million – Overspend relates to an increase in security and repairs and maintenance costs in bus stations.

iv. Bus Shelters £0.180 million – Overspend relates to an increase in repairs and maintenance costs and a loss of advertising income on bus shelters.

v. Passenger Transport Information -£0.008 million – There is an anticipated overspend of £0.030 million against revised budget which relates to additional software costs.

2.48 Work is underway on preparation of the 2024/25 budget for Durham which is shown for the time being as largely in line with 2023/24, although changes are anticipated by the time of the report to this committee in January 2024.

Northumberland

2.49 The following table provides a detailed breakdown of expenditure on public transport services by Northumberland County Council against the grant awarded by the JTC:

Table 10: Northumberland Updated Forecast of Outturn 2023/24

	2023/24 Original Budget	**Spend to Date Q2**	**2023/24 Forecast Outturn**	**Variance**	**2024/25 Initial Draft Budget**
	£m	**£m**	**£m**	**£m**	**£m**
Concessionary Fares	5.020	1.784	4.620	(0.400)	5.020
Subsidised Services	1.230	1.097	1.230	0.000	1.230
Bus Stations	0.027	0.005	0.040	0.013	0.027
Passenger Transport Information	0.025	0.000	0.025	0.000	0.025
Staffing	0.146	0.073	0.146	0.000	0.146
Share of JTC central costs	0.010	0.010	0.010	0.000	0.010
Net Expenditure	**6.458**	**2.969**	**6.071**	0.000	**6.458**
JTC Grant	**(6.458)**	**(1.075)**	**(6.458)**	0.000	**(6.458)**
(Surplus)/Deficit for the Year	**-**	**1.894**	**(0.387)**	**(0.387)**	**-**

2.50 The forecast outturn position for 2023/24 is an underspend of £0.387m. Concessionary Travel is forecast to underspend by £0.400 million as a result of suppressed demand for public transport journeys. Journeys relating to Concessionary Travel are currently at seventy-five percent of pre-Covid levels although they are starting to rise. A regional review of the provision of supported services is underway and passenger behaviour in the longer term following the removal of restrictions cannot yet be predicted.

2.51 The budget for 2024/25 is currently in the process of being developed with figures unavailable at this time. These will be reported to the January meeting of the committee. It is therefore shown in the table below as in line with the 2023/24 budget although updated budget estimates are anticipated by the time of the January meeting.

Tyne Tunnels

2.52 The Tyne Tunnels are operated as a ringfenced account, so all costs associated with the tunnels are fully met from toll income and Tyne Tunnels reserves, with no call on the levy or other public funding.

2.53 The JTC receives all toll income from the vehicle tunnels in the first instance and a payment under the contract with TT2 is determined based on traffic levels. The balance retained by the JTC is to meet other costs associated with the Tyne Tunnels, primarily interest and principal repayments on borrowing taken out to fund the New Tyne Crossing project, and other client costs associated with the management of the contract with the concessionaire.

2.54 The original 2023/24 budget, forecast outturn for 2023/24 and initial draft budget for 2024/25 are presented in the table below.

Table 11: Tyne Tunnels Forecast of Outturn 2023/24 and initial draft budget 2024/25

	2023/24 Original Budget	**Spend to Date Q2**	**2023/24 Forecast Outturn**	**2023/24 Forecast Variance**	**2024/25 Initial Draft Budget**
	£m	**£m**	**£m**	**£m**	**£m**
Tolls Income	(35.991)	(21.091)	(36.642)	(0.651)	(39.033)
TT2 Contract	28.032	14.631	28.628	0.596	30.226
Employees	0.147	0.074	0.146	(0.001)	0.153
Historic Pensions	0.065	0.024	0.045	(0.020)	0.047
Premises	0.114	0.001	0.114	0.000	0.014
Support Services	0.160	0.071	0.175	0.015	0.179
Supplies and Services	0.347	0.167	0.626	0.279	0.403
Financing Charges	7.928	6.316	7.102	(0.835)	8.401
Interest/Other Income	(0.150)	(0.033)	(0.239)	(0.089)	(0.150)
Repayment from TWITA for temporary use of reserves	(0.240)	(0.240)	(0.240)	0.000	(0.240)
Capital Expenditure Funded from Revenue – Tyne Pedestrian and Cycle Tunnels	0.000	0.080	0.285	0.285	0.000

Net Expenditure to be funded from Reserves	0.412	0.000	0.000	(0.412)	0.000
Contribution to/(from) Reserves	(0.412)	0.000	0.000	0.412	0.000

2.55 The forecast tolls income for 2023/24 is higher than was originally budgeted due to higher than forecast traffic levels over the first two quarters. This is also the reason for the forecast TT2 contract payment being higher than the original budget. The 2023/24 forecast outturn for Supplies and Services exceeds the budgeted amount by approximately £0.280m due to additional requirement for technical services relating to completion of the Tyne Pedestrian and Cyclist Tunnel (TPCT) refurbishment works and several engineering projects, above and beyond that anticipated.

2.56 Budget estimates for 2024/25 are provided in the table above and are based on the assumption that the Joint Transport Committee Tyne & Wear Subcommittee (TWSC) will decide to increase the tolls in line with the Retail Prices Index (RPI), as set out in the legislation. Decisions on toll charges are reserved for the TWSC and the mechanism for revising the tolls is detailed in the River Tyne Tunnels Order 2005. The TWSC are able to increase the toll paid by customers (the ‘Real Toll’) once every 12 months, based on the RPI from the application of the last increase, rounded to the nearest 10 pence. Budget estimates for the Usage Payment are derived from traffic levels, which are subject to revision as TT2 finalise their traffic estimates through their own budget process.

2.57 Separately, a ‘Shadow Toll’ sets the amount paid to TT2 per journey, also based on RPI. It is considered every January and is a contractual commitment as set out in the Project Agreement agreed in 2007. The Shadow Toll is also required to be rounded to the nearest 10 pence, and an increase is only possible in 10 pence increments.

2.58 The legislation does not provide for any alternative to the RPI based increase in the Real Toll and assumes that the authority will increase user charges in line with the RPI calculation. The Project Agreement similarly prescribes the calculation for the Shadow Toll increase without any alternative.

2.59 The Real Toll charged to users’ needs to be the same amount or similar to the Shadow Toll paid to TT2 per journey, otherwise the JTC would incur a loss on each tunnel journey because the income generated would fall short of the expenditure incurred in servicing the debt charges and meeting the contractual obligations to TT2.

2.60 The current Real Toll lags slightly behind the Shadow Toll (10p lower) due to a decision taken by the Tyne and Wear Integrated Transport Authority (TWITA) in August 2011. This came about because of a conflict between the construction period and the date that the Shadow Toll increased, where the TWITA felt it was inappropriate to raise tolls for tunnel users during a period of major road disruption. However, this has been the position for several years and is accounted for each year within the budget.

2.61 The current Real Toll is £2.20 for Class 2 Vehicles and £4.40 for Class 3 Vehicles, and the Shadow Toll is £2.30. TT2 has confirmed that the Shadow Toll will increase to £2.50 on 1 January 2024. The TT2 contract payment for the 2024/25 budget is based on this increase to the Shadow Toll and therefore to ensure the Tyne Tunnels account remains balanced, an increase will be required to the tolls in 2024/25. It is forecast that the actual tolls will need to increase to £2.40 for Class 2 Vehicles and £4.80 for Class 3 Vehicles, representing a 20p and 40p rise respectively.

2.62 The earliest date an increase of the actual tolls can be applied is May 2024 because of the decision taken by the TWSC last year to delay increasing the toll for Class 2 vehicles in 2023 until May to provide relief for tunnels users during the winter period taking into account winter fuel bills and the cost-of-living crisis. The income lost during that period was funded from Tyne Tunnel reserves. Delaying implementation of tolls increases in this way is not a sustainable long-term solution.

2.63 The 2024/25 budget for Employee Costs and Support Services is based on assumed inflationary cost increases. The 2024/25 budget for Supplies and Services is less than the 2023/24 forecast outturn, however it is still greater than the 2023/24 budget value due to ongoing technical advice required on multiple projects and cost increases introduced by several suppliers.

2.64 The costs associated with Premises are largely related to the operations of the Tyne Pedestrian and Cyclist Tunnel (TPCT). Electricity costs for the lighting systems, CCTV and security systems, and the lifts at either end are substantial. Therefore, the proposed budget for Premises is less than in 2023/24 because the TPCT operational costs will be transferred to TT2 as part of the handover which is planned for this financial year on the basis that the refurbishment works are completed.

Transport North East

2.65 TNE provides strategy, planning and delivery services on behalf of the JTC and works to implement the vision of ‘moving to a green, healthy, dynamic and thriving North East’. The TNE Core budget is funded through contributions from the Transport Levies which are retained to support JTC activity and a topslice of the Local Transport Plan (LTP) Integrated Transport Block grant which is awarded to the JTC plus external contributions to fund specific posts and external grants for specific programmes and projects.

2.66 Forecast outturn expenditure for 2023/24 is £1.125m against the original budget of £1.037m, with outturn income forecast to be £1.156m resulting in a small surplus of £0.031m which will be taken to reserves to fund expenditure in future years.

Table 12: TNE Core Budget Forecast of Outturn 2023/24 and initial draft budget 2024/25

	2023/24 Original Budget	Spend to Date Q2	2023/24 Forecast Outturn	2023/24 Forecast Variance	2024/25 Initial Draft Budget
	£m	£m	£m	£m	£m
Employee Costs	0.806	0.416	0.903	0.097	1.012

Transport Plan / Strategy Work	0.085	0.021	0.067	(0.018)	0.067
Research and Development	0.090	0.125	0.092	0.002	0.164
Travel and Miscellaneous	0.024	0.005	0.025	0.001	0.025
IT / Equipment	0.004	0.000	0.003	(0.001)	0.003
Contingency	0.018	0.000	0.015	(0.003)	0.015
Organisational Development	0.010	0.016	0.02	0.010	0.02
Total Expenditure	**1.037**	**0.583**	**1.125**	**0.088**	**1.306**
LTP Topslice	(0.500)	(0.500)	(0.500)	0.000	(0.500)
Retained Transport Levy	(0.284)	(0.373)	(0.373)	(0.089)	(0.373)
External Funding for Specific Posts	(0.178)	(0.029)	(0.189)	(0.011)	(0.189)
LA Capability Fund Grant	0.000	(0.016)	(0.034)	(0.034)	(0.034)
LEVI Revenue Grant	0.000	0.000	0.000	0.000	(0.148)
LTA Capacity Revenue Grant	(0.010)	0.000	(0.020)	(0.010)	(0.020)
CRSTS Revenue	0.000	0.000	(0.040)	(0.040)	(0.040)
Total Income	**(0.972)**	**(0.918)**	**(1.156)**	**(0.184)**	**(1.304)**
Net (Surplus)/Deficit	**0.065**	**(0.335)**	**(0.031)**	**(0.096)**	**0.002**

2.67 Draft estimates for 2024/25 are included in the table above. These are being further developed in line with the work programme for 2024/25 and updated estimates will be provided at the January 2024 meeting.

2.68 As noted in the July meeting of the JTC, the revenue grants and contributions funded work by TNE includes BSIP and CRSTS revenue activity. Expenditure is now forecast to be £88.976, funded by £88.736m of external revenue grants, with a balance of £0.240m to be funded from reserves relating to expenditure on Metro and Local Rail Studies and the Regional Freight Study. Estimates for 2024/25 are being prepared and will be included at the January JTC report.

Table 13: TNE Revenue Grants and Contributions Forecast Outturn 2023/24 and Initial Budget 2024/25

	2023/24 Revised Budget	**Spend to Date Q2**	**2023/24 Forecast Outturn**	**2023/24 Forecast Variance**	**2024/25 Initial Draft Budget**
	£m	**£m**	**£m**	**£m**	**£m**
Active Travel Capability Fund	0.065	0.004	1.748	1.683	0.000

Active Travel Planning	1.206	0.001	0.477	(0.729)	0.326
Active Travel Fund Tranche 4	0.000	0.000	0.324	0.324	0.000
BSIP/Enhanced Partnership	76.891	4.148	75.688	(1.203)	14.074
CRSTS	6.773	0.000	6.773	0.000	0.000
Freight Study	0.040	0.025	0.040	0.000	0.000
LEVI Capability Fund	0.000	0.105	0.810	0.810	0.570
Levelling Up Fund Capacity	0.000	0.000	0.070	0.070	0.000
LTF October-December extension	1.312	1.360	1.360	0.048	0.000
Local Transport Authority Capability	0.062	0.032	0.051	(0.011)	0.000
Metro and Local Rail Studies	1.043	0.102	1.020	(0.023)	0.753
Rail Development	0.227	0.089	0.210	(0.017)	0.245
TCF Programme Management	0.317	0.064	0.405	0.088	0.000
Total Expenditure	**87.936**	**5.930**	**88.976**	**1.040**	**15.968**
Active Travel Capability Fund grant	(0.065)	(0.004)	(1.748)	(1.683)	0.000
ATF Revenue grant	(1.206)	(0.001)	(0.477)	0.729	(0.326)
ATF Revenue Tranche 4	0.000	0.000	(0.324)	(0.324)	0.000
DfT BSIP Grant	(76.891)	(4.148)	(75.688)	1.203	(14.074)
City Regional Sustainable Transport Settlement (CRSTS)	(6.773)	0.000	(6.773)	0.000	0.000
LEVI Capability Fund	0.000	(0.105)	(0.810)	(0.810)	(0.570)
Levelling up Fund Capacity	0.000	0.000	0.070	(0.070)	(0.000)
Local Transport Authority Capability grant	(0.062)	(0.032)	(0.051)	0.011	0.000
Local Transport Fund	(1.312)	(1.360)	(1.360)	(0.048)	0.000

Metro & Local Rail Studies	(1.043)	(0.102)	(0.820)	0.223	(0.423)
Rail Administration Grant	(0.227)	(0.089)	(0.210)	0.017	(0.245)
Transforming Cities Fund	(0.317)	(0.064)	(0.405)	(0.088)	0.000
Total Grants and Contributions	**(87.896)**	**(5.905)**	**(88.736)**	**(0.840)**	**(15.638)**
Net Expenditure to be funded from Reserves	**0.040**	**0.025**	**0.240**	**0.200**	**0.330**

2.69 As agreed at the July meeting of the JTC, a budget was set aside for Devolution workstreams, funded by earmarked reserves created from the receipt of higher than forecast interest on revenue balances in 2022/23, and CRSTS revenue grant where expenditure is eligible to do so. An update against this budget is shown in the table below, which highlights that forecast expenditure in 2023/24 is now £1.548m against the budget of £1.797m, due to delays in recruitment to some posts and procurement of external support.

Table 14: Transport Devolution Workstreams Forecast of Outturn 2023/24 and initial budget 2024/25

	2023/24 Revised Budget	Spend to Date Q2	2023/24 Forecast Outturn	2023/24 Forecast Variance	2024/25 Initial Draft Budget
	£m	£m	£m	£m	£m
Highways	0.267	0.000	0.018	(0.249)	0.382
Making the Right Travel Choices	0.033	0.000	0.033	0.000	0.017
Transport Plan Refresh	0.100	0.000	0.100	0.000	0.050
Bus Reform	0.900	0.020	0.900	0.000	0.450
ZEV Infrastructure	0.233	0.148	0.233	0.000	0.117
Data – Project Management	0.080	0.000	0.080	0.000	0.040
Finance and Funding Strategy	0.067	0.000	0.067	0.000	0.033
Overall Project Management	0.067	0.000	0.067	0.000	0.033
Transport Devolution Benchmarking	0.050	0.000	0.050	0.000	0.000

Total Expenditure	**1.797**	**0.168**	**1.548**	**(0.249)**	**1.122**
CRSTS Revenue	(0.207)	0.000	(0.207)	0.000	(0.133)
LEVI grant	(0.233)	(0.148)	(0.233)	0.000	(0.117)
Devolution Earmarked Reserve	(1.357)	(0.020)	(1.108)	0.249	(0.872)
Total Funding	**(1.797)**	**(0.168)**	**(1.548)**	**0.249**	**(1.122)**

Interest on Revenue Balances

2.70 A significant level of interest on revenue balances attributable to high cash balances is forecast to be received in 2023/24, over and above that already budgeted levels. This is due to both the much higher interest rates now compared with at the time of setting the original budget, and significantly higher cash balances held on behalf of the JTC during the year as a result of receipts of large capital grants relating to BSIP, Active Travel and TCF in advance of expenditure being defrayed. A total of £9.018m is forecast, of which £0.893m will be applied to earmarked reserves held on behalf of Nexus and the Tyne Tunnels. It is proposed that the remaining £8.125m is held in an earmarked reserve at the end of this financial year to be applied to support Transport activity in future years following transition to the proposed MCA. The CRSTS capital settlement requires 15% local match funding to be provided which must not come from government funds, and these interest balances would be a useful source of match funding.

3. Reasons for the Proposals

3.1 The NECA Constitution requires that consultation on budget proposals be undertaken at least two months prior to the budget being agreed. The information included in this report is presented to update the JTC on the preparation of the 2024/25 Transport budgets. The report also provides updated forecasts for the current year based on the latest available information.

4. Alternative Options Available

4.1 The update forecasts and indicative budget proposals presented in this report are intended to inform the JTC of work on the preparation of the 2024/25 Transport budget and begin the formal budget consultation process in line with the requirements set out in the NECA constitution in its role as Accountable Body for Transport.

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

4.3 Option 2 – the North East Joint Transport Committee may suggest amendments or alternative proposals to be considered. Option 1 is the recommended option.

5. Next Steps and Timetable for Implementation

5.1 The NECA Constitution requires that consultation on budget proposals be undertaken at least two months prior to the budget being agreed. The draft proposals will be subject to consultation with the Overview and Scrutiny Committee, relevant officer groups and constituent councils. Comments raised as part of the consultation process will be considered in the preparation of the final reports.

5.2 Proposals are at an initial stage and work will be ongoing in developing these further over the coming weeks. Decisions on the levies and other aspects of the Transport budget will be taken by the JTC on 16 January 2024.

6. Potential Impact on Objectives

6.1 The budgets presented in this report are aligned to the achievement of the Transport policy objectives of the Authority.

7. Financial and Other Resources Implications

7.1 The financial and other resource implications are summarised in detail in the body of the report where they are known. Further details which are developed as part of the budget development and consultation process will be identified in the January 2024 report to the Committee.

8. Legal Implications

8.1 The JTC must approve the transport budget and levies unanimously. It will be recommended to make this decision at its meeting in January 2024.

9. Key Risks

9.1 Financial risks associated with the authority’s activities, and actions taken to mitigate these, will be factored into strategic risk management processes for the JTC.

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 NECA Constitution (in its role as accountable body for the JTC) requires that consultation on its budget proposals be undertaken at least two months prior to the budget being agreed.

13. Other Impact of the Proposals

13.1 There are no other impacts arising from this report.

14. Appendices

14.1 Appendix 1 – Nexus Services and Deliverables

15. Background Papers

15.1 Revenue Budget 2023/24 – JTC Report 17 January 2023 (Public Pack)Agenda Document for North East Joint Transport Committee, 17/01/2023 14:30 (northeastca.gov.uk)

15.2 Revenue Budget Update – JTC Report 18 July 2023 (Public Pack)Agenda Document for North East Joint Transport Committee, 18/07/2023 14:30 (northeastca.gov.uk)

16. Contact Officers

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

17. Sign off

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

Appendix 1 – Nexus Services and Deliverables

Nexus Services and Deliverables that its MTFP provides are detailed below:

1. **Metro** - comprising the operation and maintenance of the Tyne and Wear Metro. Patronage is currently estimated at just under 32 million journeys per annum and revenue that is generated is estimated to be in excess of £46 million. On a typical weekday, the Metro delivers over 97% of scheduled journeys which amounts to over 15,000 kilometres operated. Maintenance activities cover all assets that comprise the system e.g. the fleet of Metrocars, track, overhead line, stations, embankments, bridges, viaducts, tunnels, communications systems, fare collection systems, lifts and escalators.

   Metro connects the key centres of population in Tyne and Wear. Many employment sites are accessible by Metro, either directly or via interchange. Universities and Further Education Colleges can be easily accessed by Metro, along with many retail facilities, hospitals, GP surgeries and clinics. Metro is readily accessible (defined as those who live within 800m of a Metro Station) to 350,000 individuals. Customer surveys suggest that approximately one quarter of the Tyne and Wear population uses Metro, with many Metro stations serving as interchanges with other modes of public transport, mainly local bus services but also taxi, national and local rail services as well as air transportation. Research Nexus previously commissioned shows that Metro plays a critical role as an economic enabler:

   - Metro contributes up to £224 million of Gross Value Added (GVA) to the North East economy each year;
   - In a wider measure of GDP and welfare benefits, the overall contribution increases to up to £437million per annum; and
   - The current network delivers an economic value of £11.80 per passenger.

2. **Statutory Concessions** - comprising the net cost of the English National Concessionary Travel Scheme (ENCTS) in Tyne and Wear which is a statutory obligation placed upon Nexus as the Travel Concession Authority (TCA). Expenditure is dependent upon the numbers of passengers using the Scheme, the fare that would have been paid (to the bus operator) if the Scheme did not exist and an estimate of the additional costs of meeting the increased demand caused by the existence of the Scheme. TCA’s and bus operators utilise DfT guidance in determining the value of payments due but in essence, Nexus has virtually no control over this sizeable burden on its NECA grant funded expenditure.

3. **Discretionary Concessions** - comprising the discretionary add-ons to the ENCTS (the companion pass, post 2300 hour boardings, and pre 0930 hour

boardings for the purposes of attending medical appointments), the Metro Gold Card Scheme, the Under 16 Scheme and Teen Travel. It might be possible to reduce expenditure on these discretions if the fare that is charged were to be increased, for example the price of the Under 16 All Day Ticket (which currently retails at £1.10 for use on any mode and any operator's services).

4. **The Shields Ferry** - is the only cross-Tyne ferry operating in the region, providing a vital link between North and South Tyneside for leisure, commuting, tourism, and education, offering a sustainable alternative to the Tyne Tunnel. Nexus currently operates two vessels on the crossing, The Pride of the Tyne built in 1993 and the Spirit of the Tyne, built in 2007. Both the ferries and landings are owned by Nexus. The costs to deliver the service comprise staffing, fuel, maintenance, cleaning and security.

5. **Bus Services** – these are typically socially necessary services that Nexus secures when commercial operators do not consider routes to be profitable. Typically, such services include the following types of provision:-

   - All day services;
   - Scholars services;
   - Works / Early Morning services;
   - Evenings and weekend extensions;
   - Route diversions; and
   - Taxibus and Community Transport.

6. **Bus Infrastructure** - comprising staffing, cleaning, maintenance and security of bus interchanges, stations and shelters.

7. **Public Transport Information** - comprising website design and maintenance, printed material including Bus, Metro and Ferry timetables (including bus stop liners), call handling and the provision of electronic information for journey planning.

Appendix 6

North East Mayoral Combined Authority – Initial Draft Budget setting Timetable

`Appendix F

DATE	EVENT/MEETING	ACTION
Over the course of September and October	Combined Authority Steering Group (CASG)	Initial proposals in relation to the NEMCA corporate plan and budget, and the Investment Plan – comprising the portfolio plans for investment, and the early priorities for NEMCA will be produced for consideration over September and October
21 November 2023	Joint Transport Committee	Consider and agree draft transport budget/levy for consultation.
28 November 2023	Cabinet Meeting NECA and NTCA	NECA Leadership Board and NTCA Cabinet consider and agree the draft Budget and Financial, Corporate and Investment Plans for the NEMCA.
29 November 2023	Consultation and Engagement events	Budget consultation events begin
December 2023	NTCA, (5th) NECA (14th) and JTC (14th) Overview and Scrutiny Committee	Receive and consider the NEMCA's draft Budget and Financial Plan
16 January 2024	Joint Transport Committee	Approve Transport Revenue Budget and Transport Levies.
23 January 2024	NECA Leadership Board	NECA Leadership Board formally issue Transport Levy agreed by JTC, and agree the proposed 2024-25 NEMCA Budget and Financial Corporate and Investment Plans
30 January 2024	NTCA Cabinet	NTCA Cabinet meets to agree formally agree the proposed 2024-25 NEMCA Budget and Financial, Corporate and Investment Plans.
May/June 2024	NEMCA Mayor and Cabinet	Approval 2024-25 NEMCA Budget, Financial, Corporate and Investment Plans