North East Combined Authority

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Leadership Board

Tuesday 29 November 2022 at 2.00pm

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

www.northeastca.gov.uk

AGENDA

13. **Date and Time of Next Meeting:** 24 January 2023 at 2.00pm.

Contact Officer: Toby Ord Tel: 0191 424 7541
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Item 3

Leadership Board

DRAFT MINUTES TO BE APPROVED

4 October 2022

(2.00pm – 2.25pm)

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

Present:

Councillors	Dixon (Chair), Gannon, Rowntree, Bell (attended on behalf of Durham County Council) Lucy Winskell (NELEP)
Officers	Iain Burns (Service Director, Gateshead Council), Paul Darby (Chief Finance Officer, NECA), Nicola Robason (Monitoring Officer), Gavin Armstrong (Policy and Scrutiny Officer, NECA) and Toby Ord (Strategy and Democratic Services Asst., NECA)

1 **APOLOGIES FOR ABSENCE**

Apologies for absence were received from Cllr Miller, Cllr Hopgood, Mike Barker, Patrick Melia, Sheena Ramsey and Jonathan Tew.

2 **DECLARATIONS OF INTEREST**

None.

3 **MINUTES OF THE PREVIOUS MEETING HELD ON 26 JULY 2022**

The minutes of the previous meeting held on 26 July 2022 were approved as a correct record.

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

The Chair and the Head of Paid Service both submitted apologies to the meeting and were not present to deliver any announcements.

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

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

Councillor Rowntree delivered the Chair's Update on behalf of Councillor Miller, opening with a comment on the period of national mourning which recently passed.

It was stated that Queen Elizabeth II's passing was significant for the nation, and our region conducted itself appropriately, allowing the period to pass respectfully and exhibiting the Local Authorities' capability to work collaboratively.

Members were reminded that the COVID-19 issue is still prevalent and that it's the Authority's responsibility to ensure businesses and residents are equipped to live with COVID-19. There was said to be a possibility of a 'twindemic' during the winter, with the likelihood of flu and COVID-19 cases spiking rising.

Focus then moved onto Liz Truss' new Government, and the impact that new agenda policies are having on businesses and residents alike. Members were asked to acknowledge the vitality of our focus on new arising challenges so that as a collective we can aid people in emerging from said challenges and leave them in a strong position. The Government's new policy stance is one of growth as opposed to its predecessor's 'Levelling Up' agenda. The financial market's reactions to new policies were said to have been turbulent, with exchange rates, stock value and pensions all being affected.

Members were informed that the Government has requested Whitehall departments for further public expenditure cuts, leaving further budgetary pressures to be expected. With communities already in crisis regarding energy and bills, it was noted that such pressures will only exacerbate the situation for many, and it is therefore essential that we come together with our respective communities, support those who are most vulnerable and respond to budgetary challenges. The financial outlook for all organisations will be increasingly challenging, though it was said to be imperative that residents and businesses receive the support necessary where possible in order to provide maximum opportunity for everyone.

It was noted that the Authority awaits the Prime Minister and the Department for Levelling Up, Housing and Communities views on the North East Devolution Deal, which was noted as having the potential to be an exciting and beneficial deal for the region. Talks will look to be recontinued when the Government isn't so preoccupied with refocussing their agenda.

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Members passed on their gratitude and commendation to Leaders, Chief Execs and other Officers who contributed to the great example of a collaborative effort in carrying out Operation London Bridge, demonstrating the level of quality of Local Government and other relevant organisations.

Councillor Gannon demonstrated concern over our collective ability to deal with arising financial concerns – as a region with already suffering areas of deprivation, rising energy costs and inflation was said to be crippling budgets for the current year. In Gateshead alone, there is already growing concern over a gap in funding for the next municipal year, and although North East authorities are effective and efficient in their budgeting, many Local Authorities nationwide will struggle in the face of challenge.

RESOLVED that: -

i. the update be noted.

6 **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 outline of the contents of the report, noting sections on the labour market, cost of living crisis and digital infrastructure.

It was noted that while unemployment rates fall, economic inactivity continues to rise, while the rising cost of living crisis continues to affect those most disadvantaged. Members were made aware that further detail can be found in the report, which also outlines the rollout process for Project Gigabyte.

RESOLVED that: -

i. the report be noted.

7 **FINANCE, SKILLS AND EMPLOYABILITY THEMATIC PORTFOLIO UPDATE**

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

Councillor Richard Bell delivered the report on behalf of the Thematic Lead for Finance, Skills and Employability.

The report briefly covered the impact of high inflation levels, particularly in energy markets which was impacting Nexus' budget for high voltage and placing huge demands on local authority budgets.

There was a discussion over the significant financial uncertainty and volatility that exists at this time. Members touched on potential impacts on index linked benefits, noting that in order to protect the NHS and the triple lock on benefits, areas where money could potentially be squeezed would impact on local government and potentially more disproportionately in areas with higher levels of toward deprivation. Lobbying was needed to garner support for the sector and ensure the treasury was listening.

It was highlighted that a new further education funding and accountability system, as well as a new Government scheme which aims to help over two thousand adults with learning disabilities and autism get into work. Further, it was noted that the number of general and senior roles for women is on the rise, and the Department for Work & Pensions is investing £22m into assisting over 50s jobseekers who are looking for work.

Lucy Winskell queried the inconsistent approach to Local Skills Improvement Plans and support, though it was noted that the details in the report reference a national level summary. Members and Officers agreed to continue a more detailed discussion offline.

RESOLVED that: -

i. the report be noted.
ii. queries over LSIP's and support be circulated and discussed outside of the meeting.

8 **BUDGET PROPOSALS 2023/24**

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

The Chief Finance Officer delivered the report which set out initial budget proposals for the next year and the two years that follow together with the budget timetable for agreeing the budget and updated MTFS.

Members attention was initially drawn to the summary of forecast outturn, with the corporate budget expected to come in line with the budget agreed, with soe small overspends offset by additional interest on cash balances.

It was proposed that constituent authority contributions for the NECA and JTC Accountable Body is retained at £25,000 and £10,000 respectively per authority next year, and that inflationary increases in operating costs would be offset by additional investment income.

Members were made aware that estimates included in the report were prepared prior to any new Government policy announcements in the upcoming budget.

It was also noted NECA had that week been notified that the External Audit Fees would increase by 150%, roughly £20,000-30,000 for NECA and JTC next year. This increase was impacting on all Councils and was not factored into the budget proposals included in the report.

A member queried the justification for this price hike: the Chief finance Officer noted that in some areas authorities were consistently unable to get their accounts signed off due to a lack of external audit staffing in the market and the aim was to drive up competition in accountancy firms looking to take on audits in the public sector. It was noted that previously, there has been difficulty in sourcing firms to fulfil the requirements of Local Authorities as the work was seen as uncompetitive. It was also noted that the statutory date for the external audit of last year's accounts had run over due to a technical issue linked to the valuation of infrastructure assets which inhibits all firms in the audit sector from finalising the audit at this time

RESOLVED that: -

i. the report be noted.

9 **DATE AND TIME OF NEXT MEETING**

Tuesday 29 November 2022 at 2.00pm.

Item 6

NECA Leadership Board

Date: 29 November 2022
Subject: Economic Development and Digital Theme Update
Report of: Economic Development and Digital Thematic Lead

Executive Summary

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

The report provides an update on the economy and labour market across the NECA area (highlighting falling rates of unemployment, but rising economic inactivity and concerns around business and consumer confidence) and the plans of Government through the Autumn Statement taking place this month.

Recommendations

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

NECA Leadership Board

1.0 Background Information

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

- Economy;
- Labour Market;
- Government's Autumn Statement.

2.0 Economy

2.1 **The economy in the NECA area continues to be impacted by high energy prices, the increasing cost of living for residents, the rising costs of doing business and uncertainty over the future economic outlook.**

2.2 The main issue continuing to impact the economic outlook remains inflation and rising prices, particularly high energy costs. These continue to impact upon businesses across the North East and is the top issue being flagged to Local Authorities in the NECA area.

2.3 For example, businesses in the personal care sector have expressed real concerns about rising energy costs (one operator in the NECA area has seen energy bill estimates increase by 500%), manufacturers are reporting huge jumps in gas prices (a local manufacturer is reporting annual gas costs rising from £750k to £4m, stymieing their ability to invest) and Begbies Traynor reported a 4% increase in businesses in significant distress in the region.

2.4 Nationally, the economy, according to the Office for National Statistics shrank in the three months to September. The Bank of England expect that this will be the start of a recession lasting until early 2024.

2.5 The knock-on effect of rising inflation is the hit that consumer confidence and spending is likely to take. We are already seeing evidence of this with the economy growing much slower nationally than expected in July with potential warnings of a looming recession.

2.6 Recent business reports suggest falling confidence amongst businesses in the North East. Research from software plc Sage has suggested only just over half of North East firms are confident in their own success. Of 251 SMEs, 56% noted confidence compared to 53% in the UK as a whole. That's a 4% decline in the North East since March.

NECA Leadership Board

2.7 Other regional reports, such as from NatWest and Lloyds, have painted a similar picture of falling optimism. In addition, as described below, vacancy rates are starting to fall for the first time in 2 years nationally and employers continue to struggle to recruit.

2.8 Anecdotally, this is partially due to temporary staff being unable to fill the void left by skilled workers looking for more lucrative, lower skilled roles or perceived better working conditions.

2.9. In terms of footfall, Google Mobility footfall data shows a mixed picture with visits to retail and recreation locations across the NECA area in October below pre-pandemic levels. However, visits to workplaces remain around 85% of pre-pandemic levels and public transport visit numbers are still 23% below those before March 2020 (and only very slightly up on last year).

2.10 Despite this, the economy appears to be, at the moment, showing resilience with many companies continuing to grow and invest, particularly in relation to the green economy. For example, the Offshore Wind North East conference took place in Sunderland in early November with significant turnout and a real focus upon global projects, supply chain and procurement opportunities, innovation, skills, floating offshore wind and logistics and infrastructure.

2.11 Likewise, stories of job losses across the NECA area has been minimal (potential for 1,300 job losses UK-wide at McColls), although the falling confidence and increased costs may lead to future job losses.

3.0 **Labour market**

3.1. **While the monthly claimant count in the NECA area has seen significant falls over the past year, and now (September 2022) stands at 4.1% (the lowest level since November 2018 and nearly half the rate of August 2020), rates of employment are not rising to the same extent and economic inactivity remains a major concern.**

3.2 September's claimant count data remained static but it has fallen every month since February 2021. There are now just under 30,000 people claiming out of work Universal Credit compared to 54,000 in August 2020 (at the heart of the pandemic) and 33,000 in March 2020 (before the virus emerged).

3.3 This masks the variation between the 3.4% rate in Durham and the 5.6% rate in South Tyneside, although all areas have seen reductions since the pandemic highs; although such falls are certainly slowing. This appears to reflect the slowing and potential contraction of the economy as highlighted above feeding through to employer intentions.

3.4 It also does not show the complete picture. The wider measure of employment has not caught up with the falls in the claimant count as data for July 2021 to June 2022 shows an employment rate of 71.6%, up from a year previously but below 2019 and 2020 levels (and below the national 75.5% level).

3.5 The wider measure of unemployment has fallen to 4.6% (July 2021 to June 2022), some of the lowest rates for the past two decades, but above the 3.8% national average.

3.6 These measures, while encouraging, disguises the rise in economic inactivity and people outside the labour market. Economic inactivity driven by those away from the labour market due to ill-health saw its largest ever quarterly rise nationally in the latest set of figures. Economic inactivity in the NECA area is now at 25%, one in four of our working age population, and has increased significantly since 2018/19.

3.7 Labour demand appears relatively resilient given the near-record high vacancy rates – and reports from across the area suggest employers are still struggling to recruit, particularly for health and social care staff, hospitality workers, developers and engineers – but these are not feeding through into significant pay rises and real pay continues to fall.

3.8 Furthermore, rising prices and uncertainty appear to be impacting upon recruitment with labour demand starting to weaken. As rising costs and falling real terms pay cut into consumer and business confidence, this presents a real challenge for residents and businesses across the NECA area.

3.9 The Bank of England are forecasting national unemployment will rise from 3.8% to 6.5% by 2024, a trend, if this proves accurate, is likely to be disproportionately felt across the regional and NECA economies.

4.0 **Government's Autumn Statement**

4.1 Following the new Prime Minister taking office, the Treasury announced an Autumn Statement to take place on 17th November 2022 (delayed from the end of October).

4.2 The Chancellor will announce a range of tax raising measures, and public spending freezes or cuts to help meet the gap in government finances. It is likely that the Office for Budget Responsibility will present a difficult financial outlook and the requirement for future savings will bring additional pressure on public services.

NECA Leadership Board

4.3. This report was written before the announcement of the Autumn Statement and its recommended Leadership Board discuss the key points of the Statement, particularly in relation to:

- The cost of living and the impact of Treasury decisions on benefits, the lowest-paid and pensioners;
- Local government funding;
- Rising demand for children's services and adult social care and winter pressures on these services and on the health system;
- Levelling Up (including Levelling Up Fund, UK Shared Prosperity Fund and Investment Zones);
- Capital spending and transport infrastructure (such as Northern Powerhouse Rail).

4.4 Future reports will analyse the impact of the Chancellor's Statement upon the NECA area.

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.

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.

NECA Leadership Board

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

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

NECA Leadership Board

19.0 Sign off

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

21.0 Glossary

None.

Item 7

Leadership Board

Date: **29 November 2022**

Subject: **Transport Thematic Lead Portfolio Update Report**

Report of: **Thematic Lead for Transport**

Executive Summary

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

Recommendations

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

1. Background Information

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

Rail

1.2 Work continues in respect of the new Metro fleet with the first train on target to be delivered to the North East by the end of the year. The Metro Flow project to increase capacity and improve resilience on the branch of between South Shields and Pelaw continues according to plan. Work continues with Government to endeavour to mitigate the significant impacts of the energy crisis on the cost base for Metro.

1.3 The Strategic Outline Business Case for the South of Tyne and Wearside Loop, which would see the introduction of Metro services to Washington, was presented to the North East Joint Transport Committee (NEJTC) on 15th November 2022.

1.4 The campaign to reopen the Leamside Line in full continues with a series of stakeholder activities planned in coming months. Several North East MPs have raised the issue in Parliament in relation to the Northern Powerhouse Rail scheme.

1.5 Performance on Northern Rail in our region has been particularly poor in recent months with a very high level of recorded service cancellations and delayed trains. The performance of Transpennine Express has also been highlighted as a concern by Northern Mayors, with many ongoing cancellations as a result of driver shortages

Buses

1.6 The most recent draft of the Enhanced Partnership Scheme and Plan, setting out in more detail how the region intends to utilise the previously reported indicative allocation of £163.5m for the North East to deliver on the ambitions of the Bus Service Improvement Plan, was presented to the NEJTC on 15th November 2022 seeking approval for consultation; firstly with operators and then a wider exercise with the public and stakeholders.

1.7 Bus service reliability remains an issue due to driver shortages.

2. Proposals

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

3. Reasons for the Proposals

3.1 This report is for information purposes only.

4. Alternative Options Available

4.1 Not applicable to this report.

5. Next Steps and Timetable for Implementation

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

6. Potential Impact on Objectives

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

7. Financial and Other Resources Implications

7.1 The report includes information on funding and financial opportunities.

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

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

8. Legal Implications

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

9. Key Risks

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

10. Equality and Diversity

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

11. Crime and Disorder

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

12. Addressing Geographic Diversity:

12.1 The continued provision of bus and other public transport services to more sparsely populated areas 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

19. Sign off

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

20. Glossary

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

NORTH EAST JOINT TRANSPORT COMMITTEE

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

Civic Centre
Regent Street
Gateshead
NE8 1HH

19 August 2021

Dear Colleague

Bus Partnership update

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Yours sincerely

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

North East Combined Authority
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Item 8

Leadership Board

Date: **29 November 2022**

Subject: **Finance, Skills & Employability - Thematic Update**

Report of: **Finance, Skills & Employability Thematic Lead**

Executive Summary

This report seeks to provide an update on current Finance, Skills and Employability portfolio activity and the baseline position for a future 'Skills & Employment' ask for the North-East Combined Authority.

Skills and Employment considerations builds on the wide-ranging activity already underway and provides an opportunity for the Combined Authority to take a lead of Employment & Skills services in the coming years.

Central to the Skills and Employability agenda are the issues of financing particularly the reliance on external funding as we approach the final stages of the current European Structural Investment Fund programme with limited scope to undertake Employment & Skills activity through the UK Shared Prosperity fund until 2024/25.

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 October, 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. The spending review announcements in October 2021 and the Finance Settlement that followed in December 2021 set out the resources that are available for local government for 2022/23.

2.2 As part of the Comprehensive Spending Review announcements in October 2021, it was announced that there would be a real-terms increase in local government funding. The actual core spending power increases are dependent on councils increasing council tax by 2.99% per annum over the next three years – a 1.99% referendum limit increase and a further 1% Adult Social Care Precept – with actual spending power influenced by the tax base position and council tax raising capacity of individual authorities.

2.3 The Chancellor, Jeremy Hunt, will announce his autumn statement on 17 November, which is widely anticipated to include both tax increases and public spending cuts. This may have an impact on the local government finance settlement for 2023/24 which will follow.

2.4 Initial proposals for the 2023/24 budget were presented to the Leadership Board at the last meeting in October and are updated in another paper elsewhere on this agenda.

2.6 Pressures in relation to transport budgets, particularly on the Tyne and Wear transport levy, have worsened in recent months as energy price inflation has risen above the levels previously assumed and this has had a hugely detrimental effect on Nexus' budget for high voltage power, the cost of which has more than doubled. There are other pressures relating to contract price inflation, instability in the bus market and employee pay awards. An update on the situation was provided to the JTC along with proposals for 2023/24 budgets at its meeting on 15 November, which will be subject to further consultation before the levies must be agreed in January 2023.

3. Skills Theme

3.1 **LGA response: DfE consultation - Implementing a New FE Funding and Accountability System**

3.1.1 DfE launched a second stage consultation on implementing a new further education funding and accountability system for adult skills. It is relevant to the adult skills system as a whole, councils' adult and community learning functions and devolved functions. *The full consultation summarises*, with the initial question raised; Do you agree with the proposal to create a national model for funding that devolved areas can use as a basis for shaping and funding local skills provision? LGA response: DfE consultation - Implementing a New Further Education Funding and Accountability System | Local Government Association

Leadership Board

3.1.2 While the question focuses on devolved areas, it is worth highlighting that all areas across England have unique labour markets including a mix of jobs, unique priority sectors, qualification levels, unemployment, and vacancies so a one size fits all approach is inappropriate. This means adult skills reforms must provide local government – councils and devolved authorities – as well as providers, with maximum flexibility to adapt provision to local need so they are part of a wider joined up employment and skills offer.

3.1.3 Local government's added value in getting the skills and jobs offer right locally This consultation and others (Local Skills Improvement Plans) make only passing reference to the wide-ranging functions that sits within local government and their ability to successfully land and tailor skills policy on the ground into a more coherent local offer for residents, communities, businesses and other employers.

- Planning, commissioning, and delivering adult skills
- Councils' education and training duties for young people
- Providing wrapround services for young people and adults with barriers
- Their 'lead authority' role for growth and skills investment
- As strategic planners, large employers, commissioners or deliverers of services
- Reach the entire local employer base
- Take a holistic view on employment, training, skills, and economic growth

3.1.4 The LGA believe that DfE has a critical role in develop adult skills through the following ways:
a) Develop an adult skills / lifelong learning strategy which joins up national policy and funding. Ageing populations, high vacancy rates, new technologies (digital, green, automation) changing our jobs market, supporting refugees, addressing pressures in health and social care, and increasingly moving services online are just some of the reasons why continual improvement in adult skills is essential to helping people be part of a skilled and productive workforce and lead independent and fulfilled lives, but much of this sits with other parts of Whitehall. DfE should provide strategic leadership on adult skills, join up policy and funding in its own Department, and other Government departments to develop a coherent policy.

b) Invest in Level 2 and below. Creating a high skills economy has driven FE reforms and investment (Level 3 skills and above), but more investment is needed in Level 2 and below to support the least qualified be part of skills talent pipeline. Funding must be devolved so local government can target support at those that most require it.

c) Co-design with devolved commissioners a light touch, permissive adult skills / lifelong learning framework allowing for maximum local flexibility. This could cover over-arching principles, broad objectives and outcome measures, minimum standards, and a 'what good looks like'tool for procuring and managing provision.

d) Adopt a 'local-first' approach to new or repurposed skills activity. Devolution and a 'local first' approach should be the default position for new programmes and initiatives, with the aim of taking more decisions locally and freeing up departments to tackle national issues. For instance, the way DfE worked with councils and devolved authorities to plan and deliver the Multiply adult numeracy programme is a step in the right direction.

e) Prepare for full devolution now by empowering non-devolved councils with a 'Community Skills Lead' to plans the adult skills offer for Level 2 and below. In non-devolved areas, no single authority has a strategic role to plan adult education at Level 2 and below, yet councils already plan and deliver Adult Community Learning and Multiply and are democratically elected. A 'Community Skills Lead' role would allow for 1) a coordinated local offer in non-devolved areas now, 2) smooth devolution transition for councils, DfE/ESFA, and 3) support Employer Representative Bodies (ERB) to develop adult skills pathways within Local Skills Improvement Plans (LSIPs).

f) Play its part in improving the employment and skills offer for all areas. Analysis reveals £20 billion is spent on a complicated mix of 49 national employment and skills-related schemes or services across England, managed by multiple Whitehall departments and agencies, delivered over different boundaries by various providers. While well-intended, they are disconnected, short-term with no single organisation coordinating the system overall nationally or locally, so it is hard to join up provision for learners, unemployed people, career changers and employers.

3.1.5 The LGA's Work Local is a blueprint for moving towards an integrated and devolved employment and skills service for all places and could act as a delivery mechanism to help ERBs deliver LSIP priorities. It will give democratically elected local leaders the power and funding to work with partners to join up careers advice, employment, skills, apprenticeships, and business support provision for their areas, with local and national accountability for outcomes.

The underpinning principles are:

- A 'one stop' place-based service

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- Clear and responsive local leadership
- That is driven by local opportunities and needs
- Within a common national framework for devolving strategy, financing and delivery of employment and skills
- Underpinned by Devolved Employment and Skills Agreements to cover outcomes and funding envelope
- Delivering better outcomes at lower cost.

3.1.6 A cost benefit analysis reveals it could increase by 15 per cent the number of people improving their skills or finding work by using investment more effectively - adult skills, contracted employment support and UKSPF, apprenticeships and 16-19 funding. Careers advice and JCP employment support should be part of this, however there is limited public information about their budgets.
To make this happen and improve the system for all areas, local and national government need a new partnership – a Work Local Board – that would:

- get the basics right everywhere so all places can join up the offer more effectively. The LGA's prospectus for change sets out what changes are needed.
- empower local leaders and agree a framework for employment and skills devolution
- implement Work Local and roll out more place partnerships sooner than 2030.

4. Employment Theme

4.1 Employment boost for people receiving mental health support

4.1.1 £122 million is being invested to roll out a vital NHS England service, providing those who receive mental health support with employment advice to help them stay in work or return to the job market quicker, with the right support in place.

4.1.2 The service brings therapists and employment advisers together to help people with common mental health problems such as stress, anxiety and depression find work tailored to them. With strong evidence that being in work improves mental health, supporting more people into work will not only fuel a thriving labour market, but also increase individual prosperity and continued support will be made available to help individuals focus on and progress in their careers will in turn help grow the economy.

4.1.3 Referral to Improved Access to Psychological Therapies (IAPT), often referred to as 'NHS talking therapies' services, can be through a GP, healthcare professional, or through self-referral. The use of IAPT services, taking part in psychological treatment, and employment support is purely voluntary. NHS England Therapists and employment advisers already work together in 40% of the country. Over the three-year spending review period, the service will be extended nationally with recruitment and training of around 700 employment advisers so that up to 100,000 people can receive the combined offer each year from 2024 to 2025, accessing the support to start, stay and succeed in work.

4.2 **£6.4 million boost for employers to support disabled people**

4.2.1 Thousands of businesses across the UK will benefit from a new £6.4 million online service to help employers better support disabled people and those with health conditions in the workplace. The early test version of the Support with Employee Health and Disability service provides essential information about supporting and managing employees with disabilities or health conditions at work.

4.2.2 Any employer can access the service, which provides free advice on how to manage staff who may be in or out of work with a disability or long-term health condition in a user-friendly online Q&A format.

4.2.3 The service is aimed at smaller businesses, many of which do not have in-house HR support or access to an occupational health service and will help them to build more diverse and inclusive workforces. The new service also covers potential changes an employer could make to help them return to and stay in work, supporting a government drive to boost numbers of people in employment and ensuring everyone has the opportunity to benefit from being in work.

4.2.4 The site is currently in test mode, with businesses and disability groups invited to have their say through a short online survey, to help shape the future of the service. The site will be constantly updated and improved over the next three years, informed by feedback given from the survey

4.2.5 The service has been designed to give employers easy access to the advice they need to create the best environments for their staff with disabilities or long-term health issues, so that anyone from any background can start, stay and succeed in work. Once fully developed, the service will also help employers understand their legal obligations, including how to make adjustments for disabled people and those with health conditions.

4.2.6 Over the next three years, the government will invest £1.3 billion in employment support for disabled people and people with health conditions. This money will go towards building up existing provision, including expanding employment support, to grow the economy and help people with the cost of living.

4.3 **IES Briefing – Labour Market Statistics, October 2022**

4.3.1 Nationally, unemployment has continued its downward trend, falling by 0.3 percentage points on the quarter to 3.5%. However, employment is also down by the same amount, to 75.5%, while economic inactivity has risen significantly to 21.7%. Apart from the rise in economic inactivity during the first lockdown, this is the largest quarterly increase since comparable records began in 1971.

4.3.2 Higher economic inactivity continues to be driven particularly by fewer older people in work – who account for three quarters of the total rise – and by more people out of work due to long-term health conditions, which has again seen a record quarterly rise and reached its highest level in at least thirty years (at 2.49 million). However economic inactivity due to caring for family and home is also rising after three decades of sustained falls, which may well reflect more parents (and particularly single parents) struggling to find or stay in work; while student numbers are rising again, and the number of people citing early retirement has also edged up. So overall the labour force is contracting in many different ways and is now half a million smaller than it was before the pandemic.

4.3.3 This is happening in spite of (and is likely contributing to) continued very high vacancies – which remain above 1.2 million. There simply are not enough workers for the jobs available. This is likely contributing to very strong nominal pay growth, which is now running at 6.4% in the private sector but at just 2.4% in the public sector, which is in turn is likely to be contributing to rising prices – with services inflation and core inflation (which excludes energy and food costs) both now running at around 6%. Overall, this high nominal pay growth is still below the (even higher) rate of inflation, so real pay continues to fall (by 2.8% year-on-year in today's figures).

4.3.4 There are some signs that demand may be starting to weaken in the private sector, with vacancies falling slightly from their peaks in a number of industries. However, vacancies are continuing to grow in the public sector – likely in part reflecting more people leaving public sector jobs for better paid work in the private sector, as well as continued struggles to recruit new staff in a highly competitive labour market.

4.3.5 Overall these are worrying figures and an inauspicious backdrop against which to be looking for tens of billions of pounds of cuts to public spending. Perhaps the best (but least likely) course that the government could take would be not to make those cuts and instead delay its tax plans. Failing that though, it could be argued that there are now four key priorities for the Chancellor's statement at the end of this month: to extend the Restart Scheme, which is due to underspend by around £1.2 billion; to do far more to improve access to specialist health and work related support; to ensure a decent settlement on public sector pay and reform; and to increase investment in skills and training, particularly for those out of work.

4.3.6 The current labour market analysis provides context for the current employment support programmes and business support activities. It is also significant in terms of shaping the offer for employment services under UKSPF. Work will also continue with employers particularly in understanding their workforces and local labour markets, broadening and simplifying recruitment, making work more flexible and secure, and improving access to workplace training and support.

5. Next Steps and Timetable for Implementation

5.1 Employment & Skills issues and opportunities for development remain under development through meetings of the Skills and Employment Working Group.

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.

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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 January 2021

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: ✓

18. Glossary

18.1	ACL	Adult Community Learning
	AEB	Adult Education Budget
	AELP	Association for Employment & Learning Providers

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DfT	Department for Transport
DWP	Department for Work and Pensions
ERB	Employer Representative Bodies
ESFA	Education and Skills Funding Agency
LGA	Local Government Association
LRTRG	Light Rail and Tram Recovery Grant
LSE	Local Supported Employment
LSIP	Local Skills Improvement Plans
LTF	Local Transport Fund
MCA	Mayoral Combined Authority
NEET	Not in Education, Employment or Training
SEND	Special Education Needs & Disability
UKSPF	UK Shared Prosperity Fund

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Item 9

Leadership Board

Date: **29 November 2022**

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 £169.667m in borrowing and had £124.500m cash balances invested at 30 September 2022. During the half year period, borrowing of £0.333m was repaid on equal instalment of principal (EIP) loans, 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 2022, 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;
e) 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 2022/23, NECA's treasury position was as follows:

	1 April 2022	Rate / Return	Average Life	30 Sept 2022	Rate / Return	Average Life
	£m	%	Years	£m	%	Years
Total Debt	170.000	4.24	38.9	169.667	4.25	38.4
Total Investments	100.000	0.39	0.71	124.500	1.71	0.41
Net Debt	**70.000**			**45.167**		

2.3 As at 30 September 2022, NECA had £169.667m of borrowing and £124.500m of cash balances invested. The main factor in the increase in cash balances over the period has been the front-loading of Government grants.

Borrowing Activity

2.4 At 30 September 2022, NECA held £169.667m of loans, a decrease of £0.333m 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 2022	Rate / Return	Average Life	30 Sept 2022	Rate / Return	Average Life
	£m	%	Years	£m	%	Years
Public Works Loan Board	81.000	4.09	23.6	80.667	4.09	23.1
Private Sector	89.000	4.39	49.1	89.000	4.39	48.6
Total Borrowing	**170.000**			**169.667**		

2.5 The only movement during the year was the repayment of £0.333m on an EIP loan, with no new borrowing taken out during the period.

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 2022, investment balances ranged between £100m and £124.500m.

2.7 As at 30 September 2022, NECA held balances and investments totalling £124.500m. 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	67.000	20.000	15.000	102.000
Building Societies	0.000	0.000	10.000	10.000
Other Local Authorities	0.000	0.000	0.000	0.000
Money Market Funds	12.500	0.000	0.000	12.500
Total	**79.500**	**20.000**	**25.000**	**124.500**
% of Total	64%	16%	20%	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 1 February 2022. 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 2022 Actual	30 Sept 2022 Actual	2022/23 Limit	Complied
Upper limit on fixed interest rate exposure	£169.667m	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 2022 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%	£1.333m	✓
5 years to 10 years	0%	80%	£5.000m	✓
10 years and above	0%	100%	£162.000m	✓

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 2022	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 2022/23 budget was set in February 2022 (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:

	2022/23 Original Estimate	2022/23 Estimate at 30 Sept 2022	Difference
	£m	£m	£m
Capital Programme	279.774	273.600	(6.174)
Financed by:			
Capital Grants	269.728	270.890	1.162
Revenue and Reserves	10.046	2.710	(7.336)
Net borrowing financing need for the year	279.774	273.600	(6.174)

2.16 **Actual Debt:** NECA's actual debt at 30 September 2022 is as follows:

	1 April 2022 Actual	30 Sept 2022 Actual	Difference
	£m	£m	£m
Borrowing	170.000	169.667	(0.333)

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.

	2022/23 Original Estimate	30 Sept 2022 Actual	Complied
	£m	£m	£m
Borrowing	205.000	169.667	✓

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.

	2022/23 Original Estimate	30 Sept 2022 Actual	Complied
	£m	£m	£m
Borrowing	210.000	169.667	✓

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 2023/24 and future years will be presented to the Leadership Board for approval along with the budget at its meeting on 24 January 2023.

6. Potential Impact on Objectives

6.1 There are no impacts on objectives arising from this report which is for information.

7. Financial and Other Resources Implications

7.1 The report details NECA's cash management, loans and investment activity during 2022/23 in the first half of the year to 30 September 2022. 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

15. Background Papers

15.1 NECA Treasury Management Strategy – Leadership Board 1 February 2022
[Agenda-Pack-1-February-20221.pdf (northeastca.gov.uk)]

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16. Contact Officers

16.1 Eleanor Goodman, NECA Finance Manager,
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17. Sign Off

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

Item 10

Leadership Board

Date: **29 November 2022**

Subject: **NECA Budget 2023/24**

Report of: **Chief Finance Officer**

Executive Summary

This report sets out budget proposals for 2023/24 for consultation, and indicative estimates of the period 2024/25-2025/26, along with an updated forecast of outturn for 2022/23. The budget proposals will be subject to further consultation with the Overview and Scrutiny Committee and presented to the Leadership Board at its meeting in January 2023 for approval.

In line with the estimates presented to the Leadership Board at its last meeting, the forecast for the 2022/23 financial year is for a small deficit of approximately £2,600, largely in line with the original budget for the year. Interest income on short term investments is forecast to be higher than the original budget for the year which offsets additional costs on Service Level Agreements for the provision of support to NECA which are forecast to be higher than the original budget.

The report highlights that budget proposals for 2023/24 are in line with the forecasts set out as part of the Medium-Term Financial Strategy (MTFS) presented to the Leadership Board in February 2022.

Contributions to the NECA Corporate Budget and the NECA Budget for fulfilment of the North East Joint Transport Committee (JTC) Accountable Body role will be maintained at the current levels of £25,000 and £10,000 respectively for 2023/24, although these will be subject to review for 2024/25 onwards.

Recommendations

The Leadership Board is recommended to:

i. Receive this report for consideration;
ii. Note the updated forecast of outturn for 2022/23;
iii. Agree the following proposals that are set out for the basis of consultation on the 2023/24 NECA Revenue budget:
   a. That contributions to the NECA Corporate budget from NECA constituent authorities be maintained at the current level of £25,000 per council (total £100,000);

b. That contributions to the JTC Accountable Body role from JTC Constituent authorities be maintained at the current level of £10,000 per council (total £70,000).

North East Combined Authority
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Leadership Board

1. Background Information

1.1 A report was presented to the Leadership Board in October setting out the draft proposals for 2023/24 and future years and the updated forecast of outturn for the current financial year, 2022/23.

1.2 In line with the budget-setting timetable agreed by the Leadership Board in July 2022, this report sets out budget proposals for the NECA Corporate budget and the Accountable Body budget for the provision of this role for the North East Joint Transport Committee (JTC). The draft proposals have been revised for new information since the last report and this report now presents the proposals which will be subject to consultation in line with the NECA constitution.

2. Proposals

2022/23 Forecast of Outturn

2.1 The NECA budget for corporate costs is required to support operational costs including staff employed by NECA, Service Level Agreements (SLAs), independent members allowances and expenses, and supplies and services costs. The report to the Leadership Board on 1 February 2022 set a net NECA Corporate budget for 2022/23 of £212,390 which provided for NECA corporate capacity and to fulfil the JTC Accountable Body role. This is funded from contributions from NECA constituent authorities totalling £100,000 (£25,000 per authority), contributions from JTC constituent authorities totalling £70,000 (£10,000 per authority) and interest income on short term investments. The budget was revised in July to account for expenditure in relation to the North East Screen Industries Partnership (NESIP) region-wide development programme. Income for this expenditure is recovered from the four constituent local authorities so the impact on NECA's net budget is nil.

2.2 Interest rates have increased significantly during the year from historically low levels of 0.1% to the current Bank of England base rate of 3%. This has had a positive impact on the level of interest the authority has been able to achieve on its investments, part of which contributes to the budgets in this report.

2.3 Accordingly, the forecast for investment income receivable in 2022/23 is forecast to be in excess of the budget set for the year in February 2022. This offsets increased costs in relation to Service Level Agreements (SLAs) and supplies and services.

2.4 Staffing costs have been updated to reflect changes to the rates of National Insurance from November 2022 following the mini-budget in September 2022.

2.5 The forecast has been updated on the most recent information and is set out in the table below.

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	NECA Corporate		JTC Accountable Body	
	2022/23 Original Budget	**2022/23 Forecast**	**2022/23 Original Budget**	**2022/23 Forecast**
Employees	54,510	51,030	13,340	13,589
Service Level Agreements	54,060	69,770	76,330	77,670
Independent Members Allowances and expenses	6,500	6,100	0	0
Supplies and Services	7,560	10,674	0	0
NESIP	0	633,924	0	0
Total Expenditure	**122,630**	**771,498**	**89,670**	**91,259**
NECA Corporate Contributions	(100,000)	(100,000)	0	0
JTC Accountable Body Contributions	0	0	(70,000)	(70,000)
Interest Income	(20,000)	(35,000)	(19,000)	(21,000)
NESIP	0	(633,924)	0	0
Total Income	**(120,000)**	**(768,924)**	**(89,000)**	**(91,000)**
Net deficit to fund from reserves	**2,630**	**2,574**	**670**	**259**

Budget Proposals 2023/24 and Estimates for 2024/25 and 2025/26

2.6 Appendix 1 sets out the proposed budget for 2023/24, along with Medium Term Financial Strategy estimates for 2024/25 and 2025/26. The constituent authorities contributions to the NECA Corporate Budget and to the NECA budget for fulfilment of the JTC Accountable Body role are included at the current levels of £25,000 and £10,000 respectively for 2023/24, however these will need to be subject to review for 2024/25 onwards and is dependent upon investment income being maintained at the rates achieved in 2022/23 and balances held being at a sufficient level.

2.7 The proposals set out for consultation are largely in line with draft proposals reported to the Leadership Board in October but have been updated for the latest available information. Since the last report, the mini budget confirmed that the 1.25% increase in National Insurance payable by employees and employers would be reversed with effect from November 2022.

2.8 In October, a press release from Public Sector Audit Appointments (PSAA) announced the outcome of its procurement of audit services for the next appointing period spanning the audits from 2023/24 to 2027/28. Contracts have now been awarded for 99.5% of the audit work which was bid for. However, the bid prices received by PSAA reflected a significant increase compared to the previous procurement in 2017, as a result of major challenges in the local audit sector in the intervening period. Therefore PSAA have advised bodies to anticipate a major re-set of total fees for 2023/24, involving and increase in the order of 150% on the total fees for 2022/23. The actual total fees will depend on the amount of work required. NECA and JTC budgets have been updated to anticipate an increase in audit fees of approximately £30k from 2023/24 onwards. PSAA have raised with the Department for Levelling Up, Housing and Communities (DLUHC) their concern that this likely increase in audit fees will pose a significant challenge to local bodies already facing a range of financial pressures.

Reserves

2.9 The NECA Corporate Reserve was £0.419m at 1 April 2022. After funding the small deficit forecast for 2022/23, this reserve is forecast to be £0.416m at 31 March 2023. Based on current budgets, this is considered a prudent level of reserves to hold to mitigate against unforeseen costs which may arise specifically in relation to this area of the budget.

2.10 Separate reserves are held for Transport activity (including Nexus and the Tyne Tunnels), and decisions on these reserves will be taken by the JTC as part of its own budget considerations.

3. Reasons for the Proposals

3.1 This report sets out budget proposals for 2023/24 for the NECA Corporate budget, including fulfilment of its Accountable Body role for the JTC.

3.2 The report identifies that NECA Corporate contributions will be maintained at £25,000 per authority and contributions to the JTC Accountable Body role will be maintained at £10,000 per authority in 2023/24 and will be reviewed for 2024/25.

4. Alternative Options Available

4.1 The Leadership Board is recommended to agree to the proposals set out being taken forward for consultation and, taking into account comments raised as part of the consultation, presented to the Leadership Board for agreement in January 2023.

Alternatively, the Leadership Board may put forward alternative proposals to be consulted upon.

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 proposals will be subject to consultation with the Leadership Board, Overview and Scrutiny Committee and officer groups. The results of the consultation will be taken into account in the preparation of the final budget proposals presented to the Leadership Board for agreement at its meeting in January 2023.

6. Potential Impact on Objectives

6.1 The budget and medium-term financial strategy 2023/24 to 2025/26 has been and will continue to be prepared to reflect the objectives of the Authority and feedback from constituent authorities. Future reports will set out the revenue and capital budget proposals in detail for agreement that will help deliver the objectives of the Authority.

7. Financial and Other Resources Implications

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

8. Legal Implications

8.1 The budget must be approved unanimously in accordance with the requirements of the NECA Order and the NECA Constitution.

9. Key Risks

9.1 Appropriate risk management arrangements are put in place in each budget area by the delivery agencies responsible. Reserves are maintained to help manage financial risk to the authority.

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 Appendix 1 – NECA Corporate and JTC Accountable Body Budget estimates 2023/24-2025/26

North East Combined Authority
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Leadership Board

15. Background Papers

15.1 NECA Constitution

16. Contact Officers

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

17. Sign Off

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

Leadership Board

Appendix 1 – NECA Corporate and JTC Accountable Body Budget Proposals 2023/24-2025/26

	2023/24 Proposed Budget			2024/25 Draft Budget			2025/26 Draft Budget		
	NECA Corporate	JTC Accountable Body	Total	NECA Corporate	JTC Accountable Body	Total	NECA Corporate	JTC Accountable Body	Total
Expenditure									
Employees	54,550	15,220	**69,770**	56,730	15,830	**72,560**	59,000	16,460	**75.460**
Service Level Agreements	55,400	77,670	**133,070**	57,060	80,000	**137,060**	58,770	82,400	**141,170**
Independent Members Allowances	6,500	0	**6,500**	6,500	0	**6,500**	6,500	0	**6,500**
Supplies and Services									
NESIP	642,610	0	**642,610**	821,430	0	**821,430**	820,390	0	**820,390**
Total Expenditure	**781,020**	**92,890**	**873,910**	**964,120**	**95,830**	**1,059,950**	**967,510**	**98,860**	**1,066,370**
Income									
NECA Corporate Contributions	(100,000)	0	**(100,000)**	(100,000)	0	**(100,000)**	(100,000)	0	**(100,000)**
JTC Accountable Body Contributions	0	(70,000)	**(70,000)**	0	(70,000)	**(70,000)**	0	(70,000)	**(70,000)**
NESIP	(642,610)	0	**(642,610)**	(821,430)	0	**(821,430)**	(820,390)	0	**(820,390)**
Interest Income	(38,410)	(22,890)	**(61,300)**	(42,690)	(25,830)	**(68,520)**	(47,120)	(28,860)	**(75,980)**
Total Income	**(777,610)**	**(90,000)**	**(867,610)**	**(961,430)**	**(95,000)**	**(1,056,430)**	**(960,390)**	**(98,000)**	**(1,058,390)**
Net (to)/from Corporate Reserve	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**

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Item 12

Leadership Board

Date: **29 November 2022**

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

Report of: **Chief Finance Officer**

Executive Summary

The purpose of this report is to present the (updated) 2021/22 Statement of Accounts to the Leadership Board. The draft Statement of Accounts for 2021/22 were published on 30 June 2022 and have been subject to review by the External Auditor from late August 2022.

The vast majority of the audit work is now complete and Mazars anticipate issuing an unqualified and unmodified audit opinion. However, due to two issues outside the control of the authority or its external auditors, the external auditors are not yet able to complete the audit and will not be able to do so in advance of 30 November.

The issues outstanding are the completion of the audit of the Tyne and Wear Pension Fund and, more significantly, the national issue in relation to accounting for infrastructure assets which is holding up the sign off of accounts for both 2020/21 and 2021/22 for local authorities who have material infrastructure assets.

Following resolution of these issues, the external auditors will bring their Audit Completion Report to a meeting of the Leadership Board early in 2023 and we will seek approval for the Chief Finance Officer to sign off the final accounts at the same time.

The accounts presented here at Appendix 2 have been updated from the draft statements that were published on 30 June 2022 for some minor 'misstatement' identified during the audit which are described in the report at section 2.3. The report also includes explanations and key figures from the main financial statements to aid understanding. The accounts are not expected to change significantly but we await final clarification about any amendments which may be required as a result of the proposed statutory override on the treatment of infrastructure assets. The Statement of Accounts is presented here to give the Leadership Board an opportunity to consider the financial statements and raise any questions of officers in advance of asking for members' final approval for sign off at a subsequent meeting.

The accounts and the external auditors' findings were considered by the NECA Audit and Standards Committee on 22 November, 2022 and the committee had no issues they wished to bring to the attention of the Leadership Board.

The draft Audit Completion report highlights that declaration of interest were not completed by all members for all committees, despite several reminders being issued requesting members to complete and return them to the Monitoring Officer.

North East Combined Authority

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Leadership Board

Recommendations

The Leadership Board is recommended to:

i. Receive this report for consideration;

ii. Note that the Audit Completion Report from Mazars will be presented to a subsequent meeting of the Leadership Board and approval to sign off the accounts will be sought at that meeting.

iii. Note that the Audit Completion Report will highlight that there were a number of Declarations of Interest that were not returned by members nominated to various NECA and JTC committees.

Leadership Board

1. Background Information

1.1 The Accounts and Audit Regulations 2015 require that the Authority's Statement of Accounts should be approved by a committee. In NECA's governance framework, this is the Leadership Board.

1.2 The Accounts and Audit (Amendment) Regulations 2021 extended the statutory deadlines for the publication date for final, audited accounts from 31 July to 30 September. The Accounts and Audit (Amendment) Regulations 2022 further extended this deadline from 30 September to 30 November for 2021/22.

1.3 The annual audit of NECA's Statement of Accounts has now been substantially completed for 2021/22 and the external auditor, Mazars, anticipate issuing an unqualified and unmodified opinion subject to the completion of outstanding work, and the resolution of a national issue relating to accounting for infrastructure assets.

1.4 The draft Audit Completion Report highlights that declaration of interest were not completed by all members for all committees, despite several reminders being issued requesting members to complete and return them to the Monitoring Officer.

2. Proposals

2.1 The Statement of Accounts for the financial year 2021/22 has been prepared in accordance with the Accounts and Audit Regulations 2003, as amended by the Accounts and Audit (Amendment) (England) Regulations 2006 and 2009, the Accounts and Audit (England) Regulations 2015, the Accounts and Audit (Amendment) Regulations 2021 and 2022 and the Code of Practice on Local Authority Accounting 2021/22 (the Code) as published by the Chartered Institute of Public Finance and Accountancy (CIPFA).

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

2.3 During the audit review of the draft statement of accounts, a small number of 'misstatements' were identified which have since been amended. These are listed in Section 6 of the Audit Completion Report and are as follows:

i) Reclassification within the Comprehensive Income and Expenditure Statement (CIES) of Active Travel Fund grants from 'Covid-19 grants' to 'Transport – Other';

ii) Reclassification within the CIES of Bus Service Support Grants and Additional Dedicated home to School and College Transport Grants from 'Transport – Other' to 'Covid-19 grants';
iii) Note 2 Expenditure and Funding Analysis has been updated to ensure consistency with the CIES;
iv) Note 22 Unusable Reserves – the 2021/22 figure for debt redeemed using capital receipts should have been £807k but was originally shown as nil.
v) Annual Governance Statement – reference should have been to the Auditor's Annual report note the Annual Audit Letter;
vi) Narrative Statement – figures for gross cost of services during the year and unusable reserves updated to match the statement of accounts.

Key information from the Statement of Accounts (Appendix 2)

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

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

2.5 NECA also produces Group Accounts which consolidate the financial accounts of Nexus (page 76 onwards).

Movement in Reserves Statement

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

2.7 There has been a significant increase in total reserves held from £99.316m at 31 March 2021 to £139.182m 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 and which are held in the Capital Grants Unapplied at the year end. This will be drawn on in 2022/23 as these projects are delivered and funding paid out to cover expenditure defrayed.

2.8 Usable reserves totalled £80.865m 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. The corresponding balances held on these reserves at 1 April 2021 was £11.452m of earmarked reserves and £23.686m of capital grants unapplied.

2.9 Unusable reserves totalled £58.317m at 31 March 2022, which includes reserves absorbing timing differences arising from the different arrangements for accounting for and financing non-current assets, financial instruments and pension liabilities in accordance with statutory provisions, and for containing gains made by the Authority arising from increases in the value of Property, Plant and Equipment. Unusable reserves totalled £56.284m at 1 April 2021.

Comprehensive Income and Expenditure Statement (CIES)

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

2.11 The gross cost of services during the year, including capital grants paid to third parties as well as revenue expenditure incurred in year, was £80.578m (£79.781m in 2020/21). This includes a significant amount of 'Revenue Expenditure Funded by Capital Under Statute' (REFCUS) – representing investment in capital assets owned by third parties, not by the Authority itself.

2.12 After deducting specific grants and income from fees and charges, the net cost of services was £7.016m last year (£30.325m in 2020/21). The net cost was lower in 2021/22 mainly due to significant capital grants received in year which have been released to the CIES as conditions are met through commitment to fund the Transforming Cities Fund programme, but where the grants have not yet been used to fund the expenditure. (These grants are held at the year-end in the Capital Grants Unapplied Reserve.) Net expenditure was funded from a range of sources including the Transport Levy, other contributions from Constituent Authorities and Government Grants.

Balance Sheet

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

2.14 Net assets in the NECA accounts increased from £99.316m at 31 March 2021 to £139.179m at 31 March 2022 which, as described above, is due to the volume of capital grants received during the year which are held to fund capital expenditure committed for future years.

Cash Flow Statement

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

2.16 Cash and cash equivalents increased slightly from £38.182m at 31 March 2021 to £40.013m at 31 March 2022. The majority of the funds received as capital grants during the year but not yet defrayed and held to fund activity in future years were placed as fixed term investments and shown in the 'Short Term Investments' line on the Balance Sheet.

Notes to the Core Financial Statements

2.17 The notes are important in the presentation of a true and fair view of the financial performance and position of NECA to 31 March 2022. They aim to assist understanding by presenting information about the basis of preparation of the core financial statements, by disclosing information required by the Code that is not presented elsewhere and by providing information that is not provided elsewhere but is relevant to the understanding of the accounts. They also include the Accounting Policies adopted in preparing the accounts.

Group Accounts

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

Other Documents

2.19 Published alongside the final Statement of Accounts will be two further documents which do not form part of the audited accounts but provide further context. The Narrative Report aims to offer interested parties a more understandable guide to the most significant matters reported in the accounts. The Annual Governance Statement gives assurance that appropriate mechanisms are in place for the maintenance of good governance across the activities of the Authority. The Annual Governance Statement has been updated to reflect the findings of the external audit including internal control recommendations.

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 the external auditor.

4. Alternative Options Available

4.1 This report is presented to the Leadership Board for information.

5. Next Steps and Timetable for Implementation

5.1 Once the outstanding issues have been resolved, the Audit Completion Report by the External Auditor will be presented to the Leadership Board and approval of the Statement of Accounts will be sought. This is anticipated to be early in the 2023 calendar year. The final 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 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 Compliance with the Accounts and Audit Regulations 2015 and the CIPFA Code of Practice on Local Authority Accounting 2021/22 which is based upon approved accounting standards in England and Wales and constitutes proper accounting practice under the terms of section 21(2) of the Local Government Act 2003.

9. Key Risks

9.1 There are no risks arising from this report.

10. Equality and Diversity

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

11. Crime and Disorder

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

12. Consultation/Engagement

12.1 The Statement of Accounts was subject to a period of public inspection from 1 July to 11 August 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.

14. Appendices

14.1 Appendix 1 – Narrative Report 2021/22

Appendix 2 – Statement of Accounts 2021/22

15. Background Papers

15.1 None.

16. Contact Officers

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

17. Sign Off

17.1

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

Narrative Report for the Year ended 31 March 2022

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 £11.910m at 31 March 2022, compared with £9.030m at 31 March 2021. The increase in year is due to market conditions at 31 March 2022 and the impact on asset values. For accounting purposes this surplus is restricted to nil on the NECA balance sheet. NECA gets a benefit from the surplus in the form of savings on employers' pension contributions for current employees, which has enabled significant savings on the revenue budget.

Unfunded or discretionary benefits (such as early retirement awards) sit outside the Authority's funded part of the scheme and are therefore not backed by assets and must be paid as incurred on a monthly basis. These costs relate to former Tyne Tunnels employees and are paid from the Tyne Tunnels revenue account, at a cost of approximately £50,000 in 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 £139.179m 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.

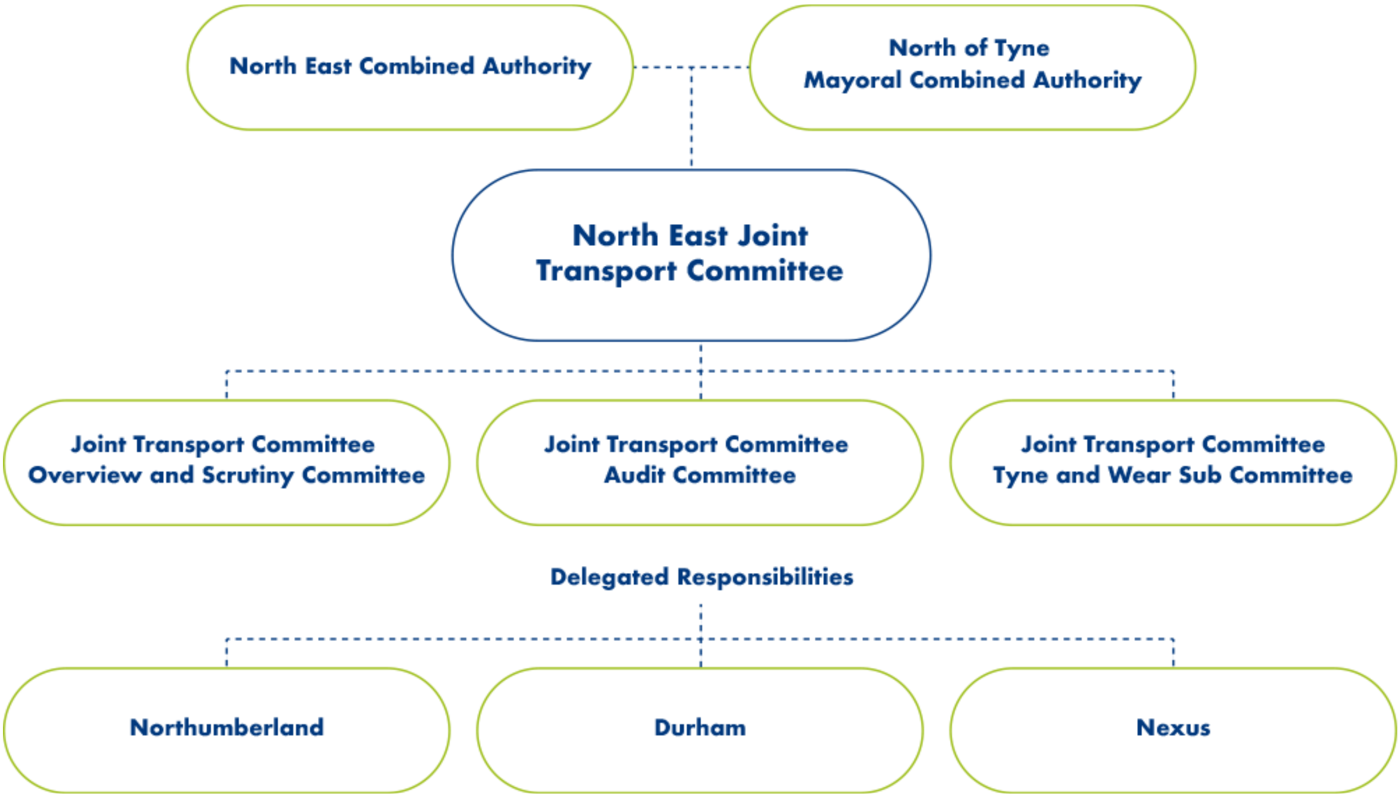
The Nexus accounts are apportioned between NTCA and NECA accounts (after elimination of intra-Group transactions), with the balance sheet information at 31 March 2022 allocated between the two Combined Authorities in proportion to their relative share of Tyne and Wear Population as set out in table 4. 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 73 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

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)**	**(56,284)**	**(99,316)**
Total Comprehensive Income and Expenditure		(39,383)	-	-	-	(39,383)	(480)	(39,863)
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)**	**(2,033)**	**(39,863)**
Transfers (To)/From Earmarked Reserves	21	(148)	148	-	-	**-**	-	-
(Increase)/Decrease in 2021/22		(678)	148	-	(37,300)	(37,830)	(2,033)	(39,863)
Balance at 31 March 2022 carried forward		**(8,571)**	**(11,306)**	**-**	**(60,987)**	**(80,865)**	**(58,317)**	**(139,182)**

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			(480)
		360	**Other Comprehensive Income and Expenditure**				**(480)**
		(16,312)	**Total Comprehensive Income and Expenditure**				**(39,864)**

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	188,013
18,715	Long Term Debtors	15	17,870
209,363	**Long Term Assets**		**205,883**
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	(670)
(140,330)	**Long Term Liabilities**		**(136,445)**
99,316	**Net Assets**		**139,179**
(43,032)	Usable Reserves	20	(80,862)
(56,284)	Unusable Reserves	22	(58,317)
(99,316)	**Total Reserves**		**(139,179)**

Chief Finance Officer Certificate

I certify that the accounts set out on pages 5 to 74 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

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

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**	**(15,971)**	**(350)**	**-**	**30,325**
Other Income and Expenditure	**(46,050)**	(741)	20	(225)	**(46,997)**
(Surplus)/Deficit on Provision of Services	**595**	**(16,712)**	**(330)**	**(225)**	**(16,672)**
Opening General Fund Balances	(33,607)				
Transfer to NTCA 1 April 2020	13,664				
Closing General Fund Balances	**(19,348)**				

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

	2021/22				
	Vehicles, Plant, Furniture & Equipment	Infrastructure Assets	Assets Under Construction	Total Property, Plant & Equipment	Service Concession Assets included in Property, Plant and Equipment
	£000	£000	£000	£000	£000
Cost or Valuation					
At 1 April 2021	2,881	219,001	561	**222,443**	219,001
Additions	-	260	177	**437**	260
Reclassification from Assets Under Construction	76	-	(76)	**-**	-
Impairment recognised in the Surplus on the Provision of Services	-	-	-	**-**	-
Other Adjustments	-	(688)	-	**(688)**	-
At 31 March 2022	**2,957**	**218,573**	**662**	**222,192**	**219,261**

Accumulated Depreciation and Impairment					
At 1 April 2021	(914)	(30,879)	-	**(31,793)**	(30,879)
Depreciation charge for the Year	(167)	(2,218)	-	**(2,385)**	(2,218)
At 31 March 2022	**(1,081)**	**(33,097)**	**-**	**(34,178)**	**(33,097)**

Net Book Value					
At 1 April 2021	**1,967**	**188,122**	**561**	**190,650**	**188,122**
At 31 March 2022	**1,876**	**185,476**	**662**	**188,014**	**186,164**

	2020/21				
	Vehicles, Plant, Furniture & Equipment	Infrastructure Assets	Assets Under Construction	Total Property, Plant & Equipment	Service Concession Assets included in Property, Plant and Equipment
	£000	£000	£000	£000	£000
Cost or Valuation					
At 1 April 2020	2,204	219,358	1,049	**222,611**	219,358
Additions	-	528	189	**717**	528
Reclassification from Assets Under Construction	677	-	(677)	**-**	-
Impairment recognised in the Surplus on the Provision of Services	-	(20)	-	**(20)**	(20)
Other Adjustments	-	(865)	-	**(865)**	(865)
At 31 March 2021	**2,881**	**219,001**	**561**	**222,443**	**219,001**
Accumulated Depreciation and Impairment					
At 1 April 2020	(754)	(28,657)	-	**(29,411)**	(28,657)
Depreciation charge for the Year	(160)	(2,222)	-	**(2,382)**	(2,222)
At 31 March 2021	**(914)**	**(30,879)**	**-**	**(31,793)**	**(30,879)**
Net Book Value					
At 1 April 2020	**1,450**	**190,701**	**1,049**	**193,200**	**190,701**
At 31 March 2021	**1,967**	**188,122**	**561**	**190,650**	**188,122**

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)**
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	27,617	34,535
n/a - investments with banks		38,679
n/a - investments with unrated building societies [1]	-	16,577
Total Short-Term Investments	**27,617**	**89,791**
AAA	14,254	
A-1	-	15,196
Total Cash Equivalents	**14,254**	**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)	**(93,568)**
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	17,870
Total	**18,715**	**17,870**

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)	(940)	-	-
Actuarial (gains)/losses due to changes in financial assumptions	4,310	(1,990)	70	(20)
Actuarial (gains)/losses due to changes in demographic assumptions	-	(460)	-	(10)
Actuarial (gains)/losses due to changes in liability assumptions	320	200	(10)	(140)
Adjustment in respect of paragraph 64	6,210	-	-	-
Income	**270**	**(3,190)**	**60**	**(170)**
Total amount recognised	**(30)**	**(2,880)**	**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

	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)	-	-
assumptions	(4,310)	1,990	(70)	20
assumptions	-	460	-	10
Actuarial gains/(losses) on liabilities - experience	(320)	(200)	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)**	**(45,610)**	**(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	940	-	-
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**	**57,520**	**-**	**-**

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 £000	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000
Fair value of LGPS assets	**45,980**	**48,300**	**45,570**	**55,930**	**57,520**
Present value of liabilities:					
- LGPS liabilities	(38,950)	(39,520)	(42,750)	(46,900)	(45,610)
- Impact of minimum funding	(7,030)	(8,780)	(2,820)	(9,030)	(11,910)
Deficit on funded defined benefit scheme	**-**	**-**	**-**	**-**	**-**
Discretionary benefits	(960)	(900)	(840)	(870)	(670)
Total (Deficit)	**(960)**	**(900)**	**(840)**	**(870)**	**(670)**

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 £46.280m has an impact on the net worth of the Authority recorded on the balance sheet, resulting in a negative pension balance of £0.670m. 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 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	21.8	21.9	21.8
- Women	25.1	25.0	25.1	25.0
Longevity at 65 for future pensioners:				
- Men	23.6	23.5	n/a	n/a
- Women	26.9	26.7	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	940
Actual Return on Assets	**11,520**	**2,110**

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)	45.02	45.61	46.25
% 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)	45.61	45.61	45.61
% 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	46.20	45.61	45.02
% 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)	47.21	45.61	44.06
% 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	670
Total	**(56,284)**	**(58,315)**

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**	**170**

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	(480)
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**	**670**

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	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 £45.02m, a variance of £0.59m, whereas a decrease of (0.1%) p.a. results in an increase to £46.25m, a variance of £0.64m. 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 £0.59m to £46.2m, whereas a decrease of (0.1%) p.a. results in a decrease to £45.02m, a variance of £0.59m. The percentage change in the present value of the total obligation would be 1.3% and
		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 £47.21m, an increase of £1.6m, whereas an adjustment of +1 year results in a reduction to £44.06m, a variance of £1.55m. The percentage change in the present value of the total obligation would be 2.5% 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 net pensions liability includes a share of the overall Pension Fund investment assets. The Pension Fund has disclosed an uncertainty, due to Covid-19, in respect of mortality rates and the impact of longevity for the Fund's members which could be positive or negative.

Note 30: Accounting Policies

1. General Principles

The Statement of Accounts summarises the Authority's transactions for 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:

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

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

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

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

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

• Remeasurements comprising:

o The return on plan assets, excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.

o Actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.

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

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

Further details are provided in Note 19 to the accounts.

9. Events after the Balance Sheet Date

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

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

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

10. Fair Value Measurement

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

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

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

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

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

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

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the Authority can access at the measurement date;

- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly;
- Level 3 – unobservable inputs for the asset or liability.

11. Financial Instruments

Financial Liabilities

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

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

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

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

Financial Assets

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

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

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

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

Amortised Cost

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

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

Interest is credited to the Financing and Investment Income and Expenditure line in the CIES at a marginally higher effective rate of interest than the rate receivable from the organisations, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year – the reconciliation of amounts debited and credited to the CIES to net gain required against the General Fund Balance is managed by a transfer to or form the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

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

Expected Credit Loss Model

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

Fair Value Through Other Comprehensive Income (FVOCI)

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

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

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

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

Fair Value through Profit and Loss (FVPL)

Financial assets that are measured at FVPL are recognised on the Balance Sheet when the authority becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Fair value gains and losses are recognised as they arrive in the Surplus or Deficit on the Provision of Services. The fair value measurements of the financial assets are based on the following techniques:

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

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

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

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

12. Government Grants & Contributions

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

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

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

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

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

13. Property, Plant & Equipment

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

Recognition

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

Measurement

Assets are initially measured at cost, comprising:

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

The Authority does not capitalise borrowing costs incurred whilst assets are under

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

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

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

- Infrastructure assets - depreciated historical cost.
- Assets Under Construction - cost
- All other assets – current value, determined as the amount that would be paid for the asset in its existing use (existing use value - EUV).

The following useful economic lives are used for NECA's PPE assets: Tyne Tunnels 120 years, Tunnels Vehicles, Plant and Equipment 30 years.

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

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

Assets included in the Balance Sheet at current value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum every five years. 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. In the most recent valuations of the Tyne Tunnels it was assessed that, although Mechanical and Electrical Services and the Toll Plazas have an economic life of 20 years, these formed less than 20% of the overall valuation and have not therefore been classed as significant components.

Disposals

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

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

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

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

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

14. Public Private Partnership (PPP) Contracts

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

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

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

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

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

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

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

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

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

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

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

15. Provisions

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

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

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

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

16. Contingent Liabilities

A contingent liability arises where an event has taken place that gives the Authority a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Authority.

Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts. There are no contingent liabilities disclosed in 2021/22.

17. Reserves

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

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

18. Revenue Expenditure Funded from Capital under Statute

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

19. VAT

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

20. Overheads

The costs of central support services e.g. Finance and Legal Services have been allocated to NECA on the basis of Service Level Agreements in accordance with guidance given by the Chartered Institute of Public Finance and Accountancy (CIPFA). A percentage is allocated to the different areas of NECA activity (e.g. Transport, Economic Development, Corporate) in accordance with estimated work done on each area.

21. Tyne Tunnels Income

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

22. Group Accounts

NECA is required by the Code of Practice on Local Authority Accounting in the United Kingdom 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.

23. Joint Transport Committee

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

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

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

The Order establishing the NTCA also required the seven local authorities to establish the Joint Transport Committee (JTC). Under the CIPFA Code, the JTC meets the definition of a 'joint operation', which determines its accounting treatment. Where a Joint Committee is accounted for as a Joint Arrangement each Joint Operator (in this case NECA and NTCA) must account for their own share of the assets, liabilities, revenues and expenses held or incurred jointly in their own single entity financial statements.

In order to comply with the CIPFA Code, NECA must:

- Split the revenues between that which relates to NECA and NTCA. In this case the constitution of the JTC and its funding arrangements suggests that, in the first instance, the revenues should be divisible into that which relates to Northumberland (allocated wholly to NTCA), that which relates to Durham (allocated wholly to NECA) and that which relate to Tyne and Wear (requires further division into NECA and NTCA).

- The revenues which relate to Tyne and Wear must then be divided into that which relates wholly to Newcastle and/or North Tyneside (allocated to NTCA), that which relates wholly to Gateshead, South Tyneside and/or Sunderland (allocated to NECA) and that which relates to activities not wholly attributable under the preceding two points which requires apportionment.

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

Note 31: Events After the Balance Sheet Date

Adjusting events after the Balance Sheet date

Where events take place after 31 March which provide information about conditions existing at 31 March, the financial statements and notes are adjusted to reflect the impact of this information. No such events have taken place.

Non-adjusting Events after the Balance Sheet date

Where events take place after 31 March which do not relate to conditions at 31 March but which provide information that is relevant to an understanding of the Authority's financial position, the financial statements and notes are not adjusted but the relevant information is disclosed.

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)	(480)	**(39,863)**	(51,190)	(91,053)
Adjustments between accounting basis & funding basis under regulations	G14	1,553	(1,553)	**-**	-	-
(Increase)/Decrease in 2021/22		**(37,830)**	**(2,033)**	**(39,863)**	**(51,190)**	**(91,053)**
Balance at 31 March 2022 carried forward		**(80,863)**	**(58,316)**	**(139,179)**	**(321,957)**	**(461,137)**

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)	(31,314)
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**		**151,238**	**(124,247)**	**26,991**
9,039	(4,195)	4,844	**Financing and Investment Income and Expenditure**	G03	9,650	(4,989)	**4,662**
-	(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**				**-**
		(27,522)	**Group Surplus**				**(66,117)**
		4,331	Re-measurement of the defined benefit liability	G12			(24,937)
		4,331	**Other Comprehensive Income and Expenditure**				**(24,937)**
		(23,192)	**Total Comprehensive Income and Expenditure**				**(91,053)**

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	-
1	Long Term Investments	G8	1
495,860	**Long Term Assets**		**524,939**
34,383	Short Term Investments	G8	89,792
14,806	Short Term Debtors	G9	12,784
52,493	Cash and Cash Equivalents	G10	47,913
504	Inventories		503
102,185	**Current Assets**		**150,993**
(1,274)	Short Term Borrowing	G8	(1,266)
(26,065)	Short Term Creditors	G11	(35,566)
(3,356)	Grants Receipts in Advance	G5	(1,220)
(2,824)	New Tyne Crossing Deferred Income		(2,814)
(33,519)	**Current Liabilities**		**(40,866)**
(45,184)	New Tyne Crossing Deferred Income		(42,207)
(94,276)	Long Term Borrowing	G8	(93,568)
(50,015)	Pension Liability	G12	(34,349)
(3,152)	Provisions		(1,998)
(1,816)	Deferred Taxation	G13	(1,809)
(194,443)	**Long Term Liabilities**		**(173,930)**
370,083	**Net Assets**		**461,136**
(71,372)	Usable Reserves	G14	(112,332)
(298,711)	Unusable Reserves	G15	(348,804)
(370,083)	**Total Reserves**		**(461,136)**

Chief Finance Officer Certificate

I certify that the accounts set out on pages 76 to 106 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	66,117
47,919	Adjustments to net surplus or deficit on the provision of services for non-cash movements	G16	54,713
(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	**23,286**
43,089	Investing Activities	G17	(24,389)
(3,383)	Financing Activities	G18	(3,476)
55,946	**Net (Decrease)/Increase in cash and cash equivalents**		**(4,580)**
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	**47,913**

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	30,412	16,434	8,490	-	55,336
Transport - Other	6,283	(36,700)	-	-	(30,417)
Transport - Tyne Tunnels	(2,487)	(1,773)	(50)	-	(4,310)
Covid-19 Grants	(10,192)	-	-	-	(10,192)
Cost of services	**40,377**	**(22,326)**	**8,940**	**-**	**26,991**
Other Income and Expenditure	(43,347)	(34,807)	-	86	**(93,107)**
(Surplus)/Deficit on Provision of Services	**(2,970)**	**(57,133)**	**8,940**	**86**	**(66,116)**
Opening General Fund Balances	(47,685)				
Closing General Fund Balances	**(50,655)**				

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	-	55,098
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**	**-**	**49,423**
Other Income and Expenditure	(41,899)	(34,807)	-	86	**(76,621)**
(Surplus)/Deficit on Provision of Services	**(6,931)**	**(34,426)**	**14,060**	**86**	**(27,198)**
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	23,208
Other service expenses	90,931	92,901
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	9,820
Total expenditure	**151,970**	**160,905**
Income		
Fees, charges and other service income	(24,500)	(38,369)
Interest and investment income	(4,195)	(5,159)
Income from transport levy	(49,349)	(48,567)
Government grants and contributions	(97,361)	(130,536)
Other income	(3,776)	(4,391)
Total income	**(179,181)**	**(227,022)**
Surplus on the provision of services	**(27,211)**	**(66,116)**

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	1,006
Interest Receivable and similar income		(394)	(501)
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)	-
Active Travel Fund		-	-
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)**	**(69,469)**

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	656,385	34,748	2,209	712,960	219,001
Additions	-	260	50,156	-	50,416	260
Transfers from Assets Under Construction	76	11,522	(11,598)	-	-	-
Transfers to Intangibles	-	-	(32)	-	(32)	-
Derecognition - Disposals	(22)	(1,106)	(24)	(148)	(1,299)	-
Revaluation Recognised in Revaluation Reserve	-	-	-	-	-	-
Impairment recognised in the Surplus/Deficit on the Provision of Services	-	-	-	-	-	-
Other Adjustments	-	(1,776)	-	-	(1,776)	-
At 31 March 2022	**19,672**	**665,285**	**73,250**	**2,061**	**760,269**	**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	673	-
At 31 March 2022	**(14,881)**	**(223,531)**	**-**	**(181)**	**(238,593)**	**(33,097)**

Net Book Value						
At 1 April 2021	**5,360**	**450,876**	**34,748**	**1,901**	**492,885**	**188,122**
At 31 March 2022	**4,791**	**441,754**	**73,250**	**1,881**	**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	-	-	-	-	-	-	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	-	-	-	-	-	-	(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 2021 Carrying amount £000	31 March 2021 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	11,303
Other local authorities	6,221	1,282
NHS bodies	1	1
Other entities and individuals	2,431	1,932
Total	**14,806**	**14,517**

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)	(10,951)
Other local authorities	(4,392)	(5,494)
Other entities and individuals	(18,386)	(19,121)
Total	**(26,065)**	**(35,566)**

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 £34.349m (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)	(940)	-	(170)
Remeasurement of the net Defined Benefit Liability	48,568	(26,491)	127	(216)
Adjustment in respect of paragraph 58	6,210	2,880	-	-
Total amount recognised in Other Comprehensive Income and Expenditure	**4,174**	**(24,551)**	**127**	**(386)**
Total amount recognised in CIES	**13,072**	**(12,974)**	**180**	**(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)	21,677	(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)**	**(309,197)**	**(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	5,925	-	-
Employer contributions	2,118	1,962	68	227
Contributions by scheme participants	1,678	1,566	-	-
Net benefits paid out	(6,600)	(6,717)	(68)	(227)
Settlement costs	(880)	-	-	-
Net decrease in assets from Stadler transfer	(8,562)	-	-	-
Closing balance 31 March	**279,963**	**288,527**	**-**	**-**

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**	**288,527**
Present value of liabilities:					
- LGPS liabilities	(395,160)	(251,678)	(271,818)	(318,620)	(309,197)
- Impact of minimum funding	(7,030)	(8,780)	(2,820)	(9,030)	(11,910)
Deficit on funded defined benefit scheme	**(66,670)**	**(40,131)**	**(36,871)**	**(47,687)**	**(32,580)**
Discretionary benefits	(4,870)	(2,880)	(2,380)	(2,329)	(1,770)
Total (Deficit)	**(71,540)**	**(43,011)**	**(39,251)**	**(50,016)**	**(34,349)**

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 £310.967m has an impact on the net worth of the Authority recorded on the balance sheet, resulting in a negative pension balance of £34.349m. 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	
	2019/20	2020/21	2019/20	2020/21
Mortality assumptions:				
Longevity at 65 for current pensioners:				
Men	21.8	21.9	21.8	21.9
Women	25.0	25.1	25.0	25.1
Longevity at 65 for future pensioners:				
Men	23.5	23.6	n/a	n/a
Women	26.8	26.9	n/a	n/a
Rate for discounting scheme liabilities	2.3%	2.1%	2.3%	2.1%
Rate of inflation - Retail Price Index	n/a	n/a	n/a	n/a
Rate of inflation - Consumer Price Index	2.0%	2.7%	2.0%	2.7%
Rate of increase in pensions	2.0%	2.7%	2.0%	2.7%
Pension accounts revaluation rate	2.0%	2.7%	n/a	n/a
Rate of increase in salaries	3.5%	4.2%	n/a	n/a

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	6,731
Actual Return on Assets	**54,441**	**12,559**

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	**+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	(226)
Tax effect of losses	539	(57)
Total	**(1,815)**	**2,582**

Note G14: Usable Reserves

	31 March 2021 £000	31 March 2022 £000
General Fund Balance	(36,234)	(31,564)
Earmarked Reserves	(11,452)	(19,091)
Capital Receipts Reserve	-	(691)
Capital Grants Unapplied Reserve	(23,686)	(60,986)
Total	**(71,372)**	**(112,332)**

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	34,349
Total	**(298,710)**	**(348,805)**

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	**50,017**
Remeasurements of the net defined benefit liability to 31 March 2021	(24,937)
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	12,995
Employer's pension contributions and direct payments to pensioners to 31 March 2020	(3,725)
Balance at 31 March 2021	**34,349**

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 2020	**(377,614)**

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	66,117
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	43,681
Increase/(Decrease) in Debtors	170	(15,028)
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	**54,713**
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**	**23,286**

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 2020	**102,776**
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 2021	**101,142**
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.