NORTH OF TYNE COMBINED AUTHORITY

Overview and Scrutiny Committee

Tuesday 2 July 2019 at 10.00 am
Meeting to be held at the Mansion House, Fernwood Rd, Newcastle upon Tyne NE2

www.northoftyne-ca.gov.uk

AGENDA

Page No

1. **Appointment of Chair and Vice Chair for the Municipal Year 2019/2020**

   (NB: the Chair must be an "appropriate person" for the purposes of the Combined Authorities (Overview and Scrutiny Committees, Access to Information and Audit Committees) Order 2017 which means that the Chair shall not be from the same political party as the Mayor.)

2. **Apologies for Absence**

3. **Agreement of the Minutes of the Meeting held on 21 March 2019** — **1 - 6**

4. **Address from Jamie Driscoll, the Mayor of the North of Tyne Combined Authority**

5. **Committee Work Programme for 2019/20** — **7 - 12**

   Present:
   Elizabeth Kerr, Policy and Scrutiny Officer, North of Tyne Combined Authority

   Attached papers:
   Committee Work Programme for 2019/20

6. **Budget Monitoring Year End 2018/19** **13 - 94**

Present: Janice Gillespie, Interim Section 73 Officer

Attached papers:
Draft 2018/19 Outturn Statement and Draft 2018/19 Statement of Accounts

7. **Local Full Fibre Networks**

Members are requested to note the intention to circulate the above report on a supplemental agenda in accordance with the provisions of the Local Government (Access to Information) Act 1985

8. **Date and Time of Next Meeting**

8 October 2019, 10.00am at North Tyneside Council

Contact Officer:
Tel: (0191) 2116146
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NORTH OF TYNE COMBINED AUTHORITY

Draft Minutes for Approval
North of Tyne Combined Authority, Overview and Scrutiny Committee

21 March 2019

(2.00 - 3.10 pm)

Meeting held: Mansion House, Fernwood Road, Jesmond, Newcastle, NE2 1TJ

Minutes

Present:

Chair: Cllr G A Roughead

Councillors: A Lower, M Hall, S Graham, G Stewart, G Davey, M Williams and S Cox

14 **APOLOGIES FOR ABSENCE**

Apologies were received from Councillors Wright, Fairlie and G Bell.

15 **DECLARATIONS OF INTEREST**

None

16 **MINUTES OF PREVIOUS MEETING HELD ON 14 FEBRUARY 2019**

The minutes of the meeting held on 14 February 2019 were agreed as a correct record subject to the following amendment:

Minute 11 (page 4 refers). Amend the final sentence to read "The Chair commented that the presence of a Cabinet Member would have been welcomed and commended officers present for work completed so far".

17 **NORTH OF TYNE HOUSING AND LAND BOARD - PROGRESS UPDATE**

Submitted: Report of the Interim Director of Inclusive Growth (previously circulated and a copy attached to the Official Minutes).

Cllr Joyce McCarty attended the meeting on behalf of the Cabinet.

The Committee discussed the report which was intended to provide an update on progress with the North of Tyne (NTCA) Housing and Land Board. It provided background to the establishment of the Board, its terms of reference and membership as well as an overview of latest progress. The report also provided information on another advisory Board that is due to be established for the NTCA – the Inclusive Economy Board.

In response to queries raised by the committee the following information was noted.

Comments and queries from members included:

- In response to a query in respect of the quality of the public sector land which could be brought forward for housing use and the amount of land available for house building, A Senior outlined the position with regard to each local authority's allocation plan, including council asset-based plans and stock ownership. The three local authorities are now in the process of considering potential housing sites on a ward by ward basis.

- It was noted that Newcastle and North Tyneside have already published their local plans (housing needs survey); Northumberland will publish their next plan in 2021.

- A member asked if the Combined Authority could make use of compulsory purchase powers and convert empty buildings in shopping centres to affordable housing.

- A Senior provided advice in respect of decent housing standards and amenities required to address the needs of future residents. It was noted that shops could be difficult to change from retail purposes to dwellings only, particularly as in most cases there are still shops on either side of the properties.

- Confirmation was given that small rural areas in Northumberland have been identified to receive funding through the Transforming Cities Initiative.

Brief discussions took place in relation to the Terms of Reference for both the Housing and Land Board and the Inclusive Economy Board.

<u>Housing and Land Board</u>

- It was suggested that the Board was dominated by housing providers and therefore possibly lacked the community balance that would ensure provision for amenities such as schools and roads. A concern was also raised as to representation of rural areas.

<u>Inclusive Economy Board</u>

- It was noted from the report that 'the Board will be directly accountable to the Combined Authority's Cabinet and will operate in an advisory capacity, monitoring and reporting progress and making recommendations as appropriate'; set out in the Terms of Reference. It was suggested that the phrase implied more than an advisory capacity and that some decisions could be made in private.

- In response Committee were advised that the membership of the Board and the Terms of Reference will be set out in the Combined Authority's Constitution. Assurance was given that the Board is advisory and specialist advice will be sought to assist with issues such as supporting the development of services. The Interim Monitoring Officer clarified the position, confirming that the wording in the report was not meant to affect the role of overview and scrutiny and, decision making powers rest with Cabinet.

- The Chair commended everyone for the amount of work completed.

- A Member of the Committee reminded everyone that the Housing and Land Board does not have a budget allocation and that their role is an advisory one; the role of the Overview and Scrutiny Committee is to scrutinise the proposed policies.

RESOLVED – that the report be noted.

18 **REPORT TO CABINET ON INVESTMENT FUND UPDATE AND FUNDING APPROVALS**

Submitted: Copy of the Cabinet report of 12 March 2019 (previously circulated and a copy attached to the Official Minutes).

R Hamilton presented the report, previously considered by Cabinet which outlined applications for funding, details of proposed calls for bids for a programme of interventions designed to inspire more children and young people to engage with the STEM subjects and digital skills and outlined the next stage of the work programme around the investment fund.

Comments and queries from members included:

- A member commented that the report was very detailed and added that it would be useful to have sight of the work undertaken by the Local Enterprise Partnership (LEP).

- A question was asked in respect of the North of Tyne Rural Business Growth Investment Fund and whether Northumberland County Council will continue as the lead organisation. R Hamilton gave assurances that this had not changed.

- It was suggested that the name of the rail link between Ashington and Newcastle, now to be known as the Northumberland to Newcastle line, will not be recognised by residents.

- The Chair expressed his appreciation for the work undertaken and acknowledged the STEM and Digital Skills Programme. Referring to the Tour of Britain Cycling Event officers were asked if consideration could be given to including the northern border of Northumberland in the event.

RESOLVED - that the report be received.

19 **REPORT TO CABINET ON NORTH OF TYNE COMBINED AUTHORITY MAYORAL ELECTION**

Submitted: Copy of the Cabinet report of 12 March 2019
(previously circulated and a copy attached to the Official Minutes).

Members considered the report, previously considered by Cabinet, which outlined preparations for the North of Tyne Combined Authority Mayoral Election.

The report gave Committee the opportunity to look at the publicity to be used during the election period. The following aspects were highlighted:

1. Work with central government to develop an awareness campaign to be funded by government.

2. Ensuring a clear message to the public in respect of the role of the Elected Mayor.

3. Promoting voter registration. Each registered voter will receive a booklet containing a short address from each candidate.

4. Advertising methods.

Comments and queries from members included:

- In response to a query regarding the cost of the public awareness campaign and a breakdown of the costs, Committee were informed that it is to be funded by central government who do not communicate actual spend to NTCA officers.

- A Member referred to officers seconded to the NTCA whilst also undertaking roles in their respective authorities. Officers were requested to present a report to a future meeting; the report to provide information in relation to costs and officer time whilst seconded.

- A Member asked if each candidate will pay a fee to meet the costs of an election address to be included in the booklet sent to electors. In response Committee were informed that the cost of an address was not excessive. Officers will clarify and email a response back to Members.

The Interim Monitoring Officer outlined the arrangements for the count, with verification taking place on 2 May and the actual count taking place on 3 May.

RESOLVED that further information be provided on:

i) Breakdown of costs relating to the election campaign

ii) Officer secondment (costs and amount of time spent on NTCA duties).

iii) Candidate costs incurred for election address.

20 **DATE AND TIME OF THE NEXT MEETING**
To be confirmed

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NORTH OF TYNE COMBINED AUTHORITY

Overview and Scrutiny Committee

2 July 2019

Subject:	**Work Programme 2019/2020**
Report of:	**Elizabeth Kerr, Policy and Scrutiny Officer**

Report Summary

The purpose of this report is for the Overview and Scrutiny Committee to agree a work programme for the 2019/20 municipal year.

Recommendations

The Overview and Scrutiny Committee is recommended to agree the proposed work programme for the year ahead and make any recommendations considered appropriate.

1. Introduction

1.1. The role of the North of Tyne Combined Authority's (NTCA) Overview and Scrutiny Committee is to:

- Review or scrutinise decisions made, or other actions taken, by the Cabinet or the Mayor in connection with the discharge of any functions which are the Cabinet's or the Mayor's responsibility.
- Make reports or recommendations to the Cabinet or the Mayor (as appropriate) with respect to the discharge of their functions or on matters of strategic importance that affect the North of Tyne area or inhabitants.
- Review the performance of the Cabinet and Mayor against objectives within their strategies and policies.
- Facilitate the exchange of information about the work of the Cabinet and the Mayor and share information and outcomes from reviews.

1.2. The members of the

Overview and Scrutiny Committee can scrutinise and challenge the Cabinet and the Mayor and consider matters of strategic importance to residents within the North of Tyne area with a view to influencing the decisions of the Cabinet and the Mayor.

1.3. The Committee is responsible for determining its own work programme, having taken advice from relevant officers. When considering a work programme, it will:

- Determine whether an issue is more appropriately dealt with by one of the constituent councils or by some other organisation or in some other way and will not duplicate the work of existing bodies or agencies.

- Take into account the resources available to support that programme and avoid establishing priorities for which the costs exceed the likely benefits.

- Avoid initiating enquiries at a time, or in a manner which disrupts the effective and efficient operation of the Authority, or unnecessarily delays the conduct of its business.

1.4. Taking the above into account, the Committee is invited to consider and agree the proposed work programme for the year ahead.

2. Formulating the proposed work programme

2.1. Cabinet has responsibility to appoint the membership of the Overview and Scrutiny Committee and did so at its meeting on 4 June 2019.

2.2. A workshop with the newly appointed committee members was held on 12 June 2019 when the proposed work programme and the principles behind it were discussed.

2.3. In formulating the proposed work programme, reference was made to the principles set out in the statutory guidance on Overview and Scrutiny in Local and Combined Authorities (published in May 2019), the NTCA's Constitution and senior officers within the NTCA.

2.4. According to the new statutory guidance, effective overview and scrutiny should:

- Provide constructive 'critical friend' challenge.
- Amplify the voices and concerns of the public.
- Be led by independent people who take responsibility for their roles.
- Drive improvement in public services.

2.5. The guidance also promotes early and regular engagement between the executive and scrutiny.

2.6. Agreeing a work programme for the year at the first meeting is not intended to constrain the work of the committee, the work programme will be a flexible document which can be amended throughout the year to include any matters which arise. What it does do is give the members of the committee, Cabinet and the officers the opportunity to plan their work for the year taking into account the important role of scrutiny and also avoiding disrupting the effective and efficient operation of the Authority or causing unnecessarily delays to the conduct of its business.

3. Proposed work programme

3.1. Attached at appendix 1 is a proposed agenda for each of the meetings scheduled for the year. As stated above, agreeing these proposals now does not prevent items being moved to a more suitable meeting or additional items being added as the need arises during the year; it provides a framework for the work of the committee for the year ahead.

3.2. To facilitate early and regular engagement with the executive and scrutiny, the Mayor, Jamie Driscoll, has been invited to address the committee at the first meeting of the year. In addition, each Cabinet Member will be invited to a meeting to discuss their portfolio areas.

3.3. The items of business have been allocated to a meeting where it was either timely for policy development or a good opportunity to have a review of what had already been done, thereby meeting the pre-scrutiny and critical friend roles of overview and scrutiny.

3.4. The Overview and Scrutiny Committee has an important role in the budget setting process and is required by the Budget and Policy Framework to receive initial proposals and revised proposals from the Mayor and Cabinet. The initial budget proposals would be presented at the 8 October 2019 meeting and it is proposed that the scheduled January meeting be used as a Budget Workshop to allow members to access information which could not be discussed in a public domain and challenge the Mayor and Cabinet on their revised draft proposals, which are produced in response to the public consultation. The meeting where the final agreed budget proposals would be discussed would be at the meeting on 11 February 2020, a public committee meeting.

4. Work outside of formal committee meetings

4.1. The new Overview and Scrutiny statutory guidance highlights the importance of raising awareness in the wider authority of scrutiny’s role and function and the production of an Executive-Scrutiny protocol.

4.2. The guidance notes that effective scrutiny can involve looking at issues that can be politically contentious and it is therefore inevitable that, at times, an executive will disagree with the findings or recommendations of a scrutiny committee and that “it is the job of both the executive and scrutiny to work together to reduce the risk of this happening, and authorities should take steps to predict, identify and act on disagreement”.

4.3. The guidance suggests that one way this can be done is “via an ‘executive-scrutiny protocol’ which can help define the relationship between the two and mitigate any differences of opinion before they manifest themselves in unhelpful and unproductive ways. The benefit of this approach is that it provides a framework for disagreement and debate, and a way to manage it when it happens.” The committee intends to work with the

Mayor and Cabinet and key officers over the year to develop an Executive-Scrutiny Protocol which will deal with the practical expectations of scrutiny committee members and the executive, as well as the cultural dynamics, for formal adoption and use in formulating next year's work programme.

4.4. To facilitate the exchange of ideas and to hear the voice of residents, the community and young people it is the intention of the committee to use the year ahead to develop good working relationships with the voluntary and community sector; local businesses; residents; and councillors and officers from Newcastle City Council, North Tyneside Council and Northumberland County Council. Care will be taken to ensure that the work of the committee does not duplicate work already being undertaken across the region and the processes for this collaboration will form part of the work on the Executive-Scrutiny protocol.

4.5. It is also anticipated that there will be regular meetings between the Chair and Vice Chair of the committee and the Mayor (and/or Cabinet Members as appropriate) to ensure open communication and develop good working relationships. These meetings could focus on the Forward Plan with discussion concentrating on where the committee could positively contribute to the items on the Forward Plan. To assist with planning for the work of the committee and the NTCA as a whole, Members may wish to consider recommending to Cabinet that the Forward Plan should be extended to include decisions which are likely to be taken beyond the statutory 28 days, for example in the next three months, to allow for timely scrutiny and also increase public awareness of what decisions are being taken by the NTCA and when.

5. Appendices

Appendix 1 – Proposed work programme for the NTCA's Overview and Scrutiny Committee.

6. Background papers

- North of Tyne Combined Authority Constitution
- Statutory Guidance on Overview and Scrutiny in Local and Combined Authorities

7. Contact Officers

Elizabeth Kerr, Policy and Scrutiny Officer
Tel: (0191) 277 7566 email: elizabeth.kerr@northoftyne-ca.gov.uk

Appendix 1

Proposed NTCA Overview and Scrutiny Committee Work Programme 2019/2020

2 July 2019

1. Election of Chair and Vice Chair
2. Address from the Mayor, Jamie Driscoll.
3. Agreement of Work Programme
4. Year End Financial report for the NTCA 2018/19
5. Local Full Fibre networks

8 October 2019

1. Q1 Budget Monitoring
2. Cabinet member(s) [Employability and Inclusion & Education Improvement]
3. Initial outline budget proposals including consultation details and timetable
4. Good work business pledge

10 December 2019

1. Address from the Mayor, Jamie Driscoll: The first six months.
2. Cabinet member(s) [Economic Growth & Business Competitiveness]
3. Q2 Budget Monitoring
4. Local Industrial Strategy update
5. Returnship Programme

14 January 2020 Budget workshop

1. Draft budget proposals.

11 February 2020

1. Cabinet member(s) [Place and Productivity]
2. Final Budget proposals
3. Q3 Budget Monitoring
4. Tourism, Marketing & Events

10 March 2020

1. Cabinet member(s) [Housing and Land]
2. Housing Vision/Delivery
3. Annual Scrutiny Report
4. Delegated decision and decisions not subject to call-in for year
5. Annual review of governance arrangements.

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NORTH OF TYNE COMBINED AUTHORITY

Overview and Scrutiny Committee

2 July 2019

Subject:	**Draft 2018/19 Outturn Statement and Draft Statement of Accounts 2018/19**
Report of:	**Janice Gillespie** **Interim Section 73 Officer**

Report Summary

The purpose of this report is to inform the Committee of the Draft Outturn Statement and Draft Statement of Accounts 2018/19 as reported to Cabinet on 4 June 2019.

Recommendations

The Committee is recommended to note the report on the above that was submitted to, and approved by Cabinet on the 4 June 2019. Please see Appendix 1

1. Background Information

The report is before the Committee to consider the performance of the Cabinet in managing the 2018/19 budget.

2. Progress

The Financial Outturn Statement for 2018/19 was presented to Cabinet on 4 June 2019. The draft Statement of Accounts were published on the Authority's website on 31 May 2019 and is available for public consideration. The draft accounts are subject to external audit which has commenced.

3. Appendices

Appendix 1 – Cabinet report 4 June 2019

Appendix 2 – 2018-19 Draft Statement of Accounts

4. Contact Officers

Janice Gillespie, Interim Section 73 Officer
Tel: 0191 6435701 email: janice.gillespie@northoftyne-ca.gov.uk

Donna Martin, Lead Accountant
Tel: 0191 2777568 email: donna.martin@northoftyne-ca.gov.uk

5. Glossary

Please see Appendix 2.

NORTH OF TYNE COMBINED AUTHORITY

Appendix 1

Cabinet

4th June 2019

Subject: **Draft 2018/19 Outturn Statement and Draft 2018/19 Statement of Accounts**

Report of: **Janice Gillespie, Interim Chief Finance Officer**

Report Summary

The purpose of this report is to advise Cabinet of the outturn position for the period ended 31 March 2019. The Draft Statement of Accounts are being finalised and are due to be completed and signed off by the Chief Finance Officer for public inspection and external Audit by Ernst Young by 31 May 2019.

Recommendations

The Cabinet is recommended to:

1. Note the information contained in this report; and
2. Note the intention to present the audited 2018/19 Statement of Accounts to Cabinet on 30 July 2019.

1 Background Information

1.1 Statement on Accounts

The Combined Authority's audited Statement of Accounts (the Accounts) 2018/19 will be presented to Cabinet for discussion and approval on the 30 July 2019. The Accounts are a statutory document which set out the Authority's financial position and performance for the period from 2 November 2018 to 31 March 2019. They are a series of formal accounts prepared according to a specific statutory and regulatory framework.

This report sets out the Authority's financial performance in an outturn report. This reflects the Authority's structure and is presented on a similar basis to the financial management reports that will be presented to Cabinet throughout the forthcoming year. This report is also the end-point of the Combined Authority's financial management process for the five month financial period to 31 March 2019.

The figures contained in this report are provisional until the completion of the Accounts. In accordance with legislation the draft Accounts will be “certified” by the Chief Finance Officer by 31 May 2019 and the audited Accounts will be approved by full Cabinet by 30 July 2019.

Budget Setting

The budget for 2018/19 was approved by full Cabinet at its meeting of 4 December 2018. The Corporate Budget was set at a net income of £0.261m covering the costs associated with establishing the Combined Authority and its capacity to deliver. The Investment Fund Budget was set at a net income of £18.567m, reflecting the early costs associated with the development of proposals to be delivered through the Investment Fund.

Outturn and Reserves

The outturn for 2018/19 indicates a breakeven position for the Corporate Budget with a lower call than expected on the Investment fund of £0.387m. This position reflects the planned transfer of £0.200m to a General Reserve. The Investment Fund shows a net income of £19.550m to be transferred to reserve. As a result of some additional grants during 2018/19 the Reserves position at 31 March 2019 total £19.932m. The summary outturn position is set out below in Table 1 and reserves statement in Table 4 on page x

Table 1 2018/19 Summary Outturn position

Summary Outturn 2018-19	Budget 2 November to 31 March 2019	Actual 2 November to 31 March 2019	Variance 2 November to 31 March 2019
	£	£	£
Investment	(18,566,667)	(19,550,577)	(983,910)
Corporate	(261,144)	0	261,144
Total of Service	**(18,827,811)**	**(19,550,577)**	**(722,766)**

Accounting Adjustments

As part of the statutory reporting regulations there is a requirement to ensure there is a clear audit trail between the outturn figures reported to Cabinet and those published in the Statement of Accounts. For 2018/19 there are no specific statutory accounting adjustments that will apply directly to the Combined Authority, however the statutory accounts will include an element of the accounts for the North East Combined Authority that relate to the transport activities that can be attributed to the North of Tyne Authorities.

Draft Statement of Accounts

Currently a set of draft Statement of Accounts have been produced based on the direct income and expenditure of the NTCA. At the date of writing this update accounting information in respect of the Joint Transport Committee has been received and is currently in the process of being included in the Draft Statement of Accounts.

1.2 **Corporate Budget Outturn**

A more detailed outturn for 2018/19 Corporate Budget is set out below in Table 2.

Table 2 2018/19 Corporate Budget Outturn

Corporate Budget 2018-19	Budget 2 November to 31 March 2019	Actual 2 November to 31 March 2019	Variance 2 November to 31 March 2019
Expenditure	£	£	£
Staffing / secondments	457,814	417,351	(40,463)
Advisors / set up	85,000	27,365	(57,635)
SLA's	79,375	84,466	5,091
Contribution to reserves	200,000	381,818	181,818
Total Expenditure	**822,189**	**911,000**	**88,811**
Income			
Interest	**0**	(1,988)	(1,988)
Mayoral candidates	0	(4,500)	(4,500)
AEB Income	0	(26,021)	(26,021)
EU exit grant	0	(90,909)	(90,909)
Veterans housing grant	0	(90,909)	(90,909)
Mayoral Capacity Fund	(250,000)	(250,000)	0
Investment Fund contribution	(833,333)	(446,673)	386,660
Total Income	**(1,083,333)**	**(911,000)**	**172,333**
NET (Income)/Expenditure	(261,144)	0	261,144

Expenditure Variances

The staffing budget covered seconded posts from 2 November and a potential 4 full time employees that were expected to be recruited. At 31 March recruitment was in progress however only one post had commenced employment. Advisors fees were less than budgeted giving rise to the positive variance. The Service Level Agreements (SLAs) covered IT, insurance, communications, payroll, governance, audit and HR. Actual legal fees were higher than budget due to the additional resource requirement during the set up phase of the authority. The £0.200m budgeted contribution to a Strategic Reserve was made.

Income Variances

The positive grant variances result from non-budgeted smaller grants such as the EU Exit Grant and the Veterans Housing grant which were awarded late in the financial year. A successful submission was made for the AEB readiness grant and this has been applied to expenditure during 2018/19. Short term investment of surplus cash has resulted in a small amount of interest being received.

1.3 **Investment Fund Outturn**

Table 3 below sets out the detailed outturn against the budget for the Investment Fund.

Table 3 2018/19 Investment Fund Budget Outturn

Investment Fund 2018-19	Estimate 2 November to 31 March 2019	Actual 2 November to 31 March 2019	Variance 2 November to 31 March 2019
Expenditure	£	£	£
Supporting Business Case development	300,000	0	(300,000)
Workstreams	250,000	0	(250,000)
Technical Support	50,000	2,750	(47,250)
Contribution to Corporate Costs	833,333	446,673	(386,660)
Total Expenditure	**1,433,333**	**449,423**	(983,910)
Income			
Investment fund	(20,000,000)	(20,000,000)	0
Total Income	**(20,000,000)**	**(20,000,000)**	**0**
NET (Income)/Expenditure	(18,566,667)	(19,550,577)	(983,910)

Expenditure Variances

Due to the late start- up of the authority in the financial year and the necessary timing of cabinet decisions little actual expenditure has been incurred during 2018/19. An update on progress with the Investment fund is included in another report to Cabinet at this meeting.

1.4 **Reserves Statement**

Reserves held at 31 March 2019 are set out in Table 4 below.

Table 4 2018/19 Outturn Reserves Statement

Reserves Statement 2018-19	**Description**
£	
90,909	Homeless Veteran Grant Reserve
90,909	Preparing to Exit Grant
200,000	Strategic Reserve
19,550,552	Investment Fund Reserve
19,932,370	Total

The Authority will work with the three constituent North of Tyne Authorities during 2019/20 to determine the appropriate use of the Homeless Veteran Grant. The Eu Exit Grant will be held to support actions deemed necessary to support the EU exit process. The Investment fund reserve will be used in accordance with developing programme of activity.

1.5 **Treasury Management Performance**

The first installment of the devolution grant of £20m was received close to the year end, £19.890m of this was invested short term with the Debt Management Office.

1.6 **North East Joint Transport Committee (JTC)**

Cabinet are aware that as part of the requirements arising from the establishment of this authority that a North East Joint Transport Committee (JTC) was created in order to continue to take decisions on Transport across the previous LA7 area of NECA.

The nature of the JTC is such that the assets and liabilities of the JTC are required to be disclosed in the Statement of Accounts of this authority, and will be allocated on a population basis between the North East Combined Authority (NECA) and the NTCA. The accounts will include a note of the income and expenditure and assets and liabilities relating to transport and how these have been apportioned between the NECA and the NTCA. Outside the statutory audited accounts, information on the transport budget across the whole JTC area will be reported to that committee. For completeness of information the NECA Revenue and Capital Outturn report being reported to the NECA leadership board is included as a background report to this report.

2. Potential Impact on Objectives

2.1 The North of Tyne Combined Authority Vision document sets out the strategic objectives of the Authority, detailing the key priorities and the first steps in the journey around the six key pillars. The budget will enable the Authority to properly discharge its functions and assist in delivering the Authority's vision, policies and priorities.

3. Key Risks

3.1 A key risk in the production of the Statement of Accounts is the appropriate allocation and accounting for Transport Income, Expenditure, Assets and Liabilities. Early dialogue had been undertaken with both the finance officers at the NECA and the external auditors to both the NECA and the NTCA in order to ensure the approach undertaken is understood and agreed.

A further risk associated with this is in respect of the timeliness of the receipt of the relevant information for disclosure in the NTCA Statement of Accounts which are required to be published by 31 Mary 2019. At the date of writing this report the required information has been received, reducing this risk. A verbal update will be provided to Cabinet on 4 June regarding the completion and publication of the Draft Statement of Accounts.

4. Financial and Other Resources Implications

4.1 The report sets out finance and other resource considerations in detail.

5. Legal Implications

5.1 The Authority is required to agree a balanced budget annually and to monitor that budget throughout the year. The Authority must also make provision for an adequate level of un-earmarked reserves. It is also required to ensure that good financial governance arrangements are in place.

The Authority is required under the Accounts and Audit Regulations 2015 and the Chartered Institute of Public Finance and Accountancy's Code to prepare and approve its accounts for the financial year 2018/19 by 31 July 2019.

6. Consultation/Engagement

6.1 The creation of the North of Tyne Combined Authority has been subject to significant regional and national engagement. The 2018/19 Budget was based on the early steps taken in creation of the authority required to deliver the devolution deal. The Constituent Authorities have been consulted directly on the production of the outturn statement.

7. Appendices

7.1 None

8. Background Papers

8.1 8 November Cabinet Report: North Tyneside Combined Authority Vision and Emerging Priorities of Early Investment.
The Combined Authorities (Finance) Order 2017.
Statutory Instrument No 1133 (2018) The Newcastle Upon Tyne, North Tyneside and Northumberland Combined Authority (Establishment and Functions) Order 2018.

8 November Cabinet 2018/19 Budget Report

4 June NECA Leadership Board 2018/19 Revenue and Capital Outturn.

9. Contact Officers

9.1 Janice Gillespie, Chief Finance Officer, Janice.gillespie@northoftyne-ca.org.uk

Donna Martin, Principal Accountant, Donna.Martin@northoftyne-ca.org.uk

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NORTH OF TYNE COMBINED AUTHORITY

DRAFT

ANNUAL FINANCIAL REPORT

2018/19

Table of Contents

DRAFT

1.0 Narrative Statement

Introduction

The Statement of Accounts contains all the financial statements and disclosure notes required by statute. The statements have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 ('The Code'). The Code of Practice constitutes "proper accounting practice" under the terms of the Accounts and Audit Regulations 2015. The purpose of this financial report is to allow readers to:

- Understand the financial position of the Authority and the final position for 2018/1918; and
- Have confidence in the Authority's stewardship of public money and that it has been used and accounted for in an appropriate manner.

The North of Tyne Combined Authority (NTCA) was established on the 2 November 2018 as a new legal body led by an Elected Mayor. The new North of Tyne Combined Authority will manage a range of powers on housing, transport, infrastructure, skills and employment. Decisions will be made locally to benefit our local economy and the people who live, work, study and visit here.

NTCA's functions primarily relate to economic development, skills, housing and regeneration. NTCA will be responsible for inclusive economic growth and regeneration in an area stretching from the River Tyne to the Scottish borders, bounded by the Pennines and the North Sea.

NTCA will also work with the North East Combined Authority (NECA) on a number of areas to support the region, including transport. A North East Joint Transport Committee has been established bringing together members from both NTCA and NECA, allowing effective decision making across the region to ensure that the local needs and transport priorities are delivered.

The purpose of this Annual Financial Report is to provide a summary of the financial position of the Authority as at 31 March 2019 together with details of the non-financial performance of the Authority during 2018/19. The report enables readers to focus on the key elements of the Statement of Accounts. The report contains the following sections:

- Annual Governance Statement
- About North of Tyne Combined Authority;
- Key Facts about Governance Arrangements;
- Financial Performance of the Authority 2018/19;
- Non-Financial Performance of the Authority 2018/19;
- Significant Issues for 2019/20 and beyond; and
- Explanation of Accounting Statements included within the Statement of Accounts.

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Annual Governance Statement

The Authority has approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Delivering Good Governance in Local Government Framework. Further information is available in the Annual Governance Statement which was presented to the Audit Committee on 4 April 2019. The Statement explains how the Authority has complied with the Code and also meets the requirements of the Accounts and Audit Regulations 2015. The Statement can be found on the Authority's website – Audit and Standards Committee, Committee Papers 2019 — North of Tyne.

About North of Tyne Combined Authority

The North of Tyne Combined Authority (NTCA) came into being on 2 November 2018. NTCA was established to give effect to a 'minded to' devolution deal which was agreed between the three councils, the North East Local Enterprise Partnership and central government.

The devolution deal represents a significant shift of powers, funding and responsibility from central government to the local level. The deal enables the three councils to pursue through NTCA a shared ambition for an inclusive economy. NTCA does not replace the three constituent councils, nor does it take away any of their statutory powers.

Key facts about NTCA include:

- North of Tyne describes the area covered by North Tyneside, Newcastle and Northumberland.
- It begins at the most southerly boundary of Newcastle and continues north to the border with Scotland, and spans from the North Sea on the east coast to the border with Cumbria in the west.
- The area has a population of 819,000, a local economy of £17billion, over 360,000 jobs and it is home to 24,000 businesses.
- The North of Tyne is filled with stunning natural landscapes, great people and has a strong track record of creating jobs and supporting world-leading businesses.
- The bulk of expenditure is funded through devolved funding secured through the devolution deal, with no change in contributions from constitute authorities compared to previous arrangements.

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The Potential of North of Tyne

The new combined authority has the potential to deliver many benefits to the region, namely:

- coming one of the fastest-growing local economies and job growth rates in the country
- being one of the fastest-growing technology sectors outside of London
- having the highest-skilled workforce in the North
- having excellent transport links nationally and internationally
- developing the innovation, research and development hubs in two universities and world-leading businesses
- utilising the huge range of natural, historic and cultural assets within the area

North of Tyne's Vision

The future focus is on positive change. The aim is to quickly and decisively make a real and positive impact on people's lives, businesses and communities.

The vision is of a dynamic and more inclusive economy, one that brings together people and opportunities to create vibrant communities and a high quality of life, narrowing inequalities and ensuring that all residents have a stake in the region's future.

The North of Tyne's Economic Vision is made up of six key pillars which represent the most important groups, issues and goals that are needed to be invested in and nurtured in order to achieve a more prosperous and inclusive future. Success for the Authority will mean:

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Champion of enterprise

- Securing investment
- Fostering trade links
- Creating infrastructure needed for sustained growth and prosperity

Leaders of tomorrow

- Supporting a high quality, inclusive education system
- Ensuring young people have the skills and qualifications
- Good quality training, apprenticeships and jobs

Hotbed of talent

- Giving everyone the opportunity to trive, attain a fair wage and access good jobs
- Work with business and civiil society to change working practices
- Working with employers committed to providing pay and conditions which enable people to take up local jobs and progress

Spark of innovation

- Supporting research, business growth and entrepreneurialism
- Supporting businesses and entrepeneurs to grow and flourish

Network of connections

- Developing a better transport system
- Investing in an ever faster digital infrastructure
- Creating stronger links across the North and internationally

Pride of Place

- Creating communities of inspiring places, homes and spaces that support more sustainable, low carbon futures
- Creating an environment that people want to live in, work and visit.
- Enhancing the flourishin tourism industry

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Key Facts about Governance Arrangements

NTCA is a mayoral combined authority. It has a range of functions some of which are identified as being Mayoral Functions. Decisions on these functions must be made by the Mayor. Decisions on all other functions must be taken by the Mayor and representatives of the constituent councils acting together as the Cabinet.

The first mayoral elections were held on 2 May 2019. The Elected Mayor will chair the Cabinet and will have a number of specific powers and financial resources. Decisions by the Elected Mayor will be subject to scrutiny by the Overview and Scrutiny Committee and Cabinet.

Management Structure

Chief Officers of NTCA consist of, the Head of Paid Service, the Chief Finance Officer and the Monitoring Officer. These officers are employees from the three local authorities within the North of Tyne. Two other designated posts – Director of Policy & Communications and Director of Inclusive Economy are also employees from the three local authorities within the North of Tyne.

At present the Authority has one employee in the position of Head of Inclusive Growth which was filled at the beginning of March 2019. During 2019/20 more posts will be filled by employees directly appointed by the Authority.

Financial Performance of the Authority 2018/19

The financial position of the NTCA's as at 31 March 2019 is shown in the table below.

Service	Budget £000s	Actual £000s	Variance £000s
Investment	(18,567)	(19,551)	(984)
Corporate Costs	(261)	0	261
Total of Net Expenditure	(18,828)	(19,551)	(723)

The budget for 2019/20 was agreed at the Cabinet meeting of 12 March 2019. Details of which can be found on the Authority's website. Cabinet, Committee Papers 2018 — North of Tyne

Borrowing Facilities

Section 3 of the Local Government Act 2003 requires the Authority to determine its own affordable borrowing requirement necessary to fund capital expenditure. The key objectives of the Prudential Code are to ensure that capital investment plans are affordable, prudent and sustainable and that treasury management decisions are taken in accordance with good professional practice.

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Main points from Financial Statements

Comprehensive Income & Expenditure Statement

The Cost of Services line in the Comprehensive Income & Expenditure Statement represents the net expenditure incurred by the Authority, and its share of the costs contained within the North East Combined Authority, in the direct provision of Services (page 15). The figure for 2018/19 shows a deficit of £8.358m. However, overall the Comprehensive Income & Expenditure Statement is showing a surplus of £28.535m for the year ended 31 March 2019.

Balance Sheet

The Balance Sheet is set out on page 17. The net assets of the Authority are £82.209m for the year ended 31 March 2019 and are financed by Useable Reserves of £40.782m and Unuseable Reserves of £41.427m. More details of the reserves contained on the Balance Sheet are shown in Notes 26 and 27. The Balance Sheet also includes the Authority's share of assets and liabilities contained within the North East Combined Authority.

Non-Financial Performance of the Authority

The late establishment of the Authority in 2018/19 has a direct impact on the timing of decisions to award funding support to projects.

At its meeting on 4 December 2018, the Cabinet considered early investment priorities which include:

- Inspiring the development of STEM and digital skills in young people;
- Help residents into work – Returnship Project;
- Attracting new business to the North of Tyne; and,
- Enhancing rural business growth

In addition, Cabinet identified projects for early business case development funding, which include:

- Local fibre network;
- North Shields town centre redevelopment/Fish Quay;
- Energy central learning hub Blyth;
- Targeted employment support for areas of Newcastle with the highest unemployment levels; and
- The Northumberland, Newcastle and North of Tyne rail line

These proposed projects are still in development and are expected to progress through the established assurance framework during the coming months.

It is anticipated that 2019/20 will continue to be a year of development of plans for the delivery of the Vision with the expectation that these plans will see more financial investment achieved beyond 2019/20.

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Significant issues relating to 2019/20 and beyond

As the Combined Authority was only established in November 2018, the budget for the financial year 2019/20 reflects a set up phase in which the organisation is both stablising capacity to undertake its new responsibilities and beginning to deliver its priorities.

In developing these budget proposals the Mayor and Cabinet have been clear in their approach to ensuring the North of Tyne Authority is a lean organisation. The budget proposals include the anticipated capacity required to deliver the ambition of the Authority, and will be regularly reviewed as the delivery of key priorities and actions progress. The Authority faces a challenging time in that it is a developing organisation with a vision that it wishes to deliver to the people of the North of Tyne.

The Mayor and Cabinet will be working with officers to maximise the opportunities of the three constituent authorities in order that they work together efficiently and effectively with the North of Tyne Combined Authority. Some of this is already in place through the development of the Service level Agreements for support services. Other opportunities exist around the consideration of how best the Procurement Strategies across the constituent authorities can support the ambition and delivery of the Vision for North of Tyne. This will be a challenging time for the Authority to ensure that the resources of the three constituent authorities work closely together for the benefit of the people of the North of Tyne.

In order to deliver the Authority's priorities and vision the social factors such as a consistently higher unemployment rate than the national average, a lower productivity than the national wage and social inequality with pockets of deprivation affecting the area will need to be taken into account.

Explanation of the Key Financial Statements

The Accounts and Audit Regulations 2015 require the Authority to produce a Statement of Accounts for each financial year. These statements contain a number of different elements which are explained below:

<u>Core Financial Statements</u>

The Comprehensive Income & Expenditure Statement (CIES) summarises the revenue costs of providing all services and the income and resources received in financing the expenditure.

The Movement in Reserves Statement (MIRS) shows the movement from the start of the year to the end on the different reserves held by the Authority.

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Authority. The net assets of the Authority are matched by the reserves held by the Authority.

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 as operating, investing and financing activities.

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Notes to the Accounts

The notes aim to assist in the understanding of the Statement of the Accounts. They are fundamentally important in the presentation of a true and fair view. They provide information on the basis of the preparation of the financial statements and disclose information not presented directly in the key financial statements which is relevant to the understanding of the information contained elsewhere within the Statement of Accounts.

Group Accounts and Associated Notes

The Authority is required by the Code to produce Group Accounts to include services paid to Council Tax payers in the North of Tyne area by organisations other than the Authority itself in which the Authority has an interest.

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 the Authority 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.

If you would like further information about these accounts, please contact Janice Gillespie, Chief Finance Officer, c/o North Tyneside Council, Quadrant, The Silverlink North, Cobalt Business Park, North Tyneside, NE27 0BY

Janice Gillespie
Chief Finance Officer
Date

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2.0 Independent Auditor's Report to the Members of North Tyneside Council – to be inserted after completion of the Audit

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3.0 Statement of Responsibilities for the Statement of Accounts

The Authority's Responsibilities

The Authority is required:

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

The Chief Finance Officer's Responsibilities

The Chief Finance Officer is responsible for the preparation of the Authority's Statement of Accounts in accordance with proper practice as set out in the 2018-19 CIPFA/Local Authority (Scotland) Accounts Advisory Committee (LASAAC) 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; and
- Complied with the local authority Code.

The Chief Finance Officer has also:

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

I certify that the Statement of Accounts for the year ended 31 March 2019, required by the Accounts and Audit Regulations 2015 are set out in the following pages and that they give a true and fair view of the financial position of the Authority and its income and expenditure for the year ended 31 March 2019.

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Signed:
Janice Gillespie
Chief Finance Officer
Date

4.0 Core Financial Statements and Explanatory Notes

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4.1 Comprehensive Income and Expenditure Statement for the year ended 31 March 2019

This Statement shows the accounting cost in year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from the levy and other sources of income which is set out in the Movement in Reserves Statement.

* These services represent the share that the Authority has in respect of services that form part of the North East Combined Authority and need to be included here for completeness.

	2018/19		
	Gross Exp £000s	**Gross Inc £000s**	**Net Exp £000s**
Investment	3	0	3
Corporate Costs	528	(371)	157
Transfer from North East Combined Authority*	21,973	(13,775)	8,198
Cost of Services	**22,504**	**(14,146)**	**8,358**
Financing and Investment Income and Expenditure	922	(34)	888
Taxation and Non Specific Grant Income	0	(37,692)	(37,692)
Surplus on Provision of Services	**23,426**	**(51,872)**	**(28,446)**
Remeasurement of the net defined benefit liability			(89)
Other Comprehensive Income and Expenditure			**(89)**
Total Comprehensive Income and Expenditure			**(28,535)**

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4.2 Movement in Reserves Statement

This Statement shows the movement from the start of the year to the end on the different reserves held by the Authority, analysed into ‘useable reserves’ (i.e. those that can be applied to fund expenditure or reduce local taxation) and other ‘unuseable reserves’. The Statement shows how the movements in year of the Authority’s reserves are broken down between gains and losses incurred in accordance with generally accepted accounting practices and the statutory adjustments required for the purpose of setting the budget. The net increase/decrease line shows the statutory General Fund Balance Account Balance movements in the year following those adjustments.

	General Fund Balances & Reserves £000s	Capital Grants Unapplied £000s	Total Useable Reserves £000s	Unuseable Reserves £000s	Total Authority Reserves £000s
Transfer from North East Combined Authority	**(12,995)**	**(544)**	**(13,539)**	**(40,135)**	**(53,674)**
Movement in Reserves during 2018/19					
Total Comprehensive Income & Expenditure	(28,446)	0	(28,446)	(89)	(28,535)
Adjustments between accounting basis & funding basis under regulations	4,826	(3,623)	1,203	(1,203)	0
Increase/(decrease) in 2018/19	(23,620)	(3,623)	(27,243)	(1,292)	(28,535)
Balance at 31 March 2019	**(36,615)**	**(4,167)**	**(40,782)**	**(41,427)**	**(82,209)**

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4.3 Balance Sheet as at 31 March 2019

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Authority. The net assets of the Authority are matched by the reserves held by the Authority. Reserves are reported in two categories. The first category of reserves are useable reserves, i.e. 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.

The second category of reserves is those that the Authority is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the 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 regulations'.

	Notes	31 March 2019 £000s
Property, Plant & Equipment	16	156,578
Long Term Debtors	22	16,402
Long Term Assets		**172,980**
Short Term Investments	28	27,720
Short Term Debtors	18	1,334
Cash & Cash Equivalents	19	29,149
Current Assets		**58,203**
Short Term Borrowing	21	(1,024)
Short Term Creditors	20	(30,446)
Grants Receipts in Advance	10	(503)
Other Current Liabilities	24	(2,270)
Current Liabilities		**(34,243)**
Long Term Borrowing	23	(73,648)
Pension Liability	27	(398)
Other Long Term Liabilities	24	(40,585)
Capital Grants Receipts in Advance	10	(100)
Long Term Liabilities		**(114,731)**
Net Assets		**82,209**
Financed By:		
Useable Reserves	25	(40,782)
Unuseable Reserves	27	(41,427)
Total Reserves		**(82,209)**

I certify that the Statement of Accounts for the year ended 31 March 2019, required by the Accounts and Audit Regulations 2015 are set out in pages **15 to 17** and that they give a true and fair view of the financial position of the Authority and its income and expenditure for the year ended 31 March 2019.

Signed:
Janice Gillespie
Chief Finance Officer
Date:

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4.4 Cash Flow Statement for year ended 31 March 2019

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 as 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.

	Notes	2018/19 £000s
Net surplus/(deficit) on the provision of services		28,446
Adjustments to net surplus/ (deficit) on the provision of services for non cash movements	29	2,635
Adjustments for items included in the net surplus/(deficit) on the provision of services that are investing and financing activities	29	(8,807)
Net Cash Flows from Operating Activities		**22,274**
Net Cash flow from Investing Activities	30	197
Net Cash flow from Financing Activities	31	(147)
Net Increase/(decrease) in cash and cash equivalents		**22,324**
Cash and cash equivalents at the beginning of the reporting period*		6,825
Cash and cash equivalents at the end of the reporting period		**29,149**

*This is in respect of the activities that are part of the services transferred from the North East Combined Authority and relates to the cash and cash equivalent position at the date of incorporation (2 November 2018).

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4.5 Index to the Notes to the Financial Statements

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 Accounting Policies

General Principles

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

These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 (the Code), 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.

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 economic benefits or service potential associated with the transaction will flow to the Authority;

- Revenue from the provision of services is recognised when the Authority can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority;

- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet;

- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made;

- Interest receivable on investments and payable 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 unless the difference is immaterial; and

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- 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 in the Balance Sheet.

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 90 days or less 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.

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 non-current assets during the year:

- Depreciation attributable to the assets used by the relevant service; and

- Revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off.

The Authority is not required to raise the levy to fund depreciation, revaluation and impairment losses or amortisations to General Fund Assets. 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, the Minimum Revenue Provision (MRP).

Depreciation, revaluation and impairment losses and amortisations are therefore replaced by MRP in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two. The Minimum Revenue Provision policy is approved annually by Council as part of the budget setting process.

Estimation Techniques

Estimation techniques are the methods adopted to arrive at estimated monetary amounts for the values of assets, liabilities, gains and losses and changes in reserves in situations where there is uncertainty as to their exact value. Except where specified in the CIPFA Code, the Authority has determined the estimation techniques that most closely reflect the economic reality of the transactions.

Events after the Reporting Period

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

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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; and

- 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.

Fair Value measurement

The Authority measures some of its non-financial assets such as surplus assets, assets held for sale 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:

- in the principal market for the asset or liability; or

- 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; or

- Level 3 – unobservable inputs for the asset or liability.

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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.

The majority of the Authority's borrowing is held on the Balance Sheet as the principal outstanding (plus accrued interest) and interest is charged to the Comprehensive Income and Expenditure Statement as the amount payable for the year according to the loan agreement.

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

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

Financial Assets

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

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

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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; and,

- Fair value through profit and loss (FVPL) – objectives are achieved by any other means than collecting contractual cash flows.

Amortised Cost

Assets classified as amortised cost will usually write down over the expected life of the asset with interest being credited to the Surplus/Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement in line with the effective interest rate. This means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

Assets are impaired when it is determined that there is a likelihood arising that future cashflows due under the contract will not be made. A charge for the impairment value is made to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement with a corresponding reduction made in the Balance Sheet to the gross amortised cost of the asset.

The value of the impairment is determined by an assessment of the credit risk. If the risk has increased significantly the impairment loss allowance will be calculated on a lifetime basis. If there is no significant increase or remains low, the loss is assessed on the basis of the impact of an expected loss in the next 12 months.

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.

Fair Value Through Other Comprehensive Income

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

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

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

When the asset is de-recognised the cumulative gain or loss previously recognised in

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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

All changes in fair value are posted to the Surplus/Deficit on the Provision of Services.

Fair value is measured at market price where the instrument exists within an active market or using discounted cash flow where the instrument has fixed and determinable payments.

All gains and losses on de-recognition are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

Soft Loans

A Soft Loan is a loan made to a third party at a preferential rate of interest, i.e. below market rate. In accordance with the Code of Practice on Local Authority Accounting, the difference between the interest payable to the Authority by the recipient of the loan and the amount they would have paid if they had acquired a loan for the same amount is charged to the Income and Expenditure account under the relevant Net Cost of Service heading. This charge is then reversed out through the Movement in Reserves Statement to mitigate any effect on usable reserves.

Government Grants and 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; and
- 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 there is reasonable assurance that the conditions attached to the grant or contribution will be satisfied.

Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied or for which there is not reasonable assurance that they will be satisfied are carried in the Balance Sheet as creditors (revenue grants) or capital grants receipts in advance (capital grants).

When conditions are satisfied or reasonable assurance is achieved, the grant or

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contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ring-fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

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

Group Accounts

The Authority is required by the Code to produce Group Accounts to include services paid to Council Tax payers in the North of Tyne area by organisations other than the Authority itself in which the Authority has an interest.

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 the Authority 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.

Overheads and Support Services

The costs of overheads and support services (such as Finance and Legal services) are shown within the Corporate Costs line on the Comprehensive Income and Expenditure Statement on the basis of Service Level Agreements in accordance with the Authority's arrangements for accountability and financial performance.

Post- Employment Benefits (Retirement Benefits)

The pension obligations of the Authority relate primarily to former employees of the Integrated Transport Authority and come under the Local Government Pension Scheme. The relevant fund is the Tyne & Wear Pension Fund, administrated by South Tyneside Metropolitan Council.

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

- The liabilities of the Tyne and Wear 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, etc, and projections of projected earnings for current employees; and
- Liabilities are discounted to their value at current prices, using a discount rate based on the indicative rate of return on high quality corporate bonds.

The assets of the Tyne and Wear Pension Fund attributable to the Authority are

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included in the Balance Sheet at their fair value:

- Quoted securities – current bid price;
- Unquoted securities – professional estimate;
- Unitised securities – current bid price; and
- Property – market value.

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

<u>Service cost</u>

- 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 services for which the employees worked;

- Past service cost – the increase in liabilities as a result of a scheme amendment or curtailment 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; and

- Net Interest on the net defined benefit 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 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.

<u>Remeasurements comprising</u>

- 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;

- 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; and

- Contributions paid to the Tyne and Wear 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

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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.

The notes to the Core Financial Statements provide further details on contributions made.

Property, Plant and 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; and
- The initial estimate of the costs dismantling and removing the item and restoring the site on which it is located.

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

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

Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the Taxation and Non-specific Grant Income line of the Comprehensive Income and Expenditure Statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the Donated Assets Account.
Where gains are credited to the Comprehensive Income and Expenditure Statement,

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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 (EUV).

Where there is no market-based evidence of current value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of current 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 current value at the year-end, but as a minimum every five years. The work is carred out on behalf of the Authority by the Property Services division of Newcastle City Council. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains.

Exceptionally, gains might be credited to the Comprehensive Income & 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); or
- 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.

<u>De-Minimis Levels</u>

The Authority has set a de minimus level for the recognition of capital assets of £0.010m for all capital expenditure.

<u>Impairment</u>

Assets are assessed at each year-end as to whether there is any indication that an

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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 by:

- 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); or

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

<u>Depreciation</u>

Depreciation is provided for 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).

Deprecation on all Property, Plant and Equipment assets is calculated by taking the asset value at the 31 March divided by remaining life expectancy. Depreciation is therefore charged in the year of acquisition, but not the year of disposal.

Revaluation gains are also depreciation, with an amount equal to the difference between current value depreciation that would have been charged 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 asset 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.

<u>Disposals and Non-Current Assets Held for Sale</u>

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.

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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 previously recognised losses 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.

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.

Provisions and Contingent Liabilities

<u>Provisions</u>

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 instance, 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

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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.

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.

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 (IFRIC12) ‘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 therefore the costs are recognised on the Authority’s 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 costs 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. The Authority may therefore have no long term obligation to transfer

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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 a Shadow Toll is paid 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; and
- The Formula Tolls are the initially-defined sequence of tolls to be charged to users and collected by the Authority. If the Authority 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.

The Authority 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 the Authority has no long-term obligation to transfer economic resources to the operator, since the operator revenue is in substance transferred directly to it. The Authority 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. The Authority has therefore recognised a deferred credit balance, added to as each 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.

Reserves

The Authority sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by transferring 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 within 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 useable resources for the Authority.

Revenue Expenditure Funded from Capital under Statute

Expenditure incurred during the year that may be capitalised under statutory provisions

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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 charges so that there is not impact on the levy.

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.

Value Added Tax (VAT)

Income and Expenditure excludes any amounts related to VAT, as all VAT collected is payable to HM Revenue & Customs and all VAT paid is recoverable from it.

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2 Accounting Standards that have been issued but not yet adopted

The Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 has introduced changes in accounting policy which will be required from 1 April 2019 and may require retrospective application. The accounting policies have been reviewed and it has been concluded that the changes will not have a material impact on the Statement of Accounts.

The changes that have been introduced are in relation to the following International Financial Reporting Standard (IFRS) statements, International Financial Reporting Interpretations Committee (IFRIC) and International Accounting Standards (IAS):

- IAS 40 Investment Property: Transfers of Investment Property - amendments have been made in that now an entity shall transfer a property, to or from, investment property, when, and only when, there is evidence of a change in use. A change of use occurs if a property meets, or ceases to meet, the definition of investment property. It is not expected that this amendment will have an impact on the Authority as it does not currently have any investment properties.

- IFRIC 22 Foreign Currency Transactions and Advance Consideration – clarification is provided around the accounting treatment for transactions that include the receipt or payment of advance consideration in a foreign currency. It is not expected that this guidance will have an impact on the Authority as it does not currently have any foreign currency transactions.

- IFRIC 23 Uncertainty over Income Tax Treatments – clarification is provided around the accounting treatment of uncertainties in income tax. The interpretation is to be applied to the determination of taxable profit/loss, tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It is not expected that this guidance will have an impact on the Authority as it is not a profit making entity.

- Amendments to IFRS 9 Financial Instruments: Prepayment Features with Negative Compensation – entities who have financial assets with negative compensation prepayment features can now be measured at amortised cost or fair value through other comprehensive income. This standard is not expected to have an impact on the Authority as prepayment features are not part of financial instruments currently held.

- Annual improvements to IFRS Standards 2014-2016 Cycle – the amendments under this set of annual improvements that apply to local authorities relate to scope changes for the disclosure requirements of interests in other entities and measuring an associate or joint venture at fair value. This standard is not expected to have a major impact on the Authority.

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3 Adjustments between Accounting Basis and Funding Basis under Regulations

This note details the adjustments that are made to the Total Comprehensive Income & Expenditure figure 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 together with movements in reserves under statute.

	Useable Reserves		
2018/19	**General Fund Balances £000s**	**Capital Grants Unapplied £000s**	**Movement in Unuseable Reserves £000s**
Adjustments primarily involving the Capital Adjustment Account:			
• Charges for depreciation and impairment of non-current assets	(726)	0	726
• Other income that cannot be credited to the General Fund	947	0	(947)
• Capital Grants and contributions applied	4,640	0	(4,640)
• Revenue expenditure funded from capital under statute	(4,704)	0	4,704
• Statutory provision for the financing of capital investment	429	0	(429)
Adjustments primarily involving the Capital Grants Unapplied Account:			
• Grants & contributions unapplied credited to CIES	4,168	(4,168)	0
• Application of grants to capital financing transferred to Capital Adjustment Account	0	545	(545)
Adjustments to Revenue Resources			
• Financial Instruments (transferred to the Financial Instruments Adjustment Account)	147	0	(147)
• Pensions Costs (transferred to (or from) the Pensions Reserve)	(75)	0	75
Total Adjustments	**4,826**	**(3,623)**	**(1,203)**

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4(a) Expenditure and Funding Analysis

The Expenditure and Funding Analysis shows how annual expenditure is used and funded from resources in comparison with those resources consumed or earned by the Authority in accordance with generally accepted accounting practices. It also shows how this expenditure is allocated for decision making between the Authority's service areas. Income and Expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income & Expenditure Statement.

2018/19	**Net Expenditure Chargeable to the GF Balances £000s**	**Adjustments between Funding and Accounting Basis £000s**	**Net Expenditure in Comprehensive Income & Expenditure Statement £000s**
Investment	3	0	3
Corporate Costs	157	0	157
Transfer from NECA	13,015	(4,817)	8,198
Net Cost of Services	**13,175**	**(4,817)**	**8,358**
Other Income & Expenditure	(36,795)	(9)	(36,804)
Surplus on Provision of Service	**(23,620)**	**(4,826)**	**(28,446)**

Balances transferred from North East Combined Authority	**12,995**
Surplus on General Fund Balances in Year	23,620
General Fund Balances at 31 March 2019	**36,615**

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Adjustments to the General to arrive at the Comprehensive Income & Expenditure Statement Amounts

Adjustments for Capital Purposes - this column adds in depreciation and impairment and revaluation gains and losses in the services line, and for:

- Other Operating Expenditure – adjusts for capital disposal with a transfer of income on disposal of assets and the amounts written off for those assets;

- Financing and Investment Income & Expenditure – the statutory charges for capital 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; and

- 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 throughout 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 Pension Adjustments – net change for the removal of pension contributions and the addition of IAS 19 Employee Benefit 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; and

- For Financing and Investment Income & Expenditure the net interest on the defined benefit liability is charged to the CIES.

Other differences between amounts debited/credited to the CIES and amounts payable/receivable to be recognised under statue and include:

- For Financing and Investment Income & Expenditure the adjustments relate to the timing differences for premiums and discounts.

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2018/19	Adjs for Capital Purposes £000s	Pension Adjs £000s	Other Adjs £000s	Total Adjs £000s
Investment	0	0	0	0
Corporate Costs	0	0	0	0
Transfer from NECA	4,754	(84)	147	4,817
Net Cost of Services				
Financing & Investment Income & Expenditure	0	9	0	9
Difference between General Fund surplus and Comprehensive Income & Expenditure Statement surplus/deficit	**4,754**	**(75)**	**147**	**4,826**

4(b) Segmental Income

Revenue received from external customers is analysed on a segmental basis below:

	2018/19 £000s
Investment	0
Corporate Costs	(5)
Transfer from NECA	(5,030)
Total	**(5,035)**

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5 Nature of Expenses

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is on the basis of budget reports analysed by Cabinet. The following analysis provides a breakdown of the figures in the Comprehensive Income and Expenditure Statement by subjective category.

	Cost of Services £000s	**Other Income & Expenditure £000s**	**Total £000s**
Fees and Charges	(5,030)	0	(5,030)
Government Grants & Contributions	(9,116)	(20,205)	(29,321)
Income from Transport Levy	0	(17,487)	(17,487)
Interest and Investment Income	0	(34)	(34)
Total Income	**(14,146)**	**(37,726)**	**(51,872)**
Employee Expenses	154	9	163
Other Service Expenses	16,690	0	16,690
Depreciation, amortisation, impairment and other capital charges	5,660	0	5,660
Interest Payments	0	913	913
Total Operating Expenses	**22,504**	**922**	**23,426**
Surplus on the provision of services	**8,358**	**(36,804)**	**(28,446)**

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6 Critical Judgements in Applying Accounting Policies

In applying the Accounting Policies set out in pages 20-34, 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:

IFRIC 12 Service Concession Arrangements

An examination of the Authority's contracts has determined that the New Tyne Crossing concession has been judged to meet the criteria of IFRIC 12 and, accordingly, the cost of the new Tunnel and refurbishment of the existing Tunnel are recorded within the Authority's Property, Plant & Equipment on the Balance Sheet.

Transferred assets and liabilities

Assets and liabilities in the Local Government Pension Scheme transferred to TT2 Ltd on 1 February 2008 relating to membership accrued before that date. 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.

Brexit

There is a high degree of uncertainty regarding future levels of funding for local government and the impact of the decision for Britain to leave the European Union remains unclear. However the Authority takes the view that this uncertainty is not yet sufficient indication that the value of the Authority's assets might need to be impaired due to reduced levels of service provision.

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7 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 which are otherwise inherently uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates. The items in the Authority's Balance Sheet at 31 March 2019, for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties
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. The Pension Fund engages a firm of specialist actuaries to provide the Authority with expert advice about the assumptions to be applied. See **Note 15 page 45** for details of sensitivity analysis of the estimations.

8 Financing and Investment Income and Expenditure

The financing and investment income & expenditure shown in the Comprehensive Income & Expenditure Statement consists of:

	2018/19 £000s
Interest payable and similar charges	913
Net Interest Expense (Pensions)	9
Interest receivable and similar income	(34)
Total	**888**

9 Taxation and Non Specific Grant Income

The taxation and non specific grant income shown in the Comprehensive Income & Expenditure Statement consists of:

	2018/19 £000s
Non Ring fenced Government Grants	(20,091)
Transport Levy	(17,487)
Capital Grants, Contributions & Donated Assets	(114)
Total	**(37,692)**

10 Grants and Contributions Income

The Authority credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2018/19.

	2018/19 £000s
<u>Non-Ring fenced Government Grants</u>	
Investment Fund	(20,000)
Other non-ring fenced government grants (individually under £1.000m)	(91)
	(20,091)
<u>Capital Grants, Contributions and Donations</u>	
Capital Grants, contributions & donations (individually under £1.000m)	(114)
Total	**20,205**

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

	31 March 2019 £000s
<u>Capital Grants, Contributions and Donations in advance</u>	
<u>Short Term</u>	
Grants & Contributions (individually under £1.000m)	(503)
<u>Long Term</u>	
Grants & Contributions (individually under £1.000m)	(100)
Total	**(603)**

The following grants and contributions were credited to the Comprehensive Income and Expenditure Statement within the Cost of Services in 2018/19.

	31 March 2019 £000s
Homeless Veteran Grant	(91)
Adult Education Budget – Devolution Implementation Fund	(26)
Mayoral Capacity Fund	(250)
Transforming Cities Fund	(4,450)
Local Transport Plan	(3,860)
Other Grants & Contributions (individually under £1.000m)	(439)
Total	**(9,116)**

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11 Officers' Remuneration

At present the Authority has one employee in the position of Head of Inclusive Growth which was filled at the beginning of March 2019.

The statutory posts of the Head of Paid Service, the Chief Finance Officer and Monitoring Officer are directly employed from the three local authorities within the North of Tyne. A recharge for their time is included within the accounts of the Authority and equates to £0.048m.

12 Members' Allowances and Expenses

Allowances were paid to two independent Members following their appointment in March 2019. The value of these allowances is less than £0.001m.

13 Related Party Transactions

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.

Central Government has effective control over the general operations of the Authority – it is responsible for providing the statutory framework within which the Authority operates and provides the majority of its funding in the form of grants. Grants received from government departments are set out in **Note 5** – Nature of Expenses. **Note 10** – Grant Income details grant income reported in the Comprehensive Income & Expenditure Statement.

Members of the Cabinet have direct control over the Authority's financial and operating policies. The total of Members' allowances paid in 2018/19 is shown in Note 12. During 2018/19, the Authority had no material dealings with companies in which one or more Members have an interest.

Officers – During 2018/19 there have been no pecuniary interests involving the Head of Paid Service, the Chief Finance Officer or the Monitoring Officer to the Authority.

Other public bodies – The Authority has a direct relationship with the Passenger Transport Executive for Tyne and Wear (Nexus) through the North East Combined Authority (NECA). Transactions relating to North of Tyne Combined Authority's element of the overall transactions NECA has with the constituent authorities who serve on the NECA board and Nexus are shown in the table below. Full details of the transactions are provided in NECA's accounts.

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	Expenditure £000s	Income £000s
Durham County Council	3,204	(2,896)
Gateshead Council	162	(2,036)
Newcastle City Council	1,359	(3,594)
Nexus	37,846	(2,028)
North Tyneside Council	161	(1,983)
Northumberland County Council	1,321	(1,135)
South Tyneside Council	266	(1,509)
Sunderland City Council	215	(2,808)
Total	**44,534**	**(17,989)**

14 Audit Costs

In 2018/19 the Authority incurred the following fees relating to external audit.

	2018/19 £000s
Fees payable to the appointed auditor under the Local Audit and Accountability Act 2014	25
Total fees payable	25

15 Pension Schemes

Pension schemes accounted for as defined contribution schemes

The Authority has currently only one employee who joined the Tyne & Wear Pension Fund during March 2019. The following information disclosed within this note does not include any data in respect of this employee due to the immaterial value of the transactions. The information relates solely to the Authority's share of pension liabilities contained within the North East Combined Authority.

The Authority participates in two post-employment schemes:

- The Tyne & Wear Pension Fund (TWPF), administered locally by South Tyneside Council – this is a funded defined benefit plan with benefits earned up to 31 March 2014 being linked to final salary. Benefits after 31 March 2014 are based on a Career Average Revalued Earnings scheme. The funded nature of the LGPS requires the employer and its employees to pay contributions into the Fund, calculated at a level intended to balance the pension liabilities with investment assets; and

- 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 is 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.

The TWPF pension scheme is operated under the regulatory framework for the Local Government Pension Scheme and the governance of the scheme is the responsibility of

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the pension committee of South Tyneside Council. Policy is determined in accordance with the Pensions Fund Regulations.

Transactions relating to post-employment Benefits

The Authority recognises 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 the Authority is required to make against the levy 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.

The following transactions have been charged to the Comprehensive Income and Expenditure Statement during the year:

Pension Revenue Summary	**2018/19 £000s**		
	LGPS	**Discretionary Benefits**	**Total**
Comprehensive Income & Expenditure Statement			
Cost of Services			
Current Service Costs	80	0	80
Financing and Investment Income and Expenditure			
Net Interest Expense	0	4	4
Total Post Employment Benefit Charged to the Surplus/Deficit on the Provision of Services	80	4	84
Other Post Employment Benefit charged to the Comprehensive Income and Expenditure Statement			
Remeasurement of the net defined benefit liability comprising:			
Return on plan assets (excluding the amount included in the net interest expense)	(1,576)	0	(1,576)
Actuarial (gains)/losses arising on changes in financial assumptions	943	22	965
Actuarial (gains)/losses arising on changes in demographic assumptions	(713)	(18)	(731)
Actuarial (gains)/ losses arising on changes in liability assumptions	40	(13)	27
Adjustments in respect of Paragraph 58 (amendment to Fund Surplus)	1,226	0	1,226
Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	(80)	(9)	(89)

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Pension Revenue Summary	2018/19 £000s		
	LGPS	Discretionary Benefits	Total
Movement in Reserves Statement			
Reversal of net charges made to the surplus/deficit for the Provision of Services for post employment benefits	(80)	(4)	(84)
Actual amount charged against the Cost of Services for pensions in the year			
Retirement benefits payable to pensioners	0	9	9

Pension Assets and Liabilities recognised in the Balance Sheet

The amount included in the Balance Sheet arising from the Authority's obligation in respect of its defined benefit plans is as follows:

	2018/19 £000s		
	LGPS	Discretionary Benefits	Total
Present value of the defined benefit obligation	(17,420)	(398)	(17,818)
Fair Value of plan assets	21,386	0	21,386
Sub Total	3,966	(398)	3,568
Other movements in the liability (asset) if applicable	(3,966)	0	(3,966)
Net liability arising from defined benefit obligation	0	(398)	(398)

Reconciliation of the Movements in the Fair Value of Scheme (Plan) Assets

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	2016/17 £000s		
	LGPS	**Discretionary Benefits**	**Total**
Opening fair value of scheme assets	20,753	0	20,753
Interest Income	217	0	217
Remeasurement gain/ (loss): The return on plan assets, excluding the amount included in the net interest expense	646	0	646
Contributions from employer	0	9	9
Contributions from employees into the scheme	22	0	22
Benefits paid	(252)	(9)	(261)
Closing fair value of scheme assets	21,386	0	21,386

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

Active members	5%
Deferred Pensioners	10%
Pensioners	85%

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Reconciliation of present value of the scheme liabilities (defined benefit obligation)

	2018/19		
	LGPS	**Discretionary Benefits**	**Total**
Opening balance at 1 April	17,118	412	17,530
Current Service Cost	80	0	80
Interest Cost	182	4	186
Contributions by participants	22	0	22
Remeasurement (gains) and losses:			
• Actuarial (gains)/losses arising from changes in financial assumptions	943	22	965
• Actuarial (gains)/losses arising from changes in demographic assumptions	(713)	(18)	(731)
• Actuarial (gains)/losses arising from changes in experience assumptions	40	(13)	27
Net Benefits paid	(252)	(9)	(261)
Closing balance at 31 March	**17,420**	**398**	**17,818**

The total contributions expected to be made to the Local Government Pension Scheme by the Authority in the year to 31 March 2020 is expected to be nil. Expected payments direct to beneficiaries in the year to 31 March 2020 are £0.050m in relation to unfunded benefits.

Local Government Pension Scheme assets comprised

The assets allocated to the employer in the Fund are notional and are assumed to be invested in line with the investments of the Fund for the purposes of calculating the return to be applied to those notional assets over the accounting period. The Fund is large and holds a significant proportion of its assets in liquid investments. As a consequence there will be no significant restriction on realising assets if a large payment is required to be paid from the Fund in relation to an employer's liabilities. The assets are invested in a diversified spread of investments and the approximate split of assets for the Fund as a whole (based on data supplied by the Administering Authority) is shown in the disclosures split by quoted and unquoted investments.

The Administering Authority may invest a small proportion of the Fund's investments in the assets of some of the employers participating in the Fund if it forms part of their balanced investment strategy.

	Asset Split 31 March 2019 %		
	Quoted	**Unquoted**	**Total**
Equities	58.0	7.0	65.0
Property	0	8.8	8.8
Government Bonds	4.1	0.0	4.1
Corporate Bonds	11.7	0.0	11.7
Cash	2.7	0.0	2.7
Other*	3.5	4.2	7.7
Total Assets	80.0	20.0	100.0

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

Basis for estimating assets and liabilities

Both the Local Government Pension Scheme and discretionary benefits liabilities have been estimated by Aon Hewitt, an independent firm of actuaries. The latest actuarial valuation of the Authority's liabilities (in respect of the LGPS) took place as at 31 March 2016. Liabilities have been estimated by the independent qualified actuary on an actuarial basis using the projected unit credit method. The principal assumptions used by the actuary in updating the latest valuation of the Fund for IAS19 purposes were:

	2018/19	
	LGPS	**Discretionary Benefits**
Mortality assumptions		
Future lifetime from age 65 (currently 65)		
• Men	22.2	22.2
• Women	25.3	25.3
Future lifetime from age 65 (currently 45)		
• Men	23.9	23.9
• Women	27.2	27.2

	TWPF Funded	
	LGPS	Discretionary Benefits
Rate of Inflation (RPI)	3.3%	3.3%
Rate of Inflation (CPI)	2.2%	2.2%
Pensions accounts revaluation rate	2.2%	n/a
Rate of increase in salaries	3.7%	n/a
Rate of increase in pensions	2.2%	2.2%
Rate for discounting scheme liabilities	2.4%	2.4%

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 of unfunded benefits has not been included on materiality grounds. The impact on the Defined Benefit Obligation in the Scheme is shown below:

	Increase in Assumption £000s	Decrease in Assumption £000s
Longevity (increase/decrease in 1 year)	(680)	680
Rate of increase in salaries (increase/decrease by 0.1%)	0	0
Rate of increase in pensions (increase/decrease by 0.1%)	430	(430)
Rate for discounting scheme liabilities (increase/decrease by 0.1%)	(230)	230

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16 Property, Plant and Equipment

2018/19	Vehicles, Plant, Furniture & Equipment £000s	Infra-structure Assets £000s	Assets Under Construction £000s	Total Property, Plant & Equipment £000s
Cost or Valuation				
Transfer from NECA	1,420	168,729	6,817	176,966
Additions	0	19	1,182	1,201
Revaluations increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	0	(19)	0	(19)
At 31 March 2019	**1,420**	**168,729**	**7,999**	**178,148**
Accumulated Depreciation & Impairments				
Transfer from NECA	(508)	(20,355)	0	(20,863)
Depreciation charge	(17)	(690)		(707)
At 31 March 2019	**(525)**	**(21,045)**	**0**	**(21,570)**
Net Book Value				
Balances Transferred from NECA	912	148,374	6,817	156,103
At 31 March 2019	**895**	**147,684**	**7,999**	**156,578**

Costs of land intrinsically linked to the original Tyne Tunnel are included within the valuation of that Tunnel and therefore is shown as part of the Infrastructure Assets balance within the above table.

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17 Summary of Capital Expenditure and Sources of Finance

	2018/19 £000s
Opening Capital Financing Requirement	**86,805**
Capital Investment	
Property, Plant & Equipment	1,201
Revenue Expenditure Funded from Capital Under Statute	4,704
	5,905
Sources of Finance	
Government Grants and Other Contributions	(5,185)
Capital Receipts – repayment of principal from long-term debtors	(725)
Direct Revenue Contributions	(19)
Minimum Revenue Provision	(307)
Additional Voluntary Provision	(122)
	(6,358)
Closing Capital Financing Requirement	**86,352**
Explanation of Movements in Year	
Decrease in underlying need to borrow (unsupported by Government financial assistance)	(453)
Decrease in Capital Financing Requirement	**(453)**

18 Short Term Debtors

This table shows the amounts owed to the Authority for which payments have not been received by 31 March 2019, but which should be repaid within one year.

	31 March 2019 £000s
Central Government Bodies	510
Other Local Authorities	698
Other Entities and Individuals	126
Total	**1,334**

19 Cash and Cash Equivalents

	31 March 2019 £000s
Cash held by the Authority	6,160
Short term deposits	22,989
Total	**29,149**

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20 Short Term Creditors

The table below shows an analysis of the Authority's creditors as at the 31 March 2019.

	31 March 2019 £000s
Central Government Bodies	(2)
Other Local Authorities	(28,192)
Other Entities and Individuals	(2,252)
Total	**(30,446)**

21 Short Term Borrowing

The table below shows an analysis of the Authority's short term borrowing as at the 31 March 2019.

	31 March 2019 £000s
Public Works Loans Board (PWLB)	(574)
Market Loans (including other local authorities)	(450)
Total	**(1,024)**

22 Long Term Debtors

The table below shows an analysis of the Authority's long term debtors as at the 31 March 2019 which relate to historic borrowing undertaken on behalf of Nexus.

	31 March 2019 £000s
Other Local Authorities	16,402
Total	**16,402**

23 Long Term Borrowing

The table below shows an analysis of the Authority's long term borrowing as at the 31 March 2019

	31 March 2019 £000s
(a) by lender category	
Public Works Loan Board (PWLB)	(34,241)
Lender Option Borrower Option (LOBO)	(39,407)
	(73,648)
(b) by maturity	
Maturing between 1 and 2 years	(295)
Maturing between 2 and 5 years	(1,181)
Maturing between 5 and 10 years	(738)
Maturing more than 10 years	(71,434)
	(73,648)

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24 Public Private Partnerships and Similar Contracts

In November 2007, the then Tyne & 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 25 February 2011, and the refurbished original tunnel opened 21 November 2011. Both are included on the public sector balance sheet.

In 2018/19 the total payment under the contract was £20.256m (2017/18 £19.487m) of which £3.602m is shown in the accounts of the Authority with the remaining £16.654m being shown in the accounts of the North East Combined Authority.

The contribution to the capital works by the private sector partner is recognised as a deferred income balance with a 2018/19 total value of £96.753m (2017/18 £101.845m), of which £42.840m is shown in the accounts of the Authority with the remaining £53.913m being shown in the accounts of the North East Combined Authority. The table below shows an analysis of the Authority's deferred income balances.

	2018/19 £000s
Payable in 2019/20	(2,255)
Payable within 2 to 5 years	(7,891)
Payable within 6 to 10 years	(11,274)
Payable within 11 to 15 years	(11,274)
Payable within 16 to 20 years	(10,146)
Total	**(42,840)**

	2018/19 £000s
Shown within Other Current Liabilities on Balance Sheet	(2,255)
Shown within Other Long Term Liabilities on Balance Sheet	(40,585)
Total	**(42,840)**

25 Useable Reserves

	31 March 2019 £000s
General Fund Balances and Reserves	36,615
Capital Grants Unapplied	4,167
Total Useable Reserves	**40,782**

25 (a) General Fund Balance including Earmarked Reserves Balances

The General Fund is the statutory fund into which all the receipts of the Authority are required to be paid and out of which all liabilities of the Authority are met, except to the extent that statutory rules might provide otherwise. These rules can also specify the financial year in which liabilities and payment 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. Note 26 provides more details on the Authority's reserves and balances position.

25 (b) Capital Grants Unapplied

The Capital Grants Unapplied Account 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.

26 Reserves & Balances

	Balances Transferred from NECA £000s	Transfers out 2018/19 £000s	Transfers in 2018/19 £000s	Balance 31 March 2019 £000s
General Fund Balances				
General Fund	7,482	0	2,161	9,643
Total General Fund Balances	**7,482**	0	2,161	9,643
General Fund Reserves				
Investment Fund Reserve	0	0	19,551	19,551
Metro Reinvigoration Reserve	4,037	0	22	4,059
Metro Fleet Replacement Reserve	1,476	0	1,488	2,964
Strategic Reserve	0	0	200	200
Grant Reserves (individual balances under £0.100m)	0	0	198	198
Total General Fund Reserves	**5,513**	0	**21,459**	**26,972**
Total Balances & Reserves	**12,995**	**0**	**23,620**	**36,615**

Purpose of main General Reserves

Reserve	Purpose
Investment Fund Reserve	The purpose of the Investment Fund is to support the delivery of the programme of work of the Authority in future years.
Metro Reinvigoration Reserve	Established to support the replacement of the Metro Fleet in future years.
Metro Fleet Replacement Reserve	Established to support the replacement of the Metro Fleet in future years.
Strategic Reserve	Established to address future potential significant external pressures on the Authority's budget.

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27 Unuseable Reserves

	31 March 2019 £000s
Revaluation Reserve	(3,670)
Pension Reserve	398
Capital Adjustment Account	(38,943)
Financial Instruments Adjustment Account	788
Total Unuseable Reserves	**(41,427)**

27(a)Revaluation Reserve

The Revaluation Reserve contains the gains made by the Authority arising from increases in the value of its Property, Plant & 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; or
- Disposed of and the gains are realised.

The Reserve contains only revaluation gains accumulated since 1 April 2007, the date on which the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

	2018/19 £000s
Transfer from NECA	(3,735)
Difference between fair value depreciation and historical cost depreciation – written off to the Capital Adjustment Account	65
Balance at 31 March	**(3,670)**

27(b)Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income & Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis).

The Account is credited with the amounts set aside by the Authority as finance for the costs of acquisition, construction and enhancement. The Account 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. The Adjustments between Accounting Basis and Funding Basis under Regulations Statement (Note 3) provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

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	2018/19 £000s	
Transfer from NECA		(37,748)
Reversal of items relating to capital expenditure debited or credited to the CIES		
Charges for depreciation & impairment of non current assets	726	
Write down of New Tyne Crossing deferred income balance	(927)	
Revenue expenditure funded from capital under statute	4,704	
Write down of long term debtors	725	5,228
Adjusting amounts written out of the Revaluation Reserve		(65)
Net written out amount of the cost of non current assets consumed in the year		
Capital grants & contributions credited to the CIES that have been applied to capital financing	(5,185)	
Statutory provision for the financing of capital investment charged against the General Fund	(429)	
Capital expenditure charged against the General Fund	(19)	
Debt redeemed using capital receipts	(725)	(6,358)
Balance at 31 March		**(38,943)**

27(c) Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting 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.

	2018/19 £000s
Transfer from NECA	935
Proportion of premiums incurred in previous financial years to be charged in accordance with statutory requirements	(147)
Balance at 31 March	**788**

27(d) 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 Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any 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

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for which it is directly responsible. The balance on the Pensions Reserve therefore shows a substantial 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.

	2018/19 £000s
Transfer from NECA	**412**
Remeasurement of the net defined benefit liability	(89)
Reversal of net charges made to the surplus/deficit for the Provision of Services for post employment benefits	84
Employer's pensions contributions and direct payments to pensioners payable in the year included in the Provision of Services	(9)
Balance at 31 March	**398**

28 Financial Instruments

A financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Non-exchange transactions, such as those relating to taxes or government grants, do not give rise to financial instruments.

Financial instruments are recognised on the Balance Sheet when the Authority becomes party to the contractual provisions of a financial instrument. They are classified based on the business model for holding the instruments and their expected cashflow characteristics.

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.

To meet new Code requirements, financial assets are now classified into one of three categories:

- Financial assets held at amortised costs. These represent loans and loan-type arrangements where repayments or interest and principal take place on set dates and as specified amounts. The amount presented in the balance sheet represents the outstanding principal received plus accrued interest. Interest credited to the CIES is the amount receivable as per the loan agreement. All of the loans & receivables financial assets held by the Authority are classified at amortised cost.

- Fair value through other comprehensive income (FVOCI). These assets are measured and carried at fair value. All gains and losses due to changes in fair value (both realised and unrealised) are accounted for through a reserve account, with the balance debited or credited to the CIES when the asset is disposed of (the Authority is deemed not to have any assets of this type).

- Fair value through profit and loss (FVTPL). These assets are measured and carried at fair value. All gains and losses due to changes in fair value (both realised and unrealised) are recognised in the CIES as they occur.

The short term debtors classified as financial assets are trade receivables. These are

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amounts due for goods and services delivered and they are generally due for settlement within 30 days and are therefore classified as current. 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.

Financial Liabilities – a financial liability is an obligation to transfer economic benefits controlled by the Authority and can be represented by a contractual obligation to deliver cash or financial assets or an obligation to exchange financial assets and liabilities with another entity that is potentially unfavourable to the Authority. Financial liabilities are initially measured at fair value and subsequently measured at amortised cost. For the Authority's borrowing this means that the amount presented in the balance sheet is the outstanding principal repayable (plus accrued interest).

The following categories of Financial Instrument are carried on the balance sheet:

	Long-term	Current
	31 March 2019 £000s	**31 March 2019 £000s**
Financial Assets		
Loans & Receivables	0	28,417
Cash & Cash Equivalents	0	29,149
Debtors	16,402	262
Total Financial Assets	**16,402**	**57,828**
Financial Liabilities		
Financial liabilities at amortised cost - borrowings	(73,468)	(1,024)
Creditors	0	(29,916)
Total Financial Liabilities	**(73,468)**	**(30,940)**

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. All of the loans & receivables financial assets held by the Authority are classified at amortised cost.

The short term debtors classified as financial assets are trade receivables. These are amounts due for goods and services delivered and they are generally due for settlement within 30 days and are therefore classified as current. 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.

Financial Liabilities – a financial liability is an obligation to transfer economic benefits controlled by the Authority and can be represented by a contractual obligation to deliver cash or financial assets or an obligation to exchange financial assets and liabilities with another entity that is potentially unfavourable to the Authority. The financial liabilities held during the year are measured at amortised cost.

Financial instruments gains and losses

The gains and losses recognised in the Comprehensive Income and Expenditure Statement in relation to financial instruments are made up as follows:

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	2018/19		
	Financial Liabilities measured at amortised cost £000s	Financial Assets - Loans and receivables £000s	Total £000s
Surplus on the Provision of Services			
Interest Expense	913	0	913
Other Comprehensive Income & Expenditure			
Investment Income	0	(34)	(34)
Net gain/(loss) for the year	**913**	**(34)**	**879**

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 31 March 2019, using the following methods and assumptions:

- Loans borrowed by the Authority have been valued by discounting the contractual cash flows over the whole life of the instrument at the appropriate market rate for local authority loans;

- The value of 'Lender's Option Borrower's Option' (LOBO) loans have been increased by the value of the embedded options. Lender's options to propose an increase to the interest rate 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;

- 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; and

- The fair value of short-term instruments, including trade payables and receivables, is assumed to be approximate to the carrying amount.

For 2018/19 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 e.g. bond prices;

- Level 2 – fair value is calculated from inputs other than quoted prices that are observable for the asset or liability e.g. interest rates or yields for similar instruments;

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and,

- Level 3 – fair value is determined using unobservable inputs e.g. non-market data such as cash flows forecasts or estimated creditworthiness.

The fair values calculated are as follows:

	Fair Value Level	Carrying Amount 31 March 2019 £000s	Fair Value 31 March 2019 £000s
Financial Liabilities			
Lender option borrower option loan	2	39,407	64,030
PWLB – EIP Loans	2	34,241	55,636
Total Financial liabilities		**73,648**	**119,666**
Financial Assets			
Long Term Debtors (amortised cost)*	3	16,402	26,650
Total Financial Assets		**16,402**	**26,650**

The fair value of short-term financial liabilities including trade payables and short-term financial assets including trade receivables is assumed to be approximate to the carrying amount.

The fair value differs from the carrying value as fair value is assessed according to market rates relating to the outstanding life of the loan. Carrying amount relates to the actual interest rate applicable to the loan outstanding. The fair value differences for financial instruments relates to the fact that the Authority has loans at fixed rates that result in it paying a higher interest charge than if it had taken out variable rate loans.

* The fair value of loans to Nexus has been estimated by applying a proportion of the Authority's overall fair value of borrowing.

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; and,
- Market risk – the possibility that financial loss might arise for the Authority as a result of changes in such measures as interest rates and stock market movements.

Credit risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Authority's customers. Deposits are not made with banks and financial institutions unless they meet the Authority's minimum credit requirements.

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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

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.

Liquidity risk

As the Authority has ready access to borrowings from the Public Works Loans Board, there is no significant risk that it will be unable to raise finances 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 maturity analysis of the financial loans is as follows:

	31 March 2019 £000s
Less than 1 year	1,024
Between 1 and 2 years	295
Between 2 and 5 years	1,181
Between 5 and 10 years	738
More than 10 years	71,434
	74,672

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

29 Notes to the Cash Flow – Operating Activities

The surplus/deficit on the provision of services has been adjusted for the following non-cash movements:

	2018/19 £000s
Depreciation & Impairment	726
Increase in Creditors	3,246
(Increase)/Decrease in Debtors	(483)
Movement in Pension Liability	75
Other non-cash items charged to the surplus/deficit on the provision of services	(929)
	2,635

The surplus/deficit on the provision of services has been adjusted for the following items that are investing and financing activities:

	2018/19 £000s
Capital grants credited to surplus/deficit on the provision of services	(8,807)
	(8,807)

30 Notes to the Cash Flow – Investing Activities

Operating activities within the Cash Flow Statement include the following cash flows relating to investing activities.

	2018/19 £000s
Purchase of Property, Plant & Equipment, investment property and intangible assets	(1,201)
Purchase of short and long term investments	(26,983)
Proceeds from short-term and long-term investments	20,074
Other receipts from Investing Activities	8,307
Net Cash Flows from Investing Activities	**(197)**

31 Notes to the Cash Flow – Financing Activities

	2018/19 £000s
Repayment of short and long term borrowing	(147)
Net Cash Flows from Financing Activities	**(147)**

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5.0 Group Financial Statements and Explanatory Notes

The information in respect of Group Financial Statements and Explanatory Notes is not available at the time of publication of this draft Statement of Accounts.

Once the full information is available a revised set of draft accounts will be published.

The Group Accounts relate to transactions with Nexus. A full set of draft accounts in respect of Nexus has been added to our website for information.

6.0 Glossary of Terms

A

Accounting period: the period of time covered by the accounts, normally twelve months commencing on 1 April. The end of the accounting period i.e. 31 March is the balance sheet date.

Accounting policies: are the specific principles, bases, conventions, rules and practices applied in preparing and presenting these accounts.

Accruals basis: the method of including amounts in accounts to cover income or expenditure attributable to an accounting period but for which payment has not been received or made by the end of the accounting period. This is based on the concept that income and expenditure are recognised as they are earned or incurred, not as money is received or paid.

Amortised: reducing the value of a balance in an accounting period. The reduction in value is transferred from the balance sheet to the Comprehensive Income and Expenditure Statement.

Amortised Cost: is the amount at which an asset or liability is measured (usually at cost) plus or minus accumulated interest.

Appropriations: transferring of an amount between specific reserves in the Comprehensive Income and Expenditure Statement.

Asset: something of value which is measurable in monetary terms.

Assets Held for Sale: these are assets previously used in the provision of services by the Council which are now available for immediate sale. The assets are being actively marketed and a sale is probable.

Authority: this is the corporate body of North of Tyne Combined Authority

Available for Sale financial assets: financial instruments that either do not have fixed or determinable payments or whose prices are quoted on an active market.

B

Balances: the reserves of the Authority, both revenue and capital, which represent the accumulated surplus of income over expenditure on any of the funds.

Balance Sheet: a statement of the recorded assets, liabilities and other balances at the end of an accounting period.

C

Capital Adjustment Account: provides a balancing mechanism between the different rates at which assets are depreciated under The Code and are financed through the capital controls systems.

Capital Charges: charges to services for the use of assets. They comprise depreciation, based on the current value of the assets used in the provision of services.

Capital expenditure: expenditure on the acquisition or enhancement of non current assets. Capital expenditure can be incurred in some instances (where no asset is created) if Secretary of State permission is granted (e.g. equal pay, redundancy costs or where grants are made to other organisations for capital projects).

Capital receipts: the proceeds from the sale of a fixed asset, or the repayment of some grants or loans made by the Authority.

Cash and cash equivalents: this comprises cash in hand, cash overdrawn and short term investments which are readily convertible into known amounts of cash.

Cashflow: movement in cash and cash equivalents by the Authority in the accounting period.

CIPFA/LASAAC Code of Practice on Local Authority Accounting (The Code): the code of practice applicable to preparing the accounts.

Comprehensive Income & Expenditure Statement: the account, that sets out the Authority's income and expenditure for the year for non-capital spending. It is sometimes referred to as the Revenue Account.

Consistency: the concept that the accounting treatment of like items within an accounting period and from one period to the next should be the same.

Consolidated: added together with adjustments to avoid double counting of income, expenditure, or to avoid exaggeration, e.g. debtors, creditors as a result of trading between services within the Authority which are reported on as a whole in the section on consolidated financial accounts.

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.

Contingencies: sums set aside as a provision for liabilities which may arise in the future but which cannot be determined in advance.

Creditors: amounts owed by the Authority for work done, goods received or services rendered to the Authority during the accounting period, but for which payment has not been made by the Balance Sheet date.

Current assets: which will be consumed or cease to have value within the next accounting period, e.g. inventories and debtors.

Current liabilities: amounts that the Authority owes to other bodies and due for payment within 12 months.

D

Debtors: amounts due to the Authority which relate to the accounting period and have not been received by the Balance Sheet date.

Deferred Liabilities: these are liabilities which are payable beyond the next year at some point in the future or paid off by an annual sum over a period of time, e.g. deferred purchase arrangements.

Depreciation: the reduction in value of an asset due to age, wear and tear, deterioration or obsolescence.

Derecognition: financial assets and liabilities will need to be removed from the Balance Sheet once performance under the contract is complete or the contract is terminated.

E

Earmarked reserves: these reserves represent the monies set aside that can only be used for a specific usage or purpose (see Reserves definition for more information).

Estimation Techniques: methods adopted by the Authority to arrive at estimated monetary amounts, corresponding to the measurement bases selected, for assets, liabilities, gains, losses and changes to reserves.

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 are authorised for issue.

Expenditure: costs incurred by the Authority for goods received, services rendered or other value consumables during the accounting period, irrespective of whether or not any movement of cash has taken place.

F

Fair Value: 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:

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

Financial Asset: a right to future economic benefits controlled by the Authority that is represented by: cash, an equity instrument of another entity, a contractual right to receive cash or another financial asset from another entity.

Financial Liability: an obligation to transfer economic benefits controlled by the Authority that is represented by: a contractual obligation to deliver cash (or another financial asset) to another entity, or a contractual obligation to exchange financial assets/liabilities with another entity.

G

General Reserves and Balances: monies held by the Council to deal with unforeseen events that might arise. The Council must maintain a prudent level of such balances.

Government grants: grants made by the Government towards either revenue or capital expenditure to support the cost of the provision of local authority services. These grants may be specifically towards the cost of particular schemes or to support the general revenue spending of the Authority.

H

Historical cost: the actual cost of assets, goods or services, at the time of their acquisition.

I

Impairment: a reduction in the value of a fixed asset, measured by specific means, below its stated carrying amount in the Balance Sheet.

Infrastructure Assets: assets such as highways, bridges, street lights and footpaths.

International Accounting Standards (IAS): international accounting standards issued by the International Accounting Standards Board. They are authoritative statements of how particular types of transactions and other events should be reflected in financial statements.

Investments: items such as company shares, other securities and money deposited with financial institutions (other than bank current accounts).

L

Liabilities: amounts due to individuals or organisations, which will have to be paid at some time in the future.

Long Term Assets: assets which have value to the Authority for more than one year, e.g. land, buildings, equipment (also known as non current assets).

M

Material: the concept that any omission from or inaccuracy in the statements of account should not be large enough to affect the understanding of those statements by a reader.

Minimum Revenue Provision (MRP): is the minimum amount which must be charged to an authority's revenue account each year and set aside as a provision for credit liabilities (repayment of debt), as required by the Local Government Act 1989.

N

Net Book Value: the amount at which fixed assets are included in the balance sheet, i.e. their historical cost or current value less the cumulative amounts provided by depreciation.

Net Realisable Value: the open market value of the asset in its existing use (or open market value in the case of investment Property), less the expenses to be incurred in realising the asset.

Non Current Asset: assets which have value to the Authority for more than one year e.g. land, buildings, equipment (also known as Long Term Assets).

P

Provisions: amounts set aside in the accounts for liabilities or losses which are certain or very likely to occur but where there is uncertainty as to the amounts involved or the dates on which they will arise.

Property, Plant and Equipment (PPE): Property, Plant and Equipment covers all assets with physical substance (tangible assets) that are held for use in the production or supply of goods and services, for rental to others, or for administrative purposes, and expected to be used during more than one period.

Prudential Code: The current system on financial controls for capital financing introduced on 1 April 2004 that local authorities are required to operate by.

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 the information available.

Public Works Loan Board (PWLB): a central Government agency which lends money to local authorities at lower rates than those generally available from the private sector. Local authorities are able to borrow for their requirements to finance capital expenditure from this source.

R

Related Parties: individuals, or bodies, who have the potential to influence or control the Authority or to be influenced or controlled by the Authority.

Replacement Cost: cost of replacement of the asset at the balance sheet date.

Reserves: amounts set aside in the accounts to meet expenditure which the Authority may decide to incur in future period, but not allocated to specific liabilities which are certain or very likely to occur. Earmarked reserves are allocated to a specific purpose or area of spending. Unallocated reserves are often described as balances, and usually arise as unplanned surpluses of income over expenditure.

Revaluation Reserve: records unrealised revaluation gains arising (since 1 April 2007) from holding property, plant & equipment. This reserve is matched by fixed assets within the Balance sheet; therefore they are not resources available to the Authority.

Revenue Contributions: method of financing capital expenditure directly from revenue.

S

Section 73 Officer: the officer designated under Section 151 of the Local Government Act 1972 to take overall responsibility for the financial administration of the Authority.