NORTH
OF TYNE
COMBINED
AUTHORITY

# Audit and Standards Committee

Thursday 4 April 2019 at 2.00 pm

Meeting to be held in a  Committee Room, Newcastle Civic Centre, Newcastle upon Tyne, NE1 8QH

www.northoftyne-ca.gov.uk

# AGENDA


| | | Page No |
|---|---|---|
| 1. | **Welcome and Apologies** | |
| 2. | **Appointment of the Vice Chair of the North of Tyne Combined Authority Audit and Standards Committee for the Municipal Year 2018/19** | |
| 3. | **Minutes of the Previous Meeting held on 14 February 2019** | **1 - 6** |
| 4. | **Accounting Policies to be used in the compilation of the 2018/19 Statement of Accounts** | **7 - 30** |
| 5. | **Internal Audit Plan - Internal Audit Initial Coverage 2018/19 and Internal Audit Strategic Audit Plan 2019/20** | |


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

6. **Audit & Standards Committee - Strategic Risk Report**

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

7. **Annual Governance Statement**

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. **Code of Conduct for Members - Dispensations**

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

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

To be confirmed

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NORTH OF TYNE COMBINED AUTHORITY

# Audit and Standards Committee

14 February 2019

(2.00 - 3.15 pm)

Meeting held: North Tyneside Council Offices, Quadrant, The Silverlink North, Cobalt Business Park, North Tyneside, NE27 0BY

## Minutes

**Present:**

Chair: Mr D Ross

Councillors: C Penny-Evans, D Cox, S Dickinson, M Swinburn, G Stone, K Lee and J Hutchinson

1 **APPOINTMENT OF THE VICE CHAIR OF THE NORTH OF TYNE COMBINED AUTHORITY AUDIT AND STANDARDS COMMITTEE FOR THE MUNICIPAL YEAR 2018/19**

Councillor D Cox and Councillor M Swinburn were both nominated and seconded for position of Vice Chair of the Audit and Standards Committee.

Each candidate received 3 votes each. It was therefore:

**RESOLVED** – that the appointment be deferred to the next meeting.

2 **WELCOME AND APOLOGIES**

The Chair welcomed everyone to the meeting and introductions were made.

Apologies were received from Councillors A Lower, A Chisholm, R Glindon, J Watson and M Rankin,

3 **DECLARATIONS OF INTEREST**

Councillor M Swinburn declared an interest as a Member of the North East Joint Transport Audit Committee.

4 **THE ROLE OF THE AUDIT AND STANDARDS COMMITTEE**

Submitted: A presentation by the Chief Internal Auditor and the Monitoring Officer (previously circulated and a copy attached to the Official Minutes).

Allison Mitchell and J Softly gave a presentation on the creation of the North of Tyne Combined Authority and the Role of the Audit and Standards Committee. Some of the points highlighted included: -

- The role of the Committee, as defined in the Cities and Local Government Devolution Act 2016 and the purpose of the Committee.
- The Members Code of Conduct.
- The independent role of Internal Audit
- The Local Auditor
- Effective risk management and areas of initial assurance focus.
- Standards – Localism Act 2011
- Alleged breaches of the code of conduct for members.
- Monitor and review the Combined Authority's' ethical governance framework
- Dispensations.

At this point J Softly circulated a brief document, Annexe 4 to the Code of Conduct – Dispensations Procedure. Members were advised that the North of Tyne Combined Authority Cabinet have delegated the granting of dispensations to the Audit and Standards Committee. J Softly sought delegated authority (in consultation with the Chair) to issue dispensations for meetings of the North of Tyne Cabinet prior to the next meeting of the Audit and Standards Committee when the Committee will consider the issue for the longer term. The reason for the dispensations is to allow Cabinet Members to make decisions on proposals in respect of grant funding and the award of contracts to constituent authorities.

**RESOLVED** that -

i) The presentation on the Role of the Audit and Standards Committee was noted.

ii) Delegated Authority be given to the Monitoring Officer to issue dispensations to Members of the North of Tyne Combined Authority and a further report be submitted to the next meeting of Audit and Standards Committee.

5 **INTERNAL AUDIT PLAN - INITIAL ASSURANCE COVERAGE (2018/19) AND DEVELOPMENT OF STRATEGIC AUDIT PLAN (2019/20)**

Submitted: Report of the Chief Internal Auditor (previously circulated and a copy attached to the Official Minutes).

Allison Mitchell gave a brief outline of the report which outlined a) the proposed approach to identifying optimum assurance coverage for the North of Tyne Combined Authority in its first year of operation (2018/19); and b) the proposed approach to preparing a full year Strategic Audit Plan for 2019/20.

The report also ensures that the Audit and Standards Committee, as a key stakeholder of Internal Audit's work is engaged at an early stage in the planning process.

As the Combined Authority has just recently been created it is likely that the main areas of immediate assurance focus for senior management and the Audit Committee will therefore include Key Internal Controls Systems and Assurance Framework (Inclusive Economy, 'Quick Wins' and Business Case Development). Members were encouraged to suggest other areas of work.

Committee were also informed that preparation of the detailed Strategic Audit plan for 2019/20 is now underway and will be presented to the Audit and Standards Committee in April.

**RESOLVED** – that the Audit and Standards Committee endorsed the approach to preparation of assurance coverage and resulting Strategic Plans for 2018/19 (part year) and 2019/20.

## 6 INTERNAL AUDIT CHARTER

Submitted: Report of the Chief Internal Auditor (previously circulated and a copy attached to the Official Minutes).

Members considered the report presented by Allison Mitchell which set out an Internal Audit Charter, prepared in conformance with the Public Sector Internal Audit Standards (PSIAS). Agreement of the Internal Audit Charter by Audit and Standards Committee, as the designated 'board' under the Public Sector Internal Audit Standards, will allow the Authority to fulfil its responsibilities regarding the Public Sector Internal Audit and Standards.

The role and responsibilities of the Audit and Standards Committee are detailed in the PSIAS as approving the Internal Audit Charter; approving the annual risk based Internal Audit Plan and any amendments to the plan during the course of the year; approving the Internal Audit budget and resource plan and establishing that there are sufficient resources with regard to the provision of an annual audit opinion; considering communications from the Chief Internal Auditor on internal Audit performance relative to its plan and other matters; receiving annual confirmation from the Chief Internal Auditor that Internal Audit is organisationally independent and considering the results of the quality assurance and improvement programme from the Chief Internal Auditor.

A Mitchell stressed the independence of Internal Audit and the right of access to all records, documents, correspondence and control systems with direct access to employees, Head of Paid Service and Members and access to financial records including third parties as outlined in detail in section 6 of the Charter.

Committee heard about consulting activity, that is any assignments which fall within the definition defined in the PSIAS and any significant additional consulting services approved by the Audit Committee; significant services within the NTCA are any single assignments which are estimated to require a resource of 15 days or more.

Reference was also made to the reporting of assignments and a quality assurance and improvement programme.

**RESOLVED** – that Audit and Standards Committee approved the Internal Audit Charter attached as Appendix A to the report, which is a requirement of the Public Sector Internal Audit and Standards.

## 7 STRATEGIC RISK REGISTER - APPROACH AND NEXT STEPS

Submitted: Report of the Audit, Risk and Insurance Service Manager (previously circulated and a copy attached to the Official Minutes).

Consideration was given to the report which provided Members with information on the development of a Strategic Risk Register for the North of Tyne Combined Authority. Audit and Standards Committee are required to introduce a risk management process which identifies the key risks to the operation of the Authority and delivery of its objectives.

Committee noted that work to date has identified a capacity risk involving those officers who are undertaking dual roles.

In response to a question regarding the impacts of Brexit, P Slater advised that the impacts will be included on the risk register.

**RESOLVED** – that the Audit and Standards Committee noted the current position and considered the potential risks to the North of Tyne Combined Authority.

## 8 PROPOSED AUDIT AND STANDARDS COMMITTEE WORK PROGRAMME 2019/20

Submitted: Report of the Chief Internal Auditor (previously circulated and a copy attached to the Official Minutes).

A Mitchell gave a brief overview of the report which set out a proposed programme of core business to be considered by the Audit and Standards Committee during 2019/20.

Attention was drawn to the proposed work for January 2020 and the Preparation for Audit and Standards Committee Self-Assessment of Effectiveness. In relation to initial support and training many of the items on this agenda covered basic training.

**RESOLVED** that the Audit and Standards Committee –

i) Agreed the proposed core business work programme set out within the report for 2019/20.
ii) Noted that it may be necessary to change or adapt the proposed reports to be considered, to ensure optimum timing of consideration of governance issues and to respond to emerging trends during the year

iii) Noted that the Committee will receive additional reports on any ad-hoc items of business arising during the year, as these relate to its responsibilities under its Terms of Reference.

iv) Considered what initial support and/or training members of the Committee may require.

9 **DATE AND TIME OF NEXT MEETING**

4 April 2019, 2.00pm at Newcastle Civic Centre

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NORTH OF TYNE COMBINED AUTHORITY

# Audit and Standards Committee

**04 April 2019**

**Subject:** Accounting Policies to be used in the compilation of the 2018/19 Statement of Accounts

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

## Report Summary

The purpose of this report is to provide the Audit and Standards Committee with details of the proposed Accounting Policies that will be used in the compilation of the 2018/19 Annual Statement of Accounts (The Accounts).

In the Accounts, the Authority is required to disclose how the accounting statements have been prepared. The preparation of the Accounts should be in accordance with the accounting concepts and policies as per the ‘Code of Practice on Local Authority Accounting in the UK 2018/19’ (The Code).

## Recommendations

The Audit and Standards Committee is recommended to endorse the Accounting Policies to be adopted by the Authority and used to compile the Authority’s Accounts for the financial year ended 31 March 2019.

## 1. Background Information, Proposals and Timetable for Implementation

1.1 The purpose of the Accounting Policies is to explain the basis for the recognition, measurement and disclosure of transactions and other events in the Accounts of the Authority. The Code defines Accounting Policies as "the specific principles, bases, conventions, rules and practices applied by an authority in preparing and presenting financial statements".

The Accounting Policies disclosed are those material policies that are significant to the understanding of the Authority's Accounts.

1.2 The Code requires that a change in Accounting Policies should only be made if the change:

a) is required by The Code; or,
b) will result in financial statements providing reliable and more relevant financial information about the effects of transactions, other events or conditions on an authority's financial position, financial performance and cash flows.

1.3 Significant changes in Accounting Policies, other than those specified in The Code will be relatively rare.

1.4 The proposed Accounting Policies for 2018/19 are attached as Appendix A. These have been prepared in consultation with the Accountant for NECA to ensure that the transfer the associated assets and liabilities are properly accounted for within the Authority's Accounts.

## 2. Potential Impact on Objectives

2.1 The Authority has a statutory obligation to produce the Accounts for the financial year ending 31 March 2019 in respect of the activities of the Authority. The Accounting Policies outlined in this report are integral to the production of the Accounts.

## 3. Key Risks

3.1 There are no key risks associated with the production of this report.

## 4. Financial and Other Resources Implications

4.1 There are no direct financial or other resource implications arising from the recommendation set out in this report.

## 5. Legal Implications

5.1 The Authority has a duty to ensure that it produces an Annual Statement of Accounts by 31 May 2019 in accordance with the Accounts and Audit Regulations 2015. Part of this process is the agreeing of the Accounting Policies by the Audit and Standards Committee.

## 6. Consultation/Engagement

6.1 The Accounting Policies outlined in this report are those that are applicable to the Accounts of the Authority as per The Code.

## 7. Appendices

7.1 Appendix A – Draft Accounting Policies

## 8. Background Papers

8.1 (a) Code of Practice on Local Authority Accounting in the UK 2018/19

(b) The Accounts and Audit Regulations 2015

## 9. Contact Officers

9.1 Janice Gillespie, Chief Finance Officer, Janice.gillespie@northtyneside.gov.uk , 0191 643 5701

## 10. Glossary

10.1 None

## 11. Sign-off

11.1 Head of Paid Service: Yes

Monitoring Officer: Yes

Chief Finance Officer: Yes

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NORTH OF TYNE COMBINED AUTHORITY

# Audit and Standards Committee

**04 April 2019**

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

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

## Report Summary

The purpose of this report is to provide the Audit and Standards Committee with details of the plan that will be used to produce the Annual Statements of Accounts (the Accounts).

## Recommendations

The Audit and Standards Committee is recommended to note the work outlined in respect of the closure of the 2018/19 Accounts.

## 1. Background Information, Proposals and Timetable for Implementation

1.1 This is the first year of the production of the Authority's Accounts. The Chief Finance Officer is required, no later than 31 May 2019, to sign and certify that the Accounts present a true and fair view of the Authority's financial position for the year ended 31 March 2019. The audited set of Accounts is required, no later than 31 July 2019, to be approved and subsequently published.

1.2 In order to achieve the statutory deadlines outlined in 1.1, work has been undertaken to identify all of the key areas and tasks that are required to be completed and by whom.

1.3 Work is on-going with the Principal Accountant of the North East Combined Authority (NECA) to ensure that any assets that need to be transferred across to the Authority are correctly accounted for within the Accounts.

1.4 Liaison will take place with the appointed external auditors to ensure that any issues identified are raised and resolved as soon as possible within the process.

1.5 Regular update meetings will be held with the Chief Finance Officer where any issues identified will be raised.

1.6 Work is progressing towards meeting the deadlines that are required in order for the Authority to be able to publish the Statement of Accounts by the statutory date of 31 May 2019. At present we are not foreseeing any issues that will prevent the Authority achieving this date, however there is always the risk of unforeseen events that may impact on our ability to do so.

## 2. Potential Impact on Objectives

2.1 The production of an audited Statement of Accounts is a statutory responsibility of the Authority as per the Accounts and Audit Regulations 2015.

## 3. Key Risks

3.1 A risk log has been set up which identifies the key risks and issues associated with the closedown process. The management of these risks are part of the overall process.

## 4. Financial and Other Resources Implications

4.1 There are no financial or other resources implications as a result of this report.

## 5. Legal Implications

5.1 The production of the Annual Statement of Accounts is a statutory requirement as per the Accounts and Audit Regulations 2015.

**6. Consultation/Engagement**

6.1 Consultation will take place with the key personnel and interested parties involved in the closedown process.

**7. Appendices**

7.1 None

**8. Background Papers**

8.1 Accounts and Audit Regulations 2015

**9. Contact Officers**

9.1 Janice Gillespie, Chief Finance Officer, janice.gillespie@northtyneside.gov.uk, 0191 643 5701

**10. Glossary**

10.1 None

**11. Sign-off**

11.1 Head of Paid Service: Yes

Monitoring Officer: Yes

Chief Finance Officer: Yes

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# 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

- 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 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.

## 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 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 Other Comprehensive Income is reclassified from the Financial Instrument Revaluation Reserve to the Surplus/Deficit on the Provision of Services as a reclassification adjustment.

<u>Fair Value through Profit and Loss</u>

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.

<u>Soft Loans</u>

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 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 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:

Service cost

- 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.

Remeasurements comprising

- 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 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, 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.

De-Minimis Levels

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

Impairment

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

Where impairment losses are identified, they are accounted for 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.

Depreciation

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.

Disposals and Non-Current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell.

Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any 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

Provisions

Provisions are made where an event has taken place that gives the Authority a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For 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 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 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 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.