NORTH OF TYNE COMBINED AUTHORITY

Audit and Standards Committee

Tuesday 28 July 2020 at 10.00 am

The meeting will be held remotely. To view the meeting please follow the link below:
https://youtu.be/RiVDWFbD2ZU

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AGENDA

		Page No
1.	**Welcome and Apologies**	
2.	**Declarations of Interest**	
	Please remember to declare any personal interest where appropriate both verbally and by recording it on the relevant form (to be handed to the Democratic Services Officer). Please also remember to leave the meeting where any personal interest requires this.	
3.	**Agreement of the Minutes of the Meeting held on 21 January 2020**	**1 - 6**
4.	**Internal Audit**	**7 - 38**

2019/20 Opinion on the Adequacy and Effectiveness of the Framework of Governance, Risk Management & Control

Quarterly Update Report (Key Findings and Outturn)

Internal Audit Strategic Audit Plan 2020/21

Proposed Audit and Standards Committee Work Programme – 2020/21 Municipal Year

8. **Standards**

A verbal update may be provided at the meeting

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

22 September 2020 at 10.00am

Contact Officer:
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NORTH OF TYNE COMBINED AUTHORITY

Audit and Standards Committee

21 January 2020

(10.00 - 10.45 am)

Meeting held: Committee Room, Civic Centre, Barras Bridge, Newcastle upon Tyne, NE1 8QH

Minutes

Present:

Chair: Doug Ross

Councillors A Chisholm, R Glindon, M Rankin, M Swinburn, JP Stephenson, G Stone, C Seymour, and L Dunn

40 **WELCOME AND APOLOGIES**

Apologies were received from Cllrs A Chisholm, A Lower, C Penny-Evans, S Dickinson and J Watson (Cllrs Dunn, Stephenson, Stone and Seymour attended as substitutes)

41 **DECLARATIONS OF INTEREST**

None

42 **AGREEMENT OF THE MINUTES OF THE MEETING HELD ON 17 SEPTEMBER 2019**

The minutes of the meeting held on 17 September 2019 were agreed as a correct record and signed by the Chair.

43 **AGREEMENT OF THE MINUTES OF THE MEETING HELD ON 16 DECEMBER 2019**

The minutes of the meeting held on 16 December were verified as a correct record and signed by the Chair.

44 **INTERNAL AUDIT QUARTERLY UPDATE REPORT**

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

Consideration was given to the report the purpose of which was to outline progress to date against the 2019/20 Internal Audit Plan.

The Chief Internal Auditor presented the report explaining that the Audit Plan agreed in April last year (2019) was on target and the assessment of fundamental systems and processes using the diagnostic toolkit was completed in the first half pf 2019/20 as planned and a schedule of recommendations, including management responses and a target date for each recommendation.

An update of other planned audits was set out in section 1.3 of the report. The Chief Internal Auditor confirmed that she had did not have any concerns to raise with the Committee.

In relation to other planned audits Committee were advised that the most significant piece of work was the Adult Education Budget (AEB); not included in the original Internal Audit Plan but an essential part of the work being delivered by the Combined Authority. Internal Audit will continue to support the Combined Authority specifically in relation to:

- The development of management information systems.
- Systems and procedures for the assessment and evaluation of contractor and grant provider performance.
- Payment processes.

On behalf of the Committee the Chair acknowledged the amount of undertaken to date and gave assurances that any concerns will be brought back to the Committee.

RESOLVED – that the North of Tyne Combined Authority Audit and Standards Committee considered and noted the report.

45 **DEVELOPMENT OF STRATEGIC AUDIT PLAN**

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

The purpose of the report was to outline the proposed approach to preparing the Strategic Audit Plan for 2020/21 for consideration and endorsement.

The Chief Internal Auditor presented the report advising members of the importance and development of the Strategic Plan which will contain a range of professional targets. The purpose of the Strategic Audit Plan is to identify risks and ensure that adequate resources are deployed in areas that will provide optimum benefit and value to the Authority. This is key to Internal Audit achieving its objectives as an independent assurance function for the Authority and to provide an independent and objective opinion on the adequacy and effectiveness of the framework of governance, risk management and control.

Section 1.7 of the report provided notes on the professional standards which Internal Audit must apply when planning the use of its resources.

Commenting on the report the Chair pointed out that Committee is now reaching the implementation stage of the plan instead of reports for information purposes only. Future reports will provide opportunities to make recommendations to Cabinet.

RESOLVED – that the North of Tyne Combined Authority Audit and Standards Committee endorsed the approach to preparation of assurance coverage and resulting Strategic Audit Plans for 2020/21.

46 **PREPARATION FOR AUDIT AND STANDARDS COMMITTEE SELF-ASSESSMENT OF EFFECTIVENESS**

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

Consideration was given to the report the purpose of which was to outline the proposed approach to undertaking a review of the effectiveness of the Audit and Standards Committee with reference to the 2018 good practice recommended by the Chartered Institute of Public Finance and Accountancy (CIPFA).

The Chief Internal Auditor reported that the Combined Authority had now been in existence for a year and the Committee were now at the stage where members can start to examine the effectiveness of the audit process. The Chief Internal Auditor had discussed options for the review with the Independent Chair of the Audit Committee and agreed that the best way forward was to allocate time with members to talk through the list of questions using the CIPFA checklist which will inform the basis of the review.

Members were also advised that the latest CIPFA guidance recommended an annual report to the Combined Authority Cabinet. The report should demonstrate how the committee has discharged its responsibilities.

During discussion Members put the following comments/queries:

- The benefits of the CIPFA statement.

- The Chair suggested that the review be undertaken on a 1-2-1 basis or a round table discussion.

- A Member asked if Committee could review the answers given. The Chief Internal Auditor replied stating that the review should be seen as a helpful/useful process and not a threat.

- The Chair suggested that all senior officers be involved in the review process.

A representative from Mazars (External Audit) suggested methods of feedback to committee and gave an example of the procedure used by the NHS.

Members heard that the review would be completed by 30 June 2020 and the initial results reported to the Audit Committee at its July meeting.

RESOLVED - that the North of Tyne Combined Authority Audit and Standards Committee endorsed the approach to undertaking a review of the effectiveness of the Audit and Standards Committee.

47 **UPDATE REPORT ON PROGRESS AGAINST THE INTERNAL AUDIT DIAGNOSTIC TOOLKIT**

Submitted: Report of the Chief Finance Officer (previously circulate and a copy attached to the Official Minutes).

The Chief Finance Officer introduced the report the purpose of which was to provide an update against the Internal Audit Diagnostic Toolkit.

Committee were reminded that the Internal Audit Plan 2019/20 was approved by the Audit and Standards Committee in April 2019. The Committee had agreed that the first part of the year Internal Audit would focus in the completion of a diagnostic toolkit to help the Combined Authority assess the extent to which the Financial Procedure Notes contained within the Combined Authority's Financial regulations have been implemented.

The diagnostic work undertaken had been helpful in understanding how well current financial systems were working and where improvements could be made.

RESOLVED – that the North of Tyne Combined Authority Audit and Standards Committee noted the report.

48 **STRATEGIC RISK AND OPPORTUNITIES REGISTER**

Submitted: Report of the Risk Advisor to North of Tyne Combined Authority (previously circulated and a copy attached to the Official Minutes).

The Risk Advisor introduced the report the purpose of which was to provide members with the Strategic Risk and Opportunities Register for the North of Tyne Combined Authority following its approval by Cabinet. The report also included a summary of the strategic risks the North East Joint Transport Committee faces as it seeks to achieve its objectives.

Members were advised that at its meeting in October 2019 the Cabinet agreed that the Audit and Standards Committee would be responsible for overseeing risks; the risk owners are the appropriate directors. The two new appointments, Director of Economic Growth and Director of Policy, Communications and Business Operations are now permanent.

49 **2019/20 ANNUAL GOVERNANCE STATEMENT ASSURANCE FRAMEWORK**

Submitted: Report of the Risk Advisor to the North of Tyne Combined Authority (previously circulated and a copy attached to the Official Minutes).

The Risk Advisor introduced the report advising members that the purpose of the report was to introduce the assurance framework which will be used to produce the Authority's Annual Governance Statement. The Audit and Standards Committee will use the assurance framework to review the governance and internal control environment operating during 2019/20 and to challenge assurance being provided on the effective operation of control systems before approving the Annual Governance Statement for inclusion with the Authority's final 2019/20 annual accounts.

RESOLVED – that the North of Tyne Combined Authority Audit and Standards Committee agreed the approach to be taken to produce the 2019/20 Annual Governance Statement, including the Authority's assurance framework

50 EXTERNAL AUDIT - ANNUAL AUDIT LETTER

Submitted: Report of Mazars, External Auditors (previously circulated and a copy attached to the Official Minutes).

Jim Dafter introduced the progress report. Members noted the intention to present the 2019/20 Audit Strategy Memorandum to the April Audit Committee.

RESOLVED – that the North of Tyne Combined Authority Audit and Standards Committee noted the report.

51 DATE AND TIME OF NEXT MEETING

21 April 2020 at 10.00am

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NORTH OF TYNE COMBINED AUTHORITY

Audit and Standards Committee

28 July 2020

Subject: **2019/20 Opinion on the Adequacy and Effectiveness of the Framework of Governance, Risk Management and Control**

Report of: **Kevin McDonald, Acting Chief Internal Auditor**

Report Summary

The purpose of this report is to outline Internal Audit's 2019/20 Opinion on the Adequacy and Effectiveness of the Framework of Governance, Risk Management and Control.

Recommendations

The Audit and Standards Committee is recommended to consider and note the Chief Internal Auditor's 2019/20 Opinion on the Adequacy and Effectiveness of the Framework of Governance, Risk Management and Control, attached as **Appendix 1**.

1. Background Information, Proposals and Timetable for Implementation

<u>2019/20 Opinion of the Chief Internal Auditor on the Adequacy and Effectiveness of the Framework of Governance, Risk Management and Control (Appendix 1)</u>

1.1 This report has been written by the Chief Internal Auditor to provide an annual opinion on the overall adequacy and effectiveness of the framework of governance, risk management and control within the North of Tyne Combined Authority. This is the second annual opinion provided to the Combined Authority following its inception in November 2018.

1.2 It is the responsibility of management to ensure that effective systems of internal control are in place within the Combined Authority and to establish sound arrangements for planning, appraising, authorising and controlling their operations. Internal Audit assists management by testing to see whether the controls established for any given system are appropriate.

1.3 For the purposes of this report, the Chief Internal Auditor has undertaken a programme of assurance activity as defined by the Public Sector Internal Audit Standards (PSIAS). The programme of assurance for 2019/20 was as set out in the

Internal Audit Strategic Audit Plan 2019/20 discussed by and agreed at Audit and Standards Committee on 4 April 2019.

1.4 The Chief Internal Auditor notes that the Combined Authority remains a relatively new entity, formed in November 2018. As such, it would be normal and expected that procedures for the new authority will still be in the process of evolving.

1.5 Notwithstanding this, Internal Audit can report that good progress has continued to be made during 2019/20 in establishing and embedding fundamental financial systems. Overall governance of the Authority has been further enhanced by the appointment of key senior officers at a Director level on a permanent basis, which has strengthened management and corporate oversight, and hence the framework of governance, risk management and control.

1.6 The opinion of the Chief Internal Auditor is that the framework of governance, risk management and control is satisfactory overall, at this stage in the authority's development and given the range of responsibilities it is required to discharge. This is a positive assessment of the control environment of the organisation

1.7 In accordance with its role, Internal Audit has agreed recommendations with management aimed at further strengthening the control environment in operation within the organisation. It is management's responsibility to implement agreed recommendations.

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 work of Internal Audit and Audit and Standards Committee contributes to the overall achievement of the Authority's objectives, vision, policies and priorities.

3. Key Risks

3.1 The Internal Audit coverage is based on an assessment of risk, both those inherent in organisational service delivery and also those risks and opportunities associated with the North of Tyne Combined Authority's main aims. As such, Internal Audit is a key strand in the governance arrangements of the North of Tyne Combined Authority and an integral tool in managing risk.

4. Financial and Other Resources Implications

4.1 There are no direct financial or other resource implications arising from the recommendations set out in this report. Through its review of a range of audit, accounting and governance related items, the Audit and Standards Committee assesses the Authority's use of financial resources and value for money.

5. Legal Implications

5.1 The Accounts and Audit Regulations 2015 are a statutory instrument and require the Authority to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.

5.2 The Public Sector Internal Audit Standards and related Local Government Application Note establish the professional standards Internal Audit must apply when planning the use of its resources. This report has been prepared in accordance with both the Accounts and Audit Regulations 2015 and the Public Sector Internal Audit Standards.

6. Consultation / Engagement

6.1 The 2019/20 opinion on the adequacy and effectiveness of the framework of governance, risk management and control summarises Internal Audit findings communicated to and discussed with management throughout the course of 2019/20. Regular reports have also been made to the Audit and Standards Committee throughout the year, advising of the outcomes of Internal Audit's work, in accordance with the Audit and Standards Committee's planned schedule of work.

7. Appendices

Appendix 1 – 2019/20 Opinion on the Adequacy and Effectiveness of the Framework of Governance, Risk Management and Control

8. Background Papers

Internal Audit Plan - Internal Audit Initial Coverage 2018/19 and Internal Audit Strategic Audit Plan 2019/20

9. Contact Officers

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10. Sign Off

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

NORTH OF TYNE COMBINED AUTHORITY	**Internal Audit Report:** **2019/20 Opinion on the Adequacy and Effectiveness of the Framework of Governance, Risk Management and Control**

1 Purpose of Report

1.1 This report has been written by the Chief Internal Auditor to provide a 2019/20 opinion on the overall adequacy and effectiveness of the framework of governance, risk management and control within the North of Tyne Combined Authority (herein referred to as the Combined Authority).

1.2 This is the second annual opinion provided to the Combined Authority following its inception in November 2018. The Chief Internal Auditor confirms that audit coverage has been based on Internal Audit's assessment of risk to the organisation, and the Internal Audit team has been allowed unfettered access to undertake the audit work set out in the Internal Audit Strategic Audit Plan 2019/20 presented to the Audit and Standards Committee in April 2019.

2 Governance, Risk Management and Control

2.1 It is the responsibility of management to ensure that effective systems of internal control are in place within the Combined Authority and to establish sound arrangements for planning, appraising, authorising and controlling their operations. Internal Audit assists management by testing to see whether the controls established for any given system are appropriate.

2.2 It is important to stress that Internal Audit, while part of the Combined Authority's overall assurance framework, is not a substitute for effective internal control within the Combined Authority's systems. This is discussed further below, at paragraph 3.5, and reflects the 'three lines of defence' model of assurance.

2.3 Effective controls will depend, amongst other factors, on:

- The nature, size and volume of transactions;
- The degree of control which management is able to exercise personally;
- The geographical distribution of the enterprise; and
- The cost of operation of the controls against the benefits expected from them.

2.4 There are eight main types of internal control, namely:

Preventative Controls

(i) Segregation of duties (no one person should be responsible for processing and recording a complete transaction).
(ii) Authorisation and approval (all financial transactions should require authorisation by an appropriate responsible official; the limits of authorisation should be specified).
(iii) Physical (custody of / access to tangible assets should be secure and limited to authorised personnel).

Detective Controls

(iv) Arithmetic & Accounting (controls within the recording function to check that transactions have been authorised, are included, are correctly recorded and are accurately processed).

Directive Controls

(v) Organisation (responsibilities should be defined and allocated; reporting lines should be identified; delegation of authority should be clearly specified).
(vi) Supervision (all actions by all levels of staff should be supervised; the responsibility for this supervision should be clearly laid down and communicated to the person being supervised).
(vii) Personnel (procedures should exist to ensure that staff are competent to carry out the jobs assigned to them, including proper recruitment and performance management procedures, career prospects, training and pay policies).
(viii) Management (controls exercised by management outside the day to day routine of the system, including supervision).

3 Opinion on the Adequacy and Effectiveness of the Framework of Governance, Risk Management and Control

3.1 For the purposes of this report, the Chief Internal Auditor has undertaken a programme of assurance activity as defined by the Public Sector Internal Audit Standards (PSIAS).

3.2 The programme of assurance for 2019/20 was as set out in the Internal Audit Strategic Audit Plan 2019/20 that was discussed and agreed at Audit and Standards Committee on 4 April 2019.

3.3 The Chief Internal Auditor notes that the Combined Authority remains a relatively new entity, formed in November 2018. As such, it would be normal and expected that procedures for the new authority will still be in the process of evolving.

3.4 Notwithstanding this, Internal Audit can report that good progress has continued to be made during 2019/20 in establishing and embedding fundamental financial systems. Overall governance of the Authority has been further enhanced by the appointment of key senior officers at a Director level on a permanent basis, which has strengthened management and corporate oversight, and hence the framework of governance, risk management and control.

3.5 The opinion of the Chief Internal Auditor is that the framework of governance, risk management and control is satisfactory overall, at this stage in the authority's development and given the range of responsibilities it is required to discharge. This is a positive assessment of the control environment of the organisation.

3.6 Assurance can never be absolute, and neither can Internal Audit work be designed to identify all weaknesses that might exist. This judgement is informed by the outcomes of Internal Audit's coverage, further detail is provided in Section 4 of this report.

3.7 However, Internal Audit is required to be alert to changes in the risk environment and conditions in which any audited entity operates. Internal Audit notes that the Coronavirus pandemic, which has brought about a number of significant changes nationally, occurred at the end of the 2019/20 financial year. The Coronavirus pandemic has been far-reaching in its impact and local government bodies, including Combined Authorities, have subsequently been a key part of the response to the pandemic. The full impact of the pandemic is still evolving and all local government bodies are in the process of evaluating the changes to their risk profile and operations. It is clear from published reports that North of Tyne Combined Authority has expressly considered the impact of Coronavirus on its operations and Internal Audit will formally consider the impact of the Coronavirus pandemic as part of our coverage during 2020/21.

3.8 The Chief Internal Auditor has not needed to place reliance on the work of other bodies in forming this view, and there are no limitations in the scope of the opinion.

3.9 In accordance with its role, Internal Audit has agreed recommendations with management aimed at further strengthening the control environment in operation within the organisation. It is management's responsibility to implement agreed recommendations.

4 Audit Work Performed During 2019/20

4.1 During 2019/20 Internal Audit work focussed upon the following areas:

- Development, completion and assessment of a bespoke diagnostic tool based upon the Combined Authority's Financial Regulations. Of the 47 questions completed in the Diagnostic Tool, Internal Audit's findings demonstrated that the majority of areas examined received an assessment of 'yes' or 'qualified yes' (29 assessment areas). Some additional actions to embed expected standards of practice would be beneficial in other parts of the areas examined (18 assessment areas). 37 recommendations were agreed with management and a completed schedule of recommendations including the action to be taken to address each recommendation, and a target completion date was presented to Audit and Standards Committee in January 2020 by the Chief Finance Officer;
- Evidence checking undertaken of the implementation of all five high priority recommendations from the Diagnostic Tool and a sample of the 26 medium priority recommendations. In relation to the high priority recommendations this work has established that the delegated officer schedule now includes specimen signatures and records which budgets officers can authorise orders and payments for, finance and procurement training has been provided to staff, and employer's liability insurance was arranged in July 2019 as soon as the organisation was advised by Internal Audit that this was not in place. Further

work is underway in relation to reviewing Contract Standing Orders and Financial Regulations and Officers intended to present these documents to Cabinet in July;

- A review of the governance arrangements in relation to the Investment Fund. The audit found that systems are in place and operating as expected, with a Significant Assurance audit opinion provided; and
- Supporting the Combined Authority in a project assurance role whilst the governance arrangements around the implementation and ongoing management of the Adult Education Budget are developed. This role involves Internal Audit advising on, and challenging, the approach to internal control and methods of service delivery. By undertaking this role, the Internal Audit Service proactively acts as a partner to the Combined Authority, in order to assist the organisation achieve its objectives.

4.2 A planned audit of the Combined Authority's Risk Management arrangements, scheduled for quarter four of 2019/20, was delayed due to the Coronavirus pandemic. The audit resource to undertake this review has been rolled forward into 2020/21 in accordance with normal auditing practices.

4.3 It was also proposed to undertake reviews of the Combined Authority's Performance Management and Information Systems and Technology arrangements in 2019/20. During the year, an ongoing assessment of the control environment was maintained and it was judged that timing was not optimal for these audits. The Performance Management framework was in the process of undergoing additional development at the time of the proposed review, meaning an audit would not have delivered optimum value. Meanwhile, it was identified that Internal Audit resource was required to support the Combined Authority in a project assurance role whilst the governance arrangements around the implementation and ongoing management of the devolved Adult Education Budget were developed. Accordingly, Internal Audit time was diverted to support this area of work. A review of the Performance Management framework and the development of a programme of IT audits to assess the adequacy of the Combined Authority's Information Systems arrangements has been included in the Internal Audit Strategic Plan 2020/21.

4.4 The number of Internal Audit recommendations agreed with management during the 2019/20 audit year, classified against each priority, is provided in the table below:

Priority Level	**Description**	**2019/20**
Critical	Action that is considered critical to ensure the organisation is not exposed to unacceptable risks.	Nil
High	Action that is considered urgent to ensure that the service area / establishment is not exposed to high risks.	5 (10%)
Medium	Action that is considered necessary to avoid exposure to considerable risks.	27 (52%)
Low	Action that is considered desirable or best practice and would result in enhanced control or better value for money.	20 (38%)
	Total	**52**

4.5 Prioritisation of Internal Audit recommendations is controlled through Internal Audit's quality control and review processes. This is in accordance with the requirements of PSIAS, which requires that a Quality Assurance and Improvement Programme is in place for Internal Audit's work.

5 Public Sector Internal Audit Standards: Summary of Conformance

5.1 All public sector internal audit providers in the UK are required to comply fully with the Public Sector Internal Audit Standards (PSIAS). The PSIAS require the Chief Internal Auditor to develop and maintain a Quality Assurance and Improvement Programme (QAIP) to enable the Internal Audit service to be assessed against the PSIAS, and a related Local Government Application Note (LGAN), for conformance.

5.2 The QAIP must include both internal and external assessments. Internal assessments are both ongoing and periodical and external assessment must be undertaken at least once every five years. In addition to evaluating compliance with the PSIAS, the QAIP also assesses the efficiency and effectiveness of the internal audit activity, identifying areas for improvement.

5.3 Internal Audit services are delivered to the North of Tyne Combined Authority by the Shared Internal Audit Service (which also provides services to North Tyneside Council and Northumberland County Council). The Shared Internal Audit Service was externally assessed for compliance with the PSIAS during 2017 / 2018 and the assessment concluded that:

"The Shared Internal Audit Service is compliant with the requirements of the Public Sector Internal Audit Standards. There are a small number of areas which require action but these do not significantly impact on the overall opinion. There were no areas of concern to be reported."

5.4 In accordance with PSIAS, annual self-assessments have been completed since the external inspection which are congruent with the opinion of the external assessment. The small number of areas in which further development had been identified, (e.g. the involvement of the Chair of Audit Committee in the Chief Internal Auditor's performance appraisal) have been implemented.

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NORTH OF TYNE COMBINED AUTHORITY

Audit and Standards Committee

28 July 2020

Subject: **Internal Audit Quarterly Update Report**

Report of: **Kevin McDonald, Acting Chief Internal Auditor**

Report Summary

A quarterly update from Internal Audit is included within the Work Programme for the Audit & Standards Committee at each scheduled meeting during the year. Due to the Coronavirus pandemic, occurring in March 2020, the Audit & Standards Committee originally scheduled for April 2020 was cancelled. Accordingly, this report provides Audit & Standards Committee with an update on progress against the 2019/20 Internal Audit Plan and relevant outcomes from work undertaken.

Recommendations

The Audit and Standards Committee is recommended to:

(a) Consider and note Internal Audit's report.

1. Background Information, Proposals and Timetable for Implementation

<u>Completed Work</u>

Financial Regulations Diagnostic Toolkit

1.1 The Audit and Standards Committee agreed that for the first part of 2019/20 Internal Audit would focus on the completion of a bespoke diagnostic toolkit developed to help the Combined Authority assess the extent to which the Financial Procedure Notes contained within the Combined Authority's Financial Regulations have been implemented.

1.2 This work was completed and reported to the Audit and Standards Committee in July 2019. Subsequent to that meeting Internal Audit prepared a Schedule of Recommendations arising from the diagnostic toolkit. This was updated by the Combined Authority's Strategic Finance Manager to include management responses that established the action to be taken to address each recommendation, and a target completion date for each recommendation. The updated Schedule of Recommendations was presented by the Chief Finance Officer to the January 2020 Audit and Standards Committee and the Committee was advised that considerable progress had been made against the recommendations.

1.3 In accordance with Internal Audit procedures we have undertaken an evidence checking exercise to provide assurance to the Combined Authority regarding the progress made in implementing the recommendations.

1.4 Discussions with the Strategic Finance Manager and the Lead Accountant provided an update on progress made and evidence was requested for all five high priority recommendations and a sample of medium priority recommendations. The following table provides a summary of the results of the evidence checking undertaken:

Priority	Total Number of Recommendations - Diagnostic Toolkit	Total Number of Recommendations Evidence Checked	Number confirmed as Fully Implemented		Number Where Further Action is Underway to Ensure Recommendation is Fully Implemented	
			No.	%	No.	%
Critical	Nil	Nil	Nil	-	Nil	-
High	5	5	3	60	2	40
Medium	26	14	14	100	0	0
Total	31	19	17	89	2	11

1.5 Three of the five high priority recommendations have been fully implemented as follows:

- Updating the delegated officer schedule to include specimen signatures and record which budgets officers can authorise orders and payments for;
- Finance and Procurement training for staff; and
- The arrangement of employer’s liability insurance. This insurance was arranged immediately by the Combined Authority in July 2019 when Internal Audit advised this was not in place.

1.6 The Strategic Finance Manager is currently progressing the outstanding actions in relation to the two remaining high priority recommendations to ensure these are fully implemented. The first refers to updating Contract Standing Orders (contracting rules). Revised Contract Standing Orders were made available to all staff in October 2019, however, this document has not been approved by Cabinet. The Strategic Finance Manager has advised that further revisions to Contract Standing Orders are currently being progressed and the updated document is to be presented to Cabinet in July along with updated Financial Regulations and Financial Procedures Notes.

1.7 The second recommendation relates to Financial Procedure Note 8 of the Financial Regulations, covering Banking Arrangements and Cheques, not covering bank reconciliation processes and the need for these processes to be documented and include review and authorisation by a senior finance employee not involved in the day to day operation and management of the account. The initials of a Senior Officer are now recorded on the bank reconciliation, however, these initials are typed and do not provide a sufficient audit trail for evidential purposes. The Strategic Finance Manager advised that in the current circumstances a wet signature cannot be added but an electronic signature will be added to the June 2020 and future reconciliations. The Financial Procedural Notes are currently being updated, including documenting the bank reconciliation process.

1.8 The Strategic Finance Manager advised that due to the impact of Covid-19 three of the remaining twelve medium priority recommendations have not been progressed. Revised targets dates of September 2020 were agreed for these three recommendations. Evidence checking of these twelve medium priority recommendations will take place during 2020/21.

Assurance Framework – Investment Fund Governance Arrangements

1.9 The objectives of this audit were to assess the adequacy of governance arrangements in relation to the Investment Fund, and how effective these are in operation, specifically in relation to:

- Appraising project applications;
- Awarding of Funding;
- Monitoring and evaluating projects (both financially and in terms of achievement of objectives);
- Verifying claims and making payments; and
- Overall management of the Investment Fund.

1.10 The audit found that systems are in place and operating as expected, however, there remained areas for further development, such as finalising the Monitoring and Claims Work Instruction, developing written guidance for grant recipients and further developing the reporting of performance. Fourteen low priority recommendations aimed at further strengthening the existing control framework were agreed with management. One medium priority recommendation was made in relation to the absence of an action plan to ensure additional resources are in place if they are required should the volume of projects continue to grow as forecast.

1.11 On the basis of the work undertaken, it is the opinion of Internal Audit that the framework of internal control provides **Significant Assurance** to the Combined Authority on those aspects of the Assurance Framework – Investment Fund Governance Arrangements covered by the review. The opinion expressed by Internal Audit is in accordance with the following key:

Level of Assurance	Description
Full Assurance	The system of internal control is designed to meet the organisation's objectives and controls are consistently applied in all the areas reviewed.
Significant Assurance	**There is a generally sound system of control designed to meet the organisation's objectives. However, some weakness in the design of, or occasional non-compliance with, key controls put the achievement of the organisation's objectives at risk in some of the areas reviewed.**
Limited Assurance	Weaknesses in the design of, or regular non-compliance with, key controls put the achievement of the organisation's objectives at risk in some or all of the areas reviewed.
No Assurance	Significant weaknesses in the design of, or consistent non-compliance with, key controls could result (have resulted) in failure to achieve the organisation's objectives in the areas reviewed.

Project Assurance Work

Devolved Adult Education Budget

1.12 As part of the devolution deal the government agreed to fully devolve the 19+ Adult Education Budget (AEB) to the Combined Authority from 1 August 2020. This was approved by Parliament on 31 October 2019, following which a Memorandum of Understanding between NTCA and the Department for Education (DfE) was signed on 5 December 2019. In February 2020 the DfE confirmed the Combined Authority's devolved AEB funding allocation for 2020/21 as £23,144,967.

1.13 The devolved AEB will provide the Combined Authority with the opportunity to develop new relationships with post-16 skills and training providers, focussed on positive outcomes for learners and ensuring that AEB provision is better aligned to the needs of residents, employers and the economy.

1.14 Internal Audit is supporting the Combined Authority in a project assurance role whilst the organisation develops its governance arrangements around the implementation and ongoing management of the AEB. This role involves Internal Audit advising on, and challenging, the approach to internal control and methods of service delivery. By undertaking this role, the Internal Audit Service proactively acts as a partner to the Combined Authority, in order to assist the organisation achieve its objectives. This review was not included in the original Internal Audit Plan submitted in April 2019. However, as this is an essential part of the work being delivered by the Combined Authority it was appropriate for Internal Audit time to be diverted to support this area of work in accordance with normal auditing practices and our risk-based approach.

1.15 The Director of Economic Growth and the Head of Inclusive Growth are responsible for managing the implementation of the AEB within the Combined Authority. An AEB Operational Steering Group was established in September 2019 and meets weekly to monitor and assess progress. The group is chaired by the Head of Inclusive Growth and is well attended by key staff from the Inclusive Growth Team as well as support services such as Legal, Finance, Procurement, Marketing and Communications. Internal Audit attends the Steering Group in its project assurance role as described above.

1.16 There is a detailed project plan and risk register in place, and these documents are regularly reviewed and updated and considered by the Steering Group. Risks relating to the Covid-19 pandemic have been included on the project risk register covering the potential impact on provision and controls and mitigating actions identified and these are being implemented and monitored. At a corporate level the AEB risks are reviewed and where necessary included within the strategic risks. The strategic risk 'Delivery of Devolution' includes the potential impact of the Covid-19 pandemic upon delivery of the devolved AEB and steps being taken to mitigate the risk.

1.17 The devolved AEB budget for 2020/21 of £23.1million has been allocated as follows:

- £15.5 million (67%) as grants to ten providers who are currently Grant funded by the Education and Skills Funding Agency (ESFA) and will provide stability for residents and ensure appropriate levels of statutory entitlement provision is available to learners;
- £6.6million (29%) through formal procurement allocated across three lots with distinct objectives; 1) Supporting the unemployed into work, 2) In-work progression; and 3) Innovation (a more flexible opportunity to help those furthest from the labour market). This consists of an allocation of £5.9million through the main procurement exercise undertaken in December 2019 and £0.730million allocated in May 2020 focussed on Covid-19 Recovery across the three original lots;
- £0.3million (1%) remains unallocated to enable a quick response should any gaps in provisions be identified; and
- £0.7million (3%) is allocated to administering the fund.

1.18 Key areas of progress in the AEB project to date include:

- Publication of the AEB Skills Plan setting out the priorities for the devolved AEB, linked to the needs of our local communities and employers and in support of the wider North East Strategic Economic Plan;
- Completion of procurement exercises and negotiations with grant providers regarding financial allocations and agreement of delivery plans;
- Development of a provider performance and compliance management process which will be standardised across all providers, grant funded and contracted, in receipt of funding; and
- Grant Agreements and Contracts for Services to be finalised in July 2020.

1.19 The AEB funding will be an important strand in supporting the region's economic recovery from the Covid-19 pandemic. Officers have been in regular communication with the AEB provider base to ascertain the impact of the crisis on their current delivery, provide reassurance that agreed delivery plans and contracts will remain in place, and gather intelligence on what additional provision could be made available through the AEB provider base to support recovery.

1.20 As a result of this dialogue NTCA officers are confident that providers have innovative plans in place to ensure delivery of the devolved AEB will commence from August 2020 as planned and that it will make an important contribution to the Combined Authority's vision of an inclusive economy. These matters continue to be monitored and assessed through the Project risk register.

1.21 As the project progresses Internal Audit will continue in a project assurance role to support the Combined Authority's implementation of AEB, specifically in relation to the implementation of:

- Systems and procedures for the assessment and evaluation of contractor and grant provider performance; and
- Payment processes.

1.22 Further progress reports will be provided to the Audit and Standards Committee as appropriate.

<u>Update on Other Work</u>

1.23 The Internal Audit Plan approved by Audit and Standards Committee on 4 April 2019 set out a number of other audits, in addition to those set out above. A summary of each of these audits is provided below.

Area for Review	Update
Risk Management – Internal Audit will work with the Risk Management Officer to review the risk profile of the organisation and to evaluate the arrangements in place. Effective risk management is a fundamental strand of governance.	Risk Management is delivered to the Combined Authority under an SLA with Newcastle City Council. Internal Audit planned to liaise with the relevant officers at Newcastle City Council to appraise risk management arrangements in Quarter 4 of 2019/20. However, the impact of the Covid-19 pandemic has delayed this work. The audit resource to undertake this review has been rolled forward into 2020/21 and the review will be undertaken in the coming months and reported to the Audit and Standards Committee.
Information Systems and Technology – IT systems are fundamental to the efficient and effective discharge of key processes, and it is essential these systems operate effectively and bear suitable safeguards. Internal Audit will undertake a programme of systematic reviews covering key risks associated with computerised delivery.	It was proposed to commence this review in Quarter 4 of 2019/20. However, Internal Audit resource was diverted to continue to support the Combined Authority in a project assurance role whilst the organisation develops its governance arrangements around the implementation and ongoing management of the devolved Adult Education Budget. The development of a programme of IT audits to assess the adequacy of the Combined Authority's Information Systems arrangements has been included in the Internal Audit Strategic Plan 2020/21.
Performance Management - The arrangements in place to manage relationships between the Combined Authority and its constituent authorities will be reviewed to ensure there is clarity and agreement on key deliverables. The Combined Authority has an SLA with North Tyneside Council (NTC) for performance management. The Chief Finance Officer advised NTC are developing a Performance	Internal Audit have discussed Performance Management with NTC's Performance Manager who advised that support was being provided to assist a number of service areas to develop project specific performance management arrangements. It was therefore judged by Internal Audit that the timing was not optimal for this audit. However, Internal Audit will be reviewing and reporting on these arrangements as they are relevant to planned audit work. For example, the recently completed work in relation to the Investment Fund Governance Arrangements described earlier in this report included a review of the performance management arrangements of individual projects and the Investment Fund

Area for Review	Update
Management Framework, which is currently at development stage.	overall to ensure delivery of the Combined Authority's objectives to drive growth and take forward the organisation's economic priorities. An audit review of this area has been included in the 2020/21 Internal Audit Strategic Plan.

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 work of Internal Audit and Audit and Standards Committee contributes to the overall achievement of the Authority's objectives, vision, policies and priorities.

3. Key Risks

3.1 The Internal Audit coverage is based on an assessment of audit risk, both that inherent in organisational service delivery and also those risks and opportunities associated with the North of Tyne Combined Authority's main aims. As such, Internal Audit is a key strand in the governance arrangements of the North of Tyne Combined Authority and an integral tool in managing risk.

4. Financial and Other Resources Implications

4.1 There are no direct financial or other resource implications arising from the recommendations set out in this report. Through its review of a range of audit, accounting and governance related items, the Audit and Standards Committee assesses the Authority's use of financial resources and value for money.

5. Legal Implications

5.1 The Accounts and Audit Regulations 2015 are a statutory instrument and require the Authority to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.

5.2 The Public Sector Internal Audit Standards and related Local Government Application Note establish the professional standards Internal Audit must apply when planning the use of its resources. This report and the Internal Audit Strategic Plan 2019/20 have been prepared in accordance with both the Accounts and Audit Regulations 2015 and the Public Sector Internal Audit Standards.

6. Consultation / Engagement

6.1 The Head of Paid Service and Chief Finance Officer were consulted in preparation of Internal Audit's 2019/20 coverage.

7. Appendices

None

8. Background Papers

Internal Audit Plan - Internal Audit Initial Coverage 2018/19 and Internal Audit Strategic Audit Plan 2019/20

9. Contact Officers

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10. Sign Off

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

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NORTH OF TYNE COMBINED AUTHORITY

Audit and Standards Committee

28 July 2020

Subject: **Internal Audit Strategic Audit Plan 2020/21**

Report of: **Kevin McDonald, Acting Chief Internal Auditor**

Report Summary

The purpose of this report is to outline the proposed Strategic Audit Plan for 2020/21 for consideration and endorsement by the Audit and Standards Committee.

Recommendations

The Audit and Standards Committee is recommended to consider and endorse the proposed Strategic Audit Plan 2020/21, attached as **Appendix A**, which is based on an assessment of audit risk and designed to focus on the North of Tyne Combined Authority's key objectives in the 2020/21 year.

1. Background Information, Proposals and Timetable for Implementation

Proposed Internal Audit Plan for 2020/21

1.1 A copy of the Strategic Audit Plan 2020/21 is attached at **Appendix A**. The plan sets out detailed assurance coverage, following an assessment of audit risk and following engagement with senior officers.

1.2 The Strategic Audit Plan for 2020/21 has been prepared during the time of the Coronavirus pandemic and associated Government response. Audit and Standards Committee should note that this is a dynamic situation and that Internal Audit must continue to reassess the emerging risk profile and its impact on the assurance needed. Any variations to the proposed internal audit coverage during 2020/21 will be reported to Audit & Standards Committee as part of the established reporting programme for the committee.

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 work of Internal Audit and Audit and

Standards Committee contributes to the overall achievement of the Authority's objectives, vision, policies and priorities.

3. Key Risks

3.1 The Internal Audit coverage proposed in this report is based on an assessment of audit risk, both that inherent in organisational service delivery and also those risks and opportunities associated with the North of Tyne Combined Authority's main aims. As such, Internal Audit is a key strand in the governance arrangements of the North of Tyne Combined Authority and an integral tool in managing risk.

4. Financial and Other Resources Implications

4.1 There are no direct financial or other resource implications arising from the recommendations set out in this report. Through its review of a range of audit, accounting and governance related items, the Audit and Standards Committee assesses the Authority's use of financial resources and value for money.

5. Legal Implications

5.1 The Accounts and Audit Regulations 2015 are a statutory instrument and require the Authority to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.

5.2 The Public Sector Internal Audit Standards and related Local Government Application Note establish the professional standards Internal Audit must apply when planning the use of its resources. The Strategic Audit Plan 2020/21 has been prepared in accordance with both the Accounts and Audit Regulations 2015 and the Public Sector Internal Audit Standards.

6. Consultation / Engagement

6.1 The Head of Paid Service, Chief Finance Officer, Director of Economic Growth, and Director of Policy and Performance were consulted in preparation of Internal Audit's proposed 2020/21 coverage.

7. Appendices

Appendix A – Internal Audit Strategic Plan 2020/21

8. Background Papers

Development of Strategic Audit Plan 2020/21

9. Contact Officers

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Tony Candlish, Senior Auditor
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01670 623929

10. Sign Off

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

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NORTH OF TYNE COMBINED AUTHORITY	**Internal Audit Report:** **Strategic Audit Plan 2020/21**

1 Introduction

1.1 The Public Sector Internal Audit Standards (PSIAS) published by the Chartered Institute of Public Finance and Accountancy/Chartered Institute of Internal Auditors describe Internal Audit as "*an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes*". It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources.

1.2 Internal Audit is an independent resource available to assist the organisation to explore areas of potential efficiency and matters of probity and internal control. We seek to use our business intelligence and knowledge of the Combined Authority to make sensible, informed recommendations for improvement, and thus contribute to the effective running of the organisation.

1.3 Internal Audit provides assurance to the organisation that controls established to manage risks to the achievement of the Combined Authority's objectives are operating effectively. This has a positive impact on the risk environment, informing management whether the action which they are taking to control and manage risks is working as it should.

1.4 The Strategic Audit Plan has been prepared in accordance with the current PSIAS. These standards build upon the good practice set out in previous professional regulations, including audit planning requirements, and have the force of law. Preparation has involved establishing a risk-based plan to determine the priorities of internal audit activity, consistent with the organisation's goals and the aspirations of key stakeholders with regard to assurance activity for the Combined Authority.

1.5 The Strategic Audit Plan, which is included in section 9, helps to ensure that Internal Audit is able to meet its objectives as an independent assurance function for the Combined Authority and to provide an independent and objective opinion to the organisation on the adequacy and effectiveness of the framework of governance, risk management, and control. Internal Audit must be independent in its planning and operation. Accordingly, in producing the Strategic Audit Plan, the Chief Internal Auditor is required to determine the priorities of Internal Audit, following consultation with stakeholders and assessment of risk, and to present this Plan to senior management and the Board (Audit and Standards Committee) for review and approval.

2 Period Covered by the Strategic Audit Plan

2.1 The Strategic Audit Plan sets out the assurance coverage which Internal Audit will deliver within the coming financial year, 2020/21. The Plan needs to be realistic and achievable, and sufficiently flexible to respond to changing priorities as they occur.

2.2 On an annual basis, the areas which may benefit from audit review, and the audit risk associated with the Combined Authority's operations are reassessed. Every year, an updated Strategic Audit Plan is presented to the Audit and Standards Committee for approval in line with the PSIAS. The key objectives for the audit reviews identified to take place during 2020/21 are shown in section 9 of this document.

3 Risk Assessment and Audit Planning

3.1 It is important that audit resources are targeted at areas in which audit coverage will produce greatest benefit. Risk-based internal auditing requires Internal Audit to understand and analyse management's assessment of risk, and base audit efforts around this assessment of risk to the organisation.

3.2 Consultation has been undertaken with the Head of Paid Service, Chief Finance Officer, Directory of Economic Growth and Director of Policy and Performance. Potential assurance requirements were discussed, and views were sought on any additional areas considered worthy of audit review over the course of the Strategic Audit Plan.

3.3 Following this risk assessment and client engagement, a number of areas have been prioritised by Internal Audit in this Plan. All Internal Audit providers are currently being encouraged to review the audit risk profile of audited entities in the wake of changes which have occurred as a result of the Covid-19 pandemic. To an extent, those risks are still evolving. At this stage therefore, the impact of Covid-19 and measures introduced as a result of this cannot be fully documented or assessed with certainty. Changes in the risk environment along with progress against the Plan will continue to be monitored and assessed throughout the year, and the results of this assessment used to inform in-year and future audit priorities. This ensures that the Plan remains flexible and reflects the evolving risks facing the Combined Authority.

3.4 The Strategic Audit Plan has therefore been based on an assessment of the Combined Authority's objectives and business goals, risks facing the organisation and its achievement of these goals, known strengths and weaknesses in the internal control system, the Accounts and Audit Regulations 2015, and the views of consultees.

4 Internal Control: Roles of Management and of Internal Audit

4.1 It is a management responsibility to establish effective internal controls, in order that activities are conducted in an efficient and well-ordered manner. Internal control comprises the whole system of controls and systems, financial and otherwise, established by management to:

- safeguard assets and prevent fraud;
- ensure the completeness and reliability of records;
- monitor adherence to laws, regulations, policies and directives;
- promote operational efficiency and good value for money; and
- manage risk.

4.2 Amongst its responsibilities, Internal Audit examines, evaluates and reports on the adequacy of internal control as a contribution to the proper, economic, efficient and effective use of resources. Internal Audit will assist management of the organisation in delivering the objectives of the Combined Authority through assessing exposure to risk and recommending, where appropriate, practical improvements to the control environment. Internal Audit's remit includes:

- assessing if operations are being carried out as planned, and if objectives / goals are being achieved;
- assessing the adequacy of systems established to ensure compliance with policies, plans, procedures, laws and regulations, i.e. rules established by the management of the organisation or externally;
- assessing the completeness, reliability and integrity of information, both financial and operational;
- assessing the extent to which the Combined Authority's assets, data and interests are properly accounted for and safeguarded from losses of all kinds, including fraud, corruption, waste, extravagance, abuse, ineffective management and poor value for money; and
- assessing the economy, efficiency and effectiveness with which resources are deployed.

4.3 It is usual that a project brief is produced and distributed prior to an audit starting so that the objectives of the audit and approach to be adopted are understood by both Internal Audit and the audit client.

5 Quality Standards

5.1 As outlined above, Internal Audit will adopt the good practice set out in the PSIAS in the conduct of its assurance coverage for the North of Tyne Combined Authority.

5.2 The PSIAS incorporate a Code of Ethics for internal auditors, and a number of clear attribute and performance standards with which Internal Audit functions are required to comply.

6 Resource Management

6.1 The Chief Internal Auditor must ensure that internal audit resources are appropriate, sufficient and effectively deployed to achieve the approved plan and an indicative resource allocation has been identified for the 2020/21 audit of the North of Tyne Combined Authority. This will continue to be reviewed in conjunction with the Chief Finance Officer.

7 Key Themes in the Strategic Audit Plan, 2020/21

7.1 Based on Internal Audit's assessment of risk, including knowledge of the Combined Authority's internal controls, areas of strength and weakness and the Combined Authority's priorities, the Strategic Audit Plan is detailed in section 9 below.

7.2 As well as offering Advice & Programme Assurance, the Plan highlights key prioritised areas of assurance coverage including arrangements around the Devolution Deal and Gateway requirements; monitoring of grant conditions by the Combined Authority as both a grant recipient and grant funder; arrangements with the North East Local Enterprise Partnership; policy framework of the Combined Authority and its link to finance and governance.

8 Annual Opinion on the adequacy of the framework of governance, risk management and control

8.1 An annual opinion on the 'adequacy and effectiveness of the framework of governance, risk management and control' will be drafted and presented to the Head of Paid Service, Section 73 Officer, Monitoring Officer and Audit and Standards Committee, outlining the audit work performed during the year and summarising key themes.

8.2 The undertaking to present an annual opinion of this nature means that the Chief Internal Auditor must have unrestricted access to all aspects of the Combined Authority's operations.

Section 9: North of Tyne Combined Authority - Strategic Audit Plan (Internal Audit) 2020/21

Advice & Programme Assurance

Auditable Area	Audit Objectives
Advice & Guidance Contingencies & Work Requests Fraud & Special Investigations	• Responding to ad-hoc queries and requests for advice; • Responding to requests for one-off audit assignments, where it is considered that audit involvement is necessary; • Responding to allegations of fraud, if such allegations are received; • Assess whether appropriate consideration has been given to internal control & governance issues when new systems are introduced.
Programme Assurance – New Systems / Methods of Service Delivery	Continue to support the Combined Authority in a project assurance role whilst the governance arrangements around the implementation and ongoing management of the Adult Education Budget are developed.

Corporate and Cross Cutting

Auditable Area	Audit Objectives
Annual Opinion	An annual opinion on the adequacy and effectiveness of the framework of governance, risk management and control will be drafted and presented to the Chief Executive, Section 73 Officer, Monitoring Officer and Audit and Standards Committee, outlining the audit work performed during the year, summarising key themes and evaluating the control framework.
Follow up of Recommendations	Monitoring the implementation of Internal Audit recommendations, in consultation with the service areas which have received these recommendations. This will take the form of following up and evidence checking recommendations from the 2019/20 financial diagnostic toolkit work and Investment Fund audits.

Value Added Assurance

Auditable Area	Audit Objectives
Arrangements for ensuring and evidencing delivery of the Devolution Deal	The NTCA Devolution Deal makes clear that NTCA "will be accountable to local people for the successful implementation of the Devolution Deal". Consequently, HM Government expects NTCA to monitor and evaluate its Deal in order to demonstrate and report on progress. The Devolution Deal sets out arrangements including development of a monitoring and evaluation plan to meet local needs and help to support future learning, and the requirement for a gateway review once in every 5 years. The next five-year tranche of funding will be unlocked if Government is satisfied that this independent assessment shows the investment to have met the objectives and contributed to economic growth. This audit will therefore evaluate the effectiveness of the arrangements established to ensure that the effective delivery of the Combined Authority's key outcomes and outputs, as enshrined in the Devolution Deal, can be clearly evidenced. This will include a critical review of the Assurance Framework established to monitor the delivery of the Devolution Deal and related performance management arrangements. This will also include an assessment of any 'early warning' triggers, and whether these are established appropriately to allow the Combined Authority's management and those charged with governance to become aware at an sufficiently early juncture to be able to take action if there is forecast to be significant deviation from target
Monitoring of grant conditions (in respect of grant funding both received by NTCA and issued by NTCA)	Whenever grant funding is issued to and accepted by an entity, the funding will be required to deliver specified objectives and outcomes. In order to exercise good governance over such external funding, it is essential that grant conditions and required outcomes are monitored. This applies to NTCA in two key ways: a) NTCA has been the recipient of grant funding and must demonstrate that grant conditions have been met (see also Devolution Deal above) b) NTCA has issued funding to other organisations to which grant conditions should apply. It is essential that NTCA assures itself that this grant funding issued is being used for the purposes specified and delivering the outcomes required. This audit will therefore examine and evaluate the arrangements established by NTCA to monitor its own grant conditions as a grant funding recipient and ensure that specified outcomes are delivered; and secondly, to assess arrangements within NTCA as a grant funder to set appropriate grant conditions when issuing funding to other organisations and monitor and evidence compliance with those grant conditions.

Auditable Area	Audit Objectives
Governance Arrangements in relation to the North East Local Enterprise Partnership (NELEP)	To review the financial management, decision-making and reporting arrangements established between the Combined Authority and NELEP to ensure these adequately serve the Combined Authority's role as accountable body for the NELEP.
Policy Framework – governance and decision making	To review the suite of governance policies established by the Combined Authority, and to form an opinion on whether expected governance areas are reflected in the suite of policies, and the adequacy of arrangements for ensuring staff awareness and compliance. Assurance sources such as training records and staff surveys will be included in the scope of the review. This audit will examine the wider policy framework's relationship with finance and governance.
Information Systems and Technology	To map which ICT systems are in place within the Combined Authority and to evaluate hosting arrangements and assess whether these arrangements are suitably robust and bear adequate safeguards to protect the Combined Authority and support delivery of its operations and achievement of its business objectives. This audit will now include the ICT systems in operation within the NELEP.
Risk Management	To review risk management arrangements and assess the extent to which appropriate risk assessment and identification systems are in place and operating effectively.

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NORTH OF TYNE COMBINED AUTHORITY

Audit and Standards Committee

28 July 2020

Subject: Strategic Risk and Opportunities Register

Report of: Risk Advisor to North of Tyne Combined Authority (NTCA)

Report Summary

The aim of the report is to provide assurance to Audit and Standards Committee that the most significant risks and opportunities have been identified, are being monitored and measures are being taken to address them.

The strategic risk register has been reviewed and updated to reflect the current and emerging situation as the Authority responds to the impact of the Covid-19 pandemic. This has resulted in the risk assessment for the Devolution risk increasing from Amber to Red.

As NTCA is now the accountable body for the North East Local Enterprise Partnership (North East LEP), a new opportunity is being developed and will to be added to the register and reported to the Committee at its next meeting.

Recommendations

The Audit and Standards Committee is recommended to:

1. Review and where necessary challenge the outcomes of the strategic risk review
2. Acknowledge the Devolution risk priority has increased from Amber to Red as a result of the uncertainties surrounding the outbreak of Covid-19
3. Acknowledge the new opportunity which will monitor the developing arrangements between NTCA and the North East LEP
4. Note a summary of the strategic risks identified by the North East LEP (Appendix C) and North East JTC (Appendix D) are included for information

1. Background Information, Proposals and Timetable for Implementation

1.1 The report aims to provide members with an update of the strategic risks and opportunities, which may impact upon the achievement of the Authority's priorities. The strategic risk register has been reviewed and updated to reflect the current and emerging situation as the Authority responds to the impact of the Coronavirus pandemic.

1.2 Ownership of each risk and opportunity has transferred from the Head of Paid Service to the Director of Economic Growth and the Director of Policy and Performance as appropriate. The Directors will continue to monitor the risks and opportunities, and report progress within this regular risk report (Appendix B).

1.3 The NTCA risks are strategic risk areas which will be monitored by this Committee and presented at each meeting. Lower level operational and project risks will continue to be managed at a project level. However, there are communication plans and escalation processes developed to ensure the biggest risks to individual programmes/projects are communicated and/or escalated to the strategic risk register.

1.4 **Delivery of Devolution**

Activity on the Investment Fund Programme has increased significantly over recent months. Allocations to support key sectors, including on clean growth, digital and culture and creative are progressing through the pipeline for consideration, with a commitment of £27.13m against 31 projects already achieved, which has attracted over £99m of private sector leverage.

Dialogue with NTCA adult education providers continues to ascertain the immediate impact of Covid-19 and their medium/long term mitigation strategies. Although it has already been recognised that income from other sources of funding is at risk for these providers and there is uncertainty about their financial resilience and longevity.

The North of Tyne Covid-19 Capacity Fund has pledged £5m to help businesses and communities respond to Covid-19, and work continues at pace on this.

As a result of the uncertainties resulting from the outbreak of Covid-19 the Devolution risk was re-assessed in April, recognising the severity of the potential economic impact of the Coronavirus on businesses and communities in the region, recognising much of the activity to control the risk was being delivered in partnership with our partners and stakeholders. This resulted in the risk priority increasing from Amber to Red. The risk remains Red, however, continues to move in a positive direction of travel, recognising the strengthening of mitigation plans put in place to address the risk.

1.5 **Operational Capacity and Resources**

Formulation of a Business Continuity Plan (BCP) had begun with an information gathering exercise is being undertaken, however work on the full BCP has been suspended to allow for the Authority's Covid-19 Contingency Plan to be put in place, which has worked well after the homeworking instruction from central government.

It is anticipated that the Authority's BCP will be further developed once normal business operations resume.

1.6 **Partnership Opportunities**

The North East LEP is a partnership of private and public sector representatives and not a corporate entity, therefore it cannot hold funding and property or employ staff. It can only do so through a legal entity acting on its behalf as an "accountable body".

The North East Combined Authority (NECA) was previously the accountable body for the North East LEP, however the role transferred to NTCA in April 2020. This has resulted in a new opportunity being added to the register to cover this position as follows:

"As the accountable body for the North East LEP there is greater opportunity to maximise partnership arrangements with NTCA through working together to coordinate and manage resources, embedding effective governance arrangements between the bodies, collectively responding to future opportunities and challenges."

The new opportunity will be reported in detail to the Committee at its next meeting, setting out a RAG rating, controls and plans to strengthen this new partnership opportunity.

1.7 Following the transfer of the North East LEP accountable body status to NTCA, Newcastle City Council will also be providing risk management support to the North East LEP. This will allow the reporting of North East LEP risks to this committee alongside NTCA risks. This will provide the committee with an overview of the major risks which may impact upon the achievement of the Authority's priorities. The North East LEP risks are included at Appendix C.

1.8 The partnership opportunity which currently monitors the Authority's existing partnership arrangements in the region has been reviewed to reflect the current Coronavirus Pandemic. The NTCA, North East LEP, North East Combined Authority, Confederation of British Industry (CBI), and other partners in the region, are members of a North East Covid-19 Economic Response Group. The group has been launched to ensure the North East has strong and collaborative economic leadership, providing maximum support for businesses in the immediate term and to plan for long-term economic recovery following the Covid-19 outbreak.

1.9 Transport continues to be of strategic importance to the North East and the collaborative working of both Combined Authorities allows effective decision making across the region.

A risk register, which records the biggest threats to the operation of the North East Joint Transport Committee (JTC), has been prepared by NECA's risk management service, and presented to the JTC Audit and Risk Committee. A summary of the risks is provided at Appendix D.

2. Potential Impact on Objectives

2.1 The development of the strategic risk and opportunities register will not impact directly on the objectives of NTCA, however the approach to strategic risk management will support delivery of its aims and ambitions by acknowledging the biggest threats and putting plans in place to manage them.

3. Key Risks

3.1 There are no direct risk management implications from this report. The approach to risk management is documented within the NTCA's risk management policy and strategy. The key risks will continue to be reported regularly to the Audit and Standards Committee.

4. Financial and Other Resources Implications

4.1 There are no direct financial implications arising from this report. Risk Management work is supplied to NTCA (and the North East LEP) during 2020/21 through a Service Level Agreement with Newcastle City Council.

5. Legal Implications

5.1 There are no legal implications arising specifically from this report.

6. Consultation/Engagement

6.1 Cabinet have approved the Strategic Risk Register including risks and opportunities. The Head of Paid Service, Monitoring Officer and Chief Finance Officer have been consulted on the Strategic Risk and Opportunity Register.

7. Appendices

7.1 Appendix A – 'Risk at a glance' shows the strategic risks and opportunities, including the risk priorities and direction of travel assessments

Appendix B – Provides a detailed assessment of the NTCA strategic risks and opportunities and future activity to reduce the overall risk exposure

Appendix C – Provides an assessment of the North East LEP strategic risks and future activity to reduce the overall risk exposure

Appendix D – A summary of the strategic risks, risk priorities and direction of travel assessments identified by the North East Joint Transport Committee

Appendix E – Risk Analysis Toolkit to determine the risk priority

8. Background Papers

8.1 The North East Joint Transport Committee (JTC) strategic risks can be found on the NECA website as part of the JTC Audit Committee agenda 1 July 2020.

9. Contact Officers

9.1 Philip Slater – Chief Internal Auditor – Newcastle City Council. (acting as Risk Advisor to NTCA)

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10. Glossary

10.1 None

11. Sign-off

11.1 Head of Paid Service: Yes

Monitoring Officer: Yes

Chief Finance Officer: Yes

Risk at a glance **Appendix A**

Strategic Risks and Opportunities		
	Risk Priority	**Direction of Travel**
Strategic Risks & Opportunities		
Risks		
Delivery of Devolution Failure to deliver the Devolution Deal, and secure future negotiations with Government will restrict powers in future funding years.	**Red 12**	**Improving**
Operational Capacity and Resources The Combined Authority is unable to demonstrate to Government and partners that it has the necessary capacity, skills and expertise to successfully deliver the devolution deal, within the constraints of approved funding streams, timeframes, conditions and performance criteria.	**Amber 8**	**Static**
Opportunities		
Partnerships The establishment of the Combined Authority provides us with an opportunity to strengthen the existing partnership arrangements in the region, and across the public and private sector to drive forward change to meet our ambitions and successfully deliver the North East Strategic Economic Plan.	**Amber 8**	**Static**
North East LEP As the accountable body for the North East LEP there is greater opportunity to maximise partnership arrangements with NTCA through working together to coordinate and manage resources, embedding effective governance arrangements between the bodies, collectively responding to future opportunities and challenges.	**NEW**	

Appendix B

Strategic Risks and Opportunities

Risk – Delivery of Devolution Failure to deliver the Devolution Deal, and secure future negotiations with Government will restrict powers in future funding years.	**Risk Owner** Director of Economic Growth **Risk Score** **Current controlled score – Red 12** **Target Score – Green 4**

Cause:

- As a result of the Coronavirus Pandemic, projects and schemes are not delivered within agreed timeframes and do not satisfy key criteria or achieve required outcomes, such projects will cover all aspects of the devolution deal including:
    - Investment Fund Programme
    - Adult Education Budget
    - Education Challenge
- Decisions are not aligned to the Authority's Vision and Strategic Framework which has already been agreed with Government
- Insufficient projects/schemes are identified to meet investment fund spending targets
- Government do not fulfil their commitments under the devolution deal

Impact:

Investment Fund:

- As Government coronavirus restrictions are in place there will be a delay of delivery/underachievement in project outputs due to public closures/lockdowns
- Possible reallocation of the Investment Fund Programme to support recovery in the NTCA area
- Economic shock post pandemic will impact businesses/organisations in the NTCA region
- As details of Government's response to the pandemic becomes clearer, it may be necessary to adjust elements of the NTCA programme to avoid duplication and maximise impact.

Adult Education Budget:

- As a result of the pandemic, other sources of income available to adult education providers is now at risk which could result in financial instability and longevity of the institution/organisation.
- Continuity of funded provision for NTCA residents is at risk if providers become financially unstable.
- The published Strategic Skills Plan may not be relevant for post-Covid inclusive economic recovery

Existing Controls:

- AEB Provider Performance and Management Framework in place ready for delivery to commence 1 August 2020
- Existing intelligence sharing process with regional ESFA, sharing notices of concern regarding the NTCA provider base
- Ongoing dialogue with NTCA adult education providers to ensure delivery continues to meet area skills needs
- NTCA Strategic Skills Plan will be updated in 2020 and will reflect the area's skills needs for an inclusive economic recovery
- Assurance Framework agreed with Government which operates effectively
- Constitution is in place setting out governance arrangement for the Authority

• Establishment of the Investment Fund through which NTCA is administering the North of Tyne Single Pot allocation of Government funding • Housing and Land Board supports NTCA's governance arrangements regarding the integrated strategic approach to improving the quality and quantity of homes in the North of Tyne area • M9 Group of Metro Mayors working together to influence government on agreed priorities which will strengthen devolved powers • Covid-19 response paper agreed in March 2020 • Covid-19 Capacity Fund grants of £1.5m offered to Constituent Authorities in the North of Tyne region to meet local needs • Ongoing and regular engagement with Government departments at an officer level

Next Steps	Deadline	Lead Officer(s)
We are assessing our programmes to assess the impact of the Covid-19 crisis on output and outcomes from our existing Investment Fund Programmes. Improving direction of travel due to mitigating actions put in place since last report.	Review September 2020	Director of Economic Growth
Launch of £5m Covid-19 Capacity Fund to support Investment Fund projects.	Review September 2020	Director of Economic Growth
A review of the Investment Fund Programme to identify opportunities through existing and new funding vehicles to aid recovery in the coming months. The on-going review of projects and programmes, adapting them as required, has had some immediate success however other results will not be evident for a few months.	Review September 2020	Director of Economic Growth
The AEB statutory order has now been made. DfE will make AEB budget payment to NTCA and the AEB will become operational on 1 August 2020.	August 2020	Director of Economic Growth
Continued engagement with NTCA AEB provider to ensure a collaborative approach to aligning adult skills to deliver the Authority's vision. Allocations agreed and contracts will be in place for start date 1 August 2020. Cabinet report 28 July will set out allocations, providers and provision for the first academic year.	August 2020	Director of Economic Growth
Dialogue continues with AEB providers to ascertain immediate impact of Covid-19 and medium/long term mitigation planning. This has informed the mini-competition procurement and is informing the Skills Plan update.	Assess outcome of mitigation planning arrangements – July 2020	Director of Economic Growth
AEB Skills Plan to be updated in line with the area's skills needs for the 2021/22 academic year.	December 2020	Director of Economic Growth
The Authority has a newly appointed Education Improvement Challenge strategic lead. The lead officer will focus upon agreed priorities for the Challenge: such as making sure children are ready for school, no one is left behind and leadership, recruitment and retention. The	Ongoing - review progress August 2020	Director of Economic Growth

officer will work with the Mayor, North of Tyne Cabinet and Government to develop the initial prospectus into an approved proposal to secure powers and investment to improve education across Newcastle, North Tyneside and Northumberland.		
The Education Improvement Challenge strategic lead will work with school improvement leads from across the 3 Local Authority areas, working in partnership to explore the scope for developing a unified approach to school improvement through the preparation of a Joint School Improvement Strategy and Education Challenge. This will assist in identifying constituent strengths and weaknesses and support efforts to work together in partnership to replicate good practice. Additional resources from devolved funding will be levered to implement and sustain this. Decision expected at 28 July 2020 Cabinet.	Review progress end July 2020	Director of Economic Growth

Risk – Operational Capacity and Resources The Combined Authority is unable to demonstrate to Government and partners that it has the necessary capacity, skills and expertise to successfully deliver the devolution deal, within the constraints of approved funding streams, timeframes, conditions and performance criteria.	**Risk Owner** Director of Policy and Performance **Risk Score** **Current controlled score – Amber 8** **Target Score – Green 4**

Cause:

- Staffing levels are significantly reduced as a result of the Coronavirus pandemic
- There is a lack of clarity and shared understanding in the constituent authorities of the roles and responsibilities of the officers working on the Devolution agenda and supporting the Combined Authority.
- Coronavirus pandemic is leading to significant increases in workload, reducing capacity which can be allocated to previous NTCA operations.

Impact:

- Inability to maintain relationships with partners and stakeholders during Coronavirus pandemic
- Duplication of activity and conflicting priorities within Constituent Authorities
- Existing resources are not fully utilised to effectively deliver the Authority's strategic priorities
- Projects and schemes are not delivered within the approved timeframes and do not meet performance criteria

Existing Controls:

- Interim Statutory Officer appointments (Head of Paid Service, Monitoring Officer, Chief Finance Officer) Mayor and other key officers
- Senior Officer appointments including Director of Policy and Performance, Director of Economic Growth, Head of Inclusive Growth, Education Improvement Challenge Strategic Lead
- Constituent Authorities provide support services to the Authority through Service Level Agreements
- Recruitment Plan in place
- A structured exercise has been undertaken to develop resource plans, gauge capacity and clarity with assigned roles and responsibilities to facilitate the effective operation of the Authority. A work programme has been developed for officer use from April 2020.

Next Steps	Deadline	Lead Officer(s)
A Covid-19 Contingency Plan is in place to support central government guidance, homeworking and officer deployment instructions. The Plan worked well and work is now underway on a return policy for the office and the 'new normal'.	Ongoing	Director of Policy and Performance
Business Continuity Plan (BCP) – the formulation of a full BCP has begun with an information gathering exercise underway. Development has stalled due to the impact of Covid-19 with delays to the receipt of information sought from other organisations.	Review progress October 2020	Director of Policy and Performance
Organisational Development – Following the completion of three staff workshops on the Values and Behaviours of the NTCA, each member of staff will have an appraisal with agreed targets and objectives linked to	Response to Pulse Survey in summer 2020	Director of Policy and Performance

the work programme for 2020-21. All appraisals completed and a Pulse staff survey conducted.		
An Implementation Funding Bid has been approved by DfE to provide the Authority with financial resources to ensure appropriate capacity and resources are put in place to prepare for devolution of the Adult Education Budget.	Review status of bid - August 2020	Director of Economic Growth

Opportunity – Partnerships The establishment of the Combined Authority provides us with an opportunity to strengthen the existing partnership arrangements in the region, and across the public and private sector to drive forward change to meet our ambitions and successfully deliver the North East Strategic Economic Plan.	**Risk Owner** Director of Policy and Performance **Opportunity Score** **Current controlled Score – Amber 8** **Target Score – Green 6**

Benefits:

- Strengthening the synergy between Cabinet, the North East Local Enterprise Partnership and Local Authorities
- Influencing regional approaches to growth
- Improving how we work with Government, business, investors and partners

Barriers:

- The success of the Combined Authority will rely on the on-going commitment of all member authorities and how NTCA works with other partners in the region
- It is important that Cabinet share the same vision and commitment to the Combined Authority, ensuring individual plans are aligned
- It is recognised that there are a number of partners, therefore effective and timely communications and consultation is vitally important to reduce reputational impact

Existing Controls:

- The NTCA is working closely with LAs, North East LEP, NECA, and other partners in the region to ensure we have a joined-up response to Covid-19. This work has progressed well, with a single regional plan developed.
- Mayor's Ambassador for the Voluntary, Community and Social Enterprise Sector (VCSE) appointed
- The VCSE Accord, which sets out a framework for a new relationship between NTCA and the VCSE sector was agreed in March 2020.
- Regular meetings with the Business Community i.e. CBI, Federation for Small Businesses, Entrepreneurs' Forum
- Community and Voluntary Sector engagement meetings
- The North East LEP is leading the regional development of the Local Industrial Strategy
- NTCA representation on:
  - The North East LEP Boards (Investment, Employment & Skills, Innovation and Business Growth)
  - The Board of Transport for the North
  - The North East Joint Transport Committee (and sub-committees), responsible for preparing a single transport plan for the area of both Combined Authorities
- NTCA and DWP Framework Agreement to coordinate employment, skills and health services across the North of Tyne area

Next Steps	**Deadline**	**Lead Officer(s)**
Regular meetings of the North East Covid-19 Economic Response Group - launched to provide maximum support for businesses in the immediate term and to plan for long-term economic recovery.	Ongoing	Director of Economic Growth
Mayoral Ambassador for the business sector – Further engagement and consultation with the business community will continue post Coronavirus outbreak, to develop the role and invite nominations.	Review Autumn 2020	Director of Policy and Performance

VCSE Accord - begin to scope how the NTCA can add value to the work of our local government partners with the VCSE to build capacity, sustainability and be a catalyst for an inclusive economy.	Review progress September 2020	Director of Policy and Performance
Continued engagement with AEB providers in the North of Tyne area to ensure a collaborative approach to aligning adult skills to deliver the Authority's vision.	Review end July 2020	Director of Economic Growth
Good Work Pledge – The implementation, promotion and development of the Good Work Pledge continues. A Coronavirus impact analysis to determine the next steps and timelines is currently being undertaken.	Review outcome of Coronavirus impact analysis – September 2020	Director of Policy and Performance

North East Local Enterprise Partnership – Strategic Risks

<table>
<tr><td><u>Operational capacity and resourcing</u>

Medium term operational budget may not be sufficient to maintain the current capacity within the team to lead the delivery of the Strategic Economic Plan (SEP) and to react to the impact of Brexit, the impact of the Covid-19 pandemic and emerging Government policies due to multiple short term (often annual) funding sources.</td><td><u>Risk Owner</u>
Chief Executive of North East LEP

<u>Risk Score</u>

Red 12

Likelihood – Medium
Impact – Critical</td></tr>
<tr><td colspan="2">Cause:
All funding sources relating to staff resourcing, the core operational budget and project delivery are time limited and are not sufficient to allow the Local Enterprise Partnership (LEP) to effectively plan a medium-term budget and operational model.</td></tr>
<tr><td colspan="2">Impact:
The LEP will need to adjust to operate with a reduced level of staffing resource, limiting and prioritising the scope of work that can be delivered, if future funding is not made available and/or secured.</td></tr>
<tr><td colspan="2">Existing Controls:
• The 2020/21 LEP operational budget was agreed by the LEP Board and its accountable body
• Some financial reserves are held by the LEP from previous financial years
• Potential to call on financial resources relating to Enterprise Zone income if required
• On-going monitoring of external funding landscape and actions to secure alternative sources
• A new company limited by guarantee is in place alongside the LEP structure which enables a wider source of funding applications to be made and the LEP to seek funding from other sources</td></tr>
</table>

Next Steps	Lead Officer(s)
Budget management and forecasting on-going	Helen Golightly (Chief Executive)
Lobbying of Government to secure additional and longer-term resources for LEPs on-going	Helen Golightly (Chief Executive)
On-going horizon scanning for funding opportunities to support the team and delivery.	Helen Golightly (Chief Executive)

North East Local Enterprise Partnership - Risk Management

<table>
<tr><td><u>Increase in the role and scope of LEPs by government with no new resource to support the additional responsibility(ies)</u>

Government fails to allocate sufficient operational budgets if they increase the role, scope and remit of LEP activity through changes in national policy, and in particular as a consequence of Brexit and the Covid-19 pandemic.</td><td><u>Risk Owner</u>
Chief Executive of North East LEP

<u>Risk Score</u>

Red 12

Likelihood – Medium
Impact – Critical</td></tr>
<tr><td colspan="2">Cause:
Government have reviewed the role and scope of LEP activity which is set out in the paper ‘Strengthening LEPs’. Government requires LEPs to be independent of local authorities with a wider remit around Local Industrial Strategies, funding and Brexit and a shared role in responding to the Covid-19 pandemic. There needs to be sufficient financial resources made available to LEPs to carry out any increased responsibility and activity.</td></tr>
<tr><td colspan="2">Impact:
The LEP operational budget does not have sufficient headroom for additional staffing capacity. This could lead to current staff resources being spread too thinly, reducing impact and effectiveness in facilitating the delivery of the Strategic Economic Plan and responding to Brexit and the pandemic.</td></tr>
<tr><td colspan="2">Existing Controls:
• The LEP continues to work closely with government to try to influence policy and its practical delivery implications
• The LEP Network (national body) plays a key lobbying role with government</td></tr>
</table>

Next Steps	**Lead Officer(s)**
Continue to lobby and influence Government	Helen Golightly (Chief Executive)
Consider and respond to any changes as they emerge	Helen Golightly (Chief Executive)

North East Local Enterprise Partnership - Risk Management

<table>
<tr><td rowspan="4"><u>Government Capital Funding</u>

Government capital funding to replace Local Growth Funding (LGF) may be insufficient to support the delivery of the strategic projects within the SEP, the emerging Local Industrial Strategy (LIS) and Covid-19 response plan.</td><td><u>Risk Owner</u>
Chief Executive of North East LEP</td></tr>
<tr><td><u>Risk Score</u></td></tr>
<tr><td>Red 12</td></tr>
<tr><td>Likelihood – Medium
Impact – Critical</td></tr>
</table>

Cause:
There is uncertainty around the design, function and level of future regional/local strategic capital and revenue funding sources from government. The UK Shared Prosperity Fund (UKSPF) which is due to fill the gap after the European Structural and Investment Fund (ESIF) and Local Growth Fund (LGF) was proposed to come into effect in April 2021. The government consultation has been delayed until autumn 2021 at the earliest and more likely to be Spring 2022. There is no clarity on the level of funding available for the North East beyond March 2021 (LGF) and no further progress made in relation to ESIF successor fund beyond June 2023, other than the short-term Getting Building Fund announced July 2021. There is therefore a significant risk that funding for capital pipeline projects is not available.

Impact:
Without a clear understanding of future potential funding, the development and delivery of strategic projects related to the SEP, the emerging Local Industrial Strategy post 2021 and Covid-19 response planning is at risk.

Existing Controls:
- The 2019 refreshed SEP is strongly aligned to key government policies which should attract investment if it becomes available.
- The LEP is working with government to influence policy and funding thinking
- The LEP is leading the regional development of the emerging Local Industrial Strategy, although this has stalled during the pandemic, which will enable a conversation with government about strategic projects and investment to work with us to increase productivity in the North East.
- The LEP is working with regional partners to develop a pipeline of strategic projects in preparation including innovation projects.
- The LEP is working with regional partners on a Covid-19 economic response plan.

Next Steps	Lead Officer(s)
Continue to develop a pipeline of projects (where appropriate) to be ready to 'win' funding as it becomes available.	Helen Golightly (Chief Executive)
Continue to work with government and influence emerging policy thinking.	Helen Golightly (Chief Executive)
Develop a portfolio of innovation projects with regional partners	Alan Welby (Innovation Director)

North East Local Enterprise Partnership - Risk Management

<table>
<tr><td rowspan="4"><u>European Funding</u>

Failure of the North East LEP area to secure the full notional funding (circa £500m) allocated to the North East through European Structural and Investment Funding (ESIF) programmes will significantly impact on the delivery of the Strategic Economic Plan.</td><td><u>Risk Owner</u>
Chief Executive of North East LEP</td></tr>
<tr><td><u>Risk Score</u></td></tr>
<tr><td>Amber 9</td></tr>
<tr><td>Likelihood – Medium
Impact – Significant</td></tr>
</table>

Cause:
ESIF programme implementation was delayed whilst the impact of the EU Referendum was reviewed by government departments. This has led to national underperformance against profiled commitment/spend for some parts of the programme. The UK Shared Prosperity Fund (UKSPF) is likely to replace the ESIF Programmes beyond 2023, however the consultation document expected from government continues to be delayed. Therefore, the future funding opportunities beyond ESIF continue to be uncertain.

Impact:
The ability to secure the North East LEP area's full quota of European funding risks damaging local regeneration plans and stalling infrastructure projects, business growth, employment and skills schemes and local growth projects. This could result in the success of the Strategic Economic Plan being adversely affected and outcomes delayed or not achieved.

Existing Controls:
- Government have confirmed ESIF projects will be underwritten following departure from the European Union, however, there is no guarantee that each region will maintain its notional allocation.
- The seven local authorities with the LEP secured £58.5m of ESIF to continue the JEREMIE programme. A Special Purpose Vehicle has been established to deliver funding for projects, supporting small and medium sized enterprises known as the North East Fund Ltd.
- The North East LEP with both combined authorities work with partners to develop local content to feed into the national project calls to ensure the funding is appropriately focussed on local need in order to maximise spend in the North East.
- The Strategic Economic Plan (SEP) was refreshed in early 2019 to ensure its priorities remain current. The SEP is aligned to the North East ESIF Strategy, to direct the allocation of European Funding to grow the North-East Economy
- The LEP has employed a dedicated officer to work with partners to maximize the spend of European Social Fund (ESF) in the North East.

Next Steps	Lead Officer(s)
The North East LEP and other local partners are working with the Managing Authorities (DHCLG, DWP and Defra) to ensure that the maximum funding will be allocated to the North East, in line with the notional allocation of €560m Euros.	Helen Golightly (Chief Executive)
The LEP Executive Team is working with key stakeholders to prepare projects ready for Government releasing further 'calls' for applications for funding.	Helen Golightly (Chief Executive)

North East Local Enterprise Partnership - Risk Management

North East regional governance	Risk Owner
The LEP area covers seven local authorities and two combined authorities, one of which is mayoral. The LEP area is unique in England to have more than one combined authority which may impact on clarity of roles and decision making.	Chief Executive of North East LEP **Risk Score** Red 12 Likelihood – Medium Impact – Critical

Cause:
The North East Combined Authority's (NECA) decision to proceed with the North of Tyne Mayoral Combined Authority led to the regional governance structures changing as two combined authorities were created in November 2018, both of which have agreed to support and operate effectively with the North East LEP. The LEP economic remit therefore spans both combined authority areas.
One of the combined authorities should also act as the accountable body for the LEP. It was agreed that NTCA would be the North East LEP accountable body from 1 April 2020.

Impact:
The governance, roles and responsibilities need to be clear at a local level and understood by national government to ensure effective strategy development, delivery of economic development activity, investment and partnership working.

It is also vital that the change in accountable body must not be detrimental to the current effective operations or financial position of the LEP.

Existing Controls:
- All seven local authorities are committed to supporting the North East LEP and the delivery of the SEP as set out in their signed Deed of Cooperation which was reviewed and re-signed at the end of March 2020.
- The new Accountable Body Agreement was signed at the end of March 2020 and Service Level Agreements (SLA) are in place to support the delivery of LEP operations.
- In both the new Accountable Body Agreement and Deed of Cooperation, changes made to support arrangements and financial model are to ensure no detrimental to the North East LEP.

Next Steps	Lead Officer(s)
Continue to work effectively with all seven local authorities and both combined authorities on shared agendas, strategy development and delivery.	Helen Golightly (Chief Executive)
Work with NTCA and SLA providers to ensure a smooth transition which enables the North East LEP to carry out its functions in an effective and compliant way.	Helen Golightly (Chief Executive)

North East Local Enterprise Partnership - Risk Management

<table>
<tr>
<td rowspan="4"><u>Covid-19 or any other epidemic / pandemic</u>

The lockdown imposed as a result of the Covid-19 in March 2020 in the UK has had a significant impact on the regional economy and demonstrated that epidemics/pandemics pose a high risk to regional, national and global economies.</td>
<td><u>Risk Owner</u>
Chief Executive of North East LEP</td>
</tr>
<tr><td><u>Risk Score</u></td></tr>
<tr><td>Red 12</td></tr>
<tr><td>Likelihood – High
Impact – Critical</td></tr>
</table>

Cause:
Epidemics and pandemics are rare but can have catastrophic effect. They stem from a range of factors and have various levels of infection and mortality rates. The global dimension of our society and economy means that highly infectious diseases and viruses such as Covid-19 can spread quickly and containment and other mitigation efforts are complex and require joined up efforts across the world or a group of countries.
The lockdown measures essential to control the virus has forced businesses to close or operate in different ways and often to reduced capacity during the lock down period, having a dramatic negative impact on the economy.

Impact:
Covid-19 has had a severe impact on the economy forcing a large number of businesses to stop trading or slow down their activities and leading to a significant volume of the workforce to be furloughed and/or made redundant. The UK and regions potentially now face the worst economic downturn in centuries. In practical terms for the North East LEP, initially this meant a change of cous for the LEP as it responded to the immediate impact of the pandemic working with regional partners and Government. It has stalled the finalisation of the Local Industrial Strategy and focussed on translating ambitions in a different way through a response plan. It has also affected partners ability to deliver projects.

Existing Controls:
- A North East Covid-19 Economic Response Group is in place. It is a regional partnership comprising of the North East LEP, North of Tyne and North East Combined Authorities, CBI representing businesses, the universities and transport colleagues.
- The Group meets on a regular basis
- Work is on-going to put in place a recovery plan with short-term, medium-term and long-term interventions
- On-going liaison with the LEP Network and NP11 (the business-led voice for the North that brings together the 11 Local Enterprise Partnerships), on Covid-19 issues

Next Steps	Lead Officer(s)
Continue to support and facilitate the Covid-19 Economic Response Group and produce an economic recovery plan.	Helen Golightly (Chief Executive)
Ensure continued alignment and co-ordination of key messaging and interventions	Helen Golightly (Chief Executive)
Actively lobby government including through the LEP Network and NP11	Helen Golightly (Chief Executive)

Appendix D

North East Joint Transport Committee Strategic Risks *The North East JTC Strategic Risk Register has been prepared by NECA's risk management service. The register is presented regularly to the North East JTC Audit Committee*		
	Risk Priority	**Direction of Travel**
Future Availability of Funding Sources and levels of funding available to the JTC to develop the North East regions transport infrastructure within the region may reduce.	**Red 12**	**Static**
Funding Opportunities Failure of the JTC to secure the maximum amount of transport funding available to progress transport infrastructure in the North East region.	**Amber 8**	**Static**
Use of Funding and Resources Funding secured for transport initiatives within the North East region by the JTC and its partners may not be able to be used on a timely basis or be sufficient to complete intended projects.	**Amber 8**	**Static**
Governance Arrangements The governance arrangements of the JTC are not appropriate to allow effective and timely decision making and the achievement of its objectives.	**Green 4**	**Improving**
Operational Capacity and Resourcing The JTC does not have the necessary operational capacity, skills and budget, to successfully deliver the JTC's objectives and plans.	**Amber 8**	**Static**
Delivery of Transport Improvement Projects/Programmes Projects which are funded through the JTC are delayed, are significantly overspent or do not deliver the intended product to meet the identified transport need.	**Amber 8**	**Static**
Transport Infrastructure Assets Transport assets, which are the responsibility of the JTC, are inadequately managed and maintained.	**Green 6**	**Static**
Service Delivery Inadequate arrangements are in place to ensure that adequate levels of public transport services, for which the JTC has oversight, are maintained by the JTC's transport delivery partners.	**Green 6**	**Static**

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Risk Management Toolkit – Criteria to assess the likelihood of a risk occurring and its impact i.e. High (4) x Critical (4) = Red (16) **Appendix E**

Determine the risk priority

		Impact			
Likelihood		Insignificant	Minor	Significant	Critical
	High (4)	4	8	12	16
	Medium (3)	3	6	9	12
	Low (2)	2	4	6	8
	Negligible (1)	1	2	3	4

Assess the likelihood of the risk occurring

High (4)	Risk will almost certainly occur or is occurring at present
Medium (3)	Risk is likely to occur in most circumstances
Low (2)	Risk may occur
Negligible (1)	Risk is unlikely to occur

Assess the impact should the risk occur

	Objective	Service Delivery	Financial	Reputational
Critical/Showstopper	• Over half the objectives/programmes affected • More than one critical objective affected • Partners do not commit to the Shared vision	• Significant change in partner services • Relationship breakdown between major partners and stakeholders • Serious impact on delivery of objectives • Unplanned major re-prioritisation of resources and/or services in partner organisations • Failure of a delivery programme/major project	• Inability to secure or loss of significant funding opportunity(£5m) • Significant financial loss in one or more partners (£2m) • Significant adverse impact on budgets (£3m – Transport; £0.2m Central Budget)	• Adverse national media attention • External criticism (press) • Significant change in confidence or satisfaction of stakeholders • Significant loss of community confidence
Significant	• One or more objectives/programmes affected • One or more partners do not committee to shared vision • Significant environmental impact	• Partner unable to committee to joint arrangements • Recoverable impact on delivery of objectives • Major project failure	• Prosecution • Change in notable funding or loss of major funding opportunity (£2m) • Notable change in a Partners contribution • Notable adverse impact on budget (£0.5m-£1.5m Transport budgets)	• Notable external criticism • Notable change in confidence or satisfaction • Internal dispute between partners • Adverse national/regional media attention • Lack of partner consultation • Significant change in community confidence
Minor	• Less than 2 priority outcomes adversely affected • Isolated serious injury/ill health • Minor environmental impact	• Threatened loss of partner's commitment	• Minor financial loss in more than one partner • Some/loss of funding or funding opportunity threatened	• Failure to reach agreement with individual partner • Change in confidence or satisfaction • Minor change in community confidence
Insignifica	• Minor effect on priorities/service objectives • Isolated minor injury/ill health • No environmental impact		• Isolated/minor financial impact in a partner organisation (Financial limits are under review)	

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NORTH OF TYNE COMBINED AUTHORITY

Audit and Standards Committee

28 July 2020

Subject: **North of Tyne Combined Authority Draft Statement of Accounts for the year ended 31 March 2020**

Report of: **Chief Finance Officer**

Report Summary

The purpose of this report is to present Audit and Standards with the draft Statement of Accounts for the year ended 31 March 2020.

Recommendations

The Audit and Standards Committee is recommended to consider the draft Statement of Accounts 2019/20.

1. Background Information, Proposals and Timetable for Implementation

1.1 The Accounts and Audit (Coronavirus) Amendment Regulations 2020 (SI 2020/404) extended the statutory deadline for completion and publication of draft Statement of Accounts from 31 May to on or before the 1 September 2020, with the audit deadline for all local and combined authorities from 31 July to November 30 2020, in line with these regulations NTCA are presenting the draft Statement of Accounts to Audit and Standards Committee prior to publication on the Combined Authority's website and prior to external audit. The Audit Strategy Memorandum will also be taken to Audit and Standards Committee

The NTCA Statement of Accounts sets out the financial performance of the Authority for the year ending 31 March 2020 and its financial position at that date. They have been prepared in accordance with proper practices as set out in the Chartered Institute of Public Finance & Accountancy (CIPFA) Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

1.2 The Statement of Accounts includes:

- Narrative Report (Appendix A to this report)
- Annual Governance Statement (tabled in a separate report)
- Single Entity Accounts
- Group Accounts consolidating the accounts of Nexus Group within the NTCA single entity accounts

The NTCA Accounts reflect the Newcastle upon Tyne, North Tyneside and Northumberland Combined Authority (Establishment and Functions) Order 2018 (the Order), which established the North of Tyne Combined Authority (NTCA) on 2 November 2019. That order required the North East Combined Authority (NECA) and NTCA to appoint a Joint Transport Committee (JTC) through which the 2 combined authorities must exercise transport functions. The order also provided that the transport assets held by NECA should be held jointly with NTCA and managed through the JTC. The Constitution of the JTC is such that it meets the definition of Joint Control and is classified accordingly as a Joint Operation.

In order to comply with the requirements outlined above NECA as accountable body must split the revenue, expenditure, and assets and liabilities into those which relate to NTCA and NECA based on population.

1.3 The audit of the Statement of Accounts will take place between August and September with the final audited accounts to be taken to 22 September Audit and Standards Committee for consideration and recommendation to Cabinet for approval. The NTCA Annual Governance Statement and Audit Completion Report will also be taken to 22 September Audit and Standards Committee.

2. Potential Impact on Objectives

2.1 There are no direct implications from this report in respect of NTCA’s vision, policies and priorities.

3. Key Risks

3.1 The draft Statement of Accounts have been subject to review from a quality assurance point of view and will be subject to external audit prior to the final Statement of Accounts being brought back to Audit and Standards Committee in September.

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4. Financial and Other Resources Implications

4.1 There are no financial or resource implications arising from this report.

5. Legal Implications

5.1 There are no legal implications arising from this report. It is a requirement of the Local Government Act 2003 and the Accounts and Audit (England) Regulations 2015 for the Statement of Accounts to be produced in accordance with proper accounting practices.

6. Consultation/Engagement

6.1 The draft Statement of Accounts will be subject to a period of public inspection from 1 September to September 12, 2020 prior to the final Audited Statement of Accounts are brought back to September Audit and Standards Committee.

7. Appendices

7.1 Appendix A Narrative Report

Appendix B Draft Statement of Accounts for the year ended 31 March 2020.

8. Background Papers

8.1 None

9. Contact Officers

9.1 Janice Gillespie, Chief Finance Officer

Janice.gillespie@northoftyne-ca.gov.uk, 0191 6435701

10. Glossary

10.1 None

11. Sign-off

11.1 Head of Paid Service: Yes

Monitoring Officer: Yes/No

Chief Finance Officer: Yes

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North of Tyne Combined Authority

Statement of Accounts 2019/20

Draft - Subject to Audit

Contents

1.0 Statement of Responsibilities for the Statement of Accounts

1.1 The Authority's Responsibilities

The Authority is required:

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

The Chief Finance Officer's Responsibilities:

The Chief Finance Officer is responsible for the preparation of the Authority's Statement of Accounts in accordance with proper practices as set out in the CIPFA (Chartered Institute of Public Finance & Accountancy) Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing this Statement of Accounts, the Chief Finance Officer has:

- Selected suitable accounting policies and then applied them consistently.
- Made judgements and estimates that were reasonable and prudent.
- Complied with the Local Authority Code.

The Chief Finance Officer has also:

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

Certification of the Accounts

I certify that the Statement of Accounts gives a true and fair view of the financial position of the North East Combined Authority at 31 March 2020 and its income and expenditure for the year ended 31 March 2020.

Signed:

Janice Gillespie, Chief Finance Officer

2.1 Movement in Reserves Statement

This statement shows the movement in the year on the different reserves held by the Authority, analysed into Usable Reserves (i.e. those which can be applied to fund expenditure) and Unusable Reserves (which cannot). The Total Comprehensive Income and Expenditure line shows the accounting cost of providing the Combined Authority's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. This is different from the statutory amounts required to be charged to the General Fund balance. The net increase or decrease before transfers to earmarked reserves shows the statutory General Fund balance before any discretionary transfers to or from earmarked reserves undertaken by the Combined Authority.

		Usable Reserves						
	Note	**General Fund Balance**	**Earmarked General Fund Reserves**	**Capital Receipts Reserve**	**Capital Grants Unapplied**	**Total Usable Reserves**	**Unusable Reserves**	**Total Authority Reserves**
		£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Transfer of Services from NECA at 2 November 2018		**(16,407)**	**-**	**-**	**(544)**	**(16,951)**	**(40,548)**	**(57,499)**
Balance at 2 November 2018		**(16,407)**	**-**	**-**	**(544)**	**(16,951)**	**(40,548)**	**(57,499)**
Total Comprehensive Income and Expenditure		(22,621)	-	-	-	**(22,621)**	-	(22,621)
Adjustments between accounting basis & funding basis under regulations	3	2,413	-	-	(3,623)	**(1,210)**	1,210	-
Net (Increase)/Decrease before transfers to Earmarked Reserves		**(20,208)**	**-**	**-**	**(3,623)**	**(23,831)**	**1,210**	**(22,621)**
Transfers (To)/From Earmarked Reserves	21			-	-	**-**	-	-
(Increase)/Decrease in 2018/19		(20,208)	-	-	(3,623)	(23,831)	1,210	(22,621)
Balance at 31 March 2019 carried forward		**(29,576)**	**(7,039)**	**-**	**(4,167)**	**(40,782)**	**(39,338)**	**(80,120)**
Total Comprehensive Income and Expenditure		(28,563)				**(28,563)**	196	(28,367)
Adjustments between accounting basis & funding basis under regulations		3,611			(1,683)	**1,927**	(1,927)	
Net (Increase)/Decrease before transfers to Earmarked Reserves		**(24,952)**	**-**	**-**	**(1,683)**	**(26,636)**	**(1,731)**	**(28,367)**
Transfers (To)/From Earmarked Reserves		1,525	(1,525)			**-**		
(Increase)/Decrease in 2019/20		(23,427)	(1,525)	-	(1,683)	(26,636)	(1,731)	(28,367)
Balance at 31 March 2020 carried forward		**(53,003)**	**(8,564)**	**-**	**(5,851)**	**(67,418)**	**(41,069)**	**(108,487)**

2.2 Comprehensive Income and Expenditure Statement

The Comprehensive Income and Expenditure Statement shows the accounting cost in year of providing services in accordance with generally accepted accounting practice, rather than the amount charged to the General Fund which is set out in the Movement in Reserves Statement.

As part of the creation of NTCA it was stated that a Joint Transport Committee (JTC) must be appointed which is endowed with the powers of the Integrated Transport Authority which were previously endowed upon the North East Combined Authority as the seven Local Authorities (NECA). NECA was appointed as the accountable body for the JTC.

NECA as the accountable body must split revenue, expenditure, assets and liabilities into those which relate to NECA and NTCA. The accounts for the Combinded Authority thereby include a split of all income and expenditure relating to Transport activity assosciated with the constituent authorities of North of Tyne from 2nd November 2018, in 2018/19 accounts and full year in 2019/20 accounts.

2018/19					2019/20		
Gross Expenditure	Gross Income	Net Expenditure		Note	Gross Expenditure	Gross Income	Net Expenditure
£000	£000	£000			£000	£000	£000
			Continuing NTCA Services	1			
3	-	3	Investment		3,196		3,196
528	(371)	157	Corporate Costs		2,421	(8,505)	(6,083)
			Mayors Office		207	-	207
			Elections		1,048	(3)	1,045
			JTC Levy		33,168	(33,168)	(0)
			Adult Education Budget		136	(382)	(246)
			Cost of Services from Continuing Services		**40,177**	**(42,058)**	**(1,881)**
			Services transferred from NECA	1			
2,561	-	2,561	Transport - Northumberland		-	-	-
44	-	44	Transport - Retained Levy Budget		114		114
9,538	-	9,538	Transport - Tyne and Wear		24,657		24,657
5,148	(8,786)	(3,638)	Transport - Other		9,336	(10,821)	(1,485)
6,993	(4,989)	2,004	Transport - Tyne Tunnels		11,331	(14,884)	(3,554)
24,815	**(14,146)**	**10,669**	**Cost of services**		**85,615**	**(67,763)**	**17,851**
			Financing and Investment Income and Expenditure:	4			
-	(2)	(2)	- From continuing services		-	(228)	(228)
1,598	(717)	881	- Transferred from NECA		3,289	(852)	2,438
			Taxation and Non-Specific Grant Income:	5			
-	(20,091)	(20,091)	- From continuing services		-	(20,182)	(20,182)
			- Transferred from NECA				
-	(13,964)	(13,964)	- Levy			(27,074)	(27,074)
-	(114)	(114)	- Capital Grants (non-specific)			(1,368)	(1,368)
26,413	**(49,034)**	**(22,621)**	**(Surplus)/Deficit on Provision of Services**		**88,904**	**(117,467)**	**(28,563)**
			Other Comprehensive Income and Expenditure				
		-	Re-measurement of the defined benefit liability	19			196
		(22,621)	**Total Comprehensive Income and Expenditure**				**(28,367)**

2.3 Balance Sheet

The Balance Sheet shows the value as at the Balance Sheet date, 31st March each year, of the assets and liabilities recognised by the Combined Authority. The Net Assets of the Authority (total assets less total liabilities) are matched by Reserves. Reserves are reported in two categories, Usable and Unusable. Unusable Reserves include those which hold unrealised gains and losses (e.g. the Revaluation Reserve) where amounts only become available to provide services if the assets are sold; and reserves that hold timing differences in the Movement in Reserves Statement line "adjustments between accounting basis and funding basis under regulations".

31 March 2019 £000		Note	31 March 2020 £000
154,091	Property, Plant and Equipment	11	153,621
16,402	Long Term Debtors	12	15,595
170,493	**Long Term Assets**		**169,216**
27,720	Short Term Investments	12	64,460
1,334	Short Term Debtors	14	6,532
29,149	Cash and Cash Equivalents	16	13,825
58,203	**Current Assets**		**84,816**
(1,024)	Short Term Borrowing	12	(1,032)
(30,446)	Short Term Creditors	17	(27,606)
(503)	Grants Receipts in Advance	6	(427)
(2,255)	Public Private Partnerships	18	(2,256)
(15)	Other Current Liabilities		-
(34,243)	**Current Liabilities**		**(31,320)**
(40,585)	Public Private Partnerships	18	(38,345)
(73,648)	Long Term Borrowing	12	(75,595)
(100)	Grants Receipts in Advance	6	
-	Pension Liability	19	(285)
(114,333)	**Long Term Liabilities**		**(114,225)**
80,120	**Net Assets**		**108,487**
(40,782)	Usable Reserves	20	(67,418)
(39,338)	Unusable Reserves	22	(41,069)
(80,120)	**Total Reserves**		**(108,487)**

Chief Finance Officer Certificate

I certify that the accounts for the period ended 31 March 2-19, required by the Accounts and Audit Regulations 2015, give a true and fair view of the financial position of the North of Tyne Combined Authority and its income and expenditure for the 31 March 2020.

Signed: Janice Gillespie, Chief Finance Officer Date:

2.4 Cash Flow Statement

The Cash Flow Statement shows the changes in cash and cash equivalents of the Authority during the reporting period. The statement shows how the Authority generates and uses cash and cash equivalents by classifying cash flows from operating, investing and financing activities. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Authority's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Authority.

2018/19 £000		Note	2019/20 £000
22,621	Net Surplus/(Deficit) on the provision of services		28,563
5,048	Adjustments to net surplus or deficit on the provision of services for non-cash movements	24	(9,765)
(8,807)	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	24	(11,034)
18,862	**Net cash flows from Operating Activities**		**7,765**
197	Investing Activities		(25,052)
(147)	Financing Activities		1,963
18,912	**Net (Decrease)/Increase in cash and cash equivalents**		**(15,324)**
10,237	Cash and cash equivalents at the beginning of the reporting period	16	29,149
29,149	**Cash and cash equivalents at the end of the reporting period**		**13,825**

*This includes activities that are part of the services transferred from NECA and relates to the cash and cash equivalent position at the date of incorporation of the NTCA (2 November 2018).

Index to the Notes to the Financial Statements

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

Note 1: Transfer of Services to the Newcastle upon Tyne, North Tyneside and Northumberland Combined Authority

On 2 November 2018, under the terms of the Newcastle upon Tyne, North Tyneside and Northumberland Combined Authority (Establishment and Functions) Order 2018 a new entity, the Newcastle upon Tyne, North Tyneside and Northumberland Combined Authority was created (referred to in this document as the North of Tyne Combined Authority, or NTCA).

- Newcastle City Council, North Tyneside Metropolitan District Council and Northumberland County Council ceased to be members of the North East Combined Authority and became members of the new NTCA; and
- The business of the North East Combined Authority, and the associated assets and liabilities, relating to the geography of Newcastle upon Tyne, North Tyneside and Northumberland transferred to the new NTCA.

Under the Order, it is stated that NECA and NTCA must appoint a Joint Transport Committee (JTC), which is endowed with the powers of the Integrated Transport Authority previously endowed upon NECA. The Constitution of the JTC is such that it meets the definition of Joint Control and it is classified accordingly as a Joint Operation.

At its first meeting on 20 November 2018, the JTC appointed NECA as its accountable body. As the accountable body NECA must split the revenue, expenditure, assets and liabilities into those which relate to NECA and those which relate to NTCA:

- That which relates to Northumberland is wholly allocated to NTCA.
- That which relates to Durham is wholly allocated to NECA.
- That which relates to Tyne and Wear is allocated between NECA and NTCA on the basis of population using the ONS statistics used as the basis of dividing the levy contributions.

From the 1st April 2020 the NTCA will become the Accountable body for the North East Local Enterprise Partnership (LEP) with staff TUPE across from NECA to NTCA and Transport staff in the Regional Transport Team, now known as the Transport Strategy Unit will be transferred to NECA.

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

Note 2: Expenditure and Funding Analysis

	2019/20				
	Net Expenditure Chargeable to the General Fund	Adjustments for Capital Purposes	Pension Adjustments	Other Differences	Net Expenditure in the CIES
	£000	£000	£000	£000	£000
Continuing NTCA Services					
Investment	3,196				3,196
Corporate Costs	(5,169)		91		(5,078)
Services Transferred from NECA					
Transport - Northumberland	-				-
Transport - Retained Levy Budget	348	(234)			114
Transport - Tyne and Wear	24,657				24,657
Transport - Other	325	(1,810)			(1,485)
Transport - Tyne Tunnels	(2,572)	(982)			(3,554)
Net Cost of services	**20,787**	**(3,026)**	**91**	**-**	**17,851**
Other Income and Expenditure					
- From continuing services	(20,408)		(2)		(20,410)
- From services transferred from NECA	(25,332)	(309)		(363)	(26,004)
(Surplus)/Deficit on Provision of Services	**(24,952)**	**(3,335)**	**89**	**(363)**	**(28,562)**
Opening General Fund Balances	(36,615)				
Surplus on General Fund Balances in Year	(24,952)				
Closing General Fund Balances	**(61,567)**				

This column adds in depreciation and impairment and revaluation gains and losses in the service line, and adjusts for:

- Other operating expenditure - adjusts for capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets.

- Financing and investment income and expenditure - the statutory charges for capital financing i.e. Minimum Revenue Provision and other revenue contributions are deducted from other income and expenditure as these are not chargeable under generally accepted accounting practices.

- Taxation and non-specific grant income and expenditure - capital grants are adjusted for income not chargeable under generally accepted accounting practices. Revenue grants are adjusted from those receivable in the year to those receivable without conditions or for which conditions were satisfied during the year. The Taxation and Non Specific Grant Income and Expenditure line is credited with capital grants receivable in the year without conditions or for which conditions were satisfied in the year.

Net Change for the Pension Adjustments

Net change for the removal of pension contributions and the addition of IAS 19 Employee Benefits pension related expenditure and income:

- For services this represents the removal of the employer pension contributions made by the authority as allowed by statute and the replacement with current service costs and past service costs.

- For Financing and investment income and expenditure - the net interest on the defined benefit liability is charged to the CIES.

Other Differences

Other differences between amounts debited/credited to the Comprehensive Income and Expenditure Statement and amounts payable/receivable to be recognised under statute:

- For Financing and investment income and expenditure, the other differences column recognises adjustments to the General Fund for the timing differences for premiums and discounts.

	2018/19				
	Net Expenditure Chargeable to the General Fund	**Adjustments for Capital Purposes**	**Pension Adjustments**	**Other Differences**	**Net Expenditure in the CIES**
	£000	**£000**	**£000**	**£000**	**£000**
Continuing NTCA Services					
Investment	3	-	-	-	3
Corporate Costs	157	-	-	-	157
Services Transferred from the NECA					
Transport - Northumberland	2,561	-	-	-	2,561
Transport - Retained Levy Budget	161	(117)	-	-	44
Transport - Tyne and Wear	9,538	-	-	-	9,538
Transport - Other	466	(4,104)	-	-	(3,638)
Transport - Tyne Tunnels	49	1,955	-	-	2,004
Cost of services relating to continuing services excluding operations transferred to the NTCA	**12,935**	**(2,266)**	**-**	**-**	**10,669**
Other Income and Expenditure					
- From continuing services	(20,093)	-	-	-	(20,093)
- From services transferred from NECA	(13,050)	-	-	(147)	(13,197)
(Surplus)/Deficit on Provision of Services	**(20,208)**	**(2,266)**	**-**	**(147)**	**(22,621)**

Balances transferred from NECA	(16,407)
Surplus on General Fund Balances in Year	(20,208)
Closing General Fund Balances at 31 March 2019	**(36,615)**

Note 2a: Income and Expenditure Analysed by Nature

	2018/19 £000	2019/20 £000
Expenditure		
Employee benefit expenses	40	1,723
Other service expenses	16,774	72,870
Support Service Recharges	84	298
Depreciation, impairment and Revenue Expenditure Funded from Capital Under Statute (REFCUS)	7,917	10,723
Interest payments	1,598	3,289
Total expenditure	**26,413**	**88,904**
Income		
Fees, charges and other service income (Tyne Tunnels tolls)*	(4,191)	(12,614)
Interest and investment income	(719)	(1,079)
Income from transport levy	(13,964)	(27,074)
Government grants and contributions	(29,321)	(32,712)
Other income	(839)	(43,988)
Total income	**(49,034)**	**(117,467)**
Surplus/Deficit on the provision of services	**(22,621)**	**(28,563)**

* Fees, charges and other service income relates wholly to tolls paid by users of the Tyne Tunnels.

Note 3: Adjustments between Accounting Basis and Funding Basis Under Regulations

This note details the adjustments that are made to the total comprehensive income and expenditure recognised by the Authority in the year in accordance with proper accounting practice, to the resources that are specified by statutory provisions as being available to the Authority to meet future capital and revenue expenditure.

2018/19					2019/20			
General Fund	Capital Receipts Reserve	Capital Grants Unapplied	Unusable Reserves	Adjustments between Accounting Basis and Funding Basis Under Statute	General Fund	Capital Receipts Reserve	Capital Grants Unapplied	Unusable Reserves
£000	£000	£000	£000		£000	£000	£000	£000
				Adjustments primarily involving the Capital Adjustment Account				
				Reversal of items debited or credited to the CIES				
(3,213)	-	-	3,213	Charges for depreciation and impairment of non current assets	(1,842)			1,842
946	-	-	(946)	Other income that cannot be credited to the General Fund	2,256			(2,256)
4,640	-	-	(4,640)	Capital grants and contributions applied	6,435			(6,435)
(4,704)	-	-	4,704	Revenue expenditure funded from capital under statute	(8,881)			8,881
			-	**Insertion of items not debited or credited to the CIES**				-
429	-	-	(429)	Statutory provision for the financing of capital investment	766			(766)
-	-	-	-	Capital expenditure charged against the General Fund	4			(4)
				Adjustments primarily involving the Capital Grants Unapplied				
4,168	-	(4,168)	-	Grants and contributions unapplied credited to the CIES	4,599		(4,599)	-
-	-	545	(545)	Application of grants to capital financing transferred to the CAA			2,916	(2,916)
				Adjustments involving the Capital Receipts Reserve				
-	(724)	-	(724)	Loan principal repayments		(698)		698
-	724	-	724	Use of Capital Receipts Reserve to finance new capital expenditure				-
-	-	-	-	Application of Capital Receipts to repayment of debt		698		(698)
				Adjustments involving the Financial Instruments Adjustment				
147	-	-	(147)	Amount by which finance costs charged to the CIES are different from finance costs chargeable in the year in accordance with statutory requirements	363			(363)
				Adjustments involving the Pensions Reserve				
-	-	-	-	Reversal of items relating to retirement benefits debited or	(19)			19
-	-	-	-	Employer's pension contributions and direct payments to pensioners payable in the year	(72)			72
				Interest expense on net defined liability/(asset)	2			(2)
2,413	**-**	**(3,623)**	**1,210**	**Total Adjustments**	**3,611**	**-**	**(1,683)**	**(1,927)**

Note 4: Financing and Investment Income and Expenditure

	Note	2018/19		2019/20
		Continuing Services	Transport Services transferred to NTCA - 1 April 2018 - 1 November	
		£000	£000	£000
Interest Payable and Similar Charges		1,598		3,289
Interest Payable on defined benefit liability	19			(2)
Interest Receivable and similar income		(719)		(1,077)
Total		**879**	**-**	**2,210**

Note 5: Taxation and Non Specific Grant Income

	2018/19		2019/20
	Continuing Services	Transport Services transferred to NTCA - 1 April 2018 - 1 November	
	£000	£000	£000
Transport Levy	-	(13,964)	(27,074)
Non-Ringfenced Government Grants	(20,091)	-	(20,182)
Non Specific Capital Grants	-	(114)	(1,368)
Total	**(20,091)**	**(14,078)**	**(48,624)**

Note 6: Grant Income

	2018/19		2019/20
	Continuing Services	Transport Services transferred to NTCA - 1 April 2018 - 1 November 2018	
	£000	£000	£000
Investment Fund	(20,000)	-	(20,000)
Homeless Veteran Grant	(91)	-	-
Mayoral Capacity Fund			(1,000)
EU Exit Funding			(182)
Capital Grants, Contributions and Donations	-	(114)	(114)
Local Authority Contribution to North East LEP	-	-	
Local Growth Fund	-	-	
Local Transport Plan	-	-	(6,179)
European Grants	-	-	(220)
North East Smart Ticketing Initiative	-	-	(160)
Transforming Cities Fund	-	-	(4,386)
LEP Local Industrial Strategy Grant	-	-	
Office for Low Emission Vehicles	-	-	(240)
Adult Education Implentation Fund			(382)
Other Grants	-	-	
Total	**(20,091)**	**(114)**	**(32,863)**

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

Grants Receipts in Advance	31 March 2019 £000	31 March 2020 £000
NECA North East Smart Ticketing Initiative	(503)	(91)
NECA Office for Low Emission Vehicles	(100)	(112)
Other Grants		(224)
Total	**(603)**	**(427)**

Shown as Short-Term Liability on the Balance Sheet	(503)	(427)
Short as Long-Term Liability on the Balance Sheet	(100)	-
Total	**(603)**	**(427)**

Note 7: Members' Allowances

The Authority paid the following amounts to independent members of its various committees during the year.

	2018/19 £000	2019/20 £000
Allowances	-	2
Total	**-**	**2**

Note 8: Officers' Remuneration

The remuneration paid to the Combined Authority's Senior Officers was as follows:

		Salary, Fees and Allowances £000	Pension Contributions £000	Total £000
Elected Mayor	2019/20	56	0	56
	2018/19	0	0	0
Director of Economic Growth	2019/20	46	10	56
	2018/19	0	0	0
Director of Policy and Performance	2019/20	35	9	44
	2018/19	0	0	0
Managing Director of Transpport Arranagments	2019/20	127	0	127
	2018/19	125	21	146

Under the Joint Transport Committee arrangements the renumeration paid to the Managing Director of Transport Operations is included in the table above.

Five of the Authorities' statutory officers are not formal employees of the Combined Authority, and are not therefore included in the statutory disclosure above. Their servcies are based on agreed number of days per week and charged including expenses by their respective Local Authority employers, these are shown in the interests of transparency.The Director of Economic Growth and Director of Policy and Performance posts were appointed to permanently by the NTCA midway through 2019/20.

		Payment for agreed Days £000	Expenses £000	Total £000
Pat Ritchie, Head of Paid Service to Dec 31st 2019 (SLA Newcastle City Council)	2019/20	31	-	**31**
Pat Ritchie, Head of Paid Service (SLA Newcastle City Council)	2018/19	19		**19**
Paul Hanson, Head of Paid Service from January 1 2020 - March 31 2020 (SLA North Tyneside)	2019/20	10		**10**
N/A	2018/19	-		**-**

Janice Gillespie, Interim Chief Finance Officer, S.73 Officer (SLA North Tyneside)	2019/20	24	-	**24**
Janice Gillespie, Interim Chief Finance Officer, S.73 Officer (SLA North Tyneside)	2018/19	20		**20**
John Softly, Interim Monitoring Officer (SLA Newcastle City Council)	2019/20	19		**19**
John Softly, Interim Monitoring Officer (SLA Newcastle City Council)	2018/19	10		**10**
Interim Director of Economic Growth to 2 Dec 2019 (Newcastle City Council)	2019/20	115	1	**116**
Interim, Director of Economic Growth (Newcastle City Council)	2018/19	83	2	**85**
Interim Director of Policy and Performance to 2 Dec 2019	2019/20	85	-	**85**
Interim Director of Policy and Performance	2018/19	-	-	**-**

The number of other officers, who are directly employed by the NTCA, who received remuneration greater than £50,000 (excluding employers' pension contributions) was as follows:

	2018/19 £000	**2019/20 £000**
£50,000-£54,999	0	0
£55,000-£59,999	1	0
£60,000-£64,999	0	1
£65,000-£69,999	0	0
£70,000-£74,999	0	0
£75,000-£79,999	0	0
£80,000-£84,999	0	0
£85,000-£89,999	0	0
£90,000-£94,999	0	0
£95,000-£99,999	0	0
Total	**1**	**1**

Note 9: External Audit Costs

The Combined Authority has incurred the following costs in relation to the audit of the Statement of Accounts, certification of grant claims and statutory inspection and for non-audit services provided by the Ccombined Authority's external auditors.

	2018/19 £000	**2019/20 £000**
Scale fee for the audit of the Statement of Accounts	30	28
Additional fee in relation to the audit of the 2018/19 Accounts (paid during 2019/20)		
Total	**30**	**28**

Note 10: Related Parties

The Combined Authority is required to disclose material transactions with related parties - bodies or individuals that have the potential to control or influence the Combined Authority or to be controlled or influenced by the Combined Authority. Disclosure of these transactions allows readers to assess the extent to which the Combined Authority might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Authority.

In this context, related parties include:
- Central Government
- Members of the Cabinet
- Officers of the Combined Authority
- NTCA Constituent Authorities
- Joint Transport Committee Constituent Authorities
- Other Public Bodies
- Other Entities

Central Government

Central Government is responsible for providing the statutory framework within which the Combined Authority operates, provides much of its funding in the form of grants and prescribes the terms of some of the transactions that the Combined Authority has with other parties. Grants received from government departments are set out in Note 6.

Elected Members of the Authority

Members of the Combined Authority have a direct control over the Combined Authority's financial and operating policies. The total of members allowances payable to elected members of the Combined Authority is shown in Note 7. During 2019/20 no works or services were commissioned from companies in which any members had an interest.

Officers

There have been no pecuniary interest involving the Head of Paid Service, the Chief Finance Officer or the Monitoring Officer to the Authority.

NTCA Constituent Authorities

The Leaders of the three consituent Authorities serve as members on the NTCA Cabinet. Details of material transactions with the seven Authorities are set out in the table below.

Joint Transport Committee Constituent Authorities

From 2 November, the Joint Transport Committee has been in establishment, comprised of the seven North East local authorities. Figures reported in these accounts include the NTCA share of Joint Transport Committee activity, and details of matetrial transactions with the seven Authorities are set out in the table below.

Other Public Bodies

The Combined Authority has a direct relationship with the Passenger Transport Executive for Tyne and Wear (Nexus) through the North East Combined Authority (NECA). Details of material transactions with Nexus are set out in the table below.

Other Entities

Newcastle International Airport Ltd - the seven Constituent Authorities are shareholders in Newcastle Airport.

	2018/19				2019/20			
	Receivables	Income	Expenditure	Payables	Receivables	Income	Expenditure	Payables
	£000	£000	£000	£000	£000	£000	£000	£000
NTCA Constituent Authorities								
Newcastle	(501)	(13,238)	7,271	914	(822)	(32,006)	17,170	1,189
North Tyneside	(245)	(9,394)	3,869	137	(1,878)	(22,166)	12,496	286
Northumberland	(780)	(5,479)	8,718	614	(2,359)	(16,234)	7,548	88
NECA Constituent Authorities								
Durham	-	(12,900)	15,826	77	-	(6,893)	8,271	69
Gateshead	(99)	(9,100)	8,887	7,661		(4,850)	853	21
South Tyneside	(213)	(6,981)	11,004	637	(672)	(3,583)	535	1,401
Sunderland	(849)	(13,260)	17,051	1,058		(6,643)	1,000	105
Other Public Bodies								
Nexus	(889)	(1,685)	52,060	34,203	(672)	-	27,226	22,609

Note 11: Property, Plant and Equipment

2019/20	Vehicles, Plant, Furniture & Equipment £000	Infrastructure Assets £000	Assets Under Construction £000	Total Property, Plant & Equipment £000	Service Concession Assets included in Property, Plant and Equipment £000
Cost or Valuation					
At 1 April 2019	1,420	166,202	7,999	**175,621**	166,202
Additions			1,373	**1,373**	-
Reclassification	334	8,104	(8,438)		8,104
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	-		-	**-**	-
Impairment recognised in the Surplus/Deficit on the Provision of Services	-		-	**-**	-
At 31 March 2020	**1,754**	**174,306**	**934**	**176,994**	**174,306**

Accumulated Depreciation and Impairment					
At 1 April 2019	(525)	(21,005)	-	(21,530)	(21,005)
Depreciation charge for the Year	(74)	(1,768)	-	**(1,842)**	(1,768)
At 31 March 2020	**(599)**	**(22,773)**	**-**	**(23,372)**	**(22,773)**

Net Book Value					
At 1 April 2019	**895**	**145,197**	**7,999**	**154,091**	**145,197**
At 31 March 2020	**1,155**	**151,533**	**934**	**153,621**	**151,533**

2018/19	Vehicles, Plant, Furniture & Equipment £000	Infrastructure Assets £000	Assets Under Construction £000	Total Property, Plant & Equipment £000	Service Concession Assets included in Property, Plant and Equipment £000
Cost or Valuation					
Transferred from the NECA	1,420	168,729	6,817	**176,966**	**168,729**
Additions	-	19	1,182	**1,201**	**19**
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	-	(19)	-	**(19)**	**(19)**
Impairment recognised in the Surplus/Deficit on the Provision of Services	-	(2,527)	-	**(2,527)**	**(2,527)**
At 31 March 2019	**1,420**	**166,202**	**7,999**	**175,621**	**166,202**

Accumulated Depreciation and Impairment					
Transfer from NECA	(508)	(20,355)	-	**(20,863)**	**(20,355)**
Depreciation charge	(17)	(650)	-	**(667)**	**(650)**
At 31 March 2019	**(525)**	**(21,005)**	**-**	**(21,530)**	**(21,005)**

Net Book Value					
Balances transferred from NECA	912	148,374	6,817	156,103	148,374
At 31 March 2019	**895**	**145,197**	**7,999**	**154,091**	**145,197**

Note 12: Financial Instruments

Financial Assets

A financial asset is a right to future economic benefits controlled by the Combined Authority that is represented by cash or other instruments or a contractual right to receive cash or another financial asset. The financial assets held by the Authority during the year are held under the following classifications.

	Non-current				Current			
	Investments		Debtors		Investments		Debtors	
	31 March 2019 £000	31 March 2020 £000	31 March 2019 £000	31 March 2020 £000	31 March 2019 £000	31 March 2020 £000	31 March 2019 £000	31 March 2020 £000
Amortised cost	-	-	16,402	15,595	27,720	64,460	960	1,376
Total financial assets	**-**	**-**	**16,402**	**15,595**	**27,720**	**64,460**	**960**	**1,376**
Non-financial assets	-	-	-		-	-	-	145
Total	**-**	**-**	**16,402**	**15,595**	**27,720**	**64,460**	**960**	**1,521**

Financial assets at amortised cost

Financial assets are classifed at amortised cost only if both of the following criteria are met:
- The asset is held within a business model whose objective is to collect the contractual cash flows; and
- The contractual terms give rise to cash flows that are solely payments of principal and interest

All of the financial assets fit these criteria and are classified at amortised cost.

Trade receivables

Trade receivables are amounts due for goods and services delivered. They are generally due for settlement within 30 days and are therefore classified as current. Trade receivables are recognised initially at the amount of the consideration. Trade receivables are held with the objective of collecting the contractual cash flows and are therefore measured at amortised cost using the effective interest method.

Due to the short-term nature of held to maturity investments their carrying value is considered to be the same as their fair value.

Financial Liabilities held at amortised cost

A financial liability is an obligation to transfer economic benefits controlled by the Combined 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 Combined Authority.

	Non-current				Current			
	Borrowings		Creditors		Borrowings		Creditors	
	31 March 2019 £000	31 March 2020 £000	31 March 2019 £000	31 March 2020 £000	31 March 2019 £000	31 March 2020 £000	31 March 2019 £000	31 March 2020 £000
Amortised cost	(73,648)	(75,595)	-	-	(1,288)	(1,032)	(28,665)	(4,347)
Total financial liabilities	**(73,648)**	**(75,595)**	**-**	**-**	**(1,024)**	**(1,032)**	**(28,665)**	**(4,347)**
Non-financial liabilities	-	-	-	-	-	-	(587)	(23,182)
Total	**(73,648)**	**(75,595)**	**-**	**-**	**(1,024)**	**(1,032)**	**(29,252)**	**(27,529)**

The contractual terms for these financial liabilities give rise to cash flows that are solely payments of principal and interest, and they have been accordingly classifed at amortised cost.

Income, Expense, Gains and Losses

The gains and losses recognised in the CIES in relation to financial instruments are made up as follows:

31 March 2019				31 March 2020		
£000	£000	£000		£000	£000	£000
Financial Liabilities at amortised cost	**Financial assets: measured at amortised cost**	**Total**		**Financial Liabilities at amortised cost**	**Financial assets: measured at amortised cost**	**Total**
1,598	-	1,598	Interest expense	3,289		3,289
1,598	**-**	1,598	**Total expense in Surplus on Provision of Services**	**3,289**	**-**	**3,289**
-	(717)	(717)	Investment income		(1,079)	(1,079)
-	-	-	Movement on soft loans adjustment			-
-	**(717)**	(717)	**Total income in Surplus on Provision of Services**	**-**	**(1,079)**	**(1,079)**
1,598	**(717)**	**881**	**Net (gain)/loss for the year**	**3,289**	**(1,079)**	**2,210**

Fair Value of Assets & Liabilities carried at Amortised Cost

Balance Sheet at amortised cost. Their fair values have been estimated by calculating the net present value of the remaining contractual cash flows at 31st March 2020, using the following methods and assumptions:

- Loans borrowed by the Combined 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 proporse an increase to the interest rate of the loan have been valued according to a proprietary model for Bermudan cancellable swaps. Borrower's contingent options to accept the increased rate or repay the loan have been valued at zero, on the assumption that lenders will only exercise their options when market rates have risen above the contractual loan rate.

- The fair values of other long-term loans and investments have been discounted at the market rates for similar instruments with similar remaining terms to maturity on 31st March.

- No early repayment or impairment is recognised for any financial instrument.

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

For 2019/20 the fair values are shown in the table below are split by their level in the fair value hierarchy:
- Level 1 – fair value is only derived from quoted prices in active markets for identical assets or liabilities.

- Level 2 – fair value is calculated from inputs other than quoted prices that are observable for the asset or liability: Fair values have been estimated by discounting the loans' contractual cash flows over the whole life of the instruments at the appropriate market rates for local authority loans of equivalent remaining term. The value of "Lender's Option Borrower's Option" (LOBO) loans have been increased by the value of the embedded options: lenders' options to propose an increase to the interest rate on the loan have been valued according to a proprietary model for Bermudan cancellable swaps; borrower's contingent options to accept the increased rate or repay the loan have been valued at zero, on the assumption that lenders will only exercise their options when market rates have risen above the contractual loan rate.

- Level 3 – fair value is determined using unobservable inputs: consideration of the estimated creditworthiness of the organisation receiving the loans based on their financial performance and track record of payment.

The fair values calculated are as follows:

		31 March 2019		31 March 2020	
		Carrying amount £000	Fair value £000	Carrying amount £000	Fair value £000
Financial Liabilities held at amortised cost		**73,648**	**120,322**	**76,627**	**131,383**
Financial Assets at amortised cost					
Held to maturity investments		27,720	27,720	64,460	64,460
Loan debtors	3	17,099	26,979	15,595	26,999
Total		**44,819**	**54,699**	**80,055**	**91,459**

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

Note 13: Nature and Extent of risks arising from Financial Instruments

The Authority's activities expose it to a variety of financial risks:

Credit risk - the possibility that other parties might fail to pay amounts due to the Authority.

Liquidity risk - the possibility that the Authority might not have funds available to meet its commitments to make payments.

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

The Authority's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund services. Risk management is carried out by a central treasury team, under policies approved by the Authority in the Annual Treasury Management Strategy Statement. The statement provides written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk and the investment of surplus cash.

Credit risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Authority's customers. This deposit risk is minimised through the Treasury Management Statement, which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria. The Treasury Management Statement also imposes a maximum sum to be invested with a financial institution located within each category. The credit criteria in respect of financial assets held by the Authority are detailed fully in the Annual Treasury Management Strategy Statement.

The following table summarises the Authority's maximum exposure to credit risk on financial assets. This analysis is based on credit rating advice received by Treasury Management advisors and focuses on the long-term investment grade rating issued to each financial institution. The highest possible rating is AAA and the lowest rating is BBB:

Rating	**2019/20 £000**
A+	2,879
A-	
n/a - investments with UK local authorities	59,784
n/a - investments with unrated building societies [1]	1,797
Total Short-Term Investments	**64,460**

[1] In line with its agreed Investment Strategy, NTCA at the point of these accounts, did not place investments with Building Society. NECA (in regard of those Investments which relate to JTC Investments) place investments for up to 1 year and up to £5m each with UK building societies without credit ratings with assets

The Combined Authority's maximum exposure to credit risk in relation to its investments in banks and building societies cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of non recovery applies to all of the Authority's deposits, but there was no evidence at the 31 March 2020 that this was likely to crystallise. Actions are taken immediately if an institution is downgraded and deposits withdrawn in line with Treasury Management Strategy.

Customers for goods and services are assessed, taking into account their financial position, past experience and other factors, within individual credit limits being set in accordance with internal ratings within parameters set by the Combined Authority. The Combined Authority has a low risk of default from its customers for goods and services, since these are predominantly other local authorities or other public bodies such as Nexus.

Credit risk is taken into account in determining the appropriate rate of interest to be applied to the North East Investment Fund loans and in whether an investment decision is agreed.

Liquidity Risk

The Combined Authority has a comprehensive cash flow management system that seeks to ensure that cash is available as needed. If unexpected movements happen, the Authority has ready access to borrowings from the money markets and the Public Works Loans Board. There is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments. Instead, the risk is that the Authority will be bound to replenish a significant proportion of its borrowings at a time of unfavourable interest rates. The Authority sets limits on the proportion of its fixed rate borrowing during specified periods. The strategy is to ensure maturing loans may be replaced through a combination of careful planning of new loans taken out and (where it is economic to do so) making early repayments. The maturity analysis of financial liabilities is as follows:

	31 March 2019 £000	31 March 2020 £000
Between 1-2 years	(295)	(295)
Between 2-5 years	(886)	(886)
Between 5-10 years	(738)	(443)
More than 10 years	(71,729)	(73,971)
	(73,648)	**(75,595)**
Less than 1 year	(1,024)	(1,298)
Total borrowing	**(74,672)**	**(76,893)**

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

Market Risk

Interest Rate Risk

The Authority is exposed to risk in terms of its exposure to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Authority. For instance, a rise in interest rates would have the following effects:

- Borrowings at variable rates - the interest expense charged to the Surplus or Deficit on the Provision of Services will rise;
- Borrowings at fixed rates - the fair value of liabilities will fall;
- Investments at variable rates - the interest income credited to the Surplus or Deficit on the Provision of Services will rise;
- Investments at fixed rates - the fair value of the assets will fall

Borrowings are not carried at fair value, so nominal gains and losses on fixed rate borrowings would not impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Surplus or Deficit on the Provision of Services and affect the General Fund Balance. Movements in the fair value of fixed rate investments that have a quoted market price will be reflected in Other Comprehensive Income and Expenditure.

The Authority has a number of strategies for managing interest rate risk. The policy is to ensure that the level of its borrowings in variable rate loans does not expose the portfolio to excessive movements in interest rates. During periods of falling interest rates, and where economic circumstances make it favourable, fixed rate loans will be repaid early to limit exposure to losses.

The treasury management team has an active strategy for assessing interest rate exposure that feeds into the setting of the annual budget and which is used to update the budget quarterly during the year. This allows any adverse changes to be accommodated. The analysis will also advise whether new borrowing taken out is fixed or variable.

Interest rate sensitivity analysis: an example of the impact of a change in interest rates is calculated in the risk assessment shown below. The assessment has been carried out assuming a 1% increase in interest rates (with all other variables such as principal and maturity periods being held constant). The results of this assessment are shown in the following table:

	31 March 2019 £000	31 March 2020 £000
Increase in interest payable on variable rate borrowing	-	
Increase in interest receivable on variable rate investments	543	(149)
Impact on the (Surplus)/Deficit on Provision of Services	**543**	**(149)**

The increase in interest payable on variable rate borrowings is nil, because all NECA's borrowings, as related to JTC balances are at fixed rates. A decrease in the fair value of fixed rate borrowings liabilities would have no impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure. The impact of a 1% fall in interest rates would be as above, but with the movements being reversed. There have been no changes from the previous period in the methods and assumptions used.

Note 14: Short Term Debtors

	31 March 2019 £000	31 March 2020 £000
Central Government bodies	510	790
Other local authorities	-	5,059
Other entities and individuals	824	683
Total	**1,334**	**6,532**

Note 15: Long Term Debtors

	31 March 2019 £000	31 March 2020 £000
Nexus borrowing	16,402	15,595
Total	**16,402**	**15,595**

Note 16: Cash and Cash Equivalents

	31 March 2019 £000	31 March 2020 £000
Cash held in Authority's bank account	6,160	7,173
Cash equivalents	22,989	6,652
Total	**29,149**	**13,825**

Note 17: Short Term Creditors

	31 March 2019 £000	31 March 2020 £000
Central government bodies	(2)	(78)
Other local authorities	(1,014)	(2,386)
Other entities and individuals	(29,430)	(342)
- Nexus		(22,441)
- TT2		(1,346)
- Other		(1,013)
Total	**(30,446)**	**(27,606)**

Note 18: Private Finance Initiatives and Similar Contracts

In November 2007, the then Tyne and Wear Passenger Transport Authority entered into a 30 year contract with TT2 Ltd to construct a second vehicle tunnel under the River Tyne, refurbish the existing Tyne Tunnel and operate both vehicle tunnels alongside the pedestrian and cycle tunnels for the life of the contract. The second tunnel was opened on 25 February 2011, and the refurbished original tunnel opened on 21 November 2011. Both are included on the public sector balance sheet.

In 2019/20 the total payment under the contract was £21.123m (2018/19 £20.256m).

The contribution to the capital works by the private sector partner is recognised as a deferred income balance with a 2019/20 value of £91.661m (2018/19 £96.753m), of which £51,061m is shown on the NECA balance sheet and £40,600m shown on the NTCA balance sheet

	Deferred Income Release	
	2018/19 £000	2019/20 £000
Payable in 2019/20	(2,255)	(2,256)
Payable within 2 to 5 years	(9,019)	(9,022)
Payable within 6 to 10 years	(11,274)	(11,278)
Payable within 11 to 15 years	(11,274)	(11,278)
Payable within 16 to 20 years	(9,018)	(6,767)
Total	**(42,840)**	**(40,600)**

Payments

Payments made by the Authority to TT2 Ltd are based on actual traffic volumes using the tunnel, and so will vary from year to year.

Note 19: Defined Benefit Pension Schemes

The Combined Authority currently participates in one post-employment schemes:

(i) Tyne and Wear Pension Fund administered locally by South Tyneside Council - this is a funded, defined benefit scheme, meaning that the Combined Authority and employees pay contributions into a fund, calculated at a level intended to balance the pension liabilities with investments.

The Tyne and Wear Pension Fund is operated under the regulatory framework for the Local Government Pension Scheme. The governance of the scheme is the responsibility of the Fund's Pension Committee which consists of eight members from South Tyneside Council (which has legal responsibiliity for the Fund), four members from the other councils in Tyne and Wear, and three members each nominated by the trades unions and the employers. During 2017/18, the Fund, along with eleven other funds, created and now owns a Financial Conduct Authority (FCA) regulated investment management company called Border to Coast Pensions Partnership Limited.

Amounts recognised in profit and loss and other comprehensive income

	Local Government Pension Scheme	
	2018/19	2019/20
	£000	£000
Comprehensive Income and Expenditure Statement		
Cost of Services:		
Current service cost		250
Past service cost		19
Financing and Investment Income and Expenditure		
Interest on net defined benefit liability (asset)		(2)
Pension expense recognised in profit and loss		**267**
Other Post Employment Benefits charged to the Comprehensive Income and Expenditure Statement:		
Return on plan assets (in excess of)/below that recognised in net interest		(386)
Actuarial (gains)/losses due to changes in financial assumptions		(12)
Actuarial (gains)/losses due to changes in demographic assumptions		-
Actuarial (gains)/losses due to changes in liability assumptions		594
Adjustment in respect of paragraph 58		-
Total amount recognised in Other Comprehensive Income		**196**
Total amount recognised		**463**

Changes to the present value of net defined benefit obligation

	Local Government Pension Scheme	
	2018/19	2019/20
	£000	£000
Opening defined benefit obligation at 1 April	**-**	**2**
Current service cost	-	250
Interest expense on defined benefit obligation	-	1
Contributions by participants	-	54
Actuarial gains/(losses) on liabilities - financial assumptions	-	(12)
Actuarial gains/(losses) on liabilities - demographic assumptions	-	-
Actuarial gains/(losses) on liabilities - experience	-	594
Net benefits paid out	-	2
Past service costs	-	19
Closing defined benefit obligation at 31 March	**-**	**910**

Reconciliation of the fair value of the scheme assets:

	Local Government Pension Scheme	
	2018/19	2019/20
	£000	£000
Opening fair value of assets	**-**	**2**
Interest income on assets	-	3
Remeasurement gains/(losses) on assets	-	386
Employer contributions	-	178
Contributions by scheme participants	-	54
Net benefits paid out	-	2
Closing fair value of assets	**-**	**625**

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the balance sheet date.

Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets.

Scheme History	2018/19 £000	2019/20 £000
Fair value of LGPS assets		**625**
Present value of liabilities: - Funded Defined Benefit Obligation	-	910
Funding Status	**-**	**(285)**
Unrecognised Asset	-	-
Asset/ (Liability) shown on the Balance Sheet	**-**	**(285)**

The split of the defined benefit obligation at the last valuation date between the various categories of members was as follows: active members 100%, deferred pensioners 0% and pensioners 0%.

The liabilities show the underlying commitments that the Authority has in the long run to pay post employment (retirement) benefits. The total liability of £0.910m has an impact on the net worth of the Authority recorded on the balance sheet, resulting in a negative pension balance of £0.285m. However, statutory arrangements for funding the deficit mean that the financial position of the Authority remains healthy:

- The deficit on the local government scheme will be made good by contributions over the remaining working life of employees (i.e. before payments fall due), as assessed by the scheme actuary.

- Finance is only required to be raised to cover discretionary benefits when the pensions are actually paid.
- The total contributions expected to be made to the Local Government Pension Scheme by the Authority in the year to 31 March 2021 is £0.071m In addition, Strain on the Fund contributions may be required. Expected payments direct to beneficiaries in the year to 31 March 2021 are nil in relation to unfunded benefits.

Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels etc. The Local Government Pension Scheme have been assessed by Aon, an independent firm of actuaries, estimates for the pension fund being based on the latest full valuation of the scheme as at 31 March 2019.

The weighted average duration of the defined benefit obligation for scheme members is 29.3 years.

The principal assumptions used by the actuary have been:

	Local Government	
	31-Mar-19	31-Mar-20
Mortality assumptions:		
Pensioner member aged 65 at accounting date (male)	21.8	21.8
Pensioner member aged 65 at accounting date (female)	24.9	25.0
Active member aged 45 at accounting date (male)	23.4	23.5
Active member aged 45 at accounting date (female)	26.7	26.8
Rate for discounting scheme liabilities	**% pa**	**%pa**
Rate for inflation - Retail Price Index	2.50%	2.30%
Rate of inflation - Consumer Price Index	2.10%	1.80%
Rate of increase in pensions	2.10%	1.80%
Pension accounts revaluation rate	2.10%	1.80%
Rate of increase in salaries	3.60%	3.30%

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

	31 March 2019	31 March 2020		
	% Total	% Quoted	% Unquoted	% Total
Equity investments	66.1%	48.0%	6.8%	54.8%
Property	9.0%	0.0%	9.0%	9.0%
Government bonds	3.9%	4.1%	0.0%	4.1%
Corporate bonds	11.5%	15.3%	0.0%	15.3%
Cash	3.9%	2.3%	0.0%	2.3%
Other*	5.6%	8.5%	6.0%	14.5%
Total	**100.0%**	**78.2%**	**21.8%**	**100.0%**

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

Actual Return on Assets

	Local Government	
	31-Mar-19	31-Mar-20
	£000	£000
Interest Income on Assets	-	3
Remeasurement gain/(loss) on assets	-	386
Actual Return on Assets	**-**	**389**

Sensitivity Analysis

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the tables above. The sensitivity analyses below have been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all the other assumptions remain constant. The assumptions in longevity, for example, assume that life expectancy increases or decreases for men and women. In practice, this is unlikely to occur, and changes in some of the assumptions may be interrelated. The estimations in the sensitivity analysis have followed the accounting policies for the scheme, i.e. on an actuarial basis using the projected unit credit method. The methods and types of assumptions used in preparing the senstivity analysis below did not change from those used in the previous period.

Discount rate assumption	**+0.1% p.a.**	**Base Figure**	**-0.1% p.a.**
Adjustment to discount rate			
Present value of total obligation (£M)	0.884	0.910	0.937
% change in present value of total obligation	-2.9%		3.0%
Projected service cost (£M)	0.428	0.445	0.462
Approximate % change in projected service cost	-3.8%		3.9%

Rate of general increase in salaries	**+0.1% p.a.**	**Base Figure**	**-0.1% p.a.**
Adjustment to salary increase rate			
Present value of total obligation (£M)	0.910	0.910	0.910
% change in present value of total obligation	0.0%		0.0%
Projected service cost (£M)	0.445	0.445	0.445
Approximate % change in projected service cost	0.0%		0.0%

Rate of increase to pensions in payment and deferred pensions assumption, and rate of revaluation of pension accounts	**+0.1% p.a.**	**Base Figure**	**-0.1% p.a.**
Adjustment to pension increase rate			
Present value of total obligation	0.937	0.910	0.884
% change in present value of total obligation	3.0%		-2.9%
Projected service cost (£M)	0.462	0.445	0.428
Approximate % change in projected service cost	3.9%		-3.8%

Post retirement mortality assumption **Adjustment to mortality age rating assumption***	**- 1 year**	**Base Figure**	**+ 1 year**
Present value of total obligation (£M)	0.938	0.910	0.882
% change in present value of total obligation	3.1%		-3.1%
Projected service cost (£M)	0.463	0.445	0.427
Approximate % change in projected service cost	4.0%		-4.0%

* a rating of +1 year means that members are assumed to follow the mortality pattern of the base table for an individual that is 1 year older than them

Note 20: Usable Reserves

	Note	31 March 2019 £000	31 March 2020 £000
General Fund Balance		(29,576)	(10,691)
Earmarked Reserves	21	(7,039)	(30,943)
Capital Receipts Reserve			
Capital Grants Unapplied Reserve		(4,167)	(5,851)
Total		**(40,782)**	**(47,485)**

The **General Fund Balance** is the statutory fund into which all the receipts of an authority are required to be paid and out of which all liabilities of the authority are to be met, except to the extent that statutory rules might provide otherwise. These rules can also specify the financial year in which liabilities and payments should impact on the General Fund Balance, which is not necessarily in accordance with proper accounting practice. The General Fund Balance therefore summarises the resouces that the authority is statutorily empowered to spend on its services or on capital investment (or the deficit of resources that the authority is required to recover) at the end of the financial year.

Earmarked Reserves are amounts which the authority has chosen to set aside from the General Fund Balance to be used for specific purposes.

The **Capital Receipts Reserve** holds the proceeds from the disposal of land or other assets, which are restricted by statute from being used other than to fund new capital expenditure or to be set aside to finance historical capital expenditure. The balance on the reserve shows the resources that have yet to be applied for these purposes at the year-end.

The **Capital Grants Unapplied Reserve** holds the grants and contributions received towards capital projects for which the authority has met the conditions that would otherwise require repayment of the monies but which have yet to be applied to meet expenditure. The balance is restricted by grant terms as to the capital expenditure against which it can be applied and/or the financial year in which this can take place.

Note 21: Transfers (to)/From Earmarked Reserves

This note sets out amounts set aside from the General Fund in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund expenditure.

	Balances Transferred from NECA	Transfers Out 2018/19	Transfers In 2018/19	Balance at 31 March 2019	Transfers Out 2019/20	Transfers In 2019/20	Balance at 31 March 2020
	£000	£000	£000	£000	£000	£000	£000
General Fund Balances							
General Fund	10,894	(1,251)	**-**	**9,643**		**1048**	**10,691**
Total General Fund Balances	10,894	- 1,251	-	9,643	-	1,048	10,691
General Fund Reserves							
Investment Fund Reserve	-	-	19,551	**19,551**		17,289	36,840
Business Rates Pool						4,909	4,909
Metro Reinvigoration Reserve	4,037	-	22	**4,059**		34	4,093
Metro Fleet Replacement	1,476	-	1,488	**2,964**		1,507	4,471
Strategic Reserve	-	-	200	**200**			200
Grant Reserves	-	-	198	**198**	(17)	182	363
Total General Fund Reserves	**5,513**	**-**	**21,459**	**26,972**	**(17)**	**23,921**	**50,876**
Total Balances & Reserves	**16,407**	**(1,251)**	**21,459**	**36,615**	**(17)**	**24,969**	**61,567**

Note 22: Unusable Reserves

Summary

	31 March 2019 £000	31 March 2020 £000
Capital Adjustment Account	(36,456)	(38,174)
Financial Instruments Adjustment Account	788	425
Revaluation Reserve	(3,670)	(3,606)
Pension Reserve	-	285
Total	**(39,338)**	**(41,069)**

Capital Adjustment Account

The Capital Adjustment Account (CAA) absorbs the timing differences arising from the different arrangements for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The CAA is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisation are charges to the CIES (with reconciling postings from the Revaluation Reserve to convert fair value figures on a historical cost basis). The CAA is credited with the amounts set aside by the Authority as finance for the costs of acquisition, construction and enhancement of assets.

The CAA is credited with the amounts set aside by the Combined Authority as finance for the costs of acquisition, construction adn 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 CAA, apart from those involving the Revaluation Reserve.

	2018/19 £000	2019/20 £000
Transfer from NECA (2018/19)/ Opening Balance 1 April 2019	**(37,748)**	**(36,456)**
Reversal of items relating to capital expenditure debited or credited to the CIES:		
Charges for depreciation and impairment of non current assets	**3,213**	**1,842**
Write down of New Tyne Crossing deferred income balance	**(927)**	**(2,256)**
Revenue expenditure funded from capital under statute	**4,704**	**8,881**
Write down of long term debtors	**725**	**698**
Adjusting amounts written out of the Revaluation Reserve	**(65)**	**(64)**
Capital financing applied in the year:		
Capital grants and contributions credited to the CIES that have been applied to capital financing	(5,185)	(9,351)
Statutory provision for the financing of capital investment	(429)	(766)
Capital expenditure charged against the General Fund	(19)	(4)
Debt redeemed using capital receipts	(725)	(698)
Balance at 31 March	**(36,456)**	**(38,174)**

Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account (FIAA) absorbs the timing differences arising from the different arrangements for accounting for income and expense relating to certain financial instruments and for bearing losses or benefitting from gains per statutory provisions. It provides a balancing mechanism between the different rates at which gains and losses (e.g. premiums on the early repayment of debt) are recognised under the Code and are required by statute to be met from the General Fund.

	2018/19	2019/20
	£000	£000
Transferred from NECA	935	788
Proportion of premiums incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements	(147)	(363)
Amount by which finance costs charged to the CIES are different from finance costs chargeable in the year in accordance with statutory requirements		
Balance at 31 March	788	425

Revaluation Reserve

The Revaluation Reserve (RR) contains the gains made by the Authority arising from increases in the value of its Property, Plant and Equipment. The balance is reduced when assets with accumulated gains are:
- Revalued downwards or impaired and the gains are lost
- Used in the provision of services and the gains are consumed through depreciation
- Disposed of and the gains are realised
The RR only contains revaluation gains accumulated since 1 April 2007, the date that the reserve was created. Accumulated gains arising before that date are consolidated into the balance on the CAA.

	2018/19	2019/20
	£000	£000
Transferred from NECA	(3,735)	(3,670)
Difference between fair value depreciation and historical cost depreciation written off to the CAA	65	64
Balance at 31 March	(3,670)	(3,606)

Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions. The Authority accounts for post-employment benefits in the CIES as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Authority makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a shortfall in the benefits earned by past and current employees and the resources the Authority has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

	2018/19	2019/20
	£000	£000
Opening Balance 1 April		**-**
Remeasurements of the net defined benefit liability (asset)		196
Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the CIES		19
Employer's pension contributions and direct payments to pensioners payable in the year		72
Interest expense on net defined liability/ (asset)		(2)
Balance at 31 March	**-**	**285**

Note 23: Capital Expenditure and Capital Financing

	2018/19 £000	2019/20 £000
Opening Capital Financing Requirement 1 April	**86,805**	**86,352**
Capital Investment		
Property, Plant and Equipment	1,201	1,373
Revenue Expenditure Funded from Capital Under Statute	4,704	8,881
Sources of Finance		
Capital receipts - repayment of principal from long term debtors	(725)	(698)
Government Grants and other contributions	(5,185)	(9,351)
Sums set aside from revenue		
Direct revenue contributions	(19)	(4)
Minimum Revenue Provision	(307)	(766)
Additional Voluntary Provision	(122)	
Closing Capital Financing Requirement 31 March	**86,352**	**85,787**
Decrease in underlying need to borrow (unsupported by government financial assistance)	**(453)**	**(565)**
Decrease in Capital Financing Requirement	**(453)**	**(565)**

Note 24: Adjustments to net surplus or deficit on the provision of services for non cash movements and items that are Investing or Financing activities

	2018/19 £000	2019/20 £000
Surplus/(Deficit) on the provision of services	22,621	28,563
Adjustments to Surplus/(Deficit) on Provision of Services for Non-Cash Movements		
Depreciation and Impairment	3,213	1,842
(Increase)/Decrease in Creditors	3,245	(2,862)
Increase/(Decrease) in Debtors	(483)	(6,594)
Movement in Pension Liability		89
Other non-cash items charged to the net surplus or deficit on the provision of services	(927)	(2,240)
	5,048	**(9,765)**
Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities		
Capital grants credited to surplus/(deficit) on provision of services	(8,807)	(11,034)
Net cash flow from operating activities	**18,862**	**7,765**

The cash flows for operating activities include the following items:

	2018/19 £000	2019/20 £000
Interest received	719	2,452
Interest paid	(1,598)	(4,196)

Note 25: Cash Flow Statement - Investing Activities

	2018/19 £000	2019/20 £000
Purchase of property, plant and equipment, investment property and intangible assets	(1,201)	(1,371)
Purchase of short-term and long-term investments	(26,983)	(83,272)
Proceeds from short-term and long-term investments	20,074	47,272
Other receipts from investing activities	8,307	12,319
Net cash flows from investing activities	**197**	**(25,052)**

Note 26: Cash Flow Statement - Financing Activities

	2018/19 £000	2019/20 £000
Repayments of short and long-term borrowing	(147)	1,963
Net cash flows from financing activities	**(147)**	**1,963**

Note 27: Accounting Standards Issued, Not Yet Adopted

Impact of the adoption of new accounting standards on the 2019/20 Financial Statements

At the balance sheet date, the following new standards and amendments to existing standards have been published but not yet adopted by the Code of Practice of Local Authority Accounting in the United Kingdom:

- IFRS 16 Leases will require local authorities that are lessees to recognise most leases on their balance sheets as right-of-use assets with corresponding lease liabilities (there is recognition for low-value and short-term leases). CIPFA/LASAAC have deferred implementation of IFRS 16 for local government to 1 April 2020. Work to date has shown that NECA leases identified will not have a material effect on the 2020/21 statements.

Note 28: Critical Judgements in Applying Accounting Policies

In applying the accounting policies set out in these accounts, the Authority has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

Service Concession Arrangements

The Local Authority Accounting Code of Practice requires arrangements where private sector contractors provide a service for a period using a dedicated asset to be assessed under an application of the principles within IFRIC 12. There are two criteria used to determine whether arrangements fall under the scope of IFRIC 12:

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

For arrangements falling under the scope of IFRIC 12, the public sector entity will recognise the cost of the Property, Plant and Equipment underlying the service concession as a tangible fixed asset. The New Tyne Crossing concession has been judged to meet both of the IFRIC 12 criteria and, accordingly, the cost of the new Tunnel and the refurbishment of the existing Tunnel are recorded within the Authority's Property, Plant and Equipment on the Balance Sheet.

Transferred Assets and Liabilities in Local Government Pension Scheme transferred to TT2 Ltd

Assets and liabilities relating to membership accrued before 1 February 2008 transferred to TT2 Ltd on commencement of the concessionaire agreement. The project agreement provides that should there be a shortfall in the TT2 fund at the actuarial valuation, which can be attributed to pre-2008 benefits, the authority will be required to reimburse the shortfall. As a result of the most recent triennial valuation, there is currently no reimbursement due.

Accounting for the North East Joint Transport Committee

As set out in Note 1, on 2 November 2018 the boundaries of NECA changed and the North East Joint Transport Committee was created. The assets and liabilities which transferred from the former Tyne and Wear Integrated Transport Authority to NECA on its creation in April 2014 are now jointly owned by NECA and the NTCA, and assets, liabilities, income and expenditure (from the date of establishment) must be divided between the accounts of the two Combined Authorities.

For many of the assets and liabilities and revenue streams, these cannot be separated into those which relate to the authorities which are part of NECA and those which relate to the authorities which are part of NTCA. As a result, these balances have been apportioned between the two Combined Authorities on the basis of Tyne and Wear population.

Note 29: Assumptions made about the future and other major sources of estimation uncertainty

The Statement of Accounts contains estimated figures that are based on assumptions made by the Authority about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Authority's Balance Sheet at 31 March 2020 for which there is a risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Authority with expert advice about the assumptions to be applied.	The approximate impact of changing the key assumptions on the present value of the funded defined benefit obligation as at 31 March 2020 and the projected service cost for the year ending 31 March 2021 are set out below. Discount rate assumption, an adjustment to the discount rate of +0.1% p.a. would decrease the present value of the total obligation to £0.884m, a variance of £0.026m, whereas a decrease of (0.1%) p.a. results in an increase to £0.937m. The percentage change in the present value of the total obligation would be (2.9%) and 3% respectively.
		Rate of increase to pensions in payment and deferred pensions assumption, and rate of revaluation of pension accounts assumption: an adjustment to the pension increase rate of +0.1% p.a. would increase the present value of the total obligation by £0.99m to £40.51m, whereas a decrease of (0.1%) p.a. results in a decrease to £38.57m, a variance of £0.95m. The percentage change in the present value of the total obligation would be 2.5% and (2.4%) respectively.
		Post retirement mortality assumption: an adjustment to the mortality age rating assumption of -1 year would change the present value of the total obligation to £0.938m, an increase of £0.028m, whereas a adjustment of +1 year results in a reduction to £0.882m, a variance of £0.028m. The percentage change in the present value of the total obligation would be 3.1% and (3.1%) respectively.

Brexit	The outcome of Brexit negotiations has implications for each local authority in the sense that any subsequent volatility in stock markets, exchange rates, interest rates and future availability of funding could potentially impact on amounts disclosed within the financial statements.	Areas impacted could include: - The availability of grant funding and impact on other funding streams. - The fair value of long-term borrowing (but not the principal sum or interest payable). - The liability related to defined benefit pension schemes, which is dependent on a large number of factors including investment performance, bond yields and inflation. - Unusable reserves - any movement in the liability related to defined benefit pension schemes will be offset within unusable reserves.
Covid-19	Covid-19 impacted on the Combined Authority from mid-March 2020. The implications for the Combined Authority are primarily in relation to reduced interest rates available on investment income.	Although interest rates with the Debt Management Office (DMO) reduced on average by 5 base points. The Combined Authority started to invest with other Local Authorities (within their Treasury Managment Strategy guidelines) from March 2020, which provided higher interest rates to minimise loss of investment income.

Note 30: Accounting Policies

1. General Principles

The Statement of Accounts summarises the Authority's transactions for the 2019/20 financial year and its position at the year-end of 31 March 2020. The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015, which those Regulations require to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20, supported by International Financial Reporting Standards (IFRS).

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

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

2. Accruals of Income and Expenditure

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

- Revenue from the sale of goods is recognised when the Authority transfers the significant risks and rewards of ownership to the purchaser and it is probable that the economic benefits or service potential associated with the transaction will flow to the Authority.
- Revenue from the provision of services is recognised when the Authority can measure 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 payments on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument, rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded on the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected. The Authority has a policy of not accruing for manual sundry creditor or sundry debtor provisions for less than £1,000, other than in exceptional circumstances.

3. Cash and Cash Equivalents

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

4. Exceptional Items

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

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

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

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

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

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

6. Charges to Revenue for Non-Current Assets

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

- Depreciation attributable to the assets used by the relevant service.
- Revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off.
- Amortisation of intangible fixed assets attributable to the service.

The Authority is not required to raise the levy to fund depreciation, revaluation and impairment losses or amortisations. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement, equal to an amount calculated on a prudent basis determined by the Authority in accordance with statutory guidance.

Depreciation, revaluation and impairment losses are therefore replaced by the contribution in the General Fund Balance (Minimum Revenue Provision), by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

7. Employee Benefits

Benefits Payable during Employment

Short-term employee benefits are those due to be settled within 12 months of the year end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render service to the Authority. Due to the small number of employees the Authority has, the cost of holiday entitlements (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year end which employees can carry forward into the next financial year is immaterial and therefore an accrual will not be made. This approach will be reviewed each year to ensure it is still an appropriate treatment.

Termination Benefits

Termination benefits are amounts which would be payable as a result of a decision by the Authority to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis to the Non Distributed Costs line in the Comprehensive Income and Expenditure Statement when the Authority is demonstrably committed to the termination of the employment of an officer or group of officers or making an offer to encourage voluntary redundancy.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Authority to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but

No such amounts are payable in 2019/20

8. Post-Employment Benefits

NTCA and NECA is a member of the Local Government Pension Scheme, which provides members with defined benefits relating to pay and service. Its pension obligations relate primarily to former employees.

The relevant fund is the Tyne and Wear Pension Fund, administered by South Tyneside Metropolitan Borough Council, from whom a copy of the annual report may be obtained. The Fund website may be visited at www.twpf.info.

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

· The liabilities of the pension fund attributable to the Authority are included in the Balance Sheet on an actuarial basis using the projected unit method - i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates and projections of earnings for current employees.

· Liabilities are discounted to their value at current prices, using a discount rate determined annually, based on the indicative rate of return on high quality corporate bonds.

· The assets of the pension fund attributable to the Authority are included in the Balance Sheet at their fair value:

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

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

a) 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 NTCA and NECA Corporate line.

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

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

d) Remeasurements comprising:

· the return on plan assets, excluding amounts included in net interest on the net defined benefit liability, charged to the Pensions Reserve as Other Comprehensive Income & 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

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

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

Further details are provided in Note 19 to the accounts.

9. Events after the Balance Sheet Date

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

· Those that provide evidence of conditions that existed at the end of the reporting period - the Statement of Accounts is adjusted to reflect such events.

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

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

10. Fair Value Measurement

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

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

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

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

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

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

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

11. Financial Instruments

Financial Liabilities

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

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

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

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Authority has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net 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.
- Fair value through profit and loss (FVPL) – objectives are achieved by any other means than collecting contractual cash flows.

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

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

Amortised Cost

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

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

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

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

Expected Credit Loss Model

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

Fair Value Through Other Comprehensive Income

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

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

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

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

Fair Value through Profit and Loss (FVPL)

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

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

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

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

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

12. Government Grants & Contributions

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

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

Amounts recognised as due to the Authority are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify 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 are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions and capital grants used to fund Revenue Expenditure Financed from Capital Under Statute) 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 Reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

13. Property, Plant & Equipment

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

Recognition

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

Measurement

Assets are initially measured at cost, comprising:

- The purchase price.

· Any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

· The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

The Authority does not capitalise borrowing costs incurred whilst assets are under 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 (existing use value - EUV).

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

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

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

Assets included in the Balance Sheet at current value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum every five years. The work is carried out on behalf of the Authority by the Property Services division of Newcastle City Council. These revaluations are detailed within the Notes to the Core Financial Statements. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.

Where decreases in value are identified, they are accounted for as follows:

· Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains).

· Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

De Minimis Levels

The use of a deminimis level for capital expenditure means that in the above categories assets below the deminimis level are charged to the revenue account and are not classified as capital expenditure, i.e. the asset is not included in the balance sheet unless they are part of an overall project costing more than the established deminimis level. For all capital expenditure the de-minimis level is £10,000.

Impairment

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

Where impairment losses are identified, they are accounted for as follows:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains).

- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss and adjusted for depreciation that would have been charged if the loss had not been recognised.

Depreciation

Depreciation is provided on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land) and assets that are not yet available for use (i.e. assets under construction).

Depreciation on all Property, Plant and Equipment assets (except vehicles) is calculated by taking the asset value at 31 March 2020, divided by remaining life expectancy. Depreciation is charged in the year of acquisition, but not the year of disposal. Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation that would have been chargeable based on their historic cost being transferred each year from the Revaluation Reserve to the Capital Adjustment

Where an item of Property, Plant and Equipment assets has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately. In the most recent valuations of the Tyne Tunnels it was assessed that, although Mechanical and Electrical Services and the Toll Plazas have an economic life of 20 years, these formed less than 20% of the overall valuation and have not therefore been classed as significant components.

Disposals

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

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

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

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

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

14. Public Private Partnership (PPP) Contracts

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

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

Arrangements fall in scope of the Application where both of the following 'IFRIC 12' criteria are met:
- The public sector entity ('grantor') controls or regulates the services that the operator must provide with the infrastructure, to whom it must provide them, and at what price; and
- The grantor controls, through ownership, beneficial entitlement or otherwise, any significant residual interest in the infrastructure at the end of the service arrangement.

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

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

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

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

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

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

15. Provisions

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

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

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

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

16. Contingent Liabilities

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

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

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts. There are no contingent liabilities disclosed in 2019/20.

17. Reserves

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

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

18. Revenue Expenditure Funded from Capital under Statute

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

19. VAT

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

20. Overheads

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

21. Tyne Tunnels Income

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

22. Group Accounts

NECA is required by the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 to produce Group Accounts to include services provided to Council Tax payers in the North East by organisations other than the Authority itself in which the Authority has an interest.

Although there has been no definitive ruling by CIPFA or central government in relation to Combined Authorities and Passenger Transport Executives, it is recognised that the accounts of Nexus fall within the definition of a subsidiary. As such, group accounts have been prepared on the basis of a full consolidation of the financial transactions and balances of NECA and Nexus. Nexus has been incorporated as a subsidiary, whereby the accounts of the two organisations are combined and any intra-group transactions are cancelled out.

For the 2019/20 accounts, NECA has fully complied with the requirements of the Code, providing Group figures for 2019/20 and comparators for 2018/19. From 2010/11, Passenger Transport Executives have been required to produce their accounts under International Financial Reporting Standards, and as if the proper practices in relation to accounts applicable to a local authority were, so far as appropriate, applicable to an Executive. The group financial statements are prepared in accordance with the policies set out in the Statement of Accounting Policies above.

23. Joint Transport Committee

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

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

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

- Assets and liabilities transferred at book value.

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

- Split the revenues between that which relates to NECA and NTCA. In this case the constitution of the JTC and its funding arrangements suggests that, in the first instance, the revenues should be divisible into that which relates to Northumberland (allocated wholly to NTCA), that which relates to Durham (allocated wholly to NECA) and that which relate to Tyne and Wear (requires further division into NECA and NTCA).
- The revenues which relate to Tyne and Wear must then be divided into that which relates wholly to Newcastle and/or North Tyneside (allocated to NTCA), that which relates wholly to Gateshead, South Tyneside and/or Sunderland (allocated to NECA) and that which relates to activities not wholly attributable under the preceding two points which requires apportionment.

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

Note 31: Events After the Balance Sheet Date

Adjusting events after the Balance Sheet date

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

Non-adjusting Events after the Balance Sheet date

Where events take place after 31 March which do not relate to conditions at 31 March but which provide information that is relevant to an understanding of the Authority's financial position, the financial sttaements and notes are not adjusted but the relevant information is disclosed. No such events have taken place.

3.0 Group Financial Statements and Explanatory Notes

Contents Page

3.1 Group Movement in Reserves Statement

	Note	NTCA/NECA Usable Reserves	NTCA/NECA Unusable Reserves	Total NECA Reserves	Authority Share of Nexus	Total Group Reserves
		£000	£000	£000	£000	£000
Transfer of Services to the NTCA at 2 November 2018		**(16,951)**	**(40,548)**	**(57,499)**	**(195,896)**	**(253,395)**
Balance at 2 November 2018		**(16,951)**	**(40,548)**	**(57,499)**	**(195,896)**	**(253,395)**
Total Comprehensive Income and Expenditure		(22,621)	-	**(22,621)**	**579**	**(22,042)**
Adjustments between accounting basis & funding basis under regulations		(1,210)	1,210	-	-	-
Net (Increase)/Decrease before transfers to Earmarked Reserves		**(23,831)**	**1,210**	**(22,621)**	**579**	**(22,042)**
Transfers (To)/From Earmarked Reserves				-		-
(Increase)/Decrease in 2018/19		**(23,831)**	**1,210**	**(22,621)**	**579**	**(22,042)**
Balance at 31 March 2019 carried forward		**(40,782)**	**(39,338)**	**(80,120)**	**(195,317)**	**(275,437)**
Total Comprehensive Income and Expenditure		(28,563)	196	**(28,367)**	(14,031)	(42,397)
Adjustments between accounting basis & funding basis under regulations (prior to transfer of services)		1,927	(1,927)	(0)	-	(0)
Net (Increase)/Decrease before transfers to Earmarked Reserves		**(26,636)**	**(1,731)**	**(28,367)**	**(14,031)**	**(42,397)**
(Increase)/Decrease in 2019/20		**(26,636)**	**(1,731)**	**(28,367)**	**(14,031)**	**(42,397)**
Balance at 31 March 2020 carried forward		**(67,418)**	**(41,069)**	**(108,487)**	**(209,348)**	**(317,835)**

3.2 Group Comprehensive Income and Expenditure Statement

2018/19					2019/20		
Gross Expenditure	Gross Income	Net Expenditure		Note	Gross Expenditure	Gross Income	Net Expenditure
£000	£000	£000			£000	£000	£000
			Continuing NTCA Services				
3	-	3	Investment		3,196	-	3,196
528	(371)	157	Corporate Costs		36,980	(42,058)	(5,078)
			Services transferred from NECA				
44	-	44	Transport - Retained Levy Budget		114	-	114
2,561	-	2,561	Transport - Northumberland		-		-
32,096	(14,763)	17,333	Transport - Tyne and Wear		72,721	(35,342)	37,378
3,661	(8,785)	(5,124)	Transport - Other		9,336	(10,821)	(1,485)
6,993	(4,989)	2,004	Transport - Tyne Tunnels		11,331	(14,884)	(3,554)
45,886	**(28,908)**	**16,978**	**Cost of services**		**133,678**	**(103,105)**	**30,573**
			Financing and Investment Income and Expenditure	G2			
-	(2)	(2)	- From continuing services		-	(228)	(228)
1,984	(565)	1,419	- From services transferred from NECA		7,514	(3,818)	3,696
			Taxation and Non-Specific Grant Income	G3			
-	(20,091)	(20,091)	- From continuing services		-	(20,182)	(20,182)
			- From services transferred from the NECA			-	-
-	(14,825)	(14,825)	Levy			(27,074)	(27,074)
	(3,690)	(3,690)	Capital Grants (non-specific) - Nexus			(22,258)	(22,258)
47,870	**(68,081)**	**(20,211)**	**(Surplus)/Deficit on Provision of Services**		141,192	(176,665)	(35,473)
		(95)	Taxation of Group Entities			93	**93**
		(20,306)	**Group (Surplus)/Deficit**				**(35,380)**
		(1,736)	Re-measurement of the defined benefit liability	G11			(6,232)
			Gains on Revaluation of Property				(785)
		(22,042)	**Total Comprehensive Income and Expenditure**				**(42,397)**

3.3 Group Balance Sheet

31 March 2019 £000		Note	31 March 2020 £000
370,855	Property, Plant and Equipment	G5	380,884
1,178	Intangible Assets	G6	1,986
-	Long Term Debtors	G7	-
-	Long Term Investments	G7	-
372,033	**Long Term Assets**		**382,870**
27,720	Short Term Investments	G7	64,460
6,935	Short Term Debtors	G8	13,335
37,290	Cash and Cash Equivalents	G9	26,951
1,309	Inventories		1,596
73,254	**Current Assets**		**106,342**
(1,023)	Short Term Borrowing	G7	(1,032)
(14,315)	Short Term Creditors	G10	(18,543)
(503)	Grants Receipts in Advance	G4	(427)
(2,255)	Public Private Partnerships		(2,256)
(15)	Other Current Liabiliites		-
(18,111)	**Current Liabilities**		**(22,258)**
(40,585)	New Tyne Crossing Deferred Income		(38,345)
(73,508)	Long Term Borrowing	G7	(75,595)
(100)	Grants Receipts in Advance	G4	-
(33,461)	Pension Liability	G11	(30,826)
(2,036)	Provisions		(2,305)
(2,049)	Deferred Taxation	G12	(2,049)
(151,739)	**Long Term Liabilities**		**(149,120)**
275,437	**Net Assets**		**317,835**
(49,877)	Usable Reserves	G13	(83,614)
(225,560)	Unusable Reserves	G14	(234,221)
(275,437)	**Total Reserves**		**(317,835)**

Chief Finance Officer Certificate

I certify that the accounts set out on pages 65 to 94 give a true and fair view of the financial position of the North East Combined Authority Group as at the 31 March 2020.

Signed: Janice Gillespie, Chief Finance Officer

3.4 Group Cash Flow Statement

2018/19 £000		Note	2019/20 £000
20,307	Surplus/(Deficit) on the provision of services	G15	35,380
12,973	Adjustments to net surplus or deficit on the provision of services for non-cash movements	G15	12,143
(12,854)	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	G15	(33,258)
215	Financing costs and investment	G15	
20,641	**Net cash flows from Operating Activities**	G15	**14,265**
(593)	Investing Activities	G16	(26,568)
(999)	Financing Activities	G17	1,963
19,049	**Net (Decrease)/Increase in cash and cash equivalents**		**(10,340)**
18,241	Cash and cash equivalents at the beginning of the reporting period		37,290
37,290	**Cash and cash equivalents at the end of the reporting period**	G9	**26,951**

3.5 Explanatory Notes to the Group Financial Statements

G1 Group Accounts

Under 9.1.17 of the Code of Practice for Local Authority Accounting 2019/20, authorities with interests in subsidiaries, associates and/or joint ventures shall prepare Group Accounts in addition to their single entity financial statements, unless their interest is considered to be not material.

Nexus is the only subsidiary for the North East Combined Authority, and the Group Accounts have been prepared on a consolidation basis. The accounting policies adoped by Nexus are largely aligned with those of NECA with the following minor differences:

Deferred Taxation
NECA does not require a policy on Deferred Taxation. Deferred Taxation (which arises from the differences in the timing of the recognition of items, principally depreciation, in the accounts and by the tax authorities) has been calculated by Nexus on the liability method. Deferred tax is provided on timing differences which will probably reverse, at the rates of tax likely to be in force at the time of reversal.

Property, Plant and Equipment and Intangible Assets
Nexus uses the following estimated useful lives for each class of asset:
- Freehold buildings - 40 years
- Short leasehold buildings - over the lease term
- Infrastructure assets - 20 to 50 years
- Plant and Equipment - 5 to 30 years
- Vehicles - 5 to 10 years
- Marine Vessels - 30 years
- Intangibles - 5 to 10 years

Details of NTCA depreciation policy can be found on page 61 of the single entity accounts.

Nexus' policy is to commence depreciation on assets with effect from the month following capitalisation, whereas NTCA and NECA charges a full year of depreciation in the year of acquisition.

Where Group Accounts are required, authorities must provide the main financial statements and the disclosure notes which add value to the understanding of the accounts. Disclosure notes have been produced to add more detail where the Group Accounts are materially different from the single entity accounts.

Copies of the single entity accounts for Nexus are available at www.nexus.org.uk

As described in Note 1 to the single entity accounts, the establishment of the North of Tyne Combined Authority (NTCA) and the North East Joint Transport Committee on 2 November 2018 necessitates the division of income and expenditure, assets and liabilities relating to Joint Transport Committee activity between the NECA and NTCA accounts. Since all Nexus activity reported in the NECA group accounts relates to Transport at the Tyne and Wear level, it has been fully apportioned between NECA and NTCA on the basis of Tyne and Wear population using the ONS statistics used as the basis of dividing the levy contributions.

For more details see Note 1 on page 10.

Note 2a: Expenditure and Funding Analysis

	2019/20				
	Net Expenditure Chargeable to the General Fund	Adjustments for Capital Purposes	Pension Adjustments	Other Differences	Net Expenditure in the CIES
	£000	£000	£000	£000	£000
Continuing NTCA Services					
Investment	3,196				3,196
Corporate Costs	(5,169)		91		(5,078)
Services Transferred from NECA					
Transport - Northumberland					-
Transport - Retained Levy Budget	348	(234)			114
Transport - Tyne and Wear	19,478	10,053	7,847		37,378
Transport - Other	325	(1,810)			(1,485)
Transport - Tyne Tunnels	(2,572)	(982)			(3,554)
Net Cost of services	**15,606**	**7,027**	**7,938**	**-**	**30,571**
Other Income and Expenditure					
- From continuing services	(20,408)		(2)		(20,410)
- From services transferred from NECA	(27,253)	(22,533)	3,821	422	(45,543)
(Surplus)/Deficit on Provision of Services	**(32,054)**	**(15,506)**	**11,757**	**422**	**(35,381)**
Opening General Fund Balances	(45,710)				
Surplus on General Fund Balances in Year	(32,054)				
Closing General Fund Balances at 31 March 20	**(77,764)**				

Adjustments for Capital Purposes

This column adds in depreciation and impairment and revaluation gains and losses in the service line, and adjusts for:

- Other operating expenditure - adjusts for capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets.

- Financing and investment income and expenditure - the statutory charges for capital financing i.e. Minimum Revenue Provision and other revenue contributions are deducted from other income and expenditure as these are not chargeable under generally accepted accounting practices.

- Taxation and non-specific grant income and expenditure - capital grants are adjusted for income not chargeable under generally accepted accounting practices. Revenue grants are adjusted from those receivable in the year to those receivable without conditions or for which conditions were satisfied during the year. The Taxation and Non Specific Grant Income and Expenditure line is credited with capital grants receivable in the year without conditions or for which conditions were satisfied in the year.

Net Change for the Pension Adjustments

Net change for the removal of pension contributions and the addition of IAS 19 Employee Benefits pension related expenditure and income:

- For services this represents the removal of the employer pension contributions made by the authority as allowed by statute and the replacement with current service costs and past service costs.

- For Financing and investment income and expenditure - the net interest on the defined benefit liability is charged to the CIES.

Other Differences

Other differences between amounts debited/credited to the Comprehensive Income and Expenditure Statement and amounts payable/receivable to be recognised under statute:

- For Financing and investment income and expenditure, the other differences column recognises adjustments to the General Fund for the timing differences for premiums and discounts.

	2018/19				
	Net Expenditure Chargeable to the General Fund	**Adjustments for Capital Purposes**	**Pension Adjustments**	**Other Differences**	**Net Expenditure in the CIES**
	£000	**£000**	**£000**	**£000**	**£000**
Continuing NTCA Services					
Investment	3	-	-	-	3
Corporate Costs	157	-	-	-	157
Services Transferred from the NECA					
Transport - Northumberland	2,561	-	-	-	2,561
Transport - Retained Levy Budget	161	(117)	-	-	44
Transport - Tyne and Wear	9,538	-	-	-	9,538
Transport - Other	466	(4,104)	-	-	(3,638)
Transport - Tyne Tunnels	49	1,955	-	-	2,004
Cost of services relating to continuing services excluding operations transferred to the NTCA	**12,935**	**(2,266)**	**-**	**-**	**10,669**
Other Income and Expenditure					
- From continuing services	(20,093)	-	-	-	(20,093)
- From services transferred from NECA	(13,050)	-	-	(147)	(13,197)
(Surplus)/Deficit on Provision of Services	**(20,208)**	**(2,266)**	**-**	**(147)**	**(22,621)**

Balances transferred from NECA	(16,407)
Surplus on General Fund Balances in Year	(20,208)
Closing General Fund Balances at 31 March 2019	**(36,615)**

Note G2: Financing and Investment Income and Expenditure

	Note	2018/19	2019/20
		£000	£000
Interest Payable and Similar Charges		1,661	3,434
Interest Payable on defined benefit liability	G11	323	3,819
Interest Receivable and similar income		(565)	(3,785)
Total		**1,419**	**3,468**

Note G3: Taxation and Non Specific Grant Income

	2018/19	2019/20
	£000	£000
Transport Levy	(14,825)	(27,074)
Capital Grants, Contributions and Donated Assets	(3,690)	(22,258)
Non-Ringfenced Government Grants	(20,091)	(20,182)
Total	**(38,606)**	**(69,514)**

Note G4: Grant Income

	2018/19	2019/20
	£000	**£000**
Homeless Veteran Grant	(91)	0
Adult Education Budget - Devolution Implementation Fund	(26)	(382)
Mayoral Capacity Fund	(250)	(1,000)
Investment Fund	(20,000)	(20,000)
Exit EU Grant	(91)	(182)
Other Grants & Contributions (individually under £1m)	(4,455)	(114)
Local Transport Plan	(3,860)	(6,179)
European Grants		(220)
North East Smart Ticketing Initiative		(160)
Transforming Cities Fund	(4,450)	(4,386)
LEP Local Industrial Strategy Grant		
Office for Low Emission Vehicles		(240)
Other Grants		(1,215)
Metro Rail Grant	(4,827)	(11,556)
Heavy Rail Grant		(114)
Total	(38,050)	(45,748)

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

Grants Receipts in Advance	**31 March 2019 £000**	**31 March 2020 £000**
Grants & Contributions (individually under £1m) - Short-Term	(503)	(427)
Grants & Contributions (individually under £1m) - Long-Term	(100)	
Total	**(603)**	**(427)**

Shown as Short-Term Liability on the Balance Sheet	(503)	(427)
Short as Long-Term Liability on the Balance Sheet	(100)	
Total	**(603)**	**(427)**

Note G5: Property, Plant and Equipment

2019/20	Vehicles, Plant, Furniture & Equipment £000	Infrastructure Assets £000	Assets Under Construction £000	Land and Buildings £000	Total Property, Plant & Equipment £000	Service Concession Assets included in PPE £000
Cost or Valuation						
At 1 April 2019	**16,570**	**483,334**	**18,851**	**770**	**519,525**	**166,202**
Additions	-	-	24,996		**24,996**	-
Transfers from Assets Under Construction	334	21,878	(22,212)		**-**	8,104
Transfers to Tangibles			(655)		**(655)**	
Derecognition - Disposals	(49)	(1,470)	(277)		**(1,796)**	-
Revaluation Recognised in Revaluation Reserve				785	**785**	
At 31 March 2020	**16,855**	**503,742**	**20,703**	**1,555**	**542,855**	**174,306**

Accumulated Depreciation and Impairment						
At 1 April 2019	**(10,382)**	**(137,976)**	**-**	**(312)**	**(148,670)**	**(21,005)**
Depreciation charge	(852)	(13,307)		(18)	**(14,177)**	(1,768)
Derecognition - Disposals	49	827			**876**	
At 31 March 2020	**(11,185)**	**(150,456)**	**-**	**(330)**	**(161,971)**	**(22,773)**

Net Book Value						
At 1 April 2019	**6,188**	**345,358**	**18,851**	**457**	**370,855**	**145,197**
At 31 March 2020	**5,670**	**353,286**	**20,703**	**1,225**	**380,884**	**151,533**

2018/19

	Vehicles, Plant, Furniture & Equipment £000	Infrastructure Assets £000	Assets Under Construction £000	Land and Buildings £000	Total Property, Plant & Equipment £000	Service Concession Assets included in PPE £000
Cost or Valuation						
Transferred from Group	16,118	481,108	18,847	770	**516,843**	168,729
Additions	-	19	5,870	-	**5,889**	19
Transfers from Assets Under Construction	470	5,396	-	(5,866)	**-**	-
Revaluation increases/(decreases) recognised in Surplus/Deficit on the Provision of Services	-	(19)	-	-	**(19)**	(19)
Impairment recognised in Surplus/Deficit on Provision of Services	-	(2,527)	-	-	**(2,527)**	**(2,527)**
Derecognition - Disposals	(18)	(643)	-	-	**(661)**	-
At 31 March 2019	**16,570**	**483,334**	**24,717**	**(5,096)**	**519,525**	**166,202**

Accumulated Depreciation and Impairment						
Transferred from Group	(9,902)	(133,489)	-	(305)	**(143,696)**	(20,355)
Depreciation charge for the period 2/4/18-31/3/19	(498)	(5,096)	-	(7)	**(5,601)**	(650)
Derecognition - Disposals	18	609	-	-	**627**	-
At 31 March 2019	**(10,382)**	**(137,976)**	**-**	**(312)**	**(148,670)**	**(21,005)**

Net Book Value						
At 31 March 2019	**6,188**	**345,358**	**24,717**	**(5,408)**	**370,855**	**145,197**

Note G6: Intangible Assets

Intangible assets in the Group Accounts relate wholly to Nexus.

2019/20	2018/19 £000	2019/20 £000
Cost or Valuation		
Opening Balance		3,800
Transferred from Group	3,720	-
Additions	78	316
Transfers from assets under construction		655
Derecognition - Disposals		(31)
Total	**3,798**	**4,740**
Amortisation		
Opening Balance		(2,621)
Transferred from Group	(2,506)	-
Amortisation provided during the period	(114)	(130)
Total	**(2,620)**	**(2,751)**
Net Book Value at 31 March	**1,178**	**1,989**

Note G7: Financial Instruments

Financial Assets

A financial asset is a right to future economic benefits controlled by the Authority that is represented by cash or other instruments or a contractual right to receive cash or another financial asset. The financial assets held by the Authority during the year are held under the following classifications.

	Non-current				Current			
	Investments		Debtors		Investments		Debtors	
	31 March 2019 £000	31 March 2020 £000	31 March 2019 £000	31 March 2020 £000	31 March 2019 £000	31 March 2020 £000	31 March 2019 £000	31 March 2020 £000
Amortised cost	1	1			27,720	64,460	7,657	592
Total financial assets	**1**	**1**	**-**	**-**	**27,720**	**64,460**	**7,657**	**592**
Non-financial assets	-	-			-	-		7,730
Total	**1**	**1**	**-**	**-**	**27,720**	**64,460**	**7,657**	**8,322**

Financial assets at amortised cost

Financial assets are classifed at amortised cost only if both of the following criteria are met:
- The asset is held within a business model whose objective is to collect the contractual cash flows; and
- The contractual terms give rise to cash flows that are solely payments of principal and interest

All of NECA's financial assets fit these criteria and are classified at amortised cost.

Trade receivables

Trade receivables are amounts due for goods and services delivered. They are generally due for settlement within 30 days and are therefore classified as current. Trade receivables are recognised initially at the amount of the consideration. Trade receivables are held with the objective of collecting the contractual cash flows and are therefore measured at amortised cost using the effective interest method.

Due to the short-term nature of held to maturity investments their carrying value is considered to be the same as their fair value.

Financial Liabilities held at amortised cost

A financial liability is an obligation to transfer economic benefits controlled by the Authority and can be represented by a contractual obligation to deliver cash or financial assets or an obligation to exchange financial assets and liabilities with another entity that is potentially unfavourable to Authority.

	Non-current				Current			
	Borrowings		Creditors		Borrowings		Creditors	
	31 March 2019 £000	31 March 2020 £000	31 March 2019 £000	31 March 2020 £000	31 March 2019 £000	31 March 2020 £000	31 March 2019 £000	31 March 2020 £000
Amortised cost	(73,508)	(75,595)	-	-	(1,023)	(1,032)	(15,101)	(4,155)
Total financial liabilities	**(73,508)**	**(75,595)**	**-**	**-**	**(1,023)**	**(1,032)**	**(15,101)**	**(4,155)**
Non-financial liabilities	-	-	-	-	-	-		(14,309)
Total	**(73,508)**	**(75,595)**	**-**	**-**	**(1,023)**	**(1,032)**	**(15,101)**	**(18,464)**

The contractual terms for NECA's financial liabilities give rise to cash flows that are solely payments of principal and interest, and they have been accordingly classifed at amortised cost.

Income, Expense, Gains and Losses

The gains and losses recognised in the CIES in relation to financial instruments are made up as follows:

31 March 2019				31 March 2020		
£000	£000	£000		£000	£000	£000
Financial Liabilities at amortised cost	Financial assets: measured at amortised cost	Total		Financial Liabilities at amortised cost	Financial assets: measured at amortised cost	Total
1,661	-	1,661	Interest expense	7,255		7,255
1,661	**-**	**1,661**	**Total expense in Surplus on Provision of Services**	**7,255**	**-**	**7,255**
-	(565)	(565)	Investment income		(3,787)	(3,787)
-		-	Movement on soft loans adjustment			-
-	**(565)**	**(565)**	**Total income in Surplus on Provision of Services**	**-**	**(3,787)**	**(3,787)**
1,661	**(565)**	**1,096**	**Net (gain)/loss for the year**	**7,255**	**(3,787)**	**3,468**

Fair Value of Assets & Liabilities carried at Amortised Cost

Financial assets classified as loans and receivables and all non-derivative financial liabilities are carried in the Balance Sheet at amortised cost. Their fair values have been estimated by calculating the net present value of the remaining contractual cash flows at 31st March 2020, using the following methods and assumptions:

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

- The value of "Lender's Option Borrower's Option" (LOBO) loans have been increased by the value of the embedded options. Lender's options to propose an increase to the interest rate of the loan have been valued according to a proprietary model for Bermudan cancellable swaps. Borrower's contingent options to accept the increased rate or repay the loan have been valued at zero, on the assumption that lenders will only exercise their options when market rates have risen above the contractual loan rate.

- The fair values of other long-term loans and investments have been discounted at the market rates for similar instruments with similar remaining terms to maturity on 31st March.

- No early repayment or impairment is recognised for any financial instrument.
- The fair value of short-term instruments, including trade payables and receivables, is assumed to approximate to the carrying amount.

For 2019/20 the fair values are shown in the table below are split by their level in the fair value hierarchy:
- Level 1 – fair value is only derived from quoted prices in active markets for identical assets or liabilities.
- Level 2 – fair value is calculated from inputs other than quoted prices that are observable for the asset or liability: Fair values have been estimated by discounting the loans' contractual cash flows over the whole life of the instruments at the appropriate market rates for local authority loans of equivalent remaining term. The value of "Lender's Option Borrower's Option" (LOBO) loans have been increased by the value of the embedded options: lenders' options to propose an increase to the interest rate on the loan have been valued according to a proprietary model for Bermudan cancellable swaps; borrower's contingent options to accept the increased rate or repay the loan have been valued at zero, on the assumption that lenders will only exercise their options when market rates have risen above the contractual loan rate.

- Level 3 – fair value is determined using unobservable inputs: consideration of the estimated creditworthiness of the organisation receiving the loans based on their financial performance and track record of payment.

The fair values calculated are as follows:

		31 March 2019		31 March 2019	
	Note	Carrying amount £000	Fair value £000	Carrying amount £000	Fair value £000
Financial liabilities held at amortised cost	2	(73,508)	(120,323)	(76,627)	(131,383)
Total		**(73,508)**	**(120,323)**	**(76,627)**	**(131,383)**
Financial Assets at amortised cost					
Held to maturity investments		27,720	27,720	28,460	
Total		**(45,788)**	**(92,603)**	**(48,167)**	**(131,383)**

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

Details of the nature and extent of risks arising from Financial Instruments are set out in Note 13 of the single entity accounts.

Note G8: Short Term Debtors

	31 March 2019 £000	31 March 2020 £000
Central Government bodies	4,923	7,554
Other local authorities	2,082	5,434
NHS bodies	36	2
Other entities and individuals	(106)	345
Total	**6,935**	**13,335**

Note G9: Cash and Cash Equivalents

	31 March 2019 £000	31 March 2020 £000
Cash	8,823	21,508
Short-term deposits with financial institutions	28,467	5,443
Total	**37,290**	**26,951**

Note G10: Short Term Creditors

	31 March 2019 £000	31 March 2019 £000
Central government bodies	(411)	(1,192)
Other local authorities	(1,258)	(2,888)
Other entities and individuals	(12,646)	(12,104)
- Nexus		-
- TT2		(1,346)
- Other		(1,013)
Total	**(14,315)**	**(18,543)**

Note G11: Defined Benefit Pension Schemes

NTCA, NECA and Nexus participate in the Tyne and Wear Pension Fund (the Fund) administered locally by South Tyneside Council, which is part of the Local Government Pension Scheme (LGPS). This is a funded defined benefit scheme, meaning that the Authority and employees pay contributions into a fund, calculated at a level intended to balance the pension liabilities with investment assets.

In addition, there are arrangements for the award of discretionary post-retirement benefits upon early retirement - this is an unfunded defined benefit arrangement, under which liabilities are recognised when awards are made. However, there are no investment assets built up to meet these pension liabilities, and cash has to be generated to meet actual pension payments as they eventually fall due.

Consolidated Pension Liability

The Group pension liability of £76.462m (2019 £32.152m) is the sum of the NTCA, NECA, Nexus and NEMOL pension liability. The details of the NEMOL pension liability of £32.152m (2019 £32.152m) are set out within the NEMOL Annual Report and Accounts using the FRS 101 disclosure framework.

Transactions Relating to Post-employment Benefits

The following transactions relating to the Local Government Pension Scheme and Unfunded Benefits provided by the NECA Group have been included in the Comprehensive Income and Expenditure Statement and in the Movement in Reserves Statement during the year.

Comprehensive Income and Expenditure Statement

	LGPS		Discretionary Benefits	
	2018/19	2019/20	2018/19	2019/20
	£000	£000	£000	£000
Cost of Services:				
Current service cost [1]	2,136	6,119	-	
Past service cost	1,421	71	-	
Financing and Investment Income and Expenditure				
Interest cost	305	4,042	18	35
Expected Return on Scheme Assets		(3,289)		
Total Post-Employment benefit charged to the Surplus or Deficit on the Provision of Services	**3,862**	**6,943**	**18**	**35**
Other Post Employment Benefits charged to the Comprehensive Income and Expenditure Statement:				
Return on plan assets (in excess of)/below that recognised in net interest	(2,364)	(14,356)	-	
Remeasurement of the net Defined Benefit Liability	646	8,356	(18)	(235)
Adjustment in respect of paragraph 58			-	
Total amount recognised in Other Comprehensive Income and Expenditure	**(1,718)**	**(6,001)**	**(18)**	**(235)**
Total amount recognised in CIES	**2,144**	**942**	**-**	**(199)**

1. The Current Service cost includes an allowance for administration expenses of £0.01m for NECA and £0.150m for the Nexus Group.

Reconciliation of the Present Value of Scheme Liabilities:

	LGPS		Discretionary Benefits	
	2018/19	2019/20	2018/19	2019/20
	£000	£000	£000	£000
Opening balance at 1 April	**(164,057)**	**(168,580)**	**(1,637)**	**(1,580)**
Current Service Cost	(2,136)	(5,634)	-	
Interest Cost	(1,692)	(4,043)	(18)	(35)
Contributions by participants	(456)	(1,146)	-	
Remeasurements of the Net Defined Liability	(646)	(7,196)	18	235
Net benefits paid	1,826	5,490	65	151
Past service costs	(1,421)	(34)	-	
Closing balance at 31 March	**(168,582)**	**(181,143)**	**(1,572)**	**(1,230)**

Reconciliation of the Fair Value of the Scheme Assets:

	LGPS		Discretionary Benefits	
	2018/19	2019/20	2018/19	2019/20
	£000	£000	£000	£000
Opening fair value of scheme assets	**133,153**	**136,695**	**-**	**-**
Interest income	1,387	3,294	-	
Remeasurement gains/(losses) on plan assets	2,364	14,356	-	
Employer contributions	1,159	3,243	65	155
Contributions by scheme participants	456	1,254	-	
Net benefits paid out	(1,826)	(5,486)	(65)	(155)
Closing fair value of scheme assets	**136,693**	**153,356**	**-**	**-**

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the balance sheet date.

Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets.

Scheme History	2018/19	2019/20
	£000	£000
Fair value of LGPS assets	**136,693**	**153,981**
Present value of liabilities:		
- LGPS liabilities	(168,582)	(182,953)
- Impact of minimum funding		
Deficit on funded defined benefit scheme	**(31,889)**	**(28,972)**
Discretionary benefits	(1,572)	(1,230)
Total (Deficit)	**(33,461)**	**(30,202)**

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

	NTCA	NECA	Nexus	NEMOL
Active members	100%	5%	34%	100%
Deferred pensioners	0%	10%	10%	0%
Pensioners	0%	85%	56%	0%

The weighted average duration of the defined benefit obligation for scheme members is 29.3 years for NTCA, 13.3 years for NECA, 17.8 years for Nexus and 22.4 years for NEMOL.

The liabilities show the underlying commitments that the Authority has in the long run to pay post employment (retirement) benefits. The total liability of £182.953m has an impact on the net worth of the Authority recorded on the balance sheet, resulting in a negative pension balance of £30.825m. However, statutory arrangements for funding the deficit mean that the financial position of the Authority remains healthy:

- The deficit on the local government scheme will be made good by contributions over the remaining working life of employees (i.e. before payments fall due), as assessed by the scheme actuary.
- Finance is only required to be raised to cover discretionary benefits when the pensions are actually paid.
- The total contributions expected to be made to the Local Government Pension Scheme by the Authority in the year to 31 March 2021 is £0.071m for NTCA, nil for NECA, £3.03m for Nexus and £0.38m for NEMOL (of which £1.340m and £0.17m respectively attributed to NECA) . In addition, Strain on the Fund contributions may be required. Expected payments direct to beneficiaries in the year to 31 March 2021 is Nil for NTCA, £0.350m in relation to unfunded benefits for Nexus (of which £0.16m attributed to NECA).

Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels etc. Both the Local Government Pension Scheme and Discretionary Benefits liabilities have been assessed by Aon, an independent firm of actuaries, estimates for the pension fund being based on the latest full valuation of the scheme as at 31 March 2019.

The principal assumptions used by the actuary have been:

NTCA

	Local Government	
	31-Mar-19	31-Mar-20
Mortality assumptions:		
Pensioner member aged 65 at accounting date (male)	21.8	21.8
Pensioner member aged 65 at accounting date (female)	24.9	25.0
Active member aged 45 at accounting date (male)	23.4	23.5
Active member aged 45 at accounting date (female)	26.7	26.8
Rate for discounting scheme liabilities	**% pa**	**%pa**
Rate for inflation - Retail Price Index	2.50%	2.30%
Rate of inflation - Consumer Price Index	2.10%	1.80%
Rate of increase in pensions	2.10%	1.80%
Pension accounts revaluation rate	2.10%	1.80%
Rate of increase in salaries	3.60%	3.30%

NECA and Nexus	LGPS		Discretionary Benefits	
	2018/19	2019/20	2018/19	2019/20
Mortality assumptions:				
Longevity at 65 for current pensioners:				
Men	22.2	21.8	22.2	21.8
Women	25.3	25.0	25.3	25.0
Active member at 45 (male)	23.4	23.5		
Active member at 45 (female)	26.7	26.8		
Rate for discounting scheme liabilities	2.4%	2.3%	2.4%	2.3%
Rate of inflation - Retail Price Index	3.3%	n/a	3.3%	n/a
Rate of inflation - Consumer Price Index	2.2%	2.0%	2.2%	2.0%
Rate of increase in pensions	2.2%	2.0%	2.2%	2.0%
Pension accounts revaluation rate	2.2%	2.2%	n/a	2.2%
Rate of increase in salaries	3.7%	3.5%	n/a	3.5%

NEMOL	LGPS		Discretionary Benefits	
	2018/19	2019/20	2018/19	2019/20
Mortality assumptions:				
Longevity at 65 for current pensioners:				
Men	22.2	21.8	22.2	21.8
Women	25.3	25.0	25.3	25.0
Rate for discounting scheme liabilities	3.2%	2.3%	2.4%	2.3%
Rate of inflation - Retail Price Index	3.2%	n/a	3.3%	n/a
Rate of inflation - Consumer Price Index	2.1%	1.9%	2.2%	1.9%
Rate of increase in pensions	2.1%	1.9%	2.2%	1.9%
Pension accounts revaluation rate	2.1%	2.1%	n/a	2.1%
Rate of increase in salaries	3.6%	3.4%	n/a	3.4%

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

	31 March 2019	31 March 2020		
	% Total	% Quoted	% Unquoted	% Total
Equity investments	65.0%	48.0%	6.8%	54.8%
Property	8.8%	0.0%	9.0%	9.0%
Government bonds	4.1%	4.1%	0.0%	4.1%
Corporate bonds	11.7%	15.3%	0.0%	15.3%
Cash	2.7%	2.3%	0.0%	2.3%
Other*	7.7%	8.5%	6.0%	14.5%
Total	**100.0%**	**78.2%**	**21.8%**	**100.0%**

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

Actual Return on Assets

	Local Government	
	2018/19	**2019/20**
	£000	**£000**
Interest Income on Assets	1,387	3,294
Remeasurement gain/(loss) on assets	2,364	14,356
Actual Return on Assets	**3,751**	**17,650**

Sensitivity Analysis

Sensitivity analysis of NTCA pension liabilities is set out in Note 19 of the single entity accounts. Sensitivity analysis of the Nexus pension liabilities is shown below.

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the tables above. The sensitivity analyses below have been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all the other assumptions remain constant. The assumptions in longevity, for example, assume that life expectancy increases or decreases for men and women. In practice, this is unlikely to occur, and changes in some of the assumptions may be interrelated. The estimations in the sensitivity analysis have followed the accounting policies for the scheme, i.e. on an actuarial basis using the projected unit credit method. The methods and types of assumptions used in preparing the sensitivity analysis below did not change from those used in the previous period.

Sensitivity analysis of unfunded benefits has not been included on materiality grounds.

Discount rate assumption	**+0.1% per annum**	**Base Figure**	**-0.1% per annum**
Adjustment to discount rate			
Present value of total obligation (£M)	361.31	368.31	375.31
% change in present value of total obligation	-1.90%		1.90%
Projected service cost (£M)	11.02	11.43	11.85
Approximate % change in projected service cost	-3.60%		3.70%

Rate of general increase in salaries	**+0.1% per annum**	**Base Figure**	**-0.1% per annum**
Adjustment to salary increase rate			
Present value of total obligation (£M)	369.41	368.31	367.21
% change in present value of total obligation	0.30%		-0.30%
Projected service cost (£M)	11.43	11.43	11.43
Approximate % change in projected service cost	0.00%		0.00%

Rate of increase to pensions in payment and deferred pensions assumption, and rate of revaluation of pension accounts assumption	**+0.1% per annum**	**Base Figure**	**-0.1% per annum**
Adjustment to pension increase rate			
Present value of total obligation	374.20	368.31	362.42
% change in present value of total obligation	1.60%		-1.60%
Projected service cost (£M)	11.85	11.43	11.02
Approximate % change in projected service cost	3.70%		-3.60%

Post retirement mortality assumption	-1 year	Base Figure	+1 year
Adjustment to mortality age rating assumption *			
Present value of total obligation (£M)	380.10	368.31	356.52
% change in present value of total obligation	3.20%		-3.20%
Projected service cost (£M)	11.88	11.43	10.98
Approximate % change in projected service cost	3.90%		-3.90%

* a rating of +1 year means that members are assumed to follow the mortality pattern of the base table for an individual that is 1 year older than them

Note G12: Deferred Taxation

NB - Nexus have not yet received their tax figures for 2019/20

These are not usually available for the draft accounts

The movement for the year comprises:

	2018/19 £000	2019/20 £000
Capital Allowances	25	
Roll over relief on capital gains	-	
Other timing differences	-	
Transfer from Group	(2,074)	
Total	**(2,049)**	**-**

The balance at the year end comprises:

	31 March 2019 £000	31 March 2020 £000
Excess of capital allowances over depreciation	(1,504)	
Roll over relief on capital gains	(545)	
Other timing differences	-	
Tax effect of losses	-	
Total	**(2,049)**	**-**

Note G13: Usable Reserves

	31 March 2019 £000	31 March 2020 £000
General Fund Balance	(29,575)	(32,960)
Earmarked Reserves	(30,355)	(50,872)
Capital Receipts Reserve		-
Capital Grants Unapplied Reserve	(4,183)	(5,851)
Pensions (NEMOL)	14,236	6,069
Total	**(49,877)**	**(83,614)**

Note G14: Unusable Reserves

Summary

	31 March 2019 £000	31 March 2020 £000
Capital Adjustment Account	(241,599)	(254,701)
Financial Instruments Adjustment Account	788	425
Revaluation Reserve	(3,974)	(4,695)
Pension Reserve	19,225	24,750
Total	**(225,560)**	**(234,221)**

Details of movements on the Financial Instruments Adjustment Account is shown in Note 12 of the NTCA single entity accounts. This reserve relates to NECA only.

Revaluation Reserve

The Revaluation Reserve (RR) contains the gains made by the Authority arising from increases in the value of its Property, Plant and Equipment. The balance is reduced when assets with accumulated gains are:
- Revalued downwards or impaired and the gains are lost
- Used in the provision of services and the gains are consumed through depreciation
- Disposed of and the gains are realised

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

	£000
Transferred from Group	**(4,039)**
the CAA	65
Balance at 31 March 2019	**(3,974)**
the CAA	64
Revaluation Gain recognised in Revaluation Reserve	(785)
Balance at 31 March 2020	**(4,695)**

Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions. The Authority accounts for post-employment benefits in the CIES as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Authority makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a shortfall in the benefits earned by past and current employees and the resources the Authority has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

	£000
Transfer from the Group	**19,118**
Remeasurements of the net defined benefit liability (asset)	(1,360)
Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the CIES to 2 November 2018	2,122
Employer's pension contributions and direct payments to pensioners payable in the year	(655)
Balance as at 31 March	**19,225**
Remeasurements of the net defined benefit liability to 31 March 2020	(6,232)
Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the CIES to 31 March 2020	7,359
Employer's pension contributions and direct payments to pensioners to 31 March 2020	(2,054)
Interest expense on net defined liability/(asset)	6,452
Balance at 31 March 2020	**24,750**

Capital Adjustment Account

The Capital Adjustment Account (CAA) absorbs the timing differences arising from the different arrangements for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The CAA is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisation are charges to the CIES (with reconciling postings from the Revaluation Reserve to convert fair value figures on a historical cost basis). The CAA is credited with the amounts set aside by the Authority as finance for the costs of acquisition, construction and enhancement of assets.

The CAA also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

	£000
Transferred from Group	**(243,433)**
Reversal of items relating to capital expenditure debited or credited to the CIES to 31 March 2019:	
Charges for depreciation and impairment of non current assets	7,932
Amounts of non-current assets written off on disposal or sale	636
Other income that cannot be credited to the General Fund	4,704
Revenue expenditure funded from capital under statute	
Write down of long term debtors	(202)
Nexus movement between usable and unusable reserves	564
Adjusting amounts written out of the Revaluation Reserve to 31 March 2019	**(65)**
Capital financing applied in the year to 31 March 2019	
financing	(10,246)
Statutory provision for the financing of capital investment	(429)
Capital expenditure charged against the General Fund	(335)
Debt redeemed using capital receipts	(725)
Balance at 31 March 2019	**(241,599)**
Reversal of items relating to capital expenditure debited or credited to the CIES:	
Charges for depreciation and impairment of non current assets	13532
Amounts of non-current assets written off on disposal or sale	785
Other income that cannot be credited to the General Fund	(2,256)
Revenue expenditure funded from capital under statute	8881

Write down of long term debtors	698
Adjusting amounts written out of the Revaluation Reserve	(64)
Capital financing applied in the year:	
Capital grants and contributions credited to the CIES that have been applied to capital financing	(31,574)
Statutory provision for the financing of capital investment	(766)
Capital expenditure charged against the General Fund	(1,640)
Debt redeemed using capital receipts	(698)
Balance at 31 March 2020	**(254,701)**

Note G15: Adjustments to net surplus or deficit on the provision of services for non cash movements and items that are Investing or Financing activities

	2018/19 £000	2019/20 £000
Surplus/(Deficit) on the provision of services		35,380
Adjustments to Surplus/(Deficit) on Provision of Services for Non-Cash Movements		
Depreciation, Impairment and Amortisation	8,262	13,532
Loss on disposal of non-current assets	31	
(Increase)/Decrease in Creditors	4,561	2,708
Increase/(Decrease) in Debtors	(1,592)	(4,954)
Increase/(Decrease) in Inventories	(19)	
Movement in Pension Liability	2,657	3,597
Other non-cash items charged to the net surplus or deficit on the provision of services	(927)	(2,742)
	12,973	**12,141**
Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing		
Capital grants credited to surplus/(deficit) on provision of services	(12,854)	(33,258)
Other adjustments for items that are financing or investing activities	215	
Net cash flow from operating activities	**(12,639)**	**14,265**

The cash flows for operating activities include the following items:

	2018/19 £000	2019/20 £000
Interest received	3,491	2,452
Interest paid	(7,915)	(4,196)

Note G16: Cash Flow Statement - Investing Activities

	2019/20 £000	2019/20 £000
Purchase of property, plant and equipment, investment property and intangible assets	(5,967)	(23,100)
Purchase of short-term and long-term investments	(26,983)	(83)
Other payments for investing activities		
Proceeds from the sale of property, plant and equipment, investment property and intangible assets		83
Proceeds from short-term and long-term investments	20,074	(36,000)
Other receipts from investing activities	12,283	32,532
Net cash flows from investing activities	**(593)**	**(26,568)**

Note G17: Cash Flow Statement - Financing Activities

	2018/19 £000	2019/20 £000
Repayments of short and long-term borrowing	(499)	1,963
Other payments for financing activities	(579)	
Other receipts for financing activities	79	
Net cash flows from financing activities	**(999)**	**1,963**

Note G18: Capital Expenditure and Capital Financing

	£000
Transfer from Group	**86,805**
Capital Investment to 31 March 2019	
Property, Plant and Equipment	6,500
Intangible Assets	78
Revenue Expenditure Funded from Capital Under Statute	4,704
Sources of Finance to 31 March 2019	
Capital receipts - repayment of principal from long term debtors	(10,246)
Government Grants and other contributions	(725)
Direct revenue contributions	(335)
Minimum Revenue Provision	(307)
Additional Voluntary Provision	(122)
Closing Capital Financing Requirement 31 March 2019	**86,352**
Decrease in underlying need to borrow (unsupported by government financial	**(453)**

	£000
Opening Capital Financing Requirement 1 April 2019	**86,352**
Capital Investment	
Property, Plant and Equipment	24,918
Intangible Assets	316
Revenue Expenditure Funded from Capital Under Statute	8,881
Sources of Finance	
Capital receipts - repayment of principal from long term debtors	(698)
Government Grants and other contributions	(31,574)
Sums set aside from revenue	
Direct revenue contributions	(1,640)
Minimum Revenue Provision	(766)
Additional Voluntary Provision	
Closing Capital Financing Requirement 31 March 2020	**85,787**
Decrease in underlying need to borrow (unsupported by government financial	**565**

Note G19: Prior Period Adjustments

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error.

	31 March 2019 £000	Adjustment £000	31 March 2019 Restated £000
			- -
	-	-	-

	1 April 2018 £000	Adjustment £000	1 April 20197 Restated £000
			- -
	-	-	-

4.0 Supplemental Information

4.1 Glossary of Terms

Abbreviations	The symbol 'k' following a figure represents £ thousand. The symbol 'm' following a figure represents £ million.
Accruals	Income and expenditure are recognised as they are earned or incurred, not as money is received or paid.
Accounting policies	Those principles, bases, conventions, rules and practices applied by an entity that specify how the effects of transactions and other events are to be reflected in its financial statements.
Actuarial gains or losses (Pensions)	For a defined benefit pension scheme, the changes in actuarial deficits or surpluses that arise either because events have not coincided with the actuarial assumptions made for the last valuation (experience gains or losses), or the actuarial assumptions themselves have changed.
Amortise	To write off gradually and systematically a given amount of money within a specific number of time periods.
Assets	Items of worth which are measurable in terms of money.
Assets Held for Sale	Those assets, primarily long-term assets, that the Authority wishes to dispose of through sale to others.
Balances	The total level of surplus funds the Authority has accumulated over the years.
Budgets	A statement of the Authority's forecast expenditure, that is, net revenue expenditure for the year.
Capital Expenditure	Expenditure on the acquisition of a fixed asset or expenditure which adds to and not merely maintains the value of an existing fixed asset.
Capital Adjustment Account	The account accumulates (on the debit side) the write down of the historical cost of fixed assets as they are consumed by depreciation and impairments or written off on disposal. It accumulates (on the credit side) the resources that have been set aside to finance capital expenditure. The same process applies to capital expenditure that is only capital by statutory definition (revenue expenditure funded from capital under statute). The balance on the account represents timing differences between the amount of the historical cost of fixed assets that has been consumed and the amount that has been financed in accordance with statutory requirements.

Capital Receipts	Monies received from the disposal of land and other fixed assets, and from the repayment of grants and loans made by the Authority
Code of Practice on Local Authority Accounting in the UK	The Code specifies the principles and practices of accounting to give a 'true and fair' view of the financial position and transactions of a local authority.
Comprehensive Income & Expenditure Statement	This account summarises the resources that have been generated and consumed in providing services and managing the Authority during the financial year.
Consistency	The principle that the accounting treatment of like items within an accounting period and from one period to the next is the same.
Contingent Asset	A contingent asset is a possible asset arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Authority's control.
Contingent Liability	A contingent liability is either (i) a possible obligation arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Authority's control, or (ii) a present obligation from past events where it is not probable that a transfer of economic benefits will be required or the amount of the obligation cannot be measured with sufficient reliability.
Corporate & Democratic Core	The corporate & democratic core comprises all activities which local authorities engage in specifically because they are elected, multipurpose authorities.
Creditors	An amount owed by the Authority for work done, goods received or services rendered, but for which payment has not been made.
Current Service Cost (Pensions)	The increase in the present value of a defined benefit scheme’s liabilities expected to arise from employee service in the current period.

Curtailment (Pensions)	For a defined benefit pension scheme an event that reduces the expected years of future service of present employees or reduces for a number of employees the accrual of defined benefits for some or all of their future service. Examples include termination of employee's service through redundancy or amendment of the terms affecting future benefits.
Debtors	Monies owed to the Authority but not received at the balance sheet date.
Defined Benefit Scheme (Pensions)	A pension or other retirement scheme other than a defined contribution scheme. Usually, the scheme rules define the benefits independently of the contributions payable, and the benefits are not directly related to the investments of the scheme. The scheme may be funded or unfunded.
Depreciation	The measure of the wearing out, consumption or other reduction in the useful economic life of an asset.
Earmarked Reserve	A sum set aside for a specific purpose.
Emoluments	Payments received in cash and benefits for employment.
Events after the Balance Sheet Date	Events after the balance sheet date are those events, favourable and unfavourable, that occur between the balance sheet date and the date when the statement of Accounts is authorised for issue.
Expected Rate of Return on Pensions Assets	This is an actuarially calculated estimate of the return on the scheme's investment assets during the year.
Fair Value	The fair value of an asset is the price at which it could be exchanged in an arm's length transaction less, where applicable, any grants receivable towards the purchase or use of the assets.
Fees and Charges	Income arising from the provision of services, for example, charges for the use of leisure facilities.
Finance Lease	A lease that transfers substantially all of the risks and rewards of ownership of a fixed asset to the lessee. The payments usually cover the full cost of the asset together with a return for the cost of finance.

Financial Instrument	Document (such as a cheque, draft, bond, share, bill of exchange, futures or options contract) that has a monetary value or evidences a legally enforceable (binding) agreement between two or more parties regarding a right to payment of money.
Financial Instruments Adjustment Account	The reserve records the accumulated difference between the financing costs included in the Comprehensive Income & Expenditure Account and the accumulated financing costs required in accordance with regulations to be charged to the General Fund Balance.
General Fund	The total services of the Authority.
Going Concern	The concept that the Authority will remain in operational existence for the foreseeable future, in particular that the revenue accounts and balance sheet assume no intention to curtail significantly the scale of operations.
Impairment	A reduction in the value of a fixed asset below its carrying amount on the balance sheet resulting from causes such as obsolescence or physical damage.
Intangible Assets	An asset that is not physical in nature, e.g. software licences.
Interest Cost (Pensions)	For a defined benefit scheme, the expected increase during the period in the present value of the scheme liabilities because the benefits are one period closer to settlement.
Investment Properties	Interest in land and buildings where construction work and development has been completed and the asset is held for its investment potential, any rental income being negotiated at arms length.
Liabilities	Any amounts owed to individuals or organisations which will have to be paid at some time in the future.
Liquid Resources	Current asset investments that are readily disposable by the Authority without disrupting its business and are either readily convertible to known amounts of cash at or close to the carrying amount, or traded in an active market.
Materiality	An item is material if its omission, non-disclosure or misstatement in the financial statements could be expected to lead to a distortion of the view given by the financial statements.

Minimum Revenue Provision (MRP)	An amount charged by the Authority to the Comprehensive Income & Expenditure Account, for debt redemption or for the discharge of other credit liabilities.
Movement in Reserves Statement	The statement shows the movement in the year on the different reserves held by the Authority.
Net Book Value	The amount at which fixed assets are included in the balance sheet being the historical cost or current value less the cumulative amounts provided for depreciation.
Net Debt	The Authority's borrowings less cash and liquid resources.
Operating Leases	Leases other than a finance lease.
Property, Plant & Equipment (PPE)	Assets that yield benefits to the Authority and the services that it provides for a period of more than one year. Examples include land, buildings and vehicles.
Provisions	These are sums set aside to meet liabilities or losses which have been incurred but where the amount and/or timing of such costs are uncertain.
Prudence	This accounting concept requires that revenue is not anticipated until realisation can be assessed with reasonable certainty. Provision is made for all known liabilities whether the amount is certain or can only be estimated in the light of information available.
Public Works Loan Board	This is a Government agency which provides loans to local authorities at favourable rates.
Related Party Transactions	A related party transaction is the transfer of assets or liabilities or the performance of services by, to or for a related party irrespective of whether a charge is made. An example could be the purchase, sale, lease, rental or hire of assets between related parties.
Reserves	These are sums set aside to meet possible future liabilities where there is no certainty about whether or not these liabilities will be incurred.
Residual Value	The net realisable value of an asset at the end of its useful life. Residual values are based on prices prevailing at the date of the acquisition (or revaluation) of the asset and do not take account of expected future price changes.

Revaluation Reserve	The reserve records the accumulated gains on the fixed assets held by the Authority arising from increases in value as a result of inflation or other factors.
Revenue Expenditure	Expenditure on providing day-to-day services, for example employee costs and premises costs.
Revenue Expenditure Funded from Capital under Statute	Expenditure which may be properly incurred, but which does not result in an asset owned by the Authority e.g. grants to other organisations for capital purposes.
Unusable Reserves	The Authority cannot use this category of reserves to provide services. Includes reserves that hold unrealised gains and losses (e.g. revaluation reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'adjustments between accounting basis and funding basis under regulation'.
Usable Reserves	Those reserves that the Authority may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use.
Useful Life	The period over which the Authority will derive benefits from the use of a fixed asset.

Independent Auditor's Report to the Members of the North East Combined Authority

Opinion on the financial statements
We have audited the financial statements of Northof Tyne Combined Authority (NTCA) and Group for the year ended 31 March 2020, which comprise NTCA and Group Movement in Reserves Statement, NTCA and Group Comprehensive Income and Expenditure Statement, NTCA and Group Balance Sheet, NTCA and Group Cash Flow Statement, and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

In our opinion, the financial statements:
- give a true and fair view of the financial position of NTCA and Group as at 31 March 2020 and of its expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities section of our report. We are independent of NTCA and Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applicable to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern
We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:
- the Chief Finance Officer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Chief Finance Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about NECA and Group's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other infomation
the information included in the Statement of Accounts, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of the Chief Finance Officer for the financial statements
As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the Chief Finance Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20, and for being satisfied that they give a true and fair view. The Chief Finance Officer is also responsible for such internal control as the Chief Finance Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Chief Finance Officer is required to comply with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 and prepare the financial statements on a going concern basis, unless NECA and Group is informed of the intention for dissolution without transfer of services or function to another entity. The Chief Finance Officer is responsible for assessing each year whether or not it is appropriate for NECA and Group to prepare its accounts on the going concern basis and disclosing, as applicable, matters related to going concern.

Auditor's responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

Matters on which we are required to report by exception under the Code of Audit Practice
We are required by the Code of Audit Practice to report to you if:
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make a recommendation under section 24 of the Local Audit and Accountability Act 2014; or
- we exercise any special powers of the auditor under sections 28, 29 or 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

Conclusion on NTCA and Group's arrangements for securing economy, efficiency and effectiveness in the use of resources

Conclusion
On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2018, we are satisfied that, in all significant respects, NECA and Group has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

Basis for conclusion
We have undertaken our review in accordance with the Code of Audit Practice issued by the Comptroller and Auditor General, having regard to the guidance on the specified criterion issued in November 2018, as to whether NTCA and Group had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider in satisfying ourselves whether NECA and Group put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, NTCA and Group had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Responsibilities of NTCA and Group

NTCA and Group is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities for the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We are required under section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that NTCA and Group has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice requires us to report to you our conclusion relating to proper arrangements. We are not required to consider, nor have we considered, whether all aspects of NTCA and Group's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Use of the audit report

This report is made solely to the members of NTCA and Group, as a body, in accordance with part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 44 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the members of NTCA and Group those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the members of NTCA and Group, as a body, for our audit work, for this report, or for the opinions we have formed.

Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the NTCA and Group's Whole of Government Accounts consolidation pack. We are satisfied that these matters do not have a material effect on the financial statements or on our conclusion on the NTCA and Group's arrangements for securing economy, efficiency and effectiveness in its use of resources.

CWaddell

Cameron Waddell
Partner

For and on behalf of Mazars LLP
Salvus House
Aykley Heads
Durham
DH1 5TS
31 July 2019

NORTH OF TYNE COMBINED AUTHORITY

Narrative Report
year ended 31 March 2020

Narrative Statement

Introduction

The Narrative Report provides information about the North of Tyne Combined Authority (NTCA) and includes the key issues affecting the Combined Authority and its accounts. This report provides an explanatory narrative to key elements of the statements and sections in the accounts and also provides a summary of the Authority's financial performance for 2019/20 and its future financial prospects.

The report provides the reader with:

- A guide to the different financial statements within the Statement of Accounts.
- An overview of the activities and significant matters which have occurred during the year.
- A summary of the Combined Authority's financial performance during the year ending 31 March 2020.
- A look ahead to 2020/21 and beyond.
- Confidence in the Combined Authority's stewardship of public money and that it has been accounted for in an appropriate manner.

The Statement of Accounts contains all the financial statements and disclosure notes required by statute. Prepared in accordance with the proper practices as set out in the Chartered Institute of Public Finance & Accountancy (CIPFA) Code of Practice on Local Authority Accounting in the United Kingdom (the Code). The Code requires that the accounts give a true and fair view of the financial position of the Combined Authority. In line with the Code, suitable accounting policies have been applied and where necessary prudent judgements and estimates have been made.

The accounts feature four main financial statements:

- Movement in Reserves Statement
- Comprehensive Income and Expenditure Statement
- Balance Sheet
- Cashflow Statement

The purpose of each of the above statements is described at the end of this report and the actual statements are contained within the accompanying Statement of Accounts document, which also includes detailed notes providing further backup relating to specific amounts and balances.

The purpose of this Annual Financial Report is to collectively provide a comprehensive view of the Combined Authority's financial position during the period to which they relate. Together with details of the non-financial performance of the Authority during 2019/20. The format of the accounts reflect the impact of the Newcastle upon Tyne, North Tyneside and Northumberland Combined Authority (Establishment and Functions) Order 2018 (the Order) which changed the boundaries of the former North East Combined Authority (NECA) on the 2nd November 2018 and established the North of Tyne Combined Authority (NTCA) as well as the North East Joint Transport Committee.

The report enables readers to focus on the key elements of the Statement of Accounts and contains the following sections:

- Annual Governance Statement;
- About North of Tyne Combined Authority;
- Key Facts about Governance Arrangements;
- Financial Performance of the Authority 2019/20;
- Non-Financial Performance of the Authority 2019/20;
- Significant Issues for 2020/21 and beyond;
- Explanation of Accounting Statements included within the Statement of Accounts;
- Implementation of the Devolution Order;
- Joint Transport Committee;
- Strategic Risks.

Annual Governance Statement

The Combined 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 is presented to the Audit and Standards Committee on 28th July 2020. The Statement explains how the Authority has complied with the Code and meets the requirements of the Accounts and Audit Regulations 2015. The Statement can be found on the Authority's website: Audit-and-Standards-Committee-Papers-2020

About North of Tyne Combined Authority

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 was established to give effect to a 'minded to' devolution deal which was agreed between the three councils, the North East Local Enterprise Partnership (North East LEP) and central government. At the same time the North of Tyne Combined Authority was established, the North East Joint Transport Committee (JTC) was created, which continues to exercise the Transport functions. The JTC brings together members from both NTCA and NECA, to allow effective decision making across the region to ensure that the local needs and transport priorities are delivered. NECA has retained the Accountable Body role for Transport on behalf of the North East Joint Transport Committee. NTCA became the accountable body for the North East LEP as of 1st April 2020.

A Deed of Cooperation was made on the 4th July 2018 between the seven Constituent Authorities in the area that outlines a framework for collaborative working across the region.

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 833,200, a local economy of £18.863million, over 370,000 jobs and it is home to 24,660 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 constituent authorities compared to previous arrangements.

The Potential of North of Tyne

The Combined Authority has the potential to deliver many benefits to the region, namely:

- becoming 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:

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 to succeed
- Good quality training, apprenticeships and jobs

Hotbed of talent

- Giving everyone the opportunity to thrive, attain a fair wage and access good jobs
- Work with business and civil 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 flourishing tourism industry

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. All details of Governance arrangements pertaining to NTCA can be found within our Constitution which is available on our website:

NTCA Order and Constitution

The first mayoral election was held on 2 May 2019. Jamie Driscoll was elected as the Mayor for the North of Tyne Combined Authority. The Elected Mayor chairs the Cabinet and has 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 & Performance and Director of Economic Growth were appointed to during 2019/20.

The Combined Authority has grown to 34 employees during 2019/20. With support services being provided under Service Level Agreements with the three constituent North of Tyne authorities.

Financial Performance of the Authority 2019/20

The financial position of the NTCA as at 31 March 2020 is shown in the table 1 below.

Table 1: 2019/20 Budget Outturn

Summary Outturn 2019/20	**2019/20 Budget**	**2019/20 Outturn**	**Variance**
	£	£	£
Investment Fund Budget	(15,625,000)	(16,803,585)	(1,178,585)
Corporate Budget	(0)	(285,000)	(285,000)
Total	**(15,625,000)**	**(17,088,585)**	**(1,463,585)**

Corporate Budget Outturn

A more detailed outturn for 2019/20 Corporate Budget is set out below in Table 2 overleaf.

Table 2: Corporate Budget Outturn

Corporate Budget 2019/20	2019/20 Budget	2019/20 Outturn	Variance
Expenditure	**£**	**£**	**£**
Staffing / Secondments	1,772,345	1,646,939	(125,406)
Miscellaneous Expenditure (including Election costs)	1,399,000	1,445,772	46,772
Advisors External	305,000	341,574	36,574
SLA with Constituent Authorities	197,270	287,015	89,745
JTC Levy	33,167,870	33,167,870	0
Total Expenditure	**36,841,485**	**36,889,170**	**47,685**
Income			
Contributions from the Constituent Authorities	(120,000)	(111,000)	9,000
Mayoral Capacity Fund	(1,000,000)	(1,000,000)	0
Investment Fund	(2,400,000)	(2,400,000)	0
IF Workstream Development Support	0	(61,234)	(61,234)
AEB Implementation Funding	(153,615)	(381,891)	(228,276)
JTC Levy	(33,167,870)	(33,167,870)	0
EU Exit Grant	0	(181,818)	(181,818)
Business Rates Pilot 2019/20	0	(4,909,292)	(4,909,292)
ERDF Grant Income	0	(23,375)	(23,375)
Interest Receivable	0	(225,800)	(225,800)
Miscellaneous Income	0	(3,000)	(3,000)
Total Income	**(33,167,870)**	**(42,465,280)**	**(5,623,795)**
Net Income/Expenditure	**3,673,615**	**(5,576,110)**	**(5,576,110)**
Preparing to Exit EU Reserve		181,818	181,818
Business Rates Pilot 2019-20		4,909,292	4,909,292
Commitment to future sector commissioning work		200,000	200,000
2019/20 Outturn/Transfer to General Reserve	**0**	**(285,000)**	**(285,000)**

Investment Fund Outturn

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

Table 3 2019/20 Investment Fund Budget Outturn

Investment Fund 2019/20	2019/20 Budget	2019/20 Outturn	Variance
Expenditure	£	£	£
Supporting Business Case Development	750,000	61,234	(688,766)
Workstreams	975,000	719,447	(255,553)
Technical Support	250,000	15,735	(234,265)
Contribution to Corporate Costs	2,400,000	2,400,000	0
Total Expenditure	**4,375,000**	**3,196,416**	**(1,178,584)**
Income			
Investment Fund	**(20,000,000)**	**(20,000,000)**	0
Net (Income) Expenditure	**(15,625,000)**	**(16,803,584)**	**(1,178,584)**

In totality the Investment Fund has committed £27.8m against 34 projects, these projects will attract £99.51m of private sector leverage and are forecast to deliver 2571 jobs. Forecast private sector leverage currently £99.51m, £57m of which is forecast to come from the Inward Investment Fund.

Table 4 Commitment against Investment Fund Thematic Area

	Committed	Allocation	% Allocated
	£m	£m	
Business	12.06	38.00	32%
People	7.23	16.30	44%
Place	2.22	13.70	16%
Major Strategic Economic Opportunities	5.19	17.50	30%
Business Case Development Fund	1.14	4.50	25%
	27.84	**90.00**	**31%**

Delivery against the Investment Fund Programme has been delayed in part due to the impact of Covid-19 Pandemic impacting at the end of the financial year. This remains the highest programme risk, with pressure on resources as activity both on developing pipeline and contract management increases.

Reserves Statement

Reserves held at 31 March 2020 are set out in Table 5 overleaf:

Table 5 2019/20 Outturn Reserves Statement

Reserves Statement	**2019/20**
	£
Homeless Veteran Grant Reserve	90,909
Preparing to Exit Europe Grant	271,909
Business Rates Pilot 2019/20	4,909,292
Strategic Reserve	200,000
Investment Fund Reserves	36,839,162
Total General (Useable) Reserves	**42,311,272**
Pension Reserve	285,000

Reserves have increased by £22.412m being the uncommitted portion of the 2019/20 Devolution Grant monies (£17.289m) including the (£0.200m) commitment towards sector commissioning work and (£0.285m) outturn surplus transferred to the reserve, after transfer of (£0.181m) to the Preparing to Exit Grant.

A new earmarked reserve has been set up of (£4.909m) in relation to the Business Rates Pilot undertaken in 2019-20, this includes Business Rates Pool monies from the three constituent authorities, figures in relation to this will be finalised post audit in July 2020 and proposals will be brought forward to Cabinet in due course.

In relation to the Homeless Veteran Grant, all reporting requirements have been suspended by MHCLG. The project has not had any movement since the start of the year owing to Covid-19 work on homelessness by the three constituent authorities. The EU exit grant will be drawn down during 2020/21 in match with the North East Combined Authority's EU exit grant to fund Brexit work across the Region.

The budget for 2019/20 was agreed at the Cabinet meeting of March 12, 2019. Details of which can be found on the Authority's website link below or visit northoftyne-ca.gov.uk/ Transparency/Cabinet/Cabinet Committee Papers:

Cabinet Report March 12, 2019 - 2019-2022 Financial Plan and Budget

Borrowing Facilities

Section 3 of the Local Government Act 2003 requires the Combined 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.

Main points from Financial Statements

Comprehensive Income & Expenditure Statement

The Continuing Cost of Services line in the Comprehensive Income & Expenditure Statement represents the net expenditure incurred by the North of Tyne Combined Authority, and also includes the share of the costs contained within the North East Combined Authority (as relating to the Joint Transport Committee), in the direct provision of Services (Page 5 within the Statement of Accounts). The figure for 2019/20 shows a deficit of £17.851m. However, overall the Comprehensive Income & Expenditure Statement is showing a surplus of (£28.563m) for the year ended 31 March 2020.

Balance Sheet

The Balance Sheet is set out on page 6 within the Statement of Accounts. The net assets of the Combined Authority are £108.487m for the year ended 31 March 2020 and are financed by Useable Reserves of £67.418m and Unusable Reserves of £41.069m. More details of the reserves contained on the Balance Sheet are shown in Notes 20 and 21. The Balance Sheet also includes the Authority's share of assets and liabilities contained within the North East Combined Authority in relation to the Joint Transport Committee

Group Results

The Group Accounts included as part of the Statement of Accounts fully incorporate the results from Nexus (The Tyne and Wear Passenger Transport Executive). More details can be found in Group Note 1 on page 68.

During the year Nexus invested £53.9m of capital expenditure in public transport in Tyne and Wear which was funded primarily by central government grants.

The liquidity of Nexus remained strong with net current assets of £69.2m, adequate to cover both short-term fluctuations and future commitments from useable reserves.

The Nexus accounts are divided between NTCA and NECA accounts (after elimination of intra-group transactions), with the balance sheet information at 31 March 2020 allocated between the two Combined Authorities in proportion to their relative share of Tyne and Wear Population – 55.723% in the NECA accounts and 44.277% in the NTCA accounts.

Non-Financial Performance of the Authority

The Investment Fund Programme continues to grow significantly as projects progress through the pipeline. With exciting funding proposals coming forward for consideration, around innovation and supporting our key sectors. Work continues at pace to operationalise the headline sector strategies agreed by Cabinet. In addition, we are seeing an increasing number of NTCA projects, including those with a focus on early jobs creation, supporting people into work, raising aspiration/STEM and tackling the digital divide. Strong sectoral narratives have been developed and the first of these projects are now being brought through - with a key focus on longer-term growth, productivity and improving resilience.

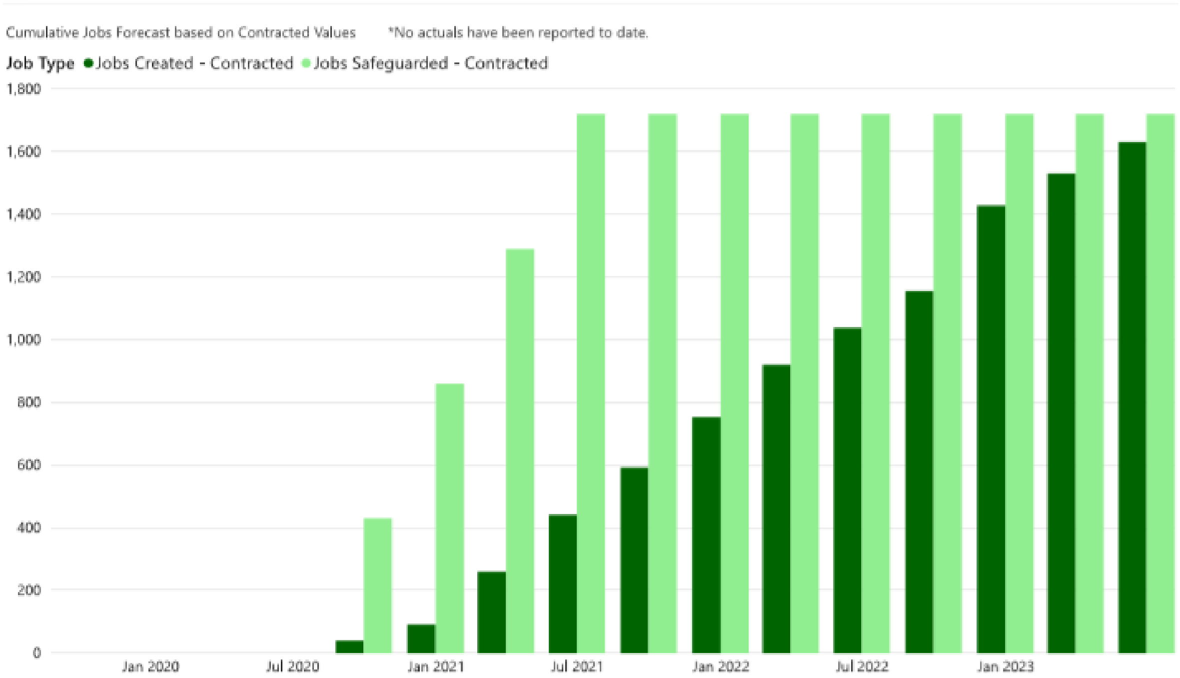
The three constituent Authorities have launched their NTCA-funded Covid-response support to individuals, businesses and third sector and in addition NTCA are working up a further wave of national Covid-response, including: Jobs bonus, Kickstart employment scheme, wage subsidies for apprenticeships, 'shovel-ready' stimulus for construction sector, vouchers for retrofit, and crisis funding for Cultural, Arts and Heritage Organisations.

To date the Combined Authority has achieved:

A commitment of £27.82m against 34 projects and programmes

- Defrayal of £805,370 expenditure
- These projects will attract £99.51m of private sector leverage and are forecast to deliver 2571 jobs and 1,720 jobs safeguarded

The below bar chart shows the cumulative jobs forecast based on contracted values.



Early investment priorities included:

- 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 now in development and progressing at pace.

Significant issues relating to 2020/21 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 stabilising 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 considered.

The financial environment for local government is likely to remain challenging for the foreseeable future. The impact of Covid-19, uncertainties arising from Brexit and the delay in the publication of both the Comprehensive Spending Review and the outcomes of the Fair Funding Review mean the outlook continues to be extremely uncertain.

The North East LEP has been leading a 'Covid-19 Economic Response Group' made up of NTCA, NECA, local authorities, the Confederation of British Industry (CBI) on behalf of business, North East JTC and regional universities. NTCA will work with the LEP and other partners on the Covid-19 recovery. Data and intelligence about the economic impact of the pandemic is being gathered, which will be used to help shape the recovery plan that is being developed. This will need considerable financial support for Government and active support from public and private sector partners across the region, including the two combined authorities and the local authorities. Further rounds of LGF/Future prosperity/Economic Recovery funding will be required to support the capital investment and revenue support that is needed to help the region's economy to recover and grow. A summary report published in June 2020 references the completion of the regional Transport Plan and that setting down our transport infrastructure priorities of the future is an essential part of the regional recovery.

During 2020/21 the North East Transport Strategy Unit (TSU) will launch and consult on the Transport Plan for the region. In November 2019 a vision of "Moving to a green, healthy, dynamic and thriving North East" was agreed alongside some accompanying principles and objectives, which will underpin the Transport Plan.

In March 2020, the JTC was notified that it had been awarded £198.483m funding from Transforming Cities Fund Tranche 2 following the submission of a bid earlier in the year. This will deliver the £95m Metro Flow project sponsored by Nexus as well as providing a devolved pot to fund a range of Transport projects across the region. The TSU will coordinate the programme, which will be delivered over the period 2020/21 to 2022/23.

An initial bid to the Emergency Active Travel Fund in June 2020 was also successful and grant funding of £2.262m will be available for schemes to encourage walking and cycling during the Covid-19 lockdown and recovery period. A larger Fund will be available to bid into during the summer and the submission will be coordinated by the TSU.

Work is underway in developing the ‘Tyne Pass’ project to introduce a fully automated payment system using Automatic Number Plate Recognition (ANPR) technology at the Tyne Tunnels, to replace the existing coin and permit systems.

The cross-partner North East Brexit Group continues to meet and provides a forum for sharing intelligence across sectors. This information and intelligence has informed action such as the Brexit Toolkit on the Growth Hub, as well as the Work Programme. The focus of the group is now on opportunities post-Brexit and preparations in the light of potential trade deals with the EU and other nations/trading areas.

Activity continues to develop a proposal to government on the additional resources, powers and legislation needed to support the region.

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 and are required to be prepared under the Code of Practice.

The Statement of Accounts is set out in the accompanying document, and are explained below:

<u>Core Financial Statements</u>

The Comprehensive Income & Expenditure Statement (CIES) (page 5) summarises the revenue costs of providing all services and the income and resources received in financing the expenditure.

The Movement in Reserves Statement (MIRS) (page 4) shows the movement from the start of the year to the end on the different reserves held by the Authority. This statement shows the movement in the year on the different reserves held by the Authority, analysed into Usable Reserves (i.e. those which can be applied to fund expenditure) and Unusable Reserves (which cannot). The surplus or deficit on the provision of services line shows the economic cost in accounting terms of providing NTCA’s services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance for the purposes of setting the levy. The net increase or decrease before transfers to earmarked reserves line shows the statutory General Fund Balance before any discretionary transfers to or from earmarked reserves undertaken by the Authority.

The Balance Sheet (page 6) 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, Usable and Unusable as described above. Unusable Reserves include those which hold unrealised gains and losses (e.g. the Revaluation Reserve) where amounts only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the MiRS line “adjustments between accounting basis and funding basis under regulations”.

The Cash Flow Statement (page 7) 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 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 Taxpayers 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.

These statements and accounts collectively provide a comprehensive view of the Authority’s financial position during the period to which they relate. The format of the accounts reflect the impact of the Newcastle upon Tyne, North Tyneside and Northumberland Combined Authority (Establishment and Functions) Order 2018 (the Order), which changed the boundaries of NECA on the 2nd November 2018. As a result of these governance changes, the boundaries of NECA now cover the Local Authorities of Durham, Gateshead, South Tyneside and Sunderland. On the same date, the North of Tyne Combined Authority (NTCA) was established as well as the North East Joint Transport Committee (JTC), which continue to exercise the Transport functions over the area covered by the two Combined Authorities.

Implementation of the Devolution order.

Under the CIPFA Code, the JTC meets the definition of a 'joint operation', which determines its accounting treatment. Where a Joint Committee is accounted for as a Joint Arrangement each Joint Operator (in this case NECA and NTCA) must account for their own share of the assets, liabilities, revenues and expenses held or incurred jointly in their own single entity financial statements. In order to comply with the CIPFA Code, NECA must:

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

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

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

Dividing Assets and Liabilities between NECA and NTCA in the accounts.

The new Orders require the Transport assets of the North East Joint Transport Committee to be accounted for separately in the accounts and balance sheets of the two Combined Authorities. As the Transport Assets and Liabilities are related to Tyne and Wear activities, the transport accounting balances at the 2nd November 2018 and at 31st March 2019 are divided between the two Combined Authorities on the basis of relative population for the year. For the 2018/19 accounts the mid-year estimated population published by the Office of National Statistics as at June 2017 is used, which is the basis on which the Transport Levy payments for the year are required to be calculated. The calculation of the proportion used to allocate the figures in the accounts for the year ended 31 March 2020 are shown below in Table 6.

Table 6 - Population used to allocate Transport Assets/Liabilities between NECA and NTCA

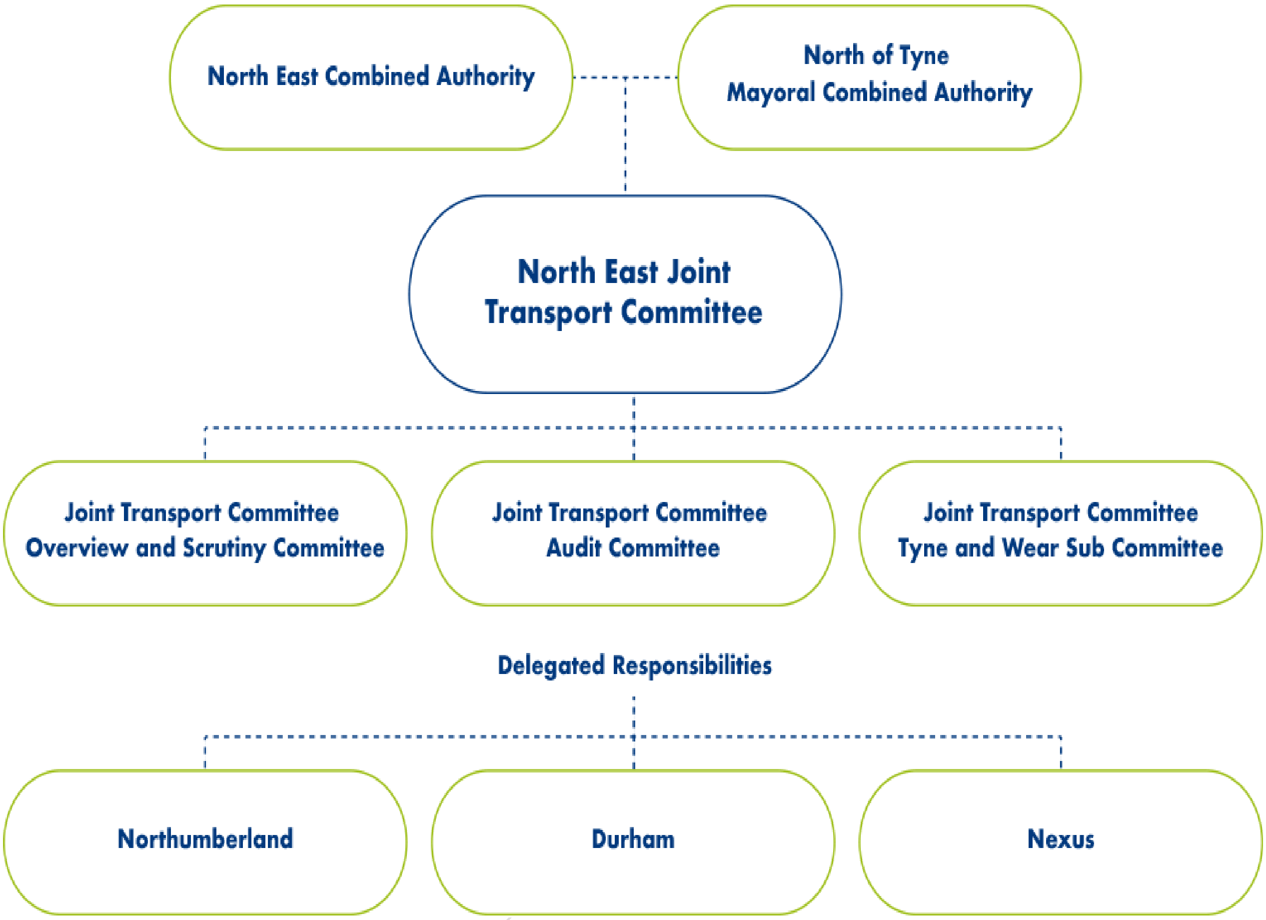
	Mid-Year 2017 Population	Proportion
	People	**Proportion**
NECA		
- Gateshead	202,419	
- South Tyneside	149,555	
- Sunderland	277,249	
	629,223	0.55706
NTCA		
- Newcastle	295,842	
- North Tyneside	204,473	
	500,315	0.44294
Tyne and Wear Total	**1,129,538**	**1**

The North East Joint Transport Committee

The North East Joint Transport Committee brings together a total of seven members from each of the Constituent Authorities of the region; four Members from the North East Combined Authority and three Members from the North of Tyne Combined Authority in accordance with the Order and was created on the 2nd November 2018.

Transport is of strategic importance to the North East, and the collaborative working of both Combined Authorities allows effective decision making across the region, which ensures that the local needs and priorities are delivered.

The structure for Transport that was established in November 2018 is shown in the diagram below.



Transport

Tyne Tunnels, although owned by NECA, the accounting balances are reflected in the NTCA financial statements as part of the JTC. The Tyne Tunnels link the A19 under the River Tyne between Howdon and Jarrow. There are two tolled vehicle tunnels, and tunnels for both pedestrians and cyclists. The Tunnels are entirely self-financing from the toll's income raised, i.e. there is no call on the Authority's budget or local taxpayers to support them, and assets and liabilities associated with the tunnels are ringfenced to the Tyne and Wear constituent councils within the Authority. The Tyne Pedestrian and Cyclist Tunnels reopened to the public in August 2019 and have been well received and well used.

The following table of Traffic flows shows a small increase in traffic in 2019/20 until the end of March when the impact of the Covid-19 pandemic took effect. The increase was seen in all classes of vehicle except Class 1.

Table 7 – Tyne Tunnel Traffic Flow data

	Class 1	Class 2	Class 3	Exempt	Total
2019/20	153,474	14,928,809	824,798	648,435	16,555,516
2018/19	171,626	14,839,928	823,469	631,444	16,466,467
2017/18	172,655	14,802,233	855,656	584,809	16,415,353
2016/17	197,688	15,705,319	951,785	605,670	17,460,462
2015/16	204,751	16,218,493	989,451	581,377	17,994,072
2014/15	195,798	15,265,379	873,270	508,444	16,842,891
2013/14	185,471	13,970,360	804,147	464,529	15,424,507

Class 1 = Motorcycles; Class 2 = Car, Van or Bus less than 3m high with 2 axles; Class 3 = HGV, Van or Bus more than 3m high or 3 axles or more; Exempt = emergency vehicles and blue badge holders

The tolls were increased in line with inflation on 13 May 2019 from £1.70 to £1.80 for class 2 vehicles without permits (now £1.62 with a pre-paid permit) and from £3.40 to £3.60 for class 3 vehicles (now £3.24 with a pre-paid permit).

Tyne and Wear Passenger Transport Executive – Nexus

The North East Joint Transport Committee sets public transport policy for the region, which in Tyne and Wear is delivered operationally by Nexus. The following performance indicators describe the general performance of public transport in Tyne and Wear during 2019/20.

- The number of passenger journeys across Tyne and Wear was estimated at 154.5million; a 3.0% decline when compared to 159.3million in the previous year.
- Bus patronage reduced to 119.4 million in 2019/20; a 0.9% decline when compared to 120.4 million in the previous year.
- Metro patronage reduced to 33.1 million in 2019/20; a 9.2% decline when compared to 36.4 million in the previous year.
- Ferry patronage reduced to 352,900 passengers in 2019/20; a 19% decline when compared to 436,600 journeys in the previous year.
- Rail patronage increased to 1.68 million journeys in 2019/20; a 5.3% uplift when compared to 1.60 million journeys in the previous year.
- Metro reliability (operated mileage) was 95.7% during 2019/20, a decrease on the 97.9% achieved in the previous year.
- Metro reliability (Charter punctuality) was 80.8% during 2019/20, an increase on the 79.6% achieved in the previous year.

Annual Governance Statement

To accompany the Narrative Report and Statement of Accounts, the leadership of the Authority prepares an Annual Governance Statement that sets out the principal arrangements that operate to ensure proper governance of the Authority's affairs and the stewardship of resources at its disposal. It also outlines the principal arrangements that are in place to ensure that a sound system of internal control is maintained.

Strategic Risk Management

Strategic risks of the NTCA are monitored by Audit and Standards Committee. Lower level operational and project risks are managed at a project level. However, there are communication plans and escalation processes developed to ensure the biggest risks to individual programmes/projects are communicated and/or escalated to the strategic risk register.

A NTCA Staff Engagement Event held in January 2019 where Officers were asked to identify the biggest threats and opportunities to the Combined Authority's aims and ambitions. This information along with comments from Members were used as the basis for identifying the biggest threats (risks) and potential opportunities.

Risk Title & Description

1. Risk - Devolution

Delivery of Devolution

Failure to deliver the Devolution agenda, and secure future negotiations with Government will restrict powers in future funding years.

Cause(s):

- Decisions are not aligned to the Authority's vision and strategic framework which has already been agreed with Government

- Inability to demonstrate devolution readiness to support key aspects of the devolution deal to DfE, MHCLG

- Insufficient projects/schemes are identified to meet investment fund spending targets

- Projects and schemes are not delivered within agreed timeframes and do not satisfy key criteria or achieve required outcomes, such projects will cover all aspects of the devolution deal including:

  - Adult Education Budget
  - Education Challenge
  - Housing & Land
  - Investment Fund

Impact(s):
Inability to demonstrate to Government that investment funding or other criteria has been met which may jeopardise future funding from Government

Reputational damage with Government and the public

Response

Activity on the Investment Fund Programme has increased significantly over recent months. Allocations to support key sectors, including clean growth, digital and culture and creative are progressing through the pipeline for consideration, with a commitment of £27.13m against 31 projects already achieved, which has attracted over £99m of private sector leverage.

Dialogue with NTCA adult education providers continues to ascertain the immediate impact of Covid-19 and their medium/long term mitigation strategies. Although it has already been recognised that income from other sources of funding is at risk for these providers and there is uncertainty about their financial resilience and longevity.

The North of Tyne Covid-19 Capacity Fund has pledged £5m to help businesses and communities respond to Covid-19, and work continues at pace on this.

As a result of the uncertainties resulting from the outbreak of Covid-19 the Devolution risk was re-assessed in April, recognising the severity of the potential economic impact of the Coronavirus on businesses and communities in the region, recognising much of the activity to control the risk was being delivered in partnership with our partners and stakeholders. This resulted in the risk priority increasing from Amber to Red.

2. Risk - Operational Capacity and Resources

The Combined Authority is unable to demonstrate to Government and partners that it has the necessary capacity, skills and expertise to successfully deliver all projects and schemes, within the constraints of approved funding streams, timeframes, conditions and performance criteria.

Cause:

- There is a lack of clarity and shared understanding in the constituent authorities of the roles and responsibilities of the officers working on the Devolution agenda and
  supporting the Combined Authority

Impact(s):
Duplication of activity and conflicting priorities within constituent authorities

Existing resources are not fully utilised to effectively deliver the Authority’s strategic Priorities;

Projects and schemes are not delivered within the approved timeframes and do not meet performance criteria.

Response

Formulation of a Business Continuity Plan (BCP) had begun with an information gathering exercise is being undertaken, however work on the full BCP has been suspended to allow for the Authority's Covid-19 Contingency Plan to be put in place, which has worked well after the homeworking instruction from central government.

It is anticipated that the Authority's BCP will be further developed once normal business operations resume.

3. Opportunity - Partnerships

The establishment of the Combined Authority provides us with an opportunity to strengthen the existing partnership arrangements in the region and across the public and private sector to drive forward change to meet our ambitions and successfully deliver the North East Strategic Economic Plan.

Benefits:

- Strengthening the synergy between Cabinet, the North East Local Enterprise Partnership and Local Authorities

- Influencing regional approaches to growth

- Improving how we work with Government, business, investors and partners

Barriers:
The success of the Combined Authority will rely on the on-going commitment of all member authorities and how NTCA works with other partners in the region

- It is important that Cabinet share the same vision and commitment to the Combined Authority, ensuring individual plans are aligned

- It is recognised that there are a number of partners, therefore effective and timely communications and consultation are vitally important to reduce reputational impact

Response

The North East LEP is a partnership of private and public sector representatives and not a corporate entity, therefore it cannot hold funding and property or employ staff. It can only do so through a legal entity acting on its behalf as an "accountable body".

The North East Combined Authority (NECA) was previously the accountable body for the North East LEP, however the role transferred to NTCA in April 2020. This has resulted in a new opportunity being added to the register to cover this position as follows:

"As the accountable body for the North East LEP there is greater opportunity to maximise partnership arrangements with NTCA through working together to coordinate and manage resources, embedding effective governance arrangements between the bodies, collectively responding to future opportunities and challenges."

NTCA Staffing

NTCA continues to develop to meet the requirements and delivery of the NTCA vision, while keeping costs to a minimum. The NTCA team grew to 34 employees during 2019/20, the first full year of operation, this included the appointment of two new Directors, Director of Economic Growth and Director of Policy and Performance. Many services are provided through Service Level Agreements with constituent local authorities.

Table 8 – Change in Staffing numbers during 2019/20

	Total NTCA Employees at the year end
2019/20	34
2018/19	1

The Authority seeks to make the best possible use of resources available with regard to economy, efficiency and effectiveness. This is a responsibility shared by Members and Officers of the Authority, with the Chief Finance Officer having a specific role in ensuring the adequacy of resources and proper financial administration. Our budget proposals for 2020/21, available on the NTCA website Cabinet 28 January NTCA Budget Proposals 2020-2024 sets out how we will do this looking forward. The Statement of Accounts accompanying this report looks back at our performance since establishment. Reviewed together they provide the reader with an understanding of the financial position of the Authority.

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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NORTH OF TYNE COMBINED AUTHORITY

Audit and Standards Committee

28 July 2020

Subject: 2019/20 Annual Governance Statement

Report of: Risk Advisor to North of Tyne Combined Authority (NTCA)

Report Summary

This report presents the outcome of the annual review of the Authority's governance and internal control arrangements.

This Statement has been prepared during the outbreak of the Coronavirus and will be revisited and updated to reflect changes in the assurance model and the adequacy of the governance and internal control arrangements put in place during this period, and to assess any impact upon the internal control environment.

To ease pressure on the Authority as it responds to the Coronavirus pandemic the timing of the review and statutory publication of the Authority's draft accounts has been moved to 31 August instead of 31 May 2020. Publication of the final audited accounts and the Annual Governance Statement has also moved to 30 November 2020 instead of 31 July 2020. Therefore, the outcome of the review and any learning from the Authority's response to the Coronavirus pandemic will be reflected in an updated Annual Governance Statement, before it is considered as part of the audit of the Council's financial statements.

A copy of the draft 2019/20 Annual Governance Statement (AGS) is provided at Appendix A.

Recommendations

The Audit and Standards Committee is recommended to:

1. Approve the attached draft 2019/20 Annual Governance Statement, recognising that it has been prepared during arrangements put in place to respond to the Coronavirus.

2. The Committee are also asked to acknowledge that the Statement will be revisited and updated as necessary to reflect the adequacy of the governance and internal control arrangements put in place during this period.

1. Background Information, Proposals and Timetable for Implementation

1.1 The Combined Authority has a statutory duty under the Accounts and Audit Regulations 2015 to do the following on an annual basis:

- Conduct a review of the effectiveness of its governance framework, including the system of internal control;
- Prepare an Annual Governance Statement; and
- Through a relevant committee review and approve the Annual Governance Statement

1.2 **Annual Governance Statement – 2019/20**

The approach to produce the 2019/20 Statement is based on a framework of assurance and in preparing it, it has been necessary to review evidence from the following sources. This approach complies with the Chartered Institute of Public Finance and Accountancy's (CIPFA) recommended practice:

- Governance Arrangements e.g. the Authority's Constitution
- Assurance from the Statutory Officers, including the Monitoring Officer, Chief Finance Officer and Senior Information Risk Owner, through written statements
- Members - Views of Audit and Standards Committee
- Internal Audit Activity – including the Chief Internal Auditor's annual opinion
- Risk Management – Strategic risk reviews
- Performance Management – outcomes reported during 2019/20
- Views of the external auditor and other external inspectorates
- Key partnerships, including the North East Joint Transport Committee
- Nexus, through an assurance statement signed by Nexus' Director of Finance and Resources
- North East Local Enterprise Partnership, through a partnership assurance statement, signed by the Chief Executive

1.3 **Outcomes of the Review of Assurances**

The assurance provided for the review was obtained prior to introduction of measures introduced in response to the outbreak of Coronavirus and highlighted no significant weaknesses in the internal control environment during 2019/20.

Before the Statement is considered as part of the audit of the Authority's financial statements, the 2019/20 Annual Governance Statement will be revisited and updated as necessary to reflect the adequacy of the governance and internal control arrangements put in place during the period of Coronavirus.

The revised Annual Governance Statement will be considered and approved by Audit and Standards Committee and signed by the Mayor and Head of Paid Service, before being published with the 2019/20 final accounts at the end of November 2020.

2. Potential Impact on Objectives

2.1 No direct impact on objectives.

3. Key Risks

3.1 Risk management will be considered as part of the production of the Annual Governance Statement. There are no specific risk implications directly arising from this report.

4. Financial and Other Resources Implications

4.1 This work to develop the Annual Governance Statement has been carried out by Newcastle City Council's Internal Audit Service under the SLA.

5. Legal Implications

5.1 There are no direct legal implications arising from this report.

6. Consultation/Engagement

6.1 The Head of Paid Service, Monitoring Officer and Chief Finance Officer have been consulted on the draft Statement.

7. Appendices

7.1 Appendix A – Draft 2019/20 Annual Governance Statement

8. Background Papers

8.1 None

9. Contact Officers

9.1 Philip Slater, Chief Internal Auditor Newcastle City Council (acting as Risk Advisor to NTCA)

E mail: philip.slater@newcastle.gov.uk
Tel: 0191 2116511

10. Glossary

10.1 None

11. Sign-off

11.1 Head of Paid Service: Yes

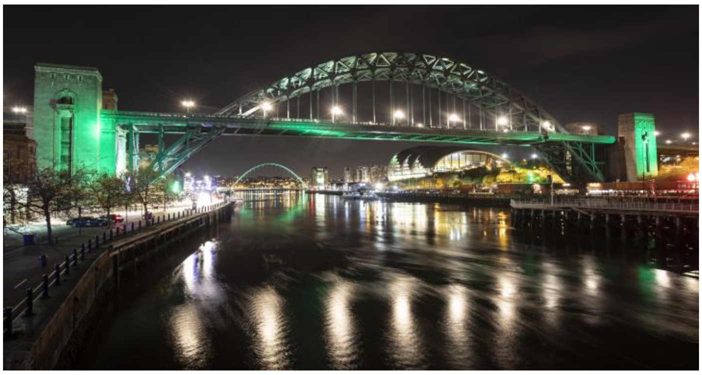
Monitoring Officer: Yes

Chief Finance Officer: Yes

Appendix A

NORTH OF TYNE COMBINED AUTHORITY

ANNUAL GOVERNANCE STATEMENT 2019/20



Annual Governance Statement 2019/20

Section 1: Introduction

This Annual Governance Statement provides an overview of how the North of Tyne Mayoral Combined Authority's governance arrangements operate, including how they are reviewed annually to ensure they remain effective.

This Statement has been prepared during the outbreak of the Coronavirus and will be revisited and updated to reflect changes in the assurance model and the adequacy of the governance and internal control arrangements put in place during this period, and to assess any impact upon the internal control environment.

Section 2: Scope Of Responsibility

NTCA was established on 2 November 2018 to give effect to a "minded to" devolution deal which was agreed between Newcastle, North Tyneside and Northumberland 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.

Our 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 ensure that all residents have a stake in our region's future.

We will work with the North East Combined Authority (NECA) on a number of areas to support the region, including transport. To oversee strategic transport functions a North East Joint Transport Committee has been established with members from both Combined Authorities.

All seven Local Authorities are members of the North East Local Enterprise Partnership (North East LEP) to support delivery of the objectives of the regions Strategic Economic Plan, which is the North East's plan for growing and developing a more productive, inclusive and sustainable regional economy.

On 1 April 2020 accountable body functions for the North East LEP were transferred to NTCA from NECA. As the accountable body or 'Host Authority' NTCA will support the North East LEP manage its resources with all funding decisions being held to account through the NTCA.

NTCA is responsible for ensuring that its business is conducted in accordance with the law and proper standards. It is also responsible for ensuring that public money is safeguarded, properly accounted for and used economically, efficiently and effectively. The Authority also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised.

In discharging this overall responsibility, the Authority's Cabinet and Statutory Officers are responsible for putting in place proper arrangements (known as a Governance Framework) for:

(i) the governance of our affairs and
(ii) facilitating the effective exercise of our functions, including arrangements for the management of risk

In relation to (ii) the Authority has developed a system of internal control designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness.

The system of internal control is based on an ongoing process designed to:

a) identify and prioritise the risks to the achievement of our, aims and objectives; and

b) evaluate the likelihood of those risks being realised, the impact should they be realised, and to manage them efficiently, effectively and economically.

The Combined Authority has developed a Risk Management Strategy and Strategic Risk Register which is reported regularly at meetings of the Authority's Audit and Standards Committee. This information can be found under the Audit and Standards Committee on the Authority's web-site.

Section 3: Purpose Of The Governance Framework

In addition to the above the Authority's Governance Framework comprises the systems, processes, culture, values and activities through which we are directed and controlled and through which we account to, engage with, creating the conditions of economic growth and regeneration. It enables us to monitor the achievement of the Authority's objectives and to consider whether those objectives have led to the delivery of appropriate services which represent value for money.

The Governance Framework has been in place for the year ended 31 March 2020 and up to the date of approval of the Authority's Annual Report and Accounts.

This Annual Governance Statement meets the requirements of the Accounts and Audit Regulations 2015 (6) (1) to conduct a review of the effectiveness of the system of internal controls required by Regulation 3 and prepare an Annual Governance Statement.

Section 4: The Governance Framework

The core principals and outcomes of our Governance Framework are set out below. This includes examples of how the Authority has adhered to its governance commitments set out in the Constitution and includes hyperlinks to sources of further information and through these we will aim to provide strong governance to achieve our objectives.

1. Ensuring openness and comprehensive stakeholder engagement

1.1 We are clear on delivering the objectives of the Combined Authority and intended outcomes of our vision. Our six key pillars of ambition represent the most important groups, issues and goals that we will invest in to achieve a more prosperous and inclusive future.

1.2 The Elected Mayor chairs the Cabinet and Cabinet decisions will be subject to scrutiny by the Overview and Scrutiny Committee. The Elected Mayor has a number of specific powers and financial resources which Cabinet can make representations on and which can also be subject to scrutiny by the Overview and Scrutiny Committee.

1.3 Meetings, agendas and minutes are accessible via the website. All meetings are held in public (other than where consideration of confidential or exempt information). However, during the ongoing and escalating situation regarding Coronavirus, Cabinet meetings and all other Committees were held virtually, in accordance with their usual timescales, and live streamed for the public to view.

1.4 We publish a register of key decisions to notify the public of the most significant decisions it is due to take. Details of each decision are included on the Forward Plan 28 days before the report is considered and any decision is taken. This allows an opportunity for people to find out about major decisions that NTCA is planning to take.

1.5 Our Freedom of Information Scheme is published on our website.

1.6 Transport is of strategic importance to the North East and together with the North East Combined Authority a North East Joint Transport Committee has been established bringing together members from across the seven local authorities, allowing effective decision making across the region to ensure that the local needs and transport priorities are delivered.

1.7 The appointment of a Mayoral Ambassador for the Voluntary, Community and Social Enterprise Sector (VCSE) and supporting Accord, (Agenda item 4), which sets out a framework for a new relationship between NTCA and the VCSE to deliver our shared vision of an inclusive economy.

1.8 The NTCA Adult Education Strategic Skills Plan sets out our long-term priorities for a devolved Adult Education Budget (AEB), highlighting the Authority's strengths, opportunities and challenges across the region to ensure it supports our Economic Vision.

1.9 We have set up a dedicated Coronavirus webpage which provides support for our businesses and communities, providing the latest government advice and available support.

1.10 We continue to use Facebook and Twitter as primary social media platforms to provide information on news and events for residents, businesses and visitors.

2. Developing the entity's capacity, including the capability of its leadership and the individuals within it

2.1 We have defined and documented in our Constitution the roles and responsibilities of Cabinet, Scrutiny and 'proper' officer functions (Head of Paid Service, Monitoring Officer, Chief Finance Officer), with clear delegation arrangements and protocols for effective communication. The collective and individual roles and responsibilities of the Cabinet, Members and Officers have been agreed by the Combined Authority.

2.2 We identify and aim to address the development needs of members and senior officers through the annual appraisal process, in relation to their strategic roles, and support these with appropriate training.

2.3 Values and behavior's workshops have been delivered to all staff, with staff appraisals undertaken with agreed targets and objectives linked to NTCA's work programme.

2.4 During the Coronavirus pandemic national updates and latest Government guidance for staff, including working from home arrangements, were communicated via the Authority's webpage.

3. Behaving with integrity, demonstrating strong commitment to ethical values and respecting the rule of law

3.1 Our Constitution defines our standing orders, standing financial instructions, and scheme of delegation. These clearly define how decisions are taken and the processes and controls required to manage risks. We will ensure compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful. The Monitoring Officer advises on compliance with our Constitution, ensuring that decision making is lawful, fair and ethical. Our financial management arrangements conform to the CIPFA Statement on the Role of the Chief Finance Officer and are the responsibility of the Chief Finance Officer.

3.2 Codes of conduct are set out in the Constitution, defining standards of behaviour for Members and Officers working on behalf of the Authority. Audit and Standards Committee will deal with issues of conduct and generally promote high standards among officers and members. The Constitution is available on the NTCA website.

3.3 We ensure that there are effective arrangements for "Whistle-blowing" and for receiving and investigating complaints from the public. Administration of the Authority's policies on anti-fraud and corruption is undertaken by Internal Audit. Whistleblowing policy and procedure is at Part 5.5 of our Constitution

3.4 A register of Members' interests (including gifts and hospitality) is also maintained.

3.5 A Deed of Cooperation was made on the 4 July 2018 between the seven Constituent Authorities in the area which outlines a framework for collaborative working across the region.

3.6 Our Freedom of Information Scheme is published on our website

3.7 On 2 June 2020 the Authority agreed policies relating to: Data Protection and Confidentiality; Environmental; Equalities and Diversity; Modern Slavery; and Social Value

3.8 NTCA has measures to address breaches of its legal and regulatory powers. The Authority's Monitoring Officer has statutory reporting duties in respect of lawful decision and maladministration.

3.9 We review and update our standing orders, standing financial instructions, scheme of delegation and support procedure notes/manuals – these clearly define how decisions are taken and the processes and controls required to manage risks.

3.10 Our financial management arrangements conform to the CIPFA Statement on the Role of the Chief Finance Officer. The Monitoring Officer is advised on compliance with our policy framework, ensuring that decision making is lawful and fair and ethical.

3.11 The Authority appoints Statutory Officers who have the skills, resources and support necessary to ensure statutory and regulatory requirements are complied with.

4. Determining the interventions necessary to optimise the achievement of the intended outcomes

4.1 Our scrutiny arrangements enhance accountability and transparency of decision making. The Overview and Scrutiny Committee acts in accordance with the principles of decision making as set out in our Constitution (Part 1.2) and will call-in decisions where there is evidence which suggests that the decision was not taken in accordance with the principles.

4.2 A Cabinet Scrutiny Protocol (Agenda item 6) has been agreed which defines the relationship between Cabinet and Overview and Scrutiny Committee, providing a framework for disagreement and debate and a way to manage it when it happens.

A Scrutiny Annual Report (Agenda item 7) was presented to Cabinet at its Annual Meeting in June 2020.

4.3 The Authority's procurement procedures are carried out in line with financial regulations set out in Part 4 of the Constitution.

4.4 The Accounts and Transparency pages of our website contains the most recent accounts of the Authority, including monthly spending reports.

5. Managing risks and performance through robust internal control and strong public financial management

5.1 Our Risk and Opportunity Management Policy and Strategy outlines our arrangements for managing risk. Risk management is an integral part of our decision-making processes. To inform decision making all committee reports include a section which highlights the key risks to the decisions or proposed recommendations and how they are being addressed.

5.2 A Data Protection Officer has been appointed and is responsible for overseeing the Authority's data protection strategy and its implementation to ensure compliance with the General Data Protection Regulations.

5.3 The Authority regularly reviews policies relating to records management, data quality, data protection and information security.

5.4 All staff must undertake data protection e-learning training annually. The programme of training and awareness for all staff and members continues during 2020/21.

5.5. The Audit and Standards Committee acts as principle advisory committee to NTCA, providing independent assurance on the adequacy of the risk management framework and internal control environment.

5.6 An assessment of the overall adequacy and effectiveness of the framework of governance, risk management and control is provided by the Authority's internal auditors. The Acting Chief Internal Auditor will provide an annual opinion for 2019/20 to support this Annual Governance Statement.

5.7 A 2019/20 Strategic Audit Plan which was approved by Audit and Standards Committee, has been prepared to ensure Internal Audit resources are deployed in areas that will provide optimum benefit and value to the Authority.

5.8 The control and financial management arrangements are reviewed by internal and external audit throughout the year. The outcomes for 2019/20 are noted in Section 4 of this Annual Governance Statement – Annual Review of Effectiveness of Governance Framework.

6. Defining outcomes in terms of sustainable economic social and environmental benefits

6.1 The North East LEP works with its partners, which includes NTCA and NECA, to deliver the Strategic Economic Plan (SEP). The SEP was updated and published in February 2019. The Plan reflects on recent changes to the global and national economy as well as the UK's departure from the European Union. It also looks at how the North East can maximise opportunities around the UK's Industrial Strategy.

6.2 The Authority's vision and its six key pillars of ambition (priorities) represent the most important groups, issues and goals we will invest in, in order to achieve a more prosperous and inclusive future.

6.3 To build on the engagement that is already happening across the North of Tyne region regarding climate change, Cabinet has approved the creation of a Citizens' Assembly to look at a specific set of issues relating to climate change that will produce actionable recommendations for the North of Tyne Combined Authority to consider.

6.4 NTCA has developed a programme to understand what 'Good Work' should look like in the North of Tyne and how NTCA can promote and reward employers that are offering the elements of 'Good Work'. This has included the development of a Good Work Pledge (Agenda item 6), which will enable employers to understand the key elements of 'Good Work ' what they can do to achieve this for their employees and what support is available to help them get there.

6.5 We incorporate good governance arrangements in our partnerships and reflect these in our overall governance arrangements.

6.6 Adult Education Budget provision will support key elements of the North East Strategic Economic Plan, and the emerging Local Industrial Strategy and play a key role in NTCA's economic growth and reform agenda.

6.7 To support businesses during the Coronavirus pandemic we have made funding of £5m available with additional grant funding of around £1.5m to support businesses during the Coronavirus crisis.

6.8 We will continue to engage with adult education providers working to respond to the Coronavirus pandemic looking for provision, which is responsive to the challenges the crisis brings, helping residents get on in work and life around the terms of Covid-19 recovery.

6.9 We have established a digital equipment loan scheme to support residents across the region giving them access to digital services and opportunities. Encouraging digital inclusion for everyone will help our residents' access new opportunities and in turn support our inclusive economy.

6.10 NTCA is a member of the North East Covid-19 Economic Response Group - launched to provide maximum support for businesses in the immediate term and to plan for long-term economic recovery.

7. Implementing good practices to transparency, reporting and audit to deliver effective accountability

7.1 We publish details of delegated decisions on our website.

7.2 We ensure that our Audit and Standards Committee undertakes the core functions identified in CIPFA's Audit Committees – Practical Guidance for Local Authorities and Police 2018.

7.3 The Assurance Framework explains the arrangements for NTCA to:

- Demonstrate that arrangements are in place to ensure accountable and transparent decision-making
- Appraise projects and allocate funding; and
- Monitor and evaluate projects to ensure that they achieve value for money and projected outcomes

The Assurance Framework has been designed to meet the National Guidance for Single Pot Assurance Frameworks, issued by MHCLG for localities in receipt of a Single Pot as part of their Devolution Deals.

7.4 Section 5 of this Annual Governance Statement provides the views of our internal and external auditors. Auditors report regularly to Audit and Standards Committee and provide their annual opinion on the adequacy of the effectiveness of our governance, risk and control framework.

7.5 Information on expenditure, performance and decision making is sited together on the Transparency page of the Authority's website and can be accessed quickly and easily.

Section 5: Annual Review Of Effectiveness Of Governance Framework

We have a legal responsibility to conduct an annual review of the effectiveness of our governance framework, including the system of internal control. The review is led by Officers and Members of Audit and Standards Committee who provide independence and challenge.

The review is informed by:

(a) An assessment of the Authority's Constitution, including its committee structure.

(b) The views of the Internal Audit. The Acting Chief Internal Auditor's report to the July Audit and Standards Committee gives the following opinion on the adequacy and effectiveness of the framework of governance, risk management and control in place for the North of Tyne Combined Authority for 2019/20: *The opinion of the Acting Chief Internal Auditor is that the framework of governance, risk management and control is satisfactory overall, at this stage in the authority's development and given the range of responsibilities it is required to discharge. This is a positive assessment of the control environment of the organisation.*

(c) Assurance from Statutory Officers, including the Monitoring Officer, Chief Finance Officer and Senior Information Risk Owner, through written signed statements.

(d) The views of External Auditors. The external auditors Annual Audit Letter and Audit Completion Report provides an unqualified opinion on the financial statements. The report confirms that NTCA has proper arrangements in place to secure economy, efficiency and effectiveness, in its use of resources for the year ended 31 March 2020 (to be updated accordingly)

(e) Activity of the Audit and Standards Committee, including ethical governance

(f) Partnerships, including the North East Joint Transport Committee

(g) The Risk Management process, particularly the Strategic Risk Register

(h) Performance information which is reported to Cabinet and other meetings on a regular basis.

Section 6: North East Joint Transport Committee and North East Combined Authority

Regional transport is operated and governed by the North East Joint Transport Committee, bringing together the two Combined Authorities, which allows effective decision-making across the region to ensure that the local needs and transport priorities are delivered. The Committee receive regular updates on North East and Regional Transport Plans.
The Committee also receive regular updates from the Managing Director, Transport North East, in respect of transport partnerships, including East Coast Mainline, HS2 and Northern Powerhouse Rail.

The Joint Transport Committee, Audit Committee is also a key component of the corporate governance arrangements and is an important source of assurance about the Joint Transport Committee's arrangements for managing risk, maintaining an effective control environment; and reporting on financial and performance matters.

The Joint Transport Committee also has an Overview and Scrutiny Committee to enable local councillors, on behalf of their communities, to scrutinise and challenge the Joint Transport Committee, its committees and Nexus, and to investigate matters of strategic importance to residents with a view to influencing and adding value to the decisions.

Section 7: Significant Weaknesses In Governance and Internal Control

The system of governance (including the system of internal control) can provide only reasonable and not absolute assurance that assets are safeguarded, that transactions are authorised and properly recorded, that material errors or irregularities are either prevented or would be detected within a timely period, that value for money is being secured and that significant risks impacting on the achievement of our objectives have been mitigated.

The review highlighted no significant weaknesses in governance or internal control during 2019/20.

Section 8: Response to Coronavirus Pandemic

This Annual Governance Statement has been prepared as the Authority responds to the impact of the Coronavirus outbreak. NTCA and our constituent councils are working with our partner organisations across the region, including NECA and the North East LEP, to ensure a multi-agency approach to the pandemic as it evolves, supporting communities and businesses in the region.

The impact of the Coronavirus outbreak on our governance arrangements may not be fully known at this time and will therefore be closely monitored. The Statement will be revisited and updated to reflect changes in the assurance model and the adequacy of the governance and internal control arrangements put in place during this period to assess any impact upon the internal control environment.

The outcome of the review and any learning from the Authority’s response will be reflected in an updated Statement before it is considered as part of the audit of the Council’s financial statements which is expected at the end of November 2020.

Section 9: Conclusion

We consider the governance and internal control environment operating during 2019/20, prior to the outbreak of the Coronavirus, to provide reasonable and objective assurance that any significant risks impacting on the achievement of our principal objectives will be identified and actions taken to avoid or mitigate their impact.

The annual review has shown that the arrangements for 2019/20 are in place and operating as planned.

We propose over the coming year to improve our governance and internal control arrangements and consider any lessons learnt during the period of the Coronavirus pandemic, as part of our next annual review.

Mayor of the North of Tyne Combined Authority	**Interim Head of Paid Service**
Full Name: Jamie Driscoll	**Full Name: Paul Hanson**
Signature:	**Signature:**
Date:	**Date:**

Audit Strategy Memorandum

North of Tyne Combined Authority

Year ending 31 March 2020

NORTH OF TYNE COMBINED AUTHORITY

MAZARS

CONTENTS

Mazars LLP
Salvus House
Aykley Heads
Durham
DH1 5TS

Members of the Cabinet
North of Tyne Combined Authority
North Tyneside Council
Quadrant West
The Silverlink North, Cobalt Business Park
North Tyneside
NE27 0BY

April 2019

Dear Members

Audit Strategy Memorandum – Year ending 31 March 2020

We are pleased to present our Audit Strategy Memorandum for North of Tyne Combined Authority ("NTCA") and the Group for the year ending 31 March 2020.

The purpose of this document is to summarise our audit approach, highlight significant audit risks and areas of key judgements and provide you with the details of our audit team. As it is a fundamental requirement that an auditor is, and is seen to be, independent of its clients, Section 7 of this document also summarises our considerations and conclusions on our independence as auditors.

We consider two-way communication with you to be key to a successful audit and important in:

- reaching a mutual understanding of the scope of the audit and the responsibilities of each of us;
- sharing information to assist each of us to fulfil our respective responsibilities;
- providing you with constructive observations arising from the audit process; and
- ensuring that we, as external auditors, gain an understanding of your attitude and views in respect of the internal and external operational, financial, compliance and other risks facing NTCA and the Group which may affect the audit, including the likelihood of those risks materialising and how they are monitored and managed.

This document, which has been prepared following our initial planning discussions with management, is the basis for discussion of our audit approach, and any questions or input you may have on our approach or role as auditor.

This document also contains specific appendices that outline our key communications with you during the course of the audit, and forthcoming accounting issues and other issues that may be of interest.

Client service is extremely important to us and we strive to continuously provide technical excellence with the highest level of service quality, together with continuous improvement to exceed your expectations so, if you have any concerns or comments about this document or audit approach, please contact me on 0781 375 2053.

Yours faithfully

Signed: {{_es_:signer1:signature }}

Cameron Waddell, Partner

Mazars LLP

1. ENGAGEMENT AND RESPONSIBILITIES SUMMARY

Overview of engagement

We are appointed to perform the external audit of North of Tyne Combined Authority ("NTCA") and the Group for the year to 31 March 2020. The scope of our engagement is set out in the Statement of Responsibilities of Auditors and Audited Bodies, issued by Public Sector Audit Appointments Ltd (PSAA) available from the PSAA website: https://www.psaa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/

Our responsibilities

Our responsibilities are principally derived from the Local Audit and Accountability Act 2014 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (NAO), as outlined below:

Audit opinion	We are responsible for forming and expressing an opinion on the financial statements. Our audit is planned and performed so to provide reasonable assurance that the financial statements are free from material error and give a true and fair view of the financial performance and position of NTCA and the Group for the year.
Value for Money	We are required to conclude whether of NTCA and the Group has proper arrangements in place to secure economy, efficiency and effectiveness in it its use of resources. We discuss our approach to Value for Money work further in section 5 of this report.
Reporting to the NAO	We report to the NAO on the consistency of NTCA and the Group financial statements with its Whole of Government Accounts (WGA) submission.
Electors' rights	The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of NTCA and the Group and consider any objection made to the accounts. We also have a broad range of reporting responsibilities and powers that are unique to the audit of local authorities in the United Kingdom.

Our audit does not relieve management or those charged with governance, of their responsibilities. The responsibility for safeguarding assets and for the prevention and detection of fraud, error and non-compliance with law or regulations rests with both those charged with governance and management. In accordance with International Standards on Auditing (UK), we plan and perform our audit so as to obtain reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. However our audit should not be relied upon to identify all such misstatements.

As part of our audit procedures in relation to fraud we are required to enquire of those charged with governance as to their knowledge of instances of fraud, the risk of fraud and their views on management controls that mitigate the fraud risks.

NTCA and the Group is required to prepare its financial statements on a going concern basis by the Code of Practice on Local Authority Accounting. As auditors, we are required to consider the appropriateness of the use of the going concern assumption in the preparation of the financial statements and the adequacy of disclosures made.

For the purpose of our audit, we have identified the NTCA Leadership Board as those charged with governance.

2. YOUR AUDIT ENGAGEMENT TEAM

- Cameron Waddell, Partner
- Cameron.Waddell@mazars.co.uk
- 0781 375 2053

- Jim Dafter, Senior Manager
- Jim.Dafter@mazars.co.uk
- 07815 876 042

- Holly Madin
- Holly.Madin@mazars.co.uk
- 07881 283 718

3. AUDIT SCOPE, APPROACH AND TIMELINE

Audit scope

Our audit approach is designed to provide an audit that complies with all professional requirements.

Our audit of the financial statements will be conducted in accordance with International Standards on Auditing (UK), relevant ethical and professional standards, our own audit approach and in accordance with the terms of our engagement. Our work is focused on those aspects of your business which we consider to have a higher risk of material misstatement, such as those affected by management judgement and estimation, application of new accounting standards, changes of accounting policy, changes to operations or areas which have been found to contain material errors in the past.

Audit approach

Our audit approach is a risk-based approach primarily driven by the risks we consider to result in a higher risk of material misstatement of the financial statements. Once we have completed our risk assessment, we develop our audit strategy and design audit procedures in response to this assessment.

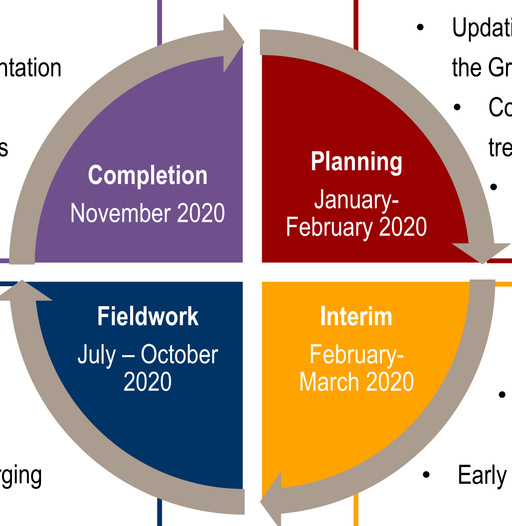
If we conclude that appropriately-designed controls are in place then we may plan to test and rely upon these controls. If we decide controls are not appropriately designed, or we decide it would be more efficient to do so, we may take a wholly substantive approach to our audit testing. Substantive procedures are audit procedures designed to detect material misstatements at the assertion level and comprise tests of details (of classes of transactions, account balances, and disclosures) and substantive analytical procedures. Irrespective of the assessed risks of material misstatement, which take into account our evaluation of the operating effectiveness of controls, we are required to design and perform substantive procedures for each material class of transactions, account balance, and disclosure.

Our audit will be planned and performed so as to provide reasonable assurance that the financial statements are free from material misstatement and give a true and fair view. The concept of materiality and how we define a misstatement is explained in more detail in section 8.

The diagram below outlines the procedures we perform at the different stages of the audit.

- Final review and disclosure checklist of financial statements
- Final partner review
- Agreeing content of letter of representation
- Reporting to NTCA Cabinet
- Reviewing post balance sheet events
- Signing our opinion

- Initial opinion and value for money risk assessments
- Updating our understanding of the NTCA and the Group
- Considering proposed accounting treatments and accounting policies
- Development of our audit strategy
- Preliminary analytical procedures



- Review of draft financial statements
- Reassessment of audit strategy, revising as necessary
- Delivering our planned audit testing
- Continuous communication on emerging issues
- Clearance meeting

- Documenting systems and controls
- Walkthrough procedures
- Controls testing, including general and application IT controls
- Early substantive testing of transactions

3. AUDIT SCOPE, APPROACH AND TIMELINE (CONTINUED)

Reliance on internal audit

Where possible we will seek to utilise the work performed by internal audit to modify the nature, extent and timing of our audit procedures. We will meet with internal audit to discuss the progress and findings of their work prior to the commencement of our controls evaluation procedures.

Where we intend to rely on the work of internal audit, we will evaluate the work performed by your internal audit team and perform our own audit procedures to determine its adequacy for our audit.

Management's and our experts

Management makes use of experts in specific areas when preparing NTCA and the Group financial statements. We also use experts to assist us to obtain sufficient appropriate audit evidence on specific items of account.

Items of account	Management's expert	Our expert
Defined benefit liability and associated IAS 19 entries and disclosures (relevant to Group accounts only)	Actuary (Aon Hewitt)	NAO's consulting actuary (PWC)
Fair values	Arlingclose	NAO

Service organisations

International Auditing Standards (UK) define service organisations as third party organisations that provide services to NTCA and the Group that are part of its information systems relevant to financial reporting. We are required to obtain an understanding of the services provided by service organisations as well as evaluating the design and implementation of controls over those services. The table below summarises the service organisations used by NTCA and the Group and our planned audit approach.

Items of account	Service organisation	Audit approach
All areas	Newcastle City Council	Review NTCA's controls over: • The information provided to the service organisation; and • The outputs provided by the service organisation to NTCA.
All areas	North Tyneside Council	Review NTCA's controls over: • The information provided to the service organisation; and • The outputs provided by the service organisation to NTCA.

3. AUDIT SCOPE, APPROACH AND TIMELINE (CONTINUED)

Group audit approach

We are responsible for the audit of the group consolidation. For the year ended 31 March 2020, the Group will be made up of the following components:

- North of Tyne Combined Authority (NTCA);
- Tyne and Wear Integrated Transport Authority (ITA);
- North East Metro Operations Limited (NEMOL); and
- Tyneside Transport Services Limited.

Cameron Waddell will be responsible for ensuring appropriate audit procedures are performed to obtain assurance for the group and Trust.

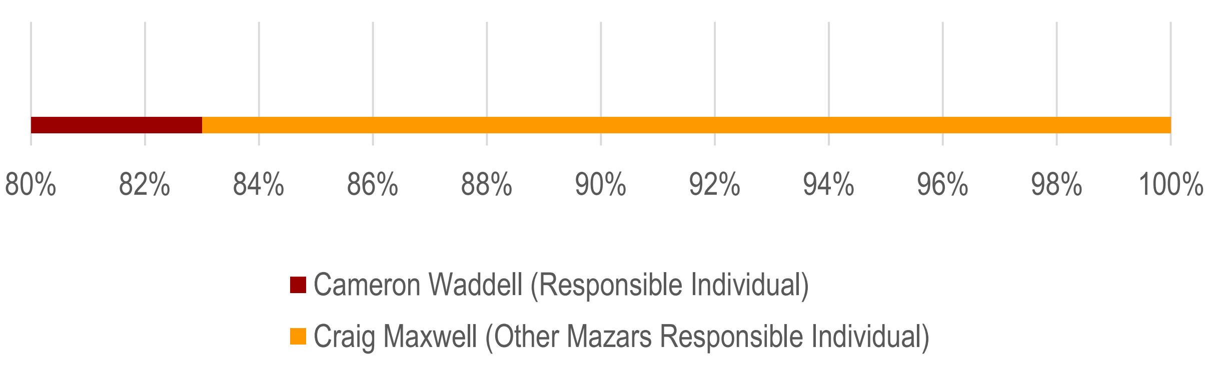
An analysis of the group is shown below setting out :

- an overview of the type of work to be performed on the financial information of the components; and
- the percentage of the components of the group audited directly by Cameron Waddell (Responsible Individual/Partner for the Group), the percentage audited by Craig Maxwell (Mazars Responsible Individual/Director for NEMOL).

Planned approach by percentage of group (using operating expenditure)

Year	Full scope audit	Limited or specific review	Other audit procedures
2019/20 estimate	100%	0%	0%

Percentage of group (using operating expenditure) audited by responsible individual



4. SIGNIFICANT RISKS AND KEY JUDGEMENT AREAS

Following the risk assessment approach discussed in section 3 of this document, we have identified relevant risks to the audit of financial statements. The risks that we identify are categorised as significant, enhanced or standard, as defined below:

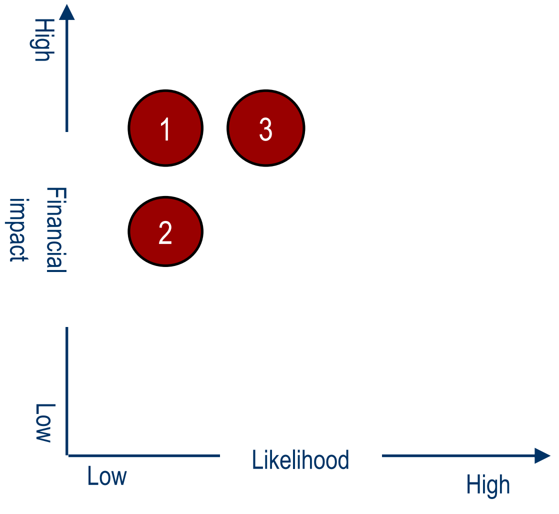
Significant risk A significant risk is an identified and assessed risk of material misstatement that, in the auditor's judgment, requires special audit consideration. For any significant risk, the auditor shall obtain an understanding of the entity's controls, including control activities relevant to that risk.

Enhanced risk An enhanced risk is an area of higher assessed risk of material misstatement at audit assertion level other than a significant risk. Enhanced risks incorporate but may not be limited to:

- key areas of management judgement, including accounting estimates which are material but are not considered to give rise to a significant risk of material misstatement; and
- other audit assertion risks arising from significant events or transactions that occurred during the period.

Standard risk This is related to relatively routine, non-complex transactions that tend to be subject to systematic processing and require little management judgement. Although it is considered that there is a risk of material misstatement, there are no elevated or special factors related to the nature, the likely magnitude of the potential misstatements or the likelihood of the risk occurring.

The summary risk assessment, illustrated in the table below, highlights those risks which we deem to be significant. We have summarised our audit response to these risks on the next page.



	Risk
1	Management override of control
2	Revenue recognition
3	Defined benefit liability valuation

4. SIGNIFICANT RISKS AND KEY JUDGEMENT AREAS (CONTINUED)

We provide more detail on the identified risks and our testing approach with respect to significant risks in the table below. An audit is a dynamic process; should we change our view of risk or approach to address the identified risks during the course of our audit, we will report this to the NTCA Cabinet.

Significant risks

	Description of risk	Planned response
1	**Management override of controls (relevant to single entity and Group)** Management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur there is a risk of material misstatement due to fraud on all audits.	We plan to address the management override of controls risk through performing audit work over accounting estimates, journal entries and significant transactions outside the normal course of business or otherwise unusual.
2	**Revenue recognition - in relation to Tyne Tunnel tolls and grant income (relevant to single entity and group accounts)** Revenue recognition has been identified as a significant risk due to: • cut off considerations for Tyne Tunnel toll income given the cash nature of the receipts; and • grant income is recognised when all conditions attached to the grant have been met so there is significant management judgement in determining if there are any conditions and if they have been met.	We plan to address the revenue recognition risk through performing audit work over: • the design and implementation of controls management has in place to ensure income is recognised in the correct period; • cash receipts around the year end to ensure they have been recognised in the right year; • the judgements made by management in determining when grant income is recognised; • for Tyne Tunnel toll income, perform a substantive analytical review; and • for major grant income, obtaining counterparty confirmation.
3	**Defined benefit liability valuation (relevant to group accounts only)** The financial statements contain material pension entries in respect of the retirement benefits. The calculation of these pension figures, both assets and liabilities, can be subject to significant volatility and includes estimates based upon a complex interaction of actuarial assumptions. This results in an increased risk of material misstatement.	We plan to address the defined benefit liability valuation risk through performing audit work over • evaluate the management controls you have in place to assess the reasonableness of the figures provided by the Actuary; and • consider the reasonableness of the Actuary's output, referring to an expert's report on all actuaries nationally which is commissioned annually by the National Audit Office. We will discuss with key contacts any significant changes to the pension estimates prior to the preparation of the financial statements.

4. SIGNIFICANT RISKS AND KEY JUDGEMENT AREAS (CONTINUED)

Key areas of management judgement and enhanced risks

Key areas of management judgement include accounting estimates which are material but are not considered to give rise to a significant risk of material misstatement. These areas of management judgement represent other areas of audit emphasis.

	Area of management judgement / enhanced risk	Planned response
1	With effect from 2 November 2018, the footprint of NECA changed with the introduction of the North of Tyne Combined Authority. As a result of this decision, NECA's management (as the Joint Transport Committee's accountable body) took advice on how this reconfiguration should be reflected in the financial statements of NTCA.	In 2018/19 we addressed this judgement by reviewing the advice supplied to management by their appointed expert (Deloitte) to ensure that it was reasonable and complied with the Code of Audit Practice and applicable accounting standards. For 2019/20 we will update our review of the proposed accounting treatment to ensure that apportionments remain reasonable. In addition, we will also test transactions and balances included in the Statement of Accounts are complete, accurate and relate to NECA.

5. VALUE FOR MONEY

Our approach to Value for Money

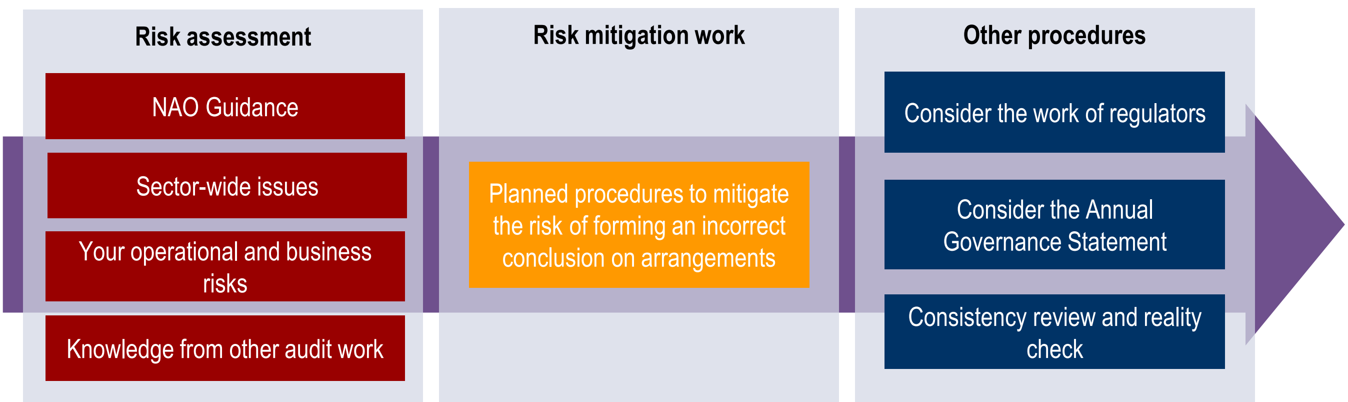
We are required to form a conclusion as to whether NTCA and the Group has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out, and sets out the overall criterion and sub-criteria that we are required to consider.

The overall criterion is that, 'in all significant respects, NTCA and the Group had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.'

To assist auditors in reaching a conclusion on this overall criterion, the following sub-criteria are set out by the NAO:

- informed decision making;
- sustainable resource deployment; and
- working with partners and other third parties.

A summary of the work we undertake to reach our conclusion is provided below:



Significant Value for Money risks

The NAO's guidance requires us to carry out work at the planning stage to identify whether or not a Value for Money (VFM) exists. Risk, in the context of our VFM work, is the risk that we come to an incorrect conclusion rather than the risk of the arrangements in place at NTCA and the Group being inadequate. As outlined above, we draw on our deep understanding of NTCA and the Group and its partners, the local and national economy and wider knowledge of the public sector.

For the 2019/20 financial year, we have identified no significant risk to our value for money conclusion.

6. FEES FOR AUDIT AND OTHER SERVICES

Fees for work as NTCA and the Group's appointed auditor

At this stage of the audit we are not planning any divergence from the scale fees set by PSAA as communicated in our fee letter 31 January 2020.

Service	2018/19 fee	2019/20 fee
Code audit work	£30,000 (plus VAT)	£27,500 (plus VAT)
Additional audit fee – Note 1	£4,500 (plus VAT)	N/A
Total	**£34,500 (plus VAT)**	**£27,500 (plus VAT)**

Fees for non-PSAA work

There is no 2019/20 non-audit fee work planned at this stage. Before agreeing to carry out any additional work, we would consider whether there were any actual, potential or perceived threats to our independence.

Services provided to other entities within NTCA's group

The group consists of the NTCA, Nexus, NEMOL and TTS. We are responsible for the direction, supervision and performance of the group audit.

We are also the external auditor for Nexus and NEMOL. We do not carry out the external audit of TTS as it is within the limits for audit exemptions under Section 479A of the Companies Act 2006 relating to subsidiary companies.

7. OUR COMMITMENT TO INDEPENDENCE

We are committed to independence and are required by the Financial Reporting Council to confirm to you at least annually, in writing, that we comply with the Financial Reporting Council's Ethical Standard. In addition, we communicate any matters or relationship which we believe may have a bearing on our independence or the objectivity of the audit team.

Based on the information provided by you and our own internal procedures to safeguard our independence as auditors, we confirm that in our professional judgement there are no relationships between us and any of our related or subsidiary entities, and you and your related entities creating any unacceptable threats to our independence within the regulatory or professional requirements governing us as your auditors.

We have policies and procedures in place which are designed to ensure that we carry out our work with integrity, objectivity and independence. These policies include:

- all partners and staff are required to complete an annual independence declaration;
- all new partners and staff are required to complete an independence confirmation and also complete computer-based ethics training;
- rotation policies covering audit engagement partners and other key members of the audit team;
- use by managers and partners of our client and engagement acceptance system which requires all non-audit services to be approved in advance by the audit engagement partner.

We confirm, as at the date of this document, that the engagement team and others in the firm as appropriate, and Mazars LLP are independent and comply with relevant ethical requirements. However, if at any time you have concerns or questions about our integrity, objectivity or independence please discuss these with Cameron Waddell in the first instance.

Prior to the provision of any non-audit services Cameron Waddell will undertake appropriate procedures to consider and fully assess the impact that providing the service may have on our auditor independence. Included in this assessment is consideration of Auditor Guidance Note 01 as issued by the NAO, and the PSAA Terms of Appointment.

No threats to our independence have been identified.

Any emerging independence threats and associated identified safeguards will be communicated in our Audit Completion Report.

8. MATERIALITY AND MISSTATEMENTS

Summary of initial materiality thresholds

Threshold	Initial threshold NTCA (£'000s)	Initial threshold Group (£'000s)
Overall materiality	4,574	8,906
Performance materiality	3,430	6,679
Trivial threshold for errors to be reported to the Audit & Standards Committee	137	267

Materiality

Materiality is an expression of the relative significance or importance of a particular matter in the context of financial statements as a whole. Misstatements in financial statements are considered to be material if they, individually or in aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Judgements on materiality are made in light of surrounding circumstances and are affected by the size and nature of a misstatement, or a combination of both. Judgements about materiality are based on consideration of the common financial information needs of users as a group and not on specific individual users.

The assessment of what is material is a matter of professional judgement and is affected by our perception of the financial information needs of the users of the financial statements. In making our assessment we assume that users:

- have a reasonable knowledge of business, economic activities and accounts;
- have a willingness to study the information in the financial statements with reasonable diligence;
- understand that financial statements are prepared, presented and audited to levels of materiality;
- recognise the uncertainties inherent in the measurement of amounts based on the use of estimates, judgement and the consideration of future events; and
- will make reasonable economic decisions on the basis of the information in the financial statements.

We consider materiality whilst planning and performing our audit based on quantitative and qualitative factors.

Whilst planning, we make judgements about the size of misstatements which we consider to be material and which provides a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures.

The materiality determined at the planning stage does not necessarily establish an amount below which uncorrected misstatements, either individually or in aggregate, will be considered as immaterial.

We revise materiality for the financial statements as our audit progresses should we become aware of information that would have caused us to determine a different amount had we been aware of that information at the planning stage.

Our provisional materiality is set based on a benchmark of total assets. We will identify a figure for materiality but identify separate levels for procedures designed to detect individual errors, and also a level above which all identified errors will be reported to the Audit & Standards Committee.

We consider that total assets remains the key focus of users of the financial statements and, as such, we base our materiality levels around this benchmark.

8. MATERIALITY AND MISSTATEMENTS (CONTINUED)

Based on our preliminary assessment of materiality we anticipate the overall materiality for the year ending 31st March 2020 to be in the region of £4.574 million (NTCA) and £6.679 million (Group).

After setting initial materiality, we continue to monitor materiality throughout the audit to ensure that it is set at an appropriate level.

Performance Materiality
Performance materiality is the amount or amounts set by the auditor at less than materiality for the financial statements as a whole to reduce, to an appropriately low level, the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. Our initial assessment of performance materiality is based on low inherent risk, meaning that we have applied 75% of overall materiality as performance materiality.

We have also calculated materiality for specific classes of transactions, balances or disclosures where we determine that misstatements of a lesser amount than materiality for the financial statements as a whole, could reasonably be expected to influence the decisions of users taken on the basis of the financial statements. We have set specific materiality for the following items of account:

Item of account	Specific materiality (£'000s)
Officers' remuneration	5

After setting initial materiality, we continue to monitor materiality throughout the audit to ensure that it is set at an appropriate level.

Misstatements
We aggregate misstatements identified during the audit that are other than clearly trivial. We set a level of triviality for individual errors identified (a reporting threshold) for reporting to the Audit & Standards Committee that is consistent with the level of triviality that we consider would not need to be accumulated because we expect that the accumulation of such amounts would not have a material effect on the financial statements. Based on our preliminary assessment of overall materiality, our proposed triviality threshold is £0.137m (NTCA) and £0.267 million (Group) based on 3% of overall materiality. If you have any queries about this please do not hesitate to raise these with Cameron Waddell.

Reporting to the Audit & Standards Committee
To comply with International Standards on Auditing (UK), the following three types of audit differences will be presented to the Audit & Standards Committee:

- summary of adjusted audit differences;
- summary of unadjusted audit differences; and
- summary of disclosure differences (adjusted and unadjusted).

APPENDIX A – KEY COMMUNICATION POINTS

ISA (UK) 260 'Communication with Those Charged with Governance', ISA (UK) 265 'Communicating Deficiencies In Internal Control To Those Charged With Governance And Management' and other ISAs (UK) specifically require us to communicate the following:

Required communication	Audit Strategy Memorandum	Audit Completion Report
Our responsibilities in relation to the audit of the financial statements and our wider responsibilities	✓	
Planned scope and timing of the audit	✓	
Significant audit risks and areas of management judgement	✓	
Our commitment to independence	✓	✓
Responsibilities for preventing and detecting errors	✓	
Materiality and misstatements	✓	✓
Fees for audit and other services	✓	
Significant deficiencies in internal control		✓
Significant findings from the audit		✓
Significant matters discussed with management		✓
Our conclusions on the significant audit risks and areas of management judgement		✓
Summary of misstatements		✓
Management representation letter		✓
Our proposed draft audit report		✓

APPENDIX B – FORTHCOMING ACCOUNTING AND OTHER ISSUES

Financial reporting changes relevant to 2019/20

There are no significant changes in the Code of Practice on Local Authority Accounting for the 2019/20 financial year.

Financial reporting changes in future years

Accounting standard	Year of application	Commentary
IFRS 16 – Leases	2020/21	The CIPFA/LASAAC Code Board has determined that the Code of Practice on Local Authority Accounting will adopt the principles of IFRS 16 Leases, for the first time from 2020/21. IFRS 16 will replace the existing leasing standard, IAS 17, and will introduce significant changes to the way bodies account for leases, which will have substantial implications for the majority of public sector bodies. The most significant changes will be in respect of lessee accounting (i.e. where a body leases property or equipment from another entity). The existing distinction between operating and finance leases will be removed and instead, the new standard will require a right of use asset and an associated lease liability to be recognised on the lessee's Balance Sheet. In order to meet the requirements of IFRS 16, all local authorities will need to undertake a significant project that is likely to be time-consuming and potentially complex. There will also be consequential impacts upon capital financing arrangements at many authorities which will need to be identified and addressed at an early stage of the project.