North East Combined Authority

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Leadership Board

Tuesday 3 November 2020 at 2.00pm

Meeting to be held virtually via Microsoft Teams

www.northeastca.gov.uk

AGENDA

Contact Officer: Jonathan Lunness Tel: 0191 4247536
Email: jonathan.lunness@northeastca.gov.uk

North East Combined Authority, Leadership Board

Agenda Item 3

14 September 2020

(2.00pm - 2.20pm)

Meeting held virtually via Microsoft Teams

Present:

Councillors: I Malcolm (Chair), G Miller, S Henig

Officers: Nicola Robason (Deputy Monitoring Officer, NECA), Lucy Winskell (Chair, NELEP) John Hewitt (Chief Finance Officer, NECA), George Mansbridge (Corporate Director Regeneration and Environment, South Tyneside), Jon Ritchie (Executive Director of Corporate Services, Sunderland), Iain Burns (Gateshead Council), Gavin Armstrong (Policy and Scrutiny Officer, NECA), Jonathan Lunness (Strategy and Democratic Services Assistant, NECA)

1. APOLOGIES FOR ABSENCE (MEMBERS)

Apologies for absence were received from Cllr M Gannon, Cllr C Donovan, Martin Swales, Patrick Melia, Sheena Ramsey, Terry Collins, Gillian Hall.

2. DECLARATIONS OF INTEREST

None.

3. MINUTES OF THE MEETING HELD ON 28 JULY 2020

The minutes of the previous meeting held on 28 July 2020 were approved as a correct record.

4. ANNOUNCEMENTS FROM THE CHAIR

The Chair noted that Lucy Winskell has replaced Andrew Hodgson as the Chair of the NELEP and welcomed her to the meeting and to future NECA meetings.

The Chair noted that the LA7 group are working closely on Covid-19 arrangements to ensure there are no mixed messages to the residents in the area. The importance of handwashing, wearing a mask, social distancing and observing the new ‘Rule of 6’ was highlighted to tackle the spread of the virus.

It was noted that since the previous NECA Leadership Board meeting on 28 July that Vince Taylor, Economic Lead Officer for NECA, has since retired. The Chair thanked Vince for his outstanding work on the Strategic Economic Plan and wished him well in his retirement.

5. NECA GOVERNANCE UPDATE

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

Members considered the report which provided an update on the governance arrangements for the North East Combined Authority.

The report outlined changes of nominations from Northumberland County Council and Sunderland City Council to the Joint Transport Committee, and a change of nomination from Gateshead Council to the NECA Audit and Standards Committee.

Sunderland City Council nominated Cllr P Stewart to replace Cllr M Mordey on the Joint Transport Committee. Gateshead Council nominated Cllr R Beadle to replace Cllr J McClurey on the NECA Audit and Standards Committee.

It was noted that nominations from Northumberland County Council for Member and Substitute for the Joint Transport Committee are expected at a future meeting which will be covered in a future report to the Leadership Board.

RESOLVED That:

i. the report be noted.
ii. the proposed changes to Membership be approved.

6. GROWTH FUND

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

The report was presented by George Mansbridge on behalf of Cllr G Miller, the Economic Development and Digital Thematic Lead. Members considered the report which provided an update on the progress of the Growth Fund European Regional Development fund (ERDF) funding application.

Members noted that the funding aims to support local small business growth and to attract new businesses to the area. It was noted that The Growth Fund project is based on the ERDF funded model already delivered by Durham County Council. This funding application covers the Sunderland, South Tyneside and Gateshead areas of NECA.

It was noted that the Growth Fund will be delivered over a 3 year period from 1 September 2020 to 31 August 2023, with £4.495m funding from the ERDF Programme approved in principle which will create 252 new jobs in the NECA area.

During discussion, Members noted that Gateshead holds Accountable Body status on this funding application and will manage the financial arrangements on behalf of NECA.

RESOLVED That:

i. the report be noted.

7. DATE AND TIME OF NEXT MEETING

Tuesday 3 November 2020 at 2.00pm.

Leadership Board Agenda Item 5

Date:	**3 November 2020**
Subject:	**Chair's Portfolio Update**
Report of:	**Chair of the North East Combined Authority**

Executive Summary

This report provides an update on activity across the Chair's portfolio. It is provided for information and sets out recent activity associated with managing strategic relationships and developing a programme of NECA wide interventions.

Recommendations

It is recommended that the Leadership Board note the contents of the report.

1. Background Information

1.1 Whilst the core activities of NECA are driven forward by the three strategic themes, the Chair's portfolio ensures that the Combined Authority is well positioned inter-regionally, nationally and internationally to influence policy, lever external investment and create jobs for local people which has never been more important now with added pressures of the Covid-19 pandemic in particular the impact in the North East region.

2. Climate Emergency update

2.1 The Leadership Board will recall from previous updates that they resolved unanimously to declare a Climate Change Emergency at their meeting of 5 November 2019 where NECA resolved to:

- Fully support all four NECA constituent authorities in working towards their ambitious carbon reduction targets.
- Establishing a task and finish group to identify what additional resources and legislation would be required to support the local authorities work to reduce carbon emissions across the NECA footprint.
- Receive an annual update report on progress towards emissions targets within the NECA constituent authority areas and data relating to reduction of carbon emissions across the NECA footprint.
- Maximise all funding opportunities to support carbon emission reductions.
- Facilitate the sharing of best practice across the NECA area.
- Work with NECA constituent authorities to help prioritise carbon reduction measures that will have the greatest impact while bringing in added benefits such as environmental improvements and economic growth.

- Work collaboratively with the North East Local Enterprise Partnership to promote carbon reduction across the business community and within future iterations of the Strategic Economic Plan and the Local Industrial Strategy.

- Ensure all future NECA Leadership Board reports comment on the impact any decision will have on the climate emergency agenda

2.2 In February 2020, Senior Officers from the four constituent authorities met to consider the approach and respond to the clear commitment made by the Leadership Board. The group agreed to meet on a monthly basis to develop a work programme supported by necessary task and finish groups to deliver key pieces of work. Unfortunately, as a result of the Covid pandemic these meetings have been paused to focus on other key priorities.

2.3 The group has recently reconvened and each constituent authority has updated on their individual climate emergency and progress to date. Although local authority responses to the Covid outbreak have impacted on progress all four authorities have or are finalising strategies and action plans to support delivery of their ambitious carbon reduction targets.

2.4 Discussions have identified common themes across the NECA region that will benefit from sharing of best practice, innovative solutions to renewable energy solutions and opportunities for potential regional funding to deliver projects and key pieces of work across boundaries. This will help shape and focus future discussions at the NECA Leadership Board.

2.5 Due to the ongoing response to the Covid outbreak it is proposed that the annual report to NECA Leadership Board is delayed until early in 2021.

3. Covid Recovery Work

3.1 The approach taken to respond to the pandemic across the NECA Local Authorities and also the three North of Tyne Local Authorities, crystallised through the Economic Response Group and the recent submission of the North East Recovery and Renewal Deal, is also highlighted in the report.

3.2 It explains that conversations with Government are underway, although this is likely to be impacted by the recent announcement that there will not be a three-year Comprehensive Spending Review in November.

3.3 As the NECA Leadership Board are aware, the economic implications of the pandemic continue to evolve, and therefore, so should our response.

3.4 Firstly, we are keenly monitoring the impact upon our local economies of local restrictions, particularly upon the hospitality, leisure and accommodation sectors who have been majorly hit by a fall in footfall, revenue and future bookings. We are awaiting further guidance from Government on recent announcements around lockdown grants of up to £3k per month for businesses in Tier 2 areas.

3.5 Secondly, despite the Chancellor’s changes to the Jobs Support Scheme, we remain concerned about the potential cliff edge at the end of October when Furlough ends and unemployment – particularly among the youngest, eldest and lowest skilled within the NECA area – is likely to increase substantially.

3.6 Thirdly, we continue to watch developments in UK-EU trade deal negotiations closely given the potential impact upon manufacturing firms in particular in the NECA area and the possible twofold setback for many of our firms if a trade deal is not reached.

3.7 For all these reasons, we must continue to play our role in the wider North East recovery work, through the recently submitted Recovery and Renewal Deal, to lobby Government for the resources we need for our businesses and residents.

3.8 We will consider carefully the Chancellor’s one year Spending Review expected in late November and seek to refresh the NECA Economic Plan to respond to the new circumstances as they evolve

4. Local Elections

4.1 NECA Leadership Board are asked the Chair’s keen interest to increase the use of postal voting in future elections in an attempt to safeguard voters in the event of future waves of coronavirus.

4.2 There are three ways in which an elector can cast their vote. They are:

- In person, by attending the polling station on polling day;
- By post, where the elector registers in advance for a postal voting pack and they complete the ballot paper at home and return it to the Elections Team by post. Postal voters can also return their completed postal vote to the polling station on polling day; and

- By proxy, where the elector is unable to go to the polling station themselves and asks a trusted person to vote on their behalf.

4.3 An elector may opt to vote by post for a particular election or referendum, for a specified period of time or otherwise for a permanent postal vote.

4.4 Voting by post cannot be mandated for all registered electors. The ability to vote in person is only restricted for those electors who are (a) patients detained in hospital and who have conditions attached to their ability to be absent from hospital, or (b) a person remanded in custody (before conviction) or otherwise sentenced to imprisonment on conviction for a period of less than 12 months and whose ability to vote in person is affected by their imprisonment. These electors may still opt to exercise their vote by post or by proxy, depending on their preference.

4.5 Until such time as primary and secondary legislation is amended, the May 2021 elections will follow the usual format and it will be necessary for electors to take active steps to request a postal vote if they do not want to attend the polling station to cast their vote in person on polling day.

4.6 If the Cabinet Office were to commit to a postal-vote only election in 2021, there would be a requirement for emergency legislation as well as caveats that every elector be contacted and asked for their signature and date of birth. As well as local council elections, OF WHICH Durham County Council will have a whole council election, polls in 2021 will be held for 13 directly elected mayors and 40 police and crime commissioners, including both the Northumbria Police and Crime Commission and the Durham Police, Crime and Victims' Commissioner.

4.7 There are concerns that those self-isolating or Covid-positive cannot vote in person. In order to best prepare and avoid any potential challenge with regards the election result, the Chair is currently considering the potential for a campaign to increase the uptake of postal voting by the electorate across the NECA area to minimise the risk of transmission of Covid-19 via attendance at polling stations. The Chair is aware that this would be an entirely voluntary step for the elector but is keen to encouraging more people across the NECA footprint to apply for postal votes, which will hopefully make polling stations less busy and even safer in terms of being covid-secure.

5. Alternative Options Available

5.1 There are no alternative options associated with this report.

6. Next Steps and Timetable for Implementation

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

6.2 Due to the ongoing response to the Covid outbreak, the NECA Leadership Board are asked to not that the annual report to NECA Leadership Board will be delayed until early in 2021.

7. Potential Impact on Objectives

7.1 There is no potential impact on objectives associated with this report.

8. Financial and Other Resources Implications

8.1 There are no financial or other resource implications associated with this report.

9. Legal Implications

9.1 There are no legal implications arising from this report.

10. Key Risks

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

11. Equality and Diversity

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

12. Crime and Disorder

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

13. Consultation/Engagement

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

14. Other Impact of the Proposals

14.1 There are no further impacts arising from the proposals.

15. Appendices

15.1 None

16. Background Papers

16.1 None.

17. Contact Officers

17.1 Nicola Robason

Head of Corporate & External Affairs (Monitoring Officer)
South Tyneside Council
Telephone: 0191 424 7186

Email: nicola.robason@southtyneside.gov.uk

18. Sign off

18.1
- Head of Paid Service: ✓
- Monitoring Officer: ✓
- Chief Finance Officer: ✓

19. Glossary

19.1 None.

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Agenda Item 6

Economic Development and Digital Advisory Board

Date: **3 November 2020**

Subject: **Economic Development and Digital Theme Update**

Report of: **Economic Development and Digital Thematic Lead**

Executive Summary

The purpose of this report is to provide an update on activity and progress under the Economic Development and Digital theme of the Combined Authority.

The report provides updates on Invest North East England activity, EU Exit planning and regional economic recovery from Covid-19.

Recommendations

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

NECA North East Combined Authority
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Economic Development and Digital Advisory Board

1.0	**Background Information**
1.1	This report provides an update on activity and progress under the Economic Development and Digital theme of the Combined Authority, specifically: • Invest North East England activities • EU Exit Planning • North East Economic Recovery from Covid-19
1.2	**Invest North East England (INEE)**
1.3	***Inward Investment Successes***
1.4	Final successes/new job numbers for financial year 2019/20, in the NECA area were: • 32 FDI projects resulting in 1,140 new jobs • 7 UK inward investments projects resulting in 307 new jobs. Across the wider INEE area (including North of Tyne Combined Authority) in 2019/20 there were a combined total of 84 inward investment projects resulting in over 2,906 new jobs. The NELEP region was the best performing UK region outside of London based on new foreign direct investment jobs created per 100,000 working age population. To date in 2020/21, due to Covid-19, there has been a significant decrease in active inward investment project numbers and a very difficult environment in which to attract new investment. The Q1&2 success totals are still to be verified, however provisionally they show that in the NECA area there have been 13 FDI project successes resulting in 1,110 jobs and 2 UK inward investment projects resulting in 27 jobs. The major success was the creation of 1,000 jobs at the new Amazon distribution hub in County Durham at Integra 61. At peak seasons the job numbers employed at the facility are likely to be in excess of 2,000.
1.5	***Current Enquiries***
1.6	The INEE team is currently experiencing an increase in enquiry levels after a very quiet first two quarters of 2020/21. Although visits to the region are difficult during the current restrictions, projects are being developed with clients in several key sectors and some very promising new projects are emerging.

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Economic Development and Digital Advisory Board

1.7	***Marketing and Communications***
1.8	Promoting the INEE brand and services continue to be a focus for the team. INEE has produced an integrated marketing plan for 2020/21 to coordinate activities to promote the region. The team has booked editorial space and adverts in key publications for the 2020/21 calendar (sector focussed) and is having ongoing discussions with media outlets to scope additional promotional options. The team continues to use social media (Twitter / Linkedin) to promote the region to a wider audience. The team is working with website developers to implement changes to the Invest North East England website; making user experience and navigation easier. This includes a copy refresh, new images, new case studies and a functional change to the sector pages. During the COVID pandemic, the team has produced video Q&A sessions with key stakeholders in the digital sector and plans to run a digital campaign during October / November, looking to replicate this in other key sectors. The team has been proactive in commenting and featuring in virtual events, webinars and panel discussions to promote the region and the brand.
1.9	***Events***
1.10	The Events calendar has been severely reduced in 2020/21 due to the COVID Pandemic. INEE has attended several virtual events including Dynamo North East and Newcastle Start Up Week - where team members featured on panels and/or online interviews. The INEE team continues to (virtually) attend / exhibit / sponsor events in 2020/21 representing the region. Key events planned for 2020/21 in key sectors are: • Virtual - Offshore Wind North East (Nov 2020) • Shared Service Event (March 2021 - TBC) (Rescheduled from March 2020) • MIPIM Cannes (June 2021) (Rescheduled from March 2020) • Virtual - North East Contact Centre Awards (presentation November 2020).

Economic Development and Digital Advisory Board

1.11	***Lead Generation Contract***
1.12	The sourcing of completely new leads for the North East is a vital part of INEE's activity, adding value to NECA local authorities' own activities. INEE's proactive lead generation contract with OCO Global was paused in March 2020 in response to the COVID19 lockdown. In September 2020, the contract was restarted as enquiry levels began to increase. OCO is conducting a piece of work for INEE on the impact of COVID19 on some key supply chains and the opportunities this will bring for the North East in terms of new inward investment.
1.13	***High Potential Opportunities (HPO)***
1.14	In addition to its existing HPO in Immersive Technology, the North East has been successful in securing three HPO projects in DIT's second round: INEE will work with local partners to deliver these projects throughout 2020/2021 and they will be used to promote these sectors internationally and generate new investment leads. The three new HPOs are: • Heat Networks • Plant-based Products • Healthy Ageing.
1.15	***Northern Powerhouse Key Account Management Programme***
1.16	The Department for International Trade Key Account Management programme delivered exceptional results 2019/20 - 29 projects were won in this period across the North East LEP area. INEE continues to manage the DIT Key Account Management Contract in 2020/21. The current COVID19 pandemic has raised some challenges but also some opportunities and overall, the programme is delivering sound results. Account managers have continued to liaise with KAM companies providing business support and guidance. A 6-month review meeting was held between INEE / DIT in September 2020 where a review and recommendations was discussed.
2.0	**EU Exit Planning**
2.1	***The Negotiations***

Economic Development and Digital Advisory Board

2.2	The UK left the EU on 31 January 2020. Under the Withdrawal Agreement with the EU, the UK has until 31 December 2020 ("the Transition Period") to negotiate and implement new trade and customs arrangements with the EU before it leaves the EU Single Market and Customs Union on 1 January 2021. The UK and EU originally agreed that a trade deal should be negotiated by 31 October to allow time for ratification by both sides. The UK Government subsequently advised it would abandon talks if sufficient progress on a deal wasn't achieved by 15 October.
2.3	On 29 September the House of Commons passed the UK Internal Market Bill which includes provisions to override parts of the Withdrawal Agreement, subject to Parliament having a say before using the powers. On 1 October the EU began legal proceedings against the UK Government after its (the EU's) deadline for the removal of sections of the UK Internal Market Bill expired on 30 September.
2.4	The ninth round of EU-UK trade negotiations concluded on 2 October without agreement and with both sides calling on the other to compromise on key issues, including fishing and government subsidies. However, on 3 October the Prime Minister and President of the European Commission agreed that the trade deal negotiations would continue until the end of November if necessary. At a two-day summit in Brussels beginning on 15 October, EU leaders called on the UK to "*make the necessary moves*" towards a deal. EU chief negotiator Michel Barnier said fresh "*intensive*" talks should aim to reach a deal around the end of October, but his UK counterpart David Frost said he was "*disappointe*d" by the EU's approach.
2.5	In a televised statement on 16 October, the Prime Minister advised that the country would have to prepare for a no-deal scenario on 1 January 2021. A Government spokesman expanded on the point saying "*The trade talks are over – the EU have effectively ended them yesterday when they said they did not want to change their negotiating position*", while stopping short of announcing the UK's intention to decisively walk away.
2.6	On 18 October the EU indicated that it expected the Brexit negotiations to resume "*within days*", as Michael Gove confirmed that "*the door remained ajar*" on re-engagement. Michel Barnier was due to hold a video conference call with David Frost, on 18 October to discuss the structure of future talks. At the time of writing, sources in both the EU and UK Government expected this suspension to be short.

Economic Development and Digital Advisory Board

2.7	***Implications of No Deal***
2.8	Membership of the EU Single Market and Customs Union enables the frictionless movement (zero tariffs and quotas, harmonisation of product rules and standards, no checks at borders and no customs formalities) of people, goods, services and capital between the UK and EU. Under the current state of the EU-UK trade deal negotiations, the UK will leave the EU Single Market and Customs Union on 1 January 2021 without a customs agreement. This will end frictionless trade between the UK and EU.
2.9	Currently, delays to UK-EU imports/exports are only created by the availability of capacity on cross-border transport, with logistics companies scheduling haulage arrivals at ports of departure to minimise waiting times. The Government has acknowledged that, should the UK exit the Transition Period without a customs agreement and associated regulatory frameworks in place with the EU, new UK customs and regulatory paperwork and checks will lead to up to 48 hours delays for UK imports and exports. The Government considers that delays will be worst for the first two weeks of January 2021 and potentially for up to three months. The Road Hauliers Association considers that the period for delays could last for up to one year or longer.
2.10	In 2019 51% of all UK imports were from the EU. The UK imports 40% of its food and three quarters of this arrives from the EU, equating to 50,000 tonnes of food arriving from the EU daily. Some goods are almost exclusively supplied from the EU. Three quarters of the UK's medicines and medical supplies come via the EU and 99% of frozen potato products in the UK are imported from the EU.
2.11	The UK supply chain industry works on a just in time basis across many sectors including foods, medicines and oil for refining. There is relatively little large-scale UK warehousing for goods including circa 380 refrigerated warehouses. Most goods are only warehoused for a short period at the point they enter the UK supply chain from the EU with little opportunity to increase capacity - warehousing tends to run at 90% capacity.

Economic Development and Digital Advisory Board

2.12	Whilst the UK supply chain industry is able to cope with increased demand for goods that are already in the UK, very limited capacity to stockpile means that delays to goods entering the UK from the EU will (in a relatively short period of time), impact on the timeliness of goods entering the UK supply chain and their availability in the UK.
2.13	These issues are therefore being considered with a view to putting in place any relevant support and advice where possible at both the individual local authority and North East levels through the work of the North East Brexit Group and other regional structures.
2.14	Further updates will be provided as negotiations continue and the outcomes and potential implications are known.
3.0	**North East Economic Recovery from Covid-19**
3.1	The Covid-19 pandemic has been described as the biggest economic shock of our lifetimes, with no straightforward recovery.
3.2	In order to address this, leaders across the North East acted quickly from the outset and a Covid-19 Economic Response Group was established, comprising the North East Local Enterprise Partnership (NELEP), NECA, North of Tyne Combined Authority and representatives from business and higher education, who, with the support of industry, have been working to ensure the region has strong economic leadership in place which acts collaboratively to mitigate the impacts of the pandemic.
3.3	The first step was to gather data and evidence to inform a five-point plan to support the economy, build resilience and create the platform for recovery. The Group has since gone on to develop, and recently publish, an ambitious North East Recovery and Renewal Deal which asks Government for £2.8 billion investment to unlock the potential of the North East to recover at pace.

Economic Development and Digital Advisory Board

3.4	The five themes of the deal are: 1. **Job recovery:** Rapid and sustained interventions to help people into jobs and training, including a jobs recovery programme that will provide jobs and training for 20,000 2. **Building the economy of the future:** Maximising the potential of our existing assets and exploring opportunities to enter new markets and supply chains – powered by innovation 3. **Supporting businesses:** Rapid recovery of businesses and sectors 4. **Communities and place**: Creating resilient places and strong communities as they adapt to living with COVID-19, as well as other challenges and opportunities and supporting the cultural recovery 5. **Digital and connectivity infrastructure investment:** Building infrastructure to lead transformation and encourage future investment A copy of the Recovery and Renewal Deal can be found here
3.5	Leaders and representatives of the Recovery Group continue to liaise with the Government and further updates will be provided in due course.
4.0	**Digital Update**
4.1	As described above, digital connectivity and infrastructure investment is one of the five key themes of regional recovery proposals, and as part of the Government's Getting Building Fund to aid recovery from Covid-19, the recent allocation to the NELEP area included funding for Sunderland to accelerate the roll-out of its 5G infrastructure programme.
4.2	The city was also selected by the Government as one of six areas to receive funding under the 5G Create programme, to test what revolutionary high-speed connectivity can do for UK industries. The trial at the Nissan Sunderland plant will look at 5G's ability to boost productivity through the use of autonomous trucks.
4.3	These developments amongst other initiatives and plans that have taken shape during 2020, led to Sunderland being named the Smart City of the Year in the UK Digital Leaders 100 Awards on 15 October. This accolade for Sunderland and the significant progress being made by the other North East authorities, will help

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Economic Development and Digital Advisory Board

	ensure that the region continues to be recognised as a global, digital leader and innovator, creating opportunities for residents and the conditions for business to thrive, and support the delivery of economic growth and recovery.
5.0	**Reasons for the Proposals**
5.1	This report provides an update on Economic Development and Digital theme.
6.0	**Alternative Options Available**
6.1	There are no alternative options associated with this report.
7.0	**Next Steps and Timetable for Implementation**
7.1	A further update will be provided to the Board at subsequent meetings.
8.0	**Potential Impact on Objectives**
8.1	The activities under the Economic Development and Digital theme will support NECA in its aims to promote economic growth and regeneration in the area.
9.0	**Financial and Other Resources Implications**
9.1	There are no financial or other resource implications directly associated with this report as it is for information only.
10.0	**Legal Implications**
10.1	There are no legal implications arising from this report.
11.0	**Key Risks**
11.1	There are no specific risk management issues arising from this report.
12.0	**Equality and Diversity**
12.1	There are no specific equality and diversity issues arising from this report.
13.0	**Crime and Disorder**
13.1	There are no specific crime and disorder issues arising from this report.

Economic Development and Digital Advisory Board

14.0	**Consultation/Engagement**
14.1	There are no specific consultation and engagement issues arising from this report.
15.0	**Other Impact of the Proposals**
15.1	There are no further impacts arising from the proposals.
16.0	**Appendices**
16.1	None
17.0	**Background Papers**
17.1	None.
18.0	**Contact Officers**
18.1	Beverley Poulter, Lead Policy Officer, Sunderland City Council, beverley.poulter@sunderland.gov.uk
19.0	**Sign off**
19.1	• Head of Paid Service: ✓ • Monitoring Officer: ✓ • Chief Finance Officer: ✓
20.0	**Glossary**
20.1	None.

North East Combined Authority

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Leadership Board

Agenda Item 7

Date:	**3 November 2020**
Subject:	**Governance Arrangements – Proposed adjustment to the membership of the NECA Leadership Board, EDDAB, NECA Overview and Scrutiny Committee and the Transport for the North Overview and Scrutiny Committee**
Report of:	**Deputy Monitoring Officer of the North East Combined Authority**

Executive Summary

This report proposes changes to the membership of the NECA Leadership Board, EDDAB, NECA Overview and Scrutiny Committee and the Transport for the North Overview and Scrutiny Committee.

Recommendations

It is recommended that the proposed changes to the membership of the NECA Leadership Board, EDDAB, NECA Overview and Scrutiny Committee and the Transport for the North Overview and Scrutiny Committee be approved.

Leadership Board

1. Background Information

1.1 Sunderland Council would like to make amendments to appointments made to the NECA Leadership Board, EDDAB and Overview and Scrutiny Committees.

1.2 The appointments which went to the 2019 Annual meeting of the NECA Leadership Board included Beth Farhat representing the Trade Union Congress on the EDDAB.

1.3 The North East Local Enterprise Board (NELEP) would like to make amendments to the appointment to the NECA Leadership Board.

1.4 NECA would like to make amendments to appointments to the Transport for the North Board and Transport for the North Overview and Scrutiny Committee.

1.5 The appointments which went to the 2019 Annual meeting of the NECA Leadership Board included, for Sunderland City Council, Councillor Michael Mordey as substitute NECA Leadership Board.

1.6 The appointments which went to the 2019 Annual meeting of the NECA Leadership Board included, for Sunderland City Council, Councillor Michael Mordey as substitute on EDDAB.

1.7 The appointments which went to the 2019 Annual meeting of the NECA Leadership Board included, for Sunderland City Council, Councillor R Oliver member on the NECA Overview and Scrutiny Committee.

1.8 The appointments which went to the 2019 Annual meeting of the NECA Leadership Board included, for Sunderland City Council, Councillor P Wood as substitute member on the NECA Overview and Scrutiny Committee.

1.9 The appointments which went to the 2019 Annual meeting of the NECA Leadership Board included, for the North East Local Enterprise Board (NE

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LEP), Andrew Hodgson as NE LEP member on the NECA Leadership Board.

1.10 The appointments which went to the 2019 Annual meeting of the NECA Leadership Board included Councillor G Miller as substitute Member on the Transport for the North Scrutiny Committee.

1.11 The appointments which went to the 2019 Annual meeting of the NECA Leadership Board included Councillor M Mordey as substitute Member on the Transport for the North Scrutiny Committee.

1.12 The appointments which went to the 2019 Annual meeting of the NECA Leadership Board included Councillor P Stewart as substitute Member on the Transport for the North Scrutiny Committee.

1.13 Councillor P Stewart is the person Sunderland City Council wishes to nominate as substitute on the NECA Leadership Board, substitute on EDDAB and NECA's substitute on the Transport for the North Board.

1.14 Councillor A Mullen is the person Sunderland City Council wishes to nominate as member of NECA Overview and Scrutiny Committee.

1.15 Councillor J Doyle is the person Sunderland City Council wishes to nominate as substitute of NECA Overview and Scrutiny Committee.

1.16 Ms Lucy Winskell is the person NE LEP wishes to nominate as member on the NECA Leadership Board.

1.17 Councillor M Walsh is the person NECA wishes to nominate as member of Transport for the North Overview and Scrutiny Committee.

2. Proposed Change

2.1 It is proposed that Councillor P Stewart to replace Councillor M Mordey as substitute on the NECA Leadership Board and EDDAB.

Leadership Board

2.2 It is proposed that the Trade Union Congress is no longer represented on the EDDAB.

2.3 It is proposed that Councillor P Stewart to replace Councillor G Miller as substitute on the Transport for the North Board.

2.4 It is proposed that Councillor A Mullen to replace Councillor R Oliver as member of NECA Overview and Scrutiny Committee.

2.5 It is proposed that Councillor J Doyle to replace Councillor P Wood as substitute of NECA Overview and Scrutiny Committee.

2.6 It is proposed that Ms Lucy Winskell to replace Andrew Hodgson as NELEP Member on NECA Leadership Board.

2.7 It is proposed that Councillor M Walsh to replace Councillor M Mordey as member of the Transport for the North Overview and Scrutiny Committee.

3. Recommendation

3.1 It is Recommended that the proposed changes to the membership of the following Boards and Committees be approved.

- NECA Leadership Board,
- EDDAB,
- NECA Overview and Scrutiny Committee
- Transport for the North Board
- Transport for the North Overview and Scrutiny Committee

4. Proposals

4.1 The Leadership Board is to agree the recommendation contained in this report.

5. Reasons for the Proposals

Leadership Board

5.1 The proposal contained in this report will ensure the NECA and Transport for the North governance structures are kept up to date.

6. Alternative Options Available

6.1 There are no alternative options submitted for consideration.

7. Financial and Other Resources Implications

7.1 There are no direct financial implications associated with this report.

8. Legal Implications

8.1 There are no legal implications arising directly from this report other than amendments to the NECA governance structure.

9. Key Risks

9.1 There are no risks arising as a result of the proposals.

10. Equality and Diversity

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

11. Appendices

11.1 None

12. Contact Officers

12.1 Nicola Robason, NECA Deputy Monitoring Officer, South Tyneside Council
E-mail: Nicola.robason@southtyneside.gov.uk Tel: 0191 424 7969

13. Sign off

Leadership Board

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

14 Glossary

- NECA - North East Combined Authority
- EDDAB – Economic Development and Digital Advisory Board

North East Combined Authority
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Leadership Board Agenda Item 8

Date: **3 November 2020**

Subject: **Audit Completion Report 2019/20**

Report of: **Chief Finance Officer**

Executive Summary

Attached to this report is the Audit Completion Report for 2019/20, as prepared by the North East Combined Authority Auditors (Mazars).

Mazars will present their report, which was also considered by the NECA Audit and Standards Committee on 27 October 2020.

As members will hear, the External Audit is largely completed but is still ongoing.

Subject to the satisfactory completion of outstanding work, at the time of issuing the report the auditors have come to the following conclusions:

- Opinion on the financial statements – work is ongoing in the area, however, an unqualified opinion on the financial statements, without modification, is anticipated to be issued once the outstanding work is completed;
- The auditors anticipate concluding that NECA had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.

The auditors anticipate completing work on the Whole of Government Accounts (WGA) submission in line with the group instructions issued by the National Audit Office by the deadline in December 2020. At the time of preparing this report the group instructions have not been issued by the National Audit Office, and the auditors are, therefore, unable to conclude this work. When this work is completed the External Auditor will be able to issue their certificate.

The External Auditor has highlighted difficulties they encountered in completing their work this year in Section 2 (Significant Findings) of the attached Audit Completion Report which arose during the audit, namely slow response time to queries and requests for information. The reasons for this are referenced in the report.

The External Auditor is also reporting in Section 3 (Internal Control Recommendations) that there is a need to strengthen internal control or enhance business efficiency to ensure that all related party declarations are completed and received annually.

As a result, the Annual Governance Statement which is presented elsewhere on this agenda for approval includes an action plan to implement the External Auditor's recommendations.

Recommendations

The Leadership Board is recommended to note the contents of the Audit Completion Report for 2019/20.

North East Combined Authority
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Leadership Board

1. Background Information

1.1 The Audit Completion Report for 2019/20 prepared by the North East Combined Authority External Auditor (Mazars LLP) is attached as Appendix 1.

1.2 The report gives the External Auditor's view of whether the accounts of NECA give a true and fair view of the financial position and performance of the authority to 31 March 2020. Mazars will present their report.

1.3 A number of adjustments have been made between the draft accounts published on 30 June 2020 and submitted to the NECA Audit and Standards Committee on 27 July 2020 and those presented to the Audit and Standards Committee on 27 October. These adjustments are set out in the External Auditor's report. The report also sets out the External Auditor's view of NECA's arrangements to secure economy, efficiency and effectiveness in the use of resources, commonly referred to as the value for Money (VFM) assessment.

1.3 The updated Statement of Accounts and final Annual Governance Statement are presented to the Leadership Board for approval as part of a separate report on this agenda.

2. Proposals

2.1 The Leadership Board is asked to consider the content of the Audit Completion Report submitted by Mazars as external auditors to the Authority and take the findings into account in their consideration of the Statement of Accounts. A verbal update on any matters arising from the Audit and Standards Committee consideration of the External Auditors report will be provided at the meeting.

3. Reasons for the Proposals

3.1 The Audit Completion Report is presented to the Leadership Board for consideration. The NECA external auditors (Mazars) will present their report and findings to the meeting.

4. Alternative Options Available

4.1 There are no alternative options associated with this report.

5. Next Steps and Timetable for Implementation

North East Combined Authority

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Leadership Board

5.1 Subject to completion of the External Audit, the Statement of Accounts must be signed by the Chair of the Leadership Board and the Chief Finance Officer and published online by 30 November 2020.

5.2 At the time of compiling this report the External Auditors are still awaiting the outcome of the audit of the Tyne and Wear Pension Fund and work is ongoing with regards to auditing the Group Accounts, which could require further adjustments to the statements. The audit is therefore not expected to be fully completed by the time the Leadership Board meets on 3 November 2020 so delegated authority will be sought for the Chair and the Chief Finance Officer to make any necessary further changes to the statements before 30 November 2020 so the statutory reporting deadline can be achieved

5.3 The Audit and Standards Committee will receive a further update on the conclusion of the External Audit at its meeting on 8 December 2020.

6. Potential Impact on Objectives

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

7. Financial and Other Resources Implications

7.1 The costs of the external audit are set by Public Sector Audit Appointments and were included in the budget for 2019/20. There are no financial or other resources implications arising from this report.

8. Legal Implications

8.1 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.

9. Key Risks

9.1 An assessment of the Authority against key accounting risks is set out in the External Auditor's report attached here as Appendix 1.

10. Equality and Diversity

Leadership Board

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

11. Crime and Disorder

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

12. Consultation/Engagement

12.1 The Statement of Accounts was subject to a period of public inspection from 1 July to 11 August 2020. No enquiries or objections were raised during this time.

13. Other Impact of the Proposals

13.1 There are no other impacts arising from these proposals.

14. Appendices

14.1 Appendix 1 – Audit Completion Report

15. Background Papers

15.1 None

16. Contact Officers

16.1 Holly Madin, Assistant Manager Mazars LLP, 07881283718, Holly.Madin@mazars.co.uk

17. Sign Off

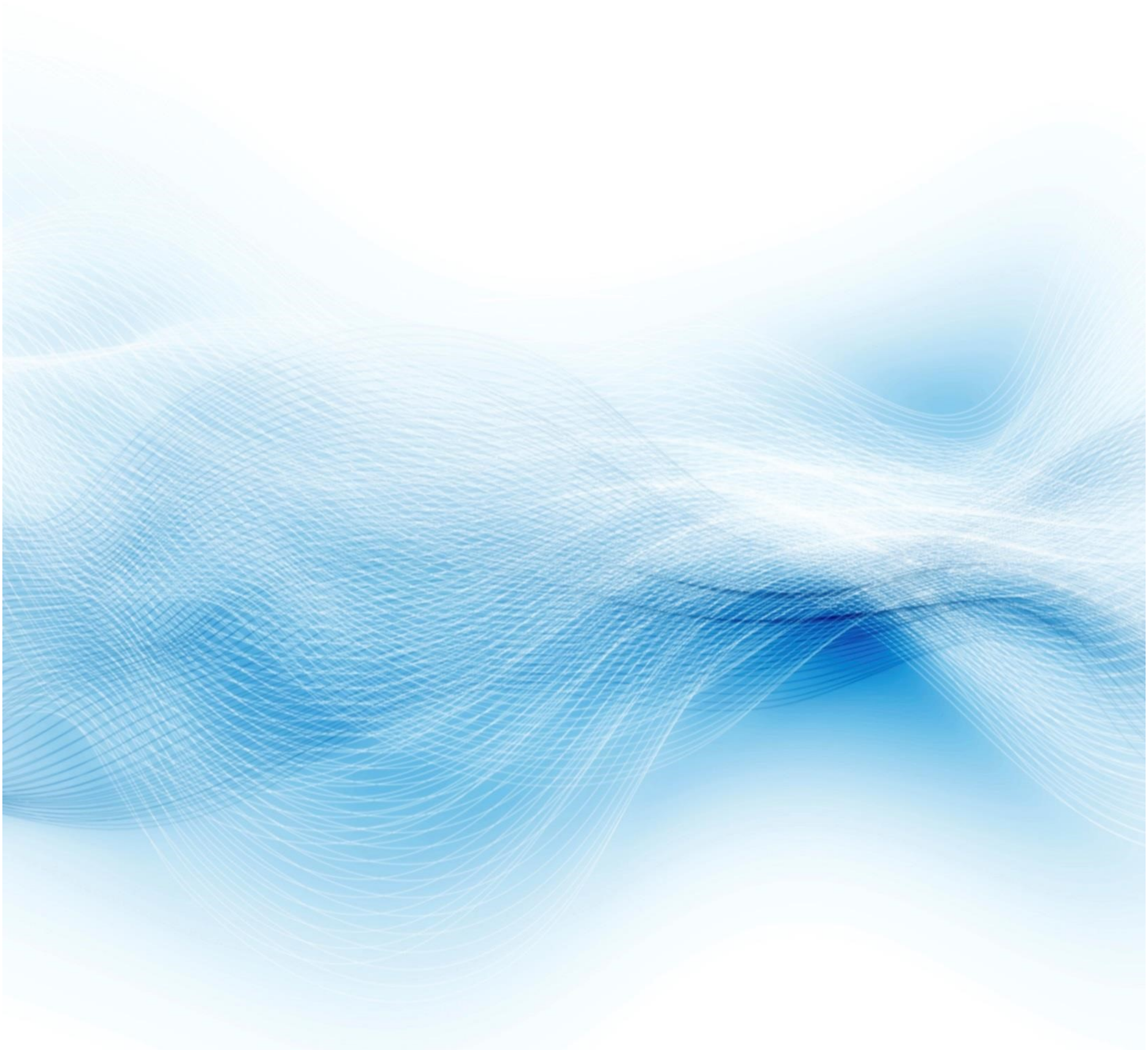
17.1
- Head of Paid Service: ✓
- Monitoring Officer: ✓
- Chief Finance Officer: ✓

Appendix 1

Audit Completion Report

North East Combined Authority

Year ending 31 March 2020



neca
North East Combined Authority
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MAZARS

CONTENTS

Mazars LLP
Salvus House
Durham
DH1 5TS

The Leadership Board
North East Combined Authority
c/o South Tyneside Council
Town Hall & Civic Officers
Westoe Road
South Shields
NE33 2RL

16 October 2020

Dear Members

Audit Completion Report – Year ended 31 March 2020

We are pleased to present our Audit Completion Report for the year ended 31 March 2020. The purpose of this document is to summarise our audit conclusions.

The scope of our work, including identified significant audit risks and other areas of management judgement, was outlined in our Audit Strategy Memorandum which we presented on 27 July 2020. We have reviewed our Audit Strategy Memorandum and concluded that the original significant audit risks and other areas of management judgement remain appropriate.

One implication of COVID-19 for the Authority was that the deadlines for submission of the draft and audited financial statements were pushed back to 31 August and 30 November respectively. Despite the revised deadlines we acknowledge the difficulties encountered by your team during accounts preparation and audit, and would like to express our thanks for the assistance of your team during our audit.

If you would like to discuss any matters in more detail then please do not hesitate to contact me on 0781 375 2053.

Yours faithfully

Signed: Cameron Waddell (Oct 27, 2020 11:11 GMT)

Cameron Waddell (Key Audit Partner)
Mazars LLP

1. EXECUTIVE SUMMARY

Purpose of this report and principal conclusions

The Audit Completion Report sets out the findings from our audit of North East Combined Authority ('the Authority') for the year ended 31 March 2020, and forms the basis for discussion at the Audit and Standards Committee meeting on 27 October 2020.

The detailed scope of our work as your appointed auditor for 2019/20 is set out in the National Audit Office's (NAO) Code of Audit Practice. Our responsibilities and powers are derived from the Local Audit and Accountability Act 2014 and, as outlined in our Audit Strategy Memorandum, our audit has been conducted in accordance with International Standards of Auditing (UK) and means we focus on audit risks that we have assessed as resulting in a higher risk of material misstatement.

Sections 2 and 5 of this report outline the detailed findings from our work on the financial statements and our conclusion on the Authority's arrangements to achieve economy, efficiency and effectiveness in its use of resources. Section 2 also includes our conclusions on the audit risks and areas of management judgement in our Audit Strategy Memorandum, which include:

- Management override of control (relevant to single entity and group accounts).
- Revenue recognition – in relation to Tyne Tunnel tolls and grant income (relevant to single entity and group accounts).
- Defined benefit liability valuation (relevant to group accounts only).

Status of our work

As we outline on the following page, our work is substantially complete. Subject to the satisfactory completion of the outstanding work, at the time of issuing this report we have the following conclusions:

Opinion on the financial statements	Work is ongoing in this area.
Value for Money conclusion	We anticipate concluding that the Authority had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources. Our draft auditor's report, including proposed conclusion, is provided in Appendix B.
Whole of Government Accounts (WGA)	At the time of preparing this report the group instructions have not yet been issued by the NAO. We are, therefore, unable to conclude this work. The deadline for completing this work is December 2020. Until this work is completed we are unable to issue our certificate.
Wider powers	The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of the Authority and to consider any objection made to the accounts. Further details on the exercise of our wider powers are provided in section 2.

1. EXECUTIVE SUMMARY

Status of our audit work

We have substantially completed our work on the financial statements and Value for Money conclusion for the year ended 31 March 2020. At the time of preparing this report the following matters remain outstanding:

Audit area	Status	Description of outstanding matters
Pensions	● (green)	We are awaiting a response from the Pension Fund Auditor.
Group	● (amber)	Work is ongoing.
CIES LEP	● (green)	We are awaiting a response to our query.

Status

- ● (red) Likely to result in material adjustment or significant change to disclosures within the financial statements
- ● (amber) Potential to result in material adjustment or significant change to disclosures within the financial statements
- ● (green) Not considered likely to result in material adjustment or change to disclosures within the financial statements

We will provide the Audit and Standards Committee with an update in relation to these outstanding matters in a follow-up letter, prior to signing the auditor's report.

Our audit approach

We provided details of our intended audit approach in our Audit Strategy Memorandum in July 2020. We have not made any changes to our audit approach since we presented our Audit Strategy Memorandum.

Materiality

We set materiality at the planning stage of the audit at £6.310 million for NECA single entity and £11.738 million for the Group using a benchmark of 2% Total Assets. Our final assessment of materiality, based on the final financial statements and qualitative factors is £6.286 million for NECA single entity and £12.192 million for the Group, using the same benchmark. We set our trivial threshold (the level under which individual errors are not communicated to the Audit and Standards Committee, at £189,000 for NECA single entity and £366,000 for the Group based on 3% of overall materiality.

Misstatements and internal control recommendations

Section 3 sets out the internal control recommendations that we make, together with an update on any prior year recommendations. Section 4 outlines the misstatements noted as part of our audit as at the time of issuing this report. If any additional misstatements are noted on completion of the outstanding work, these will be reported to the Audit and Standards Committee in a follow-up letter.

2. SIGNIFICANT FINDINGS

Set out below are the significant findings from our audit. These findings include:

- our audit conclusions regarding significant risks and key areas of management judgement outlined in the Audit Strategy Memorandum;
- our comments in respect of the accounting policies and disclosures that you have adopted in the financial statements. On page 7 we have concluded whether the financial statements have been prepared in accordance with the financial reporting framework and commented on any significant accounting policy changes that have been made during the year;
- any further significant matters discussed with management; and
- any significant difficulties we experienced during the audit.

Significant risks and key areas of management judgement
As part of our planning procedures we considered the risks of material misstatement in the Authority's financial statements that required special audit consideration. Although we report identified significant risks at the planning stage of the audit in our Audit Strategy Memorandum, our risk assessment is a continuous process and we regularly consider whether new significant risks have arisen and how we intend to respond to these risks. No new risks have been identified since we issued our Audit Strategy Memorandum.

Significant risk	Description of the risk
Management override of controls	In all entities, 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, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits.
	How we addressed this risk We addressed this risk through performing audit work over: • Accounting estimates impacting on amounts included in the financial statements; • Consideration of identified significant transactions outside the normal course of business; and • Journals recorded in the general ledger and other adjustments made in preparation of the financial statements.
	Audit conclusion Our audit work has not identified any material issues to bring to your attention.

2. SIGNIFICANT FINDINGS (CONTINUED)

Significant risk	Description of the risk
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.
	How we addressed this risk 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.
	Audit conclusion Our audit work has not identified any material issues to bring to your attention.

Significant Risk	Description of the risk
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.
	How we addressed this risk 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; • 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; and • we will discuss with key contacts any significant changes to the pension estimates prior to the preparation of the financial statements.
	Audit conclusion Work is ongoing.

2. SIGNIFICANT FINDINGS (CONTINUED)

Qualitative aspects of the Authority's accounting practices

We have reviewed the Authority's accounting policies and disclosures and concluded they comply with the requirements of the Code of Practice on Local Authority Accounting (the Code), appropriately tailored to the Authority's circumstances.

Draft accounts were received from the Authority on 1 July 2020 and were of a good quality.

Significant matters discussed with management

COVID-19: Over and above our normal challenge of management assertions in respect of the financial statements, we also discussed the impact of COVID-19 on NECA's business, including potential impact on risks of material misstatement and going concern.

Significant difficulties during the audit

During the course of the audit we had the full co-operation of management however we did experience a number of difficulties, for example slow response time to queries and requests for information, which was compounded by the loss of key personnel at a critical point in the audit process and which necessitated the involvement of other finance staff that were not familiar with NECA and the Group.

In previous years we have reported that we were concerned at the lack of staffing support allocated to the Finance Manager to help produce both the draft and audited accounts whilst also being available to assist in responding to audit queries in a timely way. Whilst we understand that this issue has now been addressed, with the appointment of a dedicated Principal Accountant to augment the resources, available a combination of the impact of Covid-19 which necessitated remote working throughout the closedown period; the additional work required to set up and migrate the financial management systems onto the Durham platform plus competing priorities in terms other NECA and JTC activity in year has meant that the response times to queries or requests for information has not materially improved compared to prior years.

Wider responsibilities

Our powers and responsibilities under the 2014 Act are broad and include the ability to:

- issue a report in the public interest;
- make statutory recommendations that must be considered and responded to publicly;
- apply to the court for a declaration that an item of account is contrary to law; and
- issue an advisory notice under schedule 8 of the 2014 Act.

We have not exercised any of these powers as part of our 2019/20 audit.

The 2014 Act also gives rights to local electors and other parties, such as the right to ask questions of the auditor and the right to make an objection to an item of account.

3. INTERNAL CONTROL RECOMMENDATIONS

The purpose of our audit is to express an opinion on the financial statements. As part of our audit we have considered the internal controls in place relevant to the preparation of the financial statements. We do this in order to design audit procedures to allow us to express an opinion on the financial statement and not for the purpose of expressing an opinion on the effectiveness of internal control, nor to identify any significant deficiencies in their design or operation.

The matters reported are limited to those deficiencies and other control recommendations that we have identified during our normal audit procedures and that we consider to be of sufficient importance to merit being reported. If we had performed more extensive procedures on internal control we might have identified more deficiencies to be reported or concluded that some of the reported deficiencies need not in fact have been reported. Our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

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

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

3. INTERNAL CONTROL RECOMMENDATIONS (CONTINUED)

Other deficiencies in internal control – Level 2

Description of deficiency

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

We first identified this deficiency in 2017/18 which was rectified in prior years however our work has identified that in 19/20 this has not been implemented and therefore the deficiency in internal control has been raised again.

Potential effects

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

Recommendation

Ensure that related party declarations are completed and received annually.

Management response

Responsibility for this has been clarified and this has been addressed as part of the final accounts closedown arrangements for 2020/21. Actions have / will be included in the process to ensure that senior officer and member declarations are sought and updated to provide the necessary assurance. The NECA Monitoring Officer will ensure that completion of these declarations from all senior officers and members of the NECA and JTC is tracked and the necessary declarations received as quickly as possible following the Annual Meeting of the NECA Leadership Board.

4. SUMMARY OF MISSTATEMENTS

We set out below the misstatements identified for adjustment during the course of the audit, above the level of trivial threshold of £0.189 million (NECA) and £0.366 million (Group).

The first table outlines the misstatements that were identified during the course of our audit which management has assessed as not being material, either individually or in aggregate, to the financial statements and does not currently plan to adjust.

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

Unadjusted misstatements 2019/20

		Comprehensive Income and Expenditure Statement		Balance Sheet	
		Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
1	Dr: NECA Cash			796	
	Cr: NTCA Cash				796
	On recalculation of Cash split for the devolution a variance has arisen as cash is a balancing figure due to the number of estimations used during the process.				
2	Dr: Debtors			234	
	Cr: Grant Income		234		
	Covid-19 grant received in May 2020 related to a 4 week period commencing on17th March 2020 and was not apportioned and accrued for in 2019/20. This unadjusted misstatement is NECA's share (as relates to JTC) of 19/20 portion of the extrapolated grant.				
	Total unadjusted misstatements	**0**	**234**	**1,030**	**796**

Adjusted misstatements 2019/20

		Comprehensive Income and Expenditure Statement		Balance Sheet	
		Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
1	Dr: Taxation and Non-Specific Grant Income	248			
	Cr: North East LEP Income		248		
	Incorrect classification of LEP grants.				
2	Dr: Cash			3,621	
	Cr: Short term investments				3,621
	Cash equivalent with Newcastle Council has been incorrectly classified as a short term investment.				

4. SUMMARY OF MISSTATEMENTS (CONTINUED)

Disclosure amendments

Our audit identified a number of presentational and disclosure errors which have been amended. Only those which are considered significant have been listed here:

- Statement of Responsibilities – omitted the requirement to reference to the Accounts and Audit Regulations 2015;
- Cashflow Statement – numerous amendments have been made to the cashflow statement and supporting notes due to transactions not being split for JTC or being double counted. In addition, NECA omitted the new disclosure requirement for changes in liabilities arising from financing activities, including both changes arising from cash flows and non cash changes;
- Note 2 Expenditure and Funding Analysis – due to a formula error, numerous figures in this table have been amended;
- Note 8 Officers Remuneration - an employee earning over £50k was excluded from the note;
- Note 10 Related Parties - numerous amendments have been made to the related party table due to an incomplete listing of transactions feeding into the table and incorrect split of transactions for devolution;
- Note 12 Financial Instruments – incorrect maturity date has been used in the fair value calculation of the LOBO's. The change in fair value calculation has also impacted the Nexus fair value. Loan debtors for 2018/19 and 2019/20 have been split as it included transactions that are at different fair value levels. The 19/20 loan debtor also did not include the full amount of soft loans, only long term therefore needed to be amended. In addition, due to a formula error, numerous figures have been amended in the soft loan table, income, expenses, gains and losses table and financial liabilities table. In addition, the Nexus creditor has been incorrectly classified as non-financial liabilities instead of amortised cost;
- Note 18 Private Finance Initiatives – contract payment should have disclosed the split between NECA and NTCA. Also, the first line off the table should state 'payable in 20/21';
- Note 19 Defined Benefit Pension Schemes - longevity for future pensioners for LGPS has been omitted from the note. In addition, a narrative should be included in the note to disclose information about the basis of estimation of the IAS 19 liabilities with reference to the McCloud/Sargeant Judgements;
- Note 27 Accounting Standards issued but not yet adopted – omitted some of the suggested standards issued but not yet adopted per the CIPFA Bulletin; and
- Note 29 - Assumptions made about the Future and Other Major Sources of Estimation Uncertainty – was not internally consistent with Sensitivity Analysis figures in Note 19.

5. VALUE FOR MONEY CONCLUSION

Our approach to Value for Money

We are required to form a conclusion as to whether the Authority 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 in order to form our conclusion, and sets out the criterion and sub-criteria that we are required to consider.

The overall criterion is that, 'in all significant respects, the Authority 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.
- Working with partners and other third parties.

Commentary against each of the sub-criteria, and an indication of whether arrangements are in place, is provided below.

Sub-criteria	Commentary	Arrangements in place?
Informed decision making	The North East Leadership Board is made up of the Leaders of the four constituent bodies and is supplemented by elected members who serve on a number of committees along with non-executives. There is an up to date Constitution in place which is available on the website. The NECA Leadership Board receive appropriate and regular reports on the financial position of NECA. Martin Swales, the Head of Paid Service and Chief Executive leads a very experienced senior officer team at NECA. Risk management arrangements along with an up to date risk register is in place. A risk update is reported regularly to the Audit and Standards Committee, who provide challenge in this area. An annual governance statement is prepared, reviewed and approved before being included in the financial statements. No indicators of inappropriate governance arrangements. NECA have completed an in-depth review of the Pedestrian Tunnel Project, highlighting significant changes to be made in the procurement and planning process for projects to stop the issues identified recurring in the future.	Yes
Sustainable resource deployment	The 2019/20 revenue budget and capital programme were approved by the NELB in February 2019. In February 2020, NELB approved NECA's 20/21 budget alongside the Medium-Term Financial Strategy covering periods to 22/23. NECA has a history of achieving financial targets as evidenced by financial and performance reports. Arrangements are in place for the Financial Plan to be updated as appropriate. The 2019/20 Outturn position, which was approved by the NELB on 28 July 2020 identifies an underspend of £0.273 million at the year end. Relevant HR policies and procedures are in place.	Yes

5. VALUE FOR MONEY CONCLUSION (CONTINUED)

Sub-criteria	Commentary	Arrangements in place?
Working with partners and other third parties	A service concession exists in relation to the Tyne Tunnel. This is subject to a detailed 30 year agreement with the operator TT2 which was introduced in 2008. NECA work very closely with the North East Local Enterprise Partnership (NELEP). This is a business-led, strategic partnership responsible for promoting and developing economic growth in the area. NECA supports the work of the enterprise partnership and they work together to ensure co-ordination across their range of activities. The NELEP board includes representatives from across the private and public sectors. Each of the leaders and the elected Mayor representing the seven NECA councils are members of the NELEP and the Chair of the NELEP is a non-voting member of the NELB. The Combined Authority provides the formal accountability arrangements for the enterprise partnership.	Yes

Significant Value for Money risks

The NAO's guidance requires us to carry out work to identify whether or not a risk to the Value for Money conclusion exists. Risk, in the context of our Value for Money work, is the risk that we come to an incorrect conclusion rather than the risk of the arrangements in place at the Authority being inadequate. In our Audit Strategy Memorandum, we reported that we had not identified a significant Value for Money risk.

Our overall Value for Money conclusion

Our draft auditor's report included in Appendix B states that we intend to issue an unqualified Value for Money conclusion for the 2019/20 financial year.

APPENDIX A
DRAFT MANAGEMENT REPRESENTATION LETTER

Mr Cameron Waddell
Partner
Mazars LLP
Salvus House
Aykley Heads
Durham DH1 5TS

Date: X October 2020

North East Combined Authority (NECA) and Group -audit for year ended 31 March 2020

This representation letter is provided in connection with your audit of the financial statements of NECA and Group for the year ended 31 March 2020 for the purpose of expressing an opinion as to whether the statement of accounts give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 (the Code).

I confirm that the following representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, inspection of supporting documentation) sufficient to satisfy myself that I can properly make each of the following representations to you.

My responsibility for the statement of accounts and accounting information
I believe that I have fulfilled my responsibilities for the true and fair presentation and preparation of the statement of accounts in accordance with the Code.

My responsibility to provide and disclose relevant information
I have provided you with:

- access to all information of which I am aware that is relevant to the preparation of the statement of accounts such as records, documentation and other material;
- additional information that you have requested from me for the purpose of the audit; and
- unrestricted access to individuals within NECA and Group you determined it was necessary to contact in order to obtain audit evidence.

I confirm as Chief Finance Officer that I have taken all the necessary steps to make me aware of any relevant audit information and to establish that you, as auditors, are aware of this information. As far as I am aware there is no relevant audit information of which you, as auditors, are unaware.

Accounting records
I confirm that all transactions have been recorded in the accounting records and are reflected in the financial statements. All other records and related information, including minutes of all NECA and Committee meetings, have been made available to you.

Accounting policies
I confirm that I have reviewed the accounting policies applied during the year in accordance with the Code and International Accounting Standard 8 and consider them appropriate for the year.

Accounting estimates, including those measured at fair value
I confirm that any significant assumptions used in making accounting estimates, including those measured at fair value, are reasonable.

APPENDIX A
DRAFT MANAGEMENT REPRESENTATION LETTER (CONTINUED)

Contingencies

There are no material contingent losses including pending or potential litigation that should be accrued where:

- information presently available indicates that it is probable that an asset has been impaired or a liability had been incurred at the balance sheet date; and
- the amount of the loss can be reasonably estimated.

There are no material contingent losses that should be disclosed where, although either or both the conditions specified above are not met, there is a reasonable possibility that a loss, or a loss greater than that accrued, may have been incurred at the balance sheet date.

There are no contingent gains which should be disclosed.

All material matters, including unasserted claims, that may result in litigation against NECA and Group have been brought to your attention. All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to you and accounted for and disclosed in accordance with Code.

Laws and regulations

I confirm that I have disclosed to you all those events of which I am aware which involve known or suspected non-compliance with laws and regulations, together with the actual or contingent consequences which may arise therefrom.

NECA and Group has complied with all aspects of contractual agreements that would have a material effect on the accounts in the event of non-compliance.

Fraud and error

I acknowledge my responsibility as Chief Finance Officer for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

I have disclosed to you:

- all the results of my assessment of the risk that the statement of accounts may be materially misstated as a result of fraud;
- all knowledge of fraud or suspected fraud affecting NECA and Group involving:
    - management and those charged with governance;
    - employees who have significant roles in internal control; and
    - others where fraud could have a material effect on the financial statements.

I have disclosed to you all information in relation to any allegations of fraud, or suspected fraud, affecting NECA and Group's financial statements communicated by employees, former employees, analysts, regulators or others.

Related party transactions

I confirm that all related party relationships, transactions and balances (including sales, purchases, loans, transfers, leasing arrangements and guarantees) have been appropriately accounted for and disclosed in accordance with the requirements of the Code. I have disclosed to you the identity of NECA and Group's related parties and all related party relationships and transactions of which I am aware.

Impairment review

To the best of my knowledge, there is nothing to indicate that there is a permanent reduction in the recoverable amount of the property, plant and equipment below their carrying value at the balance sheet date. An impairment review is therefore not considered necessary.

Charges on assets

All NECA and Group's assets are free from any charges exercisable by third parties except as disclosed within the financial statements.

Future commitments
We have no plans, intentions or commitments that may materially affect the carrying value or classification of assets and liabilities or give rise to additional liabilities.

Subsequent events
I confirm all events subsequent to the date of the financial statements and for which the Code require adjustment or disclosure have been adjusted or disclosed.

Should further material events occur after the date of this letter which may necessitate revision of the figures included in the financial statements or inclusion of a note thereto, I will advise you accordingly.

Going concern
I confirm that I have carried out an assessment of the potential impact of the COVID-19 Virus pandemic on the Authority, including the impact of mitigation measures and uncertainties and I am satisfied that the going concern assumption remains appropriate and that no material uncertainty has been identified.

To the best of my knowledge there is nothing to indicate that NECA and Group will cease to continue as a going concern in the foreseeable future. The period to which I have paid particular attention in assessing the appropriateness of the going concern basis is not less than twelve months from the date of approval of the accounts.

Devolution
I confirm that the asset/liability split between NECA and the North of Tyne Combined Authority has been carried out in line with The Order and on the most appropriate basis.

Unadjusted misstatements
I confirm that the effects of the uncorrected misstatements are immaterial, both individually and in aggregate, to the financial statements as a whole. A list of the uncorrected misstatements is attached to this letter as an Appendix.

Yours sincerely

Chief Finance Officer
Date………………

APPENDIX B
DRAFT AUDITOR'S REPORT

To be inserted on completion of audit work.

APPENDIX C
INDEPENDENCE

As part of our ongoing risk assessment we monitor our relationships with you to identify any new actual or perceived threats to our independence within the regulatory or professional requirements governing us as your auditors.

We can confirm that no new threats to independence have been identified since issuing the Audit Strategy Memorandum and therefore we remain independent.

CONTACT

Partner: Cameron Waddell

Mobile: 0781 375 2053
Email: cameron.waddell@mazars.co.uk

Senior Manager: Jim Dafter

Mobile: 07815 876 042
Email: jim.dafter@mazars.co.uk

North East Combined Authority
DURHAM • GATESHEAD • SOUTH TYNESIDE • SUNDERLAND

Leadership Board

Agenda Item 9

Date: **3 November 2020**

Subject: **Statement of Accounts 2019/20**

Report of: **Chief Finance Officer**

Executive Summary

This report presents the 2019/20 Statement of Accounts for review and approval.

The NECA Accounts include the single entity accounts and the Group Accounts, which incorporate the accounts of Nexus. Attached to this report are the following appendices:

1. Letter of Representation (Appendix 1);
2. Statement of Accounts (Appendix 2);
3. Annual Governance Statement (Appendix 3); and
4. Narrative Report (Appendix 4)

Due to the impact of Covid 19 on local authorities, the statutory deadlines were extended and the 'common' period during which local electors can inspect and object to those accounts was removed. The key changes for the publication of the accounts for 2019/20 were as follows:

a) The deadline for the Authority to publish its draft accounts was 31 August 2020 (not 31 May); and

b) The deadline for publication of its final (audited) accounts was moved from 31 July to 30 November 2020.

The unaudited Statement of Accounts were authorised by the NECA Chief Finance Officer and published on the Authority's website on 30 June 2020, in accordance with revised statutory deadlines, and presented to the Audit and Standards Committee on 27 July 2020.

The draft accounts have been subject to review by Mazars, the External Auditor, over the last three months.

The 2019/20 audit programme is substantially complete and Mazars expect to issue their final report and opinion on the accounts before the end of November, which is the statutory deadline applicable to these accounts.

Leadership Board

Where necessary, the draft accounts published in June have been amended to reflect feedback from the External Auditor and for amendments arising from the audit of the Nexus Accounts, which impacts on the Group Accounts of NECA.

The updated accounts were presented to the Audit and Standards Committee on 27 October 2020 and where necessary further adjustments have been made based on further work undertaken by the auditors since then as they draw their work to a conclusion. Feedback on any issues raised at the meeting of Audit and Standards Committee on 27 October 2020 will be provided at the meeting.

At the time of compiling this report the External Auditors are awaiting the outcome of the audit of the Tyne and Wear Pension Fund, which could have a material impact on the NECA accounts and require further adjustments to the statements. There is also some further work to do to complete the audit of the Group Accounts.

The final external audit sign-off is expected by 30 November 2020 in line with the extended statutory deadline this year and their draft Audit Completion Report envisages that they will give an unqualified opinion on the accounts and an unqualified value for money conclusion also.

Given that the audit is not yet fully completed, delegated authority is sought for the Chair and the Chief Finance Officer to make any necessary further final changes to the statements before 30 November 2020 so the statutory reporting deadline can be achieved.

Recommendations

The Leadership Board is recommended to:

i. Authorise the Chief Finance Officer to sign the Letter of Representation on behalf of the Authority (Appendix 1);

ii. Approve the Statement of Accounts for 2019/20 (Appendix 2), taking into account any views from the Audit and Standards Committee meeting on 27 October;

iii. Authorise the Chair of the Leadership Board and the Chief Finance Officer to make any further adjustments required to the Statements of Accounts as a result of the conclusion of the external audit and to sign the Statement of Accounts for 2019/20;

iv. Approve the Annual Governance Statement (Appendix 3); and

Leadership Board

v. Authorise the Chair of the Leadership Board and the Head of Paid Service to sign the Annual Governance Statement.

1. Background Information

1.1 The 'Accounts and Audit Regulations 2015' stipulates a two-stage approval process for the statement of accounts. The first statutory deadline requires that the responsible financial officer, by no later than 31 May, should sign and certify that the statement of accounts presents a true and fair view of:

a) The financial position of the Authority for the year to 31 March previous; and

b) Its expenditure and income for the year to 31 March previous, subject to the views of the external auditor.

1.2 The second stage requires that on or before 31 July approval needed to be given to the statement of accounts by resolution of a committee, which for NECA is the Leadership Board. This approval will take account of the views of the external auditor. This is done so that the statement of accounts can then be formally published.

1.3 However, for this year only, due to the impact of Covid 19 on local authorities, the statutory deadlines were extended and the 'common' period during which local electors can inspect and object to those accounts was removed. The key changes for the publication of the accounts for 2019/20 were as follows:

c) The deadline for the Authority to publish its draft accounts was 31 August 2020 (not 31 May); and

d) The deadline for publication of its final (audited) accounts was moved from 31 July to 30 November 2020.

1.4 The 'common' public inspection period, to begin on 1 June, was removed this year. There was still the requirement for the Authority to hold a thirty working day inspection period which could commence at any time, but no later than 1 September 2020. This allowed individual local authorities to produce draft accounts and commence inspection periods as soon as practicable for them.

1.5 Given the extension to the statutory deadlines and following discussion with external auditors, it was agreed that NECA officers would aim to have draft accounts complete during June 2020 and available for audit in July 2020.

1.6 The unaudited statement of accounts for NECA for the financial year ended 31 March 2020 was authorised by the NECA Chief Finance Officer and published on the Authority's website on 30 June 2020, in accordance with revised statutory deadlines.

1.7 The draft statement of accounts has been subject to audit by Mazars LLP. The audit of the accounts is substantially complete and Mazars LLP have issued their Audit Completion Report but the audit is still ongoing; upon completion, the Auditor's report will be incorporated into the final published version of the document.

1.8 At the time of compiling this report the External Auditors are still awaiting the outcome of the audit of the Tyne and Wear Pension Fund, which could have a material impact on the NECA accounts and require further adjustments to the statements. Delegated authority is therefore being sought for the Chair and the Chief Finance Officer to make any necessary further changes to the statements before 30 November 2020 so the statutory reporting deadline can be achieved.

1.9 The draft statement of accounts was available for inspection by the public from 1 July to 11 August 2020, in line with the revised regulations.

1.10 The draft statement of accounts was attached to the papers for the Audit and Standards Committee on 27 July 2020, where technical issues at the meeting prevented any detailed consideration of the document.

1.11 The updated accounts were presented to the Audit and Standards Committee on 27 October 2020. Where necessary further adjustments have been made based on further work undertaken by the auditors since then as they draw their work to a conclusion. Feedback on any issues raised at the meeting of Audit and Standards Committee on 27 October 2020 will be provided at the meeting.

1.12 The audited Statement of Accounts must be signed by the Chair of the Leadership Board and the Chief Finance Officer on behalf of the Authority and published on the NECA website by 30 November 2020.

2. Proposals

Statement of Accounts

2.1 The statement of accounts for the financial year 2019/20 were prepared in accordance with the 'Accounts and Audit Regulations 2003' as amended by the Accounts and Audit (Amendment) (England) Regulations 2006 and 2009, the 'Accounts and Audit (England) Regulations 2015' and the 'Code of Practice on Local Authority Accounting 2019/20' (the Code) as published by the Chartered Institute of Public Finance and Accountancy (CIPFA).

2.2 The Code is based on approved accounting standards in England and Wales and constitutes 'proper accounting practice' under the terms of section21(2) of the Local Government Act 2003. The Authority is therefore legally required to follow this code of practice. Explanatory notes are included in the document to assist in the interpretation of the accounts which are unavoidably technical and complex.

2.3 Section 4 of the External Auditor’s Audit Completion Report sets out the adjustments to the NECA accounts that we have made, above the trivial threshold of £0.189m (NECA) and £0.366m (Group) following their recommendations. Further information about these adjustments is provided below.

i. A correction was made in the Comprehensive Income and Expenditure Statement of £.0248m due to the incorrect classification of LEP grant income; and
ii. The Balance sheet was amended for the incorrect classification of cash equivalents with Newcastle City Council being included in short term investments.

2.4 A number of other disclosure amendments, which are set out in the External Auditors Audit Completion Report have also been updated. The Group Accounts have been amended to reflect the outcome of the adjustments that were made to the Nexus Accounts following the conclusion of their Audit.

2.5 Section 4 of the Audit Completion Report sets out two unadjusted misstatements that were identified during the audit, that are deemed not being material to the financial statements and as such are not currently planned to be adjusted. This is because the figures quoted in the Auditor’s report are based on estimations used during the process and an extrapolated grant figure from sample testing.

Key information from the Statement of Accounts (Appendix 2)

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

i. Movement in Reserves Statement (page 4);
ii. Comprehensive Income and Expenditure Statement (page 5);
iii. Balance Sheet (page 6); and
iv. Cash Flow Statement (page 7)

NECA also produces Group Accounts which consolidate the financial accounts of Nexus (page 73 onwards).

Movement in Reserves Statement

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

2.8 In summary, there has been an increase in reserves from £114.283m at 31 March 2019 to £125.141m at 31 March 2020, mainly due to funds set aside to meet expenditure in future years.

2.9 The balance of usable reserves at the year-end was £55.717m, which is an £8.920m increase on the previous year. This is made up of a number of different elements, most of which are held for specific purposes. The increase is due to the increase in capital grants received which have not yet been applied to fund expenditure (known as the Capital Grants Unapplied reserve) and the increase in earmarked reserves held on behalf of Nexus to fund the local contribution to the Fleet Replacement project and Asset Renewal Programme, as well as an increase in balances held on behalf of the North East LEP including the North East Investment Fund.

Comprehensive Income and Expenditure Statement

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

2.11 The gross cost of services during the year including capital grants to third parties as well as revenue expenditure was £104.772m (£160.531m in 2018/19 – which included Transport activity relating to the NTCA area up to 2 November 2018). This includes all areas of NECA's and the North East LEP's activity and also includes a significant amount of 'Revenue Expenditure Funded by Capital Under Statute' – representing investment in capital assets owned by third parties, not by the Authority itself.

2.12 After deducting specific grants and income from fees and charges, the net cost of services was £41.510m (£62.137m in 2018/19 – which included Transport activity relating to the NTCA area up to 2 November 2018). This was funded from a range of sources including the Transport Levy, other contributions from Constituent Authorities, Government Grants, Fees and Charges, and Enterprise Zones Business Rates Income. The net cost was lower than in 2018/19 due mainly to lower levels of capital grants issued in the year (REFCUS) on the Local Growth Fund programme and higher levels of Government grants received in advance of expenditure, for example the Transforming Cities Tranche 2 grant received in March 2020 (£9.901m) and not yet applied to fund expenditure.

Balance Sheet

2.13 The Balance Sheet shows the value of assets and liabilities recognised at 31 March. The net assets (assets less liabilities) are matched by the reserves held by the Authority. There has been no change in the value of net assets from that was reported previously to the committee and published in the draft accounts.

2.14 Net assets in the NECA accounts have increased from £114.283m at 31 March 2019 to £125.141m at 31 March 2020. The increase in total net assets is due to an increase in fixed assets and short-term investments/cash equivalents due to the receipt of additional capital grants (e.g. Transforming Cities grant) and other amounts held in earmarked reserves to fund activity in future years.

Cash Flow Statement

2.15 The cash flow statement shows the changes in cash and cash equivalents during the financial year. The statement shows how the Authority generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities.

2.16 Cash and cash equivalents increased from £11.720m at 31 March 2019 to £22.017m at 31 March 2020, again mainly due to additional capital grants received close to the year end and held to fund activity in future years.

Notes to the Core Financial Statements

2.17 The notes are important in the presentation of a true and fair view. They aim to assist understanding by presenting information about the basis of preparation of the core financial statements, by disclosing information required by the Code that is not presented elsewhere and by providing information that is not provided elsewhere but is relevant to the understanding of the accounts. They also include the Accounting Policies adopted in preparing the accounts. The notes have been updated for any misstatements and errors included in the draft accounts previously presented and feedback from the External Auditors.

Group Accounts

2.18 The Group Financial Statements and Notes report the financial picture of all activities conducted by the Authority, including those delivered through partnerships and separate undertakings controlled by the Authority, in this case Nexus. The Group Accounts have been amended to reflect the outcome of the adjustments that were made to the Nexus Accounts following the conclusion of their Audit as well as the impact of amendments to the NECA single entity accounts.

Other Documents

2.19 In addition to the **Letter of Representation** (attached here as Appendix 1), accompanying the Statement of Accounts are two further documents which do not form part of the audited accounts but provide further context. The **Narrative Report** (attached here as Appendix 4) aims to offer interested parties a more understandable guide to the most significant matters reported in the accounts. The **Annual Governance Statement** (attached here as Appendix 3) has also been considered by the Audit and Standards Committee and gives assurance that appropriate mechanisms are in place for the maintenance of good governance across the activities of the Authority. The Annual Governance Statement has been amended to take into account the issues raised in the External Auditor's Audit Completion Report since it was last considered in September and is also circulated with a supplemental report on this Agenda.

Accounting for the North East Joint Transport Committee

2.20 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.

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

i. 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).

ii. The revenues which relate to Tyne and Wear must be divided into that which relates wholly to the NECA or NTCA area and that which relates to activities now wholly attributable under the preceding two points which requires apportionment.

2.22 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 (as updated in March 2020 to reflect the transfer of the LEP to NTCA) indicates that resident populations shall be used as a basis of apportionment.

For the 2019/20 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.

External Auditor's Opinion

2.23 The report of the External Auditor (their Audit Completion Report), which has been circulated with a supplemental report on this Agenda, sets out the updated position on the work that is still underway and what needs to be completed before a final opinion can be issued. Based on discussions with Mazars to date it is expected that they will issue an unqualified audit opinion on the Statement of Accounts, and an unqualified value for money opinion that proper arrangements have been made to secure, economy, efficiency and effectiveness in the use of resources once the audit is fully completed.

3. Reasons for the Proposals

3.1 It is the responsibility of the Leadership Board to approve the Statement of Accounts, which have been subject to review and challenge by both Mazars, the External Auditors and by the Audit and Standards Committee.

3.2 The Statement of Accounts must be approved and signed by the Chair of the North East Combined Authority and the Chief Finance Officer, and published online by 30 November 2020 in order to meet statutory accounting deadlines.

4. Alternative Options Available

4.1 There are no alternative options associated with this report. There is a statutory requirement to prepare and publish an audited set of accounts for 2019/20, with a supporting external audit opinion and this report seeks to discharge that responsibility.

5. Next Steps and Timetable for Implementation

5.1 At the time of compiling this report the External Auditors are still awaiting the outcome of the audit of the Tyne and Wear Pension Fund, which could have a material impact on the NECA accounts and require further adjustments to the statements. There is also some further work to do to complete the audit of the Group Accounts.

5.2 The final external audit sign-off is expected by 30 November 2020 in line with the extended statutory deadline this year and their draft Audit Completion Report envisages that they will give an unqualified opinion on the accounts and an unqualified value for money conclusion also.

5.3 Given that the audit is not yet fully completed, delegated authority is sought for the Chair and the Chief Finance Officer to make any necessary further final changes to the statements before 30 November 2020 so the statutory reporting deadline can be achieved.

6. Potential Impact on Objectives

6.1 There are no direct impacts on objectives arising from this report. Sound financial stewardship improves the ability of the Authority to meet of its objectives. The Accounts presented reflect a true and fair view of the financial position of NECA and Group during 2019/20 and as at 31 March 2020. The work of the external auditors has confirmed that proper arrangements have been made to secure, economy, efficiency and effectiveness in the use of resources.

7. Financial and Other Resources Implications

7.1 The costs of the external audit are set by Public Sector Audit Appointments and were included in the budget for 2019/20. There are no financial or other resources implications arising from this report.

8. Legal Implications

8.1 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.

9. Key Risks

9.1 There are no specific risk management issues arising from this report. This year has been challenging in terms of preparing the accounts and responding to audit queries, whilst working remotely and accommodating the move to the Durham Financial Management System from April. New staff unfamiliar with NECA have had to be involved which delayed responses to audit queries raised. The finance team has undoubtedly been stretched this year and additional resources from the wider finance team in Durham has ensured the statutory deadlines have ultimately been met, but there are lessons to be learned in terms of improving the resilience of the dedicated NECA finance team going forward.

10. Equality and Diversity

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

11. Crime and Disorder

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

12. Consultation/Engagement

12.1 The Statement of Accounts was subject to a period of public inspection from 1 July to 11 August 2020. No enquiries or objections were raised during this time.

13. Other Impact of the Proposals

13.1 There are no other impacts arising from these proposals.

14. Appendices

14.1 Appendix 1 – Letter of Representation

Appendix 2 – Statement of Accounts 2019/20

Appendix 3 – Annual Governance Statement 2019/20

Appendix 4 – Narrative Report 2019/20

15. Background Papers

15.1 Draft Accounts 2019/20:

Audit and Standards Committee 27 July 2020

https://northeastca.gov.uk/wp-content/uploads/2020/07/Audit-and-Standards-27-July-2020-Agenda-Pack.pdf

Audit and Standards Committee 27 October 2020

https://northeastca.gov.uk/wp-content/uploads/2020/10/27-October-2020-Audit-and-Standards-Agenda-Pack.pdf

15.2 Draft Annual Governance Statement 2019/20

Audit and Standards Committee 8 September 2020

https://northeastca.gov.uk/wp-content/uploads/2020/08/08-September-2020-Audit-and-Standards-Public-Agenda-Pack.pdf

Audit and Standards Committee 27 October 2020

https://northeastca.gov.uk/wp-content/uploads/2020/10/27-October-2020-Audit-and-Standards-Agenda-Pack.pdf

16. Contact Officers

16.1 Paul Darby, NECA Deputy Chief Financial Officer/s73 Officer, NECA.pauldarby@durham.gov.uk

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

16.3 Patsy O'Reagan, NECA Principal Accountant
patsy.oreagan@northeastca.go.uk

17. Sign Off

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

Appendix 1

Cameron Waddell
Partner
Mazars LLP
Salvus House
Aykley Heads
Durham
DH1 5TS
Letter sent by email to:- cameron.waddell@mazars.co.uk

15 October 2020

Dear Cameron,

North East Combined Authority (NECA) and Group - audit for year ended 31 March 2020

This representation letter is provided in connection with your audit of the financial statements of NECA and Group for the year ended 31 March 2020 for the purpose of expressing an opinion as to whether the statement of accounts give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 (the Code).

I confirm that the following representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, inspection of supporting documentation) sufficient to satisfy myself that I can properly make each of the following representations to you.

My responsibility for the statement of accounts and accounting information

I believe that I have fulfilled my responsibilities for the true and fair presentation and preparation of the statement of accounts in accordance with the Code.

My responsibility to provide and disclose relevant information

I have provided you with:

- access to all information of which I am aware that is relevant to the preparation of the statement of accounts such as records, documentation and other material;
- additional information that you have requested from me for the purpose of the audit; and
- unrestricted access to individuals within NECA and Group you determined it was necessary to contact in order to obtain audit evidence.

Contact: John Hewitt
Direct Tel: 03000 261740
Email: NECA.johnhewitt@durham.gov.uk

I confirm as Chief Finance Officer that I have taken all the necessary steps to make me aware of any relevant audit information and to establish that you, as auditors, are aware of this information. As far as I am aware there is no relevant audit information of which you, as auditors, are unaware.

Accounting records

I confirm that all transactions have been recorded in the accounting records and are reflected in the financial statements. All other records and related information, including minutes of all NECA and Committee meetings, have been made available to you.

Accounting policies

I confirm that I have reviewed the accounting policies applied during the year in accordance with the Code and International Accounting Standard 8 and consider them appropriate for the year.

Accounting estimates, including those measured at fair value

I confirm that any significant assumptions used in making accounting estimates, including those measured at fair value, are reasonable.

Contingencies

There are no material contingent losses including pending or potential litigation that should be accrued where:

- information presently available indicates that it is probable that an asset has been impaired or a liability had been incurred at the balance sheet date; and
- the amount of the loss can be reasonably estimated.

There are no material contingent losses that should be disclosed where, although either or both the conditions specified above are not met, there is a reasonable possibility that a loss, or a loss greater than that accrued, may have been incurred at the balance sheet date.

There are no contingent gains which should be disclosed.

All material matters, including unasserted claims, that may result in litigation against NECA and Group have been brought to your attention. All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to you and accounted for and disclosed in accordance with Code.

Laws and regulations

I confirm that I have disclosed to you all those events of which I am aware which involve known or suspected non-compliance with laws and regulations, together with the actual or contingent consequences which may arise therefrom.

Contact: John Hewitt
Direct Tel: 03000 261740
Email: NECA.johnhewitt@durham.gov.uk

NECA and Group has complied with all aspects of contractual agreements that would have a material effect on the accounts in the event of non-compliance.

Fraud and error

I acknowledge my responsibility as Chief Finance Officer for the design, implementation and maintenance of internal control to prevent and detect fraud and error.
I have disclosed to you:

- all the results of my assessment of the risk that the statement of accounts may be materially misstated as a result of fraud;
- all knowledge of fraud or suspected fraud affecting NECA and Group involving:
- management and those charged with governance;
- employees who have significant roles in internal control; and•others where fraud could have a material effect on the financial statements.

I have disclosed to you all information in relation to any allegations of fraud, or suspected fraud, affecting NECA and Group's financial statements communicated by employees, former employees, analysts, regulators or others.

Related party transactions

I confirm that all related party relationships, transactions and balances (including sales, purchases, loans, transfers, leasing arrangements and guarantees) have been appropriately accounted for and disclosed in accordance with the requirements of the Code.

I have disclosed to you the identity of NECA and Group's related parties and all related party relationships and transactions of which I am aware.

Impairment review

To the best of my knowledge, there is nothing to indicate that there is a permanent reduction in the recoverable amount of the property, plant and equipment below their carrying value at the balance sheet date. An impairment review is therefore not considered necessary.

Charges on assets

All NECA and Group's assets are free from any charges exercisable by third parties except as disclosed within the financial statements.

Future commitments

We have no plans, intentions or commitments that may materially affect the carrying value or classification of assets and liabilities or give rise to additional liabilities.

Subsequent events

I confirm all events subsequent to the date of the financial statements and for which the Code require adjustment or disclosure have been adjusted or disclosed.

Contact: John Hewitt
Direct Tel: 03000 261740
Email: NECA.johnhewitt@durham.gov.uk

Should further material events occur after the date of this letter which may necessitate revision of the figures included in the financial statements or inclusion of a note thereto, I will advise you accordingly.

Going concern

I confirm that I have carried out an assessment of the potential impact of the COVID-19 Virus pandemic on the Authority, including the impact of mitigation measures and uncertainties and I am satisfied that the going concern assumption remains appropriate and that no material uncertainty has been identified.
To the best of my knowledge there is nothing to indicate that NECA and Group will cease to continue as a going concern in the foreseeable future. The period to which I have paid particular attention in assessing the appropriateness of the going concern basis is not less than twelve months from the date of approval of the accounts.

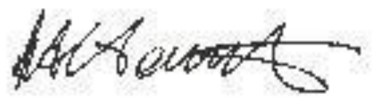
Devolution

I confirm that the asset/liability split between NECA and the North of Tyne Combined Authority has been carried out in line with the Order and on the most appropriate basis.

Unadjusted misstatements

I confirm that the effects of the uncorrected misstatements are immaterial, both individually and in aggregate, to the financial statements as a whole. A list of the uncorrected misstatements is attached to this letter as an Appendix.

Yours sincerely,



John Hewitt
Chief Financial/Section 73 Officer

Contact: John Hewitt
Direct Tel: 03000 261740
Email: NECA.johnhewitt@durham.gov.uk

North East Combined Authority

Statement of Accounts 2019/20

Draft - Subject to Audit

Contents **Page**

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

1.0 Statement of Responsibilities for the Statement of Accounts

1.1 The Authority's Responsibilities

The Authority is required:

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

The Chief Finance Officer's Responsibilities:

The Chief Finance Officer is responsible for the preparation of the Authority'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 hereby certify that the Statement of Accounts for the year ended 31 March 2020, required by the Accounts and Audit Regulations 2015, are set out in the following pages.

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

Signed:	Signed:
John Hewitt, Chief Finance Officer	Cllr. Iain Malcolm, Chair of the North East Combined Authority Leadership Board

2.1 Movement in Reserves Statement

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

		Usable Reserves						
	Note	General Fund Balance	Earmarked General Fund Reserves	Capital Receipts Reserve	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Authority Reserves
		£000	£000	£000	£000	£000	£000	£000
Balance at 1 April 2018		**(32,808)**	**(14,650)**	**(692)**	**(7,727)**	**(55,877)**	**(107,722)**	**(163,599)**
Movement in reserves during 2018/19								
Total Comprehensive Income and Expenditure		(5,066)	-	-	-	**(5,066)**	(230)	(5,296)
Adjustments between accounting basis & funding basis under regulations	3	3,026	-	-		**3,026**	(3,026)	-
Balance at 1 November 2018		**(34,848)**	**(14,650)**	**(692)**	**(7,727)**	**(57,915)**	**(110,978)**	**(168,893)**
Transfer of Services to the NTCA at 2 November 2018		**10,894**	**5,513**	**-**	**545**	**16,952**	**40,548**	**57,500**
Balance at 2 November 2018		**(23,954)**	**(9,137)**	**(692)**	**(7,182)**	**(40,963)**	**(70,430)**	**(111,393)**
Total Comprehensive Income and Expenditure		(2,508)	-	-	-	**(2,508)**	(380)	(2,888)
Adjustments between accounting basis & funding basis under regulations	3	2,976	-	(1,811)	(4,490)	**(3,325)**	3,325	-
Net (Increase)/Decrease before transfers to Earmarked Reserves		**468**	**-**	**(1,811)**	**(4,490)**	**(5,833)**	**2,945**	**(2,888)**
Transfers (To)/From Earmarked Reserves	21	655	(655)	-	-	**-**	-	-
(Increase)/Decrease in 2018/19		1,123	(655)	(1,811)	(4,490)	(5,833)	2,945	(2,888)
Balance at 31 March 2019 carried forward		**(22,831)**	**(9,792)**	**(2,503)**	**(11,672)**	**(46,796)**	**(67,485)**	**(114,281)**
Total Comprehensive Income and Expenditure		(9,988)	-	-	-	(9,988)	(870)	(10,858)
Adjustments between accounting basis & funding basis under regulations	3	9,005	-	(6,386)	(1,551)	1,068	(1,068)	-
Net (Increase)/Decrease before transfers to Earmarked Reserves		**(983)**	**-**	**(6,386)**	**(1,551)**	**(8,920)**	**(1,938)**	**(10,858)**
Transfers (To)/From Earmarked Reserves	21	2,581	(2,581)	-	-	-	-	-
(Increase)/Decrease in 2019/20		1,598	(2,581)	(6,386)	(1,551)	(8,920)	(1,938)	(10,858)
Balance at 31 March 2020 carried forward		**(21,233)**	**(12,373)**	**(8,889)**	**(13,223)**	**(55,716)**	**(69,423)**	**(125,139)**

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.

2018/19					2019/20		
Gross Expenditure	Gross Income	Net Expenditure		Note	Gross Expenditure	Gross Income	Net Expenditure
£000	£000	£000			£000	£000	£000
			Continuing NECA Services	1			
1,044	(311)	733	Corporate		1,341	(678)	663
295	(294)	1	Inward Investment		375	(161)	214
52,283	(52,022)	261	Local Growth Fund Programme		26,390	(26,053)	337
5,248	(1,753)	3,495	North East Local Enterprise Partnership		3,680	(3,752)	(72)
767	(762)	5	Skills		290	(290)	-
105	-	105	Transport - Retained Levy Budget		143	-	143
15,692	-	15,692	Transport - Durham		15,552	-	15,552
31,409	-	31,409	Transport - Tyne and Wear		31,010	-	31,010
9,398	(13,972)	(4,574)	Transport - Other		11,741	(13,609)	(1,868)
16,527	(17,805)	(1,278)	Transport - Tyne Tunnels		14,250	(18,719)	(4,469)
132,768	**(86,919)**	**45,849**	**Cost of services relating to continuing services excluding operations transferred to the NTCA**		**104,772**	**(63,262)**	**41,510**
			Services transferred to the NTCA - income and expenditure for the period 1 April 2018 - 1 November 2018	1			
3,585	-	3,585	Transport - Northumberland		-	-	-
39	-	39	Transport - Retained Levy Budget		-	-	-
15,420	-	15,420	Transport - Tyne and Wear		-	-	-
2,320	(2,316)	4	Transport - Other		-	-	-
6,399	(9,159)	(2,760)	Transport - Tyne Tunnels		-	-	-
27,763	**(11,475)**	**16,288**	**Cost of services relating to services transferred to the NTCA**		**-**	**-**	**-**
160,531	**(98,394)**	**62,137**	**Cost of services**		**104,772**	**(63,262)**	**41,510**
			Financing and Investment Income and Expenditure	4			
4,120	(2,760)	1,360	- From continuing services		4,196	(2,224)	1,972
1,531	(45)	1,486	- From services transferred to the NTCA		-	-	-
			Taxation and Non-Specific Grant Income	5			
-	(52,539)	(52,539)	- From continuing services		-	(53,470)	(53,470)
-	(20,018)	(20,018)	- From services transferred to the NTCA		-	-	-
		(7,574)	**(Surplus)/Deficit on Provision of Services**				**(9,988)**
			Other Comprehensive Income and Expenditure				
		(610)	Re-measurement of the defined benefit liability	19			(870)
		(8,184)	**Total Comprehensive Income and Expenditure**				**(10,858)**

2.3 Balance Sheet

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

31 March 2019 £000		Note	31 March 2020 £000
193,921	Property, Plant and Equipment	11	193,200
32,671	Long Term Debtors	15	31,935
226,592	**Long Term Assets**		**225,135**
65,281	Short Term Investments	12	58,236
11,926	Short Term Debtors	14	8,899
11,720	Cash and Cash Equivalents	16	22,017
88,927	**Current Assets**		**89,152**
(1,288)	Short Term Borrowing	12	(1,298)
(51,118)	Short Term Creditors	17	(39,984)
(1,205)	Grants Receipts in Advance	6	(891)
(2,838)	New Tyne Crossing Deferred Income	18	(2,837)
(56,449)	**Current Liabilities**		**(45,010)**
(51,076)	New Tyne Crossing Deferred Income	18	(48,224)
(92,685)	Long Term Borrowing	12	(95,072)
(126)	Grants Receipts in Advance	6	-
(900)	Pension Liability	19	(840)
(144,787)	**Long Term Liabilities**		**(144,136)**
114,283	**Net Assets**		**125,141**
(46,797)	Usable Reserves	20	(55,717)
(67,486)	Unusable Reserves	22	(69,424)
(114,283)	**Total Reserves**		**(125,141)**

Chief Finance Officer Certificate

I certify that the accounts set out on pages 4 to 71 give a true and fair view of the financial position of the North East Combined Authority as at the 31 March 2020.

Signed:

John Hewitt, Chief Finance Officer

2.4 Cash Flow Statement

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

2018/19 £000		Note	2019/20 £000
7,574	Net Surplus/(Deficit) on the provision of services		9,988
8,983	Adjustments to net surplus or deficit on the provision of services for non-cash movements	24	(7,193)
(68,990)	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	24	(41,940)
(52,433)	**Net cash flows from Operating Activities**		**(39,145)**
52,707	Investing Activities	25	47,036
(548)	Financing Activities	26	2,406
(274)	**Net (Decrease)/Increase in cash and cash equivalents**		**10,297**
22,231	Cash and cash equivalents at the beginning of the reporting period	16	11,720
(10,237)	Transfer to the NTCA		-
11,720	**Cash and cash equivalents at the end of the reporting period**		**22,017**

Note 01: Transfer of Services to the Newcastle upon Tyne, North Tyneside and Northumberland Combined Authority

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

At this date:

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

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

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

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

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

Note 02: Expenditure and Funding Analysis

The objective of the Expenditure and Funding Analysis is to demonstrate how the funding available to the authority (i.e. government grants and contributions) for the year has been used in providing services in comparison with those resources consumed or earned by the authority in accordance with generally accepted accounting practices. The Expenditure and Funding Analysis also shows how this expenditure is allocated for decision making purposes between the authority's services. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

	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**
Corporate	(177)	-	840	-	663
Inward Investment	214	-	-	-	214
Local Growth Fund Programme	2,031	(1,694)	-	-	337
North East Local Enterprise Partnership	(72)	-	-	-	(72)
Skills	-	-	-	-	-
Transport - Retained Levy Budget	438	(295)	-	-	143
Transport - Durham	15,552	-	-	-	15,552
Transport - Tyne and Wear	31,010	-	-	-	31,010
Transport - Other	409	(2,277)	-	-	(1,868)
Transport - Tyne Tunnels	(3,184)	(1,235)	(50)	-	(4,469)
Cost of services	**46,221**	**(5,501)**	**790**	**-**	**41,510**
Other Income and Expenditure	(50,540)	(389)	20	(589)	(51,498)
(Surplus)/Deficit on Provision of Services	**(4,319)**	**(5,890)**	**810**	**(589)**	**(9,988)**
Opening General Fund Balances	(32,624)				
Transfer from Capital Receipts Reserve	3,336				
Closing General Fund Balances	**(33,607)**				

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 NECA Services					
Corporate	153	-	580	-	733
Inward Investment	1	-	-	-	1
Local Growth Fund Programme	502	(241)	-	-	261
North East Local Enterprise Partnership	3,495	-	-	-	3,495
Skills	5	-	-	-	5
Transport - Retained Levy Budget	335	(230)	-	-	105
Transport - Durham	15,692	-	-	-	15,692
Transport - Tyne and Wear	31,409	-	-	-	31,409
Transport - Other	(1,281)	(3,293)	-	-	(4,574)
Transport - Tyne Tunnels	(1,804)	576	(50)	-	(1,278)
Cost of services relating to continuing services excluding operations transferred to the NTCA	**48,507**	**(3,189)**	**530**	**-**	**45,849**
Services transferred to the NTCA					
Transport - Northumberland	3,585	-	-	-	3,585
Transport - Retained Levy Budget	222	(183)	-	-	39
Transport - Tyne and Wear	15,420	-	-	-	15,420
Transport - Other	2,621	(2,617)	-	-	4
Transport - Tyne Tunnels	(3,217)	457	-	-	(2,760)
Cost of services relating to services transferred to the NTCA	**18,630**	**(2,342)**	**-**	**-**	**16,288**
Cost of services	**67,137**	**(5,531)**	**530**	**-**	**62,137**
Other Income and Expenditure					
- From continuing services	(50,178)	-	20	(1,021)	(51,179)
- From services transferred to the NTCA	(18,532)	-	-	-	(18,532)
(Surplus)/Deficit on Provision of Services	**(1,573)**	**(5,531)**	**550**	**(1,021)**	**(7,574)**
Opening General Fund Balances	(47,458)				
Transferred to the NTCA 2 November 2018	16,407				
Closing General Fund Balances	**(32,624)**				

Note 02a: Income and Expenditure Analysed by Nature

	2018/19 £000	2019/20 £000
Expenditure		
Employee benefit expenses	2,372	3,007
Other service expenses	88,989	61,910
Depreciation, impairment and Revenue Expenditure Funded from Capital Under Statute (REFCUS)	69,170	39,855
Interest payments	5,651	4,196
Total expenditure	**166,182**	**108,968**
Income		
Fees, charges and other service income (Tyne Tunnels tolls)*	(22,788)	(15,866)
Interest and investment income	(2,805)	(2,224)
Income from business rates on enterprise zones	(1,675)	(2,398)
Income from transport levy	(69,683)	(49,598)
Government grants and contributions	(71,997)	(45,684)
Other income	(4,808)	(3,186)
Total income	**(173,756)**	**(118,956)**
Surplus/Deficit on the provision of services	**(7,574)**	**(9,988)**

* 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 (CAA)				
				Reversal of items debited or credited to the CIES				
(6,331)	-	-	6,331	Charges for depreciation and impairment of non current assets	(2,317)	-	-	2,317
4,166	-	-	(4,166)	Other income that cannot be credited to the General Fund	2,837	-	-	(2,837)
62,928	-	-	(62,928)	Capital grants and contributions applied	35,904	-	-	(35,904)
(62,839)	-	-	62,839	Revenue expenditure funded from capital under statute	(37,538)	-	-	37,538
				Insertion of items not debited or credited to the CIES				
1,521	-	-	(1,521)	Statutory provision for the financing of capital investment	964	-	-	(964)
24	-	-	(24)	Capital expenditure charged against the General Fund	5	-	-	(5)
				Adjustments primarily involving the Capital Grants Unapplied Account				
6,063	-	(6,063)	-	Grants and contributions unapplied credited to the CIES	6,036	-	(6,036)	-
-	-	1,573	(1,573)	Application of grants to capital financing transferred to the CAA	-	-	4,485	(4,485)
				Adjustments involving the Capital Receipts Reserve				
-	(3,794)	-	3,794	Loan principal repayments	2,481	(8,042)	-	5,561
-	-	-	-	Use of Capital Receipts Reserve to finance new capital expenditure	855	778	-	(1,633)
-	1,983	-	(1,983)	Application of Capital Receipts to repayment of debt	-	878	-	(878)
				Adjustments involving the Financial Instruments Adjustment Account				
1,021	-	-	(1,021)	Amount by which finance costs charged to the CIES are different from finance costs chargeable in the year in accordance with statutory requirements	589	-	-	(589)
				Adjustments involving the Pensions Reserve				
(600)	-	-	600	Reversal of items relating to retirement benefits debited or credited to the CIES	(860)	-	-	860
50	-	-	(50)	Employer's pension contributions and direct payments to pensioners payable in the year	50	-	-	(50)
6,003	**(1,811)**	**(4,490)**	**299**	**Total Adjustments**	**9,006**	**(6,386)**	**(1,551)**	**(1,069)**

Note 04: Financing and Investment Income and Expenditure

	Note	2018/19		2019/20
		Continuing Services	Transport Services transferred to NTCA - 1 April 2018 - 1 November 2018	
		£000	£000	£000
Interest Payable and Similar Charges		4,100	1,531	4,176
Interest Payable on defined benefit liability	19	20	-	20
Interest Receivable and similar income		(2,760)	(45)	(2,224)
Total		**1,360**	**1,486**	**1,972**

Note 05: 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	(50,133)	(19,550)	(49,598)
Enterprise Zones Income	(1,675)	-	(2,151)
Non-Specific Capital Grants	(731)	(468)	(1,721)
Total	**(52,539)**	**(20,018)**	**(53,470)**

Note 06: Grant Income

	2018/19		2019/20
	Continuing Services	Transport Services transferred to NTCA - 1 April 2018 - 1 November 2018	
	£000	£000	£000
LEP Core and Capacity Grant	(500)	-	(500)
Growth Hub	(410)	-	(442)
Local Authority Contributions to NECA	(440)	-	(352)
Local Authority Contribution to North East LEP	(250)	-	(253)
Local Growth Fund	(51,706)	-	(28,063)
Local Transport Plan	(7,773)	(2,316)	(7,770)
European Grants	(1,034)	(234)	(979)
North East Smart Ticketing Initiative	(463)	-	(202)
Transforming Cities Fund	(5,600)	-	(5,516)
LEP Local Industrial Strategy Grant	(176)	-	(224)
Office for Low Emission Vehicles	(393)	(234)	(302)
Other Grants	(468)	-	(1,082)
Total	**(69,213)**	**(2,784)**	**(45,685)**

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
North East Smart Ticketing Initiative	(316)	(114)
Office for Low Emission Vehicles	(443)	(141)
Other Grants	(572)	(636)
Total	**(1,331)**	**(891)**

Shown as Short-Term Liability on the Balance Sheet	(1,205)	(891)
Short as Long-Term Liability on the Balance Sheet	(126)	-
Total	**(1,331)**	**(891)**

Note 7: Members' Allowances

The Authority paid the following amounts to independent members of its various committees during the year. Representatives from constituent authorities receive no allowances from NECA.

	2018/19 £000	2019/20 £000
Allowances	6	12
Total	**6**	**12**

Note 08: Officers' Remuneration

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

		Salary, Fees and Allowances £000	Pension Contributions £000	Total £000
Managing Director of Transport Operations	2019/20	127	-	**127**
	2018/19	125	21	**146**
Monitoring Officer	2019/20	-	-	**-**
	2018/19	76	-	**76**

The Managing Director of Transport Operations became a NECA employee during 2019/20. NECA currently has a pension surplus, which accounts for the change in pension contributions. From 1 April 2020, the role of Monitoring Officer was provided through a Service Level Agreement with South Tyneside Council.

All three of the Authority's statutory officers in 2019/20 were not formal employees of the authority (and are not therefore included in the statutory disclosure above). Their services are provided by Service Level Agreements between the authority and their Local Authority employers. The individuals involved received no additional remuneration for these roles.

2018/19 was a transitional year for NECA which meant that two of the Authority's interim statutory officers were not formal employees of the authority (and therefore were not included in the statutory disclosure above), but their services had been provided via secondment and agency arrangements, details of which were included in the 2018/19 disclosure in the interest of transparency.

The number of other officers (including those employed on behalf of the North East LEP) who received remuneration greater than £50,000 (excluding employers' pension contributions) was as follows:

	2018/19 £000	2019/20 £000
£50,000-£54,999	2	5
£55,000-£59,999	0	0
£60,000-£64,999	4	2
£65,000-£69,999	0	3
£70,000-£74,999	0	0
£75,000-£79,999	1	0
£80,000-£84,999	0	0
£85,000-£89,999	1	1
£90,000-£94,999	0	0
£95,000-£99,999	0	0
Total	**8**	**11**

Note 9: External Audit Costs

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

	2018/19 £000	2019/20 £000
Scale fee for the audit of the Statement of Accounts	19	19
Additional fee in relation to the audit of the 2018/19 Accounts (paid during 2019/20)	2	6
Total	**21**	**25**

Note 10: Related Parties

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

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

Central Government

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

Elected Members of the Authority

Members of the Authority have a direct control over the Authority's financial and operating policies. No members allowances are payable to elected members of the Authority. During 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.

NECA Constituent Authorities

The Leaders of the four NECA constituent Authorities serve as members of the NECA Leadership Board. Prior to 2 November 2018, the Leaders and Elected Mayor of the seven North East local authorities were members of the NECA Leadership Board. Details of material transactions with the seven Authorities are set out in the table below.

Joint Transport Committee Constituent Authorities

From 2 November 2018, the Joint Transport Committee has been in establishment, comprised of the seven North East local authorities. Figures reported in these accounts include the NECA share of Joint Transport Committee activity, and details of material transactions with the seven Authorities are set out in the table below.

Other Public Bodies

The Authority has a direct relationship with the Passenger Transport Executive for Tyne and Wear (Nexus). NECA (via its participation in the Joint Transport Committee) sets the policy which is delivered by Nexus, and agrees its budget and revenue grant. Details of material transactions with Nexus are set out in the table below.

Other Entities

Newcastle International Airport Ltd - the seven Constituent Authorities of the Joint Transport Committee 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
NECA Constituent Authorities								
Durham	-	(12,900)	15,826	77	(3)	(15,696)	18,898	595
Gateshead	(99)	(9,100)	8,887	7,661	(245)	(6,317)	9,553	2,625
South Tyneside	(213)	(6,981)	11,004	637	(3)	(4,897)	1,679	791
Sunderland	(849)	(13,260)	17,051	1,058	(763)	(9,676)	13,367	898
Remaining JTC Constituent Authorities								
Newcastle	(501)	(13,238)	7,271	914	(528)	(8,915)	3,273	1,308
North Tyneside	(245)	(9,394)	3,869	137	(433)	(8,354)	3,609	290
Northumberland	(780)	(5,479)	8,718	614	(351)	(946)	3,710	271
Other Public Bodies								
North of Tyne Combined Authority	-	-	-	-	(8)	-	-	-
Nexus	(889)	(1,685)	52,060	34,203	(845)	(92)	33,042	28,695

NECA is the accountable body for the Joint Transport Committee and as such must split revenue, expenditure and assets and liabilities into those which relate to NECA and those which relate to NTCA. The basis of dividing the levy contributions is done on a proportion of population in respect of the five Tyne and Wear authorities, with North of Tyne Authorities proportion based on Newcastle and North Tyneside population and the NECA authorities split on the population of the Gateshead, South Tyneside and Sunderland. The contribution relating to Northumberland, however, is administered by North of Tyne and therefore shown as wholly allocated within the North of Tyne accounts and Durham is wholly shown in the NECA accounts.

Note 11: Property, Plant and Equipment

	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	1,785	209,165	10,067	**221,017**	209,165
Additions	-	-	1,594	**1,594**	-
Reclassification from Assets Under Construction	419	10,193	(10,612)	**-**	10,193
At 31 March 2020	**2,204**	**219,358**	**1,049**	**222,611**	**219,358**

Accumulated Depreciation and Impairment					
At 1 April 2019	(661)	(26,433)	-	**(27,094)**	**(26,433)**
Depreciation charge for the Year	(93)	(2,224)	-	**(2,317)**	(2,224)
At 31 March 2020	**(754)**	**(28,657)**	**-**	**(29,411)**	**(28,657)**

Net Book Value					
At 1 April 2019	**1,124**	**182,732**	**10,067**	**193,923**	**182,732**
At 31 March 2020	**1,450**	**190,701**	**1,049**	**193,200**	**190,701**

	2018/19				
	Vehicles, Plant, Furniture & Equipment	Infrastructure Assets	Assets Under Construction	Total Property, Plant & Equipment	Service Concession Assets included in Property, Plant and Equipment
	£000	£000	£000	£000	£000
Cost or Valuation					
At 1 April 2018	3,205	381,075	12,695	396,975	381,075
Additions	-	-	2,702	2,702	-
At 2 November 2018	3,205	381,075	15,397	399,677	381,075
Transfer to the NTCA	(1,420)	(168,729)	(6,817)	**(176,966)**	(168,729)
Additions	-	24	1,487	**1,511**	24
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	-	(24)	-	**(24)**	**(24)**
Impairment recognised in the Surplus/Deficit on the Provision of Services	-	(3,180)	-	**(3,180)**	**(3,180)**
At 31 March 2019	**1,785**	**209,166**	**10,067**	**221,018**	**209,166**

Accumulated Depreciation and Impairment					
At 1 April 2018	(1,094)	(43,737)	-	**(44,831)**	**(43,737)**
Depreciation charge for the period 1/4/18 - 1/11/18	(54)	(2,233)	-	**(2,287)**	**(2,233)**
At 2 November 2018	**(1,148)**	**(45,970)**	**-**	**(47,118)**	**(45,970)**
Transferred to the NTCA	508	20,355	-	**20,863**	**20,355**
Depreciation charge for the period 2/4/18 - 31/3/19	(21)	(818)	-	**(839)**	**(818)**
At 31 March 2019	**(661)**	**(26,434)**	**-**	**(27,094)**	**(26,434)**

Net Book Value					
At 1 April 2018	**2,111**	**337,338**	**12,695**	**352,144**	**337,338**
At date of configuration	2,057	335,105	15,397	352,559	335,105
At 31 March 2019	**1,124**	**182,732**	**10,067**	**193,923**	**182,732**

Note 12: Financial Instruments

Financial Assets

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

	Non-current				Current			
	Investments		Debtors		Investments		Debtors	
	31 March 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	-	-	32,354	31,935	65,281	58,236	9,809	6,926
Total financial assets	**-**	**-**	**32,354**	**31,935**	**65,281**	**58,236**	**9,809**	**6,926**
Non-financial assets	-	-	317	-	-	-	2,117	1,973
Total	**-**	**-**	**32,671**	**31,935**	**65,281**	**58,236**	**11,926**	**8,899**

Financial assets at amortised cost

Financial assets are classified at amortised cost only if both of the following criteria are met:

- The asset is held within a business model whose objective is to collect the contractual cash flows; and
- The contractual terms give rise to cash flows that are solely payments of principal and interest

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

Trade receivables

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

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

Financial Liabilities held at amortised cost

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

	Non-current				Current			
	Borrowings		Creditors		Borrowings		Creditors	
	31 March 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	(92,685)	(95,072)	-	-	(1,288)	(1,298)	(36,869)	(32,487)
Total financial liabilities	**(92,685)**	**(95,072)**	**-**	**-**	**(1,288)**	**(1,298)**	**(36,869)**	**(32,487)**
Non-financial liabilities	-	-	-	-	-	-	(14,249)	(7,497)
Total	**(92,685)**	**(95,072)**	**-**	**-**	**(1,288)**	**(1,298)**	**(51,118)**	**(39,984)**

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

Income, Expense, Gains and Losses

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

31 March 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
5,631	-	5,631	Interest expense	4,176	-	4,176
5,631	**-**	**5,631**	**Total expense in Surplus on Provision of Services**	4,176	-	4,176
-	(2,446)	(2,446)	Investment income	-	(2,092)	(2,092)
-	(359)	(359)	Movement on soft loans adjustment	-	(132)	(132)
-	**(2,804)**	**(2,804)**	**Total income in Surplus on Provision of Services**	-	(2,224)	(2,224)
5,631	**(2,804)**	**2,827**	**Net (gain)/loss for the year**	4,176	(2,224)	1,952

Fair Value of Assets & Liabilities carried at Amortised Cost

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

- Loans borrowed by the Authority have been valued by discounting the contractual cash flows over the whole life of the instrument at the appropriate market rate for local authority loans.
- The value of "Lender's Option Borrower's Option" (LOBO) loans have been increased by the value of the embedded options. Lender's options to propose an increase to the interest rate of the loan have been valued according to a proprietary model for Bermudan cancellable swaps. Borrower's contingent options to accept the increased rate or repay the loan have been valued at zero, on the assumption that lenders will only exercise their options when market rates have risen above the contractual loan rate.
- The fair values of other long-term loans and investments have been discounted at the market rates for similar instruments with similar remaining terms to maturity on 31 March.
- No early repayment or impairment is recognised for any financial instrument.
- The fair value of short-term instruments, including trade payables and receivables, is assumed to approximate to the carrying amount.

For 2019/20 the fair values shown in the table below are split by their level in the fair value hierarchy:

- Level 1 – fair value is only derived from quoted prices in active markets for identical assets or liabilities.

- Level 2 – fair value is calculated from inputs other than quoted prices that are observable for the asset or liability: Fair values have been estimated by discounting the loans' contractual cash flows over the whole life of the instruments at the appropriate market rates for local authority loans of equivalent remaining term. The value of "Lender's Option Borrower's Option" (LOBO) loans have been increased by the value of the embedded options: lenders' options to propose an increase to the interest rate on the loan have been valued according to a proprietary model for Bermudan cancellable swaps; borrower's contingent options to accept the increased rate or repay the loan have been valued at zero, on the assumption that lenders will only exercise their options when market rates have risen above the contractual loan rate.
- Level 3 – fair value is determined using unobservable inputs: consideration of the estimated creditworthiness of the organisation receiving the loans based on their financial performance and track record of payment.

The fair values calculated are as follows:

		31/03/2019 (restated)		31 March 2020	
	Level	Carrying amount £000	Fair value £000	Carrying amount £000	Fair value £000
Financial liabilities held at amortised cost	2	(93,973)	(151,424)	(96,370)	(166,167)
Total		**(93,973)**	**(151,424)**	**(96,370)**	**(166,167)**
Financial Assets at amortised cost					
Held to maturity investments		65,281	65,281	58,236	58,236
Nexus loan debtor	2	20,325	33,723	19,614	34,148
Other loan debtors	3	18,251	17,373	14,510	14,510
Total		**103,857**	**116,377**	**92,360**	**106,894**

The balances at 31 March 2019 have been restated to show the Nexus loan debtor, measured at level 2, separately to other loan debtors, which are measured at level 3.

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

Soft Loans

Soft loans are loans made to third parties at a preferential rate of interest, i.e. below the market rate. In previous years, the LEP issued a small number of loans as part of its North East Investment Fund activity to encourage economic development in the region. Details of soft loans are set out in the table below.

- Durham University - Development of Centre for Innovation and Growth, research and development facility to work with partners and private companies to develop new technologies and processes.

- Neptune Test Centre - Construction of deep water test tank at Neptune Enterprise Zone.

- Cobalt Data Centre - Network improvements to support development of 23km 'superfast' broadband loop through Newcastle and North Tyneside.

- Boiler Shop - Development including office and conferencing space at South Street/Boiler Shop, Stephenson Quarter.

	2019/20							
Description	**Term (Years)**	**Contracted Rate**	**Fair Value Rate**	**Opening Balance Fair Value**	**Loans Repaid**	**Increase in discounted amount**	**Closing Balance (fair value)**	**Closing Balance (Nominal)**
				£000	**£000**	**£000**	**£000**	**£000**
Durham University	12	1.90%	4.95%	9,244	(1,282)	458	8,420	8,916
Neptune Test Centre	9	0.00%	4.99%	3,397	(440)	169	3,126	4,397
Cobalt Data Centre	6	6.00%	7.00%	1,589	(1,589)	-	-	-
Boiler Shop	3	4.50%	5.02%	1,699	(80)	90	1,709	1,465

	2018/19							
Description	**Term (Years)**	**Contracted Rate**	**Fair Value Rate**	**Opening Balance Fair Value**	**Loans Repaid**	**Increase in discounted amount**	**Closing Balance (fair value)**	**Closing Balance (Nominal)**
				£000	**£000**	**£000**	**£000**	**£000**
Durham University	12	1.90%	4.95%	8,808	-	436	9,244	10,000
Neptune Test Centre	9	0.00%	4.99%	3,716	(697)	378	3,397	4,397
Cobalt Data Centre	6	6.00%	7.00%	1,881	-	(292)	1,589	1,549
Boiler Shop	3	4.50%	5.02%	1,641	-	58	1,699	1,545

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	2018/19 £000	2019/20 £000
A+	8,637	-
A-	2,786	-
n/a - investments with UK local authorities	32,808	52,446
n/a - investments with unrated building societies [1]	21,050	5,790
Total Short-Term Investments	**65,281**	**58,236**

[1] In line with its agreed Investment Strategy, NECA places investments for up to 1 year and up to £5m each with UK building societies without credit ratings with assets greater than £250m.

The Authority's maximum exposure to credit risk in relation to its investments in banks and building societies cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of non recovery applies to all of the Authority's deposits, but there was no evidence at the 31 March 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 Authority. The Authority has a low risk of default from its customers for goods and services, since these are predominantly other local authorities or other public bodies such as Nexus.

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

Liquidity Risk

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

	31 March 2019 £000	**31 March 2020 £000**
Between 1-2 years	(372)	(371)
Between 2-5 years	(1,114)	(1,114)
Between 5-10 years	(928)	(557)
More than 10 years	(90,271)	(93,029)
	(92,685)	**(95,071)**
Less than 1 year	(1,288)	(1,298)
Total borrowing	**(93,973)**	**(96,369)**

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	(691)	(520)
Impact on the (Surplus)/Deficit on Provision of Services	**(691)**	**(520)**

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

If interest rates had been 1% higher with all other variables held constant, the financial effect would be a decrease of £31.001m in the fair value of fixed rate borrowings, although this would not impact on the Surplus/Deficit on the Provision of Services or Other Comprehensive Income and Expenditure.

Note 14: Short Term Debtors

	31 March 2019 £000	31 March 2020 £000
Central Government bodies	2,458	3,375
Other local authorities	2,898	4,327
Other entities and individuals	6,570	1,197
Total	**11,926**	**8,899**

Note 15: Long Term Debtors

	31 March 2019 £000	31 March 2020 £000
Nexus borrowing	20,325	19,614
Airport prepayment	317	-
North East Investment Fund loans	12,029	12,321
Total	**32,671**	**31,935**

Note 16: Cash and Cash Equivalents

	31 March 2019 £000	31 March 2020 £000
Cash held in Authority's bank account	7,819	5,048
Cash equivalents	3,901	16,969
Total	**11,720**	**22,017**

Note 17: Short Term Creditors

	31 March 2019 £000	31 March 2020 £000
Central government bodies	-	(38)
Other local authorities	(11,107)	(7,213)
Other entities and individuals		
- Nexus	(35,447)	(28,224)
- TT2	(1,871)	(1,693)
- Other	(2,693)	(2,816)
Total	**(51,118)**	**(39,984)**

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) of which £11.767m is shown in the account of NECA and £9.356m shown in the accounts of NTCA

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 £51.062m 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 2020/21	(2,838)	(2,837)
Payable within 2 to 5 years	(11,350)	(11,347)
Payable within 6 to 10 years	(14,188)	(14,184)
Payable within 11 to 15 years	(14,188)	(14,184)
Payable within 16 to 20 years	(11,350)	(8,510)
Total	**(53,914)**	**(51,062)**

Payments

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

Note 19: Defined Benefit Pension Schemes

The Authority participates in two post-employment schemes:

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

(ii) Unfunded defined benefit arrangements for the award of discretionary post-employment benefits upon early retirement. Under this type of scheme liabilities are recognised when awards are made. However there are no investment assets built up to meet these liabilities and cash has to be generated to meet actual pension payments as they fall due.

The Tyne and Wear Pension Fund is operated under the regulatory framework for the Local Government Pension Scheme. The governance of the scheme is the responsibility of the Fund's Pension Committee which consists of eight members from South Tyneside Council (which has legal 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.

Transactions Relating to Post-employment Benefits

We recognise the cost of retirement benefits in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge we are required to make against the General Fund is based on the cash payable in the year, so the real cost of post-employment/retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year:

Amounts recognised in profit and loss and other comprehensive income

	Local Government Pension Scheme		Discretionary Benefits	
	2018/19	2019/20	2018/19	2019/20
	£000	£000	£000	£000
Comprehensive Income and Expenditure Statement				
Cost of Services:				
Current service cost	400	840	-	-
Past service cost	180	-		-
Financing and Investment Income and Expenditure				
Interest on net defined benefit liability (asset)	-	-	20	20
Pension expense recognised in profit and loss	**580**	**840**	**20**	**20**
Other Post Employment Benefits charged to the Comprehensive Income and Expenditure Statement:				
Return on plan assets (in excess of)/below that recognised in net interest	(2,510)	2,630	-	-
Actuarial (gains)/losses due to changes in financial assumptions	1,890	-	40	-
Actuarial (gains)/losses due to changes in demographic assumptions	(1,610)	(390)	(40)	(20)
Actuarial (gains)/losses due to changes in liability assumptions	90	3,090	(30)	(10)
Adjustment in respect of paragraph 58	1,560	(6,170)	-	-
Total amount recognised in Other Comprehensive Income	**(580)**	**(840)**	**(30)**	**(30)**
Total amount recognised	**-**	**-**	**(10)**	**(10)**

Assets and Liabilities in Relation to Post-employment Benefits

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

	Local Government Pension Scheme		Discretionary Benefits	
	2018/19	2019/20	2018/19	2019/20
	£000	£000	£000	£000
Opening balance at 1 April	**(38,950)**	**(39,520)**	**(960)**	**(900)**
Current service cost	(400)	(840)	-	-
Interest cost	(990)	(930)	(20)	(20)
Contributions by participants	(100)	(170)	-	-
Actuarial gains/(losses) on liabilities - financial assumptions	(1,890)	-	(40)	-
Actuarial gains/(losses) on liabilities - demographic assumptions	1,610	390	40	20
Actuarial gains/(losses) on liabilities - experience	(90)	(3,090)	30	10
Net benefits paid out	1,470	1,410	50	50
Past service costs	(180)	-	-	-
Closing balance at 31 March	**(39,520)**	**(42,750)**	**(900)**	**(840)**

Reconciliation of the fair value of the scheme assets:

	Local Government Pension Scheme		Discretionary Benefits	
	2018/19	2019/20	2018/19	2019/20
	£000	£000	£000	£000
Opening balance at 1 April	**45,980**	**48,300**	**-**	**-**
Interest income on assets	1,180	1,140	-	-
Remeasurement gains/(losses) on assets	2,510	(2,630)	-	-
Employer contributions	-	-	50	50
Contributions by scheme participants	100	170	-	-
Net benefits paid out	(1,470)	(1,410)	(50)	(50)
Closing balance at 31 March	**48,300**	**45,570**	**-**	**-**

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	2015/16 £000	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000
Fair value of LGPS assets	**37,150**	**45,050**	**45,980**	**48,300**	**45,570**
Present value of liabilities:					
- LGPS liabilities	(31,630)	(37,590)	(38,950)	(39,520)	(42,750)
- Impact of minimum funding	(5,520)	(7,460)	(7,030)	(8,780)	(2,820)
Deficit on funded defined benefit scheme					
Discretionary benefits	(890)	(980)	(960)	(900)	(840)
Total (Deficit)	**(890)**	**(980)**	**(960)**	**(900)**	**(840)**

The split of the defined benefit obligation at the last valuation date between the various categories of members was as follows: active members 9%, deferred pensioners 13% and pensioners 78%.

The liabilities show the underlying commitments that the Authority has in the long run to pay post employment (retirement) benefits. The total liability of £43.590m has an impact on the net worth of the Authority recorded on the balance sheet, resulting in a negative pension balance of £0.840m. However, statutory arrangements for funding the deficit mean that the financial position of the Authority remains healthy:

- The deficit on the local government scheme will be made good by contributions over the remaining working life of employees (i.e. before payments fall due), as assessed by the scheme actuary.
- Finance is only required to be raised to cover discretionary benefits when the pensions are actually paid.

- The total contributions expected to be made to the Local Government Pension Scheme by the Authority in the year to 31 March 2021 is nil. In addition, Strain on the Fund contributions may be required. Expected payments direct to beneficiaries in the year to 31 March 2021 are £0.05m 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. Both the Local Government Pension Scheme and Discretionary Benefits liabilities have been assessed by Aon, an independent firm of actuaries. Due to the current and unprecedented market conditions, estimates for the pension fund are based on the latest full 2019 valuation of the scheme as at 31 March 2019.

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

The principal assumptions used by the actuary have been:

	Local Government Pension Scheme		Discretionary Benefits	
	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
Longevity at 65 for future pensioners:				
- Men	23.9	23.5	n/a	n/a
- Women	27.2	26.8	n/a	n/a
Principal financial assumptions (% per annum)				
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%	2.1%	2.2%	2.1%
Rate of increase in pensions	2.2%	2.1%	2.2%	2.1%
Pension accounts revaluation rate	2.2%	2.1%	n/a	n/a
Rate of increase in salaries	3.7%	3.6%	n/a	n/a

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 Pension Scheme	
	2018/19	2019/20
	£000	£000
Interest Income on Assets	1,180	1,140
Remeasurement gain/(loss) on assets	2,510	(2,630)
Actual Return on Assets	**3,690**	**(1,490)**

Sensitivity Analysis

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

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

Discount rate assumption	+0.1% per annum	Base Figure	-0.1% per annum
Adjustment to discount rate			
Present value of total obligation (£M)	42.19	42.75	43.35
% change in present value of total obligation	-1.30%	0	1.40%
Projected service cost (£M)	0.84	0.87	0.90
Approximate % change in projected service cost	-2.90%	0	3.00%

Rate of general increase in salaries	+0.1% per annum	Base Figure	-0.1% per annum
Adjustment to salary increase rate			
Present value of total obligation (£M)	42.75	42.75	42.75
% change in present value of total obligation	0.00%	0	0.00%
Projected service cost (£M)	0.87	0.87	0.87
Approximate % change in projected service cost	0.00%	0	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	43.35	42.75	42.19
% change in present value of total obligation	1.40%	0	-1.30%
Projected service cost (£M)	0.90	0.87	0.84
Approximate % change in projected service cost	3.00%	0	-2.90%

Post retirement mortality assumption	- 1 year	Base Figure	+ 1 year
Adjustment to mortality age rating assumption *			
Present value of total obligation (£M)	44.12	42.75	41.38
% change in present value of total obligation	3.20%	0	-3.20%
Projected service cost (£M)	0.90	0.87	0.84
Approximate % change in projected service cost	3.90%	0	-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

McCloud Judgement

All public sector pension schemes were reviewed in 2011 and subsequently reformed to reduce the cost to the taxpayer. Transitional protections were provided to members who were closest to retirement. The transitional protections applied to all active members of public services schemes who were within 10 years of their normal pension age on 1 April 2012. In relation to the LGPS, all members were moved into the new 2014 Scheme, but members within 10 years of normal retirement were given an underpin (or 'better of both') promise, so their benefits would be at least as valuable in terms of amount and when they could be drawn than if they had remaining in the 2008 Scheme.

In December 2018 the Court of Appeal ruled against the Government in the 'McCloud/Sargeant' judgement which found that the transitional protection arrangements put in place when the firefighters' and judges' pensions schemes were reformed were age discriminatory. The ruling potentially has implications for all public sector schemes which were reformed around the same time and could lead to members who were discriminated against being compensated.

The Government applied to the Supreme Court for permission to appeal this judgement. On 27 June 2019, the Supreme Court denied this request for an appeal. The next stage is for the case to be referred to the Employment Tribunal to agree the remedy - it is not likely to be known until 2020/21.

Although it is unknown what impact this will have on future employer pension contributions at this stage, the Pension Fund's Actuary has calculated a potential IAS 19 account liability of 2.75% of pensionable pay for 2019/20 which has been included in the current service cost. Where an additional liability arises relating to past service this will result in increased employer contribution rates in the future. Employer contributions towards future service may also increase if the 'better of both' test is extended beyond members within 10 years of normal pension age at 1 April 2012.

Note 20: Usable Reserves

	Note	31 March 2019 £000	31 March 2020 £000
General Fund Balance		(22,830)	(21,232)
Earmarked Reserves	21	(9,792)	(12,372)
Capital Receipts Reserve		(2,502)	(8,889)
Capital Grants Unapplied Reserve		(11,673)	(13,224)
Total		**(46,797)**	**(55,717)**

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

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

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

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

Note 21: Transfers (to)/From Earmarked Reserves

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

	Opening Balance 1 April 2018	Transfer to NTCA 2 November 2018	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	£000
Metro Reinvigoration Reserve	(9,118)	4,037	-	(27)	**(5,108)**	-	(42)	(5,150)
Metro Fleet Replacement Reserve	(3,333)	1,476	-	(1,873)	**(3,730)**	-	(1,895)	(5,625)
North East LEP Restricted Cashable Reserve - RGF Interest	(792)	-	-	(142)	**(934)**	232	(628)	(1,330)
North East LEP Restricted Cashable Reserve - GPF Loan Repayments	(1,408)	-	1,706	(298)	**-**	609	(876)	(267)
Transforming Cities Fund Support	-	-	-	(20)	**(20)**	20	-	-
Total	**(14,651)**	**5,513**	**1,706**	**(2,360)**	**(9,792)**	**861**	**(3,441)**	**(12,372)**

Note 22: Unusable Reserves

Summary

	31 March 2019 £000	31 March 2020 £000
Capital Adjustment Account	(67,448)	(68,818)
Financial Instruments Adjustment Account	3,681	3,092
Revaluation Reserve	(4,619)	(4,538)
Pension Reserve	900	840
Total	**(67,486)**	**(69,424)**

Capital Adjustment Account

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

The CAA also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains. Note 3 provides details of the source of all the transactions posted to the CAA, apart from those involving the Revaluation Reserve.

	2018/19	2019/20
	£000	£000
Opening Balance 1 April	**(105,885)**	**(67,448)**
Reversal of items relating to capital expenditure debited or credited to the CIES:		
Charges for depreciation and impairment of non current assets	6,331	2,317
Other income that cannot be credited to the General Fund	(4,166)	(2,837)
Revenue expenditure funded from capital under statute	62,839	37,538
Write down of long term debtors	3,794	5,560
Adjusting amounts written out of the Revaluation Reserve	**(81)**	**(81)**
Transferred to the NTCA	**37,748**	**-**
Capital financing applied in the year:		
Capital grants and contributions credited to the CIES that have been applied to capital financing	(64,500)	(40,389)
Statutory provision for the financing of capital investment	(1,521)	(964)
Capital expenditure charged against the General Fund	(24)	(5)
Debt redeemed using capital receipts	(1,983)	(2,510)
Balance at 31 March	**(67,448)**	**(68,819)**

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
Opening Balance 1 April	**5,638**	**3,681**
Proportion of premiums incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements	(477)	(457)
Transferred to the NTCA	(935)	-
Amount by which finance costs charged to the CIES are different from finance costs chargeable in the year in accordance with statutory requirements	(545)	(132)
Balance at 31 March	**3,681**	**3,092**

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
Opening Balance 1 April	**(8,434)**	**(4,619)**
Difference between fair value depreciation and historical cost depreciation written off to the CAA	81	81
Transferred to the NTCA 2 November 2018	**3,734**	**-**
Balance at 31 March	**(4,619)**	**(4,538)**

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	**960**	**900**
Remeasurements of the net defined benefit liability (asset)	(610)	(870)
Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the CIES	600	860
Employer's pension contributions and direct payments to pensioners payable in the year	(50)	(50)
Balance at 31 March	**900**	**840**

Note 23: Capital Expenditure and Capital Financing

	2018/19 £000	2019/20 £000
Opening Capital Financing Requirement 1 April	**195,383**	**107,602**
Capital Investment		
Property, Plant and Equipment	4,213	1,594
Revenue Expenditure Funded from Capital Under Statute	62,839	37,538
Sources of Finance		
Capital receipts - repayment of principal from long term debtors	(1,983)	(2,510)
Government Grants and other contributions	(64,500)	(40,389)
Sums set aside from revenue		
Direct revenue contributions	(24)	(5)
Minimum Revenue Provision	(1,368)	(964)
Additional Voluntary Provision	(153)	-
Transfer to the NTCA	(86,805)	-
Closing Capital Financing Requirement 31 March	**107,602**	**102,866**
Decrease in underlying need to borrow (unsupported by government financial assistance)	**(977)**	**(4,736)**

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	7,574	9,988
Adjustments to Surplus/(Deficit) on Provision of Services for Non-Cash Movements		
Depreciation and Impairment	6,331	2,317
(Increase)/Decrease in Creditors	480	(11,144)
Increase/(Decrease) in Debtors	5,787	3,677
Movement in Pension Liability	550	810
Other non-cash items charged to the net surplus or deficit on the provision of services	(4,166)	(2,853)
	8,983	**(7,193)**
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	(68,990)	(41,940)
Net cash flow from operating activities	**(52,434)**	**(39,145)**

The cash flows for operating activities include the following items:

	2018/19 £000	2019/20 £000
Interest received	3,491	2,224
Interest paid	(6,317)	(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	(4,213)	(1,596)
Purchase of short-term and long-term investments	(137,517)	(101,107)
Proceeds from short-term and long-term investments	123,426	101,107
Other receipts from investing activities	71,011	48,632
Net cash flows from investing activities	**52,707**	**47,036**

Note 26: Cash Flow Statement - Financing Activities

	2018/19 £000	2019/20 £000
Repayments of short and long-term borrowing	(548)	2,406
Net cash flows from financing activities	**(548)**	**2,406**

Note 26a: Reconciliation of liabilities arising from Financing activities

	1 April 2019	Financing Cash Flows	Changes which are not financing cash flows		31 March 2020
			Acquisition	Other	
	£000	£000	£000	£000	£000
Long Term Borrowings	(92,685)	(2,386)	-	-	(95,071)
Short Term Borrowings	(1,288)	-	-	(10)	(1,298)
Total Liabilities arising from Financing Activities	(93,973)	(2,386)	-	(10)	(96,369)

	Pre NTCA split			Includes elements transferred to NTCA 2 November	Post NTCA split
	1 April 2018	Financing Cash Flows	Changes which are not financing cash flows		31 March 2019
			Acquisition	Other	
	£000	£000	£000	£000	£000
Long Term Borrowings	(167,000)	814	-	73,501	(92,685)
Short Term Borrowings	(2,326)	(274)	-	1,312	(1,288)
Total Liabilities arising from Financing Activities	(169,326)	540	-	74,813	(93,973)

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 a recognition exemption 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.

IAS 19 Employee Benefits specifies how local authorities account for a defined benefit plan. When a change to a plan i.e. an amendment, curtailment or settlement, takes place, IAS 19 requires the local authority to remeasure its net defined liability or asset. The amendments require a company to use the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan.

The only applies to changes from 1 April 2020 and since the results of the remeasurement are uncertain, no prediction can be made of the possible accounting impact.

IAS 28 Investments in Associates and Joint Ventures requires an investor to account for its investment in associates and joint ventures using the equity method. This does not apply to the North East Combined Authority.

Annual Improvements to IFRS Standards 2015-2017 Cycle have been issued as part of the International Accounting Standards Board process for maintaining IFRS Standards. Amendments either clarify the wording of an IFRS Standard or correct oversights or conflicts between existing requirements of IFRS Standards.

The following amendments have been made to the IFRS Standards and are effective from 1 January 2019

IFRS 3 Business Combinations

Clarifies that when a local authority obtains control of a joint operation it remeasures interests that were previously held with that business.

IFRS 11 Joint Arrangements

Clarifies that when a local authority obtains joint control of a joint operation it does not remeasure interests that were previously held with that business.

IAS 12 Income Taxes

Clarifies that local authorities should account for all income tax consequences of dividend payments in the same way.

IAS 23 Borrowing Costs

Clarifies that local authorities should treat any borrowings originally made to develop an asset as part of general borrowings, when the asset is ready for its intended use or sale.

Most of these standards will not apply to the Authority or the Group. For those that do apply, they are not anticipated to have a material impact on the financial 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 £42.19m, a variance of £0.56m, whereas a decrease of (0.1%) p.a. results in an increase to £43.35m, a variance of £0.6m. The percentage change in the present value of the total obligation would be (1.3%) and 1.4% respectively. Rate of increase to pensions in payment and deferred pensions assumption, and rate of revaluation of pension accounts assumption: an adjustment to the pension increase rate of +0.1% p.a. would increase the present value of the total obligation by £0.6m to £43.35m, whereas a decrease of (0.1%) p.a. results in a decrease to £42.19m, a variance of £0.56m. The percentage change in the present value of the total obligation would be 1.4% and (1.3%) respectively.

		Post retirement mortality assumption: an adjustment to the mortality age rating assumption of -1 year would change the present value of the total obligation to £44.12m, an increase of £1.37m, whereas an adjustment of +1 year results in a reduction to £41.38m, a variance of £1.37m. The percentage change in the present value of the total obligation would be 3.2% and (3.2%) 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	The exact consequences of the outbreak of the Covid-19 virus are currently unknown. Some possible areas of concern are:- - Possible reduction in Government Funding to Local Authorities - Possible reduction in income from the Tyne Tunnels due to changes in working practices and Government guidelines	Possibility of Local Authorities reducing their spend on Transport related services / schemes as they prioritise services. This would lead to a reduction of levy income. Could lead to a reduction of Tunnel use due to employers' new ways of working, which would, in turn, reduce the income from the Tunnels This would impact on the finances of the company who run the Tunnels on behalf of the authority.

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 unpaid at the year-end.

No such amounts are payable in 2019/20

8. Post-Employment Benefits

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

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

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

- The liabilities of the pension fund attributable to the Authority are included in the Balance Sheet on an actuarial basis using the projected unit method - i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates and projections of earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate determined annually, based on the indicative rate of return on high quality corporate bonds.
- The assets of the pension fund attributable to the Authority are included in the Balance Sheet at their fair value:
- Quoted securities at current bid price.
- Unquoted securities based on professional estimate.
- Unitised securities at current bid price.
- Property at market value.

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

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 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 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

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

Impairment

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

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

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

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

Depreciation

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

Depreciation on all Property, Plant and Equipment assets (except vehicles) is calculated by taking the asset value at 31 March 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 Account.

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

Disposals

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

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

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

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

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

14. Public Private Partnership (PPP) Contracts

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

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

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

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

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

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

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

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

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

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

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

15. Provisions

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

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

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

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

16. Contingent Liabilities

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

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

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts. There are no contingent liabilities disclosed in 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 statements and notes are not adjusted but the relevant information is disclosed.

During 2018/19 it was anticipated that Transport staff in the Regional Transport Team now known as the Transport Strategy Unit would be transferred to NECA. This took place on 1 April 2020. The North East LEP have appointed NTCA as their accountable body. The North East LEP staff transferred to NTCA on 1 April 2020.

3.1 Group Movement in Reserves Statement

	Note	NECA Usable Reserves	NECA Unusable Reserves	Total NECA Reserves	Authority Share of Nexus	Total Group Reserves
		£000	£000	£000	£000	£000
Balance at 1 April 2018		**(55,877)**	**(107,722)**	**(163,599)**	**(444,257)**	**(607,856)**
Total Comprehensive Income and Expenditure (prior to transfer of services)		**(5,066)**	**(230)**	**(5,296)**	**1,829**	**(3,467)**
Adjustments between accounting basis & funding basis under regulations (prior to transfer of services)	G02	**3,026**	**(3,026)**	**-**	**-**	**-**
Balance at 1 November 2018		**(57,917)**	**(110,978)**	**(168,895)**	**(442,428)**	**(611,323)**
Transfer of Services to the NTCA at 2 November 2018		**16,952**	**40,548**	**57,500**	**195,896**	**253,396**
Balance at 2 November 2018		**(40,965)**	**(70,430)**	**(111,395)**	**(246,532)**	**(357,927)**
Total Comprehensive Income and Expenditure		(2,508)	(380)	**(2,888)**	**728**	**(2,160)**
Adjustments between accounting basis & funding basis under regulations	G02	(3,325)	3,325	-	-	-
Net (Increase)/Decrease before transfers to Earmarked Reserves	G14	**(5,833)**	**2,945**	**(2,888)**	**728**	**(2,160)**
(Increase)/Decrease in 2018/19		**(5,833)**	**2,945**	**(2,888)**	**728**	**(2,160)**
Balance at 31 March 2019 carried forward		**(46,798)**	**(67,485)**	**(114,284)**	**(245,804)**	**(360,087)**
Total Comprehensive Income and Expenditure		(9,988)	(870)	**(10,858)**	(18,084)	(28,942)
Adjustments between accounting basis & funding basis under regulations	G02	1,068	(1,068)	-	-	-
Net (Increase)/Decrease before transfers to Earmarked Reserves	G14	**(8,920)**	**(1,938)**	**(10,858)**	**(18,084)**	**(28,942)**
(Increase)/Decrease in 2019/20		**(8,920)**	**(1,938)**	**(10,858)**	**(18,084)**	**(28,942)**
Balance at 31 March 2020 carried forward		**(55,718)**	**(69,423)**	**(125,141)**	**(263,888)**	**(389,029)**

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 NECA Services				
1,044	(311)	733	Corporate		1,341	(597)	744
295	(294)	1	Inward Investment		375	(161)	214
52,283	(52,022)	261	Local Growth Fund Programme		23,562	(26,053)	(2,491)
5,248	(1,753)	3,495	North East Local Enterprise Partnership		3,680	(3,752)	(72)
767	(762)	5	Skills		290	(290)	-
105	-	105	Transport - Retained Levy Budget		143	-	143
15,692	-	15,692	Transport - Durham		15,552	-	15,552
96,944	(44,585)	52,359	Transport - Tyne and Wear		95,268	(44,887)	50,381
7,530	(13,972)	(6,442)	Transport - Other		9,983	(13,609)	(3,626)
16,527	(17,805)	(1,278)	Transport - Tyne Tunnels		14,250	(18,719)	(4,469)
196,435	**(131,504)**	**64,931**	**Cost of services relating to continuing services excluding operations transferred to the NTCA**		**164,444**	**(108,068)**	**56,376**
			Services transferred to the NTCA - income and expenditure for the period 1 April 2018 - 1 November 2018				
3,585	-	3,585	Transport - Northumberland		-	-	-
39	-	39	Transport - Retained Levy Budget		-	-	-
44,936	(20,666)	24,270	Transport - Tyne and Wear		-	-	-
2,320	(2,316)	4	Transport - Other		-	-	-
6,399	(9,159)	(2,760)	Transport - Tyne Tunnels		-	-	-
57,279	**(32,141)**	**25,138**	**Cost of services relating to services transferred to the NTCA**		**-**	**-**	**-**
253,714	**(163,645)**	**90,069**	**Cost of services**		**164,444**	**(108,068)**	**56,376**
			Financing and Investment Income and Expenditure				
4,672	(1,696)	2,976	- From continuing services	G03	9,509	(5,955)	3,554
2,434	(186)	2,248	- From services transferred to the NTCA				
			Taxation and Non-Specific Grant Income				
-	(65,958)	(65,958)	- From continuing services	G04	-	(76,914)	(76,914)
-	(26,242)	(26,242)	- From services transferred to the NTCA				
			(Gain)/Loss on disposal or derecognition of non-current assets				
		(11)	- From continuing services				116
		(5)	- From services transferred to the NTCA				-
		3,077	**(Surplus)/Deficit on Provision of Services**				**(16,868)**
		(418)	**Taxation of Group Entities**				**(437)**
		2,659	**Group (Surplus)/Deficit**				**(17,305)**
			Other Comprehensive Income and Expenditure				
			Re-measurement of the defined benefit liability	G12			
		(5,855)	- From continuing services				(10,648)
		(2,431)	- From services transferred to the NTCA				-
		-	**Gains on Revaluation of Property**	G06			(988)
		(5,627)	**Total Comprehensive Income and Expenditure**				**(28,941)**

3.3 Group Balance Sheet

31 March 2019 £000		Note	31 March 2020 £000
466,715	Property, Plant and Equipment	G06	479,019
1,483	Intangible Assets	G07	2,501
12,029	Long Term Debtors	G08	12,321
1	Long Term Investments	G08	1
480,228	**Long Term Assets**		**493,842**
65,281	Short Term Investments	G08	58,236
17,794	Short Term Debtors	G09	17,175
21,964	Cash and Cash Equivalents	G10	38,685
1,647	Inventories		2,007
106,686	**Current Assets**		**116,103**
(1,288)	Short Term Borrowing	G08	(1,298)
(29,636)	Short Term Creditors	G11	(28,285)
(1,205)	Grants Receipts in Advance	G05	(891)
(2,838)	New Tyne Crossing Deferred Income		(2,837)
(34,967)	**Current Liabilities**		**(33,311)**
(51,076)	New Tyne Crossing Deferred Income		(48,224)
(92,508)	Long Term Borrowing	G08	(95,072)
(125)	Grants Receipts in Advance	G05	-
(43,011)	Pension Liability	G12	(39,251)
(2,562)	Provisions		(2,898)
(2,578)	Deferred Taxation	G13	(2,161)
(191,860)	**Long Term Liabilities**		**(187,606)**
360,087	**Net Assets**		**389,028**
(58,243)	Usable Reserves	G14	(76,530)
(301,844)	Unusable Reserves	G15	(312,498)
(360,087)	**Total Reserves**		**(389,028)**

Chief Finance Officer Certificate

I certify that the accounts set out on pages 73 to 103 give a true and fair view of the financial position of the North East Combined Authority Group as at the 31 March 2020.

Signed: John Hewitt, Chief Finance Officer

3.4 Group Cash Flow Statement

2018/19 £000		Note	2019/20 £000
(3,077)	Surplus/(Deficit) on the provision of services	G16	16,870
43,205	Adjustments to net surplus or deficit on the provision of services for non-cash movements	G16	19,645
(84,911)	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	G16	(69,890)
(44,783)	**Net cash flows from Operating Activities**	G16	**(33,375)**
28,201	Investing Activities	G17	47,512
(4,314)	Financing Activities	G18	2,584
(20,896)	**Net (Decrease)/Increase in cash and cash equivalents**		**16,721**
59,878	Cash and cash equivalents at the beginning of the reporting period		21,964
(17,019)	Transfer to the NTCA		-
21,964	**Cash and cash equivalents at the end of the reporting period**	G10	38,685

3.5 Explanatory Notes to the Group Financial Statements

Note G01: 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 adopted by Nexus are largely aligned with those of NECA with the following minor differences:

Deferred Taxation

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

Property, Plant and Equipment and Intangible Assets

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

Details of NECA's depreciation policy can be found on page 65 of the single entity accounts.

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

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

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

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

For more details see Note 1 on page 8.

Note G02: 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
Corporate	(96)	-	840	-	744
Inward Investment	214	-	-	-	214
Local Growth Fund Programme	(797)	(1,694)	-	-	(2,491)
North East Local Enterprise Partnership	(72)	-	-	-	(72)
Skills	-	-	-	-	-
Transport - Retained Levy Budget	438	(295)	-	-	143
Transport - Durham	15,552	-	-	-	15,552
Transport - Tyne and Wear	22,363	12,644	15,374	-	50,381
Transport - Other	(1,349)	(2,277)	-	-	(3,626)
Transport - Tyne Tunnels	(3,184)	(1,235)	(50)	-	(4,469)
Cost of services	**33,068**	**7,143**	**16,164**	**-**	**56,376**
Other Income and Expenditure	(46,755)	(28,339)	1,014	399	**(73,681)**
Group (Surplus)/Deficit	**(13,687)**	**(21,196)**	**17,178**	**399**	**(17,305)**
Opening General Fund Balances	(44,067)				
Transfer from Capital Receipts Reserve	3,336				
Closing General Fund Balances	**(54,418)**				

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 NECA Services					
Corporate	153	-	580	-	733
Inward Investment	1	-	-	-	1
Local Growth Fund Programme	502	(241)	-	-	261
North East Local Enterprise Partnership	3,495	-	-	-	3,495
Skills	5	-	-	-	5
Transport - Retained Levy Budget	335	(230)	-	-	105
Transport - Durham	15,692	-	-	-	15,692
Transport - Tyne and Wear	32,763	15,003	4,593	-	52,359
Transport - Other	(3,149)	(3,293)	-	-	(6,442)
Transport - Tyne Tunnels	(1,804)	576	(50)	-	(1,278)
Cost of services relating to continuing services excluding operations transferred to the NTCA	**47,993**	**11,815**	**5,123**	**-**	**64,931**
Services transferred to the NTCA					
Transport - Northumberland	3,585	-	-	-	3,585
Transport - Retained Levy Budget	222	(183)	-	-	39
Transport - Tyne and Wear	15,187	6,954	2,129	-	24,270
Transport - Other	2,621	(2,617)	-	-	4
Transport - Tyne Tunnels	(3,217)	457	-	-	(2,760)
Cost of services relating to services transferred to the NTCA	**18,398**	**4,611**	**2,129**	**-**	**25,138**
Cost of services	**66,391**	**16,426**	**7,252**	**-**	**90,069**
Other Income and Expenditure					
- From continuing services	(50,019)	(13,366)	995	(1,021)	(63,411)
- From services transferred to the NTCA	(18,256)	(6,195)	452	-	(23,999)
Group (Surplus)/Deficit	**(1,884)**	**(3,135)**	**8,699**	**(1,021)**	**2,659**
Opening General Fund Balances	(67,616)				
Transferred to the NTCA 2 November 2018	25,432				
Closing General Fund Balance	**(44,068)**				

Note G02a: Income and Expenditure Analysed by Nature

	2018/19 £000	2019/20 £000
Expenditure		
Employee benefit expenses	2,372	31,879
Other service expenses	88,989	77,195
Depreciation, impairment and Revenue Expenditure Funded from Capital Under Statute (REFCUS)	69,170	55,531
Interest payments	5,651	9,509
Total expenditure	**166,182**	**174,114**
Income		
Fees, charges and other service income (Tyne Tunnels tolls)*	(22,788)	(43,782)
Interest and investment income	(2,805)	(6,686)
Income from business rates on enterprise zones	(1,675)	(2,398)
Income from transport levy	(69,683)	(49,598)
Government grants and contributions	(71,997)	(85,333)
Other income	(4,808)	(3,186)
Total income	**(173,756)**	**(190,983)**
Surplus/Deficit on the provision of services	**(7,574)**	**(16,869)**

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

Note G03: Financing and Investment Income and Expenditure

	Note	2018/19 Continuing Services	2018/19 Transport Services transferred to NTCA - 1 April 2018 - 1 November 2018	2019/20
		£000	£000	£000
Interest Payable and Similar Charges		3,676	1,982	4,358
Interest Payable on defined benefit liability	G12	995	452	1,014
Interest Receivable and similar income		(1,696)	(186)	(1,819)
Total		**2,975**	**2,248**	**3,553**

Note G04: Taxation and Non Specific Grant Income

	2018/19 Continuing Services	2018/19 Transport Services transferred to NTCA - 1 April 2018 - 1 November 2018	2019/20
	£000	£000	£000
Transport Levy	(50,133)	(18,689)	(49,598)
Enterprise Zones Income	(1,675)	-	(2,151)
Non Specific Capital Grants	(14,150)	(7,553)	(25,165)
Total	**(65,958)**	**(26,242)**	**(76,914)**

Note G05: Grant Income

	2018/19 Continuing Services	2018/19 Transport Services transferred to NTCA - 1 April 2018 - 1 November 2018	2019/20
	£000	£000	£000
LEP Core and Capacity Grant	(500)	-	(500)
Growth Hub	(410)	-	(442)
Local Authority Contributions to NECA	(440)	-	(352)
Local Authority Contribution to North East LEP	(250)	-	(253)
Local Growth Fund	(51,706)	-	(28,063)
Local Transport Plan	(7,773)	(2,316)	(7,770)
European Grants	(1,034)	(234)	(979)
North East Smart Ticketing Initiative	(463)	-	(202)
Transforming Cities Fund	(5,600)	-	(5,516)
LEP Local Industrial Strategy Grant	(176)	-	(224)
Office for Low Emission Vehicles	(393)	(234)	(302)
Other Grants	(964)	(230)	(2,609)
Metro Rail Grant	(14,579)	(6,758)	(14,534)
Heavy Rail Grant	(140)	(65)	(144)
Total	**(84,428)**	**(9,837)**	**(61,890)**

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
North East Smart Ticketing Initiative	(316)	(114)
Office for Low Emission Vehicles	(443)	(141)
Other Grants	(571)	(636)
Total	**(1,330)**	**(891)**

Shown as Short-Term Liability on the Balance Sheet	(1,205)	(891)
Short as Long-Term Liability on the Balance Sheet	(125)	-
Total	**(1,330)**	**(891)**

Note G06: 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	20,852	608,268	23,725	969	653,814	209,163
Additions	-	-	31,126	-	31,126	-
Transfers from Assets Under Construction	419	27,516	(27,935)	-	-	10,193
Transfers between categories	-	145	-	(145)	-	-
Transfers to Intangibles	-	-	(824)	-	(824)	-
Derecognition - Disposals	(61)	(1,848)	(349)	-	(2,258)	-
Revaluation Recognised in Revaluation Reserve	-	-	-	988	988	-
At 31 March 2020	**21,210**	**634,081**	**25,743**	**1,812**	**682,846**	**219,356**
Accumulated Depreciation and Impairment						
At 1 April 2019	(13,065)	(173,640)	-	(393)	(187,098)	(26,434)
Depreciation charge	(1,071)	(16,736)	-	(22)	(17,829)	(2,224)
Derecognition - Disposals	61	1,039	-	-	1,100	-
At 31 March 2020	**(14,075)**	**(189,337)**	**-**	**(415)**	**(203,827)**	**(28,658)**
Net Book Value						
At 1 April 2019	**7,787**	**434,628**	**23,725**	**576**	**466,716**	**182,729**
At 31 March 2020	**7,135**	**444,744**	**25,743**	**1,397**	**479,019**	**190,698**

	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						
At 1 April 2018	34,975	1,071,546	43,586	1,739	**1,151,846**	**381,072**
Additions	-	-	17,527	-	**17,527**	-
Transfers from Assets Under Construction	1,485	17,062	(18,547)	-	**-**	-
Derecognition - Disposals	(58)	(2,034)	-	-	**(2,092)**	-
At 2 November 2018	**36,402**	**1,086,574**	**42,566**	**1,739**	**1,167,281**	**381,072**
Transferred to the NTCA	(16,118)	(481,108)	(18,847)	(770)	**(516,843)**	(168,729)
Additions	-	24	7,388	-	**7,412**	24
Transfers from Assets Under Construction	591	6,791	(7,382)	-	**-**	-
Revaluation increases/(decreases) recognised in Surplus/Deficit on the Provision of Services	-	(24)	-	-	**(24)**	(24)
Impairment recognised in Surplus/Deficit on Provision of Services	-	(3,180)	-	-	**(3,180)**	**(3,180)**
Derecognition - Disposals	(23)	(809)	-	-	**(832)**	-
At 31 March 2019	**20,852**	**608,268**	**23,725**	**969**	**653,814**	**209,163**
Accumulated Depreciation and Impairment						
At 1 April 2018	(20,843)	(287,122)	-	(666)	**(308,631)**	(43,738)
Depreciation charge for the period 1/4/18-1/11/18	(1,575)	(16,288)	-	(23)	**(17,886)**	(2,233)
Derecognition - Disposals	56	1,927	-	-	**1,983**	-
At 2 November 2018	(22,362)	(301,483)	-	(689)	**(324,534)**	(45,971)
Transferred to the NTCA	9,902	133,489	-	305	**143,696**	20,355
Depreciation charge for the period 2/4/18-31/3/19	(627)	(6,413)	-	(9)	**(7,049)**	(818)
Derecognition - Disposals	22	767	-	-	**789**	-
At 31 March 2019	**(13,065)**	**(173,640)**	**-**	**(393)**	**(187,098)**	**(26,434)**
Net Book Value						
At 1 April 2018	**14,130**	**784,428**	**43,586**	**1,073**	**843,217**	**337,338**
At date of reconfiguration	14,040	785,091	42,566	1,050	842,747	335,101
At 31 March 2019	**7,787**	**434,628**	**23,725**	**576**	**466,716**	**182,729**
At 31 March 2020	**7,135**	**444,744**	**25,743**	**1,397**	**479,019**	**190,698**

Note G07: Intangible Assets

Intangible assets in the Group Accounts relate wholly to Nexus.

	2018/19 £000	2019/20 £000
Cost or Valuation		
Opening Balance	8,157	4,780
Transferred to the NTCA 2 November 2018	(3,720)	-
Additions	343	397
Transfers from assets under construction	-	824
Derecognition - Disposals	-	(39)
Total	**4,780**	**5,962**
Amortisation		
Opening Balance	(5,297)	(3,297)
Transferred to the NTCA 2 November 2018	2,506	-
Amortisation provided during the period	(506)	(164)
Total	**(3,297)**	**(3,461)**
Net Book Value at 31 March	**1,483**	**2,501**

Note G08: Financial Instruments

Financial Assets

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

	Non-current				Current			
	Investments		Debtors		Investments		Debtors	
	31 March 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	11,712	12,321	65,281	58,236	8,674	12,653
Total financial assets	1	1	11,712	12,321	65,281	58,236	8,674	12,653
Non-financial assets	-	-	-	-	-	-	9,120	4,354
Total	**1**	**1**	**11,712**	**12,321**	**65,281**	**58,236**	**17,794**	**17,007**

Financial assets at amortised cost

Financial assets are classified 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	(92,508)	(95,072)	-	-	(1,288)	(1,298)	(12,854)	(18,548)
Total financial liabilities	(92,508)	(95,072)	-	-	(1,288)	(1,298)	(12,854)	(18,548)
Non-financial liabilities	-	-	-	-	-	-	(16,783)	(9,570)
Total	**(92,508)**	**(95,072)**	**-**	**-**	**(1,288)**	**(1,298)**	**(29,637)**	**(28,118)**

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

Income, Expense, Gains and Losses

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

31 March 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
5,658	-	5,658	Interest expense	4,358	-	4,358
5,658	**-**	**5,658**	**Total expense in Surplus on Provision of Services**	**4,358**	**-**	**4,358**
-	(1,523)	(1,523)	Investment income	-	(1,686)	(1,686)
-	(359)	(359)	Movement on soft loans	-	(132)	(132)
-	**(1,882)**	**(1,882)**	**Total income in Surplus on Provision of Services**	**-**	**(1,818)**	**(1,818)**
5,658	**(1,882)**	**3,776**	**Net (gain)/loss for the year**	**4,358**	**(1,818)**	**2,540**

Fair Value of Assets & Liabilities carried at Amortised Cost

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

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

- The value of "Lender's Option Borrower's Option" (LOBO) loans have been increased by the value of the embedded options. Lender's options to propose an increase to the interest rate of the loan have been valued according to a proprietary model for Bermudan cancellable swaps. Borrower's contingent options to accept the increased rate or repay the loan have been valued at zero, on the assumption that lenders will only exercise their options when market rates have risen above the contractual loan rate.
- The fair values of other long-term loans and investments have been discounted at the market rates for similar instruments with similar remaining terms to maturity on 31 March.
- No early repayment or impairment is recognised for any financial instrument.
- The fair value of short-term instruments, including trade payables and receivables, is assumed to approximate to the carrying amount.

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	
	Level	**Carrying amount £000**	**Fair value £000**	**Carrying amount £000**	**Fair value £000**
Financial liabilities held at amortised cost	2	(93,796)	(151,424)	(96,370)	(166,167)
Total		**(93,796)**	**(151,424)**	**(96,370)**	**(166,167)**
Financial Assets at amortised cost					
Held to maturity investments		65,281	65,281	58,236	58,236
Loan debtors [1]	3	17,373	17,373	14,510	14,510
Total		**82,654**	**82,654**	**72,746**	**72,746**

[1] For details of soft loans held by NECA, please see note 12 of the single entity accounts.

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

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

Note G09: Short Term Debtors

	31 March 2019 £000	31 March 2020 £000
Central Government bodies	8,012	10,281
Other local authorities	5,518	6,419
NHS bodies	45	2
Other entities and individuals	4,219	305
Total	**17,794**	**17,007**

Note G10: Cash and Cash Equivalents

	31 March 2019 £000	31 March 2020 £000
Cash	11,170	21,716
Short-term deposits with financial institutions	10,794	16,969
Total	**21,964**	**38,685**

Note G11: Short Term Creditors

	31 March 2019 £000	31 March 2020 £000
Central government bodies	(515)	(1,439)
Other local authorities	(11,415)	(7,844)
Other entities and individuals	(17,707)	(18,835)
Total	**(29,637)**	**(28,118)**

Note G12: Defined Benefit Pension Schemes

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

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

Consolidated Pension Liability

The Group pension liability of £39.251m (2019 £43.011m (restated to reflect NECA's share only)) is the sum of the NECA's pension liability, and NECA's share of the Nexus and NEMOL pension liability. The details of the total NEMOL pension liability of £13.702m (2019 £32.152m) are set out within the NEMOL Annual Report and Accounts using the FRS 101 disclosure framework.

Following the TUPE of employees from NEMOL to Nexus on 1 November 2019, the associated pension assets and liabilities have transferred to Nexus. In the Nexus Group accounts this has resulted in a one-off loss of £3.039m arising from differences in actuarial assumptions between NEMOL and Nexus, the NECA Group share of this loss being £1.693m. This is presented in the disclosures below as well as in the Comprehensive Income and Expenditure Statement as an exceptional item.

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]	9,844	8,222	-	-
Past service cost	6,464	65	-	-
Exceptional loss on transfer of pension liability	-	1,693	-	-
Financing and Investment Income and Expenditure				
Interest cost	1,346	5,086	102	65
Expected Return on Scheme Assets	-	(4,137)	-	-
Total Post-Employment benefit charged to the Surplus or Deficit on the Provision of Services	**17,654**	**10,929**	**102**	**65**
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	(12,957)	(14,941)	-	-
Remeasurement of the net Defined Benefit Liability	3,224	10,789	(112)	(325)
Adjustment in respect of paragraph 58	1,560	(6,170)	-	-
Total amount recognised in Other Comprehensive Income and Expenditure	**(8,173)**	**(10,322)**	**(112)**	**(325)**
Total amount recognised in CIES	**9,481**	**607**	**(10)**	**(260)**

1. The Current Service cost includes an allowance for administration expenses of £0.01m for NECA and £0.171m 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	**(395,160)**	**(251,679)**	**(4,870)**	**(2,880)**
Current service cost to 2 November	(6,988)	-	-	-
Interest cost to 2 November	(5,927)	-	(70)	-
Contributions by participants to 2 November	(1,499)	-	-	-
Remeasurement of the net Defined Benefit liability to 2 November	(2,258)	-	76	-
Net benefits paid out to 2 November	6,633	-	233	-
Past service costs to 2 November	(4,603)	-	-	-
Closing balance at 2 November	**(409,802)**	**(251,679)**	**(4,631)**	**(2,880)**
Transfer to NTCA	**164,056**	**-**	**1,645**	**-**
Current service cost to 31 March	(2,855)	(8,206)	-	-
Interest cost to 31 March	(2,542)	(6,016)	(32)	(65)
Contributions by participants to 31 March	(615)	(1,680)	-	-
Remeasurement of the net Defined Benefit liability to 31 March	(967)	(10,789)	36	325
Net benefits paid out to 31 March	2,911	8,312	102	239
Past service costs to 31 March	(1,865)	(67)	-	-
Net increase in liabilities from NEMOL transfer	-	(1,693)	-	-
Closing balance at 31 March	**(251,679)**	**(271,818)**	**(2,880)**	**(2,381)**

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 balance at 1 April	**335,520**	**220,326**	**-**	**-**
Interest income on assets to 2 November	5,075	-	-	-
Remeasurement gains/(losses) on assets to 2 November	8,937	-	-	-
Employer contributions to 2 November	3,663	-	233	-
Contributions by scheme participants to 2 November	1,499	-	-	-
Net benefits paid out to 2 November	(6,633)	-	(233)	-
Balance at date of reconfiguration	**348,061**	**220,326**	**-**	**-**
Transfer to NTCA	**(133,155)**	**-**	**-**	**-**
Interest income on assets to 31 March	2,238	5,279	-	-
Remeasurement gains/(losses) on assets to 31 March	4,020	14,940	-	-
Employer contributions to 31 March	1,458	3,855	102	239
Contributions by scheme participants to 31 March	615	1,680	-	-
Net benefits paid out to 31 March	(2,911)	(8,312)	(102)	(239)
Closing balance 31 March	**220,326**	**237,768**	**-**	**-**

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	2015/16	2016/17	2017/18	2018/19	2019/20
	£000	£000	£000	£000	£000
Fair value of LGPS assets	**222,650**	**271,850**	**335,520**	**220,327**	**237,767**
Present value of liabilities:					
- LGPS liabilities	(251,680)	(301,460)	(395,160)	(251,678)	(271,818)
- Impact of minimum funding	(5,520)	(7,460)	(7,030)	(8,780)	(2,820)
Deficit on funded defined benefit scheme	**(34,550)**	**(37,070)**	**(66,670)**	**(40,131)**	**(36,871)**
Discretionary benefits	(5,090)	(5,130)	(4,870)	(2,880)	(2,380)
Total (Deficit)	**(39,640)**	**(42,200)**	**(71,540)**	**(43,011)**	**(39,251)**

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

	NECA	Nexus	NEMOL
Active members	9%	37%	85%
Deferred pensioners	13%	13%	5%
Pensioners	78%	50%	10%

The weighted average duration of the defined benefit obligation for scheme members is 13.5 years for NECA, 19.3 years for Nexus and 25.6 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 £274.198m has an impact on the net worth of the Authority recorded on the balance sheet, resulting in a negative pension balance of £39.251m. However, statutory arrangements for funding the deficit mean that the financial position of the Authority remains healthy:

- The deficit on the local government scheme will be made good by contributions over the remaining working life of employees (i.e. before payments fall due), as assessed by the scheme actuary.
- Finance is only required to be raised to cover discretionary benefits when the pensions are actually paid.
- The total contributions expected to be made to the Local Government Pension Scheme by the Authority in the year to 31 March 2021 is nil for NECA, £3.03m for Nexus and £0.38m for NEMOL (of which £1.69m and £0.21m 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 are £0.05m in relation to unfunded benefits for NECA and £0.350m in relation to unfunded benefits for Nexus (of which £0.195m 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:

NECA
The principal assumptions are set out in Note 19 of the single entity accounts.

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
Longevity at 65 for future pensioners:				
Men	23.9	23.5	n/a	n/a
Women	27.2	26.8	n/a	n/a
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%	2.0%	n/a	n/a
Rate of increase in salaries	3.7%	3.5%	n/a	n/a

NEMOL	LGPS	
	2018/19	2019/20
Mortality assumptions:		
Longevity at 65 for current pensioners:		
Men	22.2	21.8
Women	25.3	25.0
Longevity at 65 for future pensioners:		
Men	23.9	23.5
Women	27.2	26.8
Rate for discounting scheme liabilities	2.5%	2.3%
Rate of inflation - Retail Price Index	3.2%	n/a
Rate of inflation - Consumer Price Index	2.1%	1.9%
Rate of increase in pensions	2.1%	1.9%
Pension accounts revaluation rate	2.1%	1.9%
Rate of increase in salaries	3.6%	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 Pension Scheme	
	2018/19	2019/20
	£000	£000
Interest Income on Assets	7,313	5,279
Remeasurement gain/(loss) on assets	12,957	14,940
Actual Return on Assets	**20,270**	**20,219**

Sensitivity Analysis

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

The approximate impact of changing the key assumptions on the present value of the funded defined benefit obligation for Nexus as at 31 March 2020 and the projected cost for the period ending 31 March 2021 is set out below. In each case, only the assumption mentioned is altered; all other assumptions remain the same and are summarised above. The NEMOL sensitivity analysis, data summary and pensioner numbers are set out within the NEMOL Annual Report.

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 G13: Deferred Taxation

The movement for the year comprises:

	2018/19 £000	2019/20 £000
Capital Allowances	(112)	(312)
Roll over relief on capital gains	-	-
Other timing differences	-	(105)
Amount transferred to NTCA 2 November 2018	(2,074)	-
Total	**(2,186)**	**(417)**

The balance at the year end comprises:

	31 March 2019 £000	31 March 2020 £000
Excess of capital allowances over depreciation	(1,892)	(1,580)
Roll over relief on capital gains	(687)	(687)
Other timing differences	-	105
Tax effect of losses	-	-
Total	**(2,579)**	**(2,162)**

Note G14: Usable Reserves

	31 March 2019 £000	31 March 2020 £000
General Fund Balance	(52,192)	(49,684)
Earmarked Reserves	(9,792)	(12,372)
Capital Receipts Reserve	(2,502)	(8,889)
Capital Grants Unapplied Reserve	(11,673)	(13,224)
Pensions (NEMOL)	17,916	7,638
Total	**(58,243)**	**(76,531)**

Note G15: Unusable Reserves

Summary

	31 March 2019 £000	31 March 2020 £000
Capital Adjustment Account	(325,618)	(341,308)
Financial Instruments Adjustment Account	3,682	3,093
Revaluation Reserve	(5,000)	(5,908)
Pension Reserve	25,095	31,625
Total	**(301,844)**	**(312,498)**

Details of movements on the Financial Instruments Adjustment Account is shown on page 42 of the NECA single entity accounts. This reserve relates to NECA only.

Revaluation Reserve

The Revaluation Reserve (RR) contains the gains made by the Authority arising from increases in the value of its Property, Plant and Equipment. The balance is reduced when assets with accumulated gains are:

- Revalued downwards or impaired and the gains are lost
- Used in the provision of services and the gains are consumed through depreciation
- Disposed of and the gains are realised

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

	£000
Opening Balance 1 April 2018	**(9,120)**
Transferred to the NTCA 2 November 2018	**4,039**
Difference between fair value depreciation and historical cost depreciation written off to the CAA	81
Balance at 31 March 2019	**(5,000)**
Difference between fair value depreciation and historical cost depreciation written off to the CAA	81
Revaluation Gain recognised in Revaluation Reserve	(988)
Balance at 31 March 2020	**(5,907)**

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
Opening Balance 1 April 2018	**43,800**
Remeasurements of the net defined benefit liability	(4,529)
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	6,938
Employer's pension contributions and direct payments to pensioners payable in the year	(2,101)
Balance at date of reconfiguration	**44,108**
Transfer to NTCA	**(19,118)**
Remeasurements of the net defined benefit liability to 2 November 2018	(2,091)
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 2019	3,040
Employer's pension contributions and direct payments to pensioners to 31 March 2019	(844)
Balance at 31 March 2019	**25,095**
Remeasurements of the net defined benefit liability to 31 March 2020	(10,648)
Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the CIES to 31 March 2020	11,784
Employer's pension contributions and direct payments to pensioners to 31 March 2020	(2,724)
NEMOL pension transfer	8,118
Balance at 31 March 2020	**31,625**

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
Opening Balance 1 April 2018	**(572,135)**
Reversal of items relating to capital expenditure debited or credited to the CIES: to 2 November 2018	
Charges for depreciation and impairment of non current assets	17,207
Amounts of non-current assets written off on disposal or sale	2,010
Other income that cannot be credited to the General Fund	(3,000)
Revenue expenditure funded from capital under statute	5,144
Nexus movement between usable and unusable reserves	1,784
Capital financing applied in the year:	
Capital grants and contributions credited to the CIES that have been applied to capital financing	(22,203)
Statutory provision for the financing of capital investment	(981)
Capital expenditure charged against the General Fund	(998)
Balance at date of reconfiguration	**(573,172)**
Transferred to the NTCA	**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	9,982
Amounts of non-current assets written off on disposal or sale	800
Other income that cannot be credited to the General Fund	(1,166)
Revenue expenditure funded from capital under statute	57,695
Write down of long term debtors	3,794
Nexus movement between usable and unusable reserves	710
Adjusting amounts written out of the Revaluation Reserve to 31 March 2019	**(81)**
Capital financing applied in the year to 31 March 2019	
Capital grants and contributions credited to the CIES that have been applied to capital financing	(64,670)
Statutory provision for the financing of capital investment	(540)
Capital expenditure charged against the General Fund	(421)
Debt redeemed using capital receipts	(1,983)
Balance at 31 March 2019	**(325,619)**
Reversal of items relating to capital expenditure debited or credited to the CIES:	
Charges for depreciation and impairment of non current assets	17,019
Other income that cannot be credited to the General Fund	(2,837)
Revenue expenditure funded from capital under statute	37,538
Write down of long term debtors	5,560
Non Current Assets written off on disposal	988
Adjusting amounts written out of the Revaluation Reserve	**(81)**
Capital financing applied in the year:	-
Capital grants and contributions credited to the CIES that have been applied to capital financing	(68,339)
Statutory provision for the financing of capital investment	(964)
Capital expenditure charged against the General Fund	(2,063)
Debt redeemed using capital receipts	(2,510)
Balance at 31 March 2020	**(341,308)**

Note G16: Adjustments to net surplus or deficit on the provision of services for non-cash movements and items that are Investing or Financing activities

	2018/19 £000	2019/20 £000
Surplus/(Deficit) on the provision of services	(3,077)	16,868
Adjustments to Surplus/(Deficit) on Provision of Services for Non-Cash Movements		
Depreciation, Impairment and Amortisation	28,647	17,019
Loss on disposal of non-current assets	136	1,185
(Increase)/Decrease in Creditors	7,273	(1,528)
Increase/(Decrease) in Debtors	(91)	429
Increase/(Decrease) in Inventories	(85)	(361)
Movement in Pension Liability	12,296	6,887
Other non-cash items charged to the net surplus or deficit on the provision of services	(4,970)	(3,986)
	43,206	**19,645**
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	(85,860)	(70,481)
Other adjustments for items that are financing or investing activities	949	592
Net cash flow from operating activities	**(44,782)**	**(33,375)**

The cash flows for operating activities include the following items:

	2018/19 £000	2019/20 £000
Interest received	3,491	2,224
Interest paid	(6,317)	(4,196)

Note G17: Cash Flow Statement - Investing Activities

	2019/20 £000	2019/20 £000
Purchase of property, plant and equipment, investment property and intangible assets	(25,283)	(29,070)
Purchase of short-term and long-term investments	(157,517)	(101,107)
Other payments for investing activities	-	-
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	15	11
Proceeds from short-term and long-term investments	123,426	101,107
Other receipts from investing activities	87,559	76,571
Net cash flows from investing activities	**28,200**	**47,512**

Note G18: Cash Flow Statement - Financing Activities

	2018/19 £000	2019/20 £000
Repayments of short and long-term borrowing	(2,102)	2,584
Other payments for financing activities	(2,212)	-
Net cash flows from financing activities	**(4,314)**	**2,584**

Note G18a: Reconciliation of liabilities arising from Financing Activities

	1 April 2019	Financing Cash Flows	Changes which are not financing cash flows		31 March 2020
			Acquisition	Other	
	£000	£000	£000	£000	£000
Long term borrowings	(92,508)	(2,564)	-	-	(95,072)
Short term borrowings	(1,288)	-	-	(10)	(1,298)
Total Liabilities from financing Activities	(93,796)	(2,564)	-	(10)	(96,371)

	Pre NTCA split			Includes elements transferred to NTCA 2 November	Post NTCA split
	1 April 2018	Financing Cash Flows	Changes which are not financing cash flows		31 March 2019
			Acquisition	Other	
	£000	£000	£000	£000	£000
Long term borrowings	(167,000)	526	-	73,966	(92,508)
Short term borrowings	(2,596)	(154)	-	1,462	(1,288)
Total Liabilities from financing Activities	(169,596)	372	-	75,428	(93,796)

Note G19: Capital Expenditure and Capital Financing

	£000
Opening Capital Financing Requirement 1 April 2018	**195,383**
Capital Investment to 2 November 2018	
Property, Plant and Equipment	19,457
Intangible Assets	246
Revenue Expenditure Funded from Capital Under Statute	5,144
Sources of Finance to 2 November 2018	
Government Grants and other contributions	(22,203)
Sums set aside from revenue to 2 November 2018	
Direct revenue contributions	(998)
Minimum Revenue Provision	(981)
Closing Capital Financing Requirement 2 November 2018	**196,048**
Transfer to NTCA	**(86,805)**
NECA Capital Financing Requirement 2 November 2018	**109,243**
Capital Investment to 31 March 2019	
Property, Plant and Equipment	8,180
Intangible Assets	98
Revenue Expenditure Funded from Capital Under Statute	57,695
Sources of Finance to 31 March 2019	
Capital receipts - repayment of principal from long term debtors	(1,983)
Government Grants and other contributions	(64,670)
Sums set aside from revenue to 31 March 2019	
Direct revenue contributions	(421)
Minimum Revenue Provision	(387)
Additional Voluntary Provision	(153)
Closing Capital Financing Requirement 31 March 2019	**107,602**
Decrease in underlying need to borrow (unsupported by government financial assistance)	**(977)**

	£000
Opening Capital Financing Requirement 1 April 2019	**107,602**
Capital Investment	
Property, Plant and Equipment	31,204
Intangible Assets	397
Revenue Expenditure Funded from Capital Under Statute	37,538
Sources of Finance	-
Capital receipts - repayment of principal from long term debtors	(2,510)
Government Grants and other contributions	(68,338)
Sums set aside from revenue	-
Direct revenue contributions	(2,063)
Minimum Revenue Provision	(964)
Additional Voluntary Provision	-
Closing Capital Financing Requirement 31 March 2020	**102,866**
Decrease in underlying need to borrow (unsupported by government financial assistance)	**(4,736)**

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.

North East Combined Authority

DURHAM · GATESHEAD · SOUTH TYNESIDE · SUNDERLAND

ANNUAL GOVERNANCE STATEMENT 2019/20

In partnership with

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

Annual Governance Statement 2019/20

Section 1: Introduction

This Annual Governance Statement provides an overview of how the North East Combined Authority's governance arrangements operate, including how they are reviewed annually to ensure they remain effective.

Section 2: Scope Of Responsibility

The North East Combined Authority (NECA) was established in April 2014 and brought together the seven councils which serve Durham, Gateshead, Newcastle, North Tyneside, Northumberland, South Tyneside and Sunderland.

Following the establishment of a North of Tyne Mayoral Combined Authority (NTCA), On 2 November 2018 the boundaries of NECA were changed. As a result of these governance changes the boundaries of NECA now cover the Local Authorities of Durham, Gateshead, South Tyneside and Sunderland.

NECA and the NTCA continue to work together on a number of areas to support the region, including transport. To oversee strategic transport functions a new North East Joint Transport Committee has been established with members from both Combined Authorities. All seven Local Authorities will remain members of the North East Local Enterprise Partnership to deliver the objectives of the regions Strategic Economic Plan, which is the North East's plan for growing and developing a more productive, inclusive and sustainable regional economy.

NECA is responsible for ensuring that its business is conducted in accordance with the law and proper standards. It is also responsible for ensuring that public money is safeguarded, properly accounted for and used economically, efficiently and effectively. The Authority also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised.

In discharging this overall responsibility, the Authority's Leadership Board and Statutory Officers are responsible for putting in place proper arrangements (known as a Governance Framework) for:

(i) the governance of our affairs and
(ii) facilitating the effective exercise of our functions, including arrangements for the management of risk

In relation to (ii) the Authority has put in place a system of internal control designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness.

The system of internal control is based on an ongoing process designed to:

a) identify and prioritise the risks to the achievement of our aims and objectives; and

b) evaluate the likelihood of those risks being realised, the impact should they be realised, and to manage them efficiently, effectively and economically.

The Combined Authority has developed a Risk Management Strategy and Strategic Risk Register, which is reported to regular meetings of the Authority's Audit and Standards Committee. This information can be found under the Audit and Standards Committee on the Authority's web-site.

Section 3: Purpose Of The Governance Framework

In addition to the above the Authority's Governance Framework comprises the systems, processes, culture, values and activities through which we are directed and controlled and through which we account to, engage with, creating the conditions of economic growth and investment. It enables us to monitor the achievement of the Authority's objectives and to consider whether those objectives have led to the delivery of appropriate services which represent value for money.

The Governance Framework has been in place for the year ended 31 March 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 principles and outcomes of our Governance framework are set out below and through these we will aim to provide strong governance to achieve our objectives:

1. Ensuring openness and comprehensive stakeholder engagement

1.1 We ensure that we are clear on delivering the objectives of the Combined Authority and intended outcomes of our Strategic Economic Plan, January 2019, to create the best possible conditions for growing and developing a more productive, inclusive and sustainable regional economy.

1.2 We ensure we assess and review our vision and the implications for our governance arrangements through the budget and performance management framework.

1.3 Meetings, agendas and minutes are accessible via NECA's website. A Forward Plan is available which contains matters which are expected to be the subject of key decisions taken by the Leadership Board. All meetings are held in public (other than where consideration of confidential or exempt information)

1.4'Impact of COVID-19 on Governance Arrangements – Due to the COVID-19 pandemic, the usual operations and meetings of the Combined Authority have been affected. In accordance with the Local Authorities and Police and Crime Panels (Coronavirus) (Flexibility of Local Authority and Police and Crime Panel Meetings) (England and Wales) Regulations 2020 and the Coronavirus Act 2020, the Combined Authority stood down Committee Meetings from 19 March 2020 onwards. Only statutory, business-critical meetings have been taking place. The Annual Meeting of the Combined Authority, which was scheduled to take place 9 June 2020, has been stood down until such a time when all of the constituent authorities have held their Annual Meetings.

Governance Arrangements including the review of the NECA Constitution, Appointment of Committees, Agreement of Membership, Appointment of Chairs and Vice-Chairs and Appointment of Membership to Outside Bodies will therefore not be considered until the Annual Meeting is held at a later date in the Municipal Year. In line with the Local Authorities and Police and Crime Panels (Coronavirus) (Flexibility of Local Authority and Police and Crime Panel Meetings) (England and Wales) Regulations 2020, Appointments made by NECA will roll over until they are considered at the next Annual Meeting.'

1.5 We publish a register of key decisions to notify the public of the most significant decisions it is due to take. Details of each decision are included on the Forward Plan 28 days before the report is considered and any decision is taken. This allows an opportunity for people to find out about major decisions that the Combined Authority is planning to take.

1.6 Our Freedom of Information Scheme is published on our website.

1.7 The Authority maintains a list of significant partners which set out the purpose of the partnerships, link officers ad review dates.

1.8 Transport is of strategic importance to the North East and together with the North of Tyne Mayoral Combined Authority a North East Joint Transport Committee has been established bringing together members from both Combined Authorities, allowing effective decision making across the region to ensure that the local needs and transport priorities are delivered.

2. Developing the entity's capacity, including the capability of its leadership and the individuals within it

2.1 We have defined and documented in our Constitution the roles and responsibilities of the Board, Scrutiny and 'proper' officer functions (Head of Paid Service, Monitoring Officer, Chief Finance Officer), with clear delegation arrangements and protocols for effective communication. The collective and individual roles and responsibilities of the Leadership Board, Members and Officers have been agreed by the Combined Authority.

2.2 We identify and aim to address the development needs of members and officers in relation to their strategic roles, and support these with appropriate training.

3. Behaving with integrity, demonstrating strong commitment to ethical values and respecting the rule of law

3.1 We review and update our standing orders, standing financial instructions, scheme of delegation and supporting procedure notes/manuals – these clearly define how decisions are taken and the processes and controls required to manage risks. We ensure compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful. The Monitoring Officer advises on compliance with our policy framework, ensuring that decision making is lawful, fair and ethical. Our financial management arrangements conform to the CIPFA Statement on the Role of the Chief Finance Officer and are the responsibility of the Chief Finance Officer.

3.2 We develop, communicate and embed codes of conduct set out in the Constitution, defining standards of behaviour for Members and Officers working on behalf of the Authority. Audit and Standards Committee deals with issues of conduct and generally promotes high standards among officers and members, reporting annually to Leadership Board. The Constitution is available on the NECA website.

3.3 We ensure that there are effective arrangements for "Whistle-blowing" and for receiving and investigating complaints from the public. Administration of the Authority's policies on anti-fraud and corruption is undertaken by Internal Audit. Whistleblowing policy and procedure is at Part 6.5 of our Constitution

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

3.5 A register of Members' interests (including gifts and hospitality) is also maintained.

4. Determining the interventions necessary to optimise the achievement of the intended outcomes

4.1 Our scrutiny arrangements enhance accountability and transparency of decision making, The Overview and Scrutiny Call-in Sub Committee acts in accordance with the principles of decision making as set out in our Constitution (Part 13.3) and will call-in decisions where there is evidence which suggests that the decision was not taken in accordance with the principles.

4.2 The Authority's procurement procedures are carried out in line with financial regulations set out in Part 5 of the Constitution through Service Level Agreements.

4.3 The Accounts and Transparency page of our website contains the most recent accounts of the North East Combined Authority, and includes monthly spending reports, procurement procedures, lists and registers.

5. Managing risks and performance through robust internal control and strong public financial management

5.1 Our Risk Management Policy and Strategy outlines our arrangements for managing risk. Risk management is an integral part of our decision-making processes. To inform decision making all committee reports include a section which highlights the key risks to the decisions or proposed recommendations and how they are being addressed.

5.2 We have an information governance strategy and framework in place to ensure the effective safeguarding, collection, storage and sharing of the Authority's data. A Data Protection Officer has been appointed to oversee the data protection strategy and its implementation to ensure compliance with the General Data Protection Regulations.

5.3 We have arrangements in place to manage significant change evidenced by the establishments of the Combined Authorities Reconfiguration Programme to oversee the implementation of the governance arrangements for NECA following its split with the North of Tyne Authorities.

5.4 The control and financial management arrangements are reviewed by Internal and External Audit throughout the year. The outcome for 2019/20 are noted in Section 5 of this Statement - Annual Review of Effectiveness of Governance Framework.

5.5 The Authority has a robust internal control process in place which supports the achievement of its objectives while managing risks. The Audit and Standards Committee acts as principle advisory committee to NECA, providing independent assurance on the adequacy of the risk management framework and internal control environment.

5.6 An assessment of the overall adequacy and effectiveness of the framework of governance, risk management and control is provided by the Authority's internal auditors. The Chief Internal Auditor will provide an annual opinion for 2019/20 to support this AGS.

6. Defining outcomes in terms of sustainable economic social and environmental benefits

6.1 The North East LEP works with its partners to produce and deliver the Strategic Economic Plan (SEP). The SEP was updated January 2019 at a time of significant change for the global and national economy. New opportunities in technology and areas such as ageing, and the management of climate risks provide potential for economic growth.

6.2 We incorporate good governance arrangements in our partnerships and reflect these in our overall governance arrangements.

7. Implementing good practices to transparency, reporting and audit to deliver effective accountability

7.1 Section 5 of this Annual Governance Statement provides the views of our internal and external auditors. Auditors report regularly to Audit and Standards Committee and provide their annual opinion on the adequacy and effectiveness of our governance, risk and control framework.

7.2 We publish details of [delegated decisions on our website.]

7.3 We ensure that our Audit and Standards Committee undertakes the core functions identified in CIPFA's Audit Committees – Practical Guidance for Local Authorities 2018.

Section 5: Annual Review Of Effectiveness Of Governance Framework

We have a legal responsibility to conduct an annual review of the effectiveness of our governance framework, including the system of internal control. The review is led by Officers and Members of Audit and Standards Committee who provide independence and challenge. The outcomes of the review will be reported to the Audit and Standards Committee.

The review is informed by:

(a) The views of our internal auditors, reported to Audit and Standards Committee through regular progress reports, and the Annual Internal Audit Opinion. The Internal Auditor's opinion was reported to the September 2020 meeting of the Audit and Standards Committee. The internal Audit service complies with the CIPFA Statement on the Role of the Head of Internal Audit (2010) and the Public Sector Internal Audit Standards. The service receives a regular independent review against these standards, the last being in December 2018 which concluded:

'We conclude that the IA is compliant with the requirements of the PSIAS and the CIPFA Application Note.'

(b) An annual review of the effectiveness of internal audit (as required by Public Sector Internal Audit Standards).

(c) The views of our external auditors, reported to Audit and Standards Committee through regular progress reports the Annual Audit Letter and Annual Completion Report. The Audit Completion Report issued for 2019/20 highlighted two areas where controls could be strengthened; as follows:

i. The External Auditor commented that difficulties were experienced in undertaking the audit of the Statement of the Accounts this year. Although the External Auditor had the full co-operation of management difficulties were caused by the loss of a key member of NECA finance staff at a critical point in the process, the impact of Covid 19 on the processes and the migration of finance systems from Newcastle City Council to Durham Council.

ii. The Audit identified that related party declarations had not been obtained from senior officers and members for 2019/20. The declarations should be completed and received on an annual basis.

An improvement plan to address both of these issues has been agreed.

(d) The activities and operations of the themes (economic development and regeneration, employability & inclusion, and transport & digital connectivity) and significant partnerships through written assurance statements.

(e) The views of the Authority's Monitoring Officer, Chief Finance Officer and Senior Information Risk Owner, through written statements (Annexe 1).

(f) The views of Members through the ongoing activities of Audit and Standards Committee (providing independent assurance on the effectiveness of the governance and internal control environment). And an Overview and Scrutiny Committee who review and scrutinise Leadership Board decisions as well as other Transport committee's decisions.

(g) The Risk Management process, particularly the Strategic Risk Register.

(h) Performance information which is reported to Leadership Board and other meetings on a regular basis.

(i) The assurance framework that is in place to ensure Local Growth Fund monies are subject to appropriate levels of internal control and are focussed on the delivery of the Combined Authority's objectives and delivery of the Strategic Economic Plan.

(j) The North East LEP Annual Performance Review 2019/20, undertaken by MHCLG in January 2020. The outcomes against each of the three areas are as follows:

   a. Governance - Good
   b. Delivery – Exceptional
   c. Strategy - Pass. This criterion was a straightforward 'pass' or 'fail' assessment – changed criteria from last year.

(k) An Assurance Statement from Nexus has been obtained and is attached at Appendix 4 of the Annual Governance Statement 2019/20 Report. The opinion of the Nexus Chief Internal Auditor for 2019/20 is "…based on the internal audit work undertaken in year, ….. there is an adequate and effective framework of governance, risk management and control."

Section 6: North East Joint Transport Committee and North of Tyne Combined Authority

The North East Combined Authority's decision not to proceed with a Mayoral Combined Authority in September 2016 and the withdrawal of the devolution deal has resulted in the seven local authorities that made up a single Combined Authority splitting and forming two combined authorities. This change happened on 2 November 2018. NECA now constitutes the four Local Authority areas south of the River Tyne. The North of Tyne Mayoral Combined Authority now constitutes the three Local Authority's north of the River Tyne, Newcastle, North Tyneside and Northumberland.

Regional transport remains to operate and be governed at the seven Local Authority geography through a newly formed North East Joint Transport Committee, bringing together the two Combined Authorities which allows effective decision-making across the region to ensure that the local needs and transport priorities are delivered.

NECA as accountable body for the Joint Transport Committee and the functions delegated to it, are responsible for overseeing the legal and financial management of all regional transport resources, recognising that the assets are, in many cases jointly owned by the two Combined Authorities. NECA will also host the Transport Strategic Unit (formerly named the Regional Transport Team), including the newly appointed Proper Officer for Transport.

Section 7: Significant Weaknesses In Governance and Internal Control

The system of governance (including the system of internal control) can provide only reasonable and not absolute assurance that assets are safeguarded, that transactions are authorised and properly recorded, that material errors or irregularities are either prevented or would be detected within a timely period, that value for money is being secured and that significant risks impacting on the achievement of our objectives have been mitigated.

The review has identified two improvement actions to be taken to improve controls in relation to the process for the preparation and audit of the Statement of Accounts and obtaining related party declarations.

Section 8: Conclusion

We consider the governance and internal control environment operating during 2019/20 to provide adequate 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 operating as planned in the main.

We have been advised on the implications of the review by the Audit and Standards Committee and propose over the coming year to continue to improve our governance and internal control arrangements.

Head of Paid Service	**Chair of the North East Combined Authority**
Full Name:	**Full Name:**
Signature:	**Signature:**
Date:	**Date:**

Appendix 3b

Annual Governance Review – Improvement Plan for 2020/21

Ref	Action	Lead	Timescale
1.	Undertake a review of the arrangements for preparing the Statement of Accounts and supporting the audit of them to ensure there is sufficient capacity in place.	Chief Finance Officer	31 March 2021
2.	Implement arrangements to ensure that related party declarations are sought and received on an annual basis.	Monitoring Officer	30 June 2021

North East Combined Authority

DURHAM • GATESHEAD • SOUTH TYNESIDE • SUNDERLAND

Narrative Report for the Year ended 31 March 2020

North East Combined Authority Narrative Report 2019/20

1. Introduction

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

This report provides the reader with:

- A guide to the different financial statements within the Statement of Accounts.
- An overview of the activities and significant matters which occurred during the year.
- A summary of the Authority's financial performance during the year ending 31 March 2020 and its financial position at that date.
- A look ahead to 2020/21 and beyond.

The 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). The Code requires that the accounts give a true and fair view of the financial position of the Authority. In line with the Code, suitable accounting policies have been applied and where necessary prudent judgements and estimates have been made.

The accounts feature four main financial statements:

- Movement in Reserves Statement.
- Comprehensive Income and Expenditure Statement.
- Balance Sheet.
- Cash Flow Statement.

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

The main statements are supplemented by a further section which presents the Group Accounts, consolidating the figures of Nexus with those of the Authority. NECA is also the Accountable Body for the North East Local Enterprise Partnership (North East LEP). Our accounts include all transactions relating to the North East LEP and summary information is highlighted in this report.

These statements and accounts collectively provide a comprehensive view of the Authority's financial position during the period to which they relate. The format of the accounts changed in 2018/19 to reflect the impact of the Newcastle upon Tyne, North Tyneside and Northumberland Combined Authority (Establishment and Functions) Order 2018 (the Order) which changed the boundaries of NECA on 2 November 2018.

The Authority seeks to make the best possible use of resources available with regard to economy, efficiency and effectiveness. This is a responsibility shared by Members and Officers of the Authority, with the Chief Finance Officer having a specific role in ensuring the adequacy of resources and proper financial administration. Our budget proposals for 2020/21, available on the NECA website (www.northeastca.gov.uk) sets out how we will do this looking forward. The Statement of

Accounts accompanying this report looks back at our performance over the past year. Reviewed together they provide the reader with an understanding of the financial position of the Authority.

2. What is the North East Combined Authority?

The North East Combined Authority (NECA) was established in April 2014 as a legal body that brought together the seven councils which serve Durham, Gateshead, Newcastle upon Tyne, North Tyneside, Northumberland, South Tyneside and Sunderland. It had transport and economic development powers and its ambition was to create the best possible conditions for growth in jobs, investment and living standards, making the North East an excellent location for business and enabling residents to develop high-level skills so they can benefit long into the future.

The North of Tyne authorities secured a devolution deal with devolution funding for the North of Tyne area, which required the establishment of a separate North of Tyne Mayoral Combined Authority during 2018/19. On the 2 November 2018, the Newcastle upon Tyne, North Tyneside and Northumberland Combined Authority (Establishment and Functions) Order 2018 changed the boundaries of NECA.

As a result of these governance changes, from 2 November 2018 the boundary of NECA covers the Local Authorities of Durham, Gateshead, South Tyneside and Sunderland. At the same time the North of Tyne Combined Authority was established, and the North East Joint Transport Committee was created, which continues to exercise the Transport functions over the area covered by the two Combined Authorities.

A Deed of Cooperation was made on the 4 July 2018 between the seven Constituent Authorities in the area that outlines a framework for collaborative working across the region, the Deed of Co-operation was updated in March 2020. On 20 November 2018 NECA was formally confirmed as retaining the Accountable Body role for Transport on behalf of the North East Joint Transport Committee. NECA continued to be the accountable body for the North East Local Enterprise Partnership (North East LEP) until the North of Tyne Mayoral Combined Authority (NTCA) was fully established.

NECA continues to work closely with other bodies in the region to secure external funding, including funding for transport; infrastructure; economic development; skills and employment activities.

NECA works closely with the North East LEP and the wider business community to deliver the Strategic Economic Plan for the North East and capitalise on these opportunities. As NECA was the 'Accountable Body' for the North East LEP during 2019/20, all of its financial information is included in the accounts of NECA. From 1 April 2020, this role transferred to the NTCA.

Revenue Financial Summary 2019/20

Revenue expenditure covers the cost of the Authority's day to day operations and contributions to and from reserves. A summary of NECA expenditure against the budget is set out in the Table 1 below. Expenditure totalling £109.658m was managed within the revised revenue budget and income received was £113.960m, which resulted in a net surplus of £4.302m. This was in line with forecasts and includes a planned contribution to reserves of £3.402m (including £0.069m interest) to provide match funding for the Metro Fleet replacement.

Table 1: Summary of Revenue Expenditure

	2019/20 Revised Budget	2019/20 Actual	Variance
	£000	£000	£000
Expenditure			
Joint Transport Committee			
- Retained Levy Budget	2,101	1,993	(108)
- Grant to Durham	15,552	15,552	-
- Grant to Nexus	55,667	55,667	-
- Grant to Northumberland	6,094	6,094	-
Tyne Tunnels			
- Contract Payments	21,233	21,123	(110)
- JTC costs	237	424	187
- Financing Costs	6,818	6,588	(230)
Other Transport Activity			
- Transport Strategy Unit	1,325	1,113	(212)
Invest North East England	425	359	(66)
Corporate/Central Budget	690	455	(235)
Mental Health Trailblazer Project and NETA	290	290	-
			-
Total Expenditure	**110,432**	**109,658**	**(774)**
Income			
External Grant Funding	(1,632)	(1,524)	108
Transport Levies	(82,766)	(82,766)	-
Tolls Income	(28,160)	(28,481)	(321)
Interest/Investment Income	(223)	(394)	(171)
Contributions from Constituent Authorities	(371)	(371)	-
Contributions from NELEP	(279)	(206)	73
Other Income	(185)	(218)	(33)
Total Income	**(113,616)**	**(113,960)**	**(344)**

Net Revenue Expenditure to fund from Reserves	**(3,184)**	**(4,302)**	**(1,118)**

This statement provides a comparison of the outturn position with the NECA (including JTC) revised revenue budget for 2019/20, before any allocation of costs and income between the accounts of NECA and NTCA. The purpose of this statement is to give the reader an understanding of overall spending and income for the whole year, in comparison with the revised budget.

Within the accompanying Statement of Accounts document the **Comprehensive Income & Expenditure Statement** (CIES, page 5 of the Statement of Accounts) sets out the Authority's financial position for the year before taking account of statutory adjustments required to be made to the accounts. The figures presented in the accounts can appear different from the budgeted revenue income and expenditure as they include accounting adjustments for costs such as Depreciation, Revenue Expenditure Funded by Capital Under Statute and certain pensions account adjustments not included in the revenue budget.

The **Movement in Reserves Statement** (MIRS, page 4 of the Statement of Accounts) reflects these statutory adjustments and shows how the financial performance for the year has impacted on the Authority's reserves. There has been an increase in reserves from £114.283m at 31 March 2019 to £125.141m at 31 March 2020, mainly due to funds set aside to meet expenditure in future years, such as capital grants received in advance and contribution to earmarked reserves held for Metro Fleet renewal.

The gross cost of services during the year including capital grants to third parties as well as revenue expenditure was £104.772m (£160.531m in 2018/19 – which included Transport activity relating to the NTCA area up to 2 November 2018). This includes all areas of NECA's and the North East LEP's activity. This includes a significant amount of 'Revenue Expenditure Funded by Capital Under Statute' – representing investment in capital assets owned by third parties, not by the Authority itself.

After deducting specific grants and income from fees and charges, the net cost of services was £41.510m (£62.137m in 2018/19 – which included Transport activity relating to the NTCA area up to 2 November 2018). This was funded from a range of sources including the Transport Levy, other contributions from Constituent Authorities, Government Grants, Fees and Charges, and Enterprise Zones Business Rates Income. The net cost was lower than in 2018/19 due mainly to lower levels of capital grants issued in the year (REFCUS) on the Local Growth fund programme and higher levels of Government grants received in advance of expenditure, for example the Transforming Cities Tranche 2 grant received in March 2020 (£9.901m) and not yet applied to fund expenditure.

The balance of usable reserves at the year-end was £55.717m, which is a £8.920m increase on the previous year. This is made up of a number of different elements, most of which are held for specific purposes. The increase is due to the increase in capital grants received which have not yet been applied to fund expenditure (known as the Capital Grants Unapplied reserve) and the increase in earmarked reserves held on behalf of Nexus to fund the local contribution to the Fleet Replacement project and Asset Renewal Programme, as well as an increase in balances held on behalf of the North East LEP including the North East Investment Fund.

3. Capital Investment

Capital investment (including Nexus as part of the NECA Group) during the year totalled £99.462m. Expenditure consisted of capital expenditure on the Authority's own assets, capital expenditure via capital grants to third parties and long-term capital loans to third parties. An analysis of capital investment by programme are shown in the following table.

Table 2: Capital Expenditure by Programme

	2019/20 Revised	2019/20 Actual	2019/20 Variance
	£000	£000	£000
Transforming Cities Fund Tranche 1	9,102	6,129	(2,973)
Go Ultra Low	1,083	699	(384)
Metro Asset Renewal Plan	31,088	28,496	(2,592)
Metro Fleet Replacement	30,200	24,932	(5,268)
Nexus non-Metro	2,292	440	(1,852)
Tyne Tunnels	2,090	2,268	178
Local Transport Plan *	11,539	11,272	(267)
Local Growth Fund *	25,280	23,594	(1,686)
North East Investment Fund	1,632	1,632	-
Total Funding	**114,306**	**99,462**	**(14,844)**

***** Amounts shown in these lines are net of LTP and LGF funded expenditure included within the Metro Asset Renewal Plan and Tyne Tunnels to avoid double-counting.

The largest area of capital expenditure is in relation to Transport, reflecting the NECA's responsibilities as the accountable body for the North East Joint Transport Committee. Capital expenditure on Economic Assets and Infrastructure and Economic Development comprises Local Growth Fund and the North East Investment Fund activity which is reported in NECA's role as accountable body for the LEP.

A summary of how this capital investment was financed is shown in the following table:

Table 3: Capital Funding 2019/20

	2019/20 Actual	2019/20
	£000	%
Local Growth Fund Grant	28,629	28.8%
Local Transport Plan Grant	13,921	14.0%
Metro Capital Grant	23,149	23.3%
Metro Fleet Grant	21,600	21.7%
Transforming Cities Fund Grant	6,129	6.2%
Other Capital Grants	699	0.7%
North East Investment Fund	1,632	1.6%
Reserves	3,703	3.7%
Total Funding	**99,462**	**100.0%**

4. Treasury Management

The Balance Sheet on page 6 of the accounts shows external borrowing of £96.370m at the end of the year, which is split between short term borrowing (£1.298m) and long term borrowing (£95.072m), after the allocation of part of the transport borrowing to NTCA accounts. This is a small increase compared to the previous year due to new PWLB borrowing taken out during the year to fund Enterprise Zones activity. The average rate of interest on external borrowing for the year was 4.3%, which is comparable with the previous year.

The Balance Sheet also shows short term external investments of £58.236m in the NECA accounts at the end of the year compared to £65.281m at the end of the previous year. The total of investments included £21.168m of investments held on behalf of Nexus, with a further £16.969m cash equivalents. The increase in the combined total of short-term investments and cash equivalents in 2019/20 (£75.205m) compared to the previous year (£69.182m) is primarily due to the receipt of more grants in advance and the growth in reserves, such as the Metro fleet replacement reserve and NEIF funds.

5. Debtors

The Balance Sheet on page 6 of the accounts shows a short-term debtors balance at 31 March 2020 of £8.899m (£11.926m at 31 March 2019). These balances mainly relate to interest and principal repayments due within 12 months on loans issued and business rates income from enterprise zones and are analysed in more detail in Note 14 on page 31 in the accounts.

6. Creditors

Short term creditors at 31 March 2020 were £39.984m (£51.118m at 31 March 2019). These balances are analysed in more detail in Note 17 on page 31 in the accounts. The main reason for the decrease is the balances owed to Nexus for short term investments and cash equivalents placed on their behalf (£48m total creditor of which £26.739m is shown in the NECA accounts).

7. Pensions Costs

The Authority is an employer in the Tyne and Wear Pension Fund (the pension fund), which is part of the Local Government Pension Scheme (LGPS), which provides defined benefits based on members' final pensionable salary and years of service. In accordance with IAS19, the Authority is required to value all pension liabilities that have accumulated at the end of the year consisting of -

- Pension benefits that are being paid out to former employees who have retired.
- Pension benefits earned to date by current employees but not yet paid out.

IAS19 also requires the Authority to value all investments held by the pension fund at market value at the end of the year.

When assets and liabilities at year-end are compared this results in a surplus or deficit.

NECA has two types of pension liabilities – described as funded and unfunded. Funded pension liabilities are within the LGPS and are backed by assets attributable to the Authority. For the funded element of the scheme, the NECA pension fund is in a notional surplus position amounting to £2.82m at 31 March 2020, compared with £8.78m at 31 March 2019. The reduction in year is due to market conditions at 31 March 2020 and the impact on asset values. For accounting purposes this surplus is restricted to nil on the NECA balance sheet. NECA gets a benefit from the surplus in the form of savings on employers' pension contributions for current employees, which has enabled significant savings on the revenue budget particularly in relation to the North East LEP.

Unfunded or discretionary benefits (such as early retirement awards) sit outside the Authority's funded part of the scheme and are therefore not backed by assets and must be paid as incurred on a monthly basis. These costs relate to former Tyne Tunnels employees and are paid from the Tyne Tunnels revenue account, at a cost of approximately £50,000 in 2019/20. At the end of the year there was an unfunded liability of £0.84m (£0.9m at 31 March 2019) and this is disclosed on the Balance Sheet.

The deficit as at 31 March 2020 takes into account the national judgements on McCloud and Guaranteed Minimum Pensions (GMP). The actuarial valuation is influenced by a number of economic factors and this includes the potential impact of Brexit. Note 19 to the accounts on page 33 provides further analysis and disclosure of the Pension Fund liability.

Net Assets

Net assets in the NECA accounts have increased from £114.283m at 31 March 2019 to £125.141m at 31 March 2020. The increase in total net assets is due to an increase in fixed assets and short-term investments/cash equivalents due to the receipt of additional capital grants (e.g. Transforming Cities grant) and other amounts held in earmarked reserves to fund activity in future years.

8. Group Results

The Group Accounts included as part of the Statement of Accounts fully incorporate the results of Nexus (The Tyne and Wear Passenger Transport Executive). More details can be found in Group Note G01 on page 77.

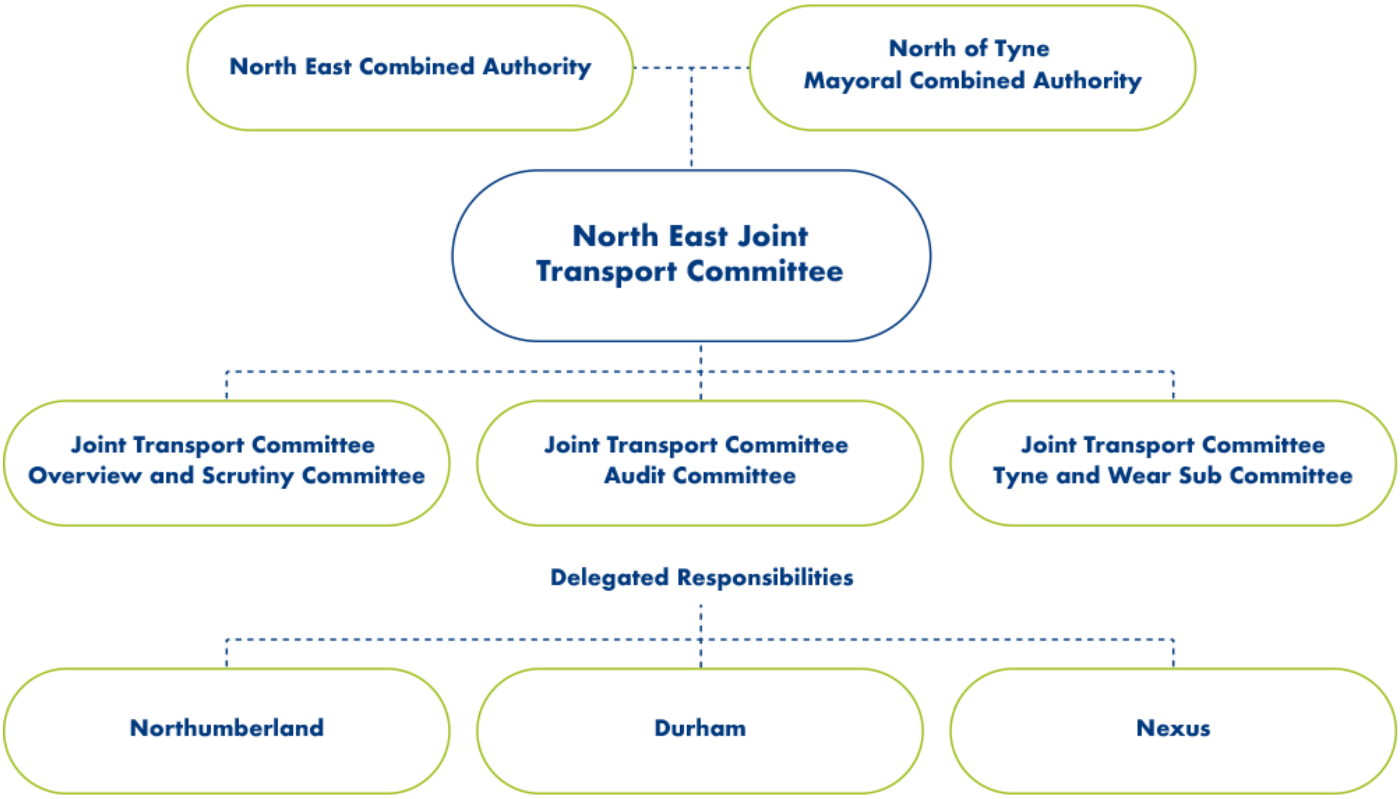
The Nexus accounts are apportioned between NTCA and NECA accounts (after elimination of intra-Group transactions), with the balance sheet information at 31 March 2020 allocated between the two Combined Authorities in proportion to their relative share of Tyne and Wear Population as set out in table 4. The full accounts for the Nexus Group and more information about their activity and performance can be obtained from the Nexus website at https://www.nexus.org.uk.

9. Accounting for the North East Joint Transport Committee

The North East Joint Transport Committee brings together a total of seven members from each of the Constituent Authorities of the region; four Members from the North East Combined Authority and three Members from the North of Tyne Combined Authority in accordance with the Order and was created on the 2nd November 2018.

Transport is of strategic importance to the North East, and the collaborative working of both Combined Authorities allows effective decision making across the region, which ensures that the local needs and priorities are delivered.

The structure for Transport that was established in November 2018 is shown in the diagram below.



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

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

2. The revenues which relate to Tyne and Wear must be divided into that which relates wholly to the NECA or NTCA area and that which relates to activities now wholly attributable under the preceding two points which requires apportionment.

The Order gives no clear instruction on the basis of division of revenues but the Deed of Cooperation made on 4 July 2018 between the seven local authorities in the area indicates that resident populations shall be used as a basis of apportionment.

For the 2019/20 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 at 31 March 2020 is shown in Table 4 below.

Table 4 - 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**

10. North East LEP

NECA remained the Accountable Body for the North East LEP during the last year and these accounts include details of its income and expenditure during 2019/20, fully consolidated with the figures for NECA itself. The accountable body arrangements changed at 1 April 2020, when the responsibility was transferred to the North of Tyne Combined Authority.

The North East LEP brings together business leaders, universities and the Leaders and Elected Mayor of the seven local authorities in the North East LEP area. It is the fourth largest LEP in the country and covers the seven local authorities in the North East area. It is responsible for promoting and developing economic growth in the area and works together with NECA to ensure there is co-ordination across a range of activities.

The North East LEP core budget covers operational activity and also management of the Local Growth Fund (LGF) programme and other activities undertaken by the LEP and funded by additional income. Table 5 below provides a summary of actual spend against the revised budget for the year. Total revenue expenditure amounted to £4.578m, which was within the revised budget for the year. There was a small surplus of £0.019m for the year, which was £0.045m better than expected and resulted in an increased level of LEP reserves of £0.603m to be carried into 2020/21. Considerable additional business support and advice was provided by the LEP's North East Growth Hub in the run up to Brexit and towards the year end in relation to impact of the Covid-19 pandemic and this additional work was undertaken by existing staff and resources.

Table 5: North East LEP Revenue Expenditure

	2019/20 Revised Budget	2019/20 Actual	Variance
	£000	£000	£000
Expenditure			
Employees	2,516	2,451	(65)
Premises	193	199	6
Communications	247	257	10
Transport LGF Monitoring and Evaluation	72	63	(9)
Growth Hub Operational Costs	141	143	2
Invite (Horizon 2020) Operational Costs	56	57	1
LIS (Local Industrial Strategy) Costs	68	69	1
Other Operational Costs	662	708	46
North East Ambition Operational Costs	96	90	(6)
Brexit Intelligence and Business Support	204	211	7
LGF High Potential	78	65	(13)
Energy Programme Operational Costs	40	16	(24)
Other NECA LGF Costs	151	109	(42)
Inward Investment Contribution	140	140	-
Gross Expenditure	**4,664**	**4,578**	**(86)**
Income			
LEP Core Grant	(500)	(500)	-
Local Authority Match Contributions	(250)	(250)	-
BEIS Grant	(224)	(224)	-
Local Growth Fund Management Contribution	(950)	(828)	122
Other Grants / Energy and Digital	(391)	(309)	82
Brexit Intelligence, Business Support and Policy	(263)	(247)	16
Growth Hub Grant	(442)	(442)	-
Other Grants / Enterprise Advisor	(488)	(459)	29
LGF High Potential	(93)	(109)	(16)
European Social Fund / LGF Match	(560)	(560)	-
Invite (Horizon 2020)	(84)	(67)	17
5G Pilot	(35)	(35)	-
NEIF/EZ Contributions	(154)	(325)	(171)
Interest on Balances	(167)	(191)	(24)
Other Income	(37)	(51)	(14)
Gross Income	**(4,638)**	**(4,597)**	**41**
Net (Surplus)/Deficit	**26**	**(19)**	**(45)**

Local Growth Fund

The full LGF capital grant of £28.06m was utilised in 2019/20, (including a funding swap in respect of the Tyne Pedestrian and Cycle Tunnel) and this should be seen as good performance in the review of LGF programme being undertaken later this year and in the next annual performance assessment. In addition, revenue spending of £0.725m was funded by the return of LGF swap funding in year.

The major elements of capital expenditure during the year included:

- International Advance Manufacturing Park (IAMP) - £11.27m
- South Shields Metro Training and Maintenance Skills Centre - £2.79m
- Gateshead Quays - £2.50m
- Swans Business Centre Phase 2 - £1.43m
- North East Rural Growth Network - £1.37m
- A19 North Bank of Tyne highway works - £1.22m
- Temporary (LGF swap) Funding for Tyne Pedestrian and Cycle Tunnel - £2.2m

Further details of the activities of the North East LEP are available at www.nelep.co.uk.

Enterprise Zones

The original round 1 North East Low Carbon Enterprise Zone is located across four Local Authority areas: Newcastle upon Tyne, North Tyneside, Northumberland and Sunderland. Business rates growth generated on these designated sites accrues to the benefit of the North East LEP for a 25-year period. The surplus will be allocated by the North East LEP to help improve the economy of the North East LEP area and the delivery of the Strategic Economic Plan (or its equivalent). 2019/20 was the seventh year of the zone's life.

During 2019/20 £14.1m of capital investment in EZ sites was undertaken, to be funded by the EZ programme as part of an overall level of capital investment across ten sites of £165m. New approvals were given to capital investment on the Newcastle North Bank of Tyne Site (£14m), the Northumberland Bates site (£2.8m) at the Port of Blyth and Infrastructure works on the Holborn phase 2 (Tyne Dock) (£1.45m) Enterprise Zone site. Construction of building on IAMP and Jade sites in Durham made good progress in the last twelve months.

A summary of the Enterprise Zone Revenue account is shown in Table 6 below together with information for the previous 3 years. Business Rate Growth Income (BRGI) of £2.01m was received for the year, which is higher than the income received for previous years and in line with the revised estimate for the year.

Expenditure included £0.258m on interest payments to Councils to cover capital financing costs on expenditure that they are financing. Repayments of £1.438m have been made to the NEIF account to repay previous loans from the NEIF to fund round 1 capital expenditure on Enterprise Zones. A contribution is made to the Invest North East England team to help with the marketing of the EZ sites. Operating costs include programme management support, finance and legal support needed to complete appraisals and legal funding agreements

Table 6: North East Enterprise Zone Business Rates Growth - period to 2019/20

	2016/17	2017/18	2018/19	2019/20
	£000	£000	£000	£000
Business Rate Income EZ Areas				
- Gateshead				(242)
- Newcastle	(614)	(437)	(501)	(508)
- North Tyneside	(165)	(160)	(194)	(160)
- Northumberland	(173)	(321)	(374)	(348)
- Sunderland	(743)	(708)	(750)	(752)
	(1,695)	(1,626)	(1,819)	(2,010)
Interest	(5)	(11)	(25)	(20)
EZ Commercial Advice Grant		(30)		
Gross Income	**(1,700)**	**(1,667)**	**(1,844)**	**(2,030)**
NEIF Loan Repayment	1,306	1,302	1,238	1,438
Financing Costs	-		235	258
Contribution to Inward Investment Team	6	148	71	66
EZ Operating Costs	115	112	100	128
Gross Expenditure	**1,427**	**1,562**	**1,644**	**1,890**
Annual Surplus	**(273)**	**(105)**	**(200)**	**(140)**
Cumulative Surplus	**(2,602)**	**(2,707)**	**(2,907)**	**(3,047)**

North East Investment Fund (NEIF)

The North East Investment Fund has been operating since 2012, utilising £25m of Growing Places Fund and £30m of Regional Growth Fund to invest £69m over its life in 29 projects, including money that has been repaid into the fund. The total balance of the fund at 31 March 2020 was £20.26m, which is held in the NECA accounts as a combination of usable reserves and capital receipts/capital grants unapplied in the balance sheet. These balances will be transferred to NTCA in 2020/21 as part of the change in accountable body role from 1 April 2020.

£9.8m of the available balance is committed to approved projects including £8m as part of a £10m Strategic Grant fund to support Inward Investment and £1m which has been earmarked to support a crowdfunding initiative to provide match funding grant support of up to £5,000 to support small businesses and social enterprise adversely affected by the impact of the Covid-19 pandemic.

11. Looking Ahead

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. Since a significant proportion of NECA and the JTC's funding comes from its constituent authorities, this has the potential to put further pressure on its Medium-Term Financial Strategy.

The North East LEP has been leading a 'Covid-19 Economic Response Group' made up of NECA, NTCA, local authorities, the Confederation of British Industry (CBI) on behalf of business, North East JTC and regional universities. The group are working on a phased approach to the region's recovery that is underpinned by identifying opportunities for our businesses to take advantage of. 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.

There has already been considerable activity associated with the development of an ambitious and forward-thinking economic strategy for the NECA area which will be worked on further during 2020/21. The emerging themes of our Economic Strategy are:

- Decarbonising our economy, private and public
- Further developing our leadership in international trade and investment
- Securing better skills and more quality jobs for our residents
- Drawing many more of our residents into the economic mainstream to increase prosperity and reduce dependence
- Becoming a well-connected region within our green economy
- Becoming a Great Northern Place

Activity continues to develop a proposal to government on the additional resources, powers and legislation needed to support the four NECA Constituent Authorities in their endeavours to meet their respective carbon reduction commitments. This follows the resolution by NECA in November 2019 to declare a Climate Emergency.

NECA 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.

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.

12. The Statement of Accounts

The Statement of Accounts is set out in the accompanying document, they consist of the following statements that are required to be prepared under the Code of Practice:

Movement in Reserves Statement (Statement of Accounts page 4)

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

Comprehensive Income and Expenditure Statement (Statement of Accounts page 5)

The Comprehensive Income and Expenditure Statement shows the accounting cost in year of providing services in accordance with generally accepted accounting practice, rather than the amount to be funded from the levy and other sources of income which is set out in the MiRS, as described above.

Balance Sheet (Statement of Accounts page 6)

The Balance Sheet summarises the Authority's financial position at 31 March each year. The net assets of the Authority (total assets less total liabilities) are matched by the reserves held by the Authority. Reserves are reported in two categories, Usable and Unusable as described above. Unusable Reserves include those which hold unrealised gains and losses (e.g. the Revaluation Reserve) where amounts only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the MiRS line "adjustments between accounting basis and funding basis under regulations".

Cash Flow Statement (Statement of Accounts page 7)

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.

Group Financial Statements and Notes (Statement of Accounts page 73onwards)

Reports the financial picture of all activities conducted by the Authority, including those delivered through partnership and separate undertakings controlled by the Authority.

13. 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.

14. Non-Financial Performance

The Statement of Accounts is focused on the financial performance of the Authority. NECA also reports non-financial Performance through thematic updates on Economic Development and Digital, Transport and Finance, Skills & Employability. These are available on the NECA website under the Leadership Board agendas, with some examples picked out below:

Economic Development and Digital

- Inward Investment – in the first three quarters of 2019/20 in the NECA area there have been 24 inward investment projects leading to 801 new jobs. These comprised of 17 Foreign Direct Investment projects creating 494 jobs and 7 UK projects creating 307 jobs.

Finance, Skills and Employability

- North East Mental Health Trailblazer – the programme ran from January 2017 to December 2019 and supported 1,462 residents with IPS and mental health therapies, 273 people were supported into work, a 19% conversion rate which is a good return for a hard-to-help cohort.

Transport

NECA owns the Tyne Tunnels, which 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 tolls 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 8 – 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.

NECA Staffing

- NECA continues to adapt and change to meet the requirements of the area, while keeping costs to a minimum. Many services are provided through Service Level Agreements with constituent local authorities.
- New statutory officer arrangements came into operation from 1 April 2019 and have been embedded during the year.
- Movement in employee numbers up to the end of 2019/20 mainly relates to staff supporting the North East LEP, see table (below), which mainly results from the success in securing funding for operational skills activity.

Table 9 – Change in Staffing numbers since 2015/16

	Total NECA Employees at the year end	Employed on behalf of North East LEP
2019/20	63	56
2018/19	43	39
2017/18	25	21
2016/17	21	18
2015/16	14	11

- On 1 April 2020 the Accountable Body responsibility for the North East LEP transferred to NTCA and the TUPE transfer of LEP and Invest North East England staff to NTCA was also completed.

- On the same date, the TUPE transfer of 10 staff previously employed by Newcastle City Council and Nexus and seconded to NECA was completed. The majority of these staff work in the North East Transport Strategy Unit.

15. Further Information Available

Access to this report, the accounts and the Annual Governance Statement will be made available to the general public via the Authority's website. If this information is needed in another format or language please use the contact below.

If you have any problems understanding this publication, any general enquiries on the accounts or have any suggestions on how it may be improved, please contact:

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

Patsy O'Reagan
Principal Accountant, NECA
Patsy.oreagan@northeastca.gov.uk

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Leadership Board Agenda Item 10

Date: **3 November 2020**

Subject: **NECA Budget 2021/22**

Report of: **Chief Finance Officer**

Executive Summary

This report sets out high level budget proposals for 2021/22 for the NECA Corporate Budget including fulfilment of its Accountable Body role for the North East Joint Transport Committee.

The report highlights that the initial budget estimates for 2021/22 are in line with the forecasts set out as part of the Medium-Term Financial Strategy (MTFS) presented to the Leadership Board in February 2020.

It is anticipated that, as set out in February 2020, NECA Corporate contributions will increase to £25,000 per authority next year (currently £22,857 per authority). This is the first time that an increase has been requested since the establishment of NECA in 2014 and is required to meet staff costs which have been increasing over time through inflationary pay awards and incremental progression, and Service Level Agreements (SLAs) which are also largely driven by staff costs. The Service Level Agreements underpinning NECA and the Joint Transport Committee have all been subject to review by the relevant lead authorities during the last six months.

It is anticipated that contributions to the Joint Transport Committee (JTC) Accountable Body role can be maintained at the current level of £10,000 per authority in 2021/22, though there will be a need to review these contributions in 2022/23.

The budget proposals will be subject to further discussion and consultation and a report presented to the next meeting of the Leadership Board.

Recommendations

The Leadership Board is recommended to receive the report for information and comment.

1. Background Information

Leadership Board

1.1 A report was presented to the Leadership Board in July setting out the proposed budget setting timetable for 2021/22.

1.2 This report sets out initial budget proposals for the NECA Corporate budget and the Joint Transport Committee (JTC) Accountable Body budget.

2. Proposals

NECA Corporate Costs

2.1 The NECA budget for corporate costs is required to support operational costs including staffing employed by NECA, Service Level Agreements (SLAs), independent members allowances and expenses and supplies and services costs.

2.2 The report to the Leadership Board on 4 February 2020 set a net NECA Corporate budget for 2020/21 of £192,780, which provided for NECA corporate capacity and to fulfil the JTC Accountable Body role. This is funded from contributions from NECA constituent authorities totalling £91,428 (£22,857 per authority), contributions from JTC constituent authorities totalling £70,000 (£10,000 per authority) and interest income on short term investments.

2.3 A forecast outturn for 2020/21 was presented to the Leadership Board in July 2020. The forecast for income includes additional investment income which is expected to be received due to higher cash and short-term investments balances being held at the beginning of the financial year. This allows a small contingency to be available in the NECA corporate budget to meet any costs that may not have been anticipated at the time of setting the budget.

2.4 The expenditure forecast includes grant funded activity. As previously reported to the Leadership Board, NECA allocated £95,000 of grant funding received from MHCLG to support the North East Brexit Work Programme, including Trade Facilitation and Free Zone work and a joint coordinating post with the North East LEP and the North of Tyne Combined Authority. £34,000 of the amount allocated was claimed by the LEP at the end of the financial. The remaining £61,000 is included in the updated forecasts for 2020/21 and is expected to be drawn down to support expenditure this year.

Leadership Board

2.5 The budget agreed in February 2020 also set out initial proposals for years 2 and 3 of the Medium Term Financial Plan for NECA, which included a small increase in contributions to keep pace with increases in staff costs due to pay awards, and Service Level Agreements (which are also largely driven by staff costs).

2.6 For 2021/22, an initial budget of £201,520 is proposed, to be met from NECA corporate contributions totalling £100,000 (£25,000 per authority – representing an increase of £2,143 per authority) and JTC Accountable Body contributions totalling £70,000, plus interest income on short term investments. This is the first time that an increase has been requested for the NECA corporate contributions since the establishment of NECA in 2014.

2.7 Appendix 1 sets out the proposed budget for 2021/22 along with an initial estimate for 2022/23 and the updated forecast for 2020/21.

SLA Review

2.8 For 2020/21 all SLAs were documented and formalised however the values attached to existing and new providers of services were maintained at 2019/20 levels and which had remained unchanged for many years. It was agreed that an exercise would be undertaken to review the SLAs to more accurately reflect the support to NECA and the JTC.

2.9 An exercise has now been concluded with all local authorities providing services to NECA and the JTC to reflect the cost of these services for 2021/22. Costings have been based on officer time engaged in providing support with no provision for additional on-costs such as premises related costs.

2.9 The additional costs associated with the NECA corporate and JTC accountable body role will be accommodated from the planned increase in the NECA corporate contributions from the four constituent authorities (an increase from £22,857 per authority to £25,000 per authority). The contributions to the JTC are proposed to remain in line with the existing contribution levels (£10,000 per authority) in 2021/22. This position will be reviewed in 2022/23.

3. Reasons for the Proposals

Leadership Board

3.1 This report sets out the initial high-level budget proposals for 2021/22 for the NECA Corporate budget, including fulfilment of its Accountable Body role for the North East Joint Transport Committee.

3.2 The report identifies that, as set out in February 2020, NECA Corporate contributions need to increase to £25,000 per authority next year (currently £21,430 per authority). Contributions to the Joint Transport Committee (JTC) Accountable Body can be maintained at the current level of £10,000 per authority in 2021/22 and will be reviewed for 2022/23.

4. Alternative Options Available

4.1 The increase in the corporate contributions are required to reflect the outcome of the review of Service Level Agreements that underpin and support NECA and the JTC.

4.2 The report is presented for information with no decision required at this stage – the information set out will be included in the 2021/22 NECA budget setting report which his agreed in February 2022.

4.3 In considering the content of this report the Leadership Board may:

(a) Note and accept the budget forecasts, which seek to set a balanced budget that accurately reflects the costs of providing the support to NECA and the JTC.

(b) Retain the existing budget provisions for corporate contributions and SLAs which do not reflect the resources currently committed by the local authorities providing the support to NECA.

5. Next Steps and Timetable for Implementation

5.1 The NECA Constitution requires that consultation on budget proposals be undertaken at least two months prior to the budget being agreed. The draft proposals will be subject to consultation with the Leadership Board, Overview and Scrutiny Committee, Audit and Standards Committee and officer groups. In its Accountable Body role for the JTC, Transport proposals will also be subject to consultation with the JTC Overview and Scrutiny Committee, JTC Audit Committee, the JTC Tyne and Wear Sub Committee and constituent councils.

Comments raised as part of the consultation process will be taken into account in the preparation of the final reports.

6. Potential Impact on Objectives

6.1 The budget and medium-term financial strategy will be prepared to reflect the objectives of the Authority. Future reports will set out the revenue and capital budget proposals in more detail that will help deliver the objectives of the Authority.

7. Financial and Other Resources Implications

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

8. Legal Implications

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

9. Key Risks

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

10. Equality and Diversity

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

11. Crime and Disorder

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

12. Consultation/Engagement

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12.1 The NECA Constitution requires that consultation on budget proposals be undertaken at least two months prior to the budget being agreed. The draft proposals will be subject to consultation with the Leadership Board, Overview and Scrutiny Committee, Audit and Standards Committee and officer groups. In its Accountable Body role for the JTC, Transport proposals will also be subject to consultation with the JTC Overview and Scrutiny Committee, JTC Audit Committee, the JTC Tyne and Wear Sub Committee and constituent councils. Comments raised as part of the consultation process will be taken into account in the preparation of the final reports.

13. Other Impact of the Proposals

13.1 There are no other impacts arising from these proposals.

. Appendices

14.1 Appendix 1 - NECA Corporate and JTC Accountable Body Budget Forecast 2020/21 and initial proposals 2021/22-2022/23

15. Background Papers

15.1 NECA Budget 2020/21 – Leadership Board 4 February 2020 https://northeastca.gov.uk/wp-content/uploads/2020/01/Leadership-Board-4-February-2020-Public-Agenda-Pack.pdf

16. Contact Officers

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

16.2 Patsy O'Regan, NECA Principal Accountant, Patsy.oreagan@northeastca.gov.uk

17. Sign Off

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

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Appendix 1 – NECA Corporate and JTC Accountable Body Budget Proposals 2020/21-2022/23

	2020/21 Forecast			2021/22 [Draft] Budget			2022/23 Initial Budget		
	NECA Corporate	**JTC Accountable Body**	**Total**	**NECA Corporate**	**JTC Accountable Body**	**Total**	**NECA Corporate**	**JTC Accountable Body**	**Total**
Expenditure									
Employees	19,040	39,960	**59,000**	19,710	40,470	**60,180**	20,105	41,265	**61,370**
Service Level Agreements	74,300	46,580	**120,880**	82,450	45,850	**128,300**	82,450	45,850	**128,300**
Independent Members Allowances	7,000	0	**7,000**	7,140	0	**7,140**	7,280	0	**7,280**
Supplies and Services	5,900	0	**5,900**	5,900	0	**5,900**	5,900	0	**5,900**
Other Grant-Funded Activity	60,900	0	**60,900**	0	0	**0**	0	0	**0**
Total Expenditure	**167,140**	**86,540**	**253,680**	**115,200**	**86,320**	**201,520**	**115,735**	**87,115**	**202,850**
Income									
NECA Corporate Contributions	(91,430)	0	**(91,430)**	(100,000)	0	**(100,000)**	(100,000)	0	**(100,000)**
JTC Accountable Body Contributions	0	(70,000)	**(70,000)**	0	(70,000)	**(70,000)**	0	(77,000)	**(77,000)**
Interest Income	(20,000)	(20,000)	**(40,000)**	(15,000)	(15,000)	**(30,000)**	(10,000)	(10,000)	**(20,000)**
Government Grants (received in previous years)	(60,900)	0	**(60,900)**	0	0	**0**	0	0	**0**

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Total Income	**(172,330)**	**(90,000)**	**(262,330)**	**(115,000)**	**(85,000)**	**(200,000)**	**(110,000)**	**(87,000)**	**(197,000)**
Net (to)/from Corporate Reserve	**(5,190)**	**(3,460)**	**(8,650)**	**200**	**1,320**	**1,520**	**5,735**	**115**	**5,850**