NORTH OF TYNE COMBINED AUTHORITY

Cabinet

Tuesday, 25 January 2022 at 2.00 pm

www.northoftyne-ca.gov.uk

SUPPLEMENTAL AGENDA

Page No

When considering agenda item 9 (NTCA 2020-21 Statement of Accounts) and agenda item 11 (2022-2026 NTCA Budget Proposals), Members are advised to refer to the documents circulated with this supplemental agenda, as listed below:

(d) **2021/22 Indicative Outturn and 2022/23 Indicative Budget Proposals for the North East Local Enterprise Partnership and Invest North East England** **245 - 262**

Contact Officer: Victoria Miller
Tel: 0191 211 5118
Email: Victoria.Miller@northoftyne-ca.gov.uk

Cabinet

25 January 2022

Subject: **NTCA 2020-21 Statement of Accounts**

Report of: **Chief Finance Officer**

Portfolio: **Investment and Resources**

Report Summary

The purpose of this report is to present Cabinet with the Statement of Accounts for the year ended 31 March 2021. The report covers the regulations under which the Statement of Accounts are prepared and details the items included within the Statement of Accounts including and an update on the status of the Audit and Audit Completion Report.

At the time of writing this report the audit on the NTCA accounts was not quite complete. The auditors will provide an update on any findings since tabling their draft Audit Completion Report (ACR) at January Audit and Standards Committee with the updated ACR to be presented at Cabinet. This report seeks authorisation for the Managing Director and Chief Finance Officer in consultation with the Mayor to agree any final amendments or changes to the NTCA 2020/21 Statement of Accounts.

Recommendations

The Cabinet is recommended to:

1. Approve the Annual Governance Statement 2020/21 as presented for signature by the Mayor and Managing Director.

2. Approve the Audited Statement of Accounts 2020/21 including the Narrative Report in line with Audit and Accounting Regulations 2015 as presented, taking account of the views of the Audit and Standards Committee.

3. Authorise the Managing Director and the Chief Finance Officer in consultation with the Mayor to agree to any final amendments or changes to the NTCA 2020/21 Statement of Accounts, Narrative Statement and Annual Governance Statement made by the external auditors after the Cabinet meeting and to approve the final 2020-21 Final Statement of accounts.

1. Background Information, Proposals and Timetable for Implementation

1.1 The NTCA Statement of Accounts sets out the financial performance of the Authority for the year ending 31 March 2021 and its financial position at that date. They have been prepared in accordance with proper practices as set out in the Chartered Institute of Public Finance & Accountancy (CIPFA) Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

1.2 The Accounts and Audit Regulations 2020-21, which took effect from the 31 March 2021, extended the statutory requirement for the completion and publication for the draft Statement of Accounts from the 31 May to 31 July. With the audited accounts to be published from 31 July to 30 September. Due to capacity issues reflected nationally across all public sector audit firms, the external audit fieldwork was delayed to late November after the required publication date of 30 September 2021.

1.3 In line with the Accounts and Audit Regulations 2020-21 NTCA are presenting the NTCA Statement of Accounts to Audit and Standards Committee on the 18 January 2022 for consideration and recommendation to the NTCA Cabinet on the 25 January 2022.

1.4 The Statement of Accounts includes:

- Audit Completion Report
- Annual Governance Statement (Appendix A)
- Narrative Report (Appendix B)
- NTCA Audited Statement of Accounts for the year ended 31 March 2021 (Appendix C) – this also includes the Group Accounts consolidating the accounts of Nexus Group within the NTCA Single Entity Accounts.

1.5 The NTCA Accounts reflect the Newcastle upon Tyne, North Tyneside, and Northumberland Combined Authority (Establishment and Functions) Order 2018 (the Order), which established the North of Tyne Combined Authority (NTCA) on 2 November 2018. That order required the North East Combined Authority (NECA) and NTCA to appoint a Joint Transport Committee (JTC) through which the two combined authorities must exercise transport functions. The order also provided that the transport assets held by NECA should be held jointly with NTCA and managed through the JTC. The Constitution of the JTC is such that it meets the definition of Joint Control and is classified accordingly as a Joint Operation. In order to comply with the requirements outlined above NECA as accountable body must split the revenue, expenditure, and assets and liabilities into those which relate to NTCA and NECA based on population.

1.6 The Accounts, on approval, must be signed by the Mayor on behalf of Cabinet and signed by the Chief Finance Officer on behalf of the Combined Authority and published on the website.

1.7 The Combined Authority has a statutory duty under the Accounts and Audit Regulations 2015 to do the following on an annual basis:

- Conduct a review of the effectiveness of its governance framework, including the system of internal control
- Prepare an Annual Governance Statement; and
- Through a relevant committee review and approve the Annual Governance Statement

1.8 The Audit and Standards Committee will consider the Annual Governance Statement at its meeting on 18 January 2022, and then it will be subsequently reported to Cabinet on the 25 January 2022.

1.9 The Audit Completion Report (ACR) will be presented by our External Auditors, Mazars, providing their opinion in relation to the Financial Statements. At the time of writing this report the audit on the NTCA accounts was not quite complete. The auditors provided a draft ACR to Audit and Standards on 18 January 2022, with a verbal update on any findings, and an updated ACR to be presented to Cabinet 25 January 2022, with the final 2020-21 Statement of Accounts.The Cabinet have been asked within this report to authorise the Chief Finance Officer and the Managing Director in consultation with the Mayor any changes or amendments made by the external auditors after the Cabinet meeting and to approve the final 2020-21 Final Statement of accounts should this be required.

2 Potential Impact on Objectives

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

3 Key Risks

3.1 There are no specific risk implications directly rising from this report. Risk management has been considered as part of the production of the 2020/21 Annual Governance Statement.

4 Financial and Other Resources Implications

4.1 The Statement of Accounts were prepared by North Tyneside's SLA to the North of Tyne Combined Authority.

5 Legal Implications

5.1 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. A publication notice was published on the NTCA website prior to the 30 September 2021 to notify the publication date for the Audited Statement of Accounts was missed.

6 Equalities Implications

6.1 There are no equality implications arising from this report.

7 Inclusive Economy Implications

7.1 There are no inclusive economy implications arising from this report.

8 Climate Change Implications

8.1 There are no climate change implications arising from this report.

9 Consultation and Engagement

9.1 The draft Statement of Accounts was published on the NTCA Website on 30 July 2021. The Mayor and Cabinet member have been consulted and a full report was presented to the Audit and Standards Committee on 18 January 2022.

10 Appendices

Appendix A Annual Governance Statement
Appendix B Narrative Report
Appendix C Annual Statement of Accounts

11 Background Papers

None

12 Contact Officers

Janice Gillespie, Chief Finance Officer

Tel: 0191 6435701 email: Janice.gillespie@northtyneside.gov.uk

13 Glossary

ACR	Audit Completion Report
AGS	Annual Governance Statement
SLA	Service Level Agreement
NECA	North East Combined Authority
JTC	Joint Transport Committee

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Audit Completion Report

North of Tyne Combined Authority
Year ended 31 March 2021

January 2022

mazars

Contents

mazars

Members of the Cabinet
And Members of the Audit and Standards Committee
North of Tyne Combined Authority (NTCA)
North Tyneside Council
Quadrant West
The Silverlink North, Cobalt Business Park
North Tyneside
NE27 0BY

Mazars LLP
Bank Chambers
26 Mosley Street
Newcastle upon Tyne
NE1 1DF

18 January 2022

Dear Members

Audit Completion Report – year ended 31 March 2021

We are pleased to present our Audit Completion Report for the year ended 31 March 2021. 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 updated Audit Strategy Memorandum which we presented to the Audit and Standards Committee on 20 July 2021. We have reviewed our Audit Strategy Memorandum and concluded that the original significant audit risks and other areas of management judgement remain appropriate. We noted in our Audit Strategy Memorandum that our risk assessment in respect of our VFM work was not complete; following completion of this risk assessment, we did not identify any significant risks of weaknesses in arrangements.

We 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 07896 684 771.

Yours faithfully

Gavin Barker

Gavin Barker
Mazars LLP

01

Section 01:

Executive summary

1. Executive summary

Principal conclusions and significant findings

The detailed scope of our work as your appointed auditor for 2020/21 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 on Auditing (UK) and means we focus on audit risks that we have assessed as resulting in a higher risk of material misstatement.

In section 04 of this report we have set out our conclusions and significant findings from our audit. This section includes our conclusions on the audit risks and areas of management judgement in our Audit Strategy Memorandum, which include:

- Management override of controls (relevant to NTCA and Group);
- Revenue recognition - in relation to Tyne Tunnel tolls and grant income (relevant to NTCA and Group); and
- Defined benefit liability valuation (relevant to NTCA and Group).

Section 05 sets out internal control recommendations and section 6 sets out audit misstatements. Section 07 outlines our work on NTCA's arrangements to achieve economy, efficiency and effectiveness in its use of resources.

Status and audit opinion

We have substantially completed our audit in respect of the financial statements for the year ended 31 March 2021.

At the time of preparing this report, matters remaining outstanding as outlined in section 02. We will provide an update to you in relation to the matters outstanding through issuance of a follow-up letter.

Subject to the satisfactory conclusion of the remaining audit work, we have the following conclusions.

Audit opinion
We anticipate issuing an unqualified opinion, without modification, on the financial statements. Our proposed audit opinion is included in the draft auditor's report in Appendix B.

Value for Money
We anticipate having no significant weaknesses in arrangements to report in relation to the arrangements that NTCA has in place to secure economy, efficiency and effectiveness in its use of resources. Further detail on our Value for Money work is provided in section 07 of this report.

Whole of Government Accounts (WGA)
At the time of preparing this report , we have not yet received group instructions from the National Audit Office in respect of our work on NTCA's WGA submission. We are unable to commence our work in this area until such instructions have been received. 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 NTCA and to consider any objection made to the accounts. No questions or objectives have been received.

1. Executive summary

COVID-19 impacts

The Covid-19 pandemic continued to impact on NTCA and its subsidiaries and on the audit process this year. The audit team continued to work remotely. Whilst challenging at times, through the effective use of technology and close liaison with finance and other officers, these challenges were overcome.

There were also delays in completing the audit this year. We highlighted these to officers and Members early in 2021. However, the eventual delays were longer than originally anticipated. We are grateful to officers and Members for their understanding in the difficult circumstances faced by the audit team in relation to completion of the 2020/21 audit work. We would particularly like to thank the finance team for their co-operation and for being available throughout the audit work to answer our queries.

02

Section 02:

Status of the audit

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2. Status of the audit

Our work is substantially complete and there are currently no matters of which we are aware that would require modification of our audit opinion, subject to the outstanding matters detailed below.

Audit area	Status	Description of the outstanding matters
Work still outstanding at the point of drafting this Audit Completion Report		We are finalising our testing in a number of areas, and continuing to write up our documentation of the audit file. We continue to discuss some matters arising with officers. We deem the risk of significant audit issues arising from the work that requires completion to be low. We will be able to provide a verbal update to Members when we present our report. In addition, we will provide a follow up letter setting out how any issues arising are resolved immediately prior to signing the audit opinion through issuance of a follow up letter.
WGA		Our audit work will be completed once the Group Instructions have been received from the National Audit Office.
Audit quality control and completion procedures		Our audit work is subject to ongoing review and quality control procedures. In addition, there are residual procedures to complete, including agreeing the expected amendments to the final Statement of Accounts, updating post balance sheet event considerations to the point of issuing the opinion and reviewing management's going concern assertion.

Likely to result in material adjustment or significant change to disclosures within the financial statements.

Potential to result in material adjustment or significant change to disclosures within the financial statements.

Not considered likely to result in material adjustment or change to disclosures within the financial statements.

03

Section 03:

Audit approach

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3. Audit approach

Changes to our audit approach

We provided details of our intended audit approach in our updated Audit Strategy Memorandum in July 2021. We have not made any changes to our audit approach since we finalised our Audit Strategy Memorandum.

Materiality

Our provisional materiality at the planning stage of the audit was set at £9.787m for the Group and £5.081m for NTCA using a benchmark of 2% of total assets. Our final assessment of materiality, based on the final financial statements is £12.437m and £7.490m for the Group and NTCA respectively, using the same benchmark.

Group audit approach

The Group consists of Nexus, North East Metro Operations Limited (NEMOL) and Tyneside Transport Services Limited. We are responsible for the direction, supervision and performance of the group audit. Mazars is also the external auditor for NEMOL.

04

Section 04:

Significant findings

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4. Significant findings

In this section we outline 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 15 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 risk – management override of controls

Management override of controls (single entity and group)

Description of the risk

This is a mandatory significant risk on all audits due to the unpredictable way in which such override could occur.

Management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur there is a risk of material misstatement due to fraud on all audits.

How we addressed this risk

We addressed this risk through performing audit work over:

- accounting estimates impacting 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

Subject to completion of outstanding work, there are no issues arising from our work that we are required to report to you.

4. Significant findings – significant risk: revenue recognition

Revenue recognition - in relation to Tyne Tunnel tolls and grant income (relevant to single entity and group accounts)	**Description of the risk** 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 addressed this risk through performing audit work over: • the design and implementation of controls management had in place to ensure income was recognised in the correct period; • cash receipts around the year end to ensure they had been recognised in the right year; • the judgements made by management in determining when grant income was recognised; • for Tyne Tunnel toll income, performed a substantive analytical review; and • for major grant income, obtained counterparty confirmation
	Audit conclusion Subject to completion of outstanding work, there are no issues arising from our work that we are required to report to you.

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4. Significant findings – significant risk: net defined benefit liability (pensions)

Defined benefit liability valuation (relevant to single entity and group accounts)	**Description of the risk** 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 addressed this risk through performing audit work over: • evaluating the management controls you had in place to assess the reasonableness of the figures provided by the Actuary; and • considered 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.
Page 18	**Audit conclusion** The entries for the pension liability are derived from information provided by the actuary, and relate to pensions administered by Tyne and Wear Pension Fund. The actuary bases NTCA and the Group entities share of the Pension Fund assets based on actual asset performance for part of the year, but with an estimate in relation to the final quarter of the financial year. In normal circumstances this results in an estimate that is not significantly different to the actual asset performance at the end of the financial year and is a fair basis for the disclosures. In the final quarter of 2020/21, there was more volatility in asset values than is normally the case. Consequently, during the audit officers requested an updated report from the actuary based on final asset performance to see whether any differences were material and would need to be adjusted in the financial statements. In relation to the NTCA single entity statements, the difference in asset values was only £215k, which is below the triviality level which means that we do not need to report this difference as an unadjusted misstatement. Nexus, a significant component within the NTCA Group, also requested and obtained a revised report from the Actuary during their audit process. As Nexus has many more employees than NTCA, the impact was much more significant and this led to a material adjustment to the Nexus financial statements. The outcome was an increase of £13.550m in the re-measurement gain on assets as measured by the Actuary in the revised valuation report. The impact on the NTCA Group statements is estimated at £6.035m. This is not material to the Group statements, and consequently management do not intend to adjust for this and this is the position reflected on page 22 of this report. It is important for Members to understand that although these figures seem significant, they are disclosures of estimated assets and liabilities at a point in time, and subject to significant estimation. In addition, none of these issues impact on the outturn position or the usable reserves available to the Authority or its Group entities.

4. Significant findings

Qualitative aspects of NTCA's accounting practices

We have reviewed NTCA's accounting policies and disclosures and concluded they comply with the 2020/21 Code of Practice on Local Authority Accounting, appropriately tailored to NTCA's circumstances.

Draft accounts were received from NTCA on 20 July 2021, well ahead of the revised statutory deadline and were of a good quality. When we completed our audit work, we found that the financial statements were supported by comprehensive working papers, and officers were helpful in responding promptly to any queries we raised.

Significant difficulties during the audit

During the course of the audit we did not encounter any significant difficulties and we have had the full co-operation of management.

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 2020/21 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. No questions or objections have been raised.

Delay in the audit certificate

The issue of the Audit Certificate confirms that we have discharged all of our audit responsibilities and that the audit is formally 'closed'. The Audit Certificate would normally be published in our Auditor's Report on the Statement of Accounts. We expect to issue the audit report but the Audit Certificate will not be issued until the following procedures are complete:

- Value for money - We are yet to complete our work in respect of the NTCA's arrangements for the year ended 31 March 2021 and expect to report our findings in the 2020/21 Annual Auditors Report within 3 months of giving our audit opinion. At the time of preparing this report, we have not identified any significant weaknesses in the NTCA's arrangements that require us to make any recommendations.
- Whole of Government Accounts - The NAO has not yet issued its Group Instructions to enable this work to be undertaken.

We will update Members when more information is known but at this stage the draft Auditor's Report at Appendix B assumes that we are not able to issue the Audit Certificate at this stage.

05

Section 05:

Internal control recommendations

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5. Internal control recommendations

The purpose of our audit was 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 in order to design audit procedures to allow us to express an opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of internal controls or 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 controls 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:

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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 controls or enhance business efficiency. The recommendations should be actioned in the near future.	0
3 (low)	In our view, internal controls should be strengthened in these additional areas when practicable.	2 (Group position, both issues relate to subsidiary Nexus)

5. Internal control recommendations

NTCA – single entity issues

No internal control recommendations have been identified in relation to the 2020/21 audit.

NTCA: Follow-up on previous internal control points

In our 2019/20 work, we reported three internal control recommendations, and our follow up of these issues is set out below:

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- The need to develop and publish a partnership register on the NTCA website (Level 2 issue) – a list of significant partnerships has been published on the NTCA website. We now consider this issue to have been addressed and closed.

- Strengthen quality control arrangements in relation to the production of the draft financial statements (Level 2 issue) – fewer issues were identified in the 2020/21 audit, indicating that procedures have improved. We now consider this issue to have been addressed and closed.

- Obtaining related party disclosures from Members (Level 3 issue) – at the time of preparing this report, we had still not completed our review in this area.

Group position - Nexus reporting issues

Pages 19 and 20 of this report document the internal control recommendations and management response in the audit of Nexus, a significant subsidiary in the NTCA group.

5. Internal control recommendations

Nexus: Other deficiencies in internal control – Level 3

Description of deficiency

Related Party Disclosures

We identified the following as part of audit work:

- It was noted that Nexus appointed five Non-Executive Directors during financial year 2020/21 and they were not initially included in requests to complete a Related Party confirmation return. During discussions regarding the returns, it was agreed to seek returns from the Non-Executive Directors. All five Non-Executive Directors subsequently submitted a return; and
- It was identified that some officers who have left the organisation did not complete a related party confirmation return as part of the exit process.

Potential effects

- There is a risk that non-executive directors may not update the register of interests in a timely manner. As such at year end if there has been any material related party transactions with non-executive directors these may not be appropriately disclosed within the accounts; and
- There is a risk that at year end any material related party transactions with officers who have left the organisation part way through the year may not be appropriately disclosed within the accounts.

Recommendations

- Non- Executive directors should continue to complete a declaration in subsequent years in line with current practices with the Directors and Heads of Service. This will ensure that appropriate related party transactions have been disclosed to Nexus and the relevant disclosures have been made in the accounts if required; and
- Officers leaving the organisation should complete a related party declaration form as part of the exit process. This will ensure that appropriate related party transactions have been disclosed to Nexus and the relevant disclosures have been made in the accounts if required.

Management response

The recommendation was implemented during the course of the 2020/21 audit and the declarations will continue to be obtained going forward.

5. Internal control recommendations

Nexus - Other deficiencies in internal control – Level 3

Description of deficiency

Asset Impairment process

Managers are requested to look at “Major assets” (no definition given), that have been “damaged significantly or had become effectively obsolete and unusable”, to identify “only those exceptional situations where an asset which may be in the books at a high value has, for whatever reason, become incapable of being used properly.”

We are not aware of any asset lists being provided to Managers for them to assess, or even to identify assets with a high NBV.

Potential effects

Impaired assets may not be identified.

Property, Plant and Equipment may be overstated in the Accounts.

Recommendation

Full impairment review of all assets be performed. Each manager could be given a list of the assets under their supervision, and they could assess each one against its NBV. This would be a simpler task if the asset list could be summarised by “headline” assets, as the client intends.

Management response

The impairment review process will be formalised by ensuring that each manager is given a list of assets to check for indication of impairment. Should any indication of impairment be found, an estimate of the recoverable value of the asset will be obtained and compared against the net book value of the asset, to assess if any impairment is required.

Nexus - Follow-up on previous internal control points

Our 2019/20 audit work did not identify any significant deficiencies which we needed to follow up.

06

Section 06:

Summary of misstatements

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6. Summary of misstatements

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We set out below the misstatements identified for adjustment during the course of the audit, above the level of trivial threshold of £225,000 (NTCA) and £375,000 (Group).

Unadjusted misstatements

There are no unadjusted misstatements in relation to the NTCA single entity financial statements. There is one misstatement that was identified during the course of our audit, relating to the Group statements only, which management has assessed as not being material either individually or in aggregate to the Group financial statements and does not currently plan to adjust.

	Comprehensive Income and Expenditure Statement / Movement in Reserves Statement		**Balance Sheet**	
	Dr (£'000)	**Cr (£'000)**	**Dr (£'000)**	**Cr (£'000)**
Dr: Pension Liability			6,035	
Cr. Pension Asset				6,035
Dr. Adjustment through the Movement in Reserves Statement	6,035			
Cr: Re-measurement Gains on Assets		6,035		
Being an increase of £6.035m in re-measurement gain on assets as measured by the Actuary in a revised valuation report for Nexus (The £6.035m is NTCA's share based on the devolution population calculation of the total re-measurement gain of £13.550m). This did not impact on the usable reserves position. As this adjustment is not material to the Group statements, management has decided not to amend the financial statements.				

Adjusted misstatements

No further amendments have been identified during the course of the audit that require adjustment by management.

6. Summary of misstatements

Disclosure amendments

There are no significant disclosure amendments that need to be brought to the attention of Members.

Other issues

The financial statements for NTCA include a share of the Joint Transport Committee assets and liabilities. We have reported in previous years an unadjusted misstatement in relation to cash balances between NTCA and NECA (the North East Combined Authority). In 2019/20 the figure was £796k. We reported this as follows: “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.”

On reflection, our view is that we do not need to report this as an unadjusted misstatement, but we do note that there is a difference, and this year the value of the difference is £553k. The reason for not disclosing this as an error is that it is the result of a reasonable estimation process, but there is a relatively small and non-material variation when we carry out a comparison of this against the devolution percentages. No further action is required in relation to this issue.

07

Section 07:

Value for Money

7. Value for Money

Approach to Value for Money

We are required to consider whether NTCA has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out and sets out the reporting criteria that we are required to consider. The reporting criteria are:

- **Financial sustainability** – how NTCA plans and manages its resources to ensure it can continue to deliver its services
- **Governance** - how NTCA ensures that it makes informed decisions and properly manages its risks
- **Improving economy, efficiency and effectiveness** - how NTCA uses information about its costs and performance to improve the way it manages and delivers its services

At the planning stage of the audit, we undertake work to understand the arrangements that NTCA has in place under each of the reporting criteria and we identify risks of significant weaknesses in those arrangements. Although we describe this work as planning work, we keep our understanding of arrangements under review and update our risk assessment throughout the audit to reflect emerging issues that may suggest significant weaknesses in arrangements exist.

Where our risk-based procedures identify actual significant weaknesses in arrangements we are required to report these and make recommendations for improvement. Where such significant weaknesses are identified, we report these in the audit report.

The primary output of our work on NTCA's arrangements is the commentary on those arrangements that forms part of the Auditor's Annual Report.

We intend to issue the Auditor's Annual Report no later than three months after the auditor's report on the financial statements is signed, in accordance with the latest guidance issued by the NAO.

Status of our work

We are yet to complete our work in respect of NTCAs arrangements for the year ended 31 March 2021. At the time of preparing this report, we have not identified any significant weaknesses in arrangements that require us to make a recommendation, however, we continue to undertake work on NTCA's arrangements.

Our draft audit report at Appendix B outlines that we have not yet completed our work in relation to NTCA's arrangements. As noted above, our commentary on NTCA's arrangements will be provided in the Auditor's Annual Report no later than three months after the auditor's report on the financial statements is signed.

Appendices

A: Draft management representation letter

B: Draft audit report

C: Independence

D: Other communications

Appendix A: Draft management representation letter

To: Mr Gavin Barker
Director
Mazars LLP

Date:

North of Tyne Combined Authority (NTCA) and Group - audit for year ended 31 March 2021

This representation letter is provided in connection with your audit of the financial statements of NTCA and Group for the year ended 31 March 2021 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (the Code) and applicable law.

I confirm that the following representations, to the best of my knowledge and belief, 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 ourselves that I can properly make each of the following representations to you.

My responsibility for the financial statements and accounting information

I believe that I have fulfilled my responsibilities for the true and fair presentation and preparation of the financial statements in accordance with the Code and applicable law.

My responsibility to provide and disclose relevant information

I have provided you with:

- access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other material;
- additional information that you have requested from us for the purpose of the audit; and
- unrestricted access to individuals within NTCA 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 that have a material effect on the financial statements have been recorded in the accounting records and are reflected in the financial statements. All other records and related information, including minutes of all NTCA and Group committee meetings, have been made available to you.

Appendix A: Draft management representation letter

Accounting policies

I confirm that I have reviewed the accounting policies applied during the year in accordance with Code and International Accounting Standard 8 and consider these policies to faithfully represent the effects of transactions, other events or conditions on NTCA and Group's financial position, financial performance and cash flows.

Accounting estimates, including those measured at fair value

I confirm that any significant assumptions used by NTCA and Group in making accounting estimates, including those measured at current or 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 NTCA 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 the Code and applicable law.

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.

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

Appendix A: Draft management representation letter

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 financial statements may be materially misstated as a result of fraud;
- all knowledge of fraud or suspected fraud affecting NTCA 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 NTCA 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, have been appropriately accounted for and disclosed in accordance with the requirements of the Code and applicable law. I have disclosed to you the identity of NTCA and Group's related parties and all related party relationships and transactions of which I am aware.

Charges on assets

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

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.

Future commitments

I am not aware of any plans, intentions or commitments that may materially affect the carrying value or classification of assets and liabilities or give rise to additional liabilities.

Appendix A: Draft management representation letter

Subsequent events

I confirm all events subsequent to the date of the financial statements and for which the Code and applicable law, 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 NTCA and Group, 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 NTCA 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 financial statements.

Unadjusted misstatements

I confirm that there were no unadjusted misstatements in the 2020/21 statement of accounts. IF THERE ARE UNADJUSTED MISSTATEMENTS PLEASE LIST THEM HERE OR INCLUDE THEM IN AN APPENDIX.

Yours faithfully

Chief Finance Officer

Date: ………………………

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Appendix B: Draft audit report

Independent auditor's report to the Members of North of Tyne Combined Authority and the Group

Report on the audit of the financial statements

Opinion on the financial statements

We have audited the financial statements of North of Tyne Combined Authority and Group for the year ended 31 March 2021, which comprise the North of Tyne Combined Authority and Group Comprehensive Income and Expenditure Statements, the North of Tyne Combined Authority and Group Balance Sheets, the North of Tyne Combined Authority and Group Movement in Reserves Statement, the North of Tyne Combined Authority and Group Cash Flow Statements and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

In our opinion, the financial statements:

- give a true and fair view of the financial position of North of Tyne Combined Authority and Group as at 31st March 2021 and of North of Tyne Combined Authority and Group's expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

Basis for opinion

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

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Chief Finance Officers' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on North of Tyne Combined Authority and Group's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Chief Finance Officer with respect to going concern are described in the relevant sections of this report.

Appendix B: Draft audit report

Other information

The Chief Finance Officer is responsible for the other information. The other information comprises the Narrative Statement and the Annual Governance Statement and information included in the Statement of Accounts, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

Responsibilities of the Chief Finance Officer for the financial statements

As explained more fully in the Statement of the Chief Finance Officer's Responsibilities, the Chief Finance Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21, and for being satisfied that they give a true and fair view. The Chief Finance Officer is also responsible for such internal control as the Chief Finance Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Chief Finance Officer is required to comply with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 and prepare the financial statements on a going concern basis, on the assumption that the functions of North of Tyne Combined Authority and Group will continue in operational existence for the foreseeable future. The Chief Finance Officer is responsible for assessing each year whether or not it is appropriate for North of Tyne Combined Authority and Group to prepare its accounts on the going concern basis and disclosing, as applicable, matters related to going concern.

Auditor's responsibilities for the audit of the financial statements

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Based on our understanding of North of Tyne Combined Authority and Group, we identified that the principal risks of non-compliance with laws and regulations related to the Local Government Act 2003 (and associated regulations made under section 21), the Local Government Finance Acts of 1988, 1992 and 2012, and the Accounts and Audit Regulations 2015, and we considered the extent to which non-compliance might have a material effect on the financial statements.

We evaluated the Chief Finance Officer's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls) and determined that the principal risks were related to posting manual journal entries to manipulate financial performance, management bias through judgements and assumptions in significant accounting estimates and significant one-off or unusual transactions.

Appendix B: Draft audit report

Our audit procedures were designed to respond to those identified risks, including non-compliance with laws and regulations (irregularities) and fraud that are material to the financial statements. Our audit procedures included but were not limited to:

- discussing with management and Those Charged with Governance the policies and procedures regarding compliance with laws and regulations;
- communicating identified laws and regulations throughout our engagement team and remaining alert to any indications of non-compliance throughout our audit; and
- considering the risk of acts by North of Tyne Combined Authority and the Group which were contrary to applicable laws and regulations, including fraud.

Our audit procedures in relation to fraud included but were not limited to:

- making enquiries of management and Those Charged with Governance on whether they had knowledge of any actual, suspected or alleged fraud;
- gaining an understanding of the internal controls established to mitigate risks related to fraud;
- discussing amongst the engagement team the risks of fraud; and
- addressing the risks of fraud through management override of controls by performing journal entry testing.

There are inherent limitations in the audit procedures described above and the primary responsibility for the prevention and detection of irregularities including fraud rests with management and Those Charged with Governance. As with any audit, there remained a risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal controls.

We are also required to conclude on whether the Chief Finance Officer's use of the going concern basis of accounting in the preparation of the financial statements is appropriate. We performed our work in accordance with Practice Note 10: Audit of financial statement and regularity of public sector bodies in the United Kingdom, and Supplementary Guidance Note 01, issued by the National Audit Office in April 2021.

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

Report on North of Tyne Combined Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Matter on which we are required to report by exception

We are required to report to you if, in our view, we are not satisfied that North of Tyne Combined Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021.

We have not completed our work on North of Tyne Combined Authority's arrangements. On the basis of our work to date, having regard to the guidance issued by the Comptroller and Auditor General in April 2021, we have not identified any significant weaknesses in arrangements for the year ended 31 March 2021.

We will report the outcome of our work on North of Tyne Combined Authority's arrangements in our commentary on those arrangements within the Auditor's Annual Report. Our audit completion certificate will set out any matters which we are required to report by exception.

Appendix B: Draft audit report

Responsibilities of North of Tyne Combined Authority

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

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

We are required under section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that North of Tyne Combined Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of North of Tyne Combined Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our work in accordance with the Code of Audit Practice, having regard to the guidance issued by the Comptroller and Auditor General in April 2021.

Matters on which we are required to report by exception under the Code of Audit Practice

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

We have nothing to report in these respects.

Use of the audit report

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

Appendix B: Draft audit report

Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until we have completed:

- the work necessary to issue our assurance statement in respect of the North of Tyne Combined Authority's Whole of Government Accounts consolidation pack; and
- the work necessary to satisfy ourselves that the North of Tyne Combined Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Gavin Barker
Director
For and on behalf of Mazars LLP

The Corner
Bank Chambers
26 Mosley Street
Newcastle upon Tyne
NE1 1DF

Date:

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.

Appendix D: Other communications

Other communication	Response
Compliance with laws and regulations	We have not identified any significant matters involving actual or suspected non-compliance with laws and regulations. We will obtain written representations from management that all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements have been disclosed.
External confirmations	We did not experience any significant issues with respect to obtaining external confirmations.
Related parties	Issues were identified in respect of related parties disclosures for the subsidiary Nexus as outlined in the internal control recommendation raised in section 05. We will obtain written representations from management confirming that: a. they have disclosed to us the identity of related parties and all the related party relationships and transactions of which they are aware; and b. they have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the applicable financial reporting framework.
Going concern	We have not identified any evidence to cause us to disagree with the Chief Finance Officer that North of Tyne Combined Authority will be a going concern, and therefore we consider that the use of the going concern assumption is appropriate in the preparation of the financial statements. We will obtain written representations from management, confirming that all relevant information covering a period of at least 12 months from the date of approval of the financial statements has been taken into account in assessing the appropriateness of the going concern basis of preparation of the financial statements.

Appendix D: Other communications

Other communication	Response
Subsequent events	We are required to obtain evidence about whether events occurring between the date of the financial statements and the date of the auditor's report that require adjustment of, or disclosure in, the financial statements are appropriately reflected in those financial statements in accordance with the applicable financial reporting framework. We will obtain written representations from management that all events occurring subsequent to the date of the financial statements and for which the applicable financial reporting framework requires adjustment or disclosure have been adjusted or disclosed.
Matters related to fraud	We have designed our audit approach to obtain reasonable assurance whether the financial statements as a whole are free from material misstatement due to fraud. In addition to the work performed by us, we will obtain written representations from management, and Those Charged with Governance, confirming that a. they acknowledge their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud; b. they have disclosed to the auditor the results of management's assessment of the risk that the financial statements may be materially misstated as a result of fraud; c. they have disclosed to the auditor their knowledge of fraud or suspected fraud affecting the entity involving: i. management; ii. employees who have significant roles in internal control; or iii. others where the fraud could have a material effect on the financial statements; and d. they have disclosed to the auditor their knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

Gavin Barker, Director
gavin.barker@mazars.co.uk

Mazars

The Corner
Bank Chambers
26 Mosley Street
Newcastle upon Tyne
NE1 1DF

Mazars is an internationally integrated partnership, specialising in audit, accountancy, advisory, tax and legal services*. Operating in over 90 countries and territories around the world, we draw on the expertise of 40,400 professionals – 24,400 in Mazars' integrated partnership and 16,000 via the Mazars North America Alliance – to assist clients of all sizes at every stage in their development.

*where permitted under applicable country laws.

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NORTH OF TYNE COMBINED AUTHORITY

Cabinet

25 January 2022

Subject: **2020/21 Annual Governance Statement**

Report of: **Risk Advisor to the North of Tyne Combined Authority**

Portfolio: **All Portfolios**

Report Summary

The purpose of this report is to present the Authority's 2020/21 Annual Governance Statement to Cabinet for approval.

The 2020/21 Annual Governance Statement is provided at Appendix A.

Recommendations

Cabinet is recommended to approve the Annual Governance Statement for inclusion in the Authority's 2020/21 annual accounts and recommend it for signature by the Mayor, Managing Director, Chief Finance Officer and Chair of Audit and Standards Committee.

1. Background Information, Proposals and Timetable for Implementation

1.1 The Combined Authority has a statutory duty under the Accounts and Audit Regulations 2015 to do the following on an annual basis:

- Conduct a review of the effectiveness of its governance framework, including the system of internal control;
- Prepare an Annual Governance Statement; and
- Through a relevant committee review and approve the Annual Governance Statement

1.2 The Chartered Institute of Public Finance and Accountancy (CIPFAs) publication "Delivering Good Governance in Local Government" (2016 Edition), sets a framework, and the standard, for local authority governance in the UK. The Framework sets out a set of principles which we test our governance arrangements against:

- Ensuring openness and comprehensive stakeholder engagement
- Developing the entity's capacity, including the capability of its leadership and the individuals within it
- Behaving with integrity, demonstrating strong commitment to ethical values and respecting the rule of law
- Determining the interventions necessary to optimise the achievement of the intended outcomes
- Managing risks and performance through robust internal control and strong public financial management
- Defining outcomes in terms of sustainable economic social and environmental benefits
- Implementing good practices to transparency, reporting and audit to deliver effective accountability

1.3 The 2020/21 Annual Governance Statement fully complies with the CIPFA Framework and provides detailed evidence against each of the above principles to show how the Authority has adhered to its governance commitments as set out in the Constitution. The Statement includes hyperlinks to sources of further information detailed on the North of Tyne website, (for example the Authority's Corporate Plan, our Freedom of Information Scheme and the Adult Education Strategic Skills Plan), demonstrating how the Authority has implemented its commitments and complies with governance standards and principles.

1.4 CIPFA also introduced a new Financial Management Code which the Authority must comply with by 2021/22. The Code is based on a series of principles supported by specific standards which are considered necessary to provide a strong foundation to manage the short, medium and long-term finances of the Authority. In preparation for the first full year of compliance NTCA have undertaken a self-assessment of the Code. Whilst not considered to be a significant governance issue the outcome of the self-assessment and associated action plans are now included in Section 13 of the Annual Governance Statement (Governance and Internal Control Improvements).

1.5 The 2020/21 Annual Governance Statement has been prepared as the Authority recovers from the impact of Covid-19. The impact of Covid-19 on our governance and internal control environment will be kept under review and as part of our next annual review we will consider any lessons learnt during the period of the pandemic to further improve our governance and internal control arrangements.

1.6 The Audit and Standards Committee considered the 2020/21 Annual Governance Statement (Appendix A) at its meeting on 18 January 2022, recommending it for inclusion in the Authority's 2020/21 annual accounts and for signature by the Mayor, Managing Director, Chief Finance Officer and the Chair of Audit and Standards Committee.

2. Potential Impact on Objectives

2.1 No direct impact on objectives.

3. Key Risks

3.1 There are no specific risk implications directly arising from this report. Risk management has been considered as part of the production of the 2020/21 Annual Governance Statement.

4. Financial and Other Resources Implications

4.1 Production of the Annual Governance Statement has been carried out by Newcastle City Council's Risk Management Service under the Service Level Agreement for 2020/21.

5. Legal Implications

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

6. Equalities Implications

6.1 There are no direct equalities implications arising from this report.

7. Inclusive Economy Implications

7.1 There are no direct inclusive economy implications arising from this report.

8. Climate Change Implications

8.1 There are no direct climate change implications arising from this report.

9. Consultation and Engagement

9.1 The Mayor, Managing Director, Monitoring Officer and Chief Finance Officer have been consulted on the 2020/21 Annual Governance Statement.

10. Appendices

Appendix A – 2020/21 Annual Governance Statement

11. Background Papers

None.

12. Contact Officers

Philip Slater – Chief Internal Auditor, Newcastle City Council (acting as Risk Advisor for NTCA)
Philip.slater@newcastle.gov.uk
Telephone – 0191 2116511

13. Glossary

None

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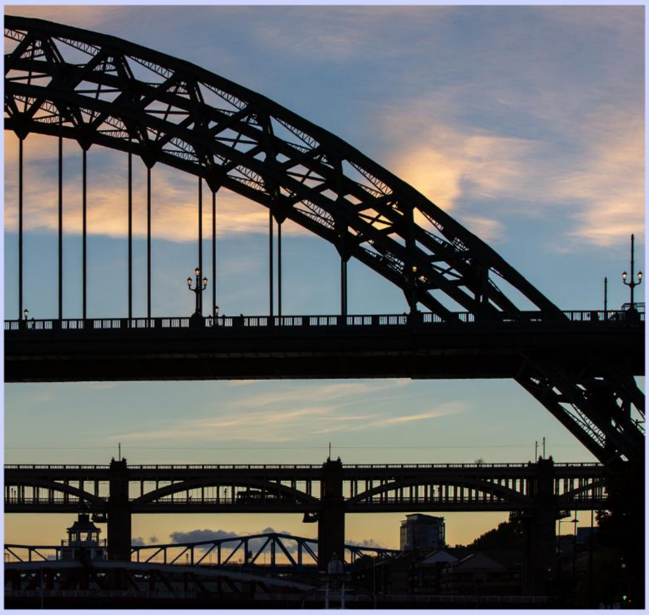
ANNUAL GOVERNANCE STATEMENT 2020/21



NORTH OF TYNE COMBINED AUTHORITY

Section 1: Introduction

This Annual Governance Statement provides an overview of how the North of Tyne Mayoral Combined Authority's governance and internal control arrangements operated during 2020/21, including how they are reviewed annually to ensure they remain effective, as the North East responds to the impact of Covid-19.

Section 2: Scope Of Responsibility

NTCA was established on 2 November 2018 to give effect to a "minded to" devolution deal which was agreed between Newcastle, North Tyneside and Northumberland Councils, the North East Local Enterprise Partnership and Central Government. The devolution deal represents a significant shift of powers, funding and responsibility from central government to the local level. The deal enables the three councils to pursue through NTCA a shared ambition for an inclusive economy. NTCA does not replace the three constituent councils, nor does it take away any of their statutory powers.

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

We will continue to work with the North East Combined Authority (NECA) on a number of areas to support the region, including transport. To oversee strategic transport functions a North East Joint Transport Committee has been established with members from both Combined Authorities.

All seven Local Authorities are members of the North East Local Enterprise Partnership (North East LEP) to support delivery of the objectives of the regions Strategic Economic Plan, which is the North East's plan for growing and developing a more productive, inclusive and sustainable regional economy.

On 1 April 2020 accountable body functions for the North East LEP were transferred to NTCA from NECA. As the accountable body or 'Host Authority' NTCA will support the North East LEP manage its resources with all funding decisions being held to account through the NTCA.

NTCA is responsible for ensuring that its business is conducted in accordance with the law and proper standards. It is also responsible for ensuring that public money is safeguarded, properly accounted for and used economically, efficiently and effectively. The Authority also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised.
In discharging this overall responsibility, the Authority's Cabinet and Statutory Officers are responsible for putting in place proper arrangements (known as a Governance Framework) for:

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

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

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

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

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

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

Section 3: Purpose Of The Governance Framework

Corporate governance is a phrase used to describe how organisations direct and control what they do. The Chartered Institute of Public Finance and Accountancy (CIPFAs) publication "Delivering Good Governance in Local Government" (2016 Edition), sets a framework, and the standard, for local authority governance in the UK. The Framework sets out a set of principles which we test our governance arrangements against to consider the extent to which the Authority complies with the principles of good governance as set out in the Framework. This is reported through the Annual Governance Statement. It also enables us to monitor the achievement of the Authority's priorities and to consider whether those priorities 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 2021 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 overleaf. This includes examples of how the Authority has adhered to its governance commitments set out in the Constitution and includes hyperlinks to sources of further information which include more detail about how NTCA has implemented its commitments.

Principles of Good Governance

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

B. Ensuring openness and comprehensive stakeholder engagement

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

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

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

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

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

The Governance Framework		
A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law		
The Authority's Commitment of Good Governance	***How the Authority meets these principles***	***Where you can see Governance in action***
Behaving with Integrity	The 2021 budget and our medium-term financial plan 2022-23/2024-25 has been developed within the context of the Authority's strategic priorities and policy decisions made by the Mayor and Cabinet. This ensures that the Combined Authority's strategic plans can be delivered within the financial resources available. A Deed of Cooperation was made on the 4 July 2018 between the seven Constituent Authorities in the area which outlines a framework for collaborative working across the region. A register of Members' interests (including gifts and hospitality) is also maintained. The register is reviewed on an annual basis. The Monitoring Officer advises on compliance with our Constitution, ensuring that decision making is lawful, fair and ethical. Our financial management arrangements conform to the CIPFA Statement on the Role of the Chief Finance Officer and are the responsibility of the Chief Finance Officer.	2021-2025 Budget Proposals (Agenda item 7a) Gifts and Hospitality Policy
Demonstrating Strong Commitment to Ethical Values	Our Constitution defines our standing orders, standing financial instructions, and scheme of delegation. These clearly define how decisions are taken and the processes and	The Constitution is available on the NTCA website.

	controls required to manage risks. We will ensure compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful.	
	The Monitoring Officer advises on compliance with our Constitution, ensuring that decision making is lawful, fair and ethical.	Cabinet Rules of Procedure (“Standing Orders”) can be found at part 3.1 of the Constitution
	Codes of conduct are set out in the Constitution, defining standards of behaviour for Members and Officers working on behalf of the Authority. Audit and Standards Committee will deal with issues of conduct and generally promote high standards among officers and members.	Codes of Conduct can be found at Part 5.2 of the Constitution
	Our Freedom of Information Scheme is published on our website	Freedom of Information Scheme
	We ensure that there are effective arrangements for “Whistle-blowing” and for receiving and investigating complaints from the public. Administration of the Authority’s policies on anti-fraud and corruption is undertaken by Internal Audit. Whistleblowing policy and procedure is at Part 5.5 of our Constitution	Whistleblowing Policy
	The Authority appoints Statutory Officers who have the skills, resources and support necessary to ensure statutory and regulatory requirements are complied with.	
	On 2 June 2020 Cabinet agreed policies relating to: Data Protection and Confidentiality; Environmental; Equalities and Diversity; Modern Slavery; and Social Value.	Cabinet report – agenda item 9
	We have worked with Cabinet and wider partners and stakeholders to develop a clear set of values by which we work which are outlined in our Corporate Plan.	Corporate Plan 2021/22 – How We Work (page 7)

Respecting the Rule of Law	NTCA has measures to address breaches of its legal and regulatory powers. The Authority's Monitoring Officer has statutory reporting duties in respect of lawful decision and maladministration. We review and update our standing orders, standing financial instructions, scheme of delegation and support procedure notes/manuals – these clearly define how decisions are taken and the processes and controls required to manage risks. A revised scheme of officer delegations was approved by Cabinet on 29 September 2020. The proposed scheme identifies a number of officers as "designated officers" who can exercise the delegated functions allocated to them in the scheme. These designated officers are the Head of Paid Service, Chief Finance Officer, and Monitoring Officer, Managing Director and Director of Policy and Performance, as well as the Chief Executive of the North East LEP (whose delegation relates to North East LEP matters only). Head of Paid Service designation to Managing Director (formerly Director of Economic Growth) was approved by Cabinet in June 2021. Our financial management arrangements conform to the CIPFA Statement on the Role of the Chief Finance Officer. The Monitoring Officer is advised on compliance with our policy framework, ensuring that decision making is lawful and fair and ethical.	revised scheme of officer delegations Cabinet Agenda 8 June 2021- Agenda item 14

B. Ensuring openness and comprehensive stakeholder engagement		
The Authority's Commitment to Good Governance	***How the Authority meets these principles***	***Where you can see Governance in action***
Ensuring Openness Engaging Comprehensively with Institutional Stakeholders	We are clear on delivering the objectives of the Combined Authority and intended outcomes of our vision. Our Corporate Plan outlines the things we are doing and will do in future – using the powers and resources from our Devolution Deal, and the rapid progress we have made since – to drive jobs, inclusion, new homes and positive economic change in our region	Corporate Plan 2021/22
	Our Annual Report 'Working Together For You' sets out the Authority's achievements and the work of the Mayor and Cabinet over the last year.	Working Together For You – Annual Report
	The Elected Mayor chairs the Cabinet and Cabinet decisions will be subject to scrutiny by the Overview and Scrutiny Committee. The Elected Mayor has a number of specific powers and financial resources which Cabinet can make representations on and which can also be subject to scrutiny by the Overview and Scrutiny Committee.	Cabinet Scrutiny Protocol (Agenda item 6)
	Transport is of strategic importance to the North East and together with the North East Combined Authority a North East Joint Transport Committee has been established bringing together members from across the seven local authorities, allowing effective decision making across the region to ensure that the local needs and transport priorities are delivered.	North East Joint Transport Committee
	The NTCA updated Adult Education Strategic Skills Plan sets out our ambitious programme for skills development. It	

	highlights strengths, opportunities and challenges across our region and sets out the NTCA key priorities to ensure our residents have the skills to get a good job, progress in work and that employers have people with the right skills.	Opportunity for All – North of Tyne Strategic Skills Plan 2021-2023
Engaging stakeholders effectively, including individual citizens and service users	Meetings, agendas and minutes are accessible via the website. All meetings are held in public (other than where consideration of confidential or exempt information). However, during the ongoing situation regarding Covid-19, Cabinet meetings and all other Committees were held virtually, in accordance with their usual timescales, and live streamed for the public to view. We publish a register of key decisions to notify the public of the most significant decisions the Combined Authority is due to take. Details of each decision are included on the Forward Plan 28 days before the report is considered and any decision is taken. This allows an opportunity for people to find out about major decisions that NTCA is planning to take. Our Freedom of Information Scheme is published on our website. The appointment of a Mayoral Ambassador for the Voluntary, Community and Social Enterprise Sector (VCSE) and supporting Accord, which sets out a framework for a new relationship between NTCA and the VCSE to deliver our shared vision of an inclusive economy. We have set up a dedicated Coronavirus webpage which provides support for our businesses and communities, providing the latest government advice and available support.	NTCA website Forward Plan Freedom of Information Scheme VCSE Accord Agenda item 4 Coronavirus webpage Brexit Support webpage

	The website also signposts businesses to specialist sources of Brexit preparedness advice and support. We continue to use Facebook and Twitter as primary social media platforms to provide information on news and events for residents, businesses and visitors. Our website includes a transparency page where you will find the non-financial information the North of Tyne Combined Authority is required to publish under the Local Government Transparency Code 2015. We have worked closely with our adult education providers providing stability and flexibility to ensure delivery is maintained throughout and beyond the Covid-19 pandemic. We have already received much feedback on how this funding is making a positive impact to people's lives and we have case studies from a number of residents providing us with 'their story' on how the courses they are taking are building their confidence and skills, and supporting them on their next steps.	 Transparency Information The Cedarwood Trust AEB case study (Appendix 2 page 18)

C. Defining outcomes in terms of sustainable economic, social, and environmental benefits		
The Authority's Commitment to Good Governance	***How the Authority meets these principles***	***Where you can see Governance in action***
Defining Outcomes	Our Corporate Plan outlines the things we are doing and will do in future – using the powers and resources from our Devolution Deal, and the rapid progress we have made since	Corporate Plan 2021/22

	– to drive jobs, inclusion, new homes and positive economic change in our region. The North East LEP works with its partners, which includes NTCA and NECA, to deliver the regions Strategic Economic Plan (SEP). The Plan reflects on recent changes to the global and national economy as well as the UK's departure from the European Union. It also looks at how the North East can maximise opportunities around the UK's Industrial Strategy. We incorporate good governance arrangements in our partnerships and reflect these in our overall governance arrangements.	Strategic Economic Plan UK's Industrial Strategy. Significant Partnership Register
Sustainable, Economic, Social and Environmental Benefits	To build on the engagement that is already happening across the North of Tyne region regarding climate change, Cabinet has approved the creation of a Citizens' Assembly to look at a specific set of issues relating to climate change. Our Social Value Policy sets out how the Authority will deliver social value through their commissioning and procurement activities and to set the Authority's priorities in relation to social value. NTCA has developed a programme to understand what 'Good Work' should look like in the North of Tyne and how NTCA can promote and reward employers that are offering the elements of 'Good Work'. This has included the development of a Good Work Pledge, which will enable employers to understand the key elements of 'Good Work ' what they can do to achieve this for their employees and what support is available to help them get there.	North of Tyne Citizens' Assembly on Climate Change Social Value Policy Good Work Pledge

	Adult Education Budget provision will support key elements of the North East Strategic Economic Plan, and the emerging Local Industrial Strategy and play a key role in NTCA's economic growth and reform agenda.	
	We will continue to engage with adult education providers working to respond to the Coronavirus pandemic looking for provision, which is responsive to the challenges the crisis brings, helping residents get on in work and life around the terms of Covid-19 recovery.	
	To support businesses during the Coronavirus pandemic we have made funding of £5m available with additional grant funding of around £1.5m to support businesses during the Coronavirus crisis.	Covid-19 Capacity Fund
	We have established a digital equipment loan scheme to support residents across the region giving them access to digital services and opportunities. Encouraging digital inclusion for everyone will help our residents' access new opportunities and in turn support our inclusive economy.	Digital Inclusion Scheme
	Inclusive Economy Board was launched in March 2020 and advises the NTCA Cabinet on inclusive economy interventions across the North of Tyne area, championing the NTCA Vision and supporting the area to become a national exemplar in inclusive growth	
	The Housing and Land Board provides robust governance around an integrated strategic approach to improving the quality and quantity of homes in the North of Tyne area.	

	A North of Tyne Poverty Truth Commission will bring together community, civic and business representatives with people with experience of living in poverty. It will aim to better understand the specific effects of the Covid -19 pandemic for people living in Newcastle, North Tyneside, and Northumberland and come up with practical solutions. Crowdfund North of Tyne will fund projects to help communities recover from the Coronavirus pandemic - its aim is to bring people together, create or improve green spaces, improve mental health, inspire creativity and opportunity for all, or support social enterprise and co-operative development.	Poverty Truth Commission Crowdfund North of Tyne

D. Determining the interventions necessary to optimise the achievement of the intended outcomes		
The Authority's Commitment to Good Governance	***How the Authority meets these principles***	***Where you can see Governance in action***
Determining Interventions	Cabinet approved its draft budget for 2021/22, and the medium-term financial plan for the period 2022/23 to 2024/25 at its January 2021 meeting. Our scrutiny arrangements enhance accountability and transparency of decision making. The Overview and Scrutiny Committee acts in accordance with the principles of decision making as set out in our Constitution and will call-in decisions where there is evidence which suggests that the decision was not taken in accordance with the principles. A Cabinet Scrutiny Protocol has been agreed which defines the relationship between Cabinet and Overview and Scrutiny Committee, providing a framework for disagreement and debate and a way to manage it when it happens.	Cabinet Report (Agenda item 7) Constitution (Part 1.2) Cabinet Scrutiny Protocol (Agenda item 6)

	A Scrutiny Annual Report was presented to Cabinet at its Annual Meeting in June 2021.	Scrutiny Annual Report (Agenda item 12)
Optimising Achievement of Intended Outcomes	The strategic, crosscutting nature of much of the Authority's work means that delivery is often achieved through collaboration with NTCA partners and North of Tyne Council's. An example of this collaboration is in our Recover, redesign, reimagine plan which has been put forward to Government demonstrating our commitment to post-covid recovery and renewal.	Recover, Redesign, Reimagine

E. Developing the entity's capacity, including the capability of its leadership and the individuals within it		
The Authority's Commitment to Good Governance	***How the Authority meets these principles***	***Where you can see Governance in action***
Developing the Organisation's Capacity	We have defined and documented in our Constitution the roles and responsibilities of Cabinet, Scrutiny and 'proper' officer functions (Head of Paid Service, Monitoring Officer, Chief Finance Officer), with clear delegation arrangements and protocols for effective communication. The collective and individual roles and responsibilities of the Cabinet, Members and Officers have been agreed by the Combined Authority.	
Developing the Capability of the Organisation's Leadership and Other Individuals	We identify and aim to address the development needs of members and senior officers through the annual appraisal process, in relation to their strategic roles, and support these with appropriate training.	

	Values and behavior's workshops have been delivered to all staff, with staff appraisals undertaken with agreed targets and objectives linked to NTCA's work programme. During the Coronavirus pandemic national updates and latest Government guidance has been regularly communicated to all our staff working remotely. Staff are also reminded of our information governance/data security requirements whilst working remotely, to ensure they continue to work safely and securely. Additional health and safety modules have been made available on our Learning Management System alongside advice from the Health & Safety Executive to ensure all our staff work safely at home.	

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

The Authority's Commitment to Good Governance	***How the Authority meets these principles***	***Where you can see Governance in action***
Managing Risk	Our Risk and Opportunity Management Policy and Strategy outlines our arrangements for managing risk. Risk management is an integral part of our decision-making processes. To inform decision making all committee reports include a section which highlights the key risks to the decisions or proposed recommendations and how they are being addressed.	
Managing Performance	Cabinet and Overview and Scrutiny Committees receive quarterly finance reports, monitoring the Authority's financial position and treasury management activity.	

	Cabinet and Overview and Scrutiny Committees receive six monthly reports monitoring the financial position of the North East LEP and Invest North East England.	
Effective Overview and Scrutiny	Our scrutiny arrangements enhance accountability and transparency of decision making. The Overview and Scrutiny Committee acts in accordance with the principles of decision making as set out in our Constitution (Part 1.2) and will call-in decisions where there is evidence which suggests that the decision was not taken in accordance with the principles.	
Robust Internal Control	An Officer holds the position of Data Protection Officer and is responsible for overseeing the Authority's Data Protection and Confidentiality Strategy and its implementation to ensure compliance with the General Data Protection Regulations. The Authority regularly reviews policies relating to records management, data quality, data protection and information security. The Audit and Standards Committee acts as principle advisory committee to NTCA, providing independent assurance on the adequacy of the risk management framework and internal control environment. 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 2020/21 to support this Annual Governance Statement.	Data Protection and Confidentiality Strategy

	A 2020/21 Strategic Audit Plan which was approved by Audit and Standards Committee on 28 July 2020, has been prepared to ensure Internal Audit resources are deployed in areas that will provide optimum benefit and value to the Authority. Progress against the 2020/21 Audit Plan was reported to Audit and Standards Committee at its January 2021 meeting. Audit and Standards Committee endorsed the Authority's Strategic Audit Plan for 2021/22 at its January 2021 meeting.	Internal Audit report January 2021 – Agenda item 4a & 4b)
Managing Data	All staff must undertake data protection e-learning training annually. The programme of training and awareness for all staff and members continues during 2021/22. The Authority makes information available to the public via the information access regimes provided for by the Freedom of Information Act 2000 and the Environmental Information Regulations 2004.	Freedom of Information Scheme
Strong Public Financial Management	The control and financial management arrangements are reviewed by internal and external audit throughout the year. The outcomes for 2020/21 are noted in Section 5 of this Annual Governance Statement – Annual Review of Effectiveness of Governance Framework.	

G. Implementing good practices in transparency, reporting, and audit to deliver effective accountability		
The Authority's Commitment to Good Governance	***How the Authority meets these principles***	***Where you can see Governance in action***
Implementing Good Practice in Transparency	Mayor's Question Time – Mayor Driscoll hosts regular themed online Mayor's question time, welcoming questions and comments on key issues. The Mayor updates the region weekly via his video blog and Facebook page, providing an insight into the working week of the NTCA Mayor and the Authority's key achievements. We publish details of delegated decisions on our website.	Mayor's Facebook Page - Mayor's question time YouTube - My week in a minute delegated decisions on our website.
Implementing Good Practices in Reporting	We ensure that our Audit and Standards Committee undertakes the core functions identified in CIPFA's Audit Committees – Practical Guidance for Local Authorities and Police 2018. Internal Audit compliance with Public Sector Internal Audit Standards Production of the Authority's Annual Report and Accounts	
Assurance and Effective Accountability	The Assurance Framework explains the arrangements for NTCA to: • Demonstrate that arrangements are in place to ensure accountable and transparent decision-making • Appraise projects and allocate funding; and	

	Monitor and evaluate projects to ensure that they achieve value for money and projected outcomes The Assurance Framework has been designed to meet the National Guidance for Single Pot Assurance Frameworks, issued by MHCLG for localities in receipt of a Single Pot as part of their Devolution Deals. Section 5 of this Annual Governance Statement provides the views of our internal and external auditors. Auditors report regularly to Audit and Standards Committee and provide their annual opinion on the adequacy of the effectiveness of our governance, risk and control framework. The Authority monitors the implementation of internal and external audit recommendations. Audit and Standards Committee receive regular reports summarising performance regarding implementation of recommendations. Information on expenditure, performance and decision making is sited together on the Transparency page of the Authority's website and can be accessed quickly and easily.	

Section 5: Annual Review Of Effectiveness Of Governance Framework

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

(a) An assessment of the Authority's Constitution, including its committee structure.

(b) The views of Internal Audit. The Acting Chief Internal Auditor's report to the July 2021 Audit and Standards Committee gives the following opinion on the adequacy and effectiveness of the framework of governance, risk management and control in place for the North of Tyne Combined Authority for 2020/21: The opinion of the Acting Chief Internal Auditor is that the framework of governance, risk management and control is satisfactory overall, at this stage in the authority's development and given the range of responsibilities it is required to discharge. This is a positive assessment of the control environment of the organisation

(c) Assurance from Statutory Officers, including the Monitoring Officer, Chief Finance Officer and Senior Information Risk Owner, through written signed statements.

(d) The views of External Auditors. The external auditor's Audit Completion Report for 2020/21 indicates that an unqualified opinion is expected to be given on the 2020/21 financial statements. The report also sets out that the auditor has not yet completed the work on NTCA's arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021. The auditor has indicated that, at the point of issuing their report, they do not anticipate identifying any significant weaknesses in the NTCA's arrangements.

(e) The results of the Authority's self-assessment of compliance with the new CIPFA Financial Management Code

(f) Activity of the Audit and Standards Committee, including ethical governance

(g) Partnerships, including the North East Joint Transport Committee

(h) The Risk Management process, particularly the Strategic Risk Register

(i) Performance information which is reported to Cabinet and other meetings on a regular basis.

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

Regional transport is operated and governed by the North East Joint Transport Committee, bringing together the two Combined Authorities, which allows effective decision-making across the region to ensure that the local needs and transport priorities are delivered. The Committee receive regular updates on North East and Regional Transport Plans.
The Committee also receive regular updates from the Managing Director, Transport North East, in respect of transport partnerships, including East Coast Mainline, HS2 and Northern Powerhouse Rail.

The Joint Transport Committee, Audit Committee is also a key component of the corporate governance arrangements and is an important source of assurance about the Joint Transport Committee's arrangements for managing risk, maintaining an effective control environment; and reporting on financial and performance matters.

The Joint Transport Committee also has an Overview and Scrutiny Committee to enable local councillors, on behalf of their communities, to scrutinise and challenge the Joint Transport Committee, its committees and Nexus, and to investigate matters of strategic importance to residents with a view to influencing and adding value to the decisions.

Section 7: Investment Fund Programme & Brownfield Housing

Investment Fund Programme

Delivery of the Investment Fund Programme is well underway; £76.42m is committed against a wide range of projects and programmes, with project delivery well underway. Forecast expenditure for 2020/21 currently stands at c£20m. In addition, a healthy pipeline of high-quality projects is in place with several significant investments planned in the coming months. This includes investment in our digital and offshore sectors, enabling innovation in businesses, as well as broader programmes of support to our residents and communities. The Covid-19 pandemic has had an impact on North of Tyne residents and our economy. The Combined Authority has worked closely with project sponsors throughout the last year to provide additional support and enable the development of alternative delivery methods where appropriate to realise outcomes. The impact of Covid-19 continues to be monitored.

An evaluation framework to capture our achievements and learning has been approved by the Mayor and the portfolio holder for Investment and Resources. The approach taken has been a process of co-design, including representation across all work programmes. Performance is reported monthly, outcomes are slightly ahead of forecasts in terms of the creation of new jobs and attracting private sector leverage. A bespoke programme management system, shared with the North East LEP, was launched in April 2021 across all NTCA programmes. As a cloud-based system, this will improve the efficiency of managing and monitoring programmes across the Combined Authority and will streamline the interface with delivery organisations for claims and output reporting.

Brownfield Housing

In July 2020, the Combined Authority secured £23.850m from Government's £400.000m national Brownfield Housing Fund. The funding will be delivered over five years up to 31 March 2025, to support the development of at least 1,500 new homes, by remediating and revitalising brownfield sites across the North of Tyne area. The Brownfield fund is part of a broader housing programme and pipeline of sites, shaping a strategic delivery approach to supporting housing and economic recovery.

The Combined Authority has operationalised the programme at pace, working closely with Local Authorities to establish a pipeline of projects totalling £21.5m by October and legally committing £10m by March 2021.

Section 8: Adult Education Budget

In August 2020 the Combined Authority took control of a £23.145million Adult Education Budget (AEB), secured as part of the devolution deal. An additional allocation of £959,064 for one year only was received in September 2020 to invest in High Value Courses and sector-based work academy programmes as part of the Chancellor's announcement on the 'Plan for Jobs' to support young people during the COVID-19 crisis. For the period April-July 2021 NTCA have also received an additional £409,894 of 'delegated' funding for the delivery of the Level 3 Adult Offer of the Government's Lifetime Skills Guarantee.

With Cabinet approval, the devolved AEB has been allocated to 29 education providers across 10 Grant Agreements and 19 Contract for Services (via the establishment of a procurement framework).

NTCA have made use of the flexibilities afforded by devolution of AEB in relation to its funding rules, rates and eligibility criteria to ensure the funding can be targeted where it is needed most. We have successfully secured provision which is based in the heart of our communities for innovative programmes that would not have been funded through non-devolved AEB.

The impact of Covid-19 is being closely monitored, both in terms of learner engagement during the pandemic and providers performance against delivery plans and payment profiles that were set out at the beginning of the academic year. Performance against delivery is reviewed at quarterly monitoring points.

Providers have implemented innovative plans to ensure delivery continues. This has included transferring provision on-line, supporting vulnerable learners through one to one video calls and where classrooms have been able to open delivering to groups of learners with effective safety measures in place.

NTCA implemented new funding flexibilities in January 2021 following consultation with providers on the impact of the crisis. These flexibilities included a fully funded non-accredited learning aim which can be utilised to provide informal activity to support learner engagement. A further flexibility removed the requirement for employed residents to contribute 50% towards the cost of their learning and enable fully funded accredited learning at Level 2 and Level 3 and non-accredited work-related training.

The AEB team are exploring a number of options for consideration in relation to the management of funding allocations for the remainder of this Academic Year (AY) 2020-21 and for AY 2021-22 to enable providers to respond quickly and flexibly when lockdown restrictions end.

Section 9: Significant Weaknesses In Governance and Internal Control

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

The review highlighted no significant weaknesses in governance or internal control during 2020/21.

Section 10: Covid-19 Response and Recovery

The region, via its Local Resilience Forum and a range of additional partners, continues to collaborate strongly in response to Covid-19. The LA7 Local Authorities from Durham to

Northumberland are actively collaborating at a political and officer level, and the NTCA has played an ongoing role supporting these efforts and leading elements of recovery planning.

The Combined Authority has taken a proactive approach to support for particular sectors impacted by the pandemic, including the continuation of support to enhance short-term skills, jobs and inclusive economy interventions such as Kickstart, Youth Hubs, Good Work Pledge, Culture and Tourism Recovery, Climate innovation and Growth of the Digital Sector.

North of Tyne's Digital Inclusion programme was piloted in June 2020, as part of the Covid-19 response. It sought to provide 2,675 residents with technology to allow them to become more digitally included. Primarily, this focussed upon providing equipment to school children, adults enrolled in education and employability programmes and those in care homes across the region. Through an investment of £686,000, the three constituent local authorities were able to provide resources and support to those that it targeted.

As a member of the North East Covid-19 Economic Response Group, NTCA has worked with regional colleagues to support the submission to government for recovery support and finance for the North East. The Group has published its North East Recovery and Renewal Deal, which asks government for investment to prioritise jobs and skills which will strengthen the economic recovery, as we invest in our people, alongside infrastructure and innovation.

The programme of activity is built around five themes:

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

In addition to this NTCA has allocated £10m of Investment funds to proceed with a North of Tyne Recovery Innovation Deal supporting businesses, social enterprises and Local Authorities to proactively innovate business models and sustain jobs in sectors that have been hit by the crisis. This funding could be used to help businesses adapt to digital ways of working, creating new Covid-19 secure spaces and supporting the development of stronger local supply chains.

Section 11: Governance and Internal Control Improvements

The review also identifies activities that may need improvement, but which do not constitute "significant weaknesses" in our governance and internal control arrangements. These are set out in Appendix A and will be monitored as part of the next review.

Section 12: Conclusion

We consider the governance and internal control environment operating during 2020/21, to provide reasonable and objective assurance that any significant risks impacting on the achievement of our principal objectives will be identified and actions taken to avoid or mitigate their impact.

The annual review has shown that the arrangements for 2020/21 are in place and operating as planned.

We propose over the coming year to improve our governance and internal control arrangements and consider any lessons learnt during the period of the Coronavirus pandemic, as part of our next annual review.

Mayor of the North of Tyne Combined Authority

Full Name: Jamie Driscoll

Signature:

Date:

Managing Director

Full Name: Henry Kippin

Signature:

Date:

Chair of Audit and Standards Committee

Full Name: Doug Ross

Signature:

Date: 21/01/2022

Chief Finance Officer

Full Name: Janice Gillespie

Signature:

J Gillespie .

Date: 21/01/2022

Section 13: Governance and Internal Control Improvements Appendix A

CIPFA Financial Management Code

Background Risk

The Financial Management Code (FM Code) is an additional requirement in 2020/21, mandatory from 2021/22. The Code is based on a series of principles supported by specific standards which are considered necessary to provide a strong foundation to manage the short, medium and long-term finances of a public authority.

In preparation for the first full year of compliance with the Code (2021/22) the Combined Authority has undertaken a self-assessment to ensure that it complies with the FM code in line with guidance issued by CIPFA and in a way that is appropriate and proportional to its own circumstances reflecting the structure, function and size of the Combined Authority.

The overall conclusion of each Financial Management Principle has been assigned a red, amber, or green rating in line with the scale of the improvements required for full compliance. A red rating indicates that significant improvements are required, an amber rating indicates that moderate improvements are required, and a green rating indicates that no improvements or minor improvements may be required. The RAG assessment ratings against each Principle are noted below:

- Leadership – Green
- Accountability – Green
- Transparency – Green
- Standards – Green
- Assurance – Green
- Sustainability – Green

The overall results from the self- assessment were green, however, the code requires any areas for improvement to be disclosed within an action plan. The self-assessment identified 4 areas for improvement, which once implemented will ensure the Combined Authority fully complies with the Financial Management Code.

Accountable Officer: Chief Finance Officer

Action(s) required to enhance effectiveness	**Implementation date**
Assurance Principle – Standard (F) The authority has carried out a credible and transparent financial resilience assessment. *This requirement relates to whether the Combined Authority has undertaken an independent, credible, and transparent financial resilience assessment. Unlike Local Government the Combined Authority has full control over the grant and funding programmes it has with more certainty around the financial envelope to plan with, and no risk*	March 2023

associated with Demand Led Services as our constituent authorities have. The factors which should be considered as part of the financial resilience assessment, will include getting routine financial management right, planning and managing revenue and capital resources well and using performance information effectively. As no assessment has been carried out to date externally, this has been consequently assessed as Amber.	
Standards Principle – Standard (H) The authority complies with the CIPFA Prudential Code for Capital Finance in Local Authorities. *Borrowing powers need to be secured to enhance the Combined Authority's ability to achieve its ambitions. These powers may be secured during Q4 of 2021/22 (January – March 2022). At which time an appropriate Capital Investment Strategy will be laid before the Mayor and Cabinet for their consideration.*	March 2022
Sustainability Principle - Standard (E) The Financial Management Style of the authority supports financial sustainability – Has the authority sought an external view on its financial style, for example through a process of peer review? *The Authority has evolved as a new entity in its entirety. The nature of the funding sources and delivery mechanisms the Authority has to achieve the Ambition and the requirements of the devolved funding mean that the level of risk associated with Financial Sustainability traditionally associated with Local Government Tiers is not the same. A peer review is not a requirement for compliance with the FM Code, the benefit of doing so will enable:* • *The creation of an action plan for any areas of improvement.* • *Review adequacy of financial management support.*	September 2022
Transparency Principle - Standard (M) Does the authority have a documented option appraisal methodology that is consistent with the guidance set out in the International Federation of Accountants/Professional Accountants in Business Publication – Project and Investment Appraisal for Sustainable Value Creation: Principles in Project and Investment Appraisal? *The Combined Authority have an Assurance Framework for appraising all projects, in line with the HM Treasury Green Book recommendations - a review is currently ongoing to further strengthen the requirements for options appraisals and relate this to the Business Case Guidance.*	March 2022

NORTH OF TYNE COMBINED AUTHORITY

Narrative Report year ended 31 March 2021

Narrative Statement

Introduction

The Narrative Report provides information about the North of Tyne Combined Authority (NTCA) and includes the key issues affecting the Combined Authority and its accounts. This report provides an explanatory narrative to key elements of the statements and sections in the accounts and also provides a summary of the Authority's financial performance for 2020/21 and its future financial prospects.

The report provides the reader with:

- A guide to the different financial statements within the Statement of Accounts.
- An overview of the activities and significant matters which have occurred during the year.
- A summary of the Combined Authority's financial performance during the year ending 31 March 2021.
- A look ahead to 2021/22 and beyond.
- Confidence in the Combined Authority's stewardship of public money and that it has been accounted for in an appropriate manner.

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

The accounts feature four main financial statements:

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

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

The purpose of this Annual Financial Report is to collectively provide a comprehensive view of the Combined Authority's financial position during the period to which they relate, including the financial position of the North East Local Enterprise Partnership (North East LEP) and Invest North East England (INEE) which the North of Tyne Combined Authority became the accountable body for 1 April 2020, together with details of the non-financial performance of the Authority during 2020/21. The format of the accounts reflects the impact of the Newcastle upon Tyne, North Tyneside, and Northumberland Combined Authority (Establishment and Functions) Order 2018 (the Order) which changed the boundaries of the former North East Combined Authority (NECA) on the 2 November 2018 and established the North of Tyne Combined Authority (NTCA) as well as the North East Joint Transport Committee.

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

- Annual Governance Statement.
- About North of Tyne Combined Authority.
- Key Facts about Governance Arrangements.
- Financial Performance of the Combined Authority 2020/21 including the North East LEP (North East LEP)and Invest North East England (INEE).
- Non-Financial Performance of the Combined Authority 2020/21.
- Key Priorities and upcoming Milestones
- Significant Issues for 2021/22 and beyond.
- Explanation of Accounting Statements included within the Statement of Accounts.
- Implementation of the Devolution Order.
- Joint Transport Committee.

Annual Governance Statement

The Combined Authority has approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Delivering Good Governance in Local Government Framework. Further information is available in the Annual Governance Statement which was presented to the Audit and Standards Committee on 20 July 2021. The Statement explains how the Authority has complied with the Code and meets the requirements of the Accounts and Audit Regulations 2015. The Statement can be found on the Authority's website: 20-July-2021-Audit-Standards-Agenda-Pack

About North of Tyne Combined Authority (NTCA)

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

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

Key facts about North of Tyne Combined Authority

- North of Tyne describes the area covered by North Tyneside, Newcastle, and Northumberland.

- It begins with the southernmost parts of Northumberland which border Gateshead and then County Durham along the River Derwent. Heading along the Tyne Valley, the border with Cumbria forms the western boundary up to the Scottish Border. The Scottish Border forms the northern boundary with Berwick-upon-Tweed on the east coast being the most northerly town. The North Sea along the Northumberland and North Tyneside coastline forms the eastern boundary. Newcastle upon Tyne is the only city within the boundaries.

- The area has a population of 833,200, a local economy of £18.863m, over 374,000 jobs and it is home to 24,950 businesses.

- The North of Tyne is filled with stunning natural landscapes, great people and has a strong track record of creating jobs and supporting world-leading businesses.

- The bulk of expenditure is funded through devolved funding secured through the devolution deal, in conjunction with contributions from the three constituent authorities.

Key Facts about Governance Arrangements

NTCA is a mayoral combined authority. It has a range of functions some of which are identified as being Mayoral Functions. Decisions on these functions must be made by the Mayor. Decisions on all other functions must be taken by the Mayor and representatives of the constituent councils acting together as the Cabinet. All details of Governance arrangements pertaining to NTCA can be found within our Constitution which is available on North of Tyne Combined Authority website: NorthofTyne

NTCA Order and Constitution

The first mayoral election was held on 2 May 2019. Jamie Driscoll was elected as the Mayor for the North of Tyne Combined Authority. The Elected Mayor chairs the Cabinet and has a number of specific powers and financial resources. Decisions by the Elected Mayor and/or Cabinet will be subject to scrutiny by the Overview and Scrutiny Committee.

Management Structure

Chief Officers of NTCA consist of, the Head of Paid Service, the Chief Finance Officer, and the Monitoring Officer. These officers are employees from the three local authorities within the North of Tyne. Two other designated posts, Director of Policy & Performance and Director of Economic Growth were appointed to during 2019/20. In June 2021 the Director of Economic Growth was designated as the permanent Head of Paid Service for NTCA and his title was changed to Managing Director.

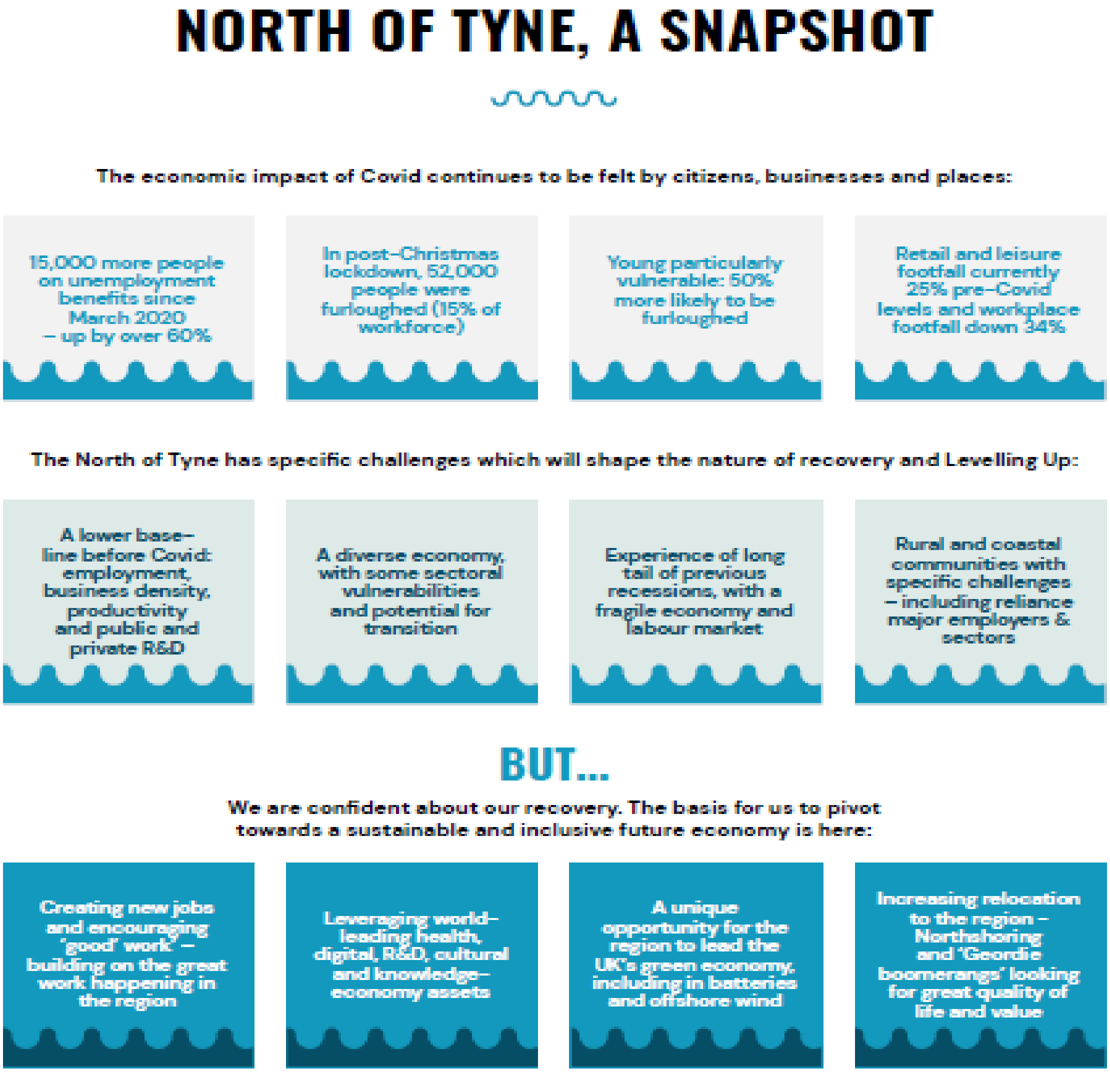
The Combined Authority has grown to 48 employees during 2020/21 with support services being provided under Service Level Agreements with the three constituent North of Tyne authorities.

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

North of Tyne Vision and Purpose

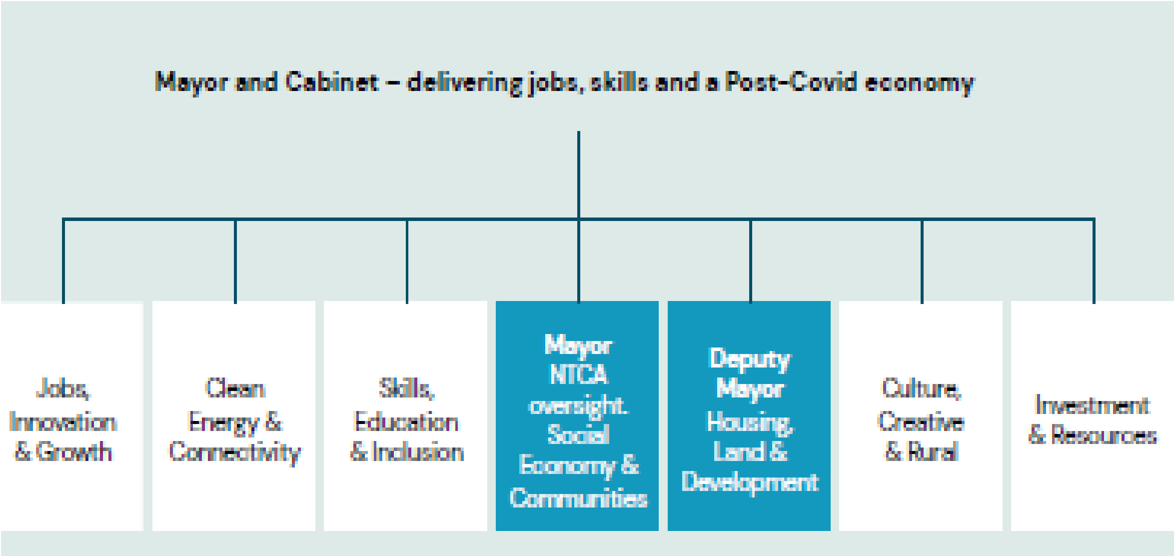
The North of Tyne vision is of a dynamic and more inclusive economy, one that brings together people and opportunities to create vibrant communities and a high quality of life, narrowing inequalities and ensuring that all residents have a stake in our region's future.

NTCA work in partnership, to create connections between programmes and their projects and are inclusive. Devolution has given the NTCA chance to make their own decisions about their own future targeting investment where it is needed most, making a strong connection between economic growth, and providing people with the skills, education, and confidence to benefit from the opportunities that follow.



Delivering together…

NTCA are addressing the regional challenges, outlined above, through a bold programme of investment and reform – which is designed, delivered, and governed through collaboration. NTCA Cabinet has overseen rapid progress through the first year of operation, and works together to ensure that we deliver the biggest social, economic and climate return possible.

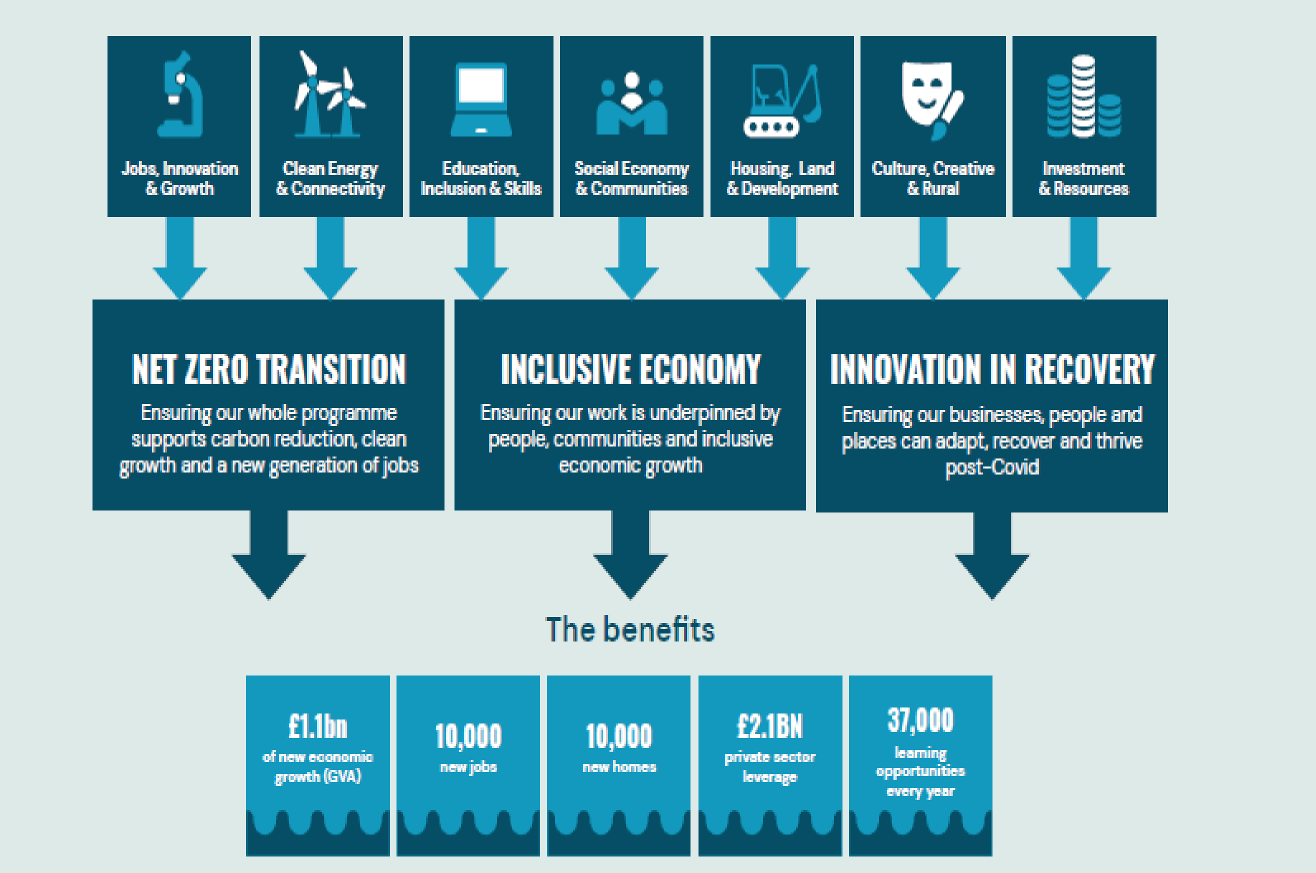


Cabinet Members lead specific portfolios and give collective strategic direction and oversight of NTCA work. This also ensures that local priorities are reflected, and that the connection is maximised between our urban, rural, and coastal geographies and our unique local assets and strengths.

The Mayor chairs the Cabinet, provides oversight of the programme, and plays a key role engaging with citizens, businesses, voluntary sector partners and with Government. All are supported by an executive team built on close partnership between NTCA and constituent Local Authority officers.

Cross-cutting Themes

NTCA portfolios are underpinned by three cross-cutting priorities, which underpin everything the Combined Authority do. They are net zero, an inclusive economy and innovation in recovery. Together these portfolios and priorities form the NTCA strategic plan.



Funding, Investment and Resources

The foundation of NTCA investment is a £600m fully devolved investment fund, which delivers £20m per year over a thirty-year period. The purpose of the fund is to support accelerated, inclusive growth which creates new jobs and skills opportunities, which helps build the foundation for long term, sustainable growth in the region.

The NTCA Investment Fund is augmented by new funding streams worth almost £700m which have been secured since the original Deal, including the Adult Education Budget, Brownfield Housing Fund and ERDF Growth Funds.

The North of Tyne Cabinet agreed a headline Investment Plan in April 2019 which set out ambitions for delivery across a five-year period utilising the first £100m of Investment funds. This plan covers ‘business’, ‘people’ and ‘place’ elements as well as providing flexibility for NTCA to pursue strategic opportunities as they arise. A small proportion is used to enable the Combined Authority to realise and effectively manage project delivery.

Over £70 million of this initial tranche has been allocated, with a significant proportion (over £62m) formally, and contractually committed into tangible project delivery.

Headline Targets

The devolution deal committed to adding an additional £1.1bn Gross Valued Added (GVA) to the economy, delivering 10,000 new jobs and leveraging over £2.1bn in private sector investment. This is a 'job a day' through the lifetime of the deal with every £1 invested generating a further minimum of £3.50 of private sector investment.

NTCA are on track to meet and exceed these targets, with over 4,000 projected new jobs already in the pipeline which we will work hard to turn into real, sustainable careers for our citizens.

Financial Performance of the Combined Authority 2020/21

The financial position of the NTCA at 31 March 2021 is shown in Table 1 below:

Table 1: 2020/21 Budget Outturn

Summary Outturn 2020/21	Budget 2020/21	Outturn 2020/21	Variance
	£m	£m	£m
Investment Fund Budget	(15.423)	7.488	(7.935)
Corporate Budget	0	(0.599)	(0.599)
Total	**(15.423)**	**6.889**	**(8.534)**

Corporate Budget Outturn

A more detailed outturn for 2020/21 Corporate Budget is set out below in Table 2 overleaf:

Table 2: Corporate Budget Outturn

Corporate Budget 2020/21	2020/21 Budget	2020/21 Outturn	Variance
Expenditure	**£m**	**£m**	**£m**
Staffing/Secondments	2.401	2.210	(0.191)
Advisors External	0.070	0.094	0.024
Other Expenditure	0.539	0.583	0.044
SLA with Constituent Authorities	0.403	0.298	(0.105)
Use of Reserves BR Pilot/EU Exit/Veterans	0	5.057	5.057
JTC Levy	27.074	27.074	0
Gross Expenditure	**30.487**	**35.316**	**4.829**
Income			
Investment Fund (IF) Contribution	(1.400)	(1.400)	0
Mayoral Capacity Fund	(0.750)	(1.000)	(0.250)
Adult Education Budget Contribution	(0.526)	(0.541)	(0.015)
Contributions from Constituent Authorities	(0.111)	(0.111)	0
Programme support costs recovered from IF	(0.451)	(0.315)	0.136
Brownfield Housing Programme Costs	0	(0.194)	(0.194)
Use of Reserves	0	(5.057)	(5.057)
Investment Interest Receivable	(0.175)	(0.373)	(0.198)
JTC Levy	(27.074)	(27.074)	0
Gross Income	**(30.487)**	**(36.065)**	**(5.578)**
Net Income/Expenditure	**0**	**(0.749)**	**(0.749)**
C/F Sector Commissioning underspend	0	0.150	0.150
Transfer to Investment Fund Reserve	**0**	0.599	0.599
2020/21 Outturn	**0**	**0**	**0**

Investment Fund Outturn

Table 3 overleaf sets out the detailed outturn against the budget for the Investment Fund:

Table 3 2020/21 Investment Fund Budget Outturn

	2020/21 Budget	2020/21 Outturn	2020/21 Variance
Expenditure	**£m**	**£m**	**£m**
Business Case Development Fund	1.023	0.244	(0.779)
Workstreams	12.750	5.466	(7.284)
Technical Support	0.250	0.140	(0.110)
Corporate Contribution	1.400	1.400	0.000
Corporate resource recharges		0.238	0.238
Total Expenditure	**15.423**	**7.488**	**(7.935)**
Income			
Total Income	**(20.000)**	**(20.000)**	**0.000**
Net position (Income)/Expenditure	**(4.577)**	**(12.512)**	**(7.935)**
Transfer to Investment Fund Reserve	4.577	12.512	7.935
Net Outturn Position	**0**	**0**	**0**

In totality the Investment Fund has committed £62.380m against 66 projects with a forecast to deliver 4,193 jobs.

Table 4 Commitment against Investment Fund Thematic Area

	Committed	Allocation	% Allocated
	£m	£m	
Business	37.2	45.30	82.12%
People	9.49	17.30	54.86%
Place	6.59	13.25	49.74%
Major Strategic Economic Opportunities	7.15	9.65	74.09%
Business Case Development Fund	1.95	4.50	43.33%
	62.38	**90.00**	**69.31%**

Delivery against the Investment Fund Programme has been delayed in part due to the impact of the Covid-19 Pandemic impacting at the end of the financial year. This remains the highest programme risk, with pressure on resources as activity both on developing pipeline and contract management increases.

Brownfield Housing Fund

NTCA secured £23.850m from Government's £400m national Brownfield Housing Fund during 2020/21. The Brownfield Housing Fund is the first housing allocation for the North of Tyne Combined Authority. The funding is intended to support the development of at least 1,500 new homes, by remediating and revitalising brownfield sites across the North of Tyne area.

Table 5 Brownfield Housing Funding Profile updated for Year 1 underspend

	Total	Year 1	Year 2	Year 3	Year 4	Year 5
	£m	£m	£m	£m	£m	£m
Funding Profile	24.000	5.000	8.100	6.700	3.100	1.100
Funding Profile with underspend carried forward to year 2	23.854	0.585	12.368	6.700	3.100	1.100
Projected Programme Spend	**26.184**	**0.585**	**11.693**	**6.925**	**6.687**	**0.293**

Adult Education Budget (AEB)

In August 2020 the NTCA took control of a £23.145m Adult Education Budget (AEB) for the academic year 2020/21, secured as part of the devolution deal. With Cabinet approval the devolved AEB was allocated to 29 education providers across 10 Grant Agreements and 21 Contracts for Services (via the establishment of a procurement framework).

Table 6 Adult Education Budget 2020/21 Outturn

	Academic Year August to March 2021		
AEB Outturn 2020/21	**Budget 2020/21**	**Actual 2020/21**	**Variance 2020/21**
Expenditure	**£m**	**£m**	**£m**
Grant Awards	8.965	9.282	0.317
Procured Services	3.884	3.729	(0.155)
High Value Courses	0.000	0.137	0.137
Swaps	0.000	0.013	0.013
Corporate Contribution	0.396	0.425	0.029
Total Expenditure	**13.245**	**13.586**	**0.341**
Income			
Funding Sources	(13.245)	(13.586)	(0.341)
Net position (Income)/Expenditure	**0**	**0**	**0**

Reserves Statement

Reserves held at 31 March 2021 are set out in Table 7 below:

Table 7 Reserves as at 31 March 2021

Reserves Statement	2019/20	Movement in Reserve	2020/21
	£m	£m	£m
Homeless Veteran Grant Reserve	0.091	(0.091)	0
Preparing to Exit Europe Grant	0.272	(0.090)	0.182
Business Rates Pilot 2019/20	4.909	(4.909)	0
Strategic Reserve	0.200	0	0.200
Investment Fund Reserve	36.839	13.111	49.950
Total General (Usable) Reserves	**42.311**	**8.021**	**50.332**

Usable Reserves have increased by £8.021m to £50.332m. The movement is due to the drawdown of the Business Rates Pilot Reserve to be paid back out to the three Constituent Authorities to provide support in relation to Covid-19 (£4.909m). The Homeless Veteran Grant (£0.091m) was drawn down and paid out in equal amounts to the three Constituent Authorities for specific delivery in line with grant objectives. Preparing to Exit Europe Grant of (£0.090m) was drawn down and paid over to the North East LEP for delivery in relation to Brexit.

Borrowing Facilities

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

North East Local Enterprise Partnership (NE LEP)

NTCA became the accountable body for the NE LEP on the 1 April 2020 and these accounts include details of its income and expenditure. The NE 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 NTCA to ensure there is coordination 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 the new Getting Building Fund (GBF) other activities undertaken by the LEP and funded by additional income. Table 8 below provides a summary of actual spend against the revised budget for the year.

Table 8: North East LEP 2020/21 Outturn	2020/21 TOTALS		
	Revised Budget 2020/21	2020/21 Outturn	Variance
	£'000	£'000	£'000
Employees	3,240,000	2,980,793	(259,207)
Premises	207,000	213,086	6,086
Communications	250,000	260,534	10,534
Transport LGF Monitoring	26,000	24,726	(1,274)
Growth Hub Operational Costs (L6019)	74,000	72,535	(1,465)
Invite (Horizon 2020) Operational Costs	72,000	72,042	42
Innovation Challenge - Covid	464,000	150,506	(313,495)
Other Operational Costs	636,000	365,133	(270,867)
North East Ambition Operational Costs (ESF)	144,000	132,022	(11,978)
North East Ambition Operational Costs (LGF)	0	302,077	302,077
Growth Hub Covid-19 & Cluster Management	309,000	280,798	(28,202)
Peer Networks	510,000	253,032	(256,968)
Covid Intelligence	40,000	44,975	4,975
LGF High Potential Operational	164,000	147,771	(16,229)
EU Transition Advisory Resource&Business Engagement		89,227	89,227
Brexit Policy Work Programme (Strategy & Policy)	73,000	41,265	(31,735)
Mine Energy White Paper	45,000	44,875	(125)
Energy LGF	23,000	23,000	0
Feasibility Study (AHSN + LGF)	33,000	33,090	90
Skills Other Operational Costs (EY)(L6040)	135,500	12,024	(123,476)
CEC operational (L6030)	65,255	65,255	0
CITE Primary (L6045)	69,745	49,551	(20,194)
DfE	52,000	13,806	(38,194)
DfE One Vision	41,500	57,067	15,567
Inward Invesment Contribution	140,000	140,000	0
EZ NEIF Costs		125,636	125,636
LGF Project Management	78,000	173,335	95,335
Getting Building Fund Project Management	205,000	176,748	(28,252)
GROSS EXPENDITURE	**7,097,000**	**6,344,910**	**(752,090)**
LEP Core & Strategy Grant from DCLG	(500,000)	(500,000)	0
GBF Capacity Funding	(100,000)	(100,000)	0
Local Authority Match Contributions	(250,000)	(250,000)	0
CORE FUNDING	**(850,000)**	**(850,000)**	**0**
Local Growth Fund (programme mgmt costs)	(747,000)	(769,291)	(22,291)
Getting Building Fund	(357,000)	(296,201)	60,799
Interest Generated on Funds	(140,000)	(191,163)	(51,163)
Growth Hub	(410,000)	(410,000)	0
Growth Hub Covid-19	(370,000)	(248,211)	121,789
Growth Hub Cluster Management		(64,203)	(64,203)
Peer Networks	(510,000)	(273,032)	236,968
Enterprise Adviser grant - CEC	(279,000)	(302,277)	(23,277)
Enterprise Adviser grant - CEC (Non-salary)	(254,756)	(65,255)	189,501
CITE Primary	(69,744)	(49,551)	20,193
Invite (Horizon 20/20)	(74,000)	(85,547)	(11,547)
Innovation Challenge Covid	(464,000)	(150,506)	313,495
Innovation Development funding (LGF)	(79,000)	(79,000)	0
ERDF + Digital Catapult	(36,000)	(30,435)	5,565
Academic Health Science Network (AHSN)	(44,500)	(40,193)	4,307
NEIF Contribution to cover activity costs	(124,000)	(173,144)	(49,144)
EZ Contribution to cover activity costs	(139,000)	(168,619)	(29,619)
Education Challenge	(144,000)	(29,217)	114,783
European Social Fund North East Ambition	(547,000)	(725,778)	(178,778)
LGF match North East Ambition (ESF project)	(314,000)	(302,378)	11,622
EY Foundation	(165,500)	(12,024)	153,476
DfE	(87,000)	(25,412)	61,588
LA Contributions re ESIF Co-ordinator	(20,000)	(17,735)	2,265
LGF High Potential	(211,000)	(189,256)	21,744
EU Transition Advisory Resource		(25,304)	(25,304)
EU Transition Business Engagement		(83,704)	(83,704)
Brexit Policy Work Programme	(146,000)	(98,521)	47,479
Energy Strategy BEIS / TVCA, RCEF, OREC	(25,000)	(11,659)	13,341
Energy Programme Misc. Contrib (Innovation/Offshore)	(45,803)	(40,685)	5,118
Energy Programme Offshore Windstudy	(10,000)	0	10,000
Energy Programme Rural	(21,000)	0	21,000
Energy - TVCA/ RCEF	(27,000)	(28,332)	(1,332)
Energy - LGF Revenue Contribution (Strat & Policy)	(105,197)	(95,011)	10,186
BEIS Local Energy Programme	(43,000)	(43,640)	(640)
Mine Energy White Paper	(45,000)	(44,876)	124
DFE - One Vison		(129,696)	(129,696)
Contribution Pension - NTCA	(147,000)	(128,799)	18,201
Other Income	(23,000)	(43,643)	(20,643)
EXTERNAL FUNDING	**(6,257,500)**	**(5,505,387)**	**752,113**
GROSS INCOME	**(7,107,500)**	**(6,355,387)**	**752,113**
NET BUDGET	**(10,500)**	**(10,477)**	**23**
BROUGHT FORWARD BALANCE	**(603,000)**	**(603,000)**	
Use or (Contribution) LEP Reserves	**(10,500)**	**(10,477)**	
EZ Contribution			
CARRY FORWARD BALANCE	**(613,500)**	**(613,477)**	

Total revenue expenditure amounted to £6.345m, which was within the revised budget for the year. There was a small surplus of £0.010m for the year, which was as per the revised budget position with LEP reserves of £0.613m to be carried into 2021/22. 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 the impact of the Covid-19 pandemic and this additional work was undertaken by existing staff and resources.

Local Growth Fund and North-East Investment Fund

The LGF programme delivered over £19m of activity during 2020/21 across the Strategic Economic Plan (SEP) themes making full use of all LGF grant available for the year and cumulatively. This is considered a very good performance by MHCLG.

North East Investment Fund

The NEIF initial £55m allocation was made up of £25m Growing Places and £30m Regional Growth Funding. The Regional Growth Funding (RGF) project had originally tighter restrictions on the use of the funding, however, the North East LEP has worked with MHCLG on closing the original RGF programme and releasing this funding to be used to support the Commercial Property Development Fund (CPIF). The NEIF supports a number of projects through loans which are now making repayments, recycling the funding available for reinvestment in new projects and other opportunities.

Enterprise Zones

Round 1 Enterprise Zones are located across four local authority areas: Newcastle, 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, 2020/21 was the eighth year of the Round 1 zones' life.

In April 2017 these were joined by a further ten sites across, Durham, Gateshead, Newcastle, Northumberland, South Tyneside and Sunderland with the International Advanced Manufacturing Park (IAMP) site launched on the 1st April 2018 to complete the coverage. With the exception of the IAMP, it is the fourth year of the round 2 sites life. Ramparts (Northumberland) and Follingsby North (Gateshead) have generated Business Rates Growth Income during 2020/21, as the result of occupation on parts of the sites requiring no capital investment to enable occupation to occur.

Table 9 below provides a summary of the Enterprise Zone account over the last three years and a summary of the position for 2020/21 compared with a budget reported in January 2021. Business Rate Income for 2020/21 and interest amounted to £2.614m and was higher than the budget of £2.4m reported in May 2020. Income was slightly lower than the revised estimate reported in January 2021 of £2.719m mainly because new buildings on the Airport site and the IAMP site had not been issued with rateable values during the year. The income from these two buildings estimated for the time that they were open in 2020/21 is estimated at c. £0.34m and should be received in 2021/22. The income figure for North Tyneside* is an estimate, which will be confirmed shortly. Expenditure was also below the budget, which resulted in an increased surplus for the year of £0.645m and a cumulative surplus of £3.692m.

Table 9 Enterprise Zone Account

	Actual 2017/18 £000	Actual 2018/19 £000	Actual 2019/20 £000	Budget 2020/21 £000	Actual 2020/21 £000	Variance £000
Business Rates Income						
Round 1						
Newcastle – North Bank	437	501	508	483	537	54
North Tyneside – Swans	160	194	160	138	180*	42
Northumberland- Blyth sites	321	334	308	309	334	25
Sunderland – A19 Corridor	708	750	752	754	628	(126)
Round 2						
Durham - Jade				46	51	5
Gateshead - Follingsby			242	217	255	38
Northumberland- Ramparts		40	40	38	34	(4)
Sunderland & South Tyneside - IAMP				667	581	(86)
Total Rates Income	**1,626**	**1,819**	**2010**	**2,652**	**2,600**	**(52)**
Interest	11	25	20	15	14	(1)
Grant income	30					
Total Income	**1,667**	**1,844**	**2030**	**2,667**	**2,614**	**(53)**
Expenditure						
NEIF/LGF Loan repayments	1,302	1,238	1,438	651	651	-
Other Financing Costs (including interest)	0	235	258	1,450	1,154	(296)
Invest North East Contribution	148	71	66	170	65	(105)
Operating Costs	112	100	128	150	99	(51)
Total Costs	**1,562**	**1,644**	**1,890**	**2,421**	**1,969**	**(452)**
Annual Surplus	**105**	**200**	**140**	**246**	**645**	**399**
Cumulative Surplus	**2,707**	**2,907**	**3,047**	**3,293**	**3,692**	**399**

Invest North East England (INEE)

NTCA became the accountable body for Invest North East England (INEE) as of 1 April 2020.

Invest North East England acts as the strategic inward investment service in the North East. It works collaboratively with its seven local authority partners, two combined authorities, and other key stakeholders such as the North East LEP, Department of International Trade, and Universities to increase the levels of inward investment flowing into the region from both UK-owned and foreign-owned businesses.

Operationally, INEE's work has a few key guiding principles:

- INEE’s primary function is to focus on attracting new inward investment to the North East (rather than seeking to secure re-investment in existing companies)
- INEE works closely with, and on behalf of, all seven constituent authorities, its aim being to maximise levels of inward investment regardless of location in North East (a ‘North East First’ principle).

- INEE activity aims not to duplicate but add value to activities undertaken by the constituent local authorities.

- INEE engages in proactive lead generation activity which is sector-based, focussed on: Digital Technology; Energy; Life Sciences; Advanced Manufacturing; Financial, Professional and Business Services.
- INEE focus of activity will be on strategic inward investment projects which require regional-level promotion, coordination, and collaboration in the first instance, before a focus on a specific site.
- As far as possible, INEE will aim to attract investment opportunities which will lead to significant numbers of high-quality jobs (more and better jobs).

Performance

After a very challenging year, dealing with the negative impact on inward investment of the Covid-19 pandemic and Brexit, the INEE Team is confident that 2021/22 will bring increased activity. The Team is involved in several very significant projects and is developing new approaches with partners in a number of areas including developing strategies to attract new north shoring and electrification projects, as well as significant offshore wind supply chain activity.

The Invest North East England Budget is supported from the seven Local Authority Contributions of £20,000 each (£140,000) and the North East LEP through interest on investment income (£140,000) and any balance, in 2020/21 £61,756 from North East Investment Fund (NEIF). The Outturn for 20-21 and the proposed budget for 2021-22 is set out in Table 10 below.

Table 10: Invest North East England 2020/21 Outturn and 2021/22 Budget

	2021/22 Original Budget	2020-21 Outturn	Variance	2021-22 Base Budget
Expenditure	£	£	£	£
Salaries	166,000	165,194	(806)	166,000
Staff Training	2,000		(2,000)	2,000
Travel and Subsistence	9,000	8,832	(168)	9,000
Web, Telecoms, Computers	8,000	1,999	(6,001)	8,000
Marketing/Comms/Events	107,000	40,840	(66,160)	107,000
Membership Fees (e.g. Sector Bodies)	3,000	2,815	(185)	3,000
Visit Hospitality Costs	0	30	30	
Professional Consultancy	20,000	14,950	(5,050)	20,000
Lead Generation	120,000	71,290	(48,710)	120,000
Research Resource Licenses	25,000	24,000	(1,000)	25,000
Gross Expenditure	**460,000**	**347,450**	**(112,550)**	**460,000**
Income				
Local Authority Contributions	(140,000)	(140,000)	0	(140,000)
LEP Contribution	(140,000)	(140,000)	0	(140,000)
EZ Contribution	(170,000)	(61,144)	108,856	(170,000)
Private Sector Contribution	(10,000)	(6,306)	3,694	(10,000)
Gross Income	**(460,000)**	**(347,450)**	**112,550**	**(460,000)**
Net Budget	**0**	**0**	**0**	**0**

Main points from Financial Statements

Comprehensive Income & Expenditure Statement

The Continuing Cost of Services line in the Comprehensive Income & Expenditure Statement represents the net expenditure incurred by the North of Tyne Combined Authority including the North East LEP and INEE, it also includes the share of the costs contained within the North East Combined Authority (as relating to the Joint Transport Committee), in the direct provision of Services (Page 5 within the Statement of Accounts). The Comprehensive Income & Expenditure Statement is showing a surplus of (£28.875m) for the year ended 31 March 2021.

Balance Sheet

The Balance Sheet is set out on page 6 within the Statement of Accounts. The net assets of the Combined Authority are £178.714m for the year ended 31 March 2021 and are financed by Usable Reserves of £124.373m and Unusable Reserves of £54.341m. More details of the reserves contained on the Balance Sheet are shown in Notes 23 and 25. The Balance Sheet also includes the Authority's share of assets and liabilities contained within the North East Combined Authority in relation to the Joint Transport Committee

Group Results

The Group Accounts included as part of the Statement of Accounts fully incorporate the results from Nexus (The Tyne and Wear Passenger Transport Executive). More details can be found in Group Note 1 on page 75.

During the year Nexus invested £83.449m of capital expenditure in public transport in Tyne and Wear which was funded primarily by central government grants.

The liquidity of Nexus remained strong with net current assets of £472.701m, adequate to cover both short-term fluctuations and future commitments from usable reserves.

The Nexus accounts are divided between NTCA and NECA accounts (after elimination of intra-group transactions), with the balance sheet information at 31 March 2021 allocated between the two Combined Authorities in proportion to their relative share of Tyne and Wear Population – 55.46% in the NECA accounts and 44.54% in the NTCA accounts.

Non-Financial Performance of the Authority

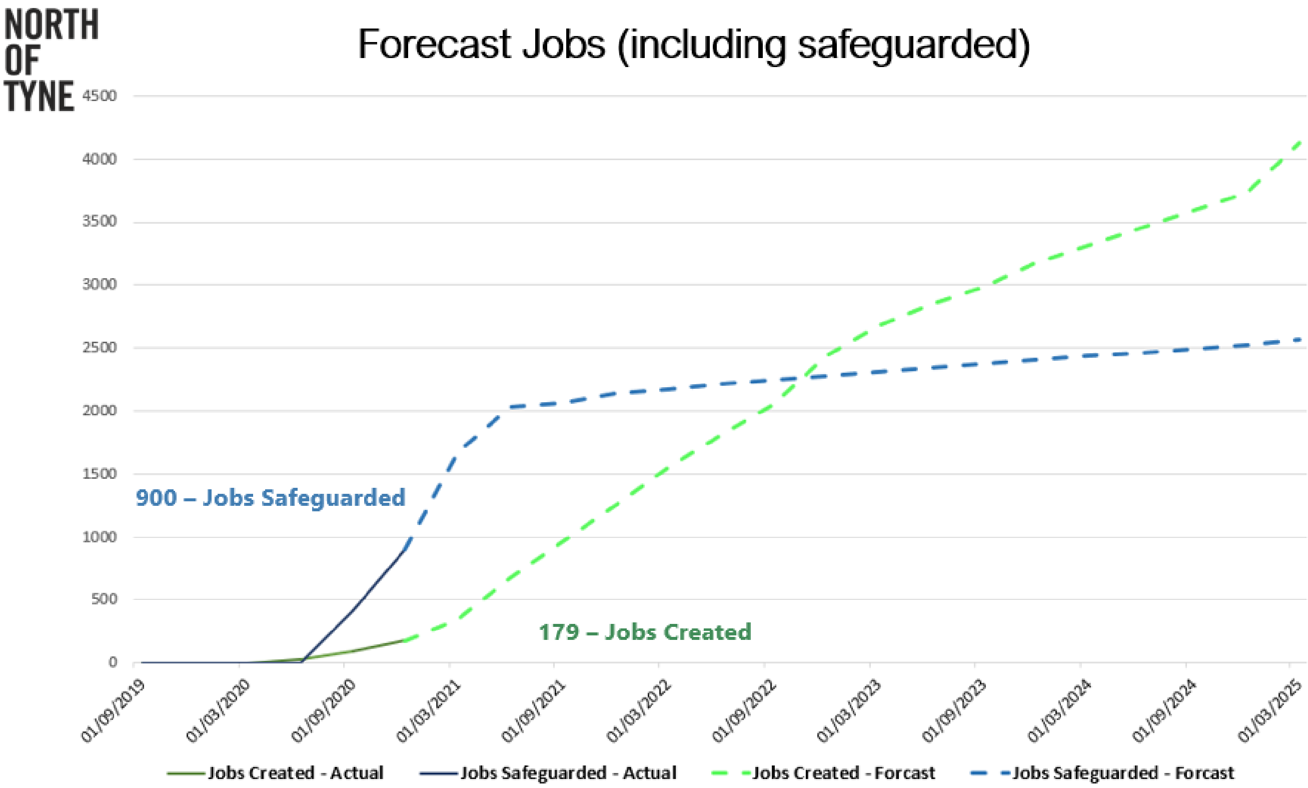
Investment Fund non-financial performance

As at the end of financial year 2020/21 the Investment Fund total commitments stood at £62.380m against 66 live contracts. A strong pipeline of high-quality projects is in development with several significant investments planned over the coming months. This includes interventions to grow our digital and ageing sectors, as well support for our residents, creating opportunities to develop new skills and progress into employment

To date the Combined Authority has achieved:

- A commitment of £62.38m against 66 live projects – out of a total programme value of £90m to March 2023
- These projects will attract £193m of private sector leverage and are forecast to deliver 4193 jobs and safeguard a further 2673.
- Of these, the first 179 new jobs have been created and 900 safeguarded.

The Chart below shows the trajectory of forecast jobs and safeguarded jobs.



Brownfield Housing
Non-financial Performance

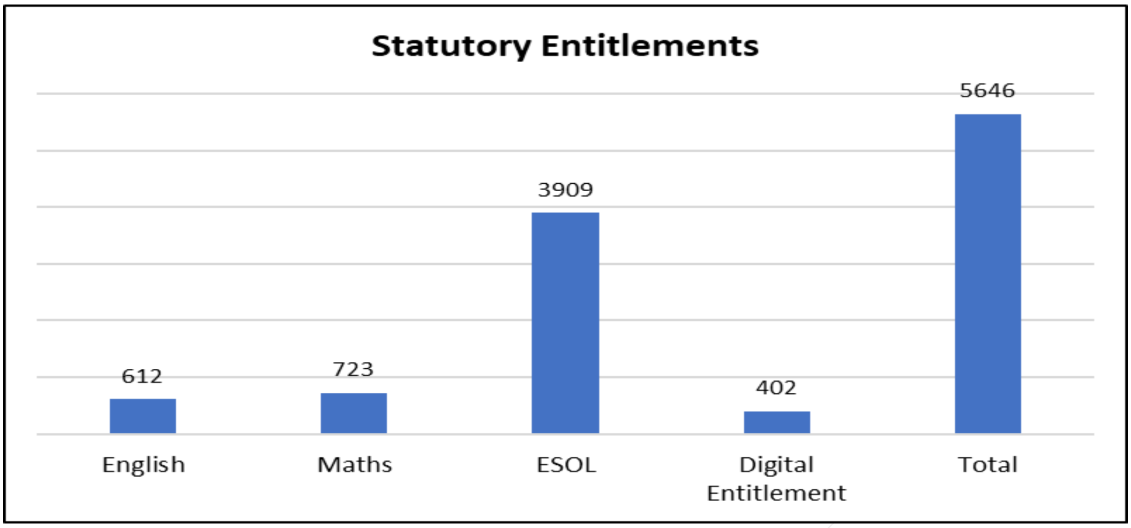
- Contracted projects are forecasting the creation of 1402 housing units with the extended pipeline accounting for 4171. Our contracted target with MHCLG is 1500.

- Contracted projects will remediate 23.42 hectares of Brownfield land which will be either reclaimed, re-developed, or resembled.

Adult Education Budget
Non-financial Performance

- By April 2021, over 18,000 enrolment opportunities have been delivered or are being undertaken, an increase of 2000 enrolment opportunities on the previous month.

This is shown below as per constituent authority.



Key Priorities and upcoming Milestones

The NTCA Corporate Plan outlined the following commitments below:

Clear investment and delivery plans for these issues will be brought through Cabinet during the next year:

Northumberland Line Economic Corridor Investment – a bold joint NTCA-Govt package supporting Northumberland Line economic corridor strategic sites – with clear investment priorities within each Authority and potential to accelerate housing and skills progress.

Clean Energy 'Arc of Innovation' Funding Package – an investment package securing growth and skills gains from Blyth, BV and Tyne Corridor – ensuring we are ready to take advantage of the investment potential of our clean energy sector and supply chain.

Expansion of our North of Tyne Digital fund – including NTCA 5G – expansion of our £20m digital programme – securing further rural connectivity, 5G, digital business growth and strong public sector digital collaboration to drive recovery, inclusion and growth.

Investment Vehicle for new jobs through Health Innovation – creating strong incentives for health and public service innovation, start-up, job and cluster creation - building on our National Innovation Centres and strong health R&D base.

City, Towns, High Streets and Rural Recovery – expansion of recovery and innovation support augmenting Govt schemes and supporting our places, sectors and specific housing sites. This may include a future high streets and city centre funding component.

Skills for Growth and Inclusive Economy Innovation Fund – expanding our funding to tackle unemployment, augment AEB & education improvement programmes, and leverage large-scale social investment.

'Reawakening the Tyne' investment plan – including flagship investments building on our 'North Bank of the Tyne' prospectus and North Shields Masterplan area.

Investment in Climate Action – following through on our citizens assembly, green economy summit, and collaborative working to support net zero transition in key industries and sectors

Building our Small Business Base – exploring ways of supporting SMEs, social enterprise and community-owned enterprise and support local supply chain innovation

Our role in regional transport

The NTCA exercises shared transport powers through the North East's Joint Transport Committee, and delivers these priorities through strong cross-regional and cross-sector collaboration. Cabinet's priorities include:

Maximising investment in our network
– including through access to the Intra-City Transport Fund, augmented bus partnership funding, future Metro revenue and capital, and through securing the remaining funding component of the Northumberland Line

Supporting major cross-regional priorities
– such as East Coast Mainline upgrade, Leamside Line, Metro extension programme and sustainable rural bus networks.

Prioritising active travel and efforts to reduce CO2 emissions across the network – including through cycling and walking programmes, smart travel and future mobility initiatives.

Creating strong incentives to augment digital connectivity
– both through NTCA's investment programmes, and across the North East more widely.

The NTCA team continue to work closely with the Transport North East team to realise these priorities.

Significant issues relating to 2021/22 and beyond

The 2021/22 Budget was prepared in exceptional circumstances. Nationally, the Comprehensive Spending Review (CSR), which sets out the Government's spending plans over the next three years, was delayed, a one-year spending round was announced by the Chancellor on 25 November 2020. The Combined Authority's request for further devolution was clearly set out in the submission to the CSR however, there was no firm response on this matter.

When the 2020/21 Budget and MTFP were agreed in February, nobody could have predicted the financial impact of the Covid-19 pandemic both nationally and locally. Reports published by both the Office for National Statistics and the Office for Budget Responsibility describe the significant economic impact that Covid-19 has had on public sector finances, this impact has also been felt locally.

Throughout the response to the pandemic, the Combined Authority has worked with Regional colleagues to support the submission for Recovery Support and Finance for the North East. In addition, the Combined Authority took a proactive approach to support for particular sectors impacted by the Pandemic, some examples of this include the continuation of the support to enhance short-term skills, jobs, and inclusive economy interventions – Kickstart, Youth Hubs, Good Work Pledge, Culture and Tourism Recovery, Climate innovation and Growth of the Digital Sector. An allocation of £10.000m of Investment Funds has been made to proceed with a North of Tyne Recovery Innovation Deal to supporting our businesses, social enterprises, and Local Authorities to proactively innovate business models and sustain jobs in sectors that have been hit by the crisis.

The Mayor and Cabinet continue to work with officers to maximise the opportunities of the three constituent authorities in order that they work together efficiently and effectively with the North of Tyne Combined Authority. Other opportunities exist around the consideration of how best the Procurement Strategies across the constituent authorities can support the ambition and delivery of the Vision for North of Tyne.

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

The financial environment for local government is likely to remain challenging for the foreseeable future. The impact of Covid-19, uncertainties arising from Brexit and the delay in the publication of both the Comprehensive Spending Review and the outcomes of the Fair Funding Review mean the outlook continues to be extremely uncertain.

The North East LEP has been leading a 'Covid-19 Economic Response Group' made up of NTCA, NECA, local authorities, the Confederation of British Industry (CBI) on behalf of business, North East JTC and regional universities. NTCA will work with the LEP and other partners on the Covid-19 recovery. 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.

Over the past year transport has also been dominated by Covid-19. The major reductions in public transport use, and uncertainties over the scale and pace of any recovery in this remains a major challenge for the area. At the same time the rapid recovery of general traffic levels, in some cases to levels above those seen before the pandemic, emphasise the continued need to focus investment on more sustainable and less polluting forms of transport.

During 2021/22 the North East Joint Transport Committee will need to publish a Bus Service Improvement Plan by the end of October, and by April 2022 will need to have a formal Enhanced Partnership with operators in place or be following the statutory process to decide whether to implement a franchising scheme.

Transport Programmes coordinated by Transport North East on behalf of the JTC area include Transforming Cities Fund (TCF) and Active Travel Fund. TCF will deliver major improvements to the area's sustainable transport infrastructure. The 'Metro Flow' project will deliver dualling of the single-track sections of Metro between Pelaw and Bede on the South Shields route. This will allow for improved reliability and potentially higher frequency services over much of the Metro network. Other schemes being funded from this source include a new bus station for Durham, improvements to Sunderland rail station and major improvements to pedestrian and cycle routes in Gateshead.
A region wide scheme providing improvements to traffic signals on the main bus routes is also under development.

The Government's strategy for walking and cycling, Gear Change, published in July 2020, sets out a commitment to further investment in improving active travel. Local authorities are already developing ambitious proposals for improving active travel infrastructure and the additional funding promised in the strategy should help build on current work to provide further improvements in future.

Publication of the Government's Integrated Rail Plan (IRP) is still awaited. This will give greater clarity on future priorities for investment in key connections such as the East Coast Main Line.

Further improvements to infrastructure for Electric Vehicles, including the new Electric Vehicle filling station in Sunderland, have been delivered as part of the Go Ultra Low (North East) project. Further funding has now also been secured by the North East Joint Transport Committee from the Local Growth Fund to fund further expansion of the network of charge points available.

It is estimated that increases in traffic levels at the Tyne Tunnels will occur at each stage of lockdown easing in spring/summer 2021, but there is no certainty that traffic levels will again reach the previous pre-Covid-19 levels. Many businesses and individuals have changed their journey habits due to Covid-19, for example shifts in modes of transport, more online meetings and more home-working, all of which may mean fewer journeys overall on a permanent basis.

Work is continuing 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, and it is planned to launch later in the 2021/22 financial year.

The cross-partner North East Brexit Group continues to meet and provides a forum for sharing intelligence across sectors. This information and intelligence have informed action such as the Brexit Toolkit on the Growth Hub, as well as the Work Programme. The focus of the group is now on opportunities post-Brexit and preparations in the light of potential trade deals with the EU and other nations/trading areas.

Activity continues to develop a proposal to government on the additional resources, powers and legislation needed to support the region.

Explanation of Accounting Statements included within the Accounts

The Accounts and Audit Regulations 2015 require the Authority to produce a Statement of Accounts for each financial year. These statements contain a number of different elements and are required to be prepared under the Code of Practice. The Statement of Accounts is set out in the accompanying document, and are explained below:

Core Financial Statements

The Comprehensive Income & Expenditure Statement (CIES) (page 5) summarises the revenue costs of providing all services and the income and resources received in financing the expenditure.

The Movement in Reserves Statement (MIRS) (page 4) shows the movement from the start of the year to the end on the different reserves held by the Authority. This statement shows the movement in the year on the different reserves held by the Authority, analysed into Usable Reserves (i.e., those which can be applied to fund expenditure) and Unusable Reserves (which cannot). The surplus or deficit on the provision of services line shows the economic cost in accounting terms of providing NTCA's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance for the purposes of setting the levy. The net increase or decrease before transfers to earmarked reserves line shows the statutory General Fund Balance before any discretionary transfers to or from earmarked reserves undertaken by the Authority.

The Balance Sheet (page 6) shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Authority. The net assets of the Authority are matched by the reserves held by the Authority. Reserves are reported in two categories, Usable and Unusable as described above. Unusable Reserves include those which hold unrealised gains and losses (e.g., the Revaluation Reserve) where amounts only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the MIRS line "adjustments between accounting basis and funding basis under regulations".

The Cash Flow Statement (page 7) shows the changes in cash and cash equivalents of the Authority during the reporting period. The Statement shows how the Authority generates and uses cash and cash equivalents by classifying cash flows as operating, investing, and financing activities. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Authority's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e., borrowing) to the Authority.

Notes to the Accounts

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

Group Accounts and Associated Notes

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

It is recognised that the accounts of Nexus fall within the definition of a subsidiary. As such, group accounts have been prepared on the basis of a full consolidation of the financial transactions and balances of the Authority and Nexus. Nexus has been incorporated as a subsidiary, whereby the accounts of the two organisations are combined and any intra-group transactions are cancelled out.

These statements and accounts collectively provide a comprehensive view of the Authority's financial position during the period to which they relate. The format of the accounts reflect the impact of the Newcastle upon Tyne, North Tyneside and Northumberland Combined Authority (Establishment and Functions) Order 2018 (the Order) which changed the boundaries of NECA on the 2 November 2018. As a result of these governance changes, the boundaries of NECA now cover the Local Authorities of Durham, Gateshead, South Tyneside, and Sunderland. On the same date, the North of Tyne Combined Authority (NTCA) was established as well as the North East Joint Transport Committee (JTC), which continue to exercise the Transport functions over the area covered by the two Combined Authorities.

Implementation of the Devolution order

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

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

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

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

For the 2020/21 accounts the mid-year estimated population published by the Office of National Statistics as at June 2018 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 2021 is shown in Table 11 below.

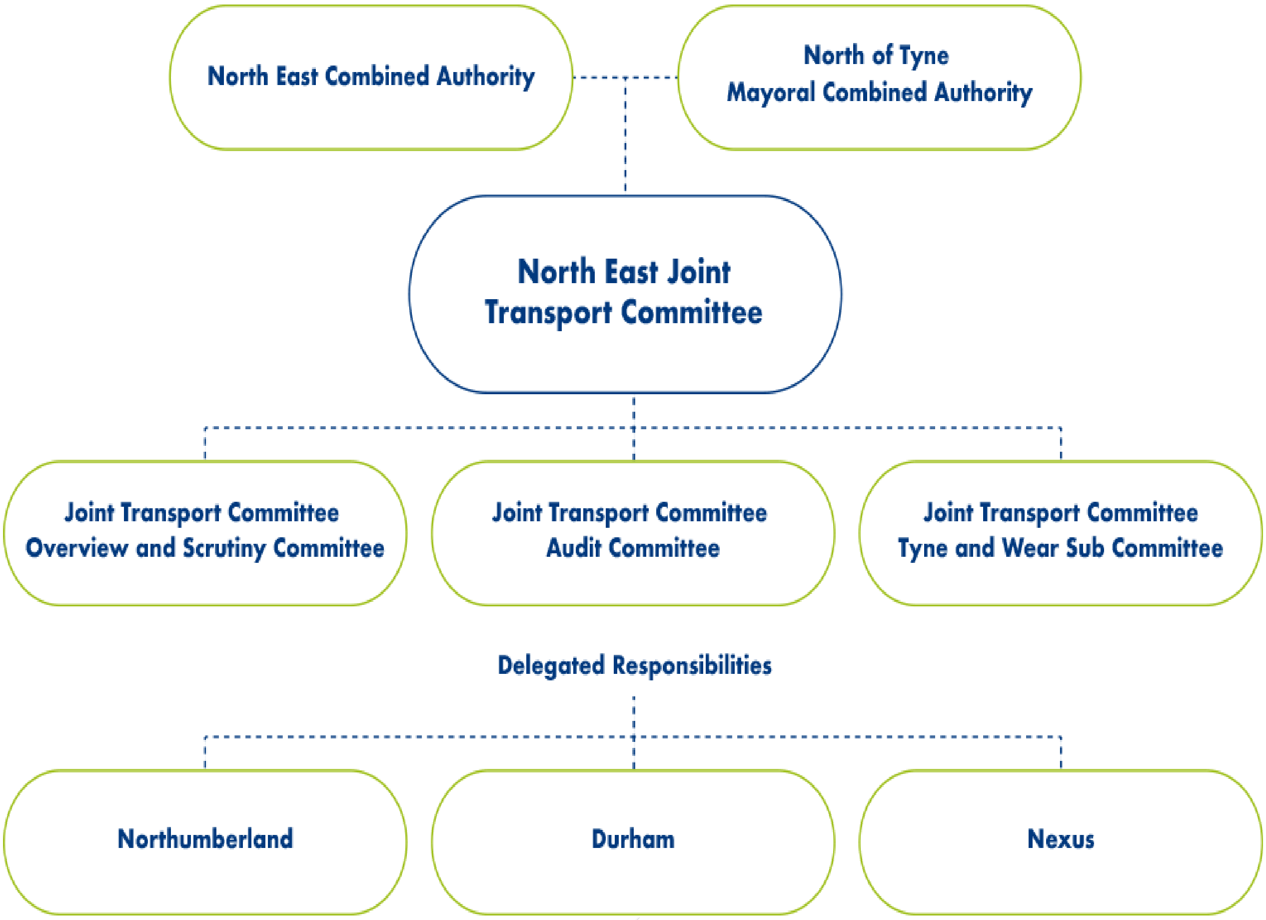
Table 11 - Population used to allocate Transport Assets/Liabilities between NECA and NTCA

	Mid-Year 2018 Population	Proportion
	People	Proportion
NECA		
- Gateshead	202,508	
- South Tyneside	150,265	
- Sunderland	277,417	
	630,190	0.55456
NTCA		
- Newcastle	300,196	
- North Tyneside	205,985	
	506,181	0.44544
Tyne and Wear Total	**1,136,371**	

The 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 overleaf.



Transport

Tyne Tunnels, although owned by NECA, the accounting balances are reflected in the NTCA financial statements as part of the JTC. The Tyne Tunnels link the A19 under the River Tyne between Howdon and Jarrow. There are two tolled vehicle tunnels, and tunnels for both pedestrians and cyclists. The Tunnels are entirely self-financing from the toll's income raised, i.e., there is no call on the Authority's budget or local taxpayers to support them, and assets and liabilities associated with the tunnels are ringfenced to the Tyne and Wear constituent councils within the Authority. The Tyne Pedestrian and Cyclist Tunnels reopened to the public in August 2019 and have been well received and well used.

Table 12 overleaf shows Tyne Tunnel Flow data shows a small increase in traffic in 2020/21 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 12: Tyne Tunnel Traffic Flow data

	Class 1	Class 2	Class 3	Exempt	Total
2020/21	99,990	10,441,472	775,745	423,317	11,740,524
2019/20	153,474	14,928,809	824,798	648,435	16,555,516
2018/19	171,626	14,839,928	823,469	631,444	16,466,467
2017/18	172,655	14,802,233	855,656	584,809	16,415,353
2016/17	197,688	15,705,319	951,785	605,670	17,460,462
2015/16	204,751	16,218,493	989,451	581,377	17,994,072
2014/15	195,798	15,265,379	873,270	508,444	16,842,891
2013/14	185,471	13,970,360	804,147	464,529	15,424,507

Class 1 = Motorcycles; Class 2 = Car, Van, or Bus less than 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 25 August 2020 from £3.60 to £3.70 (or £3.33 with a pre-paid permit) for Class 3 vehicles. There was no increase applied during the financial year for Class 2 vehicles which remained at £1.80 (or £1.62 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 2020/21.

- The number of passenger journeys across all modes within Tyne and Wear in 2020/21 was estimated at 49.6 million; a 67.9% decline when compared to 154.5 million in the previous year:
    - Bus patronage reduced to 39.8 million in 2020/21; a 66.7% decline when compared to 119.4 million in the previous year.
    - Metro patronage reduced to 9.4 million; a 71.6% decline when compared to 33.1 million in the previous year.
    - Ferry patronage reduced to 0.154 million passengers in 2020/21; a 56.4% decline when compared to 0.353 million journeys in the previous year.
    - Rail patronage reduced to 0.250 million journeys in 2020/21; an 85.1% decline when compared to 1.680 million journeys in the previous year.
- Metro reliability (operated mileage) was 95.8% during 2020/21, stable versus the figure of 95.7% achieved in the previous year.
- Metro reliability (Charter punctuality) was 87.4% during 2020/21, an increase on the 80.8% achieved in the previous year.

Annual Governance Statement

To accompany the Narrative Report and Statement of Accounts, the leadership of the Authority prepares an Annual Governance Statement that sets out the principal arrangements that operate to ensure proper governance of the Authority's affairs and the stewardship of resources at its disposal. It also outlines the principal arrangements that are in place to ensure that a sound system of internal control is maintained.

The Chartered Institute of Public Finance and Accountancy (CIPFA) publication "Delivering Good Governance in Local Government" (2016 Edition), sets a framework, and the standard, for local authority governance in the UK. The Framework sets out a set of principles which we test our governance arrangements against these are:

- Ensuring openness and comprehensive stakeholder engagement.
- Developing the entity's capacity, including the capability of its leadership and the individuals within it.
- Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law.
- Determining the interventions necessary to optimise the achievement of the intended outcomes.
- Managing risks and performance through robust internal control and strong public financial management.
- Defining outcomes in terms of sustainable economic social and environmental benefits.
- Implementing good practices to transparency, reporting and audit to deliver effective accountability.

NTCA Staffing

There are now 48 staff directly employed by the Combined Authority, reflecting an increase in numbers of projects and programmes, resulting in recruitment of a number of temporary posts to lead on the delivery of the projects. A workforce planning exercise is currently being undertaken with the aim of creating a long-term staffing plan set within the context of a consistent set of agreed principles appropriate for the authority.

Table 13 – Change in Staffing numbers during 2020/21

	NTCA Employees at the year end	North East LEP Employees at year end	Invest North East Employees at year end
2020/21	48	62	3
2019/20	34	56*	3*
2018/19	1	39*	3*

- As per North East Combined Authority Narrative Report

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 2021/22, available on the NTCA website [Cabinet-26-January-2021] sets out how we will do this looking forward. The Statement of Accounts accompanying this report looks back at our performance since establishment. Reviewed together they provide the reader with an understanding of the financial position of the Authority.

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

J Gillespie

Janice Gillespie
Chief Finance Officer (S73 Officer)

21/01/2022

NORTH OF TYNE COMBINED AUTHORITY

North of Tyne Combined Authority

Draft Statement of Accounts

2020/21

Table of Contents

1.0 Statement of Responsibilities for the Statement of Accounts

The Authority's Responsibilities

The Authority is required:

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

The Chief Finance Officer's Responsibilities

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

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

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

The Chief Finance Officer has also:

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

I certify that the Statement of Accounts for the period ended 31 March 2021, required by the Accounts and Audit Regulations 2015 are set out in the following pages and that they give a true and fair view of the financial position of the Authority and its income and expenditure for the period ended 31 March 2021.

J Gillespie

Signed:
Janice Gillespie
Chief Finance Officer (Section 73 Officer)
Date: 21/01/2022

2.0 Core Financial Statements and Explanatory Notes

2.1 Movement in Reserves Statement

This Statement shows the movement in the year on the different reserves held by the Combined Authority, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other 'unusable reserves'. The Total Comprehensive Income and Expenditure line shows the accounting cost of providing the Combined Authority's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. This is different from the statutory amounts required to be charged to the General Fund Balance. The net increase or decrease before transfers to earmarked reserves shows the statutory General Fund Balance before any discretionary transfers to or from earmarked reserves undertaken by the Combined Authority.

		General Fund Balances £000	Earmarked Reserves £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000
Balance at 31 March 2019		**(9,643)**	**(26,972)**	**-**	**(4,167)**	**(40,782)**	**(39,338)**	**(80,120)**
Total Comprehensive Income & Expenditure		(28,563)	-		-	(28,563)	196	(28,367)
Adjustments between accounting basis & funding basis under regulations		3,611	-		(1,683)	1,928	(1,928)	-
(Increase)/ decrease in year		(24,952)	-		(1,683)	(26,635)	(1,732)	(28,367)
Transfers (to)/from Earmarked Reserves	24	23,904	(23,904)		-	-	-	-
Balance at 31 March 2020 carried forward		**(10,691)**	**(50,876)**	**0**	**(5,850)**	**(67,417)**	**(41,070)**	**(108,487)**
Transfer of balances from NECA at 1 April 2020	2	**(649)**	**(17,841)**	**(8,889)**	**(249)**	**(27,628)**	**(13,724)**	**(41,352)**
Total Comprehensive Income & Expenditure		(30,707)	-	-	-	(30,707)	1,832	(28,875)
Adjustments between accounting basis & funding basis under regulations		18,572	-	-	(17,193)	1,379	(1,379)	-
(Increase)/ decrease in year		(12,135)	-	-	(17,193)	(29,328)	453	(28,875)
Transfers (to)/from Earmarked Reserves	24	17,289	(17,289)	-	-	-	-	-
Balance at 31 March 2021 carried forward		**(6,186)**	**(86,006)**	**(8,889)**	**(23,292)**	**(124,373)**	**(54,341)**	**(178,714)**

2.2 Comprehensive Income and Expenditure Statement

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

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

NECA as the accountable body must split revenue, expenditure, assets and liabilities into those which relate to NECA and NTCA. The accounts for the Combined Authority thereby include a split of all income and expenditure relating to transport activity associated with the constituent authorities of North of Tyne.

2019/20					2020/21		
Gross Exp £000	Gross Inc £000	Net Exp £000		Note	Gross Exp £000	Gross Inc £000	Net Exp £000
735	-	735	Investment Fund		5,898	(66)	5,832
3,677	(6,047)	(2,370)	Corporate Costs		11,443	(2,328)	9,115
136	(382)	(246)	Adult Education Budget		13,405	(14,640)	(1,235)
51,532	(25,705)	25,827	Joint Transport Committee		57,430	(39,097)	18,333
			Services transferred from NECA				
			Invest North East		534	(438)	96
-	-	-	Local Enterprise Partnership	2	47,896	(15,278)	32,618
56,080	**(32,134)**	**23,946**	**Cost of Services**		**136,606**	**(71,847)**	**64,759**
3,289	(1,080)	2,209	Financing and Investment Income and Expenditure	7	3,295	(2,060)	1,235
-	(54,718)	(54,718)	Taxation and Non-Specific Grant Income	8	-	(96,701)	(96,701)
59,369	**(87,932)**	**(28,563)**	**Surplus on Provision of Service**		**139,901**	**(170,608)**	**(30,707)**
		196	Other Comprehensive Income and Expenditure				1,832
		(28,367)	**Total Comprehensive Income & Expenditure**				**(28,875)**

2.3 Balance Sheet as at 31 March 2021

The Balance sheet shows the values as at the Balance Sheet date, 31 March each year, of the assets and liabilities recognised by the Combined Authority. The Net Assets of the Combined Authority (total assets less total liabilities) are matched by Reserves. Reserves are reported in two categories – Usable and Unusable. Unusable Reserves includes 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 2020 £000		Note	31 March 2021 £000
153,621	Property, Plant & Equipment	14	153,133
15,595	Long Term Debtors	18	28,184
169,216	**Long Term Assets**		**181,317**
35,581	Short Term Investments	15	142,617
6,532	Short Term Debtors	17	11,487
42,704	Cash & Cash Equivalents	19	39,055
84,817	**Current Assets**		**193,159**
(1,032)	Short Term Borrowing	15	(21,023)
(27,606)	Short Term Creditors	20	(51,624)
(427)	Grants Receipts in Advance	9	(2,696)
(2,256)	Public Private Partnerships	21	(2,268)
(31,321)	**Current Liabilities**		**(77,611)**
(75,595)	Long Term Borrowing	16	(75,724)
(38,345)	Public Private Partnerships	21	(36,292)
-	Provisions		(1,148)
(285)	Pension Liability	22	(4,987)
(114,225)	**Long Term Liabilities**		**(118,151)**
108,487	**Net Assets**		**178,714**
	Financed By:		
(67,417)	Usable Reserves	23	(124,373)
(41,070)	Unusable Reserves	25	(54,341)
(108,487)	**Total Reserves**		**(178,714)**

I certify that the Statement of Accounts for the period ended 31 March 2021, required by the Accounts and Audit Regulations 2015 give a true and fair view of the financial position of the Authority and its income and expenditure for the period ended 31 March 2021.

Signed: **Date: 21/01/2022**

Janice Gillespie, Chief Finance Officer (Section 73 Officer)

2.4 Cash Flow Statement for period ended 31 March 2021

The Cash Flow Statement shows the changes in cash and cash equivalents of the Combined Authority during the reporting period. The Statement shows how the Combined Authority generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Combined 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 Combined Authority.

2019/20 £000		Note	2020/21 £000
28,563	Net surplus on the provision of services		30,707
(7,588)	Adjustments to net surplus on the provision of services for non- cash movements	27	10,395
(11,034)	Adjustments for items included in the net surplus on the provision of services that are investing and financing activities	27	(67,330)
9,914	**Net Cash Flows from Operating Activities**		**(26,228)**
1,651	Net Cash flow from Investing Activities	28	(38,879)
1,963	Net Cash flow from Financing Activities	29	20,106
13,555	**Net Increase in cash and cash equivalents**		**(45,001)**
29,149	Cash and cash equivalents at the beginning of the reporting period	19	42,704
-	Transfer from NECA in respect Local Enterprise Partnership balances	2	41,352
42,704	**Cash and cash equivalents at the end of the reporting period**		**39,055**

2.5 Index to the Notes to the Financial Statements

1. Narrative Explanatory Note on Devolution

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 known as North of Tyne Combined Authority (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 a member 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 at 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, and 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 a basis of dividing levy contributions.

2. Transfer of North East Local Enterprise Partnership

As part of the process of establishing the Combined Authority, it was recognised that joint working would be maintained across the region in terms of the continued operation of the North East Local Enterprise Partnership (LEP) and the creation of the JTC, as outlined in the note above.

The LEP, which is a partnership of private sector and public sector representatives, is not a corporate entity and, as such, it cannot hold funding and property or employ staff in its’ own right.

It can only do so through a legal entity acting on its behalf as an “accountable body”. Sunderland City Council acted as the accountable body for the LEP when it was first established and then NECA took over this role when it was established.

Prior to the creation of the Combined Authority, the seven local authorities and NECA entered into a Deed of Co-operation which set out the parties’ intention that NECA would be the accountable body for the JTC and the Combined Authority would be the accountable body for the LEP.

The Combined Authority became the accountable body for the LEP on 1 April 2020. At this date any reserves and balances in respect of the LEP transferred across from NECA and have been reflected within the 2020/21 accounts of the Combined Authority as appropriate. The table below shows the balances that were transferred across at this date.

	£000
Usable Reserves	
General Balances	(649)
Earmarked Reserves	(17,841)
Capital Receipts Reserve	(8,889)
Capital Grants Unapplied	(249)
Total Usable Reserves	(27,628)
Unusable Reserves	
Capital Adjustment Account	(16,282)
Financial Instrument Adjustment Account	2,558
Total Unusable Reserves	(13,724)
Total Reserves	**(41,352)**

3. Expenditure and Funding Analysis

The Expenditure and Funding Analysis (EFA) shows how annual expenditure is used and funded from resources (e.g. government grants and levies) by local authorities in comparison with those resources consumed or earned by authorities in accordance with generally accepted accounting practices.

It also shows how this expenditure is allocated for decision making between the different areas of the NTCA (including JTC) budget. Income and Expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

The EFA presented in the accounts reconciles between the amounts in the Movement in Reserves Statement and Comprehensive Income and Expenditure Statement.

2020/21

	Net Exp Chargeable to General Fund £000	Adjs for Capital Purposes £000	Pension Adjs £000	Other Adjs £000	Net Exp in CIES £000
Investment Fund	5,585	-	197	50	5,832
Corporate Costs	7,032	-	2,051	32	9,115
Adult Education Budget	(1,277)	-	33	9	(1,235)
Joint Transport Committee	35,289	(16,956)	-	-	18,333
Services transferred from NECA					
Invest North East	66	-	30	-	96
Local Enterprise Partnership	31,394	249	510	465	32,618
Net Cost of Services	**78,089**	**(16,707)**	**2,821**	**556**	**64,759**
Other Income & Expenditure	(90,224)	(4,862)	49	(429)	(95,466)
Surplus on Provision of Service	**(12,135)**	**(21,569)**	**2,870**	**127**	**(30,707)**

Opening General Fund Balances	**(10,691)**
Transfer from NECA in respect of Local Enterprise Partnership	(649)
Surplus on General Fund Balances in Year	(12,135)
Transfer to Earmarked Reserves	17,289
General Fund Balances at 31 March 2021	**(6,186)**

2019/20

	Net Exp Chargeable to General Fund £000	Adjs for Capital Purposes £000	Pension Adjs £000	Other Adjs £000	Net Exp in CIES £000
Investment Fund	735	-	-	-	735
Corporate Costs	(2,461)	-	91	-	(2,370)
Adult Education Budget	(246)	-	-	-	(246)
Joint Transport Commiteee	28,855	(3,028)	-	-	25,827
Net Cost of Services	**26,883**	**(3,028)**	**91**	**-**	**23,946**
Other Income & Expenditure	(51,835)	(309)	(2)	(363)	(52,509)
Surplus on Provision of Service	**(24,952)**	**(3,337)**	**89**	**(363)**	**(28,563)**

Opening General Fund Balances	**(9,643)**
Surplus on General Fund Balances in Year	(24,952)
Transfer to Earmarked Reserves	23,904
General Fund Balances at 31 March 2020	**(10,691)**

Adjustments to the General Fund to arrive at the Comprehensive Income and Expenditure Statement Amounts

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

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

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

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

Net change for the removal of pension contributions and the addition of IAS19 Employee Benefits related expenditure and income:

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

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

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

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

- For services this includes adjustments made from accruing compensated absences earned but not taken in the year

4. Income and Expenditure Analysed by Nature

2019/20 £000		2020/21 Cost of Service £000	2020/21 Other Income & Expenditure £000	2020/21 Total £000
1,723	Employee benefit expenses	9,064	-	9,064
43,336	Other service expenses	77,961	-	77,961
298	Support service recharges	421	-	421
10,723	Depreciation, impairment and revenue expenditure funded from capital under statute (REFCUS)	49,160	-	49,160
3,289	Interest payments	-	3,295	3,295
59,369	**Total Expenditure**	**136,606**	**3,295**	**139,901**
(12,616)	Fees, charges and other service income (Tyne Tunnels tolls)*	(19,406)	-	(19,406)
(1,080)	Interest and Investment Income	-	(2,060)	(2,060)
(33,168)	Income from transport levy	-	(33,450)	(33,450)
(33,864)	Government grants and contributions	(48,432)	(63,251)	(111,683)
(7,204)	Other Income	(4,009)	-	(4,009)
(87,932)	**Total Income**	**(71,847)**	**(98,761)**	**(170,608)**
(28,563)	**Surplus on the provision of services**	**64,759**	**(95,466)**	**(30,707)**

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

5. Adjustments to Prior Year Analysis on Comprehensive Income and Expenditure Statement

Changes in the presentation of the Comprehensive Income and Expenditure Statement have been made to reflect how information is provided to Cabinet around budget monitoring.

This has resulted in the comparator figures for 2019/20 being restated. The following table shows the published figures for 2019/20 in the original format and how they are now reflected (only the lines that have changed are shown).

Published Figures				Restated Figures		
Gross Exp £000	Gross Inc £000	Net Exp £000		Gross Exp £000	Gross Inc £000	Net Exp £000
2,422	(6,044)	(3,622)	Corporate Costs	3,677	(6,047)	(2,370)
207	-	207	Mayors Office (line removed)			
1,048	(3)	1,045	Elections (line removed)			
3,677	**(6,047)**	**(2,370)**	**Total**	**3,677**	**(6,047)**	**(2,370)**
			Joint Transport Committee (new line)	51,532	(25,705)	25,827
6,094	-	6,094	Transport – Northumberland			
114	-	114	Transport – Retained Levy Budget			
24,657	-	24,657	Transport – Tyne & Wear			
11,331	(14,884)	(3,553)	Transport – Tyne Tunnels			
9,336	(10,821)	(1,485)	Transport – Other			
51,532	**(25,705)**	**25,827**	**Total**	**51,532**	**(25,705)**	**25,827**

The revised presentation is also shown in the Expenditure and Funding Analysis note. These changes are also reflected within the Group Statements and associated notes.

6. Adjustments between Accounting Basis and Funding Basis under Regulations

This note details the adjustments that are made to the Total Comprehensive Income & Expenditure figure recognised by the Combined Authority in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Combined Authority to meet future capital and revenue expenditure.

2019/20 General Fund £000	2019/20 Capital Receipts Reserve £000	2019/20 Capital Grants Unapplied £000	2019/20 Unusable Reserves £000		2020/21 General Fund £000	2020/21 Capital Receipts Reserve £000	2020/21 Capital Grants Unapplied £000	2020/21 Unusable Reserves £000
				Adjustments primarily involving the Capital Adjustment Account				
				Reversal of items debited or credited to the CIES				
(1,842)	-	-	1,842	Charges for depreciation and impairment of non-current assets	(1,930)	-	-	1,930
2,256	-	-	(2,256)	Other income that cannot be credited to the General Fund	2,268	-	-	(2,268)
6,435	-	-	(6,435)	Capital Grants and contributions applied	48,614	-	-	(48,614)
(8,881)	-	-	8,881	Revenue expenditure funded from capital under statute	(47,230)	-	-	47,230
				Insertion of items not debited or credited to the CIES				
766	-	-	(766)	Statutory provision for the financing of capital investment	1,117	-	-	(1,117)
4	-	-	(4)	Capital expenditure charged against the General Fund	15	-	-	(15)
				Adjustments primarily involving the Capital Grants Unapplied Account				
4,599	-	(4,599)	-	Grants and contributions unapplied credited to CIES	18,715	-	(18,715)	-
-	-	2,916	(2,916)	Application of grants to capital financing transferred to Capital Adjustment Account	-	-	1,522	(1,522)

2019/20 General Fund £000	2019/20 Capital Receipts Reserve £000	2019/20 Capital Grants Unapplied £000	2019/20 Unusable Reserves £000		2020/21 General Fund £000	2020/21 Capital Receipts Reserve £000	2020/21 Capital Grants Unapplied £000	2020/21 Unusable Reserves £000
				Adjustments involving the Capital Receipts Reserve				
-	(698)	-	698	Loan principal repayments	-	(676)	-	676
-	698	-	(698)	Application of capital receipts to repayment of debt	-	676	-	(676)
				Adjustments involving the Financial Instruments				
363	-	-	(363)	Amount by which finance costs charged to the CIES are different from finance costs chargeable in the year in accordance with statutory requirements	429	-	-	(429)
				Adjustments involving the Accumulated Absences Reserve				
-	-	-	-	Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(556)	-	-	556
				Adjustments involving the Pensions Reserve				
(269)	-	-	269	Reversal of items relating to retirement benefits debited or credited to CIES	(3,036)	-	-	3,036
178	-	-	(178)	Employer's pension contributions and direct payments to pensioners payable in the year	215	-	-	(215)
2	-	-	(2)	Interest expense on net defined liability/(asset)	(49)	-	-	49
3,611	**0**	**(1,683)**	**(1,928)**	**Total Adjustments**	**18,572**	**-**	**(17,193)**	**(1,379)**

7. Financing and Investment Income and Expenditure

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

	Note	2019/20 £000	2020/21 £000
Interest payable and similar charges		3,289	3,246
Interest on defined benefit liability	22	(2)	49
Interest receivable and similar income		(1,078)	(2,060)
Total		**2,209**	**1,235**

8. Taxation and Non-Specific Grant Income

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

	2019/20 £000	2020/21 £000
Transport Levy	(33,168)	(33,450)
Non-ringfenced Government Grants	(20,182)	(20,000)
Non Specific Capital Grants	(1,368)	(43,251)
Total	**(54,718)**	**(96,701)**

9. Grants and Contributions Income

The Combined 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 would require the monies to be returned to the provider if they are not met. The balances at the year-end are as follows:

	31 March 2020 £000	31 March 2021 £000
Capital Receipts in Advance		
Covid 19 Grants	-	(2,583)
NECA North East Smart Ticketing Initiative	(91)	-
NECA Office for Low Emission Vehicles	(112)	(56)
Other Grants	(224)	(57)
Total	**(427)**	**(2,696)**
Shown as Short-Term Liability on the Balance Sheet	(427)	(2,696)
Total	**(427)**	**(2,696)**

The following grants were credited to the net cost of service within the Comprehensive Income and Expenditure Statement during the year:

	*Restated 2019/20 £000	2020/21 £000
Adult Education Budget	-	(15,064)
Transforming Cities Fund	(4,386)	(11,170)
Local Transport Plan	(6,179)	(6,213)
Covid 19 Business Support	-	(5,168)
Active Travel Fund	-	(3,225)
European Grants	(220)	(1,178)
Mayoral Capacity Fund	(1,000)	(1,000)
LEP Core Funding	-	(600)
Brownfield Housing Fund	-	(551)
Enterprise Advisor Programme	-	(487)
Growth Hub	-	(410)
Local Growth Fund	-	(409)
Peer Networks	-	(292)
Education Vision	-	(263)
Section 31 Grants	(1,001)	(228)
Education Challenge	-	(144)
Adult Education Implementation Fund	(382)	(116)
EY Primary Pilot	-	(115)
EU Exit Funding	(182)	(109)
North East Smart Ticketing Initiative	(160)	(91)
Office for Low Emission Vehicles	(240)	(57)
Other grants and contributions (individually under £0.100m)	(114)	(1,542)
Total	**(13,864)**	**(48,432)**

10. Members' Allowances

	31 March 2020 £000	31 March 2021 £000
Allowances	68	67
Total	**68**	**67**

11. Officers' Remuneration

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

Table 1

2019/20				2020/21		
Salary, Fees & Allowances £000	**Pension Contributions £000**	**Total £000**		**Salary, Fees & Allowances £000**	**Pension Contributions £000**	**Total £000**
-	-	-	Helen Golightly Chief Executive (LEP)*	135	17	152
46	10	56	Director of Economic Growth	130	17	147
35	9	44	Director of Performance and Policy	109	14	123
-	-	-	Innovation Director (LEP)*	94	12	106
-	-	-	Director Invest North East *	68	8	76
-	-	-	Skills Director (LEP)*	68	8	76
-	-	-	Strategy & Policy Director (LEP)*	69	8	77
-	-	-	Business Growth Director (LEP)*	68	8	76
127	-	127	Managing Director of Transport Arrangements**	131	-	131
208	**19**	**227**	**Total**	**872**	**92**	**964**

*The Combined Authority became the accountable body for the North East Local Enterprise Partnership (LEP) at the 1 April 2020 and at that point these employees were transferred across under TUPE arrangements.

** The Managing Director of Transport Arrangements is a NECA employee, working on behalf of the Joint Transport Committee, therefore under the Joint Transport Committee arrangements the remuneration paid to the Managing Director of Transport Operations is included in the table above, although NTCA are only responsible for their proportion of his salary costs based on the population split.

The three Statutory Officers of the Combined Authority, Head of Paid Service, Chief Finance Officer and Monitoring Officer are not formal employees of the Combined Authority, and are not therefore included in the statutory disclosures above. Their services are based on agreed number of days per week and charged including expenses by their respective local authority employers, these are shown in the interests of transparency. The Director of Economic Growth and Director of Policy and Performance posts were originally seconded to the Combined Authority, however during 2019/20 these posts were appointed permanently by NTCA.

Table 2

2019/20				2020/21		
Payment for agreed days £000	**Expenses £000**	**Total £000**		**Payment for agreed days £000**	**Expenses £000**	**Total £000**
10	-	10	Paul Hanson, Head of Paid Service from 1 Jan 2020 (SLA North Tyneside Council)	40	-	40
31	-	31	Pat Ritchie, Head of Paid Service until 31 December 2019 (SLA Newcastle City Council)	-	-	-
24	-	24	Janice Gillespie, Interim Chief Finance Officer, S.73 Officer (SLA North Tyneside Council)	25	-	25
19	-	19	John Softly Interim Monitoring Officer (SLA Newcastle City Council)	29	-	29
115	1	116	Interim Director of Economic Growth until 2 Dec 2019* (Newcastle City Council)	-	-	-
85	-	85	Interim Director of Policy & Performance until 2 Dec 2019* (Newcastle City Council)	-	-	-
284	**1**	**285**	**Total**	**94**	**-**	**94**

*These posts became permanent positions within the Combined Authority during 2019/20 - see Table 1 for details of their remuneration costs

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

	2019/20	2020/21
£50,000-£54,999	-	5
£55,000-£59,999	-	4
£60,000-£64,999	1	1
£65,000-£69,999	-	2
£70,000-£74,999	-	1
£75,000-£79,999	-	-
£80,000-£84,999	-	-
£85,000-£89,999	-	-
£90,000-£94,999	-	-
£95,000-£99,999	-	-

12. Audit Costs

The Combined Authority has incurred the following costs in relation to the audit of the Statement of Accounts:

	2019/20 £000	2020/21 £000
Fees payable to the appointed Auditor under the Local Audit and Accountability Act 2014	36	28

The figure reported in the 2019/20 Statement of Accounts in relation to the year 2019/20 was £0.028m as that was the proposed costs at that stage. This figure was subsequently changed with agreement by the Public Sector Auditors Appointments Ltd (PSAA) and the Cabinet of the Combined Authority. The revised figures is shown in the table above.

13. Related Party Transactions

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

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

Central Government is responsible for providing the statutory framework within which the Combined Authority operates and provides much of its funding in the form of grants and prescribes the terms of some of the transactions that the Combined Authority has with other parties. Grants received from government departments are set out in **Note 9.**

Members of the Cabinet have direct control over the Combined Authority's financial and operating policies. The total of Members' allowances payable to elected members of the Combined Authority is shown in **Note 10**. During 2020/21 no works or services were commissioned from companies in which any members had an interest.

Officers – During 2020/21 there have been no pecuniary interests involving the Head of Paid Service, the Chief Finance Officer or the Monitoring Officer to the Combined Authority.

NTCA Constituent Authorities – The leaders of the three constituent authorities serve as members on the NTCA Cabinet. Details of material transactions with the seven north east 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 NTCA 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 Combined Authority has a direct relationship with the Passenger Transport Executive for Tyne and Wear (Nexus) through the North East Combined Authority (NECA). Details of material transactions with Nexus are set out in the table below.

2019/20					2020/21			
Receivables £000	**Income £000**	**Expenditure £000**	**Payables £000**		**Receivables £000**	**Income £000**	**Expenditure £000**	**Payables £000**
				NTCA Constituent Authorities				
(783)	(7,871)	1,519	1,189	Newcastle	(539)	(11,191)	6,984	2,957
(1,918)	(6,863)	1,237	286	North Tyneside	(374)	(16,331)	3,076	1,020
(2,359)	(8,468)	7,507	88	Northumberland	(437)	(6,349)	10,413	2,607
				NECA Constituent Authorities				
-	-	1,383	69	Durham	(329)	(15,567)	21,640	1,833
-	(4,850)	853	21	Gateshead	(256)	(10,989)	7,780	1,046
-	(3,583)	535	610	South Tyneside	0	(8,180)	1,253	1,943
-	(6,643)	1,000	105	Sunderland	(1,372)	(15,017)	10,244	572
				Other Public Bodies				
-	-	8	8	North East Combined Authority	(355)	(77)	34,367	2,044
(672)	-	27,226	22,609	Nexus	(695)	(761)	37,234	33,671
(5,732)	(38,278)	41,268	24,985	**Total**	(4,357)	(84,462)	132,991	47,693

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 & Wear authorities, with North of Tyne authorities proportion based on Newcastle and North Tyneside population and the NECA authorities split on the population of 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.

14. Property, Plant and Equipment

2020/21	**Vehicles, Plant, Furniture & Equipment** £000	**Infra-structure Assets** £000	**Assets Under Construction** £000	**Total Property, Plant & Equipment** £000	**Service Concession Assets included in PPE** £000
Cost or Valuation					
At 1 April 2020	1,754	174,306	934	176,994	174,306
Additions	-	424	152	576	424
Reclassification	544	-	(544)	-	-
Impairment recognised in the Surplus/Deficit on the Provision of Services	-	(16)	-	(16)	(16)
Other adjustments	-	865	-	865	865
At 31 March 2021	**2,298**	**175,579**	**542**	**178,419**	**175,579**
Accumulated Depreciation & Impairments					
At 1 April 2020	(599)	(22,773)	-	(23,372)	(22,773)
Depreciation charge	(129)	(1,785)	-	(1,914)	(1,785)
At 31 March 2021	**(728)**	**(24,558)**	**-**	**(25,286)**	**(24,558)**
Net Book Value					
At 1 April 2020	1,155	151,533	934	153,621	151,533
At 31 March 2021	**1,570**	**151,021**	**542**	**153,133**	**151,021**

2019/20

	Vehicles, Plant, Furniture & Equipment £000	Infra-structure Assets £000	Assets Under Construction £000	Total Property, Plant & Equipment £000	Service Concession Assets included in PPE £000
Cost or Valuation					
At 1 April 2019	1,420	166,202	7,999	175,621	166,202
Additions	-	-	1,373	1,373	-
Reclassification	334	8,104	(8,438)	-	8,104
Impairment recognised in the Surplus/Deficit on the Provision of Services	-	-	-	-	-
Other Adjustments	-	-	-	-	-
At 31 March 2020	**1,754**	**174,306**	**934**	**176,994**	**174,306**
Accumulated Depreciation & Impairments					
At 1 April 2019	(525)	(21,005)	-	(21,530)	(21,005)
Depreciation charge	(74)	(1,768)	-	(1,842)	(1,768)
At 31 March 2020	**(599)**	**(22,773)**	**-**	**(23,372)**	**(22,773)**
Net Book Value					
At 1 April 2019	895	145,197	7,999	154,091	145,197
At 31 March 2020	**1,155**	**151,533**	**934**	**153,621**	**151,533**

15. Financial Instruments

Financial Assets

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

Financial Assets	Non-Current				Current			
	Investments		Debtors		Investments		Debtors	
	31 March 2020 £000	31 March 2021 £000	31 March 2020 £000	31 March 2021 £000	31 March 2020 £000	31 March 2021 £000	31 March 2020 £000	31 March 2021 £000
Amortised cost	-	-	15,595	28,184	35,581	142,617	1,376	10,757
Total Financial Assets	-	**-**	**15,595**	**28,184**	**35,581**	**142,617**	**1,376**	**10,757**
Non-financial Assets	-	-	-	-	-	-	5,156	730
Total	-	**-**	**15,595**	**28,184**	**35,581**	**142,617**	**6,532**	**11,487**

Financial assets held at amortised costs

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

Trade receivables

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

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

Financial liabilities held at amortised cost

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

	Non-Current				Current			
	Borrowings		Creditors		Borrowings		Creditors	
	31 March 2020 £000	31 March 2021 £000	31 March 2020 £000	31 March 2021 £000	31 March 2020 £000	31 March 2021 £000	31 March 2020 £000	31 March 2021 £000
Amortised cost	(75,595)	(75,724)	-	-	(1,032)	(21,023)	(25,416)	(31,085)
Total financial liabilities	**(75,595)**	**(75,724)**	-	**-**	**(1,032)**	**(21,023)**	**(25,416)**	**(31,085)**
Non-financial liabilities	-	-	-	-	-	-	(2,190)	(20,539)
Total	**(75,595)**	**(75,724)**	-	**-**	**(1,032)**	**(21,023)**	**(27,606)**	**(51,624)**

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

Income, Expense, Gains and Losses

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

31 March 2020				31 March 2021		
Financial Liabilities at Amortised Cost £000	Financial Assets at Amortised Cost £000	Total £000		Financial Liabilities at Amortised Cost £000	Financial Assets at Amortised Cost £000	Total £000
3,289	-	3,289	Interest Expense	3,295	-	3,295
3,289	**-**	**3,289**	**Total expense in Surplus on the Provision of Services**	**3,295**	**-**	**3,295**
-	(1,080)	(1,080)	Investment Income	-	(1,808)	(1,808)
			Movement on Soft Loan Adjustment	-	(252)	(252)
-	**(1,080)**	**(1,080)**	**Total Income on Surplus on Provision of Services**	**-**	**(2,060)**	**(2,060)**
3,289	**(1,080)**	**2,209**	**Net gain/(loss) for the year**	**3,295**	**(2,060)**	**1,235**

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 2021, using the following methods and assumptions:

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

For 2020/21 the fair values shown in the table below are split by their level in the fair value hierarchy:

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

- Level 2 – fair value is calculated from inputs other than quoted prices that are observable for the asset or liability: 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 Options" (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 p 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:

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

	Level	31 March 2020		31 March 2021	
		Carrying Amount £000	Fair Value £000	Carrying Amount £000	Fair Value £000
Financial liabilities held at amortised cost	2	(76,627)	(132,125)	(96,747)	(142,065)
Total		**(76,627)**	**(132,125)**	**(96,747)**	**(142,065)**
Financial Assets at amortised cost					
Held to Maturity Investments	2	35,581	35,581	142,617	142,617
Nexus loan debtor	2	15,595	27,152	15,032	24,137
Other loan debtors	3	-	-	13,152	13,152
Total Financial Assets		**51,176**	**62,733**	**170,801**	**179,906**

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

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%	8,420	(1,261)	417	7,575	6,354
Neptune Test Centre	9	0.00%	4.99%	3,127	(440)	156	2,843	4,000
Boiler Shop	3	4.50%	5.02%	1,710	131	(403)	1,437	1,734

16. Nature and Extent of risks arising from Financial Instruments

The Combined 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 Combined Authority;
- Liquidity Risk- the possibility that the Combined Authority might not have funds available to meet its commitments to make payments; and

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

The Combined 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 Combined 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 Combined 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 Combined Authority are detailed fully in the Annual Treasury Management Strategy Statement.

The following table summarises the Combined 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	**2020/21 £000**
AAA	14,254
Total Cash Equivalents	**14,254**
n/a – investments with UK Local Authorities	142,617
n/a – investments with unrated building societies[1]	-
Total Short-Term Investments	**142,617**

[1] In line with its agreed Investment Strategy, NTCA at the point of these accounts, did not place investments with any Building Society. NECA (in regard of those Investments which relate to JTC Investments) place investments for up to 1 year and up to £5m each with UK Building Societies without credit ratings with assets greater than £250m.

The Combined Authority's maximum exposure to credit risk in relation to its investments in banks and building societies cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of non-recovery applies to all of the Combined Authority's deposits, but there was no evidence at the 31 March 2021 that this was likely to crystallise. Actions are taken immediately if an institution is downgraded and deposits withdrawn in line with Treasury Management Strategy.

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

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

Liquidity Risk

The Combined Authority has a comprehensive cash flow management system that seeks to ensure that cash is available as needed. If unexpected movements happen, the Combined 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 Combined Authority will be bound to replenish a significant proportion of its borrowings at a time of unfavourable interest rates. The Combined 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 2020 £000	**31 March 2021 £000**
Between 1 and 2 years	(295)	(297)
Between 2 and 5 years	(886)	(891)
Between 5 and 10 years	(443)	(148)
More than 10 years	(73,971)	(74,388)
	(75,595)	**(75,724)**
Less than 1 year	**(1,032)**	**(21,023)**
Total Borrowing	**(76,627)**	**(96,747)**

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

Market Risk

Interest Rate Risk

The Combined 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 Combined 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 Combined 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 2020 £000	**31 March 2021 £000**
Increase in interest payable on variable rate borrowing	-	(3)
Increase/(decrease) in interest receivable on variable rate investments	149	(95)
Impact on the Surplus on Provision for Services	**149**	**(98)**

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

If interest rates had been 1% higher with all other variables held constant, the financial effect would be a decrease of £24.591m 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.

17. Short Term Debtors

	31 March 2020 £000	31 March 2021 £000
Central Government Bodies	790	1,752
Other local authorities	5,070	3,572
Other Entities and Individuals	672	6,163
Total	**6,532**	**11,487**

18. Long Term Debtors

	31 March 2020 £000	31 March 2021 £000
Local Enterprise Partnership Loans	-	13,152
Nexus borrowing	15,595	15,032
Total	**15,595**	**28,184**

19. Cash and Cash Equivalents

	31 March 2020 £000	31 March 2021 £000
Cash held by the Combined Authority	7,173	24,801
Cash equivalents	35,531	14,254
Total	**42,704**	**39,055**

20. Short Term Creditors

	31 March 2020 £000	31 March 2021 £000
Central Government Bodies	(78)	(221)
Other Local Authorities	(24,827)	(12,983)
Other Entities and Individuals	(2,701)	(38,420)
Total	**(27,606)**	**(51,624)**

21. Private Finance Initiatives and Similar Contracts

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

In 2020/21 the total payment under the contract was £12.717m (2019/20 £21.123m) of which £5.665m is shown in the accounts of the Combined Authority with the remaining £7.052m being shown in the accounts of the North East Combined Authority. The reduction between years is a direct result of the consequences of reduced traffic volumes in 2020/21 due to the Covid-19 pandemic.

The contribution to the capital works by the private sector partner is recognised as a deferred income balance with a 2020/21 total value of £86.568m (2019/20 £91.661m), of which £38.560m is shown in the accounts of the Combined Authority with the remaining £48.008m being shown in the accounts of the North East Combined Authority. The table below shows an analysis of the Combined Authority's deferred income balances.

	Deferred Income Release	
	2019/20 £000	**2020/21 £000**
Payable in 2021/22	(2,256)	(2,268)
Payable within 2 to 5 years	(9,022)	(9,073)
Payable within 6 to 10 years	(11,278)	(11,341)
Payable within 11 to 15 years	(11,278)	(11,341)
Payable within 16 to 20 years	(6,766)	(4,537)
Total	**(40,600)**	**(38,560)**

Payments

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

22. Defined Benefits Pension Scheme

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

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

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

Partnership Limited.

Amounts recognised in Profit and Loss and Other Comprehensive Income

Comprehensive Income & Expenditure Statement	**LGPS**	
	2019/20 £000	**2020/21 £000**
Cost of Services		
Current Service Costs	250	1,093
Past Service Costs	19	-
Settlement Costs	-	2,080
Financing and Investment Income and Expenditure		
Interest on net defined benefit asset	(2)	49
Total Post Employment Benefit Charged to the Surplus on the Provision of Services	**267**	**3,222**
Other Post Employment Benefit charged to the Comprehensive Income and Expenditure Statement:		
Return on plan assets (excluding the amount included in the net interest expense)	(386)	(901)
Actuarial gains due to changes in financial assumptions	(12)	2,688
Actuarial losses due to changes in liability assumptions	594	45
Total Amount recognised in Other Comprehensive Income & Expenditure	**196**	**1,832**
Total amount recognised in the CIES	**463**	**5,054**

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.

Reconciliation of the Fair Value of the Scheme Assets

	LGPS	
	2019/20 £000	2020/21 £000
Opening fair value of scheme assets	**2**	**625**
Interest Income	3	113
Remeasurement gain on plan assets	386	901
Employer contributions	178	215
Contributions by scheme participants	54	321
Net Benefits paid out	2	14
Settlements	-	4,025
Closing fair value of scheme assets	**625**	**6,214**

Reconciliation of present value of the scheme liabilities

	LGPS	
	2019/20 £000	2020/21 £000
Opening balance at 1 April	**2**	**910**
Current Service Cost	250	1,093
Interest expense on defined benefit obligation	1	162
Contributions by participants	54	321
Actuarial losses on liabilities – financial assumptions	(12)	2,688
Actuarial gains on liabilities – experience	594	45
Net benefits paid	2	14
Past service costs	19	-
Net Increase in liabilities from disposals/acquisitions	-	(137)
Settlements	-	6,105
Closing balance at 31 March	**910**	**11,201**

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	2019/20 £000	2020/21 £000
Fair Value of LGPS Assets	**625**	**6,214**
Present value of LGPS liabilities		
- Funded Defined Benefit Obligation	(910)	(11,201)
Deficit on funded defined benefit scheme	**(285)**	**(4,987)**
Unrecognised Asset	-	-
Total Liability shown on Balance Sheet	**(285)**	**(4,987)**

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

	NTCA
Active members	100%
Deferred pensioners	0%
Pensioners	0%

The liabilities show the underlying commitments that the Combined Authority has in the long run to pay post-employment (retirement) benefits. The total liability of £11.201m has an impact on the net worth of the Combined Authority recorded on the balance sheet, resulting in a negative pension balance of £4.987m. However, statutory arrangements for funding the deficit mean that the financial position of the Combined 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 Combined Authority in the year to 31 March 2022 is £0.221m. In addition, strain on the fund contributions may be required. Expected payments direct to beneficiaries in the year to 31 March 2022 is nil in relation to unfunded benefits.

Basis for estimating assets and liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels etc. The Local Government Pension Scheme have been estimated 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.

A small proportion (9%) of the Pension Fund's investments are in direct property valuations and pooled residential property funds. The impact of Covid 19 has resulted in a significant reduction in the number of transactions in the market and consequently the relevant observable data available upon which to base a valuation judgement. As such, the Pension Fund's property investment manager has included a material valuation uncertainty clause in some of their valuation reports due to the possible impact of Covid 19. Therefore, there is less certainty and a higher degree of caution should be attached to the valuations of those unquoted assets than would normally be the case. There is a risk that current valuations may be under or overstated in the accounts.

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

The principal assumptions used by the actuary have been:

	Local Government	
	31 March 2020	31 March 2021
Mortality assumptions:		
Pensioner member aged 65 at accounting date (male)	21.8	21.9
Pensioner member aged 65 at accounting date (female)	25.0	25.1
Active member aged 45 at accounting date (male)	23.5	23.6
Active member aged 45 at accounting date (female)	26.8	26.9
Rate for discounting scheme liabilities:	% p.a	% p.a
Discount Rate	2.3	2.1
Rate of inflation – Consumer Price Index	1.8	2.6
Rate of increase in pensions	1.8	2.6
Pensions accounts revaluation rate	1.8	2.6
Rate of increase in salaries	3.3	4.1

The assumptions that the actuarial have used in respect of inflation have changed during 2020/21. The Retail Price Index (RPI) measure is generally higher than the Consumer Price Index (CPI) of around 0.8% to 1.0% over the long term. This change in assumption is a result of the Government's intention to either stop publishing the RPI or align the RPI with the Consumer Price Index, including housing costs (CPIH) sometime between 2025 and 2030. This has led to an expectation that RPI will be significantly lower post 2030. Therefore, the assumption used in post 2030 has changed from 0.5% post 2030 to 0.1%.

This change has resulted in a change in the Inflation Risk Premium (IRP). The actuarial have taken the view that post 2030 a higher IRP should be used. They have used 0.6% p.a. from 2030 for pensions accounting at this accounting date as opposed to an assumption last year of 0.2%.

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

	31 March 2020	Asset Split 31 March 2021 %		
	% Total	Quoted	Unquoted	Total
Equities	54.8	48.4	7.1	55.5
Property	9.0	0.0	7.9	7.9
Government Bonds	4.1	2.2	0.0	2.2
Corporate Bonds	15.3	19.8	0.0	19.8
Cash	2.3	4.0	0.0	4.0
Other*	14.5	4.7	5.9	10.6
Total Assets	100.0	79.1	20.9	100.0

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

Actual Return on Assets	**Local Government**	
	2019/20 £000	**2020/21 £000**
Interest Income on Assets	3	113
Remeasurement gain on assets	386	901
Actual Return on Assets	**389**	**1,014**

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.

Discount rate assumption	+0.1% per annum	Base Figure	-0.1% per annum
Adjustment to discount rate			
Present value of total obligation (£M)	10.876	11.201	11.537
% change in present value of total obligation	(2.9)		3.0
Projected service cost (£M)	1.568	1.623	1.680
Approximate % change in projected service cost	(3.4)		3.5

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)	11.201	11.201	11.201
% change in present value of total obligation	0.0		0.0
Projected service cost (£M)	1.623	1.623	1.623
Approximate % change in projected service cost	0.0		0.0

Rate of increase to pensions in payment and deferred pensions assumption, and rate of revaluation of pension accounts assumption	+0.1% per annum	Base Figure	-0.1% per annum
Adjustment to pension increase rate			
Present value of total obligation	11.537	11.201	10.876
% change in present value of total obligation	3.0		(2.9)
Projected service cost (£M)	1.680	1.623	1.568
Approximate % change in projected service cost	3.5		(3.4)

Post retirement mortality assumption	-1 year	Base Figure	+1 year
Adjustment to mortality age rating assumption *			
Present value of total obligation (£M)	11.604	11.201	10.809
% change in present value of total obligation	3.6		(3.5)
Projected service cost (£M)	1.693	1.623	1.555
Approximate % change in projected service cost	4.3		(4.2)

*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.

23. Usable Reserves

	Note	31 March 2020 £000	31 March 2021 £000
General Fund Balance	24	(10,691)	(6,186)
Earmarked Reserves	24	(50,876)	(86,006)
Capital Receipts Reserve		-	(8,889)
Capital Grants Unapplied Reserve		(5,850)	(23,292)
Total Usable Reserves		**(67,417)**	**(124,373)**

Earmarked Reserves are amounts which the Combined 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 Combined 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.

24. Transfers (to)/from Earmarked Reserves

	Balance at 1 April 2019	Transfers out 2019/20	Transfers in 2019/20	Balance at 31 March 2020	Transfers from NECA 1 April	Transfer out 2020/21	Transfers in 2020/21	Balance 31 March 2021
	£000	£000	£000	£000	£000	£000	£000	£000
General Fund Balances	(9,643)	-	(1,048)	(10,691)	(649)	5,164	(10)	(6,186)
General Fund Reserves								
Investment Fund	(19,551)	-	(17,289)	(36,840)	-	7,305	(20,595)	(50,130)
Enterprise Zone					(7,345)	171	(2,016)	(9,190)
LGF SWAP					(5,610)	2,751	(6,949)	(9,808)
Metro Fleet Replacement	(2,964)	-	(1,507)	(4,471)	-	-	(40)	(4,511)
Metro Reinvigoration	(4,059)	-	(34)	(4,093)	-	-	(37)	(4,130)
Tyne Tunnel					(3,491)	-	-	(3,491)
North East Investment Fund					(1,394)	814	(340)	(920)
Metro Studies					-	-	(336)	(336)
Bus Project					-	-	(223)	(223)
Strategic	(200)	-	-	(200)	-	-	-	(200)
Business Rates Pool	-	-	(4,909)	(4,909)	-	4,909	-	-
Grant Reserves								
Adult Education Budget					-	-	(1,477)	(1,477)
North East Ambition					-	-	(301)	(301)
CEC Enterprise Advisor					-	-	(290)	(290)
Dept for Education					-	-	(206)	(206)
Education Challenge					-	-	(115)	(115)
Grant Reserves (individual balances under £0.100m)	(198)	17	(182)	(363)	-	181	(496)	(678)

Total General Fund Reserves	**(26,972)**	**17**	**(23,921)**	**(50,876)**	**(17,841)**	**16,132**	**(33,421)**	**(86,006)**
Total Balances & Reserves	**(36,615)**	**17**	**(24,969)**	**(61,567)**	**(18,490)**	**21,296**	**(33,431)**	**(92,192)**

25. Unusable Reserves

	31 March 2020 £000	31 March 2021 £000
Capital Adjustment Account	(38,174)	(58,876)
Financial Instruments Adjustment Account	425	2,554
Revaluation Reserve	(3,606)	(3,562)
Accumulated Absences Account	-	556
Pension Reserve	285	4,987
Total	**(41,070)**	**(54,341)**

Capital Adjustment Account

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

The CAA is credited with the amounts set aside by the Combined Authority as finance for the costs of acquisition, construction and enhancement. 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. The Adjustments between Accounting Basis and Funding Basis under Regulations Statement (Note 6) provides details of the source of all the transactions posted to the CAA, apart from those involving the Revaluation Reserve.

	2019/20 £000	2020/21 £000
Opening Balance 1 April	(36,456)	(38,174)
Transfer of balance from North East Combined Authority 1 April		(16,282)
Reversal of items relating to capital expenditure debited or credited to the CIES:		
Charges for depreciation & impairment of non-current assets	1,842	1,930
Write down of New Tyne Crossing deferred income balance	(2,256)	(2,268)
Revenue expenditure funded from capital under statute	8,881	47,230
Write down of long-term debtors	698	676
Adjusting amounts written out of the Revaluation Reserve	(64)	(44)
Capital financing applied in the year:		
Capital grants & contributions credited to the CIES that have been applied to capital financing	(9,351)	(50,136)
Statutory provision for the financing of capital investment charged against the General Fund	(766)	(1,117)
Capital expenditure charged against the General Fund	(4)	(15)
Debt redeemed using capital receipts	(698)	(676)
Balance at 31 March	**(38,174)**	**(58,876)**

Financial Instruments Adjustment Account

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

	2019/20 £000	2020/21 £000
Opening Balance 1 April	788	425
Transfer of balance from North East Combined Authority 1 April		2,558
Proportion of premiums incurred in previous financial years to be charged against the General Fund in accordance with statutory requirements	(363)	(429)
Balance at 31 March	**425**	**2,554**

Revaluation Reserve

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

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

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

	2019/20 £000	2020/21 £000
Balance at 1 April	(3,670)	(3,606)
Difference between fair value depreciation and historical cost depreciation written off to the Capital Adjustment Account	64	44
Balance at 31 March	**(3,606)**	**(3,562)**

Accumulated Absences Account

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the account.

	2020/21 £000
Balance at 1 April	-
Adjustment to the accrual required	556
Adjustment to the debtor in respect of leave taken in advance	-
Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	**556**
Balance at 31 March	**556**

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 Combined 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 Combined 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 Combined 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.

	2019/20 £000	2020/21 £000
Balance at 1 April	-	285
Remeasurements of the net defined benefit liability/(asset)	196	1,832
Reversal of items relating to retirement benefits debited or credited to the Surplus on the Provision of Services in the CIES	269	3,036
Employer's pension contributions and direct payments to pensioners payable in the year	(178)	(215)
Interest expense on net defined liability/(asset)	(2)	49
Balance at 31 March	**285**	**4,987**

26. Capital Expenditure and Capital Financing

	2019/20 £000	2018/19 £000
Opening Capital Financing Requirement	**86,352**	**85,787**
Capital Investment		
Property, Plant and Equipment	1,373	576
Revenue Expenditure Funded from Capital Under Statute	8,881	47,230
Sources of Finance		
Government Grants and Other Contributions	(9,351)	(50,136)
Capital Receipts – repayment of principal from long-term debtors	(698)	(676)
Sums set aside from revenue		
Direct Revenue Contributions	(4)	(15)
Minimum Revenue Provision	(766)	(783)
Additional Voluntary Provision	-	(334)
Closing Capital Financing Requirement	**85,787**	**81,649**
Decrease in underlying need to borrow (unsupported by Government financial assistance)	(565)	(4,138)

Decrease in Capital Financing Requirement	**(565)**	**(4,138)**

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

	2019/20 £000	2020/21 £000
Surplus on the provision of services	**28,563**	**30,707**
Adjustments to Surplus on Provision of Services for Non-Cash Movements		
Depreciation and Impairment	1,842	1,930
Increase/(Decrease) in Creditors	(2,862)	24,032
(Increase)/Decrease in Debtors	(4,418)	(17,546)
Movement in Pension Liability	89	2,870
Other non-cash items charged to the surplus on the provision of services	(2,239)	(891)
	(7,588)	10,395
Adjustments for items included in the net surplus on the Provision of Services that are investing and financing activities		
Capital grants credited to surplus on provision of services	(11,034)	(67,330)
Net Cash Flow from Operating Activities	**9,941**	**(26,228)**

The cash flows for operating activities include the following items

	2019/20 £000	2020/21 £000
Interest Received	1,080	2,060
Interest Paid	(3,289)	(3,295)

28. Cash Flow Statement – Investing Activities

	2019/20 £000	2020/21 £000
Purchase of Property, Plant & Equipment, investment property and intangible assets	(1,371)	(1,442)
Purchase of short- and long-term investments	(90,393)	(148,408)
Proceeds from short-term and long-term investments	80,393	41,371
Other receipts from Investing Activities	13,022	69,600
Net Cash Flows from Investing Activities	**1,651**	**(38,879)**

29. Cash Flow Statement – Financing Activities

	2019/20 £000	2020/21 £000
Repayment of short and long-term borrowing	1,963	20,106
Net Cash Flows from Financing Activities	**1,963**	**20,106**

30. Reconciliation of liabilities arising from Financing Activities

	1 April 2020 £000	Financing Cash Flows £000	Changes which are not financing cash flows: Acquisition £000	Other £000	31 March 2021 £000
Long Term Borrowings	(75,595)	(129)	-	-	(75,724)
Short Term Borrowings	(1,032)	(20,000)	-	9	(21,023)
Total Liabilities arising from Financing Activities	**(76,627)**	**(20,129)**	**-**	**9**	**(96,747)**

	1 April 2019 £000	Financing Cash Flows £000	Changes which are not financing cash flows: Acquisition £000	Other £000	31 March 2020 £000
Long Term Borrowings	(73,648)	(1,947)	-	-	(75,595)
Short Term Borrowings	(1,024)	-	-	(8)	(1,032)
Total Liabilities arising from Financing Activities	**(74,672)**	**(1,947)**	**-**	**(8)**	**(76,627)**

31. Accounting Standards that have been issued but not yet adopted

The Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 has introduced changes in accounting policy which will be required from 1 April 2021 and may require retrospective application. The accounting policies have been reviewed and it has been concluded that the changes will not have a material impact on the Statement of Accounts.

The changes that have been introduced are in relation to the following International Financial Reporting Standard (IFRS) statements:

- **Accounting Policies** – Paragraph 3.3.2.13 of the Code requires changes in accounting policy to be applied retrospectively unless alternative transitional arrangements are specified in the Code. Paragraph 3.3.4.3 requires an authority to disclose information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted by the Code for the relevant financial year. There have been no changes in accounting policies introduced by the Combined Authority in 2020/21 and this amended standard will not have an effect on the financial statements.

- **IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors** – IAS 8 has been adapted to limit the impact of standards that have been issued but not yet adopted to those listed in the 2021/22 Code of Practice. This excludes IFRS 16 Leases and IFRS 17 Insurance Contracts from being included in these reporting requirements. The standards shown below, depending on their impact on the Combined Authority, may need to be disclosed.

The standards introduced by the 2021/22 Code and relevant for additional disclosure that will be required in the 2020/21 financial statements:

- Definition of a Business: Amendments to IFRS 3 Business Combinations;

- Interest Rate Benchmark Reform: Amendments to IFRS 9, IAS 39, and IFRS7; and

- Interest Rate Benchmark Reform – Phase 2 Amendments to IFRS 9, IAS 39, IFRS 4 and IFRS 16.

These amendments are mainly concerned with private sector accounting and reporting and are not expected to impact on the Combined Authority.

32. Critical Judgements in Applying Accounting Policies

In applying the Accounting Policies set out in these accounts, the Combined 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 Code 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 IFRIC12. There are two criteria used to determine whether arrangements fall under the scope of IFRIC12:

- 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 Combined 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 concession 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 Combined 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 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.

33. 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 Combined 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 Combined Authority's Balance Sheet at 31 March 2021 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.	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

	A firm of consulting actuaries is engaged to provide the Combined Authority with expert advice about the assumptions to be applied.	fund assets. The Pension Fund engages a firm of specialist actuaries to provide the Combined Authority with expert advice about the assumptions to be applied. See Note 22 Defined Benefits Pension Scheme for details of sensitivity analysis of the estimations.
Tyne & Wear Pension Fund Accounts – Covid 19 impact	Tyne & Wear Pension Fund's accounts reference a material uncertainty in respect to direct property valuations and pooled residential property funds	A small proportion (9%) of the Pension Fund's investments are in direct property valuations and pooled residential property funds. The impact of Covid 19 has resulted in a significant reduction in the number of transactions in the market and consequently the relevant observable data available upon which to base a valuation judgement. As such, the Pension Fund's property investment manager has included a material valuation uncertainty clause in some of their valuation reports due to the possible impact of Covid 19. Therefore, there is less certainty and a higher degree of caution should be attached to the valuations of these unquoted assets than would normally be the case.

34. Accounting Policies

1. General Principles

The Statement of Accounts summarises the Combined Authority's transactions for the 2020/21 financial year and its position at the year-end of 31 March 2021. The Combined 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 property accounting practices.

These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (the Code), supported by International Financial Reporting Standards (IFRS).

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

The Code requires that a Local Authority's Statement of Accounts is prepared on a 'going concern' basis, that is, the accounts are based on the assumption that the Combined 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 Combined Authority transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Combined Authority;

- Revenue from the provision of services is recognised when the Combined 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 Combined 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; and

- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. 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 Combined Authority has a policy of not accruing for manual sundry creditors or sundry debtors provision 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 90 days or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Combined Authority's cash management.

4. Charges to Revenue for Non-Current Assets

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

- Depreciation attributable to the assets used by the relevant service;
- 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; and,
- Amortisation of intangible fixed assets attributable to the service.

The Combined 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 Combined Authority in accordance with statutory guidance.

Depreciation, revaluation and impairment losses and amortisations 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.

5. Contingent Liabilities

A contingent liability arises where an event has taken place that gives the Combined 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 Combined 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 2020/21.

6. 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 Combined Authority.

An accrual is made for the cost of holiday entitlements (or any form of leave e.g. time off in lieu, flexi balances) earned by employees but not taken before the year-end which employees can carry forward into the next financial year.

The accrual is charged to the Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Termination Benefits

Termination benefits are amounts which would be payable as a result of a decision by the Combined 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 Corporate Costs line in the CIES when the Combined 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 Combined 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 2020/21.

7. 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; and

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

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

8. 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 Combined Authority's financial performance.

9. Fair Value measurement

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

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

The Combined 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 Combined 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 Combined 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 Combined 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 Combined Authority can access at the measurement date;
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; or
- Level 3 – unobservable inputs for the asset or liability.

10. Financial Instruments

<u>Financial Liabilities</u>

Financial liabilities are recognised on the Balance Sheet when the Combined 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 Combined 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 Combined 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.

<u>Financial Assets</u>

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

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

- Fair value through other comprehensive income (FVOCI) – assets held within a business model with the objective to either sell the asset or collect contractual cash flows on specified dates that are solely payments of principal and interest; and,

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

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

- 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 Combined 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 creditors to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement 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 Combined Authority, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

However, the Combined Authority can make loans to organisations at less than market rates (soft loans). When soft loans are made, a loss is recorded in the CIES (debited to the appropriate service) for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost 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 the 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 for from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Expected Credit Loss Model

The Combined Authority recognises expected credit losses on all 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 cashflows 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 and instrument was initially recognised, losses are assessed on a lifetime basis expected losses. 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 Combined 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 Combined 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.

11. Government Grants and Contributions

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

- The Combined Authority will comply with the conditions attached to the payments; and

- The grants or contributions will be received.

Amounts recognised as due to the Combined Authority are not credited to the Comprehensive Income and Expenditure Statement until there is reasonable assurance that the conditions attached to the grant or contribution will be satisfied.

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

Monies advanced as grants and contributions for which conditions have not been satisfied 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 Account. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied Account are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

12. Group Accounts

NECA and the Combined Authority are required by the Code of Practice on Local Authority Accounting 2020/21 to produce Group Accounts to include services paid to Council Tax payers by organisations other than the Combined Authority itself in which the Combined 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 the Combined Authority and Nexus. Nexus has been incorporated as a subsidiary, whereby the accounts of the two organisations are combined and any intra-group transactions are cancelled out.

For the 2020/21 accounts, NECA and the Combined Authority have fully complied with the requirements of the Code, providing group figures for 2020/21 and comparators for 2019/20. 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.

13. 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 Join 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 CIPFA Code, NECA must:

- Split the revenues between that which relates to NECA and the Combined Authority. 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 the Combined Authority), that which relates to Durham (allocated wholly to NECA) and that which relate to Tyne and Wear (requires further division into NECA and the Combined Authority).

- 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 the Combined Authority), 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.

14. Overheads and Support Services

The costs of overheads and support services e.g. Finance and Legal services are shown within the Corporate Costs line on the Comprehensive Income and Expenditure Statement on the basis of Service Level Agreements in accordance with the Combined Authority's arrangements for accountability and financial performance and in accordance with guidance given by the Chartered Institute of Public Finance and Accountancy (CIPFA), this is also the case for NECA.

15. Post-Employment Benefits

The Combined Authority and NECA are members 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 & 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 Combined 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 Combined 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:

- Current service cost – the increase in liabilities as a result of years of service earned this year, allocated in the CIES to the Combined Authority and NECA Corporate Costs line;

- Past service costs – 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 CIES as part of the Combined Authority and NECA Corporate Costs line;

- Net interest on the net defined liability i.e. net interest expense for the Combined 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 CIES. 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.

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

- Remeasurements comprising:

    - 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; and

    - 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 & Expenditure

- 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 Combined 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 Pension 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 22 to the accounts.

16. 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 if the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Combined 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.

17. Property, Plant and Equipment

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

Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accrual's basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Combined Authority and the cost of the item can be measured reliably.

Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

Measurement

Assets are initially measured at cost, comprising:

- The purchase price;

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

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

The Combined 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 Combined 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 Combined Authority.

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

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

- Infrastructure assets– depreciated historical cost;

- Assets Under Construction – cost;

- All other assets – current value, determined as the amount that would be paid for the asset in its existing use (EUV).

The following useful economic lives are used for PPE assets in relation to NECA: 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 current value at the year-end, but as a minimum every five years. All valuations will be undertaken by or under the supervision of a fully qualified Chartered Surveyor (MRICS – Member of the Royal Institution of Chartered Surveyors). 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); or

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

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

De Minimis Levels

The 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 by:

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

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

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

Depreciation

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

Deprecation on all Property, Plant and Equipment assets (except Vehicles) is calculated by taking the asset value at the 31 March 2021 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 charged based on their historic cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

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

Disposals

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

Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previously recognised losses in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

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

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal.

Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for 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 Combined 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.

18. Provisions

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

19. Public Private Partnership (PPP) Contracts

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

The Code requires these arrangements to be assessed under an application of the principles within International Financial Reporting Interpretation Committee 12 (IFRIC12) 'Service Concessions'.

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

- The public sector entity ('grantor') controls or regulates the services that the operator must provide with the infrastructure, to whom it must provide them, and at what price; and

- The grantor controls, through ownership, beneficial entitlement or otherwise, any significant residual interest in the infrastructure at the end of the service arrangement.

For any service concession within the scope of the application, the grantor will recognise the cost of the property, plant and equipment underlying the service concession as a tangible fixed asset. The New Tyne Crossing is considered to meet both IFRIC 12 criteria, and therefore the costs are recognised on the Combined Authority's Balance Sheet.

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

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

- In each month a Shadow Toll is paid to the operator, this being a fixed amount per vehicle, adjusted for changes in RPI;

- Throughout the term, Formula Tolls for each vehicle type are defined to equal the corresponding vehicle Shadow Tolls; and

- The Formula Tolls are the initially-defined sequence of tolls to be charged to users and collected by 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.

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

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

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

20. Reserves

The Combined Authority sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by transferring amounts out of the General Fund Balance in the Movement in Reserves Statement.

When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service within the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against the levy for the expenditure.

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

21. 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 Combined Authority has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charges so that there is not impact on the levy.

22. 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 period end.

23. Value Added Tax (VAT)

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

35. 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 exiting at 31 March, the financial statements and notes are adjusted to reflect the impact of this information. No such events have taken place.

3.0 Group Financial Statements and Explanatory Notes

3.1 Group Movement in Reserves Statement

	NTCA\NECA Usable Reserves £000	NTCA\NECA Unusable Reserves £000	Total NTCA\NECA Reserves £000	Authority Share of Nexus £000	Total Group Reserves £000
Balance at 31 March 2019 carried forward	**(40,782)**	**(39,338)**	**(80,120)**	**(195,317)**	**(275,437)**
Total Comprehensive Income & Expenditure	(28,563)	196	(28,367)	(14,379)	(42,746)
Adjustments between accounting basis & funding basis under regulations	1,928	(1,928)	-	-	-
(Increase)/decrease in 2019/20	(26,635)	(1,732)	(28,367)	(14,379)	(42,746)
Balance at 31 March 2020 carried forward	**(67,417)**	**(41,070)**	**(108,487)**	**(209,696)**	**(318,183)**
Transfer from NECA in respect of LEP	(27,628)	(13,724)	(41,352)	-	(41,352)
Balance at 1 April 2020	(95,045)	(54,794)	(149,839)	(209,696)	(359,535)
Total Comprehensive Income & Expenditure	(30,707)	1,832	(28,875)	(1,493)	(30,368)
Adjustments between accounting basis & funding basis under regulations	1,379	(1,379)	-	-	-
(Increase)/decrease in 2020/21	(29,328)	453	(28,875)	(1,493)	(30,368)
Balance at 31 March 2021 carried forward	**(124,373)**	**(54,341)**	**(178,714)**	**(211,189)**	**(389,903)**

3.2 Group Comprehensive Income and Expenditure Statement

2019/20					2020/21		
Gross Exp £000	Gross Inc £000	Net Exp £000		Note	Gross Exp £000	Gross Inc £000	Net Exp £000
735	-	735	Investment Fund		5,898	(66)	5,832
3,677	(6,047)	(2,370)	Corporate Costs		11,443	(2,328)	9,115
136	(382)	(246)	Adult Education Budget		13,405	(14,640)	(1,235)
101,294	(61,398)	39,896	Joint Transport Committee		106,365	(74,953)	31,412
			Services transferred from NECA				
-	-	-	Invest North East		534	(438)	96
-	-	-	Local Enterprise Partnership		47,896	(15,278)	32,618
105,841	**(67,827)**	**38,015**	**Cost of Services**		**185,541**	**(107,703)**	**77,838**
4,225	(757)	3,468	Financing and Investment Income and Expenditure	G4	7,296	(4,656)	2,640
-	(75,607)	(75,607)	Taxation and Non-Specific Grant Income	G5	-	(121,902)	(121,902)
-	93	93	Gain/Loss on disposal of non-current assets		-	-	-
110,066	**(144,098)**	**(34,032)**	**Surplus on Provision of Service**		**192,837**	**(234,261)**	**(41,424)**
		(348)	Taxation credit charge for the year	G14			**-**
		(34,380)	**Group surplus after taxation**				**(41,424)**
		(7,577)	Re-measurement of the defined benefit liability	G13			**11,056**
		(785)	Gains on Revaluation of Property				**-**
		(42,742)	**Total Comprehensive Income & Expenditure**				**(30,368)**

3.3 Group Balance Sheet

31 March 2020 £000		Note	31 March 2021 £000
380,884	Property, Plant & Equipment	G7	395,896
	Long Term Debtors		13,152
1,988	Intangible Assets	G8	2,388
382,872	**Long Term Assets**		**411,436**
35,581	Short Term Investments	G9	142,617
13,486	Short Term Debtors	G10	19,324
55,830	Cash & Cash Equivalents	G11	50,549
1,586	Inventories		401
106,493	**Current Assets**		**212,891**
(1,032)	Short Term Borrowing	G9	(21,023)
(18,679)	Short Term Creditors	G12	(40,508)
(427)	Grants Receipts in Advance	G6	(2,696)
(2,256)	Public Private Partnerships		(2,268)
(22,394)	**Current Liabilities**		**(66,495)**
(75,595)	Long Term Borrowing	G9	(75,724)
(38,344)	Public Private Partnerships		(36,292)
(30,826)	Pension Liability	G13	(50,506)
(2,304)	Provisions		(3,679)
(1,719)	Deferred Taxation	G14	(1,728)
(148,788)	**Long Term Liabilities**		**(167,929)**
318,183	**Net Assets**		**389,903**
(83,962)	Usable Reserves	G15	(146,886)
(234,221)	Unusable Reserves	G16	(243,017)
(318,183)	**Total Reserves**		**(389,903)**

I certify that the Accounts give a true and fair view of the financial position of the North of Tyne Combined Authority Group as at 31 March 2021.

Signed: **Date:21/01/2022**

Janice Gillespie, Chief Finance Officer (Section 73 Officer)

3.4 Group Cash Flow Statement

2019/20 £000		Note	2020/21 £000
34,032	Surplus on the provision of services	G17	41,424
16,766	Adjustments to net surplus on the provision of services for non-cash movements	G17	33,780
(33,258)	Adjustments for items included in the net surplus on the provision of services that are investing and financing activities	G17	(95,739)
470	Financing Costs and Investment	G17	1,406
18,010	**Net Cash Flows from Operating Activities**		**(19,129)**
(299)	Investing Activities	G18	(45,566)
829	Financing Activities	G19	18,062
18,540	**Net Increase in cash and cash equivalents**		**(46,633)**
37,290	Cash and cash equivalents at the beginning of the reporting period		55,830
-	Transfer from NECA in respect of LEP	2	41,352
55,830	**Cash and cash equivalents at the end of the reporting period**	G11	**50,549**

3.5 Index to the Notes to the Group Financial Statements

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

G1 Group Accounts

Under the 9.1.17 of the Code of Practice for Local Authority Accounting 2020/21, authorities with interest 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.

The Group Accounts include the accounts of Nexus (in relation only to the proportion relating to the North of Tyne Combined Authority population basis), and have been prepared on a consolidation basis. The accounting policies adopted by Nexus are largely aligned with those of NECA and NTCA with the following minor differences:

Deferred Taxation
NTCA/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 assets:

Asset	Estimated Useful Life
Freehold buildings	40 years
Short leasehold buildings	Over the lease term
Infrastructure assets	20 to 50 years
Plant and Equipment	5 to 30 years
Vehicles	5 to 10 years
Marine Vessels	30 years
Intangibles	5 to 10 years

Details of NTCA's depreciation policy can be found within the accounting policies of the single entity accounts. Nexus's policy is to commence depreciation on assets with effect from the month following capitalisation, whereas NTCA and NECA charge a full year 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 the 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 ad Wear population using the ONS statistics used as the basis of dividing the levy contributions.

Assumptions made about the future and other major sources of uncertainty

The Group's net pension liability includes a share of the overall Pension Fund Investment assets. The Pension Fund has disclosed a material uncertainty, due to Covid-19, in respect of pension investments (direct property valuations and pooled residential property funds).

Please see Note 33 of the single entity accounts for NTCA's assumptions made about the future and other major sources of estimation uncertainty. Significant accounting judgements, estimates and assumptions for Nexus can be found in the Nexus accounts at www.nexus.org.uk.

G2 Expenditure and Funding Analysis

2020/21	**Net Exp Chargeable to General Fund £000**	**Adjs for Capital Purposes £000**	**Pension Adjs £000**	**Other Adjs £000**	**Net Exp in CIES £000**
Investment Fund	5,585	-	197	50	5,832
Corporate Costs	7,032	-	2,051	32	9,115
Adult Education Budget	(1,277)	-	33	9	(1,235)
Joint Transport Committee Costs	23,403	(3,821)	11,830	-	31,412
Services transferred from NECA					
Invest North East	66	-	30	-	96
Local Enterprise Partnership	31,394	249	510	465	32,618
Net Cost of Services	**66,203**	**(3,572)**	**14,651**	**556**	**77,838**
Other Income & Expenditure	(84,307)	(34,576)	49	(428)	(119,262)
Surplus on Provision of Service	**(18,104)**	**(38,148)**	**14,700**	**128**	**(41,424)**

Opening General Fund Balances	**(33,300)**
Transfer from NECA in respect of LEP Balances	(649)
Surplus on General Fund Balances in Year	(18,104)
Transfers to Reserves	22,720
General Fund Balances at 31 March 2021	**(29,333)**

2019/20	Net Exp Chargeable to General Fund £000	Adjs for Capital Purposes £000	Pension Adjs £000	Other Adjs £000	Net Exp in CIES £000
Investment Fund	735	-	-	-	735
Corporate Costs	(2,461)	-	91	-	(2,370)
Adult Education Budget	(246)	-	-	-	(246)
Joint Transport Committee	23,675	7,027	9,193	-	39,895
Net Cost of Services	**21,703**	**7,027**	**9,284**	**-**	**38,014**
Other Income & Expenditure	(54,106)	(22,533)	3,819	773	(72,047)
Surplus on Provision of Service	**(32,403)**	**(15,506)**	**13,103**	**773**	**(34,033)**

Opening General Fund Balances	**(32,973)**
Surplus on General Fund Balances in Year	(32,403)
Transfers to Reserves	32,076
General Fund Balances at 31 March 2020	**(33,300)**

Adjustments to the General Fund to arrive at the Comprehensive Income and Expenditure Statement Amounts

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

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

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

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

Net change for the removal of pension contributions and the addition of IAS19 Employee Benefits related expenditure and income:

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

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

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

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

- For services this includes adjustments made from accruing compensated absences earned but not taken in the year.

G3 Income and Expenditure Analysed by Nature

2019/20 £000		2020/21 £000
	Expenditure	
24,744	Employee benefit expenses	27,566
56,038	Other service expenses	95,815
1,872	Support Service Recharges	2,783
23,187	Depreciation, impairment and Revenue Expenditure Funded from Capital under Statute (REFCUS)	59,377
4,225	Interest Payments	7,296
110,066	**Total Expenditure**	**192,837**
	Income	
(35,393)	Fees, charges and other service income (Tyne Tunnel tolls)	(29,138)
(757)	Interest and investment income	(4,656)
(33,168)	Income from transport levy	(33,450)
(67,639)	Government grants and contributions	(163,620)
(7,141)	Other Income	(3,397)
(144,098)	**Total Income**	**(234,261)**
(34,032)	**Surplus on the provision of services**	**41,424**

G4 Financing and Investment Income and Expenditure

2019/20 £000		2020/21 £000
3,434	Interest payable and similar charges	3,386
791	Interest payable on defined benefit liability	3,910
-	Interest receivable on defined benefit liability	(3,053)
(756)	Interest receivable and similar income	(1,603)
3,468	**Total**	**2,640**

G5 Taxation and Non-Specific Grant Income

2019/20 £000		2020/21 £000
(33,168)	Transport Levy	(33,450)
(22,257)	Capital Grants, Contributions & Donated Assets	(20,000)
(20,182)	Non-Ringfenced Government Grants	(68,452)
(75,607)	**Total**	**(121,902)**

G6 Grant Income and Other Contributions

The following grants and contributions were credited to the Comprehensive Income and Expenditure Statement within the Cost of Services:

Restated 31 March 2020 £000		31 March 2021 £000
-	Covid 19 Business Support	(19,062)
-	Adult Education Grant	(15,064)
(11,556)	Metro Rail Grant	(11,844)
(4,386)	Transforming Cities Fund	(11,170)
(6,179)	Local Transport Plan	(6,213)
-	Active Travel Fund	(3,225)
(220)	European Grants	(1,178)
(1,000)	Mayoral Capacity Fund	(1,000)
(1,001)	Section 31 Grants	(228)
(382)	Adult Education Budget – Devolution Implementation Fund	(116)
(182)	EU Exit Funding	(109)
(160)	North East Smart Ticketing Initiative	(91)
(240)	Office for Low Emission Vehicles	(57)
(114)	Heavy Rail Grant	-
(1,215)	Other Grants	(881)
(114)	Other Grants & Contributions (individually under £1m)	(4,930)
(26,749)	**Total**	**(75,168)**

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

31 March 2020 £000		31 March 2021 £000
	Grants Receipts in Advance	
(427)	Grants & Contributions (individually under £1m) – Short Term	(2,696)
(427)	**Total**	**(2,696)**

G7 Property, Plant and Equipment

2020/21

	Vehicles, Plant, Furniture & Equipment	Infra-structure Assets	Land & Buildings	Assets Under Construction	Total Property, Plant & Equipment	Service Concession Assets included in PPE
Cost or Valuation	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
At 1 April 2020	**16,855**	**503,857**	**1,440**	**20,703**	**542,855**	**174,306**
Additions	-	424	-	29,201	29,625	424
Transfers from Assets under Construction	544	21,468	-	(22,012)	-	-
Derecognition – disposals	(1,348)	(2,171)	(155)	(20)	(3,694)	-
Impairment recognised in the Provision of Services	-	(16)	-	-	(16)	(16)
Other Adjustments	-	2,147	-	-	2,147	865
At 31 March 2021	**16,051**	**525,709**	**1,285**	**27,872**	**570,917**	**175,579**
Accumulated Depreciation and Impairment						
At 1 April 2020	(11,185)	(150,456)	(330)	-	(161,971)	(22,773)
Depreciation charge	(690)	(14,414)	(18)	-	(15,124)	(1,785)
Derecognition – disposals	542	1,426	104	-	2,072	-
At 31 March 2021	**(11,333)**	**(163,444)**	**(244)**	**-**	**(175,021)**	**(24,558)**
Net Book Value						
At 1 April 2020	5,670	353,401	1,110	20,703	380,884	151,533
At 31 March 2021	**4,718**	**362,265**	**1,041**	**27,872**	**395,896**	**151,022**

2019/20

	Vehicles, Plant, Furniture & Equipment	Infra-structure Assets	Land & Buildings	Assets Under Construction	Total Property, Plant & Equipment	Service Concession Assets included in PPE
Cost or Valuation	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
At 1 April 2019	**16,570**	**483,334**	**770**	**18,851**	**519,525**	**166,202**
Additions	-	-	-	24,996	24,996	-
Transfers from Assets under Construction	334	21,878	-	(22,212)	-	8,104
Transfers between categories	-	115	(115)	-	-	-
Intangibles	-	-	-	(655)	(655)	-
Derecognition – disposals	(49)	(1,470)	-	(277)	(1,796)	-
Revaluation Recognised in Revaluation Reserve	-	-	785	-	785	-
At 31 March 2020	**16,855**	**503,857**	**1,440**	**20,703**	**542,855**	**174,306**
Accumulated Depreciation and Impairment						
At 1 April 2020	**(10,382)**	**(137,973)**	**(312)**	**-**	**(148,670)**	**(21,005)**
Depreciation charge	(852)	(13,307)	(18)	-	(14,177)	(1,768)
Derecognition – disposals	49	827	-	-	876	-
At 31 March 2020	**(11,185)**	**(150,456)**	**(330)**	**-**	**(161,971)**	**(22,773)**
Net Book Value						
At 1 April 2019	6,188	345,358	458	18,851	370,855	145,197
At 31 March 2020	**5,670**	**353,401**	**1,110**	**20,703**	**380,884**	**151,533**

G8 Intangible Assets

Intangible assets in the Group Accounts relate wholly to Nexus.

2019/20 £000		2020/21 £000
	Cost or Valuation	
3,800	Opening Balance	4,740
316	Additions	636
655	Transfers from assets under construction	-
(31)	Derecognition – Disposals	(19)
4,740	**Total**	**5,357**
	Amortisation	
(2,621)	Opening Balance	(2,752)
(131)	Amortisation provided during the period	(217)
(2,752)	**Total**	**(2,969)**
1,988	**Net Book Value at 31 March**	**2,388**

G9 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 2020 £000	31 March 2021 £000	31 March 2020 £000	31 March 2021 £000	31 March 2020 £000	31 March 2021 £000	31 March 2020 £000	31 March 2021 £000
Amortised cost	-	-	-	-	35,581	142,617	6,436	16,756
Total Financial Assets	-	**-**	-	**-**	**35,581**	**142,617**	**6,436**	**16,756**
Non-financial Assets	-	-	-	-	-	-	7,050	2,568
Total	-	**-**	-	**-**	**35,581**	**142,617**	**13,486**	**19,324**

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 NTCA'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 2020 £000	31 March 2021 £000	31 March 2020 £000	31 March 2021 £000	31 March 2020 £000	31 March 2021 £000	31 March 2020 £000	31 March 2021 £000
Amortised cost	(75,595)	(75,724)	-	-	(1,032)	(21,023)	(14,333)	(17,840)
Total Financial Liabilities	**(75,595)**	**(75,724)**	**-**	**-**	**(1,032)**	**(21,023)**	**(14,333)**	**(17,840)**
Non-financial Liabilities	-	-	-	-	-	-	(4,346)	(22,668)
Total	**(75,595)**	**(75,724)**	**-**	**-**	**(1,032)**	**(21,023)**	**(18,679)**	**(40,508)**

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 as follows:

31 March 2020				31 March 2021		
Financial Liabilities at amortised cost £000	**Financial assets measured at amortised cost £000**	**Total £000**		**Financial Liabilities at amortised cost £000**	**Financial assets measured at amortised cost £000**	**Total £000**
4,225	-	4,225	Interest expense	7,296	-	7,296
4,225	**-**	**4,225**	**Total expense in Surplus on Provision of Services**	**7,296**	-	**7,296**
-	(757)	(757)	Investment Income	-	(4,656)	(4,656)
-	**(757)**	**(757)**	**Total income in Surplus on Provision of Services**	-	**(4,656)**	**(4,656)**
4,225	**(757)**	**3,468**	**Net (gain)/loss for the year**	**7,296**	**(4,656)**	**2,640**

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 2021, using the following method 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 2020/21 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 2020		31 March 2021	
	Level	**Carrying Amount £000**	**Fair Value £000**	**Carrying Amount £000**	**Fair Value £000**
Financial liabilities at amortised cost	2	(76,627)	(132,125)	(96,747)	(142,065)
Total		**(76,627)**	**(132,125)**	**(96,747)**	**(142,065)**
Financial Assets at amortised cost					
Held to Maturity investments	2	35,581	35,581	155,769	155,769
Total		**(41,046)**	**(96,544)**	**155,769**	**155,769**

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 16 of the single entity accounts.

G10 Short Term Debtors

31 March 2020 £000		31 March 2021 £000
6,282	Central Government Bodies	6,204
6,732	Other Local Authorities	6,719
2	NHS Bodies	1
470	Other Entities and Individuals	6,400
13,486	**Total**	**19,324**

G11 Cash and Cash Equivalents

31 March 2020 £000		31 March 2021 £000
20,299	Cash	36,295
35,531	Short term deposits	14,254
55,830	**Total**	**50,549**

G12 Short Term Creditors

31 March 2020 £000		31 March 2021 £000
(1,192)	Central Government Bodies	(2,814)
(2,888)	Other Local Authorities	(14,754)
(14,599)	Other Entities and Individuals	(22,940)
(18,679)	**Total**	**(40,508)**

G13 Defined Benefit Pension Schemes

NTCA and Nexus participate in the Tyne & 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 authorities 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 must be generated to meet actual pension payments as they eventually fall due.

Consolidated Pension Liability

The Group pension liability of £50.507m (£24.750m in 2019/20) is the sum of the NTCA, Nexus and NEMOL pension liability. The details of the NEMOL pension liability of £nil (£13.702m in 2019/20) are set out within the NEMOL Annual Report and Accounts using the FRS101 disclosure framework.

Following the TUPE of employees from Nexus to Stadler Rail Service UK Limited on 4 October 2020, the pension assets and liabilities in connection with active employees have transferred to Stadler. In addition, the remaining pension assets and liabilities associated with pensioners and deferred members in NEMOL have been subsumed by Nexus. In the Nexus Group accounts this has resulted in a one-off gain of £1.839m arising from differences in actuarial assumptions between NEMOL and Nexus (with £0.819m relating to the Combined Authority). This is presented in the disclosures below.

Transactions relating to post-employment Benefits

The following transactions relating to the LGPS and Unfunded Benefits provided by the NECA Group have been included in the Comprehensive Income and Expenditure Statement and Movement in Reserves Statement during the year:

Comprehensive Income & Expenditure Statement	LGPS		Discretionary Benefits	
	2019/20 £000	2020/21 £000	2019/20 £000	2020/21 £000
Cost of Services				
Current Service Costs	6,119	8,524	-	-
Past Service Costs	71	-	-	-
Settlement Costs	-	2,080	-	-
Exceptional loss on transfer of pension liability loss	1,346	(819)	-	-
Financing and Investment Income and Expenditure				
Interest Cost	4,042	3,884	35	27
Expected Return on Scheme Assets	(3,289)	(3,053)	-	-
Total Post Employment Benefit Charged to the Surplus on the Provision of Services	**8,289**	**10,616**	**35**	**27**
Other Post Employment Benefit charged to the Comprehensive Income and Expenditure Statement:				
Return on plan assets (excluding the amount included in the net interest expense)	(14,355)	(901)	-	-
Remeasurement of the net Defined Benefit Liability	7,013	11,904	(235)	53
Total Amount recognised in Other Comprehensive Income & Expenditure	**(7,342)**	**11,003**	**(235)**	**53**
Total amount recognised in the CIES	**947**	**21,618**	**(200)**	**80**

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.

Reconciliation of the Fair Value of the Scheme Assets

	LGPS		Discretionary Benefits	
	2019/20 £000	**2020/21 £000**	**2019/20 £000**	**2020/21 £000**
Opening fair value of scheme assets	**136,697**	**153,358**	**-**	**-**
Interest Income	3,294	3,164	-	-
Remeasurement gain on plan assets	14,356	27,932	-	-
Employer contributions	3,243	1,912	155	79
Contributions by scheme participants	1,254	1,613	-	-
Net Benefits paid out	(5,486)	(5,006)	(155)	(79)
Net decrease in assets from Stadler Transfer	-	(6,882)	-	-
Settlements	-	4,025	-	-
Closing fair value of scheme assets	**153,358**	**180,116**	**-**	**-**

Reconciliation of present value of the scheme liabilities

	LGPS		Discretionary Benefits	
	2019/20 £000	**2020/21 £000**	**2019/20 £000**	**2020/21 £000**
Opening balance at 1 April	**(168,582)**	**(182,952)**	**(1,580)**	**(1,230)**
Current Service Cost	(6,126)	(8,523)	-	-
Interest Cost	(4,045)	(3,997)	(35)	(27)
Contributions by participants	(1,254)	(1,613)	-	-
Remeasurement of the Net Defined Liability	(7,013)	(39,110)	234	(53)
Net benefits paid	5,486	5,006	151	143
Past service costs	(72)	-	-	-
Net increase in liabilities from NEMOL transfer	(1,346)	7,839	-	-
Settlements	-	(6,105)	-	-
Closing balance at 31 March	**(182,952)**	**(229,455)**	**(1,230)**	**(1,167)**

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	**2019/20 £000**	**2020/21 £000**
Fair Value of LGPS Assets	**153,358**	**180,116**
Present value of LGPS liabilities		
- LGPS liabilities	(182,952)	(229,455)
Deficit on funded defined benefit scheme	**(29,596)**	**(49,339)**
Discretionary benefits	(1,230)	(1,168)
Total Deficit	**(30,826)**	**(50,507)**

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

	NTCA	**Nexus**	**NEMOL**
Active members	100%	37%	85%
Deferred pensioners	0%	13%	5%
Pensioners	0%	50%	10%

The weighted average duration of the defined benefit obligation for scheme members is 29.3 years for NTCA, 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 £229.455m has an impact on the net worth of the Authority recorded on the balance sheet, resulting in a negative pension balance of £50.362m. 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 2022 is £0.221m for NTCA, £3.600m for Nexus and nil for NEMOL (of which £1.603m is attributed to NTCA). In addition, strain on the fund contributions may be required.

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 estimated 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 in updating the latest valuation of the Fund for IAS19 purposes were:

NTCA	**Local Government**	
	31 March 2020	**31 March 2021**
Mortality assumptions:		
Pensioner member aged 65 at accounting date (male)	21.8	21.9
Pensioner member aged 65 at accounting date (female)	25.0	25.1
Active member aged 45 at accounting date (male)	23.5	23.6
Active member aged 45 at accounting date (female)	26.8	26.9
Rate for discounting scheme liabilities:	% p.a	% p.a
Rate of inflation – Retail Price Index	2.30	2.10
Rate of inflation – Consumer Price Index	1.80	2.60
Rate of increase in pensions	1.80	2.60
Pensions accounts revaluation rate	1.80	2.60
Rate of increase in salaries	3.30	4.10

Nexus	**LGPS**		**Discretionary Benefits**	
	2019/20	**2020/21**	**2019/20**	**2020/21**
Mortality assumptions:				
Longevity at 65 for current pensioners				
Men	21.8	21.9	21.8	21.9
Women	25.0	25.1	25.0	25.1
Longevity at 65 for future pensioners				
Men	23.5	23.6	n/a	n/a
Women	26.8	26.9	n/a	n/a
Discount rates:	%p.a.	%p.a.	%p.a.	%p.a.
Rate for discounting scheme liabilities	2.30	2.10	2.30	2.10
Rate of inflation – Retail Price Index	n/a	n/a	n/a	n/a
Rate of inflation – Consumer Price Index	2.00	2.70	2.00	2.70
Rate of increase in pensions	2.00	2.70	2.00	2.70
Pension accounts revaluation rate	2.00	2.70	n/a	n/a
Rate of increase in salaries	3.50	4.20	n/a	n/a

NEMOL	LGPS	
	2019/20	2020/21
Mortality assumptions:		
Longevity at 65 for current pensioners		
Men	21.8	21.9
Women	25.0	25.1
Longevity at 65 for future pensioners		
Men	23.5	23.6
Women	26.8	26.9
Discount rates:	%p.a.	%p.a.
Rate for discounting scheme liabilities	2.30	1.60*
Rate of inflation – Retail Price Index	n/a	n/a
Rate of inflation – Consumer Price Index	1.90	2.20*
Rate of increase in pensions	1.90	2.20*
Pension accounts revaluation rate	1.90	2.20*
Rate of increase in salaries	3.40	3.70*

*At date of transfer (4 October 2020)

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

	31 March 2020	**Asset Split 31 March 2021 %**		
	% Total	**Quoted**	**Unquoted**	**Total**
Equities	54.8	48.4	7.1	55.5
Property	9.0	0.0	7.9	7.9
Government Bonds	4.1	2.2	0.0	2.2
Corporate Bonds	15.3	19.8	0.0	19.8
Cash	2.3	4.0	0.0	4.0
Other*	14.5	4.7	5.9	10.6
Total Assets	100.0	79.1	20.9	100.0

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

Actual Return on Assets	**Local Government**	
	2019/20 £000	**2020/21 £000**
Interest Income on Assets	3,294	3,912
Remeasurement gain on assets	14,356	33,421
Actual Return on Assets	**17,650**	**37,333**

Sensitivity Analysis

Sensitivity analysis of NTCA pension liabilities is set out in Note 22 of the single entity accounts. Sensitivity analysis of the Nexus pension liabilities is shown below.

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the tables above. The sensitivity analyses below have been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all the other assumptions remain constant.

The assumptions in longevity, for example, assume that life expectancy increases or decreases for men and women. In practice, this is unlikely to occur, and changes in some of the assumptions may be interrelated. The estimations in the sensitivity analysis have followed the accounting policies for the scheme, i.e. on an actuarial basis using the projected unit credit method. The methods and types of assumptions used in preparing the sensitivity analysis below did not change from those used in the previous period. Sensitivity 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)	491.54	501.17	510.82
% change in present value of total obligation	(1.9%)		4.9%
Projected service cost (£M)	19.82	20.51	21.23
Approximate % change in projected service cost	(3.4%)		3.5%

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)	503.13	501.17	499.70
% change in present value of total obligation	0.4%		(0.3%)
Projected service cost (£M)	20.51	20.51	20.51
Approximate % change in projected service cost	0.0%		0.0%

Rate of increase to pensions in payment and deferred pensions assumption, and rate of revaluation of pension accounts assumption	**+0.1% per annum**	**Base Figure**	**-0.1% per annum**
Adjustment to pension increase rate			
Present value of total obligation	508.86	501.17	493.01
% change in present value of total obligation	1.5%		(1.6%)
Projected service cost (£M)	21.23	20.51	19.68
Approximate % change in projected service cost	3.5%		(3.4%)

Post retirement mortality assumption	-1 year	Base Figure	+1 year
Adjustment to mortality age rating assumption *			
Present value of total obligation (£M)	518.21	501.17	483.63
% change in present value of total obligation	3.4%		(3.5%)
Projected service cost (£M)	21.37	20.51	19.68
Approximate % change in projected service cost	4.2%		(4.1%)

*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.

G14 Deferred Tax Liability

The movement for the year comprises:

	2019/20 £000	2020/21 £000
Capital Allowances	(248)	123
Tax effect of losses		(433)
Other timing differences	(83)	40
Total	(331)	(270)

The balance at the year-end comprises:

	2019/20 £000	2020/21 £000
Excess of capital allowances over depreciation	(1,256)	(1,386)
Roll over relief on capital gains	(546)	(549)
Tax effect of losses	83	433
Other timing differences	-	44
Total	(1,719)	(1,458)

G15 Usable Reserves

	31 March 2020 £000	31 March 2021 £000
General Fund Balance	(33,300)	(29,333)
Earmarked Reserves	(50,876)	(85,372)
Capital Grants Unapplied	(5,850)	(23,292)
Capital Receipts Reserve	-	(8,889)
Pensions NEMOL	6,064	-
Total Usable Reserves	**(83,962)**	**(146,886)**

G16 Unusable Reserves

	31 March 2020 £000	31 March 2021 £000
Revaluation Reserve	(4,695)	(4,651)
Capital Adjustment Account	(254,701)	(291,983)
Financial Instruments Adjustment Account	425	2,554
Accumulated Absences Account	-	556
Pension Reserve	24,750	50,507
Total Unusable Reserves	**(234,221)**	**(243,017)**

Revaluation Reserve

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

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

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

	£000s
Balance at 1 April 2019	(3,974)
Difference between fair value depreciation and historical cost depreciation – written off to the Capital Adjustment Account	64
Revaluation gain recognised in Revaluation Reserve	(785)
Balance at 31 March 2020	**(4,695)**
Difference between fair value depreciation and historical cost depreciation – written off to the Capital Adjustment Account	**44**
Revaluation gain recognised in Revaluation Reserve	**-**
Balance at 31 March 2021	**(4,651)**

Capital Adjustment Account

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

The account is credited with the amounts set aside by the Authority as finance for the costs of acquisition, construction and enhancement of assets.

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

	£000
Balance at 1 April 2019	(241,599)
Reversal of items relating to capital expenditure debited or credited to the CIES:	
Charges for depreciation & impairment of non-current assets	13,532
Amounts of non-current assets written off on disposal or sale	785
Other income that cannot be credited to the General Fund	(2,256)
Revenue expenditure funded from capital under statute	8,881
Write down of long-term debtors	698
Adjusting amounts written out of the Revaluation Reserve	**(64)**
Capital financing applied in the year:	
Capital grants & contributions credited to the CIES that have been applied to capital financing	(31,574)
Statutory provision for the financing of capital investment charged against the General Fund	(766)
Capital expenditure charged against the General Fund	(1,640)
Debt redeemed using capital receipts	(698)
Balance at 31 March 2020	**(254,701)**
Transfer from NECA in respect of LEP Balances	**(16,282)**
Reversal of items relating to capital expenditure debited or credited to the CIES:	
Charges for depreciation & impairment of non-current assets	14,699
Amounts of non-current assets written off on disposal or sale	1,630
Other income that cannot be credited to the General Fund	(2,268)
Revenue expenditure funded from capital under statute	47,230
Write down of long-term debtors	676
Adjusting amounts written out of the Revaluation Reserve	**(44)**
Capital financing applied in the year:	
Capital grants & contributions credited to the CIES that have been applied to capital financing	(79,850)
Statutory provision for the financing of capital investment charged against the General Fund	(1,117)
Capital expenditure charged against the General Fund	(1,280)
Debt redeemed using capital receipts	(676)

Balance at 31 March 2021	**(291,983)**

Accumulated Absences Account

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the account.

	2020/21 £000
Balance at 1 April	
Adjustment to the accrual required	556
Adjustment to the debtor in respect of leave taken in advance	-
Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	**556**
Balance at 31 March	**556**

Pension Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions. The Authority accounts for post-employment benefits in the CIES as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on resources set aside to meet the costs.

However, statutory arrangements require benefits earned to be financed as the Authority makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a shortfall in the benefits earned by past and current employees and the resources the Authority has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

	£000
Balance at 1 April 2019	**19,225**
Remeasurements of the net defined benefit liability	(7,578)
Reversal of items relating to retirement benefits debited or credited to the Surplus on the Provision of Services in the CIES	8,955
Employer's pension contributions and direct payments to pensioners	(2,304)
Nemol Pension Transfer	6,454
Interest expense on net defined asset	(2)

Balance at 31 March 2020	**24,750**

Balance at 1 April 2020	**24,750**
Remeasurements of the net defined benefit liability (asset)	11,056
Reversal of items relating to retirement benefits debited or credited to the Surplus on the Provision of Services in the CIES	16,634
Employer's pension contributions and direct payments to pensioners	(1,983)
Nemol Pension Transfer	-
Interest expense on net defined asset	49
Balance at 31 March 2021	**50,506**

G17 Adjustments to net surplus or deficit on the provision of services for non-cash movements and items that are Investing or Financing Activities

2019/20 £000		2020/21 £000
34,032	Surplus on the provision of services	**41,424**
	Adjustments to Surplus on Provision of Services for Non-Cash Movements:	
13,991	Depreciation, Impairment and Amortisation	15,357
943	Loss on disposal of non-current assets	1,641
5,148	Increase in Creditors	40,394
(6,004)	Increase in Debtors	(31,118)
(287)	Decrease in Inventories	1,201
4,932	Movement in Pension Liability	8,452
(1,957)	Other non-cash items charged to the surplus/deficit on the provision of services	(2,147)
16,766		33,780
	Adjustments for items included in the net surplus on the provision of services that are investing and financing activities:	
(33,258)	Capital grants credited to surplus on provision of services	(95,739)
470	Other adjustments for items that are financing or investing activities	1,406
18,010	**Net cash flow from operating activities**	**(19,129)**

The cash flows for operating activities include the following items:

2019/20 £000		2020/21 £000
1,080	Interest Received	4,656
(3,289)	Interest Paid	(7,296)

G18 Cash Flow Statement – Investing Activities

2019/20 £000		2020/21 £000
(24,915)	Purchase of property, plant and equipment, investment property and intangible assets	(31,116)
(90,393)	Purchase of short-term and long-term investments	(150,936)
21,560	Other payments for investing activities	
8	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	-
80,419	Proceeds from short-term and long-term investments	41,371
13,022	Other receipts from investing activities	95,115
(299)	**Net cash flows from investing activities**	**(45,566)**

G19 Cash Flow Statement – Financing Activities

2019/20 £000		2020/21 £000
1,265	Repayments of short and long-term borrowing	19,430
(436)	Other payments and receipts for financing activities	(1,368)
829	**Net cash flows from financing activities**	**18,062**

G20 Reconciliation of liabilities arising from Financing Activities

	1 April 2020 £000	Financing Cash Flows £000	Changes which are not financing cash flows £000	31 March 2021 £000
Long-term borrowings	(75,595)	(570)	441	(75,724)
Short-term borrowings	(1,032)	(20,000)	9	(21,023)
Total liabilities from financing activities	**(76,627)**	**(20,570)**	**450**	**(96,747)**

	1 April 2019 £000	Financing Cash Flows £000	Changes which are not financing cash flows £000	31 March 2020 £000
Long-term borrowings	(73,508)	(2,087)	-	(75,595)
Short-term borrowings	(1,023)	-	(9)	(1,032)
Total liabilities from financing activities	**(74,531)**	**(2,087)**	**(9)**	**(76,627)**

G21 Summary of Capital Expenditure and Sources of Finance

2019/20 £000		2020/21 £000
86,352	**Opening Capital Financing Requirement**	**85,789**
	Capital Investment	
24,918	Property, Plant & Equipment	29,625
316	Intangible Assets	636
8,881	Revenue Expenditure Funded from Capital Under Statute	47,230
	Sources of Finance	
(698)	Capital Receipts – repayment of principal from long-term debtors	(676)
(31,574)	Government Grants and other Contributions	(79,850)
	Sums set aside from Revenue	
(1,640)	Direct Revenue Contributions	(1,280)
(766)	Minimum Revenue Provision	(783)
-	Additional Voluntary Provision	(334)
85,789	**Closing Capital Financing Requirement**	**80,357**
(563)	Decrease in underlying need to borrow (unsupported by Government financial assistance)	(5,432)

4.0 Supplemental Information

4.1 Glossary of Terms

A

Abbreviations: The symbol 'k' followed by a figure represents £ thousand. The symbol 'm' following a figure represents £ million.

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.

Accruals: Income and expenditure are recognised as they are earned or incurred, not as money is received or paid.

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 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.

B

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.

C

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 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 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 (The Code): 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 principal that the accounting treatment of like items within an accounting period and from one period to the next should be 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 (Pension): 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.

D

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.

E

Earmarked reserves: 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 are 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.

F

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 asset.

Fees and Charges: Income arising from the provision of services, for example, charges for the use of leisure facilities.

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.

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 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

G

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.

I

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 Costs (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.

L

Liabilities: Any amount 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.

M

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.

N

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

Net Debt: The Authority's borrowings less cash and liquid resources.

O

Operating Leases: Leases other than a finance lease.

P

Property, Plant and 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 the information available.

Public Works Loan Board (PWLB): This is a Government agency which provides loans to local authorities at favourable rates.

R

Related Parties: A related party transaction is the transfer of asset 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.

U

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 of Reserves Statement line ‘adjustments between accounting basis and funding basis under regulation.’

Usable Reserves: Those reserves that the Authority may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use.

Useful life: The period over which the Authority will derive benefits from the use of a fixed asset.

Independent auditor's report to the Members of North of Tyne Combined Authority and the Group

Report on the audit of the financial statements

Opinion on the financial statements

We have audited the financial statements of North of Tyne Combined Authority and Group for the year ended 31 March 2021, which comprise the North of Tyne Combined Authority and Group Comprehensive Income and Expenditure Statements, the North of Tyne Combined Authority and Group Balance Sheets, the North of Tyne Combined Authority and Group Movement in Reserves Statement, the North of Tyne Combined Authority and Group Cash Flow Statements and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.
In our opinion, the financial statements:

- give a true and fair view of the financial position of North of Tyne Combined Authority and Group as at 31st March 2021 and of North of Tyne Combined Authority and Group's expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

Basis for opinion

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

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Chief Finance Officers' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.
Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on North of Tyne Combined Authority and Group's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Chief Finance Officer with respect to going concern are described in the relevant sections of this report.

Other information

The Chief Finance Officer is responsible for the other information. The other information comprises the Narrative Statement and the Annual Governance Statement and information included in the Statement of Accounts, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

Responsibilities of the Chief Finance Officer for the financial statements

As explained more fully in the Statement of the Chief Finance Officer's Responsibilities, the Chief Finance Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21, and for being satisfied that they give a true and fair view. The Chief Finance Officer is also responsible for such internal control as the Chief Finance Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Chief Finance Officer is required to comply with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 and prepare the financial statements on a going concern basis, on the assumption that the functions of North of Tyne Combined Authority and Group will continue in operational existence for the foreseeable future. The Chief Finance Officer is responsible for assessing each year whether or not it is appropriate for North of Tyne Combined Authority and Group to prepare its accounts on the going concern basis and disclosing, as applicable, matters related to going concern.

Auditor's responsibilities for the audit of the financial statements

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

reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Based on our understanding of North of Tyne Combined Authority and Group, we identified that the principal risks of non-compliance with laws and regulations related to the Local Government Act 2003 (and associated regulations made under section 21), the Local Government Finance Acts of 1988, 1992 and 2012, and the Accounts and Audit Regulations 2015, and we considered the extent to which non-compliance might have a material effect on the financial statements.
We evaluated the Chief Finance Officer's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls) and determined that the principal risks were related to posting manual journal entries to manipulate financial performance, management bias through judgements and assumptions in significant accounting estimates and significant one-off or unusual transactions.
Our audit procedures were designed to respond to those identified risks, including non-compliance with laws and regulations (irregularities) and fraud that are material to the financial statements. Our audit procedures included but were not limited to:

- discussing with management and Those Charged with Governance the policies and procedures regarding compliance with laws and regulations;
- communicating identified laws and regulations throughout our engagement team and remaining alert to any indications of non-compliance throughout our audit; and
- considering the risk of acts by North of Tyne Combined Authority and the Group which were contrary to applicable laws and regulations, including fraud.

Our audit procedures in relation to fraud included but were not limited to:

- making enquiries of management and Those Charged with Governance on whether they had knowledge of any actual, suspected or alleged fraud;
- gaining an understanding of the internal controls established to mitigate risks related to fraud;
- discussing amongst the engagement team the risks of fraud; and
- addressing the risks of fraud through management override of controls by performing journal entry testing.

There are inherent limitations in the audit procedures described above and the primary responsibility for the prevention and detection of irregularities including fraud rests with management and Those Charged with Governance. As with any audit, there remained a risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal controls.
We are also required to conclude on whether the Chief Finance Officer's use of the going concern basis of accounting in the preparation of the financial statements is appropriate. We performed our work in accordance with Practice Note 10: Audit of financial statement and regularity of public sector bodies in the United Kingdom, and Supplementary Guidance Note 01, issued by the National Audit Office in April 2021.

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

Report on North of Tyne Combined Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Matter on which we are required to report by exception

We are required to report to you if, in our view, we are not satisfied that North of Tyne Combined Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021.

We have not completed our work on North of Tyne Combined Authority's arrangements. On the basis of our work to date, having regard to the guidance issued by the Comptroller and Auditor General in April 2021, we have not identified any significant weaknesses in arrangements for the year ended 31 March 2021.

We will report the outcome of our work on North of Tyne Combined Authority's arrangements in our commentary on those arrangements within the Auditor's Annual Report. Our audit completion certificate will set out any matters which we are required to report by exception.

Responsibilities of North of Tyne Combined Authority

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

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

We are required under section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that North of Tyne Combined Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of North of Tyne Combined Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our work in accordance with the Code of Audit Practice, having regard to the guidance issued by the Comptroller and Auditor General in April 2021.

Matters on which we are required to report by exception under the Code of Audit Practice

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

We have nothing to report in these respects.

Use of the audit report

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

Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until we have completed:

- the work necessary to issue our assurance statement in respect of the North of Tyne Combined Authority's Whole of Government Accounts consolidation pack; and
- the work necessary to satisfy ourselves that the North of Tyne Combined Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Gavin Barker
Director
For and on behalf of Mazars LLP

The Corner
Bank Chambers
26 Mosley Street
Newcastle upon Tyne
NE1 1DF
Date: 18/01/2022

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NORTH OF TYNE COMBINED AUTHORITY

Cabinet

25 January 2022

Subject: **2022-2026 NTCA Budget Proposals**
Report of: **Chief Finance Officer, Janice Gillespie**
Portfolio: **Investment and Resources**

Report Summary

The purpose of this report is for Cabinet to approve the budget for the North of Tyne Combined Authority (NTCA) for 2022/23, and the medium-term financial plan for the period 2023/24 to 2025/26. The report will present the budget in respect of the Corporate Budget, Investment Fund, Adult Education Budget, and the Brownfield Housing Fund. The report also outlines the context within which the budget proposals have been prepared in relation to the Comprehensive Spending Review (CSR). The draft budget proposals were brought to 30 November 2021 Cabinet, the only substantial changes to the budget since this date is the Mayoral Capacity Funding for 2022/23 (£1.000m) announced as part of the Provisional Local Government Financial Settlement, and the Transport Levies position for 2022/23 which were approved at the Joint Transport Committee on 18 January 2022. There continues to be no additional cost to local taxpayers or local authorities in the current budget proposals.

NTCA are the accountable body for the North East Local Enterprise Partnership (LEP) and as such this report includes proposals for the North East LEP accountable body budget.

The Overview and Scrutiny response to the 2022-2026 Budget Proposals is appended to this report as Appendix B.

Recommendations

The Cabinet is recommended to:

1. Note the comments made by Overview and Scrutiny set out in Appendix B

2. Agree the Corporate Budget for 2022/23 as set out in paragraph 2.1

3. Agree the Investment Fund as set out in paragraph 2.2

4. Agree the Adult Education Budget as set out in paragraph 2.3

5. Agree the Brownfield Land Programme Budget as set out in paragraph 2.4

6. Note the Tyne and Wear levies will be issued on the 15 February 2022

7. Agree to hold the reserves set out in paragraph 2.5 and note the Chief Finance Officer continues to keep the level of resources under review as the Authority develops and new information becomes available about the financial risks facing authority arrangements for managing risks.

8. Note the North East LEP Accountable Body Budget, paragraph 2.6

9. Agree the 2022/23 Treasury Management Strategy set out in paragraph 2.7 and Appendix A.

1. Background Information, Proposals and Timetable for Implementation

1.1 The budget and medium-term financial plan have been developed within the context of the strategic priorities and policy decisions made by the Mayor and Cabinet. This ensures that the Authority's strategic plans can be delivered within the financial resources available.

1.2 In developing these budget proposals, the Mayor and Cabinet have been clear in their approach to ensuring the North of Tyne Combined Authority is a lean organisation. The budget proposals include the anticipated capacity required to deliver the ambition of the Combined Authority. In the light of increasing numbers of projects and programmes, this has included recruitment, capacity management and retention of a competent, productive, and collegiate workforce with the aim of creating a long-term staffing plan. The organisation may grow in the future and that will be based on a set of consistent set of agreed principles appropriate for the Combined Authority.

1.3 The North of Tyne Combined Authority Corporate Plan was taken to Cabinet Annual Meeting on 8 June 2021. Setting out the ambitions of Cabinet for the Authority, both immediately and in the future, with a roadmap for action and captures the breadth of work undertaken and ensures activities are aligned allowing for clear collaborative working.

1.4 The Corporate Plan has been developed through a process of co-design with Cabinet and plays an intrinsic role in ensuring that funding and resources are used efficiently and effectively adding maximum value and delivering with impact.

1.5 The Corporate Plan will drive the work programme of the NTCA which will turn into both team plans and individual personal objectives, creating a 'golden thread' from Cabinet's vision to day-to-day delivery. Importantly, the Plan is rooted in the NTCA values, which underpin the way the authority works and outlines our approach to managing wisely the resources, funding, and investment available.

1.6 The 2022/23 Budget has been prepared within the context of the recent Comprehensive Spending Review announcement which confirmed the shift on tax burdens, in particular the increase of 1.25% on Employer National Insurance. In addition to some additional Regional measures in relation to 'Levelling up' with more information to follow in the White Paper in the imminent future. The Combined Authority's drive for further devolution is still clear.

2. 2022-2026 Budget Proposals

2.1 Corporate Budget Proposals

2.1.1 The Corporate Budget of the North of Tyne Combined Authority is required to support operational costs including staffing, marketing and communications, accommodation costs and SLA's.

2.1.2 As the Combined Authority continues to grow consideration has been given to the anticipated capacity required to deliver the ambition of the Combined Authority with the aim of creating a long-term staffing plan considering the increasing number of projects and programmes. Table 1 overleaf, sets out the proposed draft budget that is required to operate the Combined Authority and how it is to be funded.

Table 1: 2022/23 Budget and 2023-2026 Financial Plan

	4 Yr. Corporate Budget Summary				
	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000	Total £000
Expenditure					
Staffing	3,145	3,241	3,337	3,407	13,130
Mayor's Office	248	252	255	258	1,013
Other Costs	1,203	1,103	1,103	1,103	4,512
Contribution to Reserves	800	-	-	-	800
Transport Levy	29,335	29,335	29,335	29,335	117,340
SLAs	285	285	285	285	1,140
Total Expenditure	**35,016**	**34,216**	**34,315**	**34,388**	**137,935**
Income					
Grant Income	(5,681)	(4,781)	(4,880)	(4,953)	(20,295)
Contribution from Reserves	0	(100)	(100)	(100)	(300)
Transport Levy	(29,335)	(29,335)	(29,335)	(29,335)	(117,340)
Total Income	**(35,016)**	**(34,216)**	**(34,315)**	**(34,388)**	**(137,935)**
Net Position (Inc)/Exp	**0**	**0**	**0**	**0**	**0**

2.1.3 The budget proposals reflect the increase in National Insurance contributions of 1.25% payable by employers and employees. A 2% year on year uplift has also been assumed in the staffing estimates contributing to the increase in staffing costs over the 4 yr. period reflected.

2.1.4 The bulk of the expenditure is funded through devolved funding secured through the devolution deal, and contributions from constituent authorities of £37,000 each and will be regularly reviewed as the delivery of key priorities and actions progress.

2.1.5 As the North of Tyne Combined Authority continues to develop the Mayor and Cabinet has continued to work with officers to maximise opportunities of the three constituent authorities working together effectively and efficiently with the North of Tyne Combined Authority.

2.1.6 The provisional Local Government Financial Settlement published on 16 December 2021, indicated a further £1.000m Mayoral Capacity Fund. This has been received annually since the Combined Authority was established, although, there had been no confirmation that this was to continue into 2022/23 and is not confirmed for future years. The Mayoral Capacity Fund for 2021/22 has been used to create a reserve to reflect the requirement to prepare for the next Mayoral election in 2024. In addition, a Strategic Capacity Fund has been created for 2022/23 in response to the potential of additional capacity required to prepare for more and wider devolution.

2.1.7 As for 2021/22, the Combined Authority is required to raise the levies on the constituent authorities, the levies will be issued on 15 February 2022 this will enable the constituent councils to take the levies and other contributions into account in setting their own budgets. The Joint Transport Committee (JTC) met on the 18 January 2022, to approve the 2022/23 levies. The 2022/23 Levy is reflected in Table 1 above with indicative levy budgets going forward.

2.2 Investment Fund Proposals

2.2.1 The Investment Fund sets out costs associated with the development, management of and delivery of projects to be funded through the Investment Fund.

2.2.2 The North of Tyne Combined Authority Corporate Plan was taken to Cabinet Annual Meeting on 8 June 2021. Setting out the ambitions of Cabinet for the Authority, both immediately and in the future, with a roadmap for action. It captures the breadth of work undertaken and ensures activities are aligned allowing for clear collaborative working. The updated draft Investment Fund Budget is set out in Table 2 below. The Table sets out clearly the expected date of the 5-year Gateway review with an indication of cumulative spend at that stage. It is important to note that whilst the review will be in year 5 the authority was launched late in 2018/19 so Table 2 shows indicative spend for a period of just over 4 years.

Table 2: Draft Investment Fund Proposals

	Previous Years 2018-2022 £000	2022/23 £000	Total 5-Yr Gateway Review £000	2023/24 £000	2024/25 £000	2025/26 £000
Expenditure						
Business Case Development Fund	2,773	500	3,273	200	200	200
Investment Projects	31,486	41,600	73,086	15,750	19,800	9,800
Technical Support	750	250	1,000	200	100	100
Contribution to Corporate Costs	5,991	2,650	8,641	2,850	2,900	2,900
Total Expenditure	**41,000**	**45,000**	**86,000**	**19,000**	**23,000**	**13,000**
Income						
Funding Sources	(80,000)	(20,000)	(100,000)	(20,000)	(20,000)	(20,000)
Total Income	**(80,000)**	**(20,000)**	**(100,000)**	**(20,000)**	**(20,000)**	**(20,000)**
Net Position (Inc)/Exp	**(39,000)**	**25,000**	**(14,000)**	**(1,000)**	**3,000**	**(7,000)**
Cumulative Position	**(39,000)**	**(14,000)**		**(15,000)**	**(12,000)**	**(19,000)**

2.2.3 Delivery on the programme is now in full swing, a healthy pipeline has been established and includes a broad range of funding proposals which will deliver across the authority's priorities. Project proposals continue to progress through the assurance framework with pace remaining an important focus. Work has continued with portfolio holders to progress work around the key sectors identified for investment and to provide support to businesses and residents. This includes the recruitment of people into new employment opportunities created as a direct result of our investment.

2.2.4 Included in the budget is provision for Technical Support, this is a requirement of the Assurance Framework that Investment Fund proposals are subject to external independent testing. Any unspent Investment Fund will be held and transferred to a specific reserve at the year end to support the delivery of the programme of work in future years. During this current financial year there has been a rapid increase of committed and defrayed expenditure, and more importantly in the outcome's projects are reporting.

2.2.5 Table 3 reflects the capital expenditure included within the Investment Fund programme to date. Since the establishment of the Combined Authority discussions have been ongoing with HM Treasury on acquiring wider borrowing powers. HM Treasury have now confirmed their willingness to include NTCA in a new set of regulations which will apply to a number of Mayoral Combined Authorities who were not included in the previous regulations. A report taken to 30 November Cabinet gave consent to HM Treasury making the necessary regulations which will allow NTCA to be included in the regulations which are expected to be laid by Central Government later January 2022. This will mean that NTCA will have these borrowing powers in future years which will provide the authority with more flexibility in its approach to use of the Investment Fund and the delivery of the Mayor and Cabinet's priorities. The debt cap for each year will be agreed with HM Treasury on an annual basis.

Table 3: Capital Funding included within the Investment Fund

	2019/20	2020/21	2021/22	2022/23	2023/24	Total
	£	£	£	£	£	£
NTCA IF Capital	31,498	1,014,950	924,419	29,133	-	2,000,000
Capital Match	95,617	3,081,066	2,806,240	88,439	-	6,071,362
Total Capital	**127,115**	**4,096,016**	**3,730,659**	**117,572**	**-**	**8,071,362**

2.3 Adult Education Budget

2.3.1 As part of the devolution deal the Adult Education Budget was devolved to the authority with an effective start date of August 2020. This provides the Authority with significant new powers and responsibilities in delivering both Mayoral and Cabinet priorities alongside the national skills agenda and priorities.

2.3.2 The geographical spread of provision for the devolved AEB aligns with travel to learn patterns in NTCA and that residents in rural parts of Northumberland and North Tyneside have access to local provision.

2.3.3 All 'in year' funding allocations are guided by the commissioning principles set out in the AEB Strategic Skills Plan, working closely with providers to ensure a high-quality adult skills offer is available which focuses on achieving outcomes directly linked to local skills needs, helping residents to improve their quality of life and ensuring that North of Tyne employers can access residents with the skills their businesses need to grow and thrive.

2.3.4 Funding allocations as a result of performance management and demand will not exceed the overall devolved AEB funding and will be guided by the commissioning principles set out in the AEB Strategic Skills plan. Regular monitoring on AEB will enable NTCA to respond to any 'Economic Shocks', unexpected fluctuations in the skills sector, and potential increases in digital entitlement.

2.3.5 Table 4 below reflects a high-level balanced Budget with funding awarded to grant providers and other procured deliveries. The split between grant and procured service is detailed, based on historic delivery. This profile may change as the review of delivery changes develop as detailed above.

Table 4: Draft Adult Education Budget

	Adult Education Budget 4-Yr Profile				
	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000	Total £000
Expenditure					
Grant Awards	15,369	15,369	15,369	15,369	61,476
Procured Services	6,659	6,659	6,659	6,659	26,636
Admin Costs and contribution to Corporate	678	678	678	678	2,712
Total Expenditure	**22,706**	**22,706**	**22,706**	**22,706**	**90,824**
Income					
Funding Sources	(22,706)	(22,706)	(22,706)	(22,706)	(90,824)
Total Income	**(22,706)**	**(22,706)**	**(22,706)**	**(22,706)**	**(90,824)**
Net Position (Inc)/Exp	**0**	**0**	**0**	**0**	**0**

2.3.6 AEB operational costs are included within the Corporate budget with a contribution of 3% of overall AEB income made towards Corporate support costs.

2.4. Brownfield Housing Budget

2.4.1 The Brownfield Housing Fund was first announced in the March 2020 National Budget to support Mayoral Combined Authorities and their local areas develop housing on brownfield land. Overall, £276m has been allocated to the six Northern city regions, North of Tyne Combined Authority was awarded £24m over a 5-year period with a £0.550m revenue capacity support grant (for 2020/21 only).

2.4.2 Brownfield Housing Fund specifically supports sites with an identified market failure due to site conditions. The programme is part of a broader housing programme the Housing and Land Board have in development that aims to bring forward a pipeline of sites shaping a longer-term strategic delivery approach. Different funding streams and partnership arrangements will be used to best meet priorities across the area.

2.4.3 Table 5 below shows the profile of both the capital and linked revenue support grant over the life of the project.

Table 5: Brownfield Housing Budget Profile

	Total	Year 1	Year 2	Year 3	Year 4	Year 5
	£m	£m	£m	£m	£m	£m
Initial Funding Profile	24.000	5.000	8.100	6.700	3.100	1.100
Revised Funding Profile reflecting underspend in 2020/21 c/f to 2021/22	23.854	0.585	12.368	6.700	3.100	1.100

2.5 Reserves

2.5.1 As set out in the budget report to Cabinet on 4th December 2018, a Corporate reserve of £0.200m was created. The level of reserve will remain under review as the Combined Authority develops and new information becomes available about the financial risks facing NTCA and the arrangements in place for managing those risks.

2.6 North East LEP Accountable Body Budget

2.6.1 NTCA is the Accountable Body for the North East Local Enterprise Partnership (North East LEP) and this report therefore includes proposals for the budget providing corporate support as its Accountable Body.

2.6.2 All seven local authorities (LA7) in the North East area currently contribute £10,000 to meet the costs of the North East LEP Accountable Body role.

2.6.3 The budget for the North East LEP Accountable Body role (£124,000) primarily covers Service Level Agreement (SLA) charges (£70,000) and external costs (£54,000) funded from estimated interest on investment income on the NEIF and the LA7 contributions. The budget will need to be kept under review for any new areas of work that are identified over and above the budget that is agreed, the 2022/23 North East LEP Accountable Body Budget is proposed to be maintained at the same level as the current year which results in a net balanced budget position. Table 6 shows the 2021/22 North East LEP Accountable Body Budget.

Table 6: 2022/23 North East LEP Accountable Body Budget

	North East LEP Accountable Body Budget 2022/23
Expenditure	**£**
Service Level Agreements	70,000
External Support	54,000
Total Expenditure	**124,000**
Income	
LEP Accountable Body Contributions	(70,000)
Interest Income (NEIF)	(54,000)
Total Income	**(124,000)**
Net (Inc)/Exp	**0**

2.7 NTCA Treasury Management Strategy

2.7.1 The Combined Authority is required to approve a Treasury Management Strategy before the start of each financial year, this is attached as Appendix A for approval. The Combined Authority defines its treasury management activities as: "The management of the Combined Authority's borrowing, investments and cash flows, its banking, money market and capital transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

2.7.2 Borrowing, currently the Combined Authority does not have powers to borrow other than for Transport responsibilities with a proportion of the outstanding balance of the loans and investments in relation to Transport (based on the share of Tyne and Wear population in each Combined Authority area) shown in the balance sheets of the two Combined Authorities as part of their year-end accounts. A summary therefore of the actual loans outstanding and authorised borrowing limit in relation to Transport is reflected in the Treasury Management Strategy of the NTCA.

2.7.3 Discussions have been ongoing with HM Treasury on securing wider borrowing powers for the Combined Authority. HM Treasury have now confirmed their willingness to include NTCA in a new set of regulations which will apply to a number of Mayoral Combined Authorities who were not included in the previous regulations. A report taken to 30 November Cabinet gave consent to the HM Treasury making the necessary regulations which will allow NTCA to be included in the regulations which are expected to be laid by Central Government later January 2022. This will mean that NTCA will have these borrowing powers in future years. The debt cap for each year will be agreed with HM Treasury on an annual basis. An authorised borrowing limit of £20.000m in advance of obtaining the borrowing powers was agreed in 2021/22 Treasury Management Strategy. Once confirmation of the regulations has been laid the Combined Authority will bring to Cabinet a Capital Investment Strategy and a Minimum Revenue Provision Strategy which are a requirement that the Combined Authority has in accordance with the Prudential Code.

2.7.4 Investment Strategy – The Combined Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. It should be noted that as the accountable body for the North East LEP and Invest North East England (INEE) any investment balances managed on a day-to-day basis will include balances relating to the North East LEP, INEE as well as the Combined Authority. The Treasury Management Investment Strategy reflects the investment activities of the North East LEP in addition to the Combined Authority.

3 Potential Impact on Objectives

3.1 The North of Tyne Combined Authority Corporate Plan sets out the strategic objectives of the Authority. The budget will enable the Authority to properly discharge its functions and assist in delivering the Authority's vision, policies, and priorities.

4 Key Risks

4.1 There are no specific risks relating to this report.

5 Financial and Other Resources Implications

5.1 The financial implications arising from the outcomes of this report will be appraised as part of the decisions made as to what is included in the Authority's 2022-2026 Financial Plan, incorporating the 2022/23 Budget-Setting process.

5.2 The Mayor and Cabinet need to have due regard to the Chief Finance Officer's advice in relation to the levels of reserves and balances proposed as part of the four-year Financial Plan for 2022-2026 in accordance with the Authority's Reserves and Balances Policy.

6 Legal Implications

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

7 Equalities Implications

7.1 The Authority has specific responsibilities under the Equality Act 2010 and Public Sector Equality Duty. Part of this is to ensure that the potential effects of decisions on those protected by the equality's legislation are considered prior to any decision being made.

7.2 The Authority will continually monitor the effect of our Budget-setting process and decision-making, utilising equality impact assessments and reflecting the Authority's equalities objectives.

7.3 Equality Impact Assessments (EIA) may be included in proposals for inclusion with the initial Budget proposals in November 2021 where applicable, in order to be available to the Mayor and Cabinet when it further considers the Financial Plan and Budget proposals on 30 November 2021.

8 Inclusive Economy Implications

8.1 There are no direct inclusive economy implications arising from the recommendations in this report. However, EIA's include inclusive economy implications and NTCA has adopted socio-economic disadvantage as a protected characteristic.

9 Climate Change Implications

9.1 There is no direct climate changed implications arising from the recommendations in this report. However, climate change is considered within an EIA for projects.

10 Consultation and Engagement

10.1 The creation of the North of Tyne Combined Authority has been subject to significant regional and national engagement. The 2022/23 Draft Budget are based on the devolution deal and the Parliamentary Order which created the Authority and the Authority's Vision which has been detailed in the Corporate Plan which has been agreed by Cabinet and is being shared with stakeholders in a range of events.

10.2 Consultation with the Business Community and the Community and Voluntary Sector has continued throughout the budget process as part of the overall approach to engagement undertaken with these sectors. In addition, the attendance at Cabinet of both the Ambassador for business and the Ambassador for the Community and Voluntary sector will add to the opportunity for engagement. The Mayor and Cabinet will be updated and respond to recommendations made by Overview and Scrutiny Committee at the Cabinet Meeting on 25 January 2022 (attached at Appendix B).

11 Appendices

Appendix A 2022/23 Treasury Management Strategy
Appendix B Overview and Scrutiny Committee response to the 2022-2026 Budget Proposals

12 Background Papers

26 January 2021 Financial Plan and Budget.
5 February 2021 North East Combined Authority Leadership Capital and Revenue Outturn Report.

13 Contact Officers

Janice Gillespie, Interim Chief Finance Officer, E-mail address:
Janice.gillespie@northtyneside.gov.uk Tel: 0191 6435701

14 Glossary

CSR	Comprehensive Spending Review
BFH	Brownfield Housing Fund
AEB	Adult Education Budget
LEP	North East Local Enterprise Partnership
INEE	Invest North East England

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NORTH OF TYNE COMBINED AUTHORITY

Treasury Management Policy Statement and Strategy 2022-23

1. Background

The Combined Authority is required to operate a balanced budget, which means that cash raised during the year will meet cash expenditure. A key part of the Combined Authority's treasury management function is to ensure that cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low-risk counterparties or instruments commensurate with the Combined Authority's low risk policy, providing adequate security and liquidity before considering investment return.

Another key element of the treasury management function is the management of the funding associated with the Combined Authority's capital investment plans. These capital plans provide a guide to any potential borrowing needs of the Combined Authority, essentially the longer-term cash flow planning to ensure that the Combined Authority can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans or using longer-term cash flow surpluses. Although the Combined Authority has not identified any imminent borrowing plans other than in respect of the relevant share of the Joint Transport Committee liabilities, it is engaged in discussions with Government to obtain borrowing powers so that these are in place when borrowing is required.

The contribution the treasury management function makes to the Combined Authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or on larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security and liquidity of the sums invested.

2. Statutory Requirements

The Combined Authority has a legal obligation under the Local Government Act 2003 to have regard to the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice; the Chartered Institute of Public Finance and Accountancy's Prudential Code: Capital Finance in Local Authorities and the Department for Levelling Up, Housing and Communities (DLUHC) Statutory Guidance on Local Government Investments.

The CIPFA Treasury Management Code requires the Combined Authority to approve a Treasury Management Strategy before the start of each financial year.

In addition, the DLUHC guidance requires the Combined Authority to approve an Investment Strategy before the start of each financial year.

The CIPFA Treasury Management Code and the Prudential Code are closely linked. The Combined Authority is required to have regard to the Prudential Code when setting limits to the level of its affordable borrowing. The 2017 update to the Prudential Code drew together the reporting requirements of the Prudential Code and the Treasury Management Code resulting in the requirement for the Combined Authority to produce a capital strategy that includes specific requirements in respect of debt and borrowing and treasury management. An Investment Strategy will be produced when the Combined Authority has determined potential borrowing limits through dialogue with the Treasury.

CIPFA published revised Treasury Management and Prudential Codes on 20th December 2021 and has stated that formal adoption is not required until the 2023/24 financial year. However, the Combined Authority has to have regard to these codes of practice when it prepares the Treasury Management Strategy Statement and Annual Investment Strategy, and also related reports during the financial year, which are taken to Cabinet for approval.

3. Treasury Management Policy Statement

3.1 Effective Treasury Management

The Combined Authority will create and maintain, as the cornerstones for effective treasury management:

- A treasury management policy statement, stating the policies, objectives, and approach to risk management of treasury management activities

- Suitable Treasury Management Practices (TMPs), setting out the manner in which the Combined Authority will seek to achieve its policies and objectives and detail how it will manage and control treasury management activities.

3.2 Reporting

The following reports will be issued during the financial year for approval by Cabinet:

- An annual report on the Combined Authority's Treasury Management Strategy and plan to be pursued in the coming year. This will include an Investment Strategy and will be considered by Cabinet as part of the budget approval process.

- A mid-year review report. This will update members on the progress of the capital position, show amended prudential indicators where required and performance against the strategy.

- An annual report, after year end closure on the performance of the treasury management function, on the effects of decisions taken and the transactions executed in the past year, and any circumstances of non-compliance with the Treasury Management Strategy and TMPs.

3.3 Responsibilities

The Combined Authority delegates responsibility for the implementation and regular review of its treasury management policies and practices and for the execution and administration of treasury management decisions to the Chief Finance Officer, who will act in accordance with the Combined Authority's policy statement and TMPs and if that officer is a CIPFA member, CIPFA's Standard of Professional Practice on Treasury Management. Cabinet has responsibility to ensure the implementation and regular monitoring of its treasury management policies delegates the responsibility for the execution and administration of treasury management decisions to the Chief Finance Officer, who will act in accordance with the organisation's policy statement and TMPs.

Responsibility for ensuring effective scrutiny of the Treasury Management Strategy and Treasury Management Policies is delegated to Overview and Scrutiny Committee.

The Combined Authority's Treasury Management function is managed under a service level agreement with North Tyneside Council.

The Treasury Management functions of the Joint Transport Committee are approved as part of the North East Combined Authority budget setting process in their role as Accountable Body. A review of the NECA Treasury Management Strategy has been undertaken and is in line with that of the Combined Authority.

3.4 **Training**

The CIPFA Treasury Management Code requires the responsible officer to ensure those members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny.

3.5 **Treasury Management Policy Statement 2022-23**

The Combined Authority defines its Treasury Management activities as:
"The management of the Combined Authority's borrowing, investments and cash flows, its banking, money market and capital transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

3.6 **Risk Management**

The Combined Authority regards the successful identification, monitoring, and control of risk to the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage those risks.

3.7 **Value for Money**

The Combined Authority acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

3.8 **Borrowing Policy**

At this current time the Combined Authority does not have the powers to borrow other than for Transport responsibilities, the borrowing that will be reflected in this Combined Authority's statement of accounts relates to historic Tyne and Wear Transport activities and the financing and borrowing costs are met by the Tyne and Wear Levy. Details of which are included the Treasury Management Strategy and Prudential Indicators of the North East Combined Authority as the appointed accountable body.

3.9 **Investment Policy**

The Combined Authority's primary objectives for the investment of its surplus funds are to protect the principal sums invested from loss, and to ensure adequate liquidity so that funds are available for expenditure when needed. The generation of investment income to support the provision of the Combined Authority's services is an important, but secondary, objective.

The Combined Authority will have regard to the DLUHC Guidance on Local Government Investments and will approve an Investment Strategy each year as part of the Treasury Management Strategy. The strategy will set criteria to determine suitable organisations with which cash may be invested, limits on the maximum duration of such investments and limits on the amount of cash that may be invested with any one organisation.

4. Treasury Management Strategy for 2022-23

The proposed strategy for 2022-23 in respect of the following aspects of the treasury management function is based upon the treasury management officers' view on interest rates, supplemented with market forecasts provided by to North of Tyne Combined Authority's treasury advisor, Link Group. This strategy covers:

- Treasury management consultants
- The current treasury portfolio position.
- Prospects for interest rates.
- The borrowing strategy.
- Sources of borrowing
- Policy on borrowing in advance of need.
- The Investment Strategy.
- Financial investments.
- Creditworthiness.
- Liquidity management.
- Non-financial investments; and
- Policy on the use of financial derivatives

4.1 Treasury Management Consultants

Whilst the Combined Authority has appointed external Treasury Management advisors it recognises that responsibility for Treasury Management decisions remains with the Combined Authority at all times and will ensure that undue reliance is not placed upon the services of our external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, that from any appointed treasury advisers.

It also recognises that there is value in employing external providers of Treasury Management services in order to acquire access to specialist skills and resources. The Combined Authority will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented and subjected to regular review.

4.2 Current Treasury Portfolio Position

The Combined Authority's Investment position as at December 2021 is set out in Table 1 below:

Table 1: Current Treasury Portfolio as at 31 December 2021

Investments	Average amount Invested	Average Rate Interest earned
	£m	**%**
Local Authorities	127	0.13
Total	**127**	

The Combined Authority became the accountable body for the North East LEP (LEP) from the 1st April 2020, as such NTCA is responsible for managing the cashflow of the LEP in addition to its own. The level of funds invested as at December 2021 was £127m. This being invested with other local authorities which is considered a low-risk counterparty/instrument commensurate with the Combined Authority's low risk policy, providing adequate security and liquidity before considering investment return.

4.3 Prospects for Interest Rates

The Combined Authority agreement with North Tyneside Council for treasury management services currently has access to Link Group as its external treasury advisor and part of their service is to assist the Combined Authority to formulate a view on interest rates. The table below sets out Link Group professional view of interest rates.

Table 2: Link Group forecast interest rates – (December 2021)

Link Group Interest Rate View	20.12.21													
	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25
BANK RATE	0.25	0.25	0.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.25
3 month ave earnings	0.20	0.30	0.50	0.50	0.60	0.70	0.80	0.90	0.90	1.00	1.00	1.00	1.00	1.00
6 month ave earnings	0.40	0.50	0.60	0.60	0.70	0.80	0.90	1.00	1.00	1.10	1.10	1.10	1.10	1.10
12 month ave earnings	0.70	0.70	0.70	0.70	0.80	0.90	1.00	1.10	1.10	1.20	1.20	1.20	1.20	1.20
5 yr PWLB	1.40	1.50	1.50	1.60	1.60	1.70	1.80	1.80	1.80	1.90	1.90	1.90	2.00	2.00
10 yr PWLB	1.60	1.70	1.80	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.10	2.20	2.30
25 yr PWLB	1.80	1.90	2.00	2.10	2.10	2.20	2.20	2.20	2.30	2.30	2.40	2.40	2.50	2.50
50 yr PWLB	1.50	1.70	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.20	2.20	2.30	2.30

From time to time, gilt yields, and therefore PWLB rates, can be subject to exceptional levels of volatility due to geo-political, sovereign debt crisis, emerging market developments and sharp changes in investor sentiment. Such volatility could occur at any time during the forecast period.

Economic and interest rate forecasting remains difficult with so many external influences weighing on the UK. The above forecasts, and MPC decisions, will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year. Geographical developments, especially in the EU, could also have a major impact. Forecasts for average investment earnings beyond the three-year time horizon will be dependent on economic and political developments.

4.4 Investment and Borrowing Rates

Investment returns are expected to improve in 2022/23. However, while markets are pricing in a series of Bank Rate hikes, actual economic circumstances may see the MPC fall short of these elevated expectations.

Borrowing interest rates fell to historically very low rates as a result of the COVID crisis and the quantitative easing operations of the Bank of England and still remain at historically low levels.

4.5 Borrowing Strategy

Previously, the Combined Authority did not have powers to borrow other than for Transport responsibilities with a proportion of the outstanding balance of the loans and investments in relation to Transport (based on the share of Tyne and Wear population in each Combined Authority area) shown in the balance sheets of the two Combined Authorities as part of their Year end accounts. A summary therefore of the actual loans outstanding and authorised borrowing limit in relation to Transport is reflected in the Treasury Management Strategy of the NTCA.

Discussions have been ongoing with HM Treasury on acquiring wider borrowing powers. HM Treasury have now confirmed their willingness to include NTCA in a new set of regulations which will apply to a number of Mayoral Combined Authorities who were not included in the previous regulations. A report taken to 30 November Cabinet gave consent to the Combined Authority making the necessary regulations which will allow NTCA to be included in the regulations which are expected to be laid by Central Government later January 2022. This will mean that NTCA will have these borrowing powers in future years. The debt cap for each year will be agreed with HM Treasury on an annual basis. An authorised borrowing limit of £20.000m in advance of obtaining the borrowing powers was agreed in 2021/22 Treasury Management Strategy. Once confirmation of the regulations has been laid the Combined Authority will come back to Cabinet with a Minimum Revenue Provision Policy Statement for the NTCA.

At this current time the Combined Authority does not have the powers to borrow other than for Transport responsibilities, the borrowing that will be reflected in the Combined Authority's statement of accounts relates to historic Tyne and Wear Transport activities and the financing and borrowing costs are met by the Tyne and Wear Levy. A proportion of the outstanding balance of the loans and investments (based on the share of Tyne and Wear population in each Combined Authority area) will be shown in the balance sheets of the two Combined Authorities as part of their year-end accounts. A summary of the actual loans outstanding and authorised borrowing limit at the date of the preparation of this report is shown in table 3 below.

Table 3: Transport Loans Outstanding and Authorised Borrowing limit as at December 2021

	Principal	**Interest Due**	**Total**	**NECA Share**	**NTCA Share**
	£000	**£000**	**£000**	**£000**	**£000**
Capital Financing Requirement	187,610		187,610	103,232	84,378
Actual External Debt	170,333	1,492	171,825	94,547	77,278
Authorised Borrowing Limit			210,000	115,552	94,448

Additional borrowing of £5m was taken out in relation to Enterprise Zone activity, this was taken out by North East Combined Authority (NECA) in 2019-20 when NECA was the accountable body for the North East LEP. NECA will continue to manage this borrowing on behalf of North of Tyne Combined Authority now accountable body responsibility for the North East LEP is with North of Tyne Combined Authority.

The North of Tyne are pursuing borrowing powers and as these are granted an authorised borrowing limit of £20m is to be proposed in addition to the borrowing limit above.

	£000
North of Tyne Combined Authority Authorised Borrowing Limit	20,000

4.6 **Prudential Indicators and Minimum Revenue Provision**.

Prudential Indicators and Minimum Revenue Provision (MRP) Policy. The new arrangements set out in the NECA (North East Combined Authority) and NTCA Orders require decisions about the Transport Revenue budget and Levies and the Transport Capital Programme to be determined by the Joint Transport Committee (JTC). The transport functions and assets still rest with each Combined Authority but can only be exercised or deployed through the decisions of the Joint Transport Committee (see link Joint Transport Committee Borrowing.pdf).

Once borrowing powers to the NTCA are granted officers will come back to members with a Minimum Revenue Provision (MRP) Policy Statement for the NTCA.

5. Annual Investment Strategy

5.1 Investment Policy

The Combined Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. It should be noted that the Combined Authority is now the accountable body for the North East LEP, and any investment balances managed on a day-to-day basis will include balances relating to the North East LEP as well as the Combined Authority.

The Combined Authority's Investment Strategy will give consideration to core balances and cash flow requirements and the outlook for short-term interest rates. Where cash flow identifies cash sums that could be invested for longer periods (potentially obtaining a greater return), the value to be obtained from longer term investments will be carefully assessed.

If it is thought that the Bank Rate is likely to rise significantly within the time horizon being considered, then consideration will be given to keeping most investments as being short term or variable. Conversely, if it is thought that Bank Rate is likely to fall within that time period, consideration will be given to locking in higher rates currently obtainable, for longer periods.

Both the CIPFA Treasury Management Code and DLUHC guidance require the Combined Authority to invest any funds prudently and to have regard to the security and liquidity of its investments before seeking the highest rate of return or yield.

The above Code and guidance also emphasise the importance of the management of risk within treasury management functions. This Combined Authority has adopted a prudent approach to managing risk and defines its risk appetite by the following means: -

- Minimum acceptable credit criteria are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short term and long-term ratings.

- Credit ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. Any assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the Combined Authority will engage with its advisors to maintain a monitor on market pricing such as credit default swaps and overlay that information on top of the credit ratings.

- Other information sources used will include the financial press, share prices and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

- The Combined Authority has defined a list of types of investment instruments that the treasury management function is authorised to use. There are two lists in under the categories of 'specified' and 'non-specified' investments.

5.2 Financial Investments

The CIPFA Treasury Management Code and the DLUHC guidance has now extended the meaning of 'financial investments' to include the following:

- Specified investments;
- Loans; and
- Non-specified investments.

5.3 Specified Investments

Specified investments are denominated in sterling; repayable within 12 months (either because of an expiry date or through a non-conditional option); not defined as capital expenditure by legislation; and invested with a body or in an investment scheme described as high quality or invested with one of: the UK Government; a Local Authority; or a Parish Council or Community Council.

5.4 **Loans**

Loans could be to local enterprises, local charities, wholly owned companies, and joint ventures as part of a wider strategy for local economic growth. In some cases, these loans may not be seen as prudent if adopting a narrow definition of prioritising security and liquidity. To allow such loans to be made whilst continuing to have regard to the DLUHC guidance Local Authorities must be able to demonstrate in their strategy that:

- Total financial exposure to these types of loans is proportionate;
- That an allowed "expected credit loss" model for loans and receivables as set out in IFRS 9 Financial Instruments has been adopted to measure the credit risk of a portfolio;
- That appropriate credit control arrangements to recover overdue repayments is in place; and
- The Combined Authority has formally agreed the total level of loans by type that it is willing to make, and their total loan book is within their self-assessed limit.

5.5 **Non-specified Financial Investments**

Non-specified investments are any investment not meeting the definition of a specified investment (less high credit quality, may be for periods in excess of 12 months, and are more complex instruments which require greater consideration by members and officers before being authorised for use).

The following table provides a list of specified investment instruments that are authorised to be used by the Combined Authority, subject to cash limits and time limits indicated:

Table 3: Specified Investment Instruments

	Credit Criteria	**Maximum Deposit**	**Maximum Period**
Debt Management Agency Deposit Facility	UK Government backed	£50m	Unlimited
UK Local Authorities	N/A	£10m each	1 year
UK Government Treasury Bills	UK Sovereign Rating	£10m	1 year
Term deposits with banks and building societies	Blue /Orange Red Green No Colour	£10m each	12 months 6 months 100 days Not for use
Certificate of Deposits with banks and building societies	Blue /Orange Red Green No Colour	£5m each	12 months 6 months 100 days Not for use
Money Market Funds	AAA	£10m each	Liquid
Local Authority Controlled companies in the NTCA area		£5m	5 years

The following table provides a list of non-specified investment instruments that are authorised to be used by the Combined Authority, subject to the cash limits and time limits indicated:

Table 4: Non-specified Investment Instruments

	Credit Criteria	**Maximum Deposit**	**Maximum Period**
UK Local Authorities	N/A	£5m each	3 year
Commercial Property Investment Fund Loans (LEP)	N/A	£30m	Unlimited
Property Funds	N/A	£5m	Unlimited

The Combined Authority has determined that it will limit the maximum total exposure to non-specified investments as being 25%.

Investments will only be placed with counterparties from countries with a specified minimum sovereign rating.

All investments will be denominated in sterling.

The Combined Authority will pursue value for money in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance. Regular monitoring of investment performance will be carried out during the year.

5.6 **Creditworthiness Policy**

The minimum credit ratings criteria the Combined Authority use will be a Short-Term rating (Fitch or equivalents) of F1 and a Long-Term rating of A-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings, but they may still be used. In these instances, consideration will be given to the whole range of ratings available or other market information, to support their use.

The Combined Authority also applies the creditworthiness service provided by Link Group. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies; Fitch, Moody's, and Standard & Poor's. Link Group supplement the credit ratings of counterparties with the following overlays:

- Credit watches and credit outlooks from credit rating agencies;
- Credit Default Swap (CDS) spreads to provide early warning of likely changes in credit ratings
- Sovereign ratings to select counterparties from only the most creditworthy countries

This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties and are used by the Authority to determine the suggested duration of investments.

This service uses a wider array of information other than just primary ratings and by using a risk weighted scoring system it does not give undue preponderance to one agency's ratings.

The Combined Authority is alerted to changes to ratings of all three agencies through its use of the Link Group creditworthiness service.

If a downgrade results in the counterparty no longer meeting the Combined Authority's minimum criteria, its further use as a new investment will be withdrawn immediately.
In addition to the use of credit ratings the Combined Authority will be advised of information in movements in credit default swap spreads against the iTraxx benchmark and other market data on a daily basis via its Passport website. Extreme market movements may result in downgrade of an institution or removal from the Combined Authority's lending list. Sole reliance will not be placed on the use of this external service. In addition, the Combined Authority will also use market data and market information on any external support for banks to help support its decision-making process.

As a result, in the change in accounting standards for 2018-19 under IFRS 9, the Combined Authority will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year.

5.7 **Liquidity Management**

Officers providing treasury management services to the Combined Authority use purpose-built cash flow forecasting software to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk to the authority of being forced to borrow on unfavourable terms to meet its financial commitments.

5.8 **UK Banks – Ring Fencing**

The largest UK banks are required, by UK law, to separate core retail banking services from their investment and international banking activities by 1st January 2019. This is known as ring-fencing. Whilst smaller banks with less than £25bn in deposits are exempt, they can choose to opt up. Several banks are very close to the threshold already and so may come into scope in the future regardless.

Ring-fencing is a regulatory initiative created in response to the global financial crisis. It mandates the separation of retail and small and medium-sized enterprise (SME) deposits from investment banking, in order to improve the resilience and resolvability of banks by changing their structure. In general, simpler, activities offered from within a ring-fenced bank, (RFB), will be focused on lower risk, day to day core transactions, whilst more complex and riskier activities are required to be housed in a separate entity, a non-ring-fenced bank, (NRFB). This is intended to ensure than an entity's core activities are not adversely affected by the acts or omissions of other members of its group.

While the structure of the banks included within this process may have changed, the fundamentals of credit assessment have not. The Combined Authority will continue to assess the new formed entities in the same way that it does others and those with sufficiently high ratings, will be considered for investment purposes.

5.9 **Non-Financial Investments**

The DLUHC guidance defines an investment as all of the financial assets of a Local Authority as well as other non-financial assets that the organisation holds primarily or partially to generate a profit, for example, investment property portfolios. This may therefore include investments that are not managed as part of normal treasury management processes or under treasury management delegations. The definition of an investment also covers loans made by a local authority to one of its wholly owned companies or associates, to a joint venture, or to a third party.

The Combined Authority recognises that investment in other financial assets and property primarily for financial return, taken for non-treasury management purposes, requires careful investment management. Such activity includes loans supporting service outcomes, investments in subsidiaries, and investment property portfolios.

The Combined Authority will ensure that all the organisation's investments are covered in the Investment Strategy and will set out, where relevant, the organisation's risk appetite and specific

policies and arrangements for non-treasury investments. It will be recognised that the risk appetite for these activities may differ from that for treasury management.
The Combined Authority will maintain a schedule setting out a summary of existing material investments, subsidiaries, joint ventures, and liabilities including financial guarantees and the organisation’s risk exposure.

5.10 **Policy on the use of Financial Derivatives**

Local Authorities generally have made use of financial derivatives embedded into loans and investments both to reduce interest rate risk and to reduce costs or increase income at the expense of greater risk. The general power of competence in Section 1 of the Localism Act 2011 removes much of the uncertainty over Local Authorities powers to use standalone financial derivatives such as swaps, forwards, futures, and options. However, the Combined Authority’s policy is not to currently use these instruments.

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Overview and Scrutiny Committee Report to Cabinet

25 January 2022

Subject: **North of Tyne Combined Authority 2022-2026 Budget Proposals**
Report of: **Overview and Scrutiny Committee**
Portfolio: **All**

Report Summary

This report presents the response of the Overview and Scrutiny Committee to Cabinet's proposals for the 2022-26 North of Tyne Combined Authority Budget. It provides information on the role of the committee in the budget setting process, what information it has received and its comments and recommendations to Cabinet.

Recommendations

The Overview and Scrutiny Committee recommends Cabinet accepts this report as the response from the Overview and Scrutiny Committee to the 2022-26 Budget proposals for the North of Tyne Combined Authority and takes its comments and observations into account when agreeing the Budget at its meeting on 25 January 2022.

1. Background Information, Proposals and Timetable for Implementation

1.1 Process

1.1.1 In accordance with the Budget and Policy Framework Rules of Procedure (Part 3.2 of the Constitution) the Overview and Scrutiny Committee has a particular role in the setting of the North of Tyne Combined Authority's (NTCA) budget. Cabinet must present to the committee the budget setting process, the initial proposals and have regard to any recommendations and/or observations from the Overview and Scrutiny Committee when finalising the Authority's budget.

1.1.2 At its 12 October 2021 meeting the Overview and Scrutiny Committee received a report on the 2022-2026 Financial Planning and Budget Process which outlined the process to be adopted for the Authority's Financial Planning and Budget Process for 2022/23 as part of the proposed framework for the four years 2022/23 to 2025/26. This included information in relation to the updated Medium-Term Financial Strategy (MTFS), the development of the detailed budgets for 2022/23 and the timetable for key decision milestones and dates for the setting of the budget.

1.2 Draft Budget Proposals

1.2.1 Cabinet met on 30 November 2021 to consider the initial draft budget for NTCA for 2022/23 and the medium-term financial plan for the period 2023/24 to 2025/26 which included a draft budget in respect of the Corporate Budget, Investment Fund, Adult Education Budget and the Brownfield Housing Fund. The report also outlined the context within which the budget proposals have been prepared in relation to the Comprehensive Spending Review (CSR). NTCA are the accountable body for the North East Local Enterprise Partnership (North East LEP) and proposals for the North East LEP accountable body budget were also included.

1.2.2 The Overview and Scrutiny Committee received these proposals on 7 December 2021.

1.2.3 At its meeting on 7 December 2021 the committee sought clarification on NTCA's role in the Transport Levies and also the addition of a budget line to reflect the intention to build reserves to fund the costs for the expected mayoral election in 2024.

1.3 **Budget Workshop**

1.3.1 The committee held a workshop on 11 January 2022 to further discuss and scrutinise the proposals, be informed of any changes and provide a formal response to Cabinet. The Chief Finance Officer attended the workshop to present information on what had changed since the draft proposals were considered by the committee in December and to answer any questions.

1.3.2 The committee were remined of the initial proposals and that they were developed within the context of the strategic priorities and policy decisions made by the Mayor and Cabinet to ensure that the authority's strategic plans could be delivered within the financial resources available. The 1.25% increase in National Insurance contributions had been built in but as the Levelling Up White Paper was still to be published any operational changes that may be required to meet any opportunities within that were still unknown. It had been confirmed that the Mayoral Capacity Fund of £1m had been extended for 2022/23 as part of the Provisional Local Government Financial Settlement and Cabinet would determine where that would be assigned to. Options included contributing to the future costs of the mayoral election and to responding to the opportunities in the Levelling Up White Paper.

1.3.3 The updated Transport Levies position for 2022/23 had been approved at the Joint Transport Committee on 18 January 2022. It was noted that the NTCA budget proposals had no additional cost to local taxpayers or the three local authorities.

1.3.4 A member enquired whether the Brownfield Housing Fund could be extended as the need would still be there at the end of the programme. The Chief Finance Officer explained that there had been an indication in the Comprehensive Spending Review that further funding for this area of work might be available and it was a matter of waiting to see if anything came forward.

1.3.5 In relation to engagement, the committee was informed that the Chief Finance Officer had consulted with the business community and the voluntary and community sector since the initial proposals had been published. Both groups welcomed the consultation and received the information and made no direct comments. A page on the NTCA website had been created to allow members of the public to submit any questions or comments, which was highlighted through a number of posts on social media. This consultation exercise was open from 1 December 2021 until 7 January 2022. One positive comment was received in relation to the work being undertaken to ensure managing unallocated AEB funds for academic year 2021-22.

1.3.6 It was acknowledged by officers that generating interest in the budget of the NTCA was a challenge and that considering how this could be improved was a continuous process. Members made suggestions regarding circulating a paper questionnaire and also seeking support from the local authorities by including a link to the NTCA budget proposals on their website as they have an engaged audience. The Chief Finance Officer agreed to look into both suggestions for next year.

1.3.7 The workshop also received a presentation on Treasury Management which provided the members with an overview of its purpose, the legal and regulatory requirements, the reporting regime and the economic view and the role of the markets in Treasury Management. The NTCA was in the process of seeking borrowing powers which, once received, would require the Authority to adopt a Capital Strategy. The Overview and Scrutiny Committee would be kept informed as this work progressed.

1.4 **Conclusions**

1.4.1 The Overview and Scrutiny Committee noted the proposals and considered that Cabinet should agree the recommendations as set out in the budget proposals and had no specific recommendations to make on the individual elements which make up the budget.

1.4.2 The committee acknowledged the challenge of engaging the public with the NTCA's budget and welcomed the Chief Finance Officer's assurances that it was important to the team and would be reviewed again to see what improvements could be made.

1.4.3 The committee thanked the officers involved in drafting the report and making the presentations to the committee and answering their questions throughout the process.

2. Potential Impact on Objectives

The North of Tyne Combined Authority Corporate Plan sets out the strategic objectives of the Authority. The budget will enable the Authority to properly discharge its functions and assist in delivering the Authority's vision, policies, and priorities.

3. Key Risks

There are no specific risks relating to this report from the Overview and Scrutiny Committee.

4. Financial and Other Resources Implications

There are no direct financial and resource implications arising from the recommendations in this report. The financial implications of the proposals are set out in full in the report to Cabinet from the Chief Finance Officer.

5. Legal Implications

There are no direct legal implications arising from the recommendations in this report. The legal implications of the proposals are set out in full in the report from the Chief Finance Officer to Cabinet.

6. Equalities Implications

There are no direct equalities implications arising from the recommendations in this report. The Overview and Scrutiny Committee is mindful of its duty under the Public Sector Equality Duty and when undertaking scrutiny of a particular topic looks to see that any policy/event/decision eliminates discrimination, harassment and victimisation; advances equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it; and fosters good relations between persons who share a relevant protected characteristic and persons who do not share it; and also considers the implications for people from different socio-economic backgrounds/low pay as a protected characteristic.

7. Inclusive Economy Implications

The Overview and Scrutiny Committee is mindful of the NTCA's inclusive economy ambitions and the five characteristics of an inclusive economy: participation; equity; growth; stability and sustainability. The budget proposals will support the Authority in meeting these ambitions.

8. Climate Change Implications

There is no direct climate changed implications arising from the recommendations in this report.

9. Consultation and Engagement

The Overview and Scrutiny Committee is a consultee in this budget setting process.

10. Appendices

None

11. Background Papers

2022-26 Financial Planning and Budget Process Report to Cabinet, 22 September 2021
NTCA Budget Proposals 2022-2026 Report to Cabinet, 30 November 2021

Minutes of NTCA Overview and Scrutiny Committee meetings held on 12 October and 7 December 2021
North of Tyne Constitution

12. Contact Officers

Elizabeth Kerr, Principal Governance and Scrutiny Manager
elizabeth.kerr@northoftyne-ca.gov.uk

NORTH OF TYNE COMBINED AUTHORITY

Cabinet

25 January 2022

Subject: **2021/22 Indicative Outturn and 2022/23 Indicative Budget Proposals for the North East Local Enterprise Partnership and Invest North East England**
Report of: **Interim Chief Finance Officer, Janice Gillespie**
Portfolio: **Investment and Resources**

Report Summary

The purpose of this report is to apprise Members of the North East Local Enterprise Partnership (LEP) indicative Outturn position for 2021/22 and indicative Revenue Budget for 2022/23 which are to be reported to the LEP Board on the 27 January 2022. This report will also provide an update on the Invest North East England (INEE) 2021/22 indicative Outturn position and indicative Revenue Budget for 2022/23. The North of Tyne Combined Authority became the Accountable Body for both the LEP and INEE on 1 April 2020 . This report will provide a brief background of the principles agreed in relation to the Accountable Body role and a brief overview of the budget and funding of both the North East LEP and INEE with the LEP Revenue Budget report presented in Appendix A to the report and INEE Revenue Budget as Appendix B.

Recommendations

The Cabinet is recommended to note the contents of this report and in doing so note the update on the 2021/22 North East LEP Revenue Budget and the 2021/22 Invest North East England Revenue Budget and note the provisional estimate for the 2022/23 Revenue Budget for both the North East LEP and Invest North East England.

1. Background Information, Proposals and Timetable for Implementation

1.1 The Combined Authority became the Accountable Body for the North East LEP and Invest North East England as of 1 April 2020.

1.2 As the accountable body for the North East LEP, at the time when decisions relating to the 2022/23 Budget must be taken, the North of Tyne Combined Authority Budget report will include information about the funds available to the North East LEP and its proposed budget for 2022/23, which will be agreed by the North East LEP Board. The budget will need to reflect decisions about the level of government grant available to support the North East LEP costs as well as the guidance and resource requirements needed to meet grant conditions.

1.3 **North East LEP Budget**

1.3.1 The North East LEP core team activity is part funded from a Government Grant of £0.500m, which is required to be matched by £0.250m local authority contributions. It is proposed the current level of match funding contributions continue to be provided in 2022/23 by the seven North East Councils contributing £35,714.29 each.

1.3.2 As detailed in the NTCA 2022-2026 Budget report as Accountable Body for the North East LEP, NTCA will receive £10,000 from each of the North East Councils to support this role.

1.3.3 In addition to the LEP core funding, the LEP have also secured £4.277m of external funding, to help support the delivery of the of the North East Strategic Economic Plan.

Newcastle City Council North Tyneside Council Northumberland County Council

1.3.4 The original net budget for the current financial year approved in May LEP Board was a deficit of £0.141m. The forecast net outturn is for a surplus of (£0.135m), representing a significant improvement on the budget which reflects confirmation of external funding which was not confirmed at the time of setting the original budget.

1.3.5 The net budget position for 2022/23 is a deficit of £0.254m, which will be met from contributions from the Enterprise Zone account (as previously approved from the LEP Board) unless further funding is approved. A copy of the North East LEP Budget report is attached at Appendix A.

1.4 **Invest North East England Budget**

1.4.1 The Invest North East England (INEE) team coordinates inward investment activity across the North East, including responding to investor opportunities for investment to the region. The gross budget for INEE is £0.460m funded in part from a contribution of £0.020m from each of the seven local authorities within the North East LEP area, matched historically by £0.140m funding from the North East LEP from interest on balances. The forecast outturn is £0.417m an in-year underspend due to reductions on lead regeneration as a legacy of COVID-19.

1.4.2 At this stage it is recommended that the budget for 2022/23 is set at £0.460m with the contribution of £0.020m per local authority being retained, and the balance of funding met from Enterprise Zone surplus. Historically the LEP have contributed £0.140m to the Invest North East England budget met from interest on balances on Local Growth Fund, however, with this fund now finishing this funding source is no longer available. The balance of replacement funding is proposed to be met from the Enterprise Zone however, this has not been agreed. A copy of the Invest North East England Budget report is attached at Appendix B.

2. Potential Impact on Objectives

The proposals of this report put into effect the principles of the Accountable Body role.

3. Key Risks

There are no key risks at this time.

4. Financial and Other Resources Implications

4.1 The Deed of Co-Operation sets out the requirement that “there shall be no financial or operational detriment to the North East LEP operations as a consequence of the New Order or any change in the Host Combined Authority”. This also includes no detrimental financial implication for the North of Tyne Combined Authority.

5. Legal Implications

5.1 The legal implications have been considered within the Deed of Co-operation.

6. Equalities Implications

6.1 The Combined Authority has specific responsibilities under the Equality Act 2010 and Public Sector Equality Duty. Part of this is to ensure that the potential effects of decisions on those protected by the equality’s legislation are considered prior to any decision being made. In respect of the NTCA specifically the Combined Authority will continue to monitor the effect of their budget-setting process and decision-making by using equality impact assessments (EIA).

7. Inclusive Economy Implications

7.1 There are no direct inclusive economy implications arising from this report.

8. Climate Change Implications

8.1 There are no direct climate change implications arising from the recommendations in this report. However, climate change is considered within an EIA for projects in respect of NTCA.

9. Consultation and Engagement

9.1 The LEP Budget Report presenting the provisional budget for 2022/23 will be taken to LEP Board in January 2022.

9.2 The NTCA Budget 2022-26 report, attached to this report as an appendix, details the consultation undertaken as part of the NTCA Budget process.

10. Appendices

Appendix A North East Local Enterprise Partnership 2021/22 Indicative Outturn and 2022/23 Budget
Appendix B Invest North East England 2021/22 Indicative Outturn and 2022/23 Budget

11. Background Papers

As detailed on the individual reports within the Appendices.

12. Contact Officers

Janice Gillespie, Chief Finance Officer
Janice.gillespie@northtyneside.gov.uk 0191 6435701

13. Glossary

NTCA	North of Tyne Combined Authority
North East LEP	North East Local Enterprise Partnership
INEE	Invest North East England

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Appendix A

North East Local Enterprise Partnership Board

27th January 2022

ITEM 7: Update on 2021/22 Revenue Budget; and a Provisional Estimate for the Revenue Budget for 2022/23

1. Introduction

1.1 The purpose of this report is to provide an update to the Board on the North East Local Enterprise Partnership (North East LEP) revenue budget position for the current financial year (2021/22), and to provide an indicative budget for the next financial year (2022/23). This report also provides an updated budget position in relation to the Enterprise Zone account, and an update on the Local Growth Fund (LGF), the Getting Building Fund (GBF) and the North East Investment Fund (NEIF).

1.2 As in previous years it is intended to provide an indicative outturn report for 2021/22 and an updated indicative budget for 2022/23 with latest information about funding and a three-year budget projection coming to the May LEP Board.

1.3 As of 1st April 2020, the North of Tyne Combined Authority (NTCA) became the new accountable body for the North East LEP, the 2021/22 indicative outturn and 2022/23 indicative budget position continues to reflect this.

2. North East LEP 2020/21 Revenue Budget

2.1 The North East LEP (LEP) core budget covers LEP operational activity and also management of the LGF, GBF, NEIF and Enterprise Zone programmes. Table 1 provides a summary of the revised revenue budget for the year compared with the revenue budget reported in January 2021, and the subsequent updated revenue budget reported in May 2021, with supporting notes provided below.

2.2 The North East LEP Board agreed a provisional revenue budget for 2021/22 of £5.462m in January 2021 and an updated revenue budget of £7.906m in May 2021. With a higher gross income estimate of £7.764m in May, the projected drawdown from the LEP reserve had reduced from £0.285m in January 2021 to £0.141m, leaving an estimated reserve of £0.613m at the end of the year, as reported in May 2021.

2.4 Total revenue expenditure in 2021/22 is estimated to be £7.958m, which is £0.051m slightly more than estimated in May 2021. This slight increase in revenue expenditure is the net effect of new funding streams and their associated operational expenditure budgets, and a reduction in employee expenditure due to other funding streams coming to an end and natural wastage. However, gross income has increased by (£0.329m) compared with (£7.764m) in May to (£8.093m) in the revised January 2022 budget, increasing the net budget position by (£0.276m) compared to May resulting in a positive surplus position of (£0.135m) compared to the net deficit position reported in May of £0.141m.

2.5 This follows the pattern in previous years, where a cautious view on income and a prudent provision for costs, results in an estimated call on reserves at the start of the year, and additional income or lower costs in the year reduces the call on reserves at the year end. The estimated level of the North East LEP Reserve to be carried into 2022/23 is now £0.748m.

2.6 The main budget variations are summarised below.

Employee Costs

2.6.1 Employee costs reduced from £3.741m in May to £3.381m, a reduction of £0.360m. This reduction is in part due to fixed term contracts linked to funding streams ending and a freeze on recruitment pending the outcome of the national LEP Review. A 1.75% assumption for pay award has been included in the employee budget estimate however, this has not yet been confirmed. A budget for staff allowances/expenses is also included in the budget total of £0.020m.

Other Costs

2.6.2 Other operational cost budgets reflected in the 2021/22 revised budget relate to new grant income streams, including Made Smarter (£0.520m) and Community Renewal Funding (CRF) in relation to the Future Market Acceleration Programme (£0.079m). There is a reduction shown on the Skills operational budgets (£0.202m) with the cessation of EY grant funding and also a reduction on the North East Ambition operational expenditure budget due to realignment of operational budgets to employee costs.

Table 1. North East LEP 2021/22 Indicative Outturn

	2021/22 Original Budget (Jan 2021)	2021/22 Updated Budget (May 2021)	2021/22 Revised Budget (Jan 2022)	Variance
	£'000	£'000	£'000	£'000
Employees	3,533	3,741	3,381	(360)
Premises	207	225	225	0
Communications	250	250	256	6
Growth Hub Operational Costs	60	250	256	6
Innovation Challenge Covid	0	313	313	0
Other Operational Costs	600	670	676	6
North East Ambition Operational (ESF) 2	0	192	76	(117)
Peer Networks	0	160	212	52
Made Smarter	0	217	520	303
LGF High Potential Operational	99	0	158	158
Life and Health Sciences		0	135	135
Brexit Policy Work Programme	0	85	123	38
Trade and Export Strategy	0	46	70	24
Norther Powerhouse11	0	0	30	30
Energy Commissioning, Studies,Research Projects	0	85	125	40
Skills Operational CEC, EY CITE	10	714	512	(202)
Future Markets Accelerator Fund			79	79
Inward Invesment Contribution	140	140	140	0
EZ NEIF Costs	0	405	405	0
LGF Project Management	55	51	101	50
Getting Building Fund Project Management	94	133	165	32
GROSS EXPENDITURE	**5,462**	**7,906**	**7,958**	**51**
LEP Core & Strategy Grant from DCLG	(500)	(500)	(500)	0
Local Authority Match Contributions	(250)	(250)	(250)	0
CORE FUNDING	**(750)**	**(750)**	**(750)**	**0**
Local Growth Fund (Programme Mgmt)	(447)	(454)	(604)	(150)
Getting Building Fund (Programme Mgmt)	(298)	(320)	(370)	(51)
Interest Generated on Funds	(140)	(140)	(140)	0
Growth Hub	(780)	(780)	(780)	0
Business Support			(40)	(40)
Peer Networks	(100)	(410)	(375)	35
ERDF + Digital Catapult	(76)	(42)	(42)	0
Academic Health Science Network (AHSN)		(47)	(135)	(88)
LGF High Potential	(148)	(41)	(197)	(156)
Made Smarter	0	(288)	(600)	(312)
Energy Accelerator	0	(143)	(143)	0
Energy Strategy BEIS/TVCA, RCEF,OREC Misc.	(189)	(192)	(178)	13
Energy Commissioning, Studies,Research Projects	0	(85)	(79)	6
Innovation Challenge Covid	0	(313)	(313)	(0)
NEIF Contribution to cover activity costs	(110)	(418)	(485)	(67)
EZ Contribution to cover activity costs	(110)	(96)	(236)	(140)
North East Ambition 1 (ESF)	(188)	(188)	(203)	(15)
North East Ambition 2 March 2023	(1,122)	(1,190)	(845)	345
Skills Operational CEC, EY CITE, Education Challenge, DFE,	(443)	(1,305)	(1,085)	219
LA Contributions re ESIF Co-ordinator	(20)	(20)	(20)	0
Brexit Policy Work Programme	0	(144)	(40)	104
Trade and Export - World Wide Chamber	0	(46)	(70)	(24)
Norther Powerhouse11		0	(30)	(30)
Future Markets Accelerator Fund			(79)	(79)
Contribution Pension - NTCA	(156)	(168)	(154)	14
Other Income	(100)	(100)	(100)	0
EXTERNAL FUNDING	**(4,427)**	**(7,014)**	**(7,343)**	**(329)**
GROSS INCOME	**(5,177)**	**(7,764)**	**(8,093)**	**(329)**
NET BUDGET	**285**	**141**	**(135)**	**(276)**

Increase in LEP Reserve/(Contribution from Reserve)	**(113)**		**135**	
EZ Reserve (Contribution)	**(172)**	**(141)**	**0**	
LEP savings/LEP income				

B/F LEP RESERVE	**(613)**	**(613)**	**(613)**	
C/F LEP RESERVE	**(500)**	**(613)**	**(748)**	

3. LEP 2022/23 Revenue Budget

3.1 The indicative revenue budget for 2022/23 reflects the latest known information for income in 2022/23 with the employee and operational costs required to meet the delivery associated with the individual income streams.

3.2 The estimates in this report are indicative and will be refined further to be reported to the LEP Board in May, as part of a three-year Medium-Term Budget, when the outturn position for 2022/23 is clear and more information about grant income available for 2022/23 should be known.

3.3 A summary of the indicative budget for 2022/23 is set out in the table below. The indicative figures show a 26% decrease in Gross Expenditure from £7.958m to £5.878m and a 31% decrease in Gross Income from £8.093m to £5.624m. The overall effect is an indicative net deficit of £0.254m.

3.4 Employee costs reflect a small decrease of £0.049m from £3.381m in 2021/22 to £3.332m in 2022/23. The estimate takes into account the increase to national insurance contributions of 1.25% as reported in the Comprehensive Spending Review in October 2021. An assumed 3% pay award has also been factored into employee costs reflecting the anticipated increase in inflation. A contribution equivalent to the level of the employer's pension contribution (£0.145m) is received from the Accountable Body the NTCA, as previously the LEP had benefited from the surplus pension position under the North East Combined Authority (NECA).

3.5 The main changes in income reflect the cessation of some of the Skills grant funding, such as Education Challenge, EY and DfE (£1.085m). A reduced contribution for the Local Growth Fund (LGF) programme management as it nears the end of the programme (£0.366m) as well as reductions from the LGF High Potential (£0.197m) and Peer Networks (£0.375m). The North East LEP continues to bid for additional grants and any grants secured will be included in the budget as they are announced.

3.6 Other significant changes in the estimates are summarised after table two:

Appendix A

Table 2. North East LEP 2021/22 Indicative Outturn and 2022/23 Base Budget

	2021/22 Revised Budget (Jan 2022)	2022/23 Base Budget	Variance
	£'000	£'000	£'000
Employees	3,381	3,332	(49)
Premises	225	228	3
Communications	256	250	(6)
Growth Hub Operational Costs	256	244	(12)
Innovation Challenge Covid	313	0	(313)
Other Operational Costs	676	619	(56)
North East Ambition Operational (ESF) 2	76	135	59
Peer Networks	212	0	(212)
Made Smarter	520	437	(83)
LGF High Potential Operational	158	0	(158)
Life and Health Sciences	135	0	(135)
Brexit Policy Work Programme	123	27	(96)
Trade and Export Strategy	70	6	(64)
Norther Powerhouse11	30	0	(30)
Energy Commissioning, Studies,Research Projects	125	0	(125)
Skills Operational CEC, EY CITE	512	187	(324)
Future Markets Accelerator Fund	79	68	(11)
Inward Invesment Contribution	140	0	(140)
EZ NEIF Costs	405	95	(310)
LGF Project Management	101	22	(79)
Getting Building Fund Project Management	165	76	(89)
GROSS EXPENDITURE	**7,958**	**5,878**	**(2,080)**
LEP Core & Strategy Grant from DCLG	(500)	(500)	0
Local Authority Match Contributions	(250)	(250)	0
CORE FUNDING	**(750)**	**(750)**	**0**
Local Growth Fund (Programme Mgmt)	(604)	(512)	91
Getting Building Fund (Programme Mgmt)	(370)	(201)	169
Interest Generated on Funds	(140)	(110)	30
Growth Hub	(780)	(780)	0
Business Support	(40)	(154)	(114)
Peer Networks	(375)	0	375
ERDF + Digital Catapult	(42)	(36)	6
Academic Health Science Network (AHSN)	(135)	(40)	95
LGF High Potential	(197)	0	197
Made Smarter	(600)	(600)	0
Energy Accelerator	(143)	(180)	(38)
Energy Strategy BEIS/TVCA, RCEF,OREC Misc.	(178)	(163)	15
Energy Commissioning, Studies,Research Projects	(79)	0	79
Innovation Challenge Covid	(313)	0	313
NEIF Contribution to cover activity costs	(485)	(110)	375
EZ Contribution to cover activity costs	(236)	(87)	149
North East Ambition 1 (ESF)	(203)	(167)	36
North East Ambition 2 March 2023	(845)	(896)	(51)
Skills Operational CEC, EY CITE, Education Challenge, DFE,	(1,085)		1,085
LA Contributions re ESIF Co-ordinator	(20)	0	20
Brexit Policy Work Programme	(40)	(67)	(27)
Trade and Export - World Wide Chamber	(70)	(6)	64
Norther Powerhouse11	(30)	0	30
Future Markets Accelerator Fund	(79)	(68)	
Contribution Pension - NTCA	(154)	(145)	9
Other Income	(100)	(100)	0
EXTERNAL FUNDING	**(7,343)**	**(4,874)**	**2,458**
GROSS INCOME	**(8,093)**	**(5,624)**	**2,469**
NET BUDGET	**(135)**	**254**	**378**

Increase in LEP Reserve/(Contribution from Reserve)	**135**		
EZ Reserve (Contribution)	**0**	**(254)**	
LEP savings/LEP income			

B/F LEP RESERVE	**(613)**	**(748)**	
C/F LEP RESERVE	**(748)**	**(748)**	

Core Funding

3.6.1 The 2022/23 budget has assumed that LEP Core Funding from Government will continue at the same level. The national LEP Review has still not been reported. Should the LEP Review recommend any change to the current LEP Model, the assumption used for this indicative budget is that 2022/23 will form a transition year and funding will be made available to implement any changes. It is anticipated that the review will report ahead of the 2022/23 financial year, allowing for an accurate grant figure to be used in the May Board report. Likewise, Growth Hub funding is assumed at the same level as 2021/22, until Government informs us of an alternative position. In previous years, formal clarification of Growth Hub Funding has been made in the March ahead of the April start date.

Local Growth Fund (LGF)

3.6.2 The income source used to fund the £0.140m contribution from the LEP to support the Invest North East England Budget was previously funded from interest gained from investing LGF funding. As Local Growth Funding (LGF) from Central Government has now come to an end this funding source is no longer available to the LEP. LGF replacement funding is now being channelled through Combined Authorities and Local Authorities.

3.6.3 The LGF programme ran from 2015-2021 with £270.1m of funding. Temporary project funding swaps, using budget freedoms and flexibilities from DLUHC (formerly MHCLG) during the programme, are now being returned to support the completion of approved projects. It is estimated that £9m will be spent in 2022/23 on residual projects ranging from infrastructure investment on the strategic International Advanced Manufacturing Park, where AESC Envision have announced they are to build a new giga factory, to a range of smaller Community and Voluntary Sector led green infrastructure recovery projects across the region. New investments include the establishment of the £4m Project Development Acceleration Fund to assist with the accelerated development of regional strategic capital and revenue projects and to support the leverage of new funding into the region.

3.6.4 The residual LGF legacy projects carried through into 2022/23 and beyond will require ongoing project management, not least where there is a substantial amount of match funding for example on Gateshead Quays which includes £300m match funding stretching to 2024/25. There remains an uncommitted LGF balance of just over £0.800m, it is recommended within this report to seek approval that the original percentage applied over the life of the LGF scheme associated with project management costs of 2.5% is increased to 2.8% to meet the ongoing project management activity required.

3.6.5 An impact and value for money assessment of the LGF programme has been commissioned externally (by Steer ED) during the year. The report highlighted that the programme is ahead of target in terms of job creation to date with over 6,300 jobs reported.

Getting Building Fund

3.6.6 A revenue stream to fund programme management costs on Getting Building Fund(GBF) is reflected in 2022/23 (£0.201m), in line with delivery of the completion of the programme. The GBF programme is in its second year with an annual budget award from DLUHC of £23.5m (half of the £47m grant approval). Reflecting the wider economic context, many building projects have faced a challenging year with tenders coming in above budget due to rising construction costs, delays in the supply of materials and COVID related constraints. Nevertheless, it is forecast that this year's GBF budget will be fully spent with all of the second tranche of £23.5m grant being fully used in 2021/22. This will leave the additional allocation of NEIF/EZ surplus, and the return of temporary funding swaps made in 2020/21 to be spent in 2021/22, which includes the contribution to programme management costs.

3.6.7 Work is well advanced on several projects including highways infrastructure on the Tyne Dock Enterprise Zone, where Equinor are to locate their Operations and Maintenance base to serve the Dogger Bank windfarm in 2023. Elsewhere in Newcastle, the Newcastle United Foundation NU Futures building is nearing completion creating new learning, coaching and community facilities. A pilot of the planned new regional Commercial Property Improvement Scheme is now up and running with six private sector industrial and office schemes being implemented across the North East.

<u>BEIS Funding</u>

3.6.8 BEIS has provided funding in respect of Peer Networks (£0.375m) in 2021/22 which is not expected to be continued in 2022/23. However, the Made Smarter Grant has been confirmed to continue at the same level in 2022/23 (£0.600m), which is part delivered by Tees Valley Combined Authority. Growth Hub Supplemental funding has been received from BEIS of £0.780m in 2021/22 and anticipated in 2022/23.

<u>North East Ambition (ESF)</u>

3.6.9 An extension has been agreed to North East Ambition 1 (NEA1) to December 2023 in line with North East Ambition 2 (NEA2) delivery.

4. North East LEP Revenue Balances

4.1 The estimate for 2021/22 and 2022/23 shows that the North East LEP revenue balance on 1 April 2021 was £0.613m and this is shown as increasing slightly to £0.748m at 31 March 2022. It is important to maintain a reasonable balance to deal with future uncertainties.

4.2 The balancing figure of £0.254m in the indicative 2022/23 revenue budget is a call on the Enterprise Zone surplus from the previously agreed £0.5m per annum budget.

4.3 In November 2014, the Board agreed that Enterprise Zone Business Rates Growth Income surplus of up to £0.5m per annum could be utilised to support the revenue budget if required. To date there has not been a requirement to use this facility and therefore in effect saving £2.0m of potential spend from the EZ account. It was agreed by the LEP Board in May 2021 that as necessary a call on this unspent EZ requirement could be used to support the revenue budget. The intention is to reduce the call on the EZ account by the year end though additional income and cost savings.

4.4 The balance on the Enterprise Zone account is estimated to grow from £3.655m to £4.829m this year and £5.118m next year, as illustrated in section 5 below. The intention is to keep a cash balance of at least £2m in the EZ account each year, which if needed can be used to support LEP costs following the approval of the LEP Board, as mentioned in paragraph

5. North East Enterprise Zones

5.1 Ten Round 1 Enterprise Zones are located across four local authority areas: Newcastle, North Tyneside, Northumberland, and Sunderland. In April 2017 these were joined by a further ten Round 2 sites across, Durham, Gateshead, Newcastle, Northumberland, South Tyneside, and Sunderland with the International Advanced Manufacturing Park (IAMP) site launched on the 1st April 2018 to complete the coverage of our 21 Enterprise Zones.

5.2 Business rates growth generated on Enterprise Zones accrues to the North East LEP for a 25-year period, in accordance with national regulations. This income is used to fund the capital financing costs of approved Enterprise Zone capital infrastructure, revenue administration costs, and a contribution towards Inward Investment activity. The financial administration of Enterprise Zones is managed in accordance with the local Enterprise Zone Business Rates Income Pooling Agreement. This agreement helps to pool and manage risk relating to borrowing undertaken by councils to fund Enterprise Zone capital works; helps to minimise costs and to helps to avoid additional revenue costs for council. The administration of the agreement has succeeded in achieving a positive cash flow on the Enterprise Zone account, which has enabled a cumulative surplus to be generated. This acts as a contingency to help mitigate the risk of annual income shortfalls.

5.3 Table 3, below, provides a summary of the Enterprise Zone account income and costs for 2020/21 (actual) and the estimated income and expenditure figures for 2021/22 and 2022/23. The Business Rate Income figures includes an element of contributions from the Section 31 grant provided by DLUHC to compensate for the under-indexation of the business rate multiplier, which should have been increased by the Retail Price Index. This grant has been confirmed as 20/499th of rates in 2020/21, 26/499th in 2021/22 and 51/499th in 2022/23.

Table 3: Enterprise Zone Account

Enterprise Zone Account	2020/21	2021/22		2022/23
	Actual	May 2021 Estimate	Latest Estimate	Estimate
Business Rate Income	**£000**	**£000**	**£000**	**£000**
Round 1 Sites				
Newcastle (Neptune)	537	502	593	621
North Tyneside (Swans)	143	217	217	232
Northumberland (Blyth)	334	326	326	308
Sunderland (A19)	628	705	692	659
Round 2 Sites				
Northumberland	34	38	38	40
Gateshead (Follingsby)	255	233	1,289	2,457
IAMP	581	689	667	703
South Tyneside (Holborn)	0	60	60	171
Durham (Jade)	51	157	142	219
Newcastle (Airport)	0	137	137	144
Business Rate Income	2,563	3,064	4,161	5,554
Interest of Account Balance	14	21	15	20
Total Income	**2,577**	**3,085**	**4,176**	**5,574**
Expenditure				
Capital Financing Costs	1,805	2,101	2,174	2,528
INEE Team Contribution	65	157	157	160
EZ Account Operation	99	86	108	90
Total Costs	**1,969**	**2,421**	**2,439**	**2,778**
Annual Surplus	**608**	**664**	**1,737**	**2,796**

Less - Use of Surplus				
- **To Fund LEP Costs**		**-500**	**0**	**-500**
- **Project Development Fund**		**-1,300**	**-500**	**-1,000**
- **CPIF Incentives***		**0**	**0**	**-1,000**
Cumulative Surplus	**3,655**	**2,519**	**4,892**	**5,188**

5.4 The increase in income in 2021/22 is mainly due to the completion and occupation of buildings on the Follingsby EZ site and the receipt of income from buildings completed in 2020/21 on the Newcastle Airport and IAMP EZ sites, where business rate income for that year is due to be received in 2021/22. Some of the income figures in the table above are provisional and will be updated when information is received from councils. The intention is to reflect any updated information received before the Board meeting in a revised table.

5.5 While income for 2021/22 is expected to be higher than the previous year, the rateable value for some new buildings has not yet been formally set by the District Valuer and a prudent estimate of the level of income has been made including a contingency. It is possible that the £1m increase in business rate income for the new buildings for 2021/22 could be paid in 2022/23 if their rateable value is not set in time this year by the District Valuer. An inflation uplift in income of 4.8% in 2022/23 will be funded by way of Government grant for the under-indexation of the business rate multiplier.

5.6 The costs mainly relate to capital financing costs including borrowing costs (which includes interest) and the repayment of previous interest free loans from the LEP's North East Investment Fund (NEIF) and the repayment of LGF funding swaps.

5.7 The cumulative surplus is expected to increase both this year and next, with increasing surpluses in future years.

5.8 One of the agreed uses of the Enterprise Zone surplus is to underwrite the costs of the LEP Team budget of up to £0.500m each year. The original 2021/22 LEP Team budget, agreed in January 2021, envisaged a potential call on the EZ surplus of £0.5m. This was during the year and the latest estimate is that no contribution will be required in 2021/22. This follows a similar pattern to previous years, where the use of the EZ surplus was not called on at the year end. In the latest draft 2022/23 Revenue Budget, a potential contribution of Enterprise Zone Surplus of £0.254m looks to be required. At this point the normal allocation of up to £0.5m is being set aside as a prudent provision. It is envisaged that this contribution will reduce as additional income or cost savings are identified during 2022/23. In the event of a contribution actually being required, this will reduce the Enterprise zone cumulative surplus. More information will be reported in May when a report on the projected lifetime surplus on the EZ account will be presented to the May Investment Board and the full Board.

5.9 The use of the EZ surplus to fund the Project Development Fund is shown in 2021/22 and 2022/23. The potential use of £1m the EZ surplus to fund Commercial Property Investment Fund (CPIF) Incentives* is also shown, which is subject to the approval of the LEP Board. In a report on this agenda

6. North East Investment Fund (NEIF)

6.1 During 2021/22 the North East Investment Fund continued to receive repayments from its projects continuing its record of 0% default on investment, although the impact of Covid 19 has resulted in some rescheduling of repayments. Of greatest significance to the Fund, after long period of negotiation and having satisfied requests made by the Finance Investment Sub Committee (FISC) of BEIS, the North East LEP (and its Accountable Body) were released from the contractual obligations of the £30m Regional Growth Fund contribution to the North East Investment Fund. This has provided the North East LEP with the flexibility to use the NEIF to pursue a strategic objective of setting up an independently fund managed Commercial Property Investment Fund to help tackle weaknesses in the North East commercial property market. During 2021/22 steady progress has been made with procurement of an independent fund manager for the CPIF, with the expectation of launch early in 2022/23. The CPIF will be £35m of senior debt, supported by up to £15m of grant incentives. It will primarily be financed from the NEIF, with the potential for two allocations of £5m to be allocated from the EZ surplus if approved by the LEP Board.

6.2 Repayments have continued from significant projects, including the Centre for Innovation and Growth at University of Durham. However, NEIF beneficiaries have been amongst the many businesses effected by COVID19 pandemic, and this has resulted in several projects renegotiating repayment terms. The secured nature of NEIF investments has meant the Investment Board has been able to agree to such requests when they have come forward when supported by satisfactory evidence. The major investment of the year has seen the expansion of the North East Property Development Fund, managed by FW Capital, providing loans up to £2m to developers of small scale residential and commercial development. The additional investment occurs following the successful piloting of the Fund and growth in demand from SME developers in region.

7. Recommendations

7.1 The Board is requested to:

i. Note the positive Budget outturn position for 2021/22.
ii. Note the indicative Budget for 2022/23, with an update on the 2022/23 Budget being reported to the LEP Board in May along with a three-year estimate.
iii. Approve the increase to the percentage of Local Growth Fund (LGF) project management costs from 2.5% to 2.8% over the life of the LGF Scheme.
iv. Note the estimated end of year position of the Enterprise Zone account, which will be updated when updated income projections are received from all councils.

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Appendix B

Invest North East England 2021-22 Indicative Outturn and 2022-23 Budget.

1. Overview

1.1 Invest North East England (INEE) acts as the strategic inward investment service in the North East. It works collaboratively with its seven local authority partners, two combined authorities, and other key stakeholders such as the North East LEP, Department of International Trade, and Universities to increase the levels of inward investment flowing into the region from both UK-owned and foreign-owned businesses.

1.2 Operationally, INEE's work has a few key guiding principles:

- INEE's primary function is to focus on attracting new inward investment to the North East (rather than seeking to secure re-investment in existing companies).

- INEE works closely with, and on behalf of, all seven constituent authorities, its aim being to maximise levels of inward investment regardless of location in the North East (a 'North East First' principle).

- INEE activity aims not to duplicate, but add value to activities undertaken by the constituent local authorities.

- INEE engages in proactive lead generation activity which is sector-based, focussed on: Digital Technology; Energy; Life Sciences; Advanced Manufacturing; Financial, Professional and Business Services.

- INEE focus of activity will be on strategic inward investment projects which require regional-level promotion, coordination, and collaboration in the first instance, before a focus on a specific site.

- As far as possible, INEE will aim to attract investment opportunities which will lead to significant numbers of high-quality jobs (more and better Jobs)

2. Performance

2.1 After a very challenging (Covid-affected) 2020/21 with subdued levels of enquiries, 2021/22 is shaping up to be the best year for a decade for the North East in terms of investment projects landed and new jobs created.

2.2 There have been multiple successful investment projects from foreign-owned companies as well as UK companies expanding into the region. These investments have come from a number of sectors including: offshore wind, business services, digital technology, and advanced manufacturing.

2.3 INEE has led many of these successful projects and currently has a very healthy project pipeline which it hopes to secure investments from in the final quarter of 2021/22 and into 2022/23. The team is leading the development of a regional proposition in electrification, a sector that offers a hugely significant opportunity for the region over the next few years.

3. 2021/22 Indicative Outturn and 2022/23 Proposed Budget

3.1 The 2021/22 Indicative Outturn position reflects an increase in employee expenditure relating to an additional member of the Team to meet delivery against the increased investment project activity detailed in section 2 above. This post continues on into 2022/23 on a fixed term contract basis to meet the continued activity on electrification. The increase in employee expenditure has been met from savings on other areas of the budget.

3.2 Historically the Invest North East England (INEE) budget has been funded from contributions from the 7 local authorities (£20,000 each); contribution from the North East LEP (£140,000) and the balance met from Enterprise Zone surplus due to the inward investment linked to Enterprise Zone sites, plus a small contribution from private sector (£10,000).

3.3 The North East LEP contribution (£140,000) was funded from interest achieved from investing Local Growth Fund and in 2020/21, 2021/22 Getting Building Fund balances, with both these funding streams finishing in 2021/22 this funding is no longer available. There are discussions to be had on replacement funding, with the proposal being that it is met from the Enterprise Zone account, this is reflected in Table 1 below but not yet confirmed. The Indicative Outturn for 2021/22 and the proposed budget for 2022/23 is set out in Table 1 below.

Table 1. Invest North East England 2021/22 Indicative Outturn and 2022/23 Proposed Budget

	2021/22 Original Budget	2021/22 Indicative Outturn	2022/23 Proposed Budget
Expenditure	**£**	**£**	**£**
Salaries	166,000	192,000	237,000
Staff Training	2,000	700	1,000
Travel and Subsistence	9,000	5,000	5,000
Web, Telecoms, Computers	8,000	10,000	8,000
Marketing/Comms/Events	107,000	90,000	90,000
Membership Fees (e.g. Sector Bodies)	3,000	3,000	3,000
Visit Hospitality Costs	0	1,000	0
Professional Consultancy	20,000	7,500	8,000
Lead Generation	120,000	93,000	93,000
Research Resource Licenses	25,000	15,000	15,000
Gross Expenditure	**460,000**	**417,200**	**460,000**
Income			
Local Authority Contributions	(140,000)	(140,000)	(140,000)
LEP Contribution	(140,000)	(140,000)	0
EZ Contribution	(170,000)	(130,894)	(310,000)
Private Sector Contribution	(10,000)	(6,306)	(10,000)
Gross Income	**(460,000)**	**(417,200)**	**(460,000)**
Net Budget	**0**	**0**	**0**