NORTH OF TYNE COMBINED AUTHORITY

Audit and Standards Committee

Tuesday 20 July 2021 at 10.00 am

Meeting to be held: Banqueting Hall,Civic Centre, Newcastle, NE1 8QH

www.northoftyne-ca.gov.uk

SUPPLEMENTAL AGENDA 2 (all papers)

Tuesday, 21 September 2021 at 10am.

Contact Officer:
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North of Tyne Combined Authority, Audit and Standards Committee
20 April 2021

(10.00 - 11.13 am)

The meeting was held remotely

Draft Minutes

Present:

Chair: D Ross

Councillors: A Chisholm, C Ferguson, C Penny-Evans, C Seymour and M Swinburn

79 **WELCOME AND APOLOGIES**

The Chair welcomed everyone to the meeting and apologies for absence were received from Cllrs R Glindon, M Rankin and D Cox.

80 **DECLARATIONS OF INTEREST**

None.

81 **AGREEMENT OF THE MINUTES OF THE MEETING HELD ON 19 JANUARY 2021 - FOR APPROVAL**

The minutes of the meeting held on 19 January 2021 were agreed as a correct record.

82 **INTERNAL AUDIT STRATEGIC AUDIT PLAN 2021/22**

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

Consideration was given to the report the purpose of which was to outline the proposed Strategic Audit Plan for 2021/22 for consideration and endorsement by the Audit and Standards Committee.

The plan was based on an assessment of risk and where Internal Audit believed that they could add value to the plan. Officers had engaged with all stakeholders including the Audit and Standards Committee at its January meeting. Given the ongoing pandemic situation the plan had to be flexible, allowing Internal Audit to amend and react to any emerging risks during the year. Any changes to the plan would be reported back to the Audit and Standards Committee. The plan sets out each area to be covered and includes the audit objectives.

Attention was drawn to the Public Sector Internal Audit Standards which required Internal Audit to provide programme assurance and communicate with members at any given time.

RESOLVED – that Audit and Standards Committee endorse the proposed Strategic Audit Plan 2021/22, attached as Appendix A, which is based on an assessment of audit risk and which was designed to focus on the North of Tyne Combined Authority's key objectives in the 2021/22 year.

83 INTERNAL AUDIT QUARTERLY UPDATE

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

Consideration was given to the report the purpose of which was to provide Audit and Standards Committee with an update on progress against the 2020/21 Internal Audit Plan, agreed by the Audit and Standards Committee at its meeting on 28 July 2020.

Members noted that the areas of work to be progressed and detailed in the report would be completed by the end of July.

Comments/questions from Members included:

- A Member questioned why two areas of work have been reprogrammed to the 2021/22 Strategic Audit Plan and whether it was appropriate to delay or a capacity issue. In response the Interim Chief Internal Auditor advised that there was an impact at the beginning of the year due to the pandemic, plus the additional work as a result of the National Fraud Initiative requirements. Discussions had taken place with the Director part way through the year as to how the audits would be profiled undertaking the work so that it maximised the benefits to the Combined Authority.

- Responding to a further question the Interim Chief Internal Auditor confirmed that there was capacity to complete the work.

- Responding to a query regarding the Policy Framework – Governance and Decision Making audit, completed since the last meeting of the committee, the Interim Chief Internal Auditor gave assurances that this would be monitored.

RESOLVED – that Audit and Standards Committee note the report

84 AUDIT AND STANDARDS COMMITTEE WORK PROGRAMME MUNICIPAL YEAR 2021/22

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

The report set out a proposed programme of core business to be considered by the Audit and Standards Committee during the 2021/22 Municipal Year, in line with its Terms of Reference as set out in the Combined Authority's Constitution.

Comments and questions from members included:

- A Member sought clarification as to how ad-hoc items for consideration were included in the work plan. The Acting Chief Internal Auditor explained that it was incumbent on Members to bring forward any items they may wish to be brought to the committee by notifying the Acting Chief Internal Auditor or the Interim Monitoring Office. Members were also advised that a training session for all Members of the Audit and Standards Committee may be provided in the next Municipal Year.

- A Member referred to section 8 of the report, Climate Change Implications, and the climate emergency declared by each of the three constituent authorities. The Acting Chief Internal Auditor was asked if Climate change should be included in the work plan. Members were advised that there is no direct Climate Change impact connected to any of the items in the work plan.

Members noted that a report regarding the Model Code of Conduct would be reported to the July meeting of the Committee.

RESOLVED that the Audit and Standards Committee –

1) Agreed the proposed core business work programme as set out within the report for the 2021/22 Municipal Year.

2) Noted that it may be necessary to change or adapt the proposed reports to be considered, to ensure optimum timing of consideration of governance issues and to respond to emerging trends during the year.

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

85 AUDIT AND STANDARDS COMMITTEE SELF-ASSESSMENT OF EFFECTIVENESS

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

The purpose of the report was to present an initial self-assessment of current Audit and Standards Committee arrangements, as a first step in undertaking a full review of the effectiveness of the Audit and Standards Committee during 2021/22, based on relevant legal requirements and the Chartered Institute of Public Finance and

Accountancy (CIPFA) good practice guidance, for Audit and Standards Committee's consideration.

Members were reminded that as a Combined Authority, there was specific legislation included in the Cities and Local Government Devolution Act which required the Authority to establish an Audit and Standards Committee. It was noted that the review of the effectiveness of the Audit and Standards Committee would in the future form the basis of an annual report from Audit and Standards Committee, which would be prepared for presentation to Cabinet.

Comments and Questions from Members included:

- Referring to the suggested programme of training for Audit and Standards Committee, a member asked if this could be undertaken in smaller bite size sessions rather than a full day. Also, assurance was sought that the Mayor and Cabinet were aware of the work of the Audit Committee given that there was no direct communication between Cabinet and the Audit and Standards Committee and could appropriate feedback be given to committee Members. In responding the Acting Chief Internal Auditor confirmed that smaller training sessions can be provided and tailored to correspond with agenda items. As to communications with Cabinet he advised that he was not aware of any feedback process. However, the suggested annual report to Cabinet would set out the terms of reference for Audit and Standards Committee, the areas of work considered for the year and any findings, demonstrating that Cabinet's expectations were met.

The Chair suggested that he could attend Cabinet to present the annual report and answer any questions. The Chair also asked if the minutes of Audit and Standards meetings were circulated to Cabinet. Members were advised that whilst the minutes were not circulated, they were available on the North of Tyne Combined Authority website.

RESOLVED that Audit and Standards Committee –

1) Noted the proposal to undertake a review of the effectiveness of the Combined Authority's Audit and Standards Committee arrangements during 2021/22, based on relevant legal requirements and the Chartered Institute of Public Finance and Accountancy (CIPFA) good practice guidance.
2) Considered and endorsed the initial self-assessment of Audit and Standards Committee arrangements attached as outlined at Annex A.

3) Agreed that the review of the effectiveness of the Audit and Standards Committee would form the basis of an annual report from Audit & Standards Committee, which would be prepared for presentation to Cabinet, demonstrating how the Audit and Standards Committee meets its Terms of Reference and providing a summary of the work of the committee during the year.

86 **STRATEGIC RISK AND OPPORTUNITIES REGISTER - QUARTERLY UPDATE**

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

Consideration was given to the report the purpose of which was to provide assurance to Audit and Standards Committee that the most significant risks and opportunities had been identified, were being monitored and measures were being taken to mitigate them. A further review of the Authority's strategic risks and opportunities register had identified a new external risk which recognised the impact of the lockdowns imposed as a result of Covid-19 and the implementation of the new EU/UK trade deal procedures and the effect these may have upon delivery of the Authority's economic growth and employment opportunity schemes.

Questions and comments from Members included:

- A Member questioned why the new risk had been presented as only one risk to the authority as they were two different areas. In response the Risk Advisor explained that in terms of the risk impacts and controls both areas were very similar and it was difficult to know whether the impact was as a result of Covid-19 or the implementation of the new EU/UK trade deal procedure . Responding to a further question the Risk Advisor agreed that if it became evident that the risks had diverged then they could be split.

- Reference was made to Risk 2, Delivery of Devolution, and the cause leading to the risk. The Risk Advisor was questioned as to where he sourced the information relating to national political instability. The Risk Advisor stated that he would refer the risk back to the owner for review.

RESOLVED that the Audit and Standards Committee –

1) Acknowledged the new risk which would monitor the impact of Covid-19 and the new EU/UK trade deal procedures on the Authority's delivery plans.

2) Noted the review and where necessary challenged the outcomes of the strategic risk review.

3) Noted a summary of the strategic risks identified by the North East LEP (Appendix C) and North East Joint Transport Committee (North East JTC) (Appendix D) were included for information.

87 **REPORT ON ACCOUNTING POLICIES TO BE USED IN COMPILATION OF ANNUAL STATEMENT OF ACCOUNTS**

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

The Strategic Finance Manager presented the report the purpose of which was to update Audit and Standards Committee on North of Tyne Combined Authority (NTCA) accounting policies to be applied in the preparation of the 2020/21 Statement of Accounts and to seek confirmation from the committee that appropriate policies were being applied.

It was noted that the accounting policies were the same as those used for the 2019/20 accounts. The details of the policies were set out in appendix1 of the report.

A verbal update was provided in relation to the preparation of the 2020/21 accounts. The Accounts and Audit Regulations 2020/21, which take effect from 31 March 2021, had revised the requirement for the audited accounts to be published from 31 July to 30 September. The revised regulation would also apply to the 2021/22 accounts. The draft accounts would be presented to Audit and Standards Committee on 20 July 2021 prior to publication on 30 September.

The accounts included the assets and liabilities for the Joint Transport Committee (JTC) and Nexus. It was noted that meetings had taken place with partners to agree a timetable to ensure that statutory guidelines were met. The accounts for the financial year 2020/21 would be the first year that the North East Local Enterprise Partnership (North East LEP) and Invest North East England (INEE) figures were included within the NTCA Accounts, since NTCA became the Accountable Body on 1 April 2020. Members noted that additional capacity had been brought into the North of Tyne finance team to assist with the production of the accounts.

In response to a request from the Chair it was agreed to circulate in writing the information provided to Members in respect of the verbal update.

RESOLVED that Audit and Standards Committee –

1) In response to a request from the Chair, information be circulated in writing in respect of the verbal update provided.

2) Note the Accounting Policies to be adopted by the Combined Authority and used to compile the accounts for the financial year ended 31 March 2021.

3) Authorise the Chief Finance Officer to review the accounting policies as necessary, and report changes to Audit and Standards Committee.

88 DRAFT ANNUAL GOVERNANCE STATEMENT

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

The Risk Advisor introduced the draft 2020/21 Annual Governance Statement (AGS). The AGS highlights the provisional outcome of the annual review of the Authority’s governance and internal control arrangements.

Officers have begun to gather the evidence required to support the AGS. The internal and external audit opinion would be completed later in the year. In accordance with the new CIPFA Financial Management Code, the Authority would undertake a self-assessment of the Code and the results would be included in the AGS.

RESOLVED that Audit and Standards Committee –

1) Considered the attached first draft of the NTCA 2020/21 Annual Governance Statement (Appendix A) acknowledging the activity underway to prepare for the introduction of the new Financial Management Code, which was highlighted in section 14 of the Statement.

2) Acknowledge that the Statement would be kept under review and amended as necessary should any weaknesses come to light before the committee receive a further draft at its July meeting and up to the date of final approval of NTCA financial statements.

89 **EXTERNAL AUDIT - AUDIT STRATEGY MEMORANDUM**

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

G Barker presented the report for the North of Tyne Combined Authority (the Authority) and the Group (the Group) for the year ending 31 March 2021. The purpose of this document was to summarise the audit approach, highlight significant audit risks and areas of key judgements. It was anticipated that the audit would be completed by September 2021

During the presentation G Barker highlighted the following areas –

Significant risks identified during the audit and the planned response: management override of controls, revenue recognition and Tyne Tunnel income and pensions fund. Members were reminded that the Tyne and Wear Pension Fund audit was not undertaken by Mazars.

Value for money - Identified risks of significant weaknesses in arrangements. This area of work was still to be completed and the value for money conclusion would be provided at a later time.

Fees – due to additional work requirements it was anticipated that the fees would be higher than the previous year.

G Barker responded to questions/comments from Members which included:

- A Member referred to the Tyne Tunnel toll income and asked G Barker about the nature of the handling, was this physical cash. Members were advised that the planned audit response was to ensure that income received was accounted for in the correct period.

- A further question was asked regarding the timeline for the audit of the pensions fund and whether there are any significant risks to the Combined Authority if the deadline was extended. G Barker advised that the pensions fund was an issue for other authorities for the year ending 2020 but the fund was not audited by Mazars. The risk for the Combined Authority is whether Mazars can successfully recruit additional staff to ensure that they were properly resourced to react to potential issues. If the audit was not completed by September an update would be published on the North of Tyne website. The Interim Chief Finance Officer advised Members that the Combined Authority was required to ensure that the production and quality of the accounts was appropriate. Finance officers were involved in continuous discussions with Mazars. Any delay in the production of the accounts would be notified to Cabinet in the outturn report.

RESOLVED: that Audit and Standards Committee note the report.

90 **DATE AND TIME OF NEXT MEETING**

20 July 2021 at 10.00am

Audit and Standards Committee

20 July 2021

Subject: **2020/21 Opinion on the Adequacy and Effectiveness of the Framework of Governance, Risk Management and Control**

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

Report Summary

The purpose of this report is to outline Internal Audit's 2020/21 Opinion on the Adequacy and Effectiveness of the Framework of Governance, Risk Management and Control.

Recommendations

The Audit and Standards Committee is recommended to consider and note the Chief Internal Auditor's 2020/21 Opinion on the Adequacy and Effectiveness of the Framework of Governance, Risk Management and Control, attached as **Appendix 1**.

1. **2020/21 Opinion of the Chief Internal Auditor on the Adequacy and Effectiveness of the Framework of Governance, Risk Management and Control (Appendix 1)**

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

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

1.3 For the purposes of this report, the Chief Internal Auditor has undertaken a programme of assurance activity as defined by the Public Sector Internal Audit Standards (PSIAS). The programme of assurance for 2020/21 was as set out in the Internal Audit Strategic Audit Plan 2020/21 discussed by and agreed at Audit and Standards Committee on 28 July 2020.

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

1.5 Internal Audit can report that good progress has continued to be made during 2020/21 in establishing and embedding the framework of governance, risk management and control. This was evidenced in our reviews of Risk Management and IT Arrangements which were given Significant Assurance audit opinions and also within the Policy Framework audit, which, whilst receiving a Limited Assurance audit opinion, found a comprehensive suite of policies was in place with further development required in relation to the framework for reviewing and approving policies and establishing training requirements.

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

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

2. Potential Impact on Objectives

2.1 The North of Tyne Combined Authority Corporate Plan 2021-2022 sets out the strategic objectives and priorities of the Combined Authority. The work of Internal Audit and Audit and Standards Committee contributes to the overall achievement of the Authority's objectives and priorities.

3. Key Risks

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

4. Financial and Other Resources Implications

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

5. Legal Implications

5.1 The Cities and Local Government Devolution Act 2016 establishes that Combined Authorities must arrange for the appointment of an Audit Committee and sets out the functions of the Audit Committee. This includes reviewing and assessing the authority's risk management, internal control and corporate governance arrangements.

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

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

6. Equalities and Implications

6.1 There are no direct equalities implications arising out of the recommendations in this report. The Audit and Standards Committee is mindful of its duty under the Public Sector Equality Duty and will always consider whether what is before them 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. The Committee also considers the implications for people from different socio-economic backgrounds/low pay as a protected characteristic.

7. Inclusive Economy Implications

7.1 There are no direct inclusive economy implications arising out of the recommendations in this report. The Audit and Standards Committee is mindful of the Combined Authority's inclusive economy ambitions and the five characteristics of an inclusive economy: participation; equity; growth; stability and sustainability.

8. Climate Change Implications

8.1 There are no direct climate change implications arising out of the recommendations in this report. The Audit and Standards Committee is mindful that the Combined Authority and the three constituent Local Authorities have declared a Climate Emergency.

9. Consultation and Engagement

9.1 The 2020/21 opinion on the adequacy and effectiveness of the framework of governance, risk management and control summarises Internal Audit findings communicated to and discussed with management throughout the course of 2020/21. Regular reports have also been made to the Audit and Standards Committee throughout the year, advising of the outcomes of Internal Audit's work, in accordance with the Audit and Standards Committee's planned schedule of work.

10. Appendices

Appendix 1 – 2020/21 Opinion on the Adequacy and Effectiveness of the Framework of Governance, Risk Management and Control

11. Background Papers

(a) Internal Audit Strategic Audit Plan 2020/21
(b) Cities and Local Government Devolution Act 2016
(c) Accounts and Audit Regulations 2015
(d) Public Sector Internal Audit Standards, Chartered Institute of Public Finance & Accountancy / Institute of Internal Auditors, April 2017
Public Sector Internal Audit Standards
(e) Local Government Application Note for the UK Public Sector Internal Audit Standards, Chartered Institute of Public Finance & Accountancy / Institute of Internal Auditors, February 2019

12. Contact Officers

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13. Glossary

Abbreviation	Description
NFI	National Fraud Initiative - The Cabinet Office's data matching exercise
NELEP	North East Local Enterprise Partnership
AEB	Refers to the devolved Adult Education Budget

14. Sign-off

1) Head of Paid Service: Yes	2) Chief Finance Officer: Yes	3) Monitoring Officer: Yes

Appendix 1

NORTH OF TYNE COMBINED AUTHORITY	# Internal Audit Report: 2020/21 Opinion on the Adequacy and Effectiveness of the Framework of Governance, Risk Management and Control

1 Purpose of Report

1.1 This report has been prepared by the Chief Internal Auditor to provide a 2020/21 opinion on the overall adequacy and effectiveness of the framework of governance, risk management and control within the North of Tyne Combined Authority (herein referred to as the Combined Authority).

1.2 This is the third annual opinion provided to the Combined Authority following its inception in November 2018. The Chief Internal Auditor confirms that audit coverage has been based on Internal Audit's assessment of risk to the organisation, and the Internal Audit team has been allowed unfettered access to undertake the audit work set out in the Internal Audit Strategic Audit Plan 2020/21 presented to the Audit and Standards Committee in July 2020.

2 Governance, Risk Management and Control

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

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

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

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

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

Preventative Controls

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

Detective Controls

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

Directive Controls

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

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

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

3.2 The programme of assurance activity for 2020/21 was as set out in the Internal Audit Strategic Audit Plan 2020/21 that was discussed and agreed at Audit and Standards Committee on 28 July 2020.

3.3 The Chief Internal Auditor notes that the Combined Authority remains a relatively new entity, formed in November 2018. As such, it would be normal and expected that procedures for the authority continue to evolve. Internal Audit can report that good progress has continued to be made during 2020/21 in establishing and embedding the framework of governance, risk management and control. This was evidenced in our reviews of Risk Management and IT Arrangements which were given Significant Assurance audit opinions and also within the Policy Framework audit, which, whilst receiving a Limited Assurance audit opinion, found a comprehensive suite of policies was in place with further development required in relation to the framework for reviewing and approving policies and establishing training requirements.

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

3.5 Assurance can never be absolute, and neither can Internal Audit work be designed to identify all weaknesses that might exist. This judgement is informed by the outcomes of Internal Audit's coverage during 2020/21 and reported to Audit and Standards

Committee throughout the year. A summary of work undertaken is provided in Section 4 of this report.

3.6 Internal Audit is required to be alert to changes in the risk environment and conditions in which any audited entity operates. Internal Audit notes that the Coronavirus pandemic has brought about a number of significant changes nationally, since the end of the 2019/20 financial year and throughout 2020/21. The Coronavirus pandemic has been far-reaching in its impact and local government bodies, including Combined Authorities, have subsequently been a key part of the response to the pandemic. The impact of the pandemic continues to evolve and all public bodies are continuing to evaluate the changes to their risk profile and operations.

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

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

4 Audit Work Performed During 2020/21

4.1 During 2020/21 Internal Audit work focussed upon the following areas:

- A review of Risk Management arrangements found that processes were in place and operating as expected and that the Strategic Risk and Opportunities Register was regularly reviewed with senior management. A Significant Assurance audit opinion was provided and a number of low priority recommendations to further strengthen existing arrangements were agreed with management;
- A high level review of IT arrangements identified a number of strengths, including laptop encryption, security updates, and back-up routines, and a Significant Assurance audit opinion was provided. One medium priority recommendation was agreed with management to address the absence of formal agreements between the Combined Authority and its partner organisations in relation to data sharing and data processing that would demonstrate the organisation is meeting its accountability obligations under UK General Data Protection Regulations;
- A review of the Adequacy of Governance Arrangements in Relation to the Policy Framework. The audit found a comprehensive suite of policies was in place, however, a Limited Assurance audit opinion was provided and two medium priority recommendations were agreed with management in relation to the framework for reviewing and approving policies and establishing training requirements;
- Evidence checking of the implementation of all five high priority recommendations from the Financial Regulations Diagnostic Tool and a sample of the 26 medium priority recommendations. In relation to the high priority recommendations this work established that Contract Standing Orders and Financial Regulations have been reviewed and approved by Cabinet, the delegated officer schedule now includes specimen signatures and records which budgets officers can authorise orders and payments for, finance and procurement training has been provided to staff, and employer's liability insurance was arranged in July 2019 as soon as the organisation was advised by Internal Audit that this was not in place;
- Supporting the Combined Authority in a project assurance role whilst the governance arrangements around the implementation and ongoing management of the Adult Education Budget are developed. This role involves Internal Audit advising on, and challenging, the approach to internal control and methods of service delivery. By undertaking this role, the Internal Audit Service proactively acts as a partner to the Combined Authority, in order to assist the organisation achieve its objectives;

- Submission of data and analysis of matches arising from participation in the Cabinet Office's National Fraud Initiative data matching exercise. Data in relation to Payroll and Trade Creditors was submitted and a small number of matches were returned to the Combined Authority for further review. All matches were reviewed and no instances of fraud or duplicate payments were identified; and
- 20/21 Grant Claim Certification – Certification of five separate claims with a combined value of £1.634 million.

4.2 At the time of preparing this report a planned review of the Combined Authority's arrangements established to ensure that delivery of the outcomes and outputs enshrined in the Devolution Deal can be clearly evidenced, is underway. At this stage in the review there have been no significant matters identified that impact upon this opinion.

4.3 Planned audits of governance arrangements in relation to the NELEP and arrangements for monitoring grant conditions (in respect of grant funding both received by NTCA and issued by NTCA) have been reprogrammed into the 2021/22 Strategic Audit Plan in accordance with normal auditing practices.

4.4 The number of Internal Audit recommendations agreed with management during the 2020/21 audit year, classified against each priority, is provided in the table below:

Priority Level	**Description**	**2020/21**
Critical	Action that is considered critical to ensure the organisation is not exposed to unacceptable risks.	Nil
High	Action that is considered urgent to ensure that the service area / establishment is not exposed to high risks.	Nil
Medium	Action that is considered necessary to avoid exposure to considerable risks.	3 (21%)
Low	Action that is considered desirable or best practice and would result in enhanced control or better value for money.	11 (79%)
	Total	**14**

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

5 Public Sector Internal Audit Standards: Summary of Conformance

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

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

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

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

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

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NORTH OF TYNE COMBINED AUTHORITY

Audit and Standards Committee

20 July 2021

Subject: **Internal Audit Quarterly Update Report**
Report of: **Kevin McDonald, Acting Chief Internal Auditor**

Report Summary

A quarterly update from Internal Audit is included within the Work Programme for the Audit and Standards Committee at each scheduled meeting during the year. This report provides Audit and Standards Committee with a final update on progress against the 2020/21 Internal Audit Plan, agreed by the Audit and Standards Committee at its meeting on 28 July 2020, and other work undertaken during quarter 1 of 2021/22.

Updates to future meetings of the Audit and Standards Committee will be in relation to the 2021/22 Internal Audit Plan agreed at the Committee's meeting on 20 April 2021. Internal Audit are currently liaising with management to schedule the 2021/22 planned work to ensure the audits take place at the optimum times throughout the year and to take into consideration the commitments of key staff from both the Combined Authority and the Internal Audit team.

Recommendations

The Audit and Standards Committee is recommended to consider and note Internal Audit's report.

1. Background Information, Proposals and Timetable for Implementation

1.1 The Internal Audit Plan approved by Audit and Standards Committee on 28 July 2020 set out a number of assignments. A summary of each of these, and other work undertaken during 2020/21 and during the first quarter of 2021/22 is provided below.

2020/21 Planned Work Completed since Previous Meeting

Area of Review	Description of Assignment and Current Status
Information Systems and Technology	The objectives of this audit were to undertake a high level review of the Combined Authority's IT arrangements and to assess whether these are suitably robust and bear adequate safeguards to protect the Combined Authority and support delivery of its operations. The Combined Authority's ICT provision is predominantly provided by Newcastle City Council. Services provided include the deployment and management of end user devices, network access and storage, access to Office 365 and printing services. The Combined Authority also has access to ICT

Area of Review	Description of Assignment and Current Status
	systems hosted by North Tyneside Council and in respect of the North East Local Enterprise Partnership (NELEP) ICT provision is provided by Sunderland City Council. A number of areas of good practice were identified during the review, including laptop encryption, security updates, and back-up routines, and a Significant Assurance audit opinion was provided. One medium priority and two low priority matters arising were identified with the medium priority recommendation relating to the absence of formal agreements between the Combined Authority and its partner organisations in relation to data sharing and data processing to demonstrate that the organisation is meeting its accountability obligations under UK General Data Protection Regulations. Recommendations to address these matters arising have been agreed with management who have identified responsible officers and deadlines for implementing the recommendations.
Risk Management	The objective of this audit was to review the Combined Authority's risk management arrangements and assess the extent to which appropriate risk assessment and identification systems are in place and whether these are operating effectively. Good practice in relation to the escalation of risks from service to strategic level was identified and in the arrangements for undertaking regular reviews of the Strategic Risk and Opportunities Register with senior management and reporting to the Audit and Standards Committee. Overall the audit concluded that the risk management process is in place and operating as expected, and a Significant Assurance audit opinion was provided. A number of low priority matters arising were identified and recommendations agreed with management to further strengthen the risk management process. During the audit the Director of Policy and Performance set out the Combined Authority's aim of reviewing its approach to risk management in line with the "Reframing Risk" module of the 'New Operating Models Handbook for Local Government' published by Nesta. This Internal Audit report will support the Combined Authority's initial self-assessment of its risk maturity. Further support from Internal Audit in a project assurance role, whereby Internal Audit advises on, and challenges, the approach to internal control within new and developing

Area of Review	Description of Assignment and Current Status
	systems and methods of service delivery will be considered as the review progresses. By undertaking such a role, the Internal Audit Service proactively acts as a partner to assist the organisation to achieve its aims and objectives.

2021/22 Planned Work Completed during Quarter 1

National Fraud Initiative Data Matching Exercise (2021/22 Planned Work)	The objective of this work was to investigate any 'matches' that were identified through the Combined Authority's participation in the Cabinet Office's National Fraud Initiative (NFI) data matching exercise. In summary, the exercise is a national scheme which helps with the prevention and detection of fraud. Data sets, such as trade creditors, are shared with the Cabinet Office by the participants who then analyse the data using analytics tools to identify matches. The matches do not necessarily mean that there is an issue, but highlight this for review locally. The exercise identified a small number of matches in relation to the data submitted by the Combined Authority. The majority of these were matches relating to trade creditors that required review to determine if duplicate payments had been made. All matches were reviewed and no issues in respect of fraud or duplicate payments were identified.

2021/22 Unplanned Work Completed during Quarter 1

Certification of NELEP Grant Returns	Internal Audit undertook grant certification work totalling £0.831m on behalf of the NELEP in relation to the following 2020/21 grant funding awarded by the Department for Business Energy and Industrial Strategy (BEIS): • Core Growth Fund - £0.410m • Supplementary Growth Fund 20/21 - £0.311m • EU Transition Business Readiness Grant - £0.110m In addition an audit assurance report was provided in relation to the BEIS Peer Network Grant Funding – Period 2 (1 March 2021-30 April 2021) expenditure of £0.217m. The grant terms and conditions require such a report where the expenditure in a claim period exceeds £0.100m. The overall claim certification deadline (covering periods 1 and 2) is 30 September 2021 and further work will be undertaken in relation to period 1 to complete the grant certification work for this grant funding stream.

Brownfield Housing Fund Grant Claim Certification	The Combined Authority was awarded £23.8million by the Ministry of Housing, Communities and Local Government over a five-year period to unlock between 1,500 and 2,500 new homes. Internal Audit performed certification of expenditure of £0.585m in respect of year one of the programme.

Work in Progress

Area of Review	Description of Assignment and Current Status
Arrangements for ensuring and evidencing delivery of the Devolution Deal	This audit is evaluating the effectiveness of the arrangements established to ensure that delivery of the Combined Authority's key outcomes and outputs, as enshrined in the Devolution Deal, can be clearly evidenced. An Internal Audit Project Brief was agreed with management and the audit fieldwork is progressing well. It is anticipated that following completion of this review, a summary of the findings and conclusion from the audit will be provided to the September 2021 meeting of the Audit and Standards Committee.
Adult Education Budget (AEB)	Ongoing support to the Combined Authority in a project assurance role whilst the organisation develops its governance arrangements around the implementation and ongoing management of the AEB. This role involves Internal Audit advising on, and challenging, the approach to internal control and methods of service delivery. By undertaking this role, Internal Audit proactively acts as a partner to the Combined Authority, in order to assist the organisation achieve its objectives.

Work Reprogrammed to the 2021/22 Strategic Audit Plan

As reported to previous meetings of the Audit and Standards Committee the following two audits originally planned for 2020/21 have been reprogrammed into 2021/22. This is a normal part of the audit planning and management process and reflects that audits are undertaken on a continuous rolling programme, according to the optimum timing for each piece of work and to accommodate work not originally included in the plan.

Area of Review	Description of Assignment and Current Status
Monitoring of grant conditions (in respect of grant funding both received by NTCA and issued by NTCA)	This audit will examine and evaluate the arrangements established by NTCA to monitor grant conditions as a grant funding recipient and ensure that specified outcomes are delivered; and also to assess arrangements within NTCA as a grant funder to set appropriate grant conditions when issuing funding to other organisations and monitor and evidence compliance with those grant conditions.

Area of Review	Description of Assignment and Current Status
Governance Arrangements in relation to the North East Local Enterprise Partnership (NELEP)	This audit will review the financial management, decision-making and reporting arrangements established between the Combined Authority and NELEP to ensure these adequately serve the Combined Authority's role as accountable body for the NELEP.

Previously Completed and Reported Work

Area of Review	Description of Assignment and Current Status
Policy Framework – Governance and decision making	The objective of this audit was to assess the adequacy of governance arrangements in relation to the policy framework, and how effective these are in operation, in relation to: • The completeness of the suite of policies in place; • The arrangements for implementing, approving, and reviewing policies; and • How policy owners are raising awareness, providing training and monitoring compliance. A Limited Assurance opinion was provided, which reflects the stage the organisation is at in relation to the development and maturity of its Policy Framework. The audit found a comprehensive suite of policies was in place. The outward facing strategic policies have been developed to support the vision of the NTCA, as "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". The Director of Policy and Performance and Policy Leads are working towards further embedding the principles of these strategic policies into the day to day work of the NTCA. At the conclusion of the audit recommendations were agreed with management in relation to: • Establishing the required level, and frequency, of training for each policy, developing training provision and monitoring compliance; • Developing the framework for the control of policy documents, including:

Area of Review	Description of Assignment and Current Status
	• Documenting the processes for policy development and review, reviewing effectiveness, and policy approval and implementation, • Assigning control of policy documents to a responsible officer who will monitor that each policy has an assigned author, a review date, and that revised policies are submitted to the correct decision-making body or person for approval.
Follow-up of Recommendations from the 2019/20 financial diagnostic toolkit work and Investment Fund audits	Evidence checking was undertaken of the implementation of all five high priority recommendations from the financial diagnostic tool and a sample of the 26 medium priority recommendations. The results of this work were reported to Audit and Standards Committee on 28 July 2020. At this time three of the five high priority recommendations had been implemented and work was underway regarding the remaining two, relating to updating Financial Regulations and Contract Standing Orders. Internal Audit have subsequently established that these two remaining recommendations were implemented through the approval of these key financial governance documents by Cabinet on 28 July 2020. Further work in relation to key financial systems has been included in the 2021/22 Internal Audit Plan.

2. Potential Impact on Objectives

2.1 The North of Tyne Combined Authority Corporate Plan 2021-2022 sets out the strategic objectives and priorities of the Combined Authority. The work of Internal Audit and Audit and Standards Committee contributes to the overall achievement of the Authority's objectives and priorities.

3. Key Risks

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

4. Financial and Other Resources Implications

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

5. Legal Implications

5.1 The Cities and Local Government Devolution Act 2016 establishes that Combined Authorities must arrange for the appointment of an Audit Committee and sets out the functions of the Audit Committee. This includes reviewing and assessing the authority's risk management, internal control and corporate governance arrangements.

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

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

6. Equalities and Implications

6.1 There are no direct equalities implications arising out of the recommendations in this report. The Audit and Standards Committee is mindful of its duty under the Public Sector Equality Duty and will always consider whether what is before them 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. The Committee also considers the implications for people from different socio-economic backgrounds/low pay as a protected characteristic.

7. Inclusive Economy Implications

7.1 There are no direct inclusive economy implications arising out of the recommendations in this report. The Audit and Standards Committee is mindful of the NTCA's inclusive economy ambitions and the five characteristics of an inclusive economy: participation; equity; growth; stability and sustainability.

8. Climate Change Implications

8.1 There are no direct climate change implications arising out of the recommendations in this report. The Audit and Standards Committee is mindful that the NTCA and the three constituent Local Authorities have declared a Climate Emergency.

9. Consultation and Engagement

9.1 The Interim Head of Paid Service, Chief Finance Officer, Director of Policy and Performance, and Director of Economic Growth were consulted in preparation of Internal Audit's 2020/21 and 2021/22 audit coverage.

10. Appendices

None

11. Background Papers

(a) Internal Audit Strategic Audit Plan 2020/21
(b) Internal Audit Strategic Audit Plan 2021/22
(c) Cities and Local Government Devolution Act 2016
(d) Accounts and Audit Regulations 2015
(e) Public Sector Internal Audit Standards, Chartered Institute of Public Finance & Accountancy / Institute of Internal Auditors, April 2017
Public Sector Internal Audit Standards
(f) Local Government Application Note for the UK Public Sector Internal Audit Standards, Chartered Institute of Public Finance & Accountancy / Institute of Internal Auditors, February 2019

12. Contact Officers

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13. Glossary

Abbreviation	Description
NFI	National Fraud Initiative - The Cabinet Office's data matching exercise
NELEP	North East Local Enterprise Partnership
AEB	Refers to the devolved Adult Education Budget

14. Sign-off

1) Head of Paid Service: Yes	2) Chief Finance Officer: Yes	3) Monitoring Officer: Yes

NORTH OF TYNE COMBINED AUTHORITY

Audit and Standards Committee

20 July 2021

Subject: Strategic Risk and Opportunities Register
Report of: Risk Advisor to North of Tyne Combined Authority (NTCA)

Report Summary

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

Risk Review Update

The review of the risk register which was carried out in June highlighted the following changes to bring to the attention of the Committee. Firstly, the risk which described the impact of the lockdowns imposed as a result of Covid-19 and the implementation of the new EU/UK trade deal procedures, is now shown as two separate risks on the risk register.

The Red- Amber-Green (RAG) risk assessments for both risks have also been revisited and reduced from Red to Amber, recognising the successful delivery of NTCA's Investment Programme, which has been re-orientated to support recovery in the NTCA area.

There continues to be some concerns for smaller businesses regarding implementation of the EU/UK trade deal procedures, although many larger businesses have been able to adjust to the new trade arrangements. Although the RAG assessment has been moved down, it remains Amber given the medium-longer term risks for larger businesses if the UK becomes viewed as a less favourable long-term location for producing products which are subsequently exported to the EU.

Secondly, the risk which monitors delivery of the devolution deal has also been updated, with its RAG assessment also reduced from Red to Amber. The review highlighted the progress the Authority has made delivering on its devolution deal commitments.

The opportunity which monitored the partnership arrangements between the Combined Authority and the North East LEP has been removed from the risk register. It is a year on since NTCA became the accountable body for the North East LEP with both organisations working collaboratively to develop its governance arrangements which are now embedded and working effectively.

Reframing Risk Management

Following Cabinet approval of the NTCA 2021/22 Corporate Plan, NTCA's Senior Management Team (SMT) have taken the opportunity to carry out a review of the risk management process.

The organisation has evolved since it was first established, with the number of its partnerships increasing significantly. Therefore, it is recognised that the identification and management of risks must be inclusive, encouraging dialogue with a range of our partners and stakeholders, as they play a big part in our delivery plans.

To start the process of developing a risk management approach which acknowledges our expansive partnership working and ensures it is robust and inclusive, a risk workshop was held on 28 June with the NTCA SMT and Officers. The workshop focussed on the Authority's delivery outcomes and its relationships with key partners and stakeholders and the engagement strategies necessary to collectively deliver the Authority's aims and ambitions.

A further report will be presented to the Committee at its next meeting, providing the outcomes from the workshop and progress made towards reframing the risk management process.

Recommendations

The Audit and Standards Committee is recommended to:

1. Acknowledge the improvements in the RAG assessments which have been reduced to Amber from Red and the separation of the Covid-19 and EU/UK trade deal risks
2. Agree to the removal of the North East LEP opportunity from the risk register
3. Review challenge and accept the outcomes of the strategic risk review
4. Acknowledge the activity underway to reframe the risk management process and how risks and opportunities will be managed in the future
5. Note a summary of the strategic risks identified by the North East LEP (Appendix C) and North East Joint Transport Committee (North East JTC) (Appendix D) are included for information

1. Background Information, Proposals and Timetable for Implementation

1.1 The report aims to provide members with an update of the strategic risks and opportunities, which may impact upon the achievement of the Authority's priorities.

2. Strategic Risk Register Review

2.1 **External Risks - Covid-19 and the EU/UK Trade Deal**
In response to the Committee's request at the April meeting, the risk which described the impact of lockdowns imposed as a result of Covid-19, and the implementation of the new EU/UK trade deal procedures, is now shown as two separate risks on the risk register.

This will ensure the Committee can see more clearly the impact of the Covid-19 restrictions and the implementation of the Trade Deal may have upon the delivery of the Authority's economic growth and employment opportunity schemes.

The RAG assessments for both risks have also been reviewed and reduced from Red to Amber, recognising the successful delivery of NTCA's Investment Programme, which has been re-orientated to support recovery in the NTCA area and Government's announcement to significantly relax Covid-19 restrictions, which will increase social contact and open up the remaining sectors of the economy.

There continues to be some concerns for smaller businesses regarding implementation of the EU/UK trade deal procedures, although many larger businesses have been able to adjust to the new trade arrangements. Although the RAG assessment has been moved down, it remains Amber given the medium-longer term risks for larger businesses if the UK becomes viewed as a less favourable long-term location for producing products which are subsequently exported to the EU.

Risks and uncertainties remain to both the outlook for Covid-19 and the economy with NTCA continuing to monitor its risks and mitigation strategies closely to ensure it continues to deliver on its aims and ambitions.

Delivery of Devolution
The risk which monitors the delivery of the devolution deal has also been updated. The risk review highlighted the rapid progress the Authority has made delivering on its devolution deal commitments. Acknowledging the successful delivery of its projects and schemes using the devolved powers and resources.

The outcome of the review has also resulted in the RAG assessment being reduced from Red to Amber.

2.2 **North East Local Enterprise Partnership**
Following the review of the risk register in June 2021, the opportunity which monitored partnership arrangements between the Combined Authority and the North East LEP to ensure effective governance arrangements were established has been removed from the register.

It is a year on since NTCA became the accountable body for the North East LEP with both organisations working collaboratively to develop its governance arrangements which are now embedded and working effectively.

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

The strategic risks identified by the North East LEP are also included at Appendix C. This provides NTCA visibility of the North East LEP strategic risk areas to consider if the risks identified by the North East LEP have any impact upon the delivery of NTCA's plans and priorities.

2.4 Transport continues to be of strategic importance to the North East and the collaborative working of both Combined Authorities allows effective decision making across the region. The North East JTC is responsible for bringing together members from both Combined Authorities allowing the collective identification and management of the most significant risks to the successful operation of the North East JTC and delivery of its objectives and plans.

The JTC Strategic Risk Register, which records the biggest threats to the achievement of the strategic objectives of the North East JTC and its organisational risks, was updated by NECA's risk management service, and presented to the JTC Audit Committee at its meeting on 16 June 2021.

A summary of the North East JTC strategic risks as reported in June 2021 is provided at Appendix D for information only. A full copy of the JTC strategic risk register and mitigation plans can be found on the JTC Audit and Standards Committee Agenda here.

3. Reframing the Risk Management Process

3.1 Following Cabinet approval of the NTCA 2021/22 Corporate Plan, which sets out how the Authority will deliver on its priorities over the medium and short term, NTCA's Senior Management Team (SMT) have taken the opportunity to carry out a review of the risk management process.

The organisation has evolved since it was first established, with the number of its partnerships increasing significantly. Therefore, it is recognised that the identification and management of risks must be inclusive, encouraging dialogue with a range of our partners and stakeholders as they play a big part in our delivery plans.

This collaborative approach to exploring risks and opportunities with our partners will ensure we are focussed on the partnership working and opportunities which when managed effectively will produce better outcomes for our citizens, recognising the challenges they face.

To start the process of developing a risk management approach which is both flexible and inclusive, a risk workshop was held on 28 June with the NTCA SMT and Officers. The workshop focussed on the Authority's delivery outcomes and its relationships with key partners and stakeholders and the engagement strategies necessary to collectively deliver the Authority's aims and ambitions.

Evolving the authority's approach to the management of risk will take time to develop and embed across the organisation, therefore we will continue to manage the risks already identified across the organisation and they will be reported by our existing processes.

A further report will be presented to the Committee at its next meeting, providing the outcomes from the workshop and progress made towards reframing the risk management process.

4. Potential Impact on Objectives

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

5. Key Risks

5.1 There are no direct risk management implications from this report. The approach to risk management is documented within the NTCA's risk management policy and strategy, which will be updated over the coming months to reflect the activity underway to reframe the Combined Authority's approach to the management of risk. The key risks will continue to be reported regularly to the Audit and Standards Committee.

6. Financial and Other Resources Implications

6.1 There are no direct financial implications arising from this report. Risk Management work is supplied to NTCA (and the North East LEP) during 2021/22 through a Service Level Agreement with Newcastle City Council.

7. Legal Implications

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

8. Equalities Implications

8.1 There are no equality and diversity implications arising from this report

9. Inclusive Economy Implications

9.1 There are no direct inclusive economy implications arising out of the recommendations in this report

10. Climate Change Implications

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

11. Consultation and Engagement

11.1 Cabinet have approved the Strategic Risk Register including risks and opportunities. The Managing Director, Monitoring Officer and Chief Finance Officer have been consulted on the Strategic Risk and Opportunity Register.

12. Appendices

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

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

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

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

Appendix E – Risk Analysis Toolkit to determine the risk priority

13. Background Papers

13.1 The North East Joint Transport Committee (JTC) strategic risks can be found on the NECA website as part of the June 2021 JTC Audit Committee agenda here..

14. Contact Officers

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15. Glossary

15.1 None

16. Sign-off

16.1 Head of Paid Service: Yes

Monitoring Officer: Yes

Chief Finance Officer: Yes

‘Risk at a glance’ **Appendix A**

	Risk Priority	Direction of Travel
Strategic Risks & Opportunities		
Risks		
External Risk **1. COVID-19** The inability to fully deliver the Authority’s schemes and achieve the required outcomes in relation to economic growth and employment opportunities has been significantly impacted by the lockdowns imposed as a result of Covid-19	**Amber 8**	**Improving**
External Risk **2. EU/UK Trade Deal** Planning and implementation of the new EU/UK trade deal procedures, and relationships between the UK and the European Union impacts negatively on the Authority’s ability to deliver its schemes and achieve the required outcomes in relation to economic growth and employment.	**Amber 8**	**Improving**
3. Delivery of Devolution Unable to deliver components of the Devolution Deal or negotiate further powers and resources.	**Amber 8**	**Improving**
4. Operational Capacity and Resources The Combined Authority is unable to demonstrate to Government and partners that it has the necessary capacity, skills and expertise to successfully deliver the devolution deal, within the constraints of approved funding streams, timeframes, conditions and performance criteria.	**Amber 8**	**Static**
Opportunities		
5. Partnerships The establishment of the Combined Authority provides us with an opportunity to strengthen the existing partnership arrangements in the region, and across the public and private sector to drive forward change to meet our ambitions and successfully deliver the North East Strategic Economic Plan.	**Amber 8**	**Static**
6. North East LEP As the accountable body for the North East LEP there is greater opportunity to maximise partnership arrangements with NTCA through working together to coordinate and manage resources, embedding effective governance arrangements between the bodies, collectively responding to future opportunities and challenges.	**Closed**	

External risk	
1. COVID-19 The inability to fully deliver the Authority's schemes and achieve the required outcomes in relation to economic growth and employment opportunities has been significantly impacted by the lockdowns imposed as a result of Covid-19	**Risk Owner** Managing Director **Risk Score** **Current controlled score – Amber 8** **Target Score – Green 4**

Cause:
The global society and economy means that highly infectious diseases and viruses such as COVID-19 can spread quickly, and containment and other mitigation efforts are complex. The lockdown measures essential to control the virus has forced our providers to close or operate in different ways and often to reduced capacity during the lock down period, having a dramatic negative impact on their ability to deliver agreed projects/outcomes.

Impact:
Investment Fund
- Previous Government coronavirus restrictions have led to some delays to delivery and impact of NTCA interventions – although in the majority of cases outputs are expected to remain broadly unchanged
- Forthcoming end to furlough scheme could raise unemployment
- A number of businesses – especially in retail and hospitality – have been impacted by Covid-19 and are likely to remain vulnerable for some time
- The medium-longer term impact of Covid-19 remains unclear, including on demand for retail and office space

Adult Education Budget
- As a result of the pandemic, other sources of income available to adult education providers is now at risk which could result in financial instability and longevity of the institution/organisation
- Continuity of funded provision for NTCA residents is at risk if providers become financially unstable

Existing Controls:
- The NTCA is working closely with LAs, North East LEP, NECA, and other partners in the region to ensure we have a joined-up response to Covid-19. This work has progressed well, with a single regional plan developed.
- Covid-19 Capacity Fund grants of £1.5m offered to Constituent Authorities in the North of Tyne region to meet local needs
- Investment Fund Programme has been re-orientated to support recovery in the NTCA area, including through the Innovation Recovery Fund and measures to support the Kickstart programme of Youth unemployment
- A small number of projects have been reprofiled, to enable them to move from in-person to on-line delivery
- Ongoing dialogue with NTCA adult education providers and employers to ensure delivery continues to meet area skills needs
- NTCA Strategic Skills Plan has been updated in 2021 reflecting the area's skills needs for an inclusive economic recovery

Next Steps	Deadline	Lead Officer(s)
Regular meetings of the North East Covid-19 Economic Response Group - launched to provide maximum support for businesses in the immediate term and to plan for long-term economic recovery.	Ongoing	Managing Director
Although Government has not devolved funding to Mayoral Combined Authorities (MCAs) to support	Ongoing, Review December 2021	Managing Director

COVID-19 recovery, MCAs continue to press Government to enable the delivery of local solutions.		
Investment Fund We are continuing to assess the impact of the Covid-19 crisis across our programmes as required, working with project sponsors to provide additional support and enable the development of alternative delivery methods to realise outcomes. The first elements of the Innovation Recovery Fund are now being implemented.	Ongoing, Review December 2021 -	Managing Director
Adult Education Budget Additional funding allocated to NTCA under the AEB for AY 2020/21 to support a Covid-19 response. NTCA have worked with existing Grant providers and those on the NTCA AEB Procurement Framework to operationalise this additional funding, at pace, to reflect the Authority's vision and Government guidelines.	Completed July 2021	Managing Director
Adult Education Budget Continued engagement with NTCA AEB providers, via provider roundtables and quarterly one to one performance monitoring meetings identify the impacts of Covid-19 and inform the direction, priorities and allocations for the NTCA AEB providers. Informing the plan for the immediate impact of Covid-19 and medium/long term mitigation planning.	Ongoing review August 2021	Managing Director
Adult Education Budget The launch of the online 2021-2023 Strategic Skills Plan will ensure updates can be implemented quickly to ensure its ongoing relevance during the pandemic and into recovery.	Plan launched 1 April 2021	Managing Director
NTCA will continue to highlight relevant issues with Government and make the case for a significant Covid-19/Brexit economic stimulus package, comprising both one-off resources and longer-term replacement for EU funding.	Ongoing review September 2021	Managing Director

External risk **2. EU/UK Trade Deal** Planning and implementation of the new EU/UK trade deal procedures, and relationships between the UK and the European Union impacts negatively on the Authority's ability to deliver its schemes and achieve the required outcomes in relation to economic growth and employment.	**Risk Owner** Managing Director **Risk Score** **Current controlled score – Amber 8** **Target Score – Green 4**

Cause:
Despite the end of the Transition Period on 31 December 2020, many businesses have yet to fully prepare for the changes which will be required. This has reflected the immediate pressures they are under from Covid-19 and the lack of clarity about the long-term future trading arrangements with the EU.

Impact:
Government modelling predicts that the NE is likely to be the region of the country which is hardest hit by changes in the trading relationship with Europe. Nevertheless, the current key risk associated with the trade deal is the lack of capacity of businesses and stakeholders to engage with planning and the implementation of new procedures, due to the ongoing Covid-19 pandemic.

Existing Controls:

- Detailed guidance for businesses has been developed through the Growth Hub's 'UK Transition Toolkit', while training, guidance and advice has been promoted. Sectoral discussions have highlighted issues associated with the multi-country origin of automotive components, the need for the pharmaceuticals sector to have clarity about regulatory requirements associated with product certification and labelling; and the sensitivity of the NE farming sector to post-Brexit agricultural policy, subsidies and export tariffs. The NE's response to consultations on migration have highlighted that any new points-based immigration system should take into account lower average wage levels outside London and the SE, due to lower costs of living.
- The NTCA inward investment fund has been increased to £10million. This fund is intended to help make it easier for firms to make a first investment in the area, by helping reduce some of their upfront costs.
- The EU Implementation Group is updating its previous priorities to reflect the new EU-UK trade deal. Actions will include:
  - To highlight current issues facing businesses as they navigate the new EU-UK trade deal to Government
  - To respond to the UK Shared Prosperity Fund (UKSPF) consultation with evidence of strategic priorities for the North East.
  - To keep abreast of the EU settlement scheme and its take-up in the region

Next Steps	Deadline	Lead Officer(s)
The NTCA continues to work with a wide range of stakeholders – including all the main business representative organisations, VCS, TUC and other public sector partners – to monitor the impact of the new trade arrangements on the NE. NTCA through the Mayor and Cabinet will continue to work closely with businesses, to understand and monitor any potential negative impacts of the new EU/UK trade deal, alongside any opportunities with government. The full impacts of changing trade relationships may not be known for many years – at the point at which multinational companies chose whether to invest further in facilities or whether to move production.	Ongoing, review December 2021	Managing Director

NTCA will continue to highlight relevant issues with Government and make the case for a significant Covid-19/Brexit economic stimulus package, comprising both one-off resources and longer-term replacement for EU funding. This could form part of the SPF and future devolved funding	Ongoing, review December 2021	Managing Director

3. Risk - Delivery of Devolution Unable to deliver components of the Devolution Deal or negotiate further powers and resources.	**Risk Owner** Managing Director **Risk Score** **Current controlled score – Amber 8** **Target Score – Green 4**

Cause:
Government do not fulfil their existing commitments under the devolution deal

Impact:
Projects and schemes are not delivered within agreed timeframes and do not satisfy key criteria or achieve required outcomes across our key areas of work:

Existing Controls:

- M9 Group of Metro Mayors working together to influence government on agreed priorities which will strengthen devolved powers
- Housing and Land Board supports NTCA's governance arrangements regarding the integrated strategic approach to improving the quality and quantity of homes in the North of Tyne area
- Establishment of the Investment Fund through which NTCA is administering the North of Tyne Single Pot allocation of Government funding
- Ongoing delivery of Investment Fund – with projects continuing to be developed, appraised and delivered during the pandemic period. Investment panel monitors performance on a monthly basis, with job and activity levels above profile
- Assurance Framework agreed with Government which operates effectively
- AEB Provider Performance and Management Framework in place and used from 1 August 2020
- Existing intelligence sharing process with regional ESFA, sharing notices of concern regarding the NTCA provider base

Next Steps	Deadline	Lead Officer(s)
Investment Fund All Investment Fund Programme projects have been reviewed to establish operational requirements. New projects have been introduced, including to support recovery phase, with only about £20m of the investment programme remaining uncommitted. Over the Summer/Autumn, the programme will be reviewed further in light of new economic conditions and Cabinet priorities for remaining resources.	Review December 2021	Managing Director
Investment Fund An evaluation framework to capture our achievements and learning is in development, supported by the introduction of a programme management system which will improve programme management and monitoring, streamlining the interface with delivery organisations for claims and output reporting. This evaluation framework is being shared with Government, as part of the process leading up to the Investment Fund Gateway Review.	Review December 2021	Managing Director
Adult Education Budget Opportunity For All – The updated Strategic Skills Plan 2021-2023, sets out our ambitious programme	Review April 2022	Managing Director

for skills development in the region, reflecting the area's skills needs for an inclusive economic recovery.		
Adult Education Budget Additional funding delegated to NTCA via AEB for the Level 3 Offer of the Government's Lifetime Skills Guarantee from April 2021 onwards. The Delegation has additional criteria to the devolved funds. NTCA AEB processes and documentation have been updated to ensure these additional requirements are met and funding is allocated appropriately.	Review August 2021	Managing Director
Officers at NTCA and the Department for Education have developed a shared Education Improvement work programme, with funding request to leverage DfE funding. This will be presented to NTCA Investment Panel and Cabinet in September. Work continues with Government to negotiate the overall funding package to improve education in our schools through an Education Challenge.	Review October 2021	Managing Director

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

Cause:

- Coronavirus pandemic is leading to significant increases in workload, reducing constituent council's capacity which can be allocated to NTCA operations.
- Insufficient capacity to delivery new funds announced by Government

Impact:

- Existing resources are not fully utilised to effectively deliver the Authority's strategic priorities
- Projects and schemes are not delivered within the approved timeframes and do not meet performance criteria

Existing Controls:

- Interim Statutory Officer appointments (Head of Paid Service, Monitoring Officer, Chief Finance Officer) Mayor and other key officers
- Senior Officer appointments including Director of Policy and Performance, Managing Director, Head of Inclusive Growth, Education Improvement Challenge Strategic Lead, Chief Economist.
- Head of Paid Service designation to Managing Director (formerly Director of Economic Growth) in June 2021.
- Constituent Authorities provide support services to the Authority through Service Level Agreements
- Recruitment plan in place, which is regularly reviewed as we grow.
- A structured exercise has been undertaken to develop resource plans, gauge capacity and clarity with assigned roles and responsibilities to facilitate the effective operation of the Authority. A work programme has been developed for officer use and is referenced in all appraisals
- Implementation funding was paid by DfE, to ensure appropriate capacity and resources were put in place for the introduction of the devolved Adult Education Budget. Since go-live in August 2020, capacity and resource is paid from the fund itself, as an administration allocation.

Next Steps	Deadline	Lead Officer(s)
Business Continuity Plan (BCP) – the formulation of a full BCP has begun with an information gathering exercise underway. Development has stalled due to the impact of Covid-19 with delays to the receipt of information sought from other organisations. The focus of BCP will now reflect the new office location move now expected September 2021.	Review Autumn 2021	Director of Policy and Performance
Values and Behaviours sessions concluded and 'learning lunches' introduced. Various social groups and activities have been established online over lockdown to improve team wellbeing.	Review Autumn 2021 with move to new office.	Director of Policy and Performance
A Covid-19 Contingency Plan is in place to support central government guidance, homeworking and officer deployment instructions. The Plan worked well and a small cohort have successfully returned to the office for some months now. Process implemented to ensure number in office at any one time is 6 or below. Discussions have begun with staff on moving to a hybrid model of working.	Review Autumn 2021 with move to new office.	Director of Policy and Performance

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

Benefits:

- Strengthening the synergy between Cabinet, the North East Local Enterprise Partnership and Local Authorities
- Influencing regional approaches to growth
- Developing our relationships and how we work with Government, business, investors and partners
- Learning from best practice Local Authorities, other Combined Authority's and Government

Barriers:

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

Existing Controls:

- Mayor's Ambassador for the Voluntary, Community and Social Enterprise Sector (VCSE) appointed and Accord agreed
- Regular meetings with the Business Community i.e. CBI, Federation for Small Businesses, Entrepreneurs' Forum
- Community and Voluntary Sector engagement meetings
- The North East LEP is leading the regional development of the Local Industrial Strategy
- NTCA representation on:
    - The North East LEP Boards (Investment, Skills Advisory Panel, Innovation and Business Growth)
    - The Board of Transport for the North
    - The North East Joint Transport Committee (and sub-committees), responsible for preparing a single transport plan for the area of both Combined Authorities
- NTCA and DWP Framework Agreement in place to coordinate employment, skills and health services across the North of Tyne area
- NTCA Inclusive Economy Board with member representation from the public, private and voluntary sector, including constituent LA's and North East LEP

Next Steps	**Deadline**	**Lead Officer(s)**
VCSE Ambassador reappointed for another year. No Mayoral Ambassador for the business sector to be recruited as good engagement with regular meetings and consultation with the business community has developed throughout the pandemic and this model will remain in place throughout 2021/22.	June 2022	Director of Policy and Performance
VCSE Accord - how the NTCA can add value to the work of our local government partners with the VCSE to build capacity, sustainability and be a catalyst for an inclusive economy. First year of operation completed and feedback is that it is working well.	Spring 2022	Director of Policy and Performance
Continued engagement with AEB providers, employers and stakeholders in the North of Tyne area to ensure a	Ongoing	Managing Director

collaborative approach to aligning adult skills to deliver the Authority's vision.		
Good Work Pledge – The implementation, promotion and development of the Good Work Pledge continues. A Coronavirus impact analysis to determine the next steps and timelines has been undertaken. The Good Work Pledge was launched publicly in November 2020 and response from the business community has been positive.	Review August 2021	Director of Policy and Performance

Appendix C

North East Local Enterprise Partnership – Strategic Risks (for information only)

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

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

<u>Risk Score</u>

Red 12

Likelihood – Medium
Impact – Critical</td></tr>
<tr><td colspan="2">Cause:
All funding sources relating to staff resourcing, the core operational budget and project delivery are time limited and are not sufficient to allow the Local Enterprise Partnership (LEP) to effectively plan a medium-term budget and operational model.</td></tr>
<tr><td colspan="2">Impact/Consequence:
The LEP will need to adjust to operate with a reduced level of staffing resource, limiting and prioritising the scope of work that can be delivered, if future funding is not made available and/or secured.</td></tr>
<tr><td colspan="2">Existing Controls:
• The 2021/22 LEP operational budget including a three-year estimate budget was agreed by the LEP Board in May 2021 and separately by its accountable body
• Some financial reserves are held by the LEP from previous financial years
• Potential to call on financial resources relating to Enterprise Zone income if required
• Ongoing monitoring of external funding landscape and actions to secure alternative sources
• A company limited by guarantee is in place alongside the LEP structure which enables a wider source of funding applications to be made and the LEP to seek funding from other sources</td></tr>
</table>

Next Steps	**Lead Officer(s)**
Budget management and forecasting on-going for 21/22 and as reported to the LEP Board in May for the three-year estimate budget	Helen Golightly (Chief Executive)
Lobbying of Government to secure additional and longer-term resources for LEPs on-going	Helen Golightly (Chief Executive)
On-going horizon scanning for funding opportunities to support the team and delivery.	Helen Golightly (Chief Executive)

<u>Changes in the role and scope of LEPs by government with no new resource to support delivery</u> Government fails to allocate sufficient operational budgets in the changing role and scope of LEP's as a consequence of the LEP Review .	**<u>Risk Owner</u>** Chief Executive **<u>Risk Score</u>** Red 12 Likelihood – Medium Impact – Critical

Cause:
In 2018 Government reviewed the role and scope of LEP activity set out in the paper 'Strengthening LEPs'. At that time Government required LEPs to be independent of local authorities with a wider remit around Local Industrial Strategies, funding and Brexit and a shared role in responding to the Covid 19 pandemic. Due to government changes, the Industrial Strategy Council was stood down by the Secretary of State for BEIS which concluded the Local Industrial Strategy focus, with other opportunities emerging that will drive future policy programmes.

During summer 2021 a LEP Review will be undertaken which should provide clarity on the changing role and function of LEPs, as well as the anticipated Levelling up White Paper. There needs to be sufficient financial resources made available to LEPs to support the changing role and activity that will occur.

Impact/Consequence:
The LEP operational budget does not have sufficient headroom for additional staffing capacity and the impact of the LEP Review remains unknown. Limited capacity in the budget to meet the demands of any changes could lead to current staff resources being spread too thinly, reducing impact and effectiveness in facilitating the delivery of the Strategic Economic Plan and as we the pandemic.

Existing Controls:
- The LEP continues to work closely with government to try to influence policy and its practical delivery implications
- The LEP continue to play an active role to understand the implications of the LEP Review
- The LEP Network (national body) plays a key lobbying role with government

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

Government Capital Funding Government capital funding to replace Local Growth Funding (LGF) may be insufficient to support the delivery of the strategic projects within the SEP, the emerging Local Industrial Strategy (LIS) and Covid-19 response plan.	**Risk Owner** Chief Executive **Risk Score** Red 12 Likelihood – Medium Impact – Critical

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

Impact/Consequence:
Without a clear understanding of future potential funding, the development and delivery of strategic projects related to the SEP, the anticipated Levelling Up White Paper and Covid 19 response planning is at risk.

Existing Controls:
- The 2019 refreshed SEP is strongly aligned to key government policies which should attract investment if it becomes available.
- The LEP is working with key government stakeholders and other partners to influence policy and funding thinking
- The LEP is supporting the LEP Review being undertaken during Summer 2021
- The LEP is working with regional partners to develop a pipeline of strategic projects in preparation including innovation projects.
- The LEP is continuing to work with regional partners as we emerge from the pandemic and support the economy as part of a Covid 19 economic response plan.

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

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

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

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

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

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

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

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

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

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

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

Existing Controls:

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

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

Covid-19 or any other epidemic / pandemic The lockdown imposed as a result of the Covid-19 in March 2020 in the UK has had a significant impact on the regional economy and demonstrated that epidemics/pandemics pose a high risk to regional, national and global economies.	**Risk Owner** Chief Executive **Risk Score** Red 12 Likelihood – High Impact – Critical

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

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

Existing Controls:
- A North East Covid-19 Economic Response Group is in place. It is a regional partnership comprising of the North East LEP, North of Tyne and North East Combined Authorities, CBI representing businesses, VONNE, the TUC, the universities and transport colleagues.
- The Group meets on a regular basis
- Work is on-going to ensure the recovery plan focuses on how we continue to emerge from the pandemic, with a focus on our economy and our regional priorities
- Ongoing liaison with the LEP Network and NP11 on Covid-19 issues

Next Steps	Lead Officer(s)
Continue to support and facilitate the Covid-19 Economic Response Group as we emerge from the pandemic	Helen Golightly (Chief Executive)
Ensure continued alignment and co-ordination of key messaging and interventions	Helen Golightly (Chief Executive)
Actively lobby government including through the LEP Network and NP11	Helen Golightly (Chief Executive)

Appendix D

North East Joint Transport Committee Strategic Risks (for information only) *The North East JTC Strategic Risk Register has been prepared by NECA's risk management service The register is presented regularly to the North East JTC Audit Committee.*		
JTC Risks to Achievement of Strategic Objectives	**Risk Priority**	**Direction of Travel**
Carbon Neutral Transport Failure to achieve the aspiration of carbon neutral transport network within the JTC area by 2035.	**Red 12**	**Static** *Due to possible negative impact of Covid-19 on future funding and need for behavioural change*
Inequality and Growth of the Economy Failure to achieve the planned outcomes to overcome inequality and support the growth of the economy in the JTC area.	**Red 12**	**Static** *Due to possible negative impact of Covid-19 on future funding and cost and service availability users of public transport*
Health Failure of the transport system to achieve the planned outcomes to contribute the improvements in health of the population in the JTC area.	**Amber 8**	**Static** *Positive impact of Covid-19 on active travel counter balanced by possible negative impact of Covid-19 on future funding and need for behavioural change*
Appealing Sustainable Transport The transport network within the JTC area fails to achieve the planned outcomes regarding the offer of appealing sustainable transport choices to people living or working in the area or visiting or travelling through the area.	**Red 12**	**Static** *Due to possible negative impact of Covid-19 on future funding and cost and service availability to users of public transport*
Safety and Security The transport system within the JTC area fails to achieve the planned outcomes regarding its safety and security.	**Amber 8**	**Static** *Arrangements in place but possible negative impact of Covid-19 on future funding*
JTC Organisation Risks		
Future Availability of Funding Sources and levels of funding available to the JTC to develop the North East regions transport infrastructure within the region may reduce.	**Amber 8**	**Static** *Increased Funding Opportunities for JTC*

Funding Opportunities Failure of the JTC to secure the maximum amount of transport funding available to progress transport infrastructure in the North East region.	**Amber 8**	**Static**
Use of Funding and Resources Funding secured for transport initiatives within the North East region by the JTC and its partners may not be able to be used on a timely basis or be sufficient to complete intended projects.	**Amber 8**	**Static**
Governance Arrangements The governance arrangements of the JTC are not appropriate to allow effective and timely decision making and the achievement of its objectives.	**Green 4**	**Static**
Operational Capacity and Resourcing The JTC does not have the necessary operational capacity, skills and budget, to successfully deliver the JTC's objectives and plans.	**Amber 8**	**Static**
Delivery of Transport Improvement Projects/Programmes Projects which are funded through the JTC are delayed, are significantly overspent or do not deliver the intended product to meet the identified transport need.	**Amber 8**	**Static**
Transport Infrastructure Assets Transport assets, which are the responsibility of the JTC, are inadequately managed and maintained.	**Green 6**	**Static**
Service Delivery Inadequate arrangements are in place to ensure that adequate levels of public transport services, for which the JTC has oversight, are maintained by the JTC's transport delivery partners.	**Green 6**	**Static**
'Catastrophic Event' Inadequate arrangements are in place should a 'catastrophic' event occur which seriously impacts the transport system in the North East. e.g. public health emergency, security incident, infrastructure collapse (e.g. power, fuel)	**Amber 8**	**Static**

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

Determine the risk priority

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

Assess the likelihood of the risk occurring

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

Assess the impact should the risk occur

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

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NORTH OF TYNE COMBINED AUTHORITY

Audit and Standards Committee

20 July 2021

Subject: **Audit Progress Report and Re-drafted Audit Strategy Memorandum**

Report of: **Chief Finance Officer**

Report Summary

The purpose of this report is to present the Audit Progress Report from Mazars, providing an update on progress in delivering their responsibilities as our external auditors. The report informs the Audit and Standards Committee that the 30 September deadline for audit of the Statement of Accounts will not be met due to backlog of work and resource difficulties. The report also includes a re-drafted Audit Strategy Memorandum report. The Audit Strategy Memorandum was brought to April Audit and Standards Committee and summarised the audit approach, highlighted significant audit risks and areas of key judgements and provided details of the audit team. The purpose of the re-drafted Audit Strategy Memorandum is to update members on the revised timetable for the audit of the Statement of Accounts and the position in relation to the approach for the audit of the North of Tyne Group accounts.

Recommendations

The Audit and Standards Committee is recommended to review and note:

1. Audit Progress Report attached as Appendix 1.
2. Re-drafted Audit and Strategy Memorandum attached as Appendix 2.

1. Background Information, Proposals and Timetable for Implementation

1.1 Mazars were appointed as the External Auditor of North of Tyne Combined Authority in 2018/19 and have since completed the 2018/19 and 2019/20 audit of the North of Tyne Statement of Accounts.

1.2 The Accounts and Audit Regulations 2020/21, which took effect from the 31 March 2021, extended the requirement for the audited accounts to be published from 31 July to 30 September. The re-drafted Audit Strategy Memorandum, attached at Appendix 2, revises the timetable for audit fieldwork to October/November 2021 with completion of the audit in November 2021 after the date required for publication. With the audited Final Statement of Accounts being taken to an extra-ordinary Audit and Standards Committee to be arranged in November 2021 for review and recommendation to Cabinet 30 November 2021.

1.3 The Audit Progress Report details the reason for the delay to the audit as being due to backlog of work and resource difficulties due to departure of staff, retention, and recruitment. This situation is being reflected nationally by all audit firms throughout the audit sector as set out in the independent review by Sir Tony Redmond into the effectiveness of external audit and transparency of financial reporting.

2. Potential Impact on Objectives

2.1 The requirement for the audited accounts to be published by 30 September as per the Accounts and Audit Regulations 2020/21 will not be met.

3. Key Risks

3.1 There are no risk management issues arising from this report.

4. Financial and Other Resources Implications

4.1 The Public Sector Audit Appointments (PSAA) Panel scale audit fee for 2020/21 is included in the Re-drafted Audit Strategy Memorandum any further fee increase will be discussed between the Chief Finance Officer and Mazars. There are no other financial or other resource implications arising from this report.

5. Legal Implications

5.1 The Accounts and Audit Regulations 2020/21, which take effect from 31 March 2021, extend the requirement for the audited accounts to be published from 31 July to 30 September, with the exercise of public rights, common inspection date being removed and the draft accounts published no later than 1 August. This revised regulation will apply also to the 2021/22 accounts. The draft accounts will be published by 1 August in line with this Regulation, however, the audited accounts will not be published in line with 30 September deadline.

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 This report is to note and does not require any further consultation or engagement consideration.

10. Appendices

Appendix 1 Audit Progress Report
Appendix 2 Re-drafted Audit Strategy Memorandum

11. Background Papers

None

12. Contact Officers

Janice Gillespie, Chief Finance Officer

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

13. Glossary

ASM	Audit Strategy Memorandum
PSAA	Public Sector Audit Appointments Panel

14. Sign-off

1) Head of Paid Service: Yes	2) Chief Finance Officer: Yes	3) Monitoring Officer: Yes

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Audit Progress Report

North of Tyne Combined Authority

July 2021

mazars

1. Audit progress
2. National publications

01

Section 01:

Audit progress

Audit progress

Purpose of this report

This report provides the Audit and Standards Committee with an update on progress in delivering our responsibilities as your external auditors and also includes, at Section 2, for your information, a summary of recent national reports and publications.

2019/20 audit

Public Sector Audit Appointments (PSAA) Limited has recently confirmed its agreement of the fee variations related to the 2019/20 audit. We will arrange for billing in due course.

2020/21 audit

We have included our revised 2020/21 Audit Strategy Memorandum as a separate item on this agenda.

We have communicated to management that we will be unable to meet the end of September timetable due to a backlog of work, resource difficulties, the departure of staff and difficulties with recruitment and retention. We now plan to undertake the audit from late September 2021 at the earliest, with completion by the end of November 2021 at the latest, subject to receipt of Pension Fund assurances from the auditor of the Tyne and Wear Pension Fund. We will try and do some preliminary work earlier than this in relation to sample selection, so that when we start the work in earnest, management will have had time to gather the supporting information we need.

As you are aware, the difficulties we are experiencing reflect the significant challenges in the local audit sector and are being experienced nationally by all audit firms working within the local audit regime. These issues were set out in the independent review by Sir Tony Redmond into the effectiveness of external audit and transparency of financial reporting in local authorities which reported on 8 September 2020 and the National Audit Office (NAO) publication, Timeliness of Local Auditor Reporting on Local Government in England, 2020 published on 16 March 2021.

Audit progress

Redmond concluded that the “local audit market is very fragile” and highlighted that 40% of 2018/19 audits had failed to meet the reporting timetable of 31 July 2019.

The position worsened in 2019/20 in part due to the pandemic. The NAO report highlights that only 45% of 2019/20 audits met the 30 November 2020 deadline, which had been extended as a result of the Covid-19 pandemic. Some of the relevant underlying weaknesses were summarised in the NAO report as follows:

> 14 The COVID-19 pandemic has exacerbated problems which already existed within the local audit landscape. Our previous reports and consultation with the sector identified several long-standing problems within local audit. There is insufficient staff with the relevant qualifications, skills and experience in both local finance teams and firms serving the local audit sector, and a net loss of qualified staff from both. The requirements of International Financial Reporting Standards, along with the increased expectations from the Financial Reporting Council (FRC) following the high-profile corporate failures such as Carillion, have combined to produce a significant increase in audit work, such as on asset and pensions valuations, which local authorities found less useful. The relative lack of attractiveness of the audit of local public bodies, compared with alternative audit opportunities available to staff, has contributed to a high staff turnover level.

Mazars has avoided the worst of these difficulties in the last two audit years (2018/19 and 2019/20) but we are now experiencing similar problems to the other audit firms.

One of the Government’s responses to the Redmond Review has been to extend the audit timetable for 2020/21 audits to 30 September 2021 on the grounds that 31 July is unrealistic at the current time. However, this is two months earlier than last year’s timetable of 30 November and fails to account for the continuing impact of the pandemic. The working restrictions imposed on all of us by Covid-19 has meant that work is taking longer to complete and this has also led to a backlog of 2019/20 audit work.

Our priority is to deliver a high quality audit and where we are unable, for reasons beyond our control, to work to the shorter timetable our only option is to deliver the work at a later date. We will keep Management and the Audit and Standards Committee informed as we work through these difficulties.

We recognise that the position is not satisfactory, but we are doing everything possible to address the situation. We are actively recruiting new staff but they are unlikely to resolve the issues this year, although the steps we are taking will help prevent a recurrence in future years.

02

Section 02:

National publications

National Publications

	Publication/update	Key points
Chartered Institute of Public Finance and Accountability (CIPFA)		
1.	**Consultation on stronger Prudential Code**	CIPFA is consulting on the Prudential Code, including proposals to strengthen the requirements for commercial investments.
2.	**Fraud and Corruption Tracker**	CIPFA's latest information has been published.
3.	**CIPFA Bulletin 06 – Application of the Good Governance Framework 2020/21**	Provides updated guidance and takes into account the introduction of the CIPFA Financial Management Code 2019 during 2020/21.
4.	**CIPFA Bulletin 09: Closure of the 2020-21 Financial Statements, 30 April 2021**	This bulletin provides guidance for local government bodies on a range of issues that may need to considered as part of their 2020-21 accounts preparation.
Ministry of Housing, Communities and Local Government (MHCLG)		
5.	**MHCLG's Consultation on amendments to the Accounts and Audit Regulations 2015**	Consultation closed on the 1st March 2021; the Accounts deadline was set as 31 July 2021 and Audit deadline of 30 September 2021.
6.	**MHCLG - Methodology for allocating £15 million to local bodies and review of Appointing Person regulations, 20 April 2021**	£15 million in additional funding in 2021/22 towards external audit fees. Consultation on amending the timescale for setting fee scales.
7.	**MHCLG - Local authority financial reporting and external audit: Spring update, 19 May 2021**	A new regulator, the Audit, Reporting and Governance Authority (ARGA), to replace the FRC, preferred system leader. Public Sector Audit Appointments (PSAA) role to continue into next national procurement.
National Audit Office (NAO)		
8.	**Local government finance in the pandemic, March 2021**	The report found that the Department's successful monthly collection of data and continued intensive engagement with the sector provided a good evidence base to underpin the financial and other support provided by government.

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National Publications

	Publication/update	Key points
National Audit Office (NAO)		
9.	**Timeliness of local auditor reporting in England, 2020**	The report is based on published data, the views of local authority finance directors, key stakeholders in the audit landscape, and audit firms.
10.	**Public service pensions**	This report outlines how the public service pensions landscape has changed since the Hutton Review and highlights key challenges for the future.
11.	**NAO Updated Guidance for Auditors, April 2021**	Revised guidance for VFM arrangements work under the new Code of Audit Practice, including extended deadlines, and updated guidance on consideration of going concern in the public sector context.
12.	**NAO Report – *Initial learning from the government's response to the COVID-19 pandemic, May 2021***	Latest NAO report on learning from the government response to the pandemic.

NATIONAL PUBLICATIONS
CIPFA

1. CIPFA consults on a stronger Prudential Code, January 2021

CIPFA has launched a consultation on proposals to strengthen the Prudential Code, following growing concerns over local government commercial property investments. The Prudential Code is a professional code of practice that aims to ensure local authorities' financial plans are affordable, prudent and sustainable. To date, the provisions in the Code have not prevented a minority of councils from taking on disproportionate levels of commercial debt to generate yield. The proposed changes are intended to prevent future misinterpretations of the Code and strengthen the necessary regard to its provisions to protect local decision making and innovation. The consultation will be open for 10 weeks and responses must be submitted by 12 April 2021.

https://www.cipfa.org/about-cipfa/press-office/latest-press-releases/cipfa-consults-on-stronger-local-government-prudential-code

2. Fraud and corruption Tracker, February 2021

The latest CIPFA Fraud and Corruption Tracker (CFaCT), which includes local government data between 1 April 2019 and 31 March 2020, provides a baseline illustration about the prevalence of grant fraud in the public sector, just before unprecedented levels of COVID-19 grant funding for councils were released by the government in March of last year. The report follows previous warnings from the National Crime Agency and other law enforcement bodies of an increase in cases related to suspected COVID-19 grant fraud. Valued at an estimated loss of £36.6m, the report reveals only 161 instances of grant fraud occurred in 2019/20.

The report also shows that council tax continued to be the largest area of identified fraud for councils, with more than 30,600 cases totalling £35.9m in 2019/20. This year, 32% of respondents also stated their organisation had been a victim of a Distributed Denial-of-Service (DDOS)/hacking attack in the last 12 months, a 5% increase from the previous year. Survey respondents also expressed concern about councils' inability to tackle usual areas of fraud due to resource being re-directed into the processing and review of COVID-19 business grants.

https://www.cipfa.org/about-cipfa/press-office/latest-press-releases/grant-fraud-represented-less-than-of-uk-public-sector-fraud-pre-pandemic

NATIONAL PUBLICATIONS
CIPFA

3. CIPFA Bulletin 06, Application of the Good Governance Framework 2020/21, February 2021

This bulletin covers the impact of the continuing COVID-19 pandemic on governance in local government bodies and the requirements of the Delivering Good Governance in Local Government Framework 2016 CIPFA and Solace (the Framework). It also takes into account the introduction of the CIPFA Financial Management Code 2019 (FM Code) during 2020/21.

https://www.cipfa.org/policy-and-guidance/cipfa-bulletins/cipfa-bulletin-06-application-of-the-good-governance-framework-202021

4. CIPFA Bulletin 09: Closure of the 2020-21 Financial Statements, 30 April 2021

Auditors will wish to be aware that CIPFA have published Bulletin 09: Closure of the 2020-21 Financial Statements. This bulletin provides guidance for local government bodies on a range of issues that may need to be considered as part of their 2020-21 accounts preparation.

Hot topics include accounting for grant funding in the pandemic, accounting for dedicated schools grant deficits and accounting for collection fund surpluses and deficits in 2020/21.

https://www.cipfa.org/policy-and-guidance/cipfa-bulletins/cipfa-bulletin-09-closure-of-the-202021-financial-statements

NATIONAL PUBLICATIONS
MHCLG

5. MHCLG's Consultation on amendments to the Accounts and Audit Regulations 2015, February 2021

MCHLG has consulted on its proposed changes to the accounts publication deadline for 2020/21 and 2021/22.

The draft regulations includes provisions, at regulation 2 to change the publication deadline for principal authorities from 31 July to 30 September as proposed in recommendation 10 by the Redmond review, but for 2 years - 2020/21 and 2021/22. The intention is for the amended deadline to be reviewed after that period when it will be clearer as to whether the audit completion rate has improved.

The draft regulations also enable principal bodies to publish their draft accounts for inspection, linked to the later publication deadline, by removing the fixed period for public inspection, to say instead that the draft accounts must be published on or before the first working day of August. This will allow authorities and audit firms more flexibility to schedule their audits in line with the later publication deadline but, importantly, will not prevent them from being signed off earlier. This mirrors the approach taken in the Accounts and Audit (Amendment) (Coronavirus) Regulations 2020.

MCHLG's consultation closed on 1 March 2021.

6. MHCLG - Methodology for allocating £15 million to local bodies and review of Appointing Person regulations, 20 April 2021

The Ministry of Housing, Communities & Local Government (MHCLG) announced as part of its response to the Redmond Review, that it would provide £15 million in additional funding in 2021/22 towards external audit fees and the development of the proposed new standardised statement of service information and costs. The department has now launched a short, four-week consultation, seeking views on the on the methodology for allocating these funds to local bodies.
https://www.gov.uk/government/consultations/consultation-on-allocation-of-15-million-to-local-bodies-for-audit/redmond-review-response-changes-to-the-audit-fees-methodology-for-allocating-15-million-to-local-bodies

Running alongside this, the department has also launched a separate six-week consultation on the implementation of changes to the fee setting process for principal bodies set out in the Local Audit (Appointing Person) Regulations 2015. The consultation primarily seeks views on amending the timescale for setting fee scales, enabling the appointing person to consult on and approve a standardised additional fee, and for such payments to be made in year rather than at the completion of the audit.
https://www.gov.uk/government/consultations/amendments-to-local-audit-fee-setting-arrangements

MHCLG

7. MHCLG - Local authority financial reporting and external audit: Spring update, 19 May 2021

In December 2020, MHCLG delivered its response to the Redmond Review. This report details the actions already taken to implement the Redmond Review recommendations, and also sets out the government's thinking on the recommendations relating to systems leadership.

In March 2021 the government published a White Paper setting out its plans to reform corporate audit, reporting and governance. The White Paper set out details of how the government proposes to establish a new regulator, the Audit, Reporting and Governance Authority (ARGA), to replace the FRC. It also set out government plans to create a new audit profession that is distinct from the accountancy profession, and to encourage competition in the market for audit of large listed companies. We have looked at options for local audit in the context of these wider reforms.

In this context, it is our view that ARGA, the new regulator being established to replace the FRC, would be best placed to take on the local audit system leader role.

The Department welcomes the changes made in the latest Code of Audit Practice in relation to VFM reporting. Until recently, the Code required auditors to give a binary opinion on whether the proper arrangements were in place. However, this was revised in the recent update to the Code, which now requires auditors to provide a narrative statement on the arrangements in place. The department welcomes this change, as it is our view that the binary value for money judgement required under the previous Code did not provide sufficient information for taxpayers or local bodies, particularly in a context where the complexity and commercialisation of local authority finances has increased. The new value for money requirements in the updated Code including a new commentary on governance, arrangements for achieving financial sustainability, and improving economy, efficiency and effectiveness - should help to address this.

MHCLG has confirmed that PSAA is the organisation best placed to act as the appointing body, including overseeing the next procurement of audit contracts. There is a balance to be struck between cost and quality. Historically, there were concerns that fees were too high and it was right that real savings were delivered for the taxpayer following the abolition of the Audit Commission. However, the context has changed since 2014, including the structure of the market, plus new obligations and the complexity of the work. It is striking that local audit scale fees reduced by 40% between 2014/15 and 2018/19, while central government and FTSE100 fees have increased by 20%. We have been working closely with PSAA in recent months to develop our plans for allowing greater flexibility to reflect additional costs in audit fees, and are allocating £15m to local bodies to help with this and the additional requirements associated with implementing Redmond's recommendations.

https://www.gov.uk/government/publications/local-authority-financial-reporting-and-external-audit-spring-update/local-authority-financial-reporting-and-external-audit-spring-update

NATIONAL PUBLICATIONS
National Audit Office

8. Local government finance in the pandemic, March 2021

The NAO published its report *Local government finance in the pandemic* in March 2021. Local authorities in England have made a major contribution to the national response to the pandemic. This has in turn placed significant pressure on finances, which in many cases were already under strain. The report examines if MHCLG's approach to local government finance in the COVID-19 pandemic enabled the Department to assess and fund the costs of the new services which local authorities have been asked to deliver. It also examines whether the Department fulfilled its responsibilities in securing financial sustainability across the sector. The report focuses on:

- the financial health of the sector before the pandemic and the financial impact of the pandemic in 2020/21;
- action taken by the government to support the sector in 2020/21, including its effectiveness; and
- action taken by government to support the sector's financial sustainability in 2021/22.

The report found that the Department's successful monthly collection of data and continued intensive engagement with the sector provided a good evidence base to underpin the financial and other support provided by government. Action by the Department and wider government to support the sector averted system-wide financial failure at a very challenging time and means that the Department managed the most severe risks to value for money in the short term.

However, the financial position of local government remains a cause for concern. Many authorities will be relying on reserves to balance their 2020/21 year-end budgets. Despite continuing support into 2021/22, the outlook for next year is uncertain. Many authorities are setting budgets for 2021/22 in which they have limited confidence, and which are balanced through cuts to service budgets and the use of reserves.

https://www.nao.org.uk/report/local-government-finance-in-the-pandemic/

National Audit Office

9. NAO Report – Timeliness of local auditor reporting in England, 2020

On 16 March, the NAO published its report Timeliness of local auditor reporting on local government in England, 2020. Since 2015, the Comptroller and Auditor General (C&AG) has been responsible for setting the standards for local public audit in England, through maintaining a Code of Audit Practice and issuing associated guidance to local auditors. This report sets out the:

- roles and responsibilities of local auditors and national bodies to the local audit framework in England; and
- facts relating to the decline in the timeliness of delivering audit opinions on local government in England and the main factors contributing to that decline in timeliness.

The report is based on published data, the views of local authority finance directors, key stakeholders in the audit landscape, and audit firms. The report also considers the impact on central government. Given the increasing financial challenge and service pressures on local authorities since 2010, local councils need strong arrangements to manage finances and secure value for money.

The report concludes that the position for 2019/20, with 55% of local authorities failing to publish audited accounts by 30 November, is concerning, given the important part that external audit plays in assurance over taxpayers' money both centrally and locally.

Since the NAO reported on local authority governance and audit in 2019, and despite efforts by the various organisations involved in the local audit system and by the Ministry of Housing, Communities and Local Government, the report concludes that the situation has worsened. The increase in late audit opinions, concerns about audit quality and doubts over audit firms' willingness to continue to audit local authorities all highlight that the situation needs urgent attention, which will require co-operation and collaboration by all bodies involved in the local audit system, together with clear leadership from government.

https://www.nao.org.uk/report/timeliness-of-local-auditor-reporting-on-local-government-in-england-2020/?slide=1

National Audit Office

10. NAO Report – public service pensions, March 2021

As an employer, the government provides public service employees with access to occupational pension schemes. As at 31 March 2020, there were more than 8 million members of four of the largest public service pension schemes (the armed forces, civil service, NHS and teachers' pension schemes), of which 2.8 million were retired and receiving pension benefits and 5.2 million were either current or former employees. Around 25% of pensioners and 16% of the working-age population are members of a public service pension scheme.

In general, public service pensions have become more expensive over time as the number of people receiving them has increased, owing to more members entering retirement and living longer. This trend applies across public and private pensions and is consistent with international experience. In 2010 the government established the Independent Public Service Pensions Commission, chaired by Lord Hutton (the Hutton Review) to undertake a fundamental structural review of public service pensions. Following the Hutton Review final report in March 2011, and a period of negotiations with trade unions representing public service employees, the government introduced reforms intended to manage the future costs of providing pensions.

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Public service pensions are a notable benefit to public servants. HM Treasury focuses on the affordability of these pensions and who pays for them. The total costs of providing pensions have been increasing over time, reflecting increasing numbers of pensioners. The government's pension reforms over recent years have contained the rise in future taxpayer costs by making pensions less generous and by increasing contributions from employees. However, taxpayer funding has increased and it will take decades for the full effects of the 2011/2015 reforms to be seen in the government's affordability measure. The balance of taxpayer funding has shifted from central payments by HM Treasury to employer contributions by departments and organisations to ensure that employers bear the consequences of their employment decisions.

However, HM Treasury needs to monitor more than just affordability. Government's approach to protecting those nearest retirement has been ruled unlawful and will cost time and money to resolve. The government's reforms also take no account of pensions as a recruitment and retention tool, with pensions continuing to be relatively inflexible; the only real choice for most employees is to stay in the scheme or opt out altogether.

https://www.nao.org.uk/report/public-service-pensions/

NATIONAL PUBLICATIONS
National Audit Office

11. NAO Updated Guidance for Auditors, April 2021

In April 2021, the Comptroller and Auditor General (C&AG) approved and published updated auditor guidance:

Auditor Guidance Note 03 (AGN 03) - Auditors' Work on Value for Money Arrangements. This has been updated to enable auditors to give their opinion on the financial statements if they have not yet completed all their VFM arrangements work (where there is no material impact on the opinion), including the approach to reporting any further issues if necessary by exception when auditors issue their certificate. The AGN also introduced revised deadlines for the Auditor's Annual Report, which includes the new commentary on VFM arrangements, of up to 3 months after issuing the audit opinion.

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Auditor Guidance Note 07 (AGN 07) – Auditor Reporting. This was updated to bring it into line with AGN 03 as above.

Supplementary Guidance Note 01 (SGN 01) - Going Concern – Auditors' responsibilities for local public bodies. The SGN focus is primarily on *Practice Note (PN) 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom, (Revised 2020)*, setting an expectation that auditors will follow the approach it sets out. This recognises that going concern in the public sector context includes the concept of the 'continued provision of services' and the legislative basis for public services, which means that the circumstances that will give rise to a material uncertainty in going concern are relatively limited and rare, and would normally require legislative changes. This view is also reflected in the CIPFA Code, which recognises that the financial statements are prepared on a going concern basis.

The NAO guidance does, however, highlight the wider issue of financial sustainability and funding for public services. Management will still need to undertake a going concern assessment, and disclose an appropriate narrative within its financial statements in relation to the impact of the pandemic and pressures on funding, and disclose any potential material uncertainties should they exist.

All of the NAO auditor guidance is publicly available at this link: https://www.nao.org.uk/code-audit-practice/guidance-and-information-for-auditors/

National Audit Office

12. NAO Report – *Initial learning from the government's response to the COVID-19 pandemic, May 2021*

The NAO has recently published its *Initial learning from the government's response to the COVID-19 pandemic* report, which is part of a programme of work the NAO is undertaking to support Parliament in its scrutiny of government's response to COVID-19. The report finds that the COVID-19 pandemic has stress-tested the government's ability to deal with unforeseen events and potential shocks. Government has often acted at unprecedented speed to respond to a virus which has caused dramatic disruption to people's lives, public service provision and society as a whole. Government had to continue to deliver essential public services, while reprioritising resources to deliver its response to the COVID-19 pandemic and supporting staff to work from home. In its response, government has had to streamline decision-making, work across departments and public bodies and use a range of delivery structures.

Departments will need to reflect on the lessons learned to ensure that they capitalise on the benefits and opportunities these new ways of working have brought.

This report draws out learning from the reports that we have published to date, as well as other work we have published that covered the COVID-19 pandemic. It sets out this learning across six themes:

- risk management;
- transparency and public trust;
- data and evidence;
- coordination and delivery models;
- supporting and protecting people; and
- financial and workforce pressures.

The NAO will continue to draw out learning from the government's response to the pandemic from our future work.

The full report is available from the NAO website. https://www.nao.org.uk/wp-content/uploads/2021/05/Initial-learning-from-the-governments-response-to-the-COVID-19-pandemic.pdf

Contact

Mazars

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Senior Manager: Jim Dafter

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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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Updated Audit Strategy Memorandum

North of Tyne Combined Authority

Year ending 31 March 2021

mazars

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Members of the Cabinet
North of Tyne Combined Authority (NoTCA)
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NE1 1DF

21 June 2021

Dear Members

Updated Audit Strategy Memorandum – Year ending 31 March 2021

You will be aware that we presented our Audit Strategy Memorandum for the year ending 31 March 2021 to the Audit and Standards Committee on 20 April 2021. The purpose of this revised document is to update members on:

- our revised timetable for auditing the financial statements (Page 10); and
- the position in relation to the approach for the audit of NoTCA group accounts (Pages 12 and 13).

Other minor updates and corrections have been made in this version, including a change in team leader on the audit (Page 7).

If you have any concerns or comments about this document or audit approach, please contact me on 07896 684 771.

Yours faithfully

Gavin Barker

Gavin Barker
Mazars LLP

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01

Section 01:

Engagement and responsibilities summary

1. Engagement and responsibilities summary

Overview of engagement

We are appointed to perform the external audit of the North of Tyne Combined Authority and the Group (the Group) for the year to 31 March 2021. The scope of our engagement is set out in the Statement of Responsibilities of Auditors and Audited Bodies, issued by Public Sector Audit Appointments Ltd (PSAA) available from the PSAA website: https://www.psaa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/. Our responsibilities are principally derived from the Local Audit and Accountability Act 2014 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (NAO), as outlined below.

Audit opinion

We are responsible for forming and expressing an opinion on the financial statements. Our audit does not relieve management or the Cabinet, as those charged with governance, of their responsibilities.

Going concern

Page 79

The Authority and Group are required to prepare their financial statements on a going concern basis by the Code of Practice on Local Authority Accounting. The Chief Finance Officer is responsible for the assessment of whether is it appropriate for the Authority and Group to prepare their accounts on a going concern basis. As auditors, we are required to obtain sufficient appropriate audit evidence and conclude on the appropriateness of the Chief Finance Officer's use of the going concern basis of accounting in the preparation of of the financial statements and the adequacy of disclosures made.

Value for money

We are also responsible for reaching a conclusion on the arrangements that the Authority have in place to secure economy, efficiency and effectiveness in its use of resources. We discuss our approach to Value for Money work further in section 5 of this report.

Fraud

The responsibility for safeguarding assets and for the prevention and detection of fraud, error and non-compliance with law or regulations rests with both those charged with governance and management. This includes establishing and maintaining internal controls over reliability of financial reporting.

As part of our audit procedures in relation to fraud we are required to enquire of those charged with governance, including key management and Internal audit as to their knowledge of instances of fraud, the risk of fraud and their views on internal controls that mitigate the fraud risks. In accordance with International Standards on Auditing (UK), we plan and perform our audit so as to obtain reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. However our audit should not be relied upon to identify all such misstatements.

Reporting to the NAO

We report to the NAO on the consistency of the Group's financial statements with its Whole of Government Accounts (WGA) submission.

Electors' rights

The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of the Authority and consider any objection made to the accounts. We also have a broad range of reporting responsibilities and powers that are unique to the audit of local authorities in the United Kingdom

02

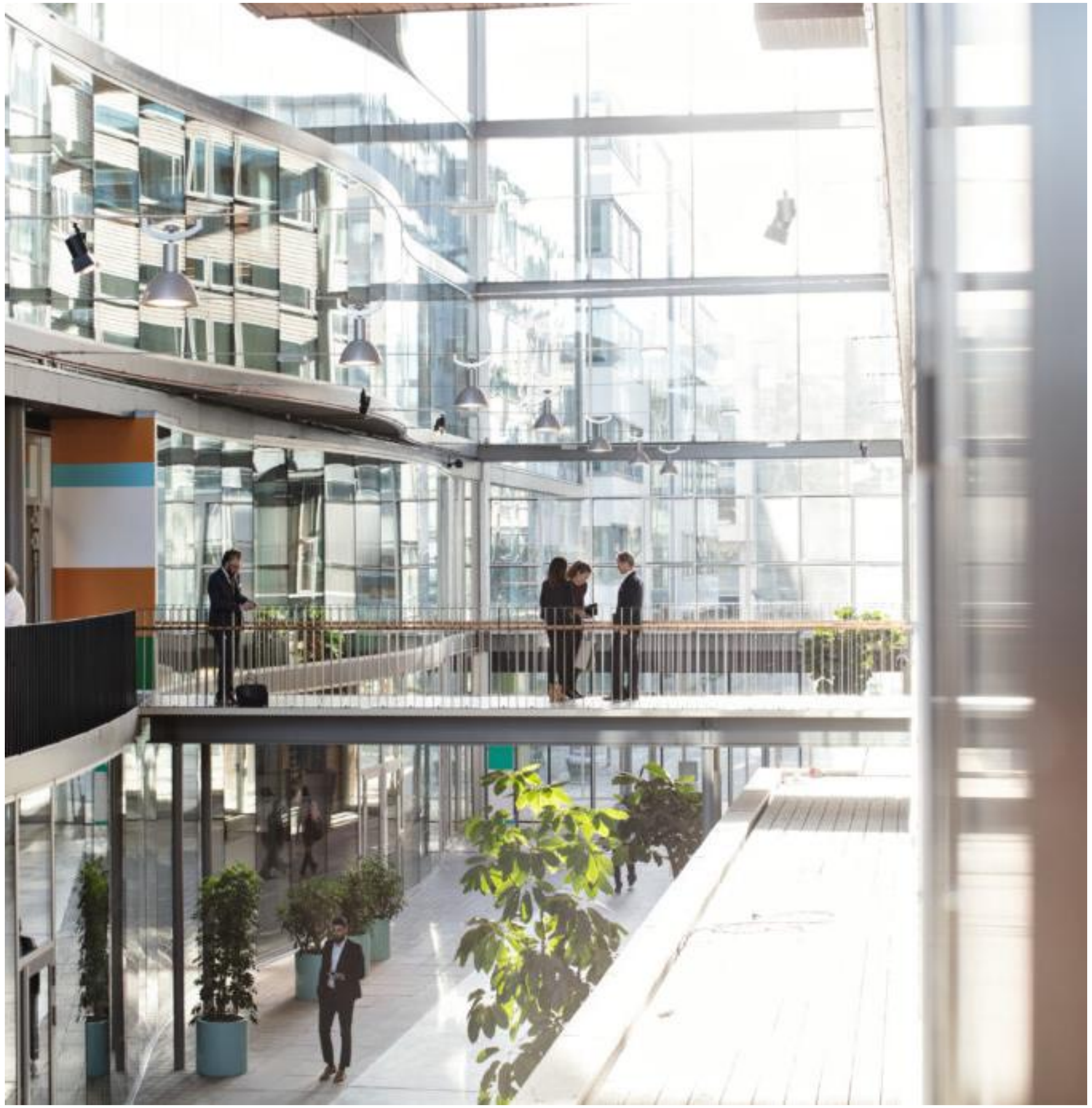
Section 02:

Your audit engagement team

2. Your audit engagement team

Your external audit service will be led by Gavin Barker.

Who	Role	Contact
Gavin Barker	Engagement lead	gavin.barkermazars.co.uk 07896 684 771
Jim Dafter	Engagement manager	jim.dafter@mazars.co.uk 0781 587 6042
Peter Hawkins	Engagement team leader	peter.hawkins@mazars.co.uk 0191 383 6341



03

Section 03:

Audit scope, approach and timeline

3. Audit scope, approach and timeline

Audit scope

Our audit approach is designed to provide an audit that complies with all professional requirements.

Our audit of the financial statements will be conducted in accordance with International Standards on Auditing (UK), relevant ethical and professional standards, our own audit approach and in accordance with the terms of our engagement. Our work is focused on those aspects of your business which we consider to have a higher risk of material misstatement, such as those impacted by management judgement and estimation, application of new accounting standards, changes of accounting policy, changes to operations or areas which have been found to contain material errors in the past.

Audit approach

Our audit approach is a risk based approach primarily driven by the risks we consider to result in a higher risk of material misstatement of the financial statements. Once we have completed our risk assessment, we develop our audit strategy and design audit procedures in response to this assessment.

If we conclude that appropriately designed controls are in place then we may plan to test and rely upon these controls. If we decide controls are not appropriately designed, or we decide it would be more efficient to do so, we may take a wholly substantive approach to our audit testing. Substantive procedures are audit procedures designed to detect material misstatements at the assertion level and comprise: tests of details (of classes of transactions, account balances, and disclosures); and substantive analytical procedures. Irrespective of the assessed risks of material misstatement, which take into account our evaluation of the operating effectiveness of controls, we are required to design and perform substantive procedures for each material class of transactions, account balance, and disclosure.

Our audit will be planned and performed so as to provide reasonable assurance that the financial statements are free from material misstatement and give a true and fair view. The concept of materiality and how we define a misstatement is explained in more detail in section 8.

The diagram on the next page outlines the procedures we perform at the different stages of the audit.

3. Audit scope, approach and timeline

Planning - January to March 2021

- Planning visit and developing our understanding of the Authority and Group
- Initial opinion and value for money risk assessments
- Considering proposed accounting treatments and accounting policies
- Developing the audit strategy and planning the audit work to be performed
- Agreeing timetable and deadlines
- Preliminary analytical review

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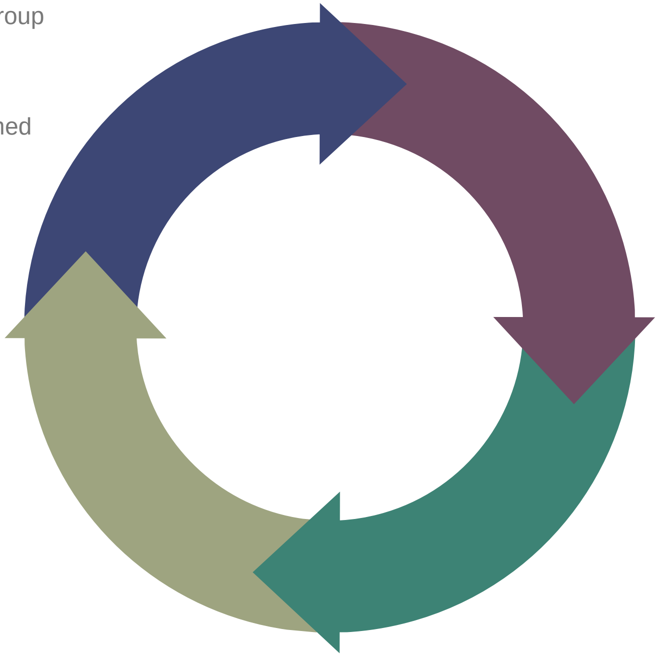
Interim – May to August 2021

- Documenting systems and controls
- Performing walkthroughs
- Interim controls testing including tests of IT general controls
- Early substantive testing of transactions
- Reassessment of audit plan and revision if necessary



Completion – November 2021

- Final review and disclosure checklist of financial statements
- Final Director review
- Agreeing content of letter of representation
- Reporting to the Cabinet
- Reviewing subsequent events
- Signing the auditor's report

Fieldwork – October to November 2021

- Receiving and reviewing draft financial statements
- Reassessment of audit plan and revision if necessary
- Executing the strategy starting with significant risks and high risk areas
- Communicating progress and issues
- Clearance meeting

3. Audit scope, approach and timeline

Reliance on internal audit

Where possible we will seek to utilise the work performed by internal audit to modify the nature, extent and timing of our audit procedures. We will meet with internal audit to discuss the progress and findings of their work prior to the commencement of our controls evaluation procedures.

Where we intend to rely on the work on internal audit, we will evaluate the work performed by your internal audit team and perform our own audit procedures to determine its adequacy for our audit.

Management's and our experts

Management makes use of experts in specific areas when preparing the Authority and Group's financial statements. We also use experts to assist us to obtain sufficient appropriate audit evidence on specific items of account.

Item of account	Management's expert	Our expert
Defined benefit liability and associated IAS 19 entries and disclosures	Actuary (Aon Hewitt)	NAO's consulting actuary (PWC)
Fair values	Link Group	Not required

Service organisations

International Auditing Standards (UK) (ISAs) define service organisations as third party organisations that provide services to the Authority and Group that are part of its information systems relevant to financial reporting. We are required to obtain an understanding of the services provided by service organisations as well as evaluating the design and implementation of controls over those services.

Items of account	Service organisation	Audit approach
All areas	North Tyneside Council	Review the Authority and Group's controls over: • The information provided to the service organisation; and • The outputs provided by the service organisation to the Authority and Group.

3. Audit scope, approach and timeline

Group audit approach

We are responsible for the audit of the group consolidation. For the year ended 31 March 2021, the Group will be made up of the following components:

- North of Tyne Combined Authority (NoTCA);
- Nexus;
- North East Metro Operations Limited (NEMOL); and
- Tyneside Transport Services (TTS) Limited.

Gavin Barker will be responsible for ensuring appropriate audit procedures are performed to obtain assurance for the group and NECA.

An analysis of the group is shown below setting out :

- an overview of the type of work to be performed on the financial information of the components; and
- the percentage of the components of the group audited directly by Gavin Barker (Responsible Individual/Director for the Group), the percentage audited by Craig Maxwell (Mazars Responsible Individual/Partner for NEMOL).

NOTE - TTS Limited is not subject to separate audit, therefore the percentages on the next page exclude TTS Limited.

3. Audit scope, approach and timeline

Group audit approach

Planned approach by percentage of group (using operating expenditure)

Year	Full scope audit	Limited or specific review	Other audit procedures
2020/21 estimate	100%	0%	0%

Percentage of group (using operating expenditure) audited by responsible individual

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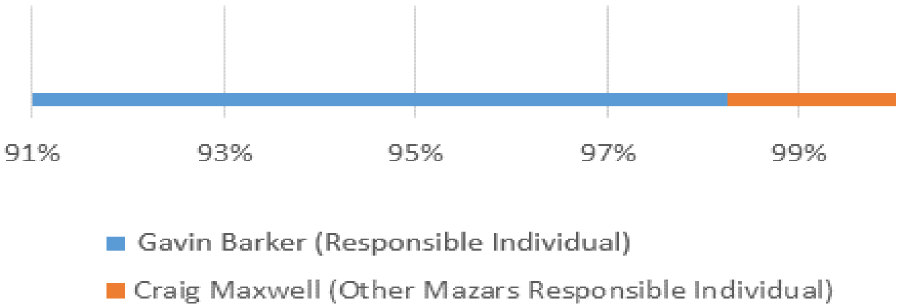

04

Section 04:

Significant risks and other key judgement areas

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4. Significant risks and other key judgement areas

Following the risk assessment approach discussed in section 3 of this document, we have identified relevant risks to the audit of financial statements. The risks that we identify are categorised as significant, enhanced or standard. The definitions of the level of risk rating are given below:

Significant risk

A significant risk is an identified and assessed risk of material misstatement that, in the auditor's judgment, requires special audit consideration. For any significant risk, the auditor shall obtain an understanding of the entity's controls, including control activities relevant to that risk.

Enhanced risk

An enhanced risk is an area of higher assessed risk of material misstatement ('RMM') at audit assertion level other than a significant risk. Enhanced risks require additional consideration but does not rise to the level of a significant risk, these include but may not be limited to:

- key areas of management judgement, including accounting estimates which are material but are not considered to give rise to a significant risk of material misstatement; and
- other audit assertion risks arising from significant events or transactions that occurred during the period.

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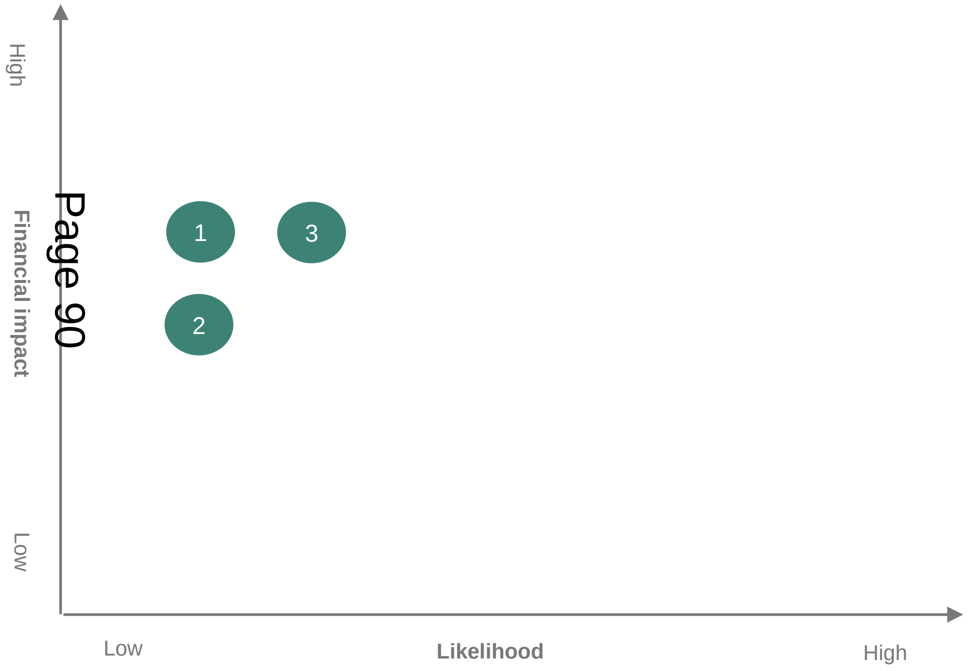
Standard risk

This is related to relatively routine, non-complex transactions that tend to be subject to systematic processing and require little management judgement. Although it is considered that there is a risk of material misstatement (RMM), there are no elevated or special factors related to the nature, the likely magnitude of the potential misstatements or the likelihood of the risk occurring.

4. Significant risks and other key judgement areas

Summary risk assessment

The summary risk assessment, illustrated in the table below, highlights those risks which we deem to be significant. We have summarised our audit response to these risks on the next page.



1 Significant - Management override of controls

2 Significant – Revenue recognition

3 Significant – Net defined benefit liability valuation

Key: Significant risk Enhanced risk / significant management judgement

4. Significant risks and other key judgement areas

Specific identified audit risks and planned testing strategy

We have presented below in more detail the reasons for the risk assessment highlighted above, and also our testing approach with respect to significant risks. An audit is a dynamic process, should we change our view of risk or approach to address the identified risks during the course of our audit, we will report this to the Cabinet.

Significant risks

	Description	Fraud	Error	Judgement	Planned response
1	**Management override of controls (single entity and group accounts)** 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.	●	○	○	We plan to address the management override of controls risk through performing audit work over accounting estimates, journal entries and significant transactions outside the normal course of business or otherwise unusual.

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4. Significant risks and other key judgement areas

Significant risks

	Description	Fraud	Error	Judgement	Planned response
2	**Revenue recognition - in relation to Tyne Tunnel tolls and grant income (relevant to single entity and group accounts)** Revenue recognition has been identified as a significant risk due to: • cut off considerations for Tyne Tunnel toll income given the cash nature of the receipts; and • grant income is recognised when all conditions attached to the grant have been met so there is significant management judgement in determining if there are any conditions and if they have been met.	●	●	●	We plan to address the revenue recognition risk through performing audit work over: • the design and implementation of controls management has in place to ensure income is recognised in the correct period; • cash receipts around the year end to ensure they have been recognised in the right year; • the judgements made by management in determining when grant income is recognised; • for Tyne Tunnel toll income, perform a substantive analytical review; and • for major grant income, obtaining counterparty confirmation.

4. Significant risks and other key judgement areas

Significant risks

	Description	Fraud	Error	Judgement	Planned response
3	**Defined benefit liability valuation (single entity and group accounts)** The financial statements contain material pension entries in respect of the retirement benefits. The calculation of these pension figures, both assets and liabilities, can be subject to significant volatility and includes estimates based upon a complex interaction of actuarial assumptions. This results in an increased risk of material misstatement.	○	●	●	We plan to address the defined benefit liability valuation risk through performing audit work over • evaluate the management controls you have in place to assess the reasonableness of the figures provided by the Actuary; and • consider the reasonableness of the Actuary's output, referring to an expert's report on all actuaries nationally which is commissioned annually by the National Audit Office. We will discuss with key contacts any significant changes to the pension estimates prior to the preparation of the financial statements.

05

Section 05:

Value for Money

Page 94

5. Value for Money

The framework for Value for Money work

We are required to form a view as to whether the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out in order to form our view, and sets out the overall criterion and sub-criteria that we are required to consider.

The new Code of Audit Practice (the Code) has changed the way in which we report our findings in relation to Value for Money (VFM) arrangements from 2020/21. Whilst we are still required to be satisfied that the Authority has proper arrangements in place, we will now report by exception in our auditor's report where we have identified significant weakness in those arrangements. This is a significant change to the requirements under the previous Code which required us to give a conclusion on the Authority's arrangements as part of our auditor's report.

Under the new Code, the key output of our work on VFM arrangements will be a commentary on those arrangements which will form part of the Auditor's Annual Report.

Specified reporting criteria

The Code requires us to structure our commentary to report under three specified criteria:

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

Our approach

Our work falls into three primary phases as outlined opposite. We need to gather sufficient evidence to support our commentary on the Authority's arrangements and to identify and report on any significant weaknesses in arrangements. Where significant weaknesses are identified we are required to report these to the Authority and make recommendations for improvement. Such recommendations can be made at any point during the audit cycle and we are not expected to wait until issuing our overall commentary to do so.

Planning and risk assessment	Obtaining an understanding of the Authority's arrangements for each specified reporting criteria. Relevant information sources will include: • NAO guidance and supporting information • Information from internal and external sources including regulators • Knowledge from previous audits and other audit work undertaken in the year • Interviews and discussions with staff and members
Additional risk based procedures and evaluation	Where our planning work identifies risks of significant weaknesses, we will undertake additional procedures to determine whether there is a significant weakness.
Reporting	We will provide a summary of the work we have undertaken and our judgements against each of the specified reporting criteria as part of our commentary on arrangements. This will form part of the Auditor's Annual Report. Our commentary will also highlight: • Significant weaknesses identified and our recommendations for improvement • Emerging issues or other matters that do not represent significant weaknesses but still require attention from the Authority.

5. Value for Money

Identified risks of significant weaknesses in arrangements

The NAO's guidance requires us to carry out work at the planning stage to understand the Group's arrangements and to identify risks that significant weaknesses in arrangements may exist.

Due to the late release of the NAO's Auditor Guidance Note and supporting information to auditors, we have not yet fully completed our planning and risk assessment work. We will report the results of our planning and risk assessment work to the Cabinet at a later date.

06

Section 06:

Fees for audit and other services

6. Fees for audit and other services

Fees for work as the Group’s appointed auditor

At this stage of the audit, we are planning the following adjustments to the scale fees set by PSAA, subject to PSAA approval.

Area of work	2020/21 Proposed Fee	2019/20 Actual Fee
Code Audit Work; PSAA scale fee	£27,500	£27,500
Fee increases agreed with Management.	TBC	£8,000
Total audit fees *	£27,500 *	£35,500

* The revised Code of Audit Practice is likely to lead to additional audit work to support the new value for money conclusion and the changes in reporting requirements. It is currently unclear exactly what impact this will have on the work required and fees. We have consequently not reflected any impact in the proposed fee. We will update The Cabinet as the position is clarified.

Also, there are additional regulatory pressures for auditors to undertake more work than originally reflected in PSAA scale fees. We will discuss this with management as the audit progresses.

All fees shown above are subject to VAT.

Fees for non-PSAA work

There is no 2020/21 non-audit fee work planned at this stage. Before agreeing to carry out any additional work, we would consider whether there were any actual, potential or perceived threats to our independence. Further information about our responsibilities in relation to independence is provided in section 7.

Services provided to other entities within the Group

The group consists of the NTCA, Nexus, NEMOL and TTS. We are responsible for the direction, supervision and performance of the group audit.

We are also the external auditor for Nexus and NEMOL. We do not carry out the external audit of TTS as it is within the limits for audit exemptions under Section 479A of the Companies Act 2006 relating to subsidiary companies.

07

Section 07:

Our commitment to independence

Page 99

7. Our commitment to independence

We are committed to independence and are required by the Financial Reporting Council to confirm to you at least annually in writing that we comply with the FRC's Ethical Standard. In addition, we communicate any matters or relationship which we believe may have a bearing on our independence or the objectivity of the audit team.

Based on the information provided by you and our own internal procedures to safeguard our independence as auditors, we confirm that in our professional judgement there are no relationships between us and any of our related or subsidiary entities, and you and your related entities creating any unacceptable threats to our independence within the regulatory or professional requirements governing us as your auditors.

We have policies and procedures in place which are designed to ensure that we carry out our work with integrity, objectivity and independence. These policies include:

- All partners and staff are required to complete an annual independence declaration;
- All new partners and staff are required to complete an independence confirmation and also complete computer based ethical training;
- Rotation policies covering audit engagement partners and other key members of the audit team; and
- Use by managers and partners of our client and engagement acceptance system which requires all non-audit services to be approved in advance by the audit engagement partner.

We confirm, as at the date of this document, that the engagement team and others in the firm as appropriate, Mazars LLP are independent and comply with relevant ethical requirements. However, if at any time you have concerns or questions about our integrity, objectivity or independence please discuss these with Gavin Barker in the first instance.

Prior to the provision of any non-audit services Gavin Barker will undertake appropriate procedures to consider and fully assess the impact that providing the service may have on our auditor independence.

No threats to our independence have been identified.

Any emerging independence threats and associated identified safeguards will be communicated in our Audit Completion Report.

08

Section 08:

Materiality and other misstatements

Page 101

8. Materiality and misstatements

Summary of initial materiality thresholds

Threshold	Initial threshold NTCA £'000s	Initial threshold Group £'000s
Overall materiality	£5,081	£9,787
Performance materiality	£3,810	£7,341
Specific materiality - Senior manager remuneration	£5	£5
Trivial threshold for errors to be reported to the Cabinet	£152	£294

Materiality

Materiality is an expression of the relative significance or importance of a particular matter in the context of financial statements as a whole.

Misstatements in financial statements are considered to be material if they, individually or in aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Judgements on materiality are made in light of surrounding circumstances and are affected by the size and nature of a misstatement, or a combination of both. Judgements about materiality are based on consideration of the common financial information needs of users as a group and not on specific individual users.

The assessment of what is material is a matter of professional judgement and is affected by our perception of the financial information needs of the users of the financial statements. In making our assessment we assume that users:

- Have a reasonable knowledge of business, economic activities and accounts;
- Have a willingness to study the information in the financial statements with reasonable diligence;
- Understand that financial statements are prepared, presented and audited to levels of materiality;
- Recognise the uncertainties inherent in the measurement of amounts based on the use of estimates, judgement and the consideration of future events; and
- Will make reasonable economic decisions on the basis of the information in the financial statements.

We consider materiality whilst planning and performing our audit based on quantitative and qualitative factors.

Whilst planning, we make judgements about the size of misstatements which we consider to be material and which provides a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures.

The materiality determined at the planning stage does not necessarily establish an amount below which uncorrected misstatements, either individually or in aggregate, will be considered as immaterial.

We revise materiality for the financial statements as our audit progresses should we become aware of information that would have caused us to determine a different amount had we been aware of that information at the planning stage.

Our provisional materiality is set based on a benchmark of total assets. We will identify a figure for materiality but identify separate levels for procedures design to detect individual errors, and also a level above which all identified errors will be reported to the Cabinet.

We consider that total assets remains the key focus of users of the financial statements and, as such, we base our materiality levels around this benchmark.

8. Materiality and misstatements

Materiality (continued)

We expect to set a materiality threshold at 2% of total assets. Based on total assets we anticipate the overall materiality for the year ending 31 March 2021 to be in the region of £5.081m (NTCA) and £9.787m (Group).

After setting initial materiality, we continue to monitor materiality throughout the audit to ensure that it is set at an appropriate level.

Performance Materiality

Performance materiality is the amount or amounts set by the auditor at less than materiality for the financial statements as a whole to reduce, to an appropriately low level, the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. Our initial assessment of performance materiality is based on low inherent risk, meaning that we have applied 75% of overall materiality as performance materiality.

Misstatements

We accumulate misstatements identified during the audit that are other than clearly trivial. We set a level of triviality for individual errors identified (a reporting threshold) for reporting to the Cabinet that is consistent with the level of triviality that we consider would not need to be accumulated because we expect that the accumulation of such amounts would not have a material effect on the financial statements. Based on our preliminary assessment of overall materiality, our proposed triviality threshold is £152,000 (NTCA) and £294,000 (Group) based on 3% of overall materiality. If you have any queries about this please do not hesitate to raise these with Gavin Barker.

Reporting to the Cabinet

The following three types of audit differences will be presented to the Cabinet:

- summary of adjusted audit differences;
- summary of unadjusted audit differences; and
- summary of disclosure differences (adjusted and unadjusted).

A

Appendix: Key communication points

Appendix: Key communication points

We value communication with Those Charged With Governance as a two way feedback process at the heart of our client service commitment. ISA 260 (UK) ‘Communication with Those Charged with Governance’ and ISA 265 (UK) ‘Communicating Deficiencies In Internal Control To Those Charged With Governance And Management’ specifically require us to communicate a number of points with you.

Relevant points that need to be communicated with you at each stage of the audit are outlined below.

Form, timing and content of our communications

We will present the following reports:

- Our Audit Strategy Memorandum;
- Our Audit Completion Report; and
- Auditor’s Annual Report

These documents will be discussed with management prior to being presented to yourselves and their comments will be incorporated as appropriate.

Key communication points at the planning stage as included in this Audit Strategy Memorandum

- Our responsibilities in relation to the audit of the financial statements;
- The planned scope and timing of the audit;
- Significant audit risks and areas of management judgement;
- Our commitment to independence;
- Responsibilities for preventing and detecting errors;
- Materiality and misstatements; and
- Fees for audit and other services.

Key communication points at the completion stage to be included in our Audit Completion Report

- Significant deficiencies in internal control;
- Significant findings from the audit;
- Significant matters discussed with management;
- Our conclusions on the significant audit risks and areas of management judgement;
- Summary of misstatements;
- Management representation letter;
- Our proposed draft audit report; and
- Independence.

Appendix: Key communication points

ISA (UK) 260 ‘Communication with Those Charged with Governance’, ISA (UK) 265 ‘Communicating Deficiencies In Internal Control To Those Charged With Governance And Management’ and other ISAs (UK) specifically require us to communicate the following:

Required communication	Where addressed
Our responsibilities in relation to the financial statement audit and those of management and those charged with governance.	Audit Strategy Memorandum
The planned scope and timing of the audit including any limitations, specifically including with respect to significant risks.	Audit Strategy Memorandum
With respect to misstatements: • Uncorrected misstatements and their effect on our audit opinion; • The effect of uncorrected misstatements related to prior periods; • A request that any uncorrected misstatement is corrected; and • In writing, corrected misstatements that are significant.	Audit Completion Report
With respect to fraud communications: • Enquiries of the Cabinet to determine whether they have a knowledge of any actual, suspected or alleged fraud affecting the entity; • Any fraud that we have identified or information we have obtained that indicates that fraud may exist; and • A discussion of any other matters related to fraud.	Audit Completion Report and discussion at the Cabinet Audit Planning and Clearance meetings

Appendix: Key communication points

Required communication	Where addressed
Significant matters arising during the audit in connection with the entity's related parties including, when applicable: • Non-disclosure by management; • Inappropriate authorisation and approval of transactions; • Disagreement over disclosures; • Non-compliance with laws and regulations; and • Difficulty in identifying the party that ultimately controls the entity.	Audit Completion Report
Significant findings from the audit including: • Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures; • Significant difficulties, if any, encountered during the audit; • Significant matters, if any, arising from the audit that were discussed with management or were the subject of correspondence with management; • Written representations that we are seeking; • Expected modifications to the audit report; and • Other matters, if any, significant to the oversight of the financial reporting process or otherwise identified in the course of the audit that we believe will be relevant to the Cabinet in the context of fulfilling their responsibilities.	Audit Completion Report
Significant deficiencies in internal controls identified during the audit.	Audit Completion Report
Where relevant, any issues identified with respect to authority to obtain external confirmations or inability to obtain relevant and reliable audit evidence from other procedures.	Audit Completion Report

Appendix: Key communication points

Required communication	Where addressed
Audit findings regarding non-compliance with laws and regulations where the non-compliance is material and believed to be intentional (subject to compliance with legislation on tipping off) and enquiry of the Cabinet into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Cabinet may be aware of.	Audit Completion Report and Cabinet meetings
With respect to going concern, events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: • Whether the events or conditions constitute a material uncertainty; • Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements; and • The adequacy of related disclosures in the financial statements.	Audit Completion Report
Reporting on the valuation methods applied to the various items in the annual or consolidated financial statements including any impact of changes of such methods	Audit Completion Report
Explanation of the scope of consolidation and the exclusion criteria applied by the entity to the non-consolidated entities, if any, and whether those criteria applied are in accordance with the relevant financial reporting framework.	Audit Strategy Memorandum and/or Audit Completion Report as appropriate
Where applicable, identification of any audit work performed by component auditors in relation to the audit of the consolidated financial statements other than by Mazars' member firms	Audit Strategy Memorandum and/or Audit Completion Report as appropriate
Indication of whether all requested explanations and documents were provided by the entity	Audit Completion Report

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NORTH OF TYNE COMBINED AUTHORITY

Audit and Standards Committee

20 July 2021

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

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

Report Summary

This report presents the outcome of the annual review of the Authority's governance and internal control arrangements.

Audit and Standards Committee approved the draft 2020/21 Statement at its April 2021 meeting and there have been no significant weaknesses identified since its approval.

The Chartered Institute of Public Finance and Accountancy (CIPFA) has 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. The outcome of the self-assessment and associated action plans are now included in Section 14 of the Annual Governance Statement (area requiring improvement).

The draft Annual Governance Statement will be considered as part of the audit of the Authority's financial statements, before it is finalised and further approved by Cabinet. The final Statement will be signed by the Mayor, Head of Paid Service, Chief Finance Officer and the Chair of Audit and Standards Committee.

A copy of the draft 2020/21 Annual Governance Statement is provided at Appendix A.

Recommendations

The Audit and Standards Committee is recommended to approve the draft 2020/21 Annual Governance Statement and agree that it is considered as part of the audit of the Authority's financial statements (Appendix A).

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

2. Annual Governance Statement Assurance Framework– 2020/21

2.1 The approach to produce the 2020/21 Statement is based on a framework of assurance and in preparing it, it has been necessary to review evidence from the following sources. This approach complies with the CIPFA recommended practice:

- Governance Arrangements e.g. the Authority's Constitution
- Assurance from the Statutory Officers, including the Monitoring Officer, Chief Finance Officer and Senior Information Risk Owner, through written statements
- Members - Views of Audit and Standards Committee
- Internal Audit Activity – including the Chief Internal Auditor's annual opinion
- Risk Management – Strategic risk reviews
- Performance Management – outcomes reported during 2020/21
- Views of the external auditor and other external inspectorates
- Key partnerships, including the North East Joint Transport Committee
- Nexus, through an assurance statement signed by Nexus' Director of Finance and Resources
- North East Local Enterprise Partnership, through a partnership assurance statement, signed by the Chief Executive

3. Outcomes of the Review of Assurances

The NTCA 2020/21 Annual Governance Statement fully complies with the CIPFA Framework and provides detailed evidence against each of the above principles highlighted in paragraph 1.2, 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 2021/22 Corporate Plan, our Freedom of Information Scheme and Annual Report), demonstrating how the Authority has implemented its commitments and complies with the governance standards and principles.

4. Area identified as requiring improvement – 2021/22

The Combined Authority must comply with the new CIPFA Financial Management Code 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, manage financial resilience to meet unforeseen demands on services and manage unexpected changes in financial circumstances.

In preparation for the first full year of compliance with the Code (2021/22), the Authority has undertaken a self-assessment. The outcome of the self-assessment and associated action plans are now included in Section 14 of the Annual Governance Statement (improvements needed to governance and internal control) and will be monitored as part of the Annual Governance Statement review process.

Audit and Standards Committee fulfil an ongoing review, challenge and assurance role in relation to governance and internal control issues. They will receive reports throughout 2021/22 to allow them to monitor the implementation of the actions to ensure the Authority is fully compliant with the CIPFA Financial Management Code identified in the 2020/21 Annual Governance Statement.

5. Next Steps

The 2020/21 Annual Governance Statement will be considered and approved by Cabinet and signed by the Mayor, Head of Paid Service, (NTCA's Managing Director), Chief Finance Officer and Chair of Audit and Standards Committee, before being published with the Authority's 2020/21 final accounts at the end of November 2021.

6. Potential Impact on Objectives

6.1 No direct impact on objectives.

7. Key Risks

7.1 Risk management will be considered as part of the production of the Annual Governance Statement. There are no specific risk implications directly arising from this report.

8. Financial and Other Resources Implications

8.1 This work to develop the Annual Governance Statement has been carried out by Newcastle City Council's Internal Audit Service under the SLA.

9. Legal Implications

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

10. Consultation/Engagement

10.1 The Head of Paid Service, Monitoring Officer and Chief Finance Officer and NTCA Senior Management Team have been consulted on the draft Statement.

11. Appendices

11.1 Appendix A – Draft 2020/21 Annual Governance Statement

12. Background Papers

12.1 None

13. Contact Officers

13.1 Philip Slater, Chief Internal Auditor Newcastle City Council (acting as Risk Advisor to NTCA)

E mail: philip.slater@newcastle.gov.uk
Tel: 0191 2116511

14. Glossary

14.1 None

15. Sign-off

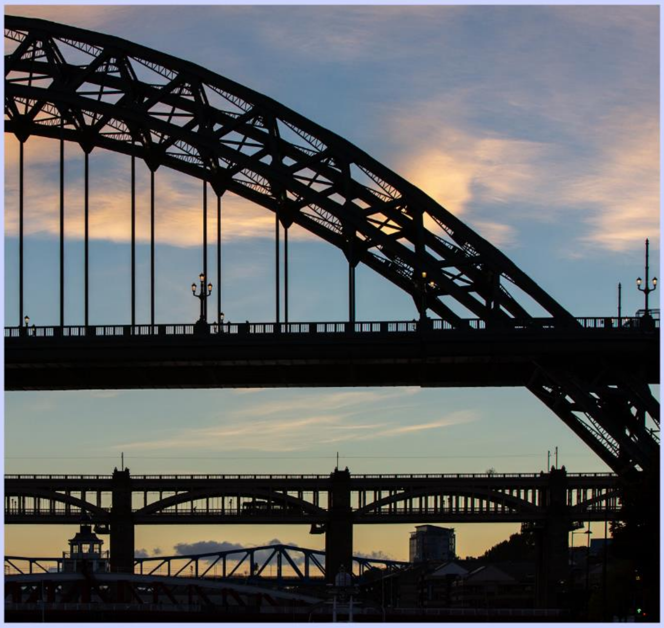
15.1 Head of Paid Service: Yes

Monitoring Officer: Yes

Chief Finance Officer: Yes

Appendix A

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 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

Section 5 – 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, Director of Economic Growth 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 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. 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. 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. The NTCA updated Adult Education Strategic Skills Plan sets out our ambitious programme for skills development. It	Corporate Plan 2021/22 Working Together For You – Annual Report Cabinet Scrutiny Protocol (Agenda item 6) North East Joint Transport Committee

	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. 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. 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.	Covid-19 Capacity Fund Digital Inclusion Scheme

	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. Crown Fund 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 Crown Fund 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 6: 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 20 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 auditors Annual Audit Letter and Audit Completion Report provides (Note: opinion will be included once provided)

(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 7: 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 8: Investment Fund Programme & Brownfield Housing

Investment Fund Programme

Delivery of the Investment Fund Programme is well underway; £59.13m is committed against a wide range of projects and programmes, with project delivery well underway. Forecast expenditure for 2020/21 currently stands at c£10m. 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 is in development and aiming for consideration by Cabinet in June 2021. 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 9: 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 10: 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 11: Covid-19 Response and Recovery

The region, via its Local Resilience Forum and a range of additional partners, continues to collaborate strongly in response (overseen by a Strategic Coordination Group) and recovery functions (through a Recovery Coordination Group) 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 2675 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 12: Improvements Needed to Governance and Internal Control

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 13: 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	**Head of Paid Service**

Full Name: Jamie Driscoll	**Full Name: Henry Kippin**
Signature:	**Signature:**
Date:	**Date:**

Chair of Audit and Standards Committee	**Chief Finance Officer**
Full Name: Doug Ross	**Full Name: Janice Gillespie**
Signature:	**Signature:**
Date:	**Date:**

Section 14: Improvements needed to governance and internal control 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, to manage financial resilience to meet unforeseen demands on services and manage unexpected changes in financial circumstances. Non-compliance with the Code could lead to ill-informed decision making which could adversely impact on the Combined Authority's financial sustainability.

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 was 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*	2022/2023

transparent financial resilience assessment. Such a review has not been carried out, and consequently assessed this as Amber.	
Standards Principle – Standard (H) The authority complies with the CIPFA Prudential Code for Capital Finance in Local Authorities. *A Capital Investment Strategy needs to be developed and borrowing powers obtained to enable the Combined Authority's longer-term ambitions.*	2022/2023
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? *Whilst 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.*	2022/23
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? *Although 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.*	2021/22

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NORTH OF TYNE COMBINED AUTHORITY

Audit and Standards Committee

20 July 2021

Subject: **North of Tyne Combined Authority Draft Statement of Accounts for year ended 2020/21**

Report of: **Chief Finance Officer**

Report Summary

The purpose of this report is to present Audit and Standards with the North of Tyne Combined Authority (NTCA) draft Statement of Accounts for the year ended 31 March 2021.

Recommendations

The Audit and Standards Committee is recommended to consider the NTCA draft Statement of Accounts for the year ended 31 March 2021.

1. Background Information, Proposals and Timetable for Implementation

1.1 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. In line with these regulations the North of Tyne Combined Authority are presenting the draft Statement of Accounts for year ended 31 March 2021 to Audit and Standards Committee prior to publication on the Combined Authority's website and prior to external audit.

1.2 The NTCA Statement of Accounts sets out the financial performance of the Authority for the year ended 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 and Accountancy (CIPFA) Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

1.3 The Statement of Accounts includes:

- Narrative Report.
- Single Entity Accounts including the North East Local Enterprise Partnership and Invest North East England balances; and
- Group Accounts consolidating the accounts of the Nexus Group within the NTCA Single Entity Accounts.

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

1.5 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 report from the external auditors, elsewhere on the agenda informs the Committee of the delay to the audit in the Statement of Accounts with a requirement for an extra ordinary Audit and Standards meeting in November before final sign off at Cabinet on 30 November 2021.

2. Potential Impact on Objectives

2.1 The requirement for the audited accounts to be published by 30 September as per the Accounts and Audit Regulations 2020/21 will not be met.

3. Key Risks

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

4. Financial and Other Resources Implications

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

5. Legal Implications

5.1 The Accounts and Audit Regulations 2020/21, which take effect from 31 March 2021, extend the requirement for the audited accounts to be published from 31 July to 30 September, with the exercise of public rights, common inspection date being removed and the draft accounts published no later than 1 August. This revised regulation will apply also to the 2021/22 accounts. The draft accounts will be published by 1 August in line with this Regulation, however, the audited accounts will not be published in line with 30 September deadline.

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 will be subject to a period of public inspection prior to the final Audited Statement of Accounts being brought back to the November Audit and Standards Committee.

10. Appendices

Appendix 1 NTCA Draft Statement of Accounts 2020/21 (to follow)

11. Background Papers

None

12. Contact Officers

Janice Gillespie, Chief Finance Officer

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

13. Glossary

14. Sign-off

1) Head of Paid Service: Yes	2) Chief Finance Officer: Yes	3) Monitoring Officer: Yes

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NORTH OF TYNE COMBINED AUTHORITY

Draft
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, repared 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 reflect the impact of the Newcastle upon Tyne, North Tyneside and Northumberland Combined Authority (Establishment and Functions) Order 2018 (the Order) which changed the boundaries of the former North East Combined Authority (NECA) on the 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 LEP62 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 £18.863million, 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.

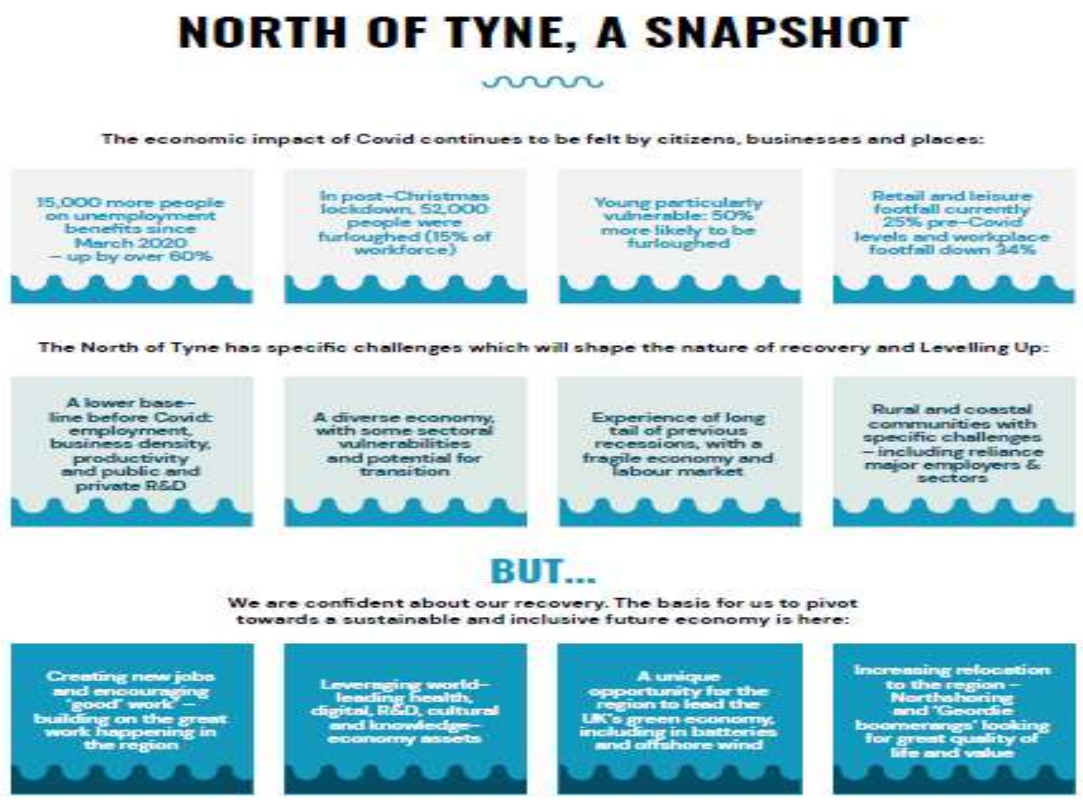
The Combined Authority has grown to 48 employees during 2020/21 with support services being provided under Service Level Agreements with the three constituent North of Tyne authorities.

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…

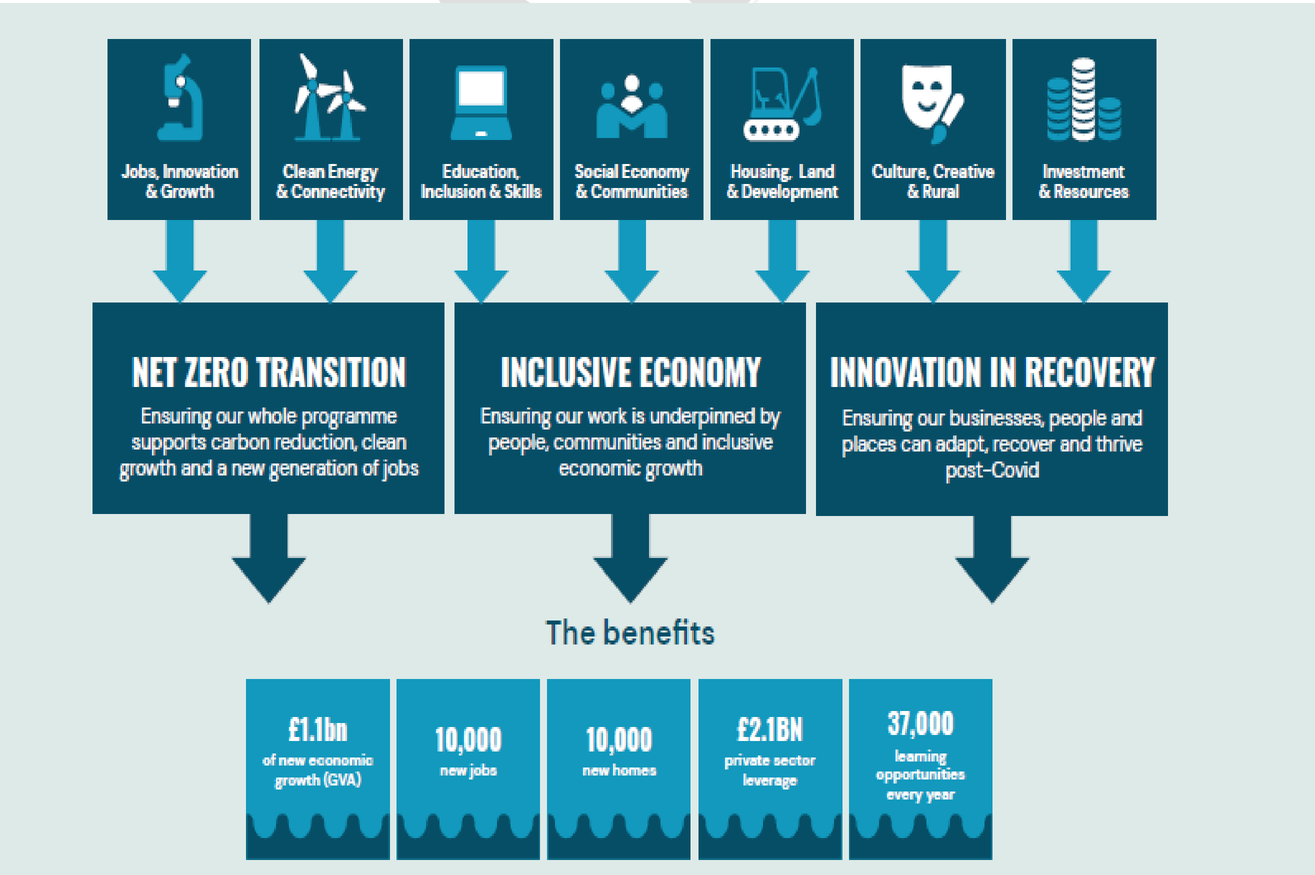
The NTCA are addressing the regional challenges, outlined above, through a bold programme of investment and reform – which is designed, delivered, and governed through collaboration. NTCA Cabinet has overseen rapid progress through the first year of operation, and works together to ensure that we deliver 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 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 as at 31 March 2021 is shown in the table 1 below.

Table 1: 2020/21 Budget Outturn

Summary Outturn 2020/21	**2020/21 Budget**	**2020/21 Outturn**	**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.

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 below 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	0.137	0.137
Swaps	0	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 (Inc) / exp	**0**	**0**	**0**

Reserves Statement

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

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		0.200
Investment Fund Reserves	36.839	13.111	49.950
Total General (Useable) Reserves	**42.311**	**8.021**	**50.332**

Useable 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 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 North East LEP brings together business leaders, universities, and the Leaders and Elected Mayor of the seven local authorities in the North East LEP area. It is the fourth largest LEP in the country and covers the seven local authorities in the North East area. It is responsible for promoting and developing economic growth in the area and works together with 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 2020/21 LEP Outturn Position

	2020/21		
	Revised Budget 2020/21	Outturn 2020/21	Variance
	£'000	£'000	£'000
Employees	3,240	2,981	(259)
Premises	207	213	6
Communications	250	261	11
Transport LGF Monitoring	26	25	(1)
Growth Hub Operational Costs	74	73	(1)
Invite (Horizon 2020) Operational Costs	72	72	0
Innovation Challenge - Covid	464	151	(313)
Other Operational Costs	636	365	(271)
North East Ambition Operational Costs (ESF)	144	132	(12)
North East Ambition Operational Costs (LGF)	0	302	302
Growth Hub Covid-19 & Cluster Management	309	281	(28)
Peer Networks	510	253	(257)
Covid Intelligence	40	45	5
LGF High Potential Operational	164	148	(16)
EU Transition Advisory Resource &Business Engagement		89	89
Brexit Policy Work Programme (Strategy & Policy)	73	41	(32)
Mine Energy White Paper	45	45	(0)
Energy LGF	23	23	0
Feasibility Study (AHSN + LGF)	33	33	0
Skills Other Operational Costs (EY)(L6040)	136	12	(124)
CEC operational (L6030)	65	65	0
CITE Primary (L6045)	69	50	(19)
DfE	52	14	(38)
DfE One Vision	42	57	16
Inward Invesment Contribution	140	140	0
EZ NEIF Costs		126	126
LGF Project Management	78	173	95
Getting Building Fund Project Management	205	177	(29)
GROSS EXPENDITURE	**7,097**	**6,345**	**(752)**
LEP Core & Strategy Grant from DCLG	(500)	(500)	0
GBF Capacity Funding	(100)	(100)	0
Local Authority Match Contributions	(250)	(250)	0
CORE FUNDING	**(850)**	**(850)**	0
Local Growth Fund (programme mgmt costs)	(747)	(769)	(22)
Getting Building Fund	(357)	(296)	61
Interest Generated on Funds	(140)	(191)	(51)
Growth Hub	(410)	(410)	0
Growth Hub Covid-19/Cluster Management	(370)	(312)	58
Peer Networks	(510)	(273)	237
Enterprise Adviser grant - CEC	(279)	(302)	(23)
Enterprise Adviser grant - CEC (Non-salary)	(255)	(65)	190
CITE Primary	(70)	(50)	20
Invite (Horizon 20/20)	(74)	(86)	(12)
Innovation Challenge Covid	(464)	(151)	313
Innovation Development funding (LGF)	(79)	(79)	0
ERDF + Digital Catapult	(36)	(30)	6
Academic Health Science Network (AHSN)	(45)	(40)	4
Feasibility Study	(33)	(33)	(0)
NEIF Contribution to cover activity costs	(124)	(173)	(49)
EZ Contribution to cover activity costs	(139)	(169)	(30)
Education Challenge	(144)	(29)	115
European Social Fund North East Ambition	(547)	(726)	(179)
LGF match North East Ambition (ESF project)	(314)	(302)	12
EY Foundation	(166)	(12)	153
DfE	(87)	(25)	62
LA Contributions re ESIF Co-ordinator	(20)	(18)	2
LGF High Potential	(211)	(189)	22
EU Transition Advisory Resource and Engagement		(25)	(25)
EU Transition Business Engagement		(84)	(84)
Brexit Policy Work Programme	(146)	(99)	47
Energy Strategy BEIS / TVCA, RCEF, OREC	(322)	(264)	58
DFE - One Vison		(130)	(130)
Contribution Pension - NTCA	(147)	(129)	18
Other Income	(23)	(44)	(21)
EXTERNAL FUNDING	**(6,257)**	**(5,505)**	**752**
GROSS INCOME	**(7,107)**	**(6,355)**	**752**
NET BUDGET	**(11)**	**(10)**	**(0)**
BROUGHT FORWARD BALANCE	**(603)**	**(603)**	
Use or (Contribution) LEP Reserves	**(11)**	**(10)**	
CARRY FORWARD BALANCE	**(614)**	**(613)**	

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 Follansbee 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**	**2,704**	**2,600**	**(104)**
Interest	11	25	20	15	14	(1)
Grant income	30					
Total Income	**1,667**	**1,844**	**2030**	**2,719**	**2,614**	**(105)**
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 Contrib'n	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**	**298**	**645**	**347**
Cumulative Surplus	**2,707**	**2,907**	**3,047**	**3,345**	**3,692**	**347**

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.

2020-21 Outturn and 2021/22 Budget Invest North East England

Invest North East England (INEE)	2020-21 Original Budget £	2020-21 Actual £	2020-21 Variance £	2021-22 Original Budget £
Expenditure				
Salaries	166,000	165,194	(806)	166,000
Staff training	2,000	0	(2,000)	2,000
Travel Subsistence (Inc.International Travel)	9,000	8,832	(168)	9,000
Web, telecoms and computing	8,000	1,999	(6,001)	8,000
Marketing/Comms/Events	100,000	40,840	(59,160)	100,000
Membership Fees	3,000	2,815	(185)	3,000
Visit Hospitality costs	7,000	30	(6,970)	7,000
Professional Consultancy	20,000	14,950	(5,050)	20,000
Lead generation / representation	110,000	71,290	(38,710)	110,000
Research resource licenses	25,000	24,000	(1,000)	25,000
Propositions refresh	10,000	17,500	7,500	10,000
Total Expenditure	**460,000**	**347,450**	**(112,550)**	**460,000**
Income				
Local Authority contributions	(140,000)	(140,000)	0	(140,000)
Private sector contributions to events	(10,000)	(6,306)	3,694	(10,000)
North East LEP	(310,000)	(201,144)	108,856	(310,000)
Total Income	**(460,000)**	**0**	**112,550**	**(460,000)**

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 (£27.039m) 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 £176.878m for the year ended 31 March 2021 and are financed by Useable Reserves of £122.537m and Unusable Reserves of £54.341m. More details of the reserves contained on the Balance Sheet are shown in Notes 40 and 42. 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 £472.701, adequate to cover both short-term fluctuations and future commitments from useable reserves.

The Nexus accounts are divided between NTCA and NECA accounts (after elimination of intra-group transactions), with the balance sheet information at 31 March 2021 allocated between the two Combined Authorities in proportion to their relative share of Tyne and Wear Population – 55.45% in the NECA accounts and 44.54% in the NTCA accounts.

Non-Financial Performance of the Authority

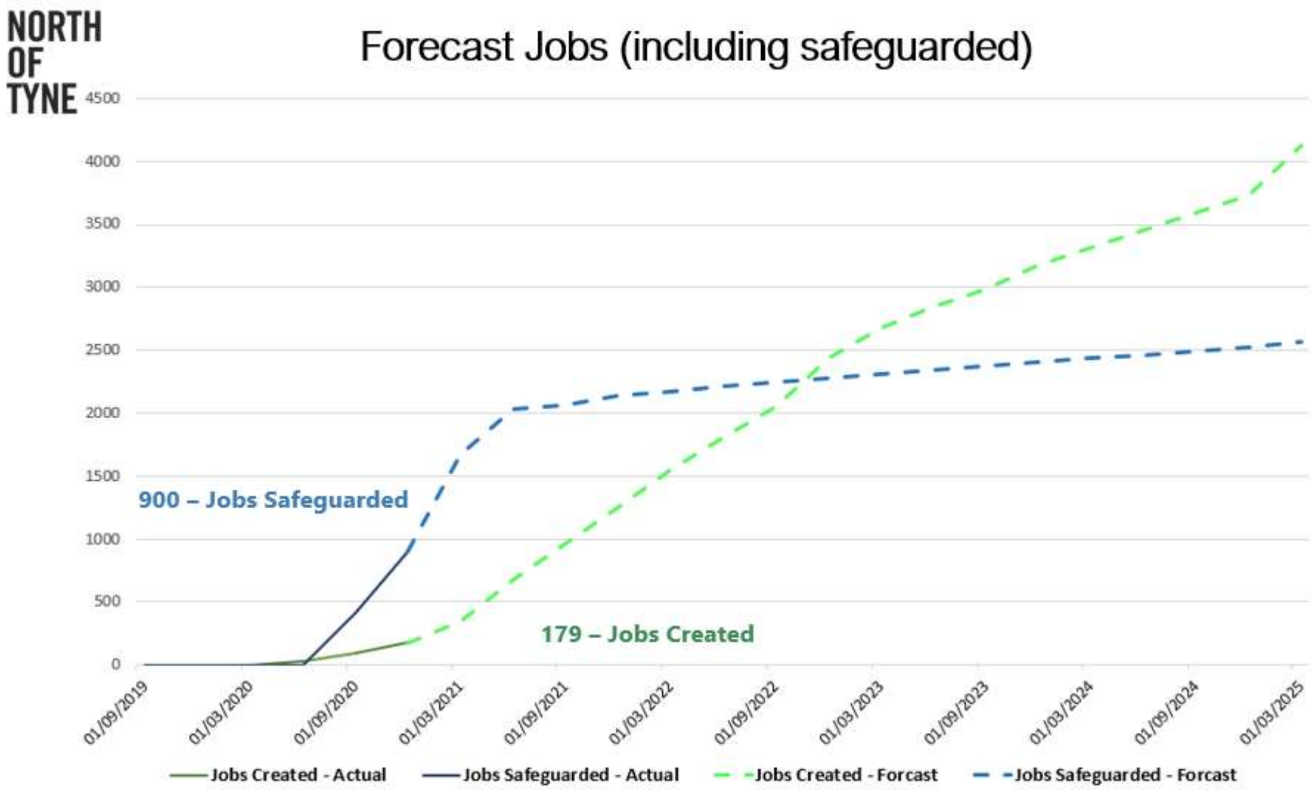
Investment Fund non-financial performance

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

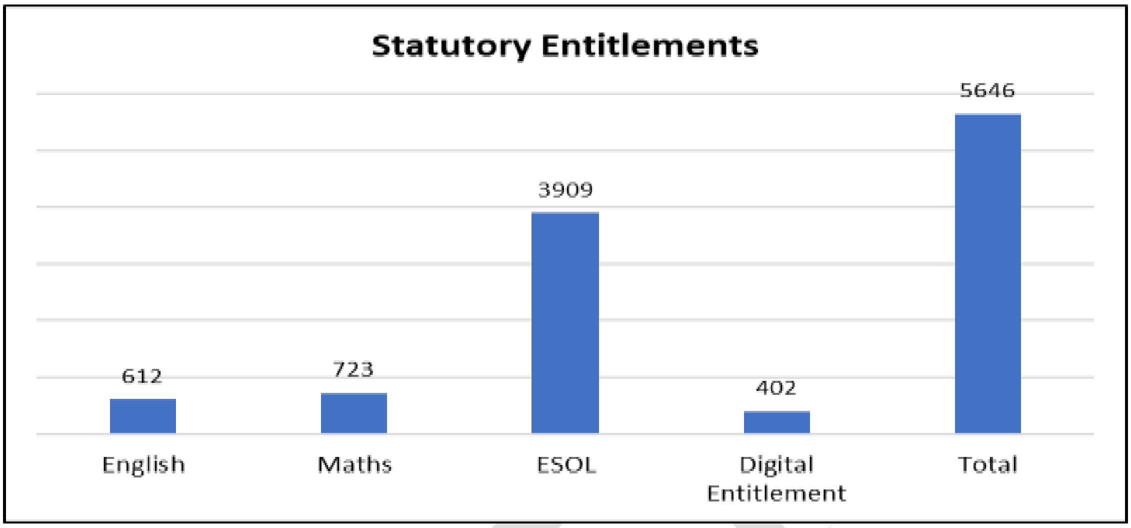
- Contracted projects are forecasting the creation of 1402 housing units with the extended pipeline accounting for 4171. Our contracted target with MHCLG is 1500.

- 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.

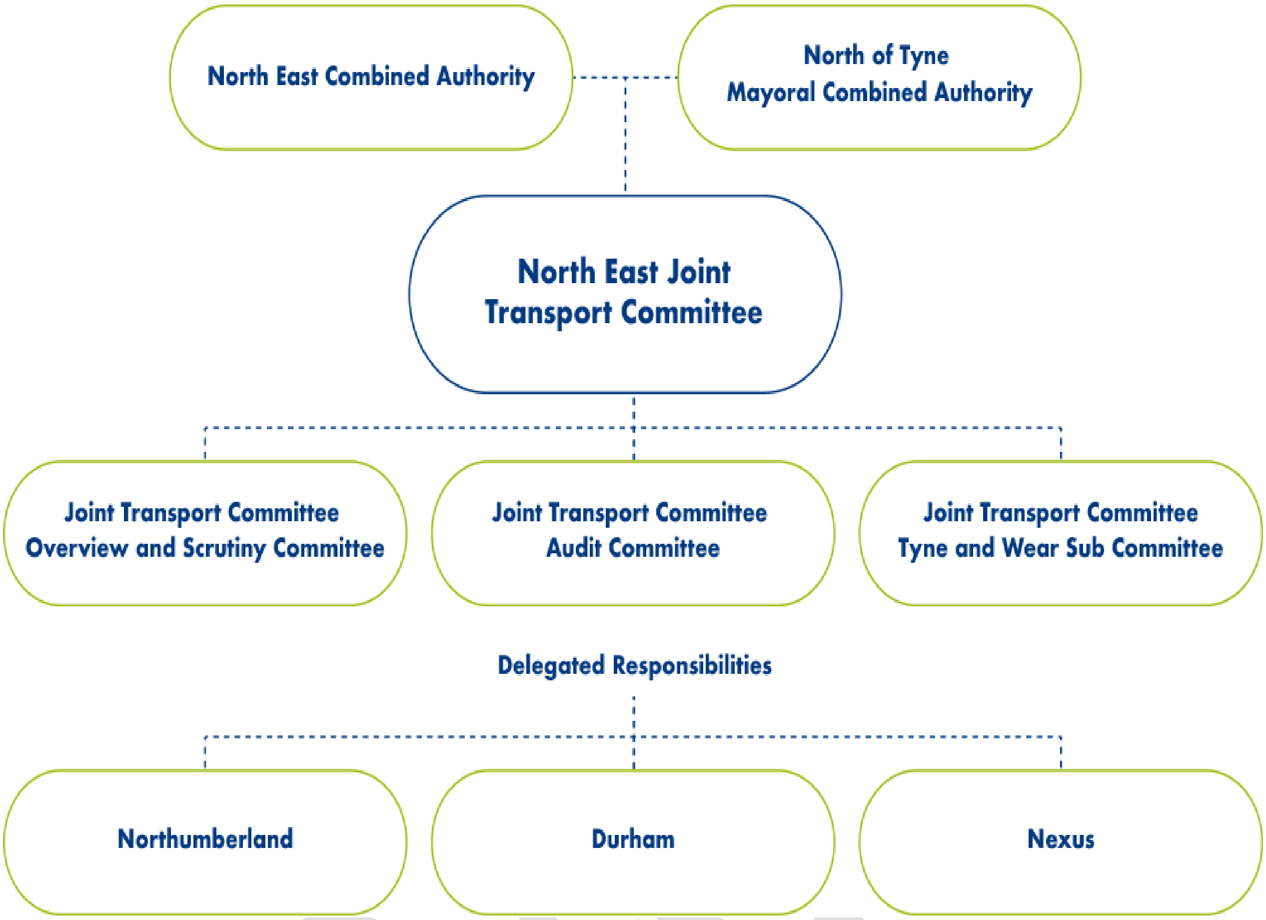
Table 11 - Population used to allocate Transport Assets/Liabilities between NECA and NTCA

	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.

The following table of Traffic flows 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; am 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 (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

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

Janice Gillespie
Chief Finance Officer (S73 Officer)

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North of Tyne Combined Authority

Draft Statement of Accounts

2020/21

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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.

Signed:
Janice Gillespie
Chief Finance Officer
Date:

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 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.

	Note	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)**	**0**	**(4,167)**	**(40,782)**	**(39,338)**	**(80,120)**
Total Comprehensive Income & Expenditure		(28,563)	0		0	(28,563)	196	(28,367)
Adjustments between accounting basis & funding basis under regulations		3,611	0		(1,683)	1,928	(1,928)	0
(Increase)/ decrease in year		(24,952)	0		(3,623)	(26,635)	(1,732)	(28,367)
Transfers (to)/from Earmarked Reserves	24	23,904	(23,904)		0	0	0	0
Balance at 31 March 2020 carried forward		**(10,691)**	**(50,876)**	**0**	**(5,850)**	**(67,417)**	**(41,070)**	**(108,487)**
Transfer of service from NECA at 1 April 2020	2	**(649)**	**(17,841)**	**(8,889)**	**(249)**	**(27,628)**	**(13,724)**	**(41,352)**
Total Comprehensive Income & Expenditure		(28,871)	0	0	0	(28,871)	1,832	(27,039)
Adjustments between accounting basis & funding basis under regulations		18,572	0	0	(17,193)	1,379	(1,379)	0
(Increase)/ decrease in year		(10,299)	0	0	(17,193)	(27,492)	453	(27,039)
Transfers (to)/from Earmarked Reserves	24	15,453	(15,453)	0	0	0	0	0

Balance at 31 March 2021 carried forward	**(6,186)**	**(84,170)**	**(8,889)**	**(23,292)**	**(122,537)**	**(54,341)**	**(176,878)**

2.2 Comprehensive Income and Expenditure Statement

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

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

NECA as the accountable body must split revenue, expenditure, assets and liabilities into those which relate to NECA and NTCA. The accounts for the 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	0	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 Services transferred from North East Combined Authority		57,430	(39,097)	18,333
			Invest North East		534	(438)	96
0	0	0	Local Enterprise Partnership	2	49,732	(15,278)	34,454
56,080	**(32,134)**	**23,946**	**Cost of Services**		**138,442**	**(71,847)**	**66,595**
3,289	(1,080)	2,209	Financing and Investment Income and Expenditure	7	3,295	(2,060)	1,235
0	(54,718)	(54,718)	Taxation and Non-Specific Grant Income	8	0	(96,701)	(96,701)
59,369	**(87,932)**	(28,563)	**Surplus on Provision of Service**		**135,513**	**(164,384)**	**(28,871)**
		196	**Other Comprehensive Income and Expenditure**				1,832
		(28,367)	**Total Comprehensive Income & Expenditure**				**(27,039)**

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 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 (eg 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		Notes	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**		**193,161**
(1,032)	Short Term Borrowing	15	(21,023)
(27,606)	Short Term Creditors	20	(53,460)
(427)	Grants Receipts in Advance	9	(2,696)
(2,256)	Public Private Partnerships	21	(2,268)
(31,321)	**Current Liabilities**		**(79,447)**
(75,595)	Long Term Borrowing	16	(75,724)
(38,345)	Public Private Partnerships	21	(36,292)
0	Provisions		(1,148)
(285)	Pension Liability	22	(4,987)
(114,225)	**Long Term Liabilities**		**(118,151)**
108,487	**Net Assets**		**176,878**
	Financed By:		
(67,417)	Usable Reserves	23	(122,537)
(41,070)	Unusable Reserves	25	(54,341)
(108,487)	**Total Reserves**		**(176,878)**

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:**

Janice Gillespie, Chief Finance 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 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.

2019/20 £000		Notes	2020/21 £000
28,563	Net surplus on the provision of services		28,872
(7,588)	Adjustments to net surplus on the provision of services for non- cash movements	27	12,230
(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
0	Transfer from NECA in respect LEP 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.

	£000
Useable Reserves	
General Balances	(649)
Earmarked Reserves	(17,841)
Capital Receipts Reserve	(8,889)
Capital Grants Unapplied	(249)
Total Useable 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 (eg government grant 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	0	197	50	5,832
Corporate Costs	7,032	0	2,051	32	9,115
Adult Education Budget	(1,277)	0	33	9	(1,235)
Joint Transport Committee	35,290	(16,956)	0	0	18,334
Services transferred from North East Combined Authority (NECA)					
Invest North East	66	0	30	0	96
Local Enterprise Partnership	33,230	249	510	465	34,454
Net Cost of Services	**79,925**	**(16,707)**	**2,821**	**556**	**66,595**
Other Income & Expenditure	(90,224)	(4,862)	49	(429)	(95,466)
Surplus on Provision of Service	**(10,299)**	**(21,569)**	**2,870**	**127**	**(28,871)**

Opening General Fund Balances	**(10,691)**
Transfer from NECA in respect of Local Enterprise Partnership	(649)
Surplus on General Fund Balances in Year	(10,299)
Transfer to Earmarked Reserves	15,453
General Fund Balances at 31 March 2021	**(6,185)**

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	735	0	0	0	735
Corporate Costs	(3,713)	0	91	0	(3,622)
Mayors Office	207	0	0	0	207
Election	1,045	0	0	0	1,045
Adult Education Budget	(246)	0	0	0	(246)
Transport -Northumberland	6,094	0	0	0	6,094
Transport - Retained Levy Budget	348	(234)	0	0	114
Transport -Tyne and Wear	24,657	0	0	0	24,657
Transport – Tyne Tunnels	(2,570)	(983)	0	0	(3,553)
Transport – Other	326	(1,811)	0	0	(1,485)
Net Cost of Services	**26,883**	**(3,028)**	**91**	**0**	**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 Total		2020/21 £000 Cost of Service	2020/21 £000 Other Income & Expenditure	2020/21 £000 Total
1,723	Employee benefit expenses	9,064	0	9,064
/43,336	Other service expenses	120,490	0	120,490
298	Support service recharges	421	0	421
10,723	Depreciation, impairment and revenue expenditure funded from capital under statute (REFCUS)	8,467	0	8,467
3,289	Interest payments	0	3,295	3,295
59,369	**Total Expenditure**	**138,442**	**3,295**	**141,737**
(12,616)	Fees, charges and other service income (Tyne Tunnels tolls)*	(19,406)	0	(19,406)
(1,080)	Interest and Investment Income	0	(2,060)	(2,060)
(33,168)	Income from transport levy	0	(33,450)	(33,450)
(33,864)	Government grants and contributions	(48,432)	(63,251)	(111,683)
(7,204)	Other Income	(4,009)	0	(4,009)
(87,932)	**Total Income**	**(71,847)**	**(98,761)**	**(170,608)**
(28,563)	**Surplus on the provision of services**	**66,595**	**(95,466)**	**(28,871)**

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

5. Adjustments to Prior Year Analysis on CIES

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).

2019/20 Published Figures				Restated 2019/20 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	0	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	0	6,094	Transport – Northumberland			
114	0	114	Transport – Retained Levy Budget			
24,657	0	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					2020/21			
General Fund £000	**Capital Receipts Reserve £000**	**Capital Grants Unapplied £000**	**Unusable Reserves £000**		**General Fund £000**	**Capital Receipts Reserve £000**	**Capital Grants Unapplied £000**	**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	(1,929)	0	0	1,929
2,256	-	-	(2,256)	Other income that cannot be credited to the General Fund	2,268	0	0	(2,268)
6,435	-	-	(6,435)	Capital Grants and contributions applied	48,614	0	0	(48,614)
(8,881)	-	-	8,881	Revenue expenditure funded from capital under statute	(47,230)	0	0	47,230
				Insertion of items not debited or credited to the CIES				
766	-	-	(766)	Statutory provision for the financing of capital investment	1,117	0	0	(1,117)
4	-	-	(4)	Capital expenditure charged against the General Fund	15	0	0	(15)
				Adjustments primarily involving the Capital Grants Unapplied Account				
4,599	-	(4,599)	-	Grants and contributions unapplied credited to CIES	18,715	0	(18,715)	0
-	-	2,916	(2,916)	Application of grants to capital financing transferred to Capital Adjustment Account	0	0	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	0	(676)	0	676
-	698	-	(698)	Application of capital receipts to repayment of debt	0	676	0	(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	428	0	0	(428)
				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)	0	0	556
				Adjustments involving the Pensions Reserve				
(269)	-	-	269	Reversal of items relating to retirement benefits debited or credited to CIES	(3,036)	0	0	3,036
178	-	-	(178)	Employer's pension contributions and direct payments to pensioners payable in the year	215	0	0	(215)
2	-	-	(2)	Interest expense on net defined liability/(asset)	49	0	0	(49)
3,611	**0**	**(1,693)**	**(1,928)**	**Total Adjustments**	**18,572**	**0**	**(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	19	(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
<u>Capital Receipts in Advance</u>		
Covid 19 Grants	0	(2,583)
NECA North East Smart Ticketing Initiative	(91)	0
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)
Shown as Long-Term Liability on the Balance Sheet	0	0
Total	**(427)**	**(2,696)**

The following grants were credited to the Comprehensive Income and Expenditure Statement during the year:

	*Restated 2019/20 £000	2020/21 £000
Adult Education Budget	0	(15,064)
Transforming Cities Fund	(4,386)	(11,170)
Local Transport Plan	(6,179)	(6,213)
Covid 19 Business Support	0	(5,168)
Active Travel Fund	0	(3,225)
European Grants	(220)	(1,178)
Mayoral Capacity Fund	(1,000)	(1,000)
LEP Core Funding	0	(600)
Brownfield Housing Fund	0	(551)
Enterprise Advisor Programme	0	(487)
Growth Hub	0	(410)
Local Growth Fund	0	(409)
Peer Networks	0	(292)
Education Vision	0	(263)
Section 31 Grants	(1,001)	(228)
Education Challenge	0	(144)
Adult Education Implementation Fund	(382)	(116)
EY Primary Pilot	0	(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
0	0	0	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
0	0	0	Innovation Director (LEP)*	94	12	106
0	0	0	Director Invest North East *	68	8	76
0	0	0	Skills Director (LEP)*	68	8	76
0	0	0	Strategy & Policy Director (LEP)*	69	8	77
0	0	0	Business Growth Director (LEP)*	68	8	76
127	0	127	Managing Director of Transport Arrangements**	131	0	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 TUPED across.

** 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 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	0	10	Paul Hanson, Head of Paid Service from 1 Jan 2020 (SLA North Tyneside Council)	40	0	40
31	0	31	Pat Ritchie, Head of Paid Service until 31 December 2019 (SLA Newcastle City Council)	0	0	0
24	0	24	Janice Gillespie, Interim Chief Finance Officer, S.73 Officer (SLA North Tyneside Council)	25	0	25
19	0	19	John Softly Interim Monitoring Officer (SLA Newcastle City Council)	29	0	29
115	1	116	Interim Director of Economic Growth until 2 Dec 2019* (Newcastle City Council)	0	0	0
85	0	85	Interim Director of Policy & Performance until 2 Dec 2019* (Newcastle City Council)	0	0	0
284	**1**	**285**	**Total**	**94**	**0**	**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.

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 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 sent 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 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				
0	0	1,383	69	Durham	(329)	(15,567)	21,640	1,833
0	(4,850)	853	21	Gateshead	(256)	(10,989)	7,780	1,046
0	(3,583)	535	610	South Tyneside	0	(8,180)	1,253	1,943
0	(6,643)	1,000	105	Sunderland	(1,372)	(15,017)	10,244	658
				Other Public Bodies				
0	0	8	8	North East Combined Authority	(355)	(77)	34,367	2,044
(672)	0	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	47,779

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	0	424	152	576	424
Reclassification	544	0	(544)	0	0
Revaluations decreases recognised in the Surplus on the Provision of Services	0	(16)	0	(16)	(16)
Impairment recognised in the Surplus on the Provision of Services	0	865	0	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)	0	(23,372)	(22,773)
Depreciation charge	(129)	(1,785)	0	(1,914)	(1,785)
At 31 March 2021	**(728)**	**(24,558)**	**0**	**(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**	**153,333**	**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	0	0	1,373	1,373	0
Reclassification	334	8,104	(8,438)	0	8,104
Revaluations decreases recognised in the Surplus on the Provision of Services	0	0	0	0	0
Impairment recognised in the Surplus on the Provision of Services	0	0	0	0	0
At 31 March 2020	**1,754**	**174,306**	**934**	**176,994**	**174,306**
Accumulated Depreciation & Impairments					
At 1 April 2019	(525)	(21,005)	0	(21,530)	(21,005)
Depreciation charge	(74)	(1,768)	0	(1,842)	(1,768)
At 31 March 2020	**(599)**	**(22,773)**	**0**	**(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	115,000	1,376	10,757
Total Financial Assets	-		**15,595**	**28,184**	**35,581**	**115,000**	**1,376**	**10,757**
Non-financial Assets	-		-	-	-	-	5,156	730
Total	-		**15,595**	**28,184**	**35,581**	**115,000**	**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)**	**(75,725)**	-	**-**	**(1,032)**	**(21,023)**	**(25,416)**	**(31,085)**
Non-financial liabilities	-	-	-	-	-	-	(2,190)	(22,374)
Total	**(75,595)**	**(75,724)**	-	**-**	**(1,032)**	**(21,023)**	**(27,606)**	**(53,460)**

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	3,292	3	3,295
3,289	**-**	**3,289**	**Total expense in Surplus on the Provision of Services**	**3,292**	**3**	**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**	**3,292**	**(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	**Fair Value**	**Carrying Amount**	**Fair Value**

		£000	£000	£000	£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	28,184	37,289
Other loan debtors	3	-	-	-	-
Total Financial Assets		**51,176**	**62,733**	**170,801**	**179,906**

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 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 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)	(13,070)
Other Entities and Individuals	(2,701)	(40,169)
Total	**(27,606)**	**(53,460)**

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	0
Settlement Costs	0	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	0	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	0
Net Increase in liabilities from disposals/acquisitions	0	(137)
Settlements	0	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	0	0
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	2.30	2.1
Rate of inflation – Consumer Price Index	1.80	2.6
Rate of increase in pensions	1.80	2.6
Pensions accounts revaluation rate	1.80	2.6
Rate of increase in salaries	3.30	4.10

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

*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

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)	(84,170)
Capital Receipts Reserve		0	(8,889)
Capital Grants Unapplied Reserve		(5,850)	(23,292)
Total Usable Reserves		**(67,417)**	**(122,537)**

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)	0	(1,048)	(10,691)	(649)	5,164	(10)	(6,186)
General Fund Reserves								
Investment Fund Reserve	(19,551)	0	(17,289)	(36,840)	0	7,305	(20,595)	(50,130)
EZ Reserve					(7,345)	171	(2,016)	(9,190)
LGF SWAP Reserve					(5,610)	4,588	(6,949)	(7,971)
Metro Fleet Replacement Reserve	(2,964)	0	(1,507)	(4,471)	0	0	(40)	(4,511)
Metro Reinvigoration Reserve	(4,059)	0	(34)	(4,093)	0	0	(37)	(4,130)
Tyne Tunnel Reserve					(3,491)	0	0	(3,491)
NIEF Reserve					(1,394)	814	(340)	(920)
Metro Studies					0	0	(336)	(336)
Bus Project					0	0	(223)	(223)
Strategic Reserve	(200)	0	0	(200)	0	0	0	(200)
Business Rates Pool	0	0	(4,909)	(4,909)	0	4,909	0	0
Grant Reserves								
Adult Education Budget					0	0	(1,477)	(1,477)
North East Ambition					0	0	(301)	(301)
CEC Enterprise Advisor					0	0	(290)	(290)
Department for Education					0	0	(206)	(206)
Education Challenge Grant					0	0	(115)	(115)
Grant Reserves (individual balances under £0.100m)	(198)	17	182	(363)	0	181	(496)	(678)
Total General Fund Reserves	**(26,972)**	**17**	**(23,921)**	**(50,876)**	**(17,841)**	**17,968**	**(33,421)**	**(84,170)**
Total Balances & Reserves	**(36,615)**	**17**	**(24,969)**	**(61,567)**	**(18,490)**	**23,132**	**(33,431)**	**(90,356)**

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	0
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	0	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	28,872
Adjustments to Surplus on Provision of Services for Non-Cash Movements		
Depreciation and Impairment	1,842	1,929
Increase/(Decrease) in Creditors	(2,862)	25,868
(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)	**12,230**
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	870
Interest Paid	(3,289)	(3,257)

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	Financing Cash Flows	Changes which are not financing cash flows		31 March 2021
			Acquisition	Other	
	£000	£000	£000	£000	£000
Long Term Borrowings	(75,595)	(129)	0	0	(75,724)
Short Term Borrowings	(1,032)	(20,000)	0	9	(21,023)
Total Liabilities arising from Financing Activities	**(76,627)**	**(20,129)**	**0**	**9**	**(96,747)**

	1 April 2019	Financing Cash Flows	Changes which are not financing cash flows		31 March 2020
			Acquisition	Other	
	£000	£000	£000	£000	£000
Long Term Borrowings	(73,648)	(1,947)	0	0	(75,595)
Short Term Borrowings	(1,024)	0	0	(8)	(1,032)
Total Liabilities arising from Financing Activities	**(74,672)**	**(1,947)**	**0**	**(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:

<u>Service Concession Arrangements</u>

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 ben 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. A firm of consulting actuaries is engaged to provide the Combined Authority with expert advice about the assumptions to be applied.	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. The Pension Fund engages a firm of specialist actuaries to provide the 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

<u>Benefits Payable during Employment</u>

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

Financial Liabilities

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.

Financial Assets

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.

<u>Recognition</u>

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.

<u>Measurement</u>

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.

<u>De Minimis Levels</u>

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 2020divided 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)	0	0	0
(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)	(13,727)	(41,352)	0	(41,352)
Balance at 1 April 2020	(95,045)	(54,794)	(149,839)	(209,696)	(359,535)
Total Comprehensive Income & Expenditure	(28,871)	1,832	(27,039)	(1,493)	(28,532)
Adjustments between accounting basis & funding basis under regulations	1,379	(1,379)	0	0	0
(Increase)/decrease in 2020/21	(27,493)	453	(27,039)	(1,493)	(28,532)
Balance at 31 March 2021 carried forward	**(122,538)**	**(54,341)**	**(176,879)**	**(211,189)**	**(388,067)**

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	0	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		49,732	(15,278)	34,454
105,841	**(67,827)**	**38,015**	**Cost of Services**		**187,377**	**(107,703)**	**79,672**
4,225	(757)	3,468	Financing and Investment Income and Expenditure	G4	7,296	(4,656)	2,640
0	(75,607)	(75,607)	Taxation and Non-Specific Grant Income	G5	0	(121,902)	(121,902)
0	93	93	Gain/Loss on disposal of non current assets		0	0	0
110,066	**(144,098)**	**(34,032)**	**Surplus on Provision of Service**		**194,673**	**(234,261)**	**(39,588)**
		(348)	Taxation credit charge for the year	G14			**0**
		(34,380)	**Group surplus after taxation**				**(39,588)**
		(7,577)	Re-measurement of the defined benefit liability	G13			**11,056**
		(785)	Gains on Revaluation of Property				**0**
		(42,742)	**Total Comprehensive Income & Expenditure**				**(28,532)**

3.3 Group Balance Sheet

31 March 2020 £000		Notes	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	(42,344)
(427)	Grants Receipts in Advance	G6	(2,696)
(2,256)	Public Private Partnerships		(2,268)
0	Other Current Liabilities		0
(22,394)	**Current Liabilities**		**(68,331)**
(75,595)	Long Term Borrowing	G9	(75,724)
(38,334)	Public Private Partnerships		(36,292)
(30,826)	Pension Liability	G13	(50,506)
(2,304)	Provisions		(3,679)
(1,719)	Deferred Taxation	G14	(1,728)
0	Capital Grants Receipts in Advance		0
(148,788)	**Long Term Liabilities**		**(167,929)**
318,183	**Net Assets**		**388,067**
(83,962)	Usable Reserves	G15	(145,050)
(234,221)	Unusable Reserves	G16	(243,017)
(318,183)	**Total Reserves**		**(388,067)**

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

Signed:

Janice Gillespie, Chief Finance Officer

3.4 Group Cash Flow Statement

2019/20 £000		Notes	2020/21 £000
34,032	Surplus on the provision of services	G17	39,588
16,766	Adjustments to net surplus on the provision of services for non-cash movements	G17	35,616
(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
0	Transfer from NECA in respect of LEP		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 on page ?? 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	0	197	50	5,832
Corporate Costs	7,032	0	2,051	32	9,115
Adult Education Budget	(1,277)	0	33	9	(1,235)
Joint Transport Committee Costs	23,547	(3,821)	11,685	0	31,411
Services transferred from NECA					
Invest North East	66	0	30	0	96
Local Enterprise Partnership	33,230	249	510	465	34,454
Net Cost of Services	**68,181**	**(3,572)**	**14,506**	**556**	**79,672**
Other Income & Expenditure	(84,451)	(34,431)	49	(428)	(119,261)
Surplus on Provision of Service	**(16,270)**	**(38,003)**	**14,555**	**128**	**(39,591)**

Opening General Fund Balances	**(33,300)**
Transfer from NECA in respect of LEP balances	(649)
Surplus on General Fund Balances in Year	(16,270)
Transfers to Reserves	20,886
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	0	0	0	735
Corporate Costs	(2,461)	0	91	0	(2,370)
Adult Education Budget	(246)	0	0	0	(246)
Joint Transport Committee	23,675	7,027	9,193	0	39,895
Net Cost of Services	**21,703**	**7,027**	**9,284**	**0**	**38,014**
Other Income & Expenditure	(54,106)	(22,553)	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	138,343
1,872	Support Service Recharges	2,783
23,187	Depreciation, impairment and Revenue Expenditure Funded from Capital under Statute (REFCUS)	18,685
4,225	Interest Payments	7,296
110,066	**Total Expenditure**	194,673
	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**	39,588

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	858
(756)	Interest receivable and similar income	(1,603)
3,468	**Total**	**2,641**

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
0	Covid 19 Business Support	(19,062)
0	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)
0	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	0
(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)
0	Grants & Contributions (individually under £1m) – Long Term	0
(427)	**Total**	**(2,696)**

G7 Property, Plant and Equipment

2020/21	Vehicles, Plant, Furniture & Equipment £000	Infra-structure Assets £000	Land & Buildings £000	Assets Under Construction £000	Total Property, Plant & Equipment £000	Service Concession Assets included in PPE £000
Cost or Valuation						
At 1 April 2020	**16,855**	**503,857**	**1,440**	**20,703**	**542,855**	**174,306**
Additions	0	424	0	29,201	29,625	424
Transfers from Assets under Construction	544	21,468	0	(22,012)	0	0
Derecognition – disposals	(1,348)	(2,171)	(155)	(20)	(3,694)	0
Impairment recognised in the Provision of Services	0	(16)	0	0	(16)	(16)
Other Adjustments	0	2,147	0	0	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)	0	(161,971)	(22,773)
Depreciation charge	(690)	(14,414)	(18)	0	(15,124)	(1,785)
Derecognition – disposals	542	1,426	104	0	2,072	0
At 31 March 2021	**(11,333)**	**(163,444)**	**(244)**	**0**	**(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

Cost or Valuation	Vehicles, Plant, Furniture & Equipment £000	Infra-structure Assets £000	Land & Buildings £000	Assets Under Construction £000	Total Property, Plant & Equipment £000	Service Concession Assets included in PPE £000
At 1 April 2019	**16,570**	**483,334**	**770**	**18,851**	**519,525**	**166,202**
Additions	0	0	0	24,996	24,996	0
Transfers from Assets under Construction	334	21,878	0	(22,212)	0	8,104
Transfers between categories	0	115	(115)	0	0	0
Intangibles	0	0	0	(655)	(655)	0
Derecognition – disposals	(49)	(1,470)	0	(277)	(1,796)	0
Revaluation Recognised in Revaluation Reserve	0	0	785	0	785	0
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)**	**0**	**(148,670)**	**(21,005)**
Depreciation charge	(852)	(13,307)	(18)	0	(14,177)	(1,768)
Derecognition – disposals	49	827	0	0	876	0
At 31 March 2020	**(11,185)**	**(150,456)**	**(330)**	**0**	**(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	0
(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		6,436	
Total Financial Assets	-		-		**35,581**		**6,436**	
Non-financial Assets	-		-		-		7,050	
Total	-		-		**35,581**		**13,486**	

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)		-		(1,032)		(14,333)	
Total Financial Liabilities	**(75,595)**		**-**		**(1,032)**		**(14,333)**	
Non-financial Liabilities	-		-		-		(4,346)	
Total	**(75,595)**		**-**		**(1,032)**		**(18,679)**	

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	0	4,225	Interest expense			1,111
4,225	**0**	**4,225**	**Total expense in Surplus on Provision of Services**			
0	(757)	(757)	Investment Income			
0	**(757)**	**(757)**	**Total income in Surplus on Provision of Services**			
4,225	**(757)**	**3,468**	**Net (gain)/loss for the year**			

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)		
Total		**(76,627)**	**(132,125)**		
Financial Assets at amortised cost					
Held to Maturity investments	2	35,581	35,581		
Total		**(41,046)**	**(96,544)**		

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	(14,840)
(14,599)	Other Entities and Individuals	(24,690)
(18,679)	**Total**	**(42,344)**

G13 Defined Benefit Pension Schemes

NTCA, NECA 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 ??? (£30.862m in 2019/20) is the sum of the NTCA, NECA, Nexus and NEMOL pension liability. The details of the NEMOL pension liability of £???

(£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 NEMOL to Nexus on 1 November 2019, the associated pension assets and liabilities have transferred to Nexus. In the Nexus Group accounts this has resulted in a one-off loss of £3.039m arising from differences in actuarial assumptions between NEMOL and Nexus, the NTCA Group share of this loss being £1.346m. This is presented in the disclosures below as well as in the Comprehensive Income and Expenditure Statement as an exceptional item.

Transactions relating to post-employment Benefits

The following transactions relating to the 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		0	
Past Service Costs	71		0	
Exceptional loss on transfer of pension liability loss	1,346		0	
Financing and Investment Income and Expenditure				
Interest Cost	4,042		35	
Expected Return on Scheme Assets	(3,289)		0	
Total Post Employment Benefit Charged to the Surplus on the Provision of Services	**8,289**		**35**	
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)		0	
Remeasurement of the net Defined Benefit Liability	7,013		(235)	
Total Amount recognised in Other Comprehensive Income & Expenditure	**(7,342)**		**(235)**	
Total amount recognised in the CIES	**947**		**(200)**	

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**		**0**	
Interest Income	3,294		0	
Remeasurement gain on plan assets	14,356		0	
Employer contributions	3,243		155	
Contributions by scheme participants	1,254		0	
Net Benefits paid out	(5,486)		(155)	
Closing fair value of scheme assets	**153,358**		**0**	

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)**		**(1,580)**	
Current Service Cost	(6,126)		0	
Interest Cost	(4,045)		(35)	
Contributions by participants	(1,254)		0	
Remeasurement of the Net Defined Liability	(7,013)		234	
Net benefits paid	5,486		151	
Past service costs	(72)		0	
Net increase in liabilities from NEMOL transfer	(1,346)		0	
Closing balance at 31 March	**(182,952)**		**(1,230)**	

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**	
Present value of LGPS liabilities		
- LGPS liabilities	(182,952)	
Deficit on funded defined benefit scheme	**(29,596)**	
Discretionary benefits	(1,230)	
Total Deficit	**(30,826)**	

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

	NTCA	**NECA**	**Nexus**	**NEMOL**
Active members	100%	9%	37%	85%
Deferred pensioners	0%	13%	13%	5%
Pensioners	0%	78%	50%	10%

The weighted average duration of the defined benefit obligation for scheme members is 29.3 years for NTCA, 13.5 years for NECA, 19.3 years for Nexus and 25.6 years for NEMOL.

The liabilities show the underlying commitments that the Authority has in the long run to pay post employment (retirement) benefits. The total liability of ?? has an impact on the net worth of the Authority recorded on the balance sheet, resulting in a negative pension balance of ??. 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 ?? for NTCA, nil for NECA, ?? for Nexus and ?? for NEMOL (of which ?? and ?? respectively attributed to NTCA). In addition, strain on the fund contributions may be required. Expected payments direct to beneficiaries in the year to 31 March 2022 is ?? for NTCA, ?? in relation to unfunded benefits for Nexus (of which ?? attributed to NTCA).

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	
Pensioner member aged 65 at accounting date (female)	25.0	
Active member aged 45 at accounting date (male)	23.5	
Active member aged 45 at accounting date (female)	26.8	
Rate for discounting scheme liabilities:	% p.a	% p.a
Rate of inflation – Retail Price Index	2.30	
Rate of inflation – Consumer Price Index	1.80	
Rate of increase in pensions	1.80	
Pensions accounts revaluation rate	1.80	
Rate of increase in salaries	3.30	

Nexus	LGPS		Discretionary Benefits	
	2019/20	2020/21	2019/20	2020/21
Mortality assumptions:				
Longevity at 65 for current pensioners				
Men	21.8			21.8
Women	25.0			25.0
Longevity at 65 for future pensioners				
Men	23.5			n/a
Women	26.8			n/a
Active member at 65 (male)	23.5			
Active member at 65 (female)	26.8			
Discount rates:	%p.a.	%p.a.	%p.a.	%p.a.
Rate for discounting scheme liabilities	2.30			2.30
Rate of inflation – Retail Price Index	n/a			n/a
Rate of inflation – Consumer Price Index	2.00			2.00
Rate of increase in pensions	2.00			2.00
Pension accounts revaluation rate	2.00			n/a
Rate of increase in salaries	3.50			n/a

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

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			
Property	9.0			
Government Bonds	4.1			
Corporate Bonds	15.3			
Cash	2.3			
Other*	14.5			
Total Assets	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	
Remeasurement gain on assets	14,356	
Actual Return on Assets	**17,650**	

Sensitivity Analysis

Sensitivity analysis of NTCA pension liabilities is set out in Note ?? 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)			
% change in present value of total obligation			
Projected service cost (£M)			
Approximate % change in projected service cost			

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

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

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

*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.

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.

G14 Deferred Tax Liability

The movement for the year comprises:

	2019/20 £000	2020/21 £000
Capital Allowances	(248)	
Other timing differences	(83)	
Total	(331)	

The balance at the year-end comprises:

	2019/20 £000	2020/21 £000
Excess of capital allowances over depreciation	(1,256)	
Roll over relief on capital gains	(546)	
Tax effect of losses	83	
Total	(1,719)	

G15 Usable Reserves

	31 March 2020 £000	31 March 2021 £000
General Fund Balance	(33,300)	(29,333)
Earmarked Reserves	(50,876)	(83,536)
Capital Grants Unapplied	(5,850)	(8,889)
Pensions NEMOL	6,064	(23,292)
Total Usable Reserves	**(83,962)**	**(145,050)**

G16 Unusable Reserves

	31 March 2020 £000	31 March 2021 £000
Revaluation Reserve	(4,695)	(4,651)
Capital Adjustment Account	(254,701)	(291,838)
Financial Instruments Adjustment Account	425	2,554
Accumulated Absences Account	0	556
Pension Reserve	24,750	50,362
Total Unusable Reserves	**(234,221)**	**(243,017)**

<u>Revaluation Reserve</u>

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	**0**
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	(79,705)
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	**(291,838)**

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	0
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	16,490
Employer's pension contributions and direct payments to pensioners	(1,983)
Nemol Pension Transfer	0
Interest expense on net defined asset	49
Balance at 31 March 2021	50,361

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	**39,588**
	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	42,230
(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		**35,616**
	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	870
(3,289)	Interest Paid	(3,257)

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)	0	(75,595)
Short-term borrowings	(1,023)	0	(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	625
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	(78,546)
	Sums set aside from Revenue	
(1,640)	Direct Revenue Contributions	(1,279)
(766)	Minimum Revenue Provision	(783)
0	Additional Voluntary Provision	(334)
85,789	**Closing Capital Financing Requirement**	**(81,618)**
(563)	Decrease in underlying need to borrow (unsupported by Government financial assistance)	(4,138)

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.

NORTH OF TYNE COMBINED AUTHORITY

Audit and Standards Committee
20 July 2021

Subject: **Standards Update**
Report of: **John Softly, Monitoring Officer**

Report Summary

This report (a) updates Committee on the constituent authorities' approach to the LGA model code of conduct, and (b) seeks Committee's agreement to grant dispensations to NTCA's Cabinet Members and substitute Cabinet Members in certain circumstances.

Recommendation

The Committee is recommended to:

i. note the current position with regard to the LGA Model Code of Conduct as set out in section 1.2 below;

ii. grant the dispensations to Cabinet Members (including substitute members) to participate in decisions of the Authority where they have an interest by virtue of being a member of a constituent authority and authorise the Monitoring Officer to issue similar dispensations to any new Cabinet Members (including substitute members); and

iii. note the existing arrangements to deal with other requests for dispensations as described in section 2.2 of this report.

1. LGA Model of Conduct

1.1 At its meeting in January 2021, the Committee received a report regarding the LGA model code of conduct which was published in December 2020. As NTCA's own code of conduct is largely based on the codes of conduct which are already in place across the 3 constituent authorities, it was agreed that consideration of any potential changes to NTCA's code of conduct be deferred until the constituent authorities had considered their own responses to the LGA model code.

1.2 The current position across the 3 constituent authorities is as follows:

Newcastle – the Standards Committee considered the model code at its meeting on 23 April 2021. It was felt that there was not a significant amount of substantive difference between the LGA model code and the Council's current code, and that there was no immediate need to change the code, although this position would be kept under review.

North Tyneside – the Standards Committee considered the model code at its meeting on 8 April. They also agreed that there were many similarities with the Council's own code but noted that there were some differences. The Committee agreed to set up a working group to review the Council's code against the model code and report back to the Committee with recommendations on whether any amendments should be made.

Northumberland – the Standards Committee considered the model code at its meeting on 22 April. It was felt that discussions with neighbouring local authorities would be welcomed to have a consistent approach and so a further report would be presented to Members when officers had had the opportunity to consider the national and local picture further.

2. Dispensations

2.1 As Members are aware, this Committee has the power to grant dispensations to Members to allow them to take part in a decision where they would otherwise be precluded from doing so because of an interest they have in the matter being considered.

2.2 In April 2019, this Committee agreed that dispensations should be granted to Cabinet Members (and substitute Cabinet Members) to allow them to take part in decisions which related to the constituent authority which appointed them.

2.3 The dispensations were granted to cover the period until the annual meeting to be held in 20/21. Due to the coronavirus pandemic, the 20/21 annual meeting did not take place. It is recommended that the Committee grant dispensations in similar terms without any time limit and that the Monitoring Officer be authorised to issue similar dispensations to any new or replacement Cabinet member or substitute member.

2.2 At its meeting in April 2019, Committee also agreed to establish an ad-hoc subcommittee (comprising the non-voting Chair and 3 members of the Committee) to deal with any other requests for dispensations which arise between meetings of this Committee. Furthermore, the Committee also agreed that, in cases of urgency and where it was not practicable to convene a meeting of the subcommittee, the Monitoring Officer, in consultation with the Chair (or, in his/her absence, the Vice Chair) should be authorised to issue dispensations in order to allow a meeting of the Cabinet (or other Committee) to be quorate. It has not been necessary to utilise these arrangements to date, but they remain in place if required.

3. Potential Impact on Objectives

3.1 The proposals in this report are intended to facilitate effective decision-making by the Authority.

4. Key Risks

4.1 There are no key risks arising from this report.

5. Financial and Other Resources Implications

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

6. Legal Implications

6.1 The legal implications are set out in the body of the report.

7. Equalities implications

7.1 There are no direct equalities implications arising out of the recommendations in this report.

8. Inclusive Economy Implications

8.1 There are no direct inclusive economy implications arising out of the recommendations in this report

9. Climate change Implications

9.1 There are no direct climate change implications arising out of the recommendations in this report.

10. Consultation/Engagement

10.1 The granting of dispensations is a matter for this Committee and the power to set up a subcommittee for these purposes is set out in the Committee's Terms of Reference which are part of the Constitution originally approved by Cabinet at its meeting in November 2018.

11. Appendices

11.1 None

12. Background Papers

12.1 NTCA Constitution - Part 2.7 – Responsibility for Functions:

https://www.northoftyne-ca.gov.uk/wp-content/uploads/2020/09/Part2-Responsibilityforfunctions.pdf

13. Contact Officer

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