north east combined authority

Leadership Board

Tuesday 19th September, 2017 at 2.00 pm

Meeting to be held at Committee Room, Civic Centre, Regent Street, Gateshead, NE8 1HH

www.northeastca.gov.uk

AGENDA

Under section 100A and Schedule 12A Local Government Act 1972 because exempt information is likely to be disclosed and the public interest test against disclosure is satisfied.

Tuesday, 21 November 2017 at 2pm at the Civic Centre, Newcastle upon Tyne.

Contact Officer: Victoria Miller Tel: 0191 211 5118 E-mail: victoria.miller@northeastca.gov.uk

To All Members

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North East Combined Authority, Leadership Board

18 July 2017

Committee Room, Town Hall and Civic Offices, Westoe Road, South Shields, Tyne and Wear, NE33 2RL

Present:

Councillor: P Watson (Chair)

Councillors M Gannon, S Henig (part of meeting), P Jackson and I Malcolm and Mayor N Redfearn

Quorum

The meeting began as an inquorate meeting.

Also Present:

Councillor V Dunn (observing)

12 APOLOGIES FOR ABSENCE (MEMBERS)

Apologies for absence were received from Councillor N Forbes and Mr A Hodgson.

13 DECLARATIONS OF INTEREST

There were no declarations of interest.

14 UPDATES FROM THEMATIC LEADS

(a) Economic Development and Regeneration

Submitted: An update report of the Thematic Lead for Economic Development and Regeneration (previously circulated and copy attached to Official Minutes).

Members considered the report which provided an update on activity and progress under the Economic Development and Regeneration theme of the Combined Authority.

The report was introduced by the Thematic Lead who drew Members' attention to key areas of progress and also mentioned the continuous work to minimise the impact of the UK leaving the European Union and ensure the area did not lose funding as a result.

RESOLVED – That the report be noted.

Quorum

During the consideration of the report Councillor S Henig joined the meeting and the meeting became quorate.

(b) **Employability and Inclusion**

Submitted: An update report of the Thematic Lead for Employability and Inclusion (previously circulated and copy attached to Official Minutes).

Members considered the report which provided information on the latest progress made in delivering the Employability and Inclusion and Skills themes of the Strategic Economic Plan. The report was introduced by the Thematic Lead who drew Members' attention to key areas of progress and made references to the cross-over of the thematic lead areas.

The ensuing discussion focused on the importance of securing funding that could be lost as a result of Brexit in order to ensure projects could continue. Members noted information from the Head of Paid Service on the work to lobby the government on this matter and also on the funding secured and expected.

RESOLVED – That the report be noted.

(c) **Transport and Digital Connectivity**

Submitted: An update report of the Thematic Lead for Transport (previously circulated and copy attached to Official Minutes).

Members considered the report which provided an update on progress of activities that were helping to deliver the key principles of the Transport Manifesto.

Clarification was provided on the current position with regard to work to secure funding for new rolling stock for Metro, including sources of funding and potential financial models and timescales, including their dependence on the position of the Department for Transport (DfT) and Treasury. Concern was expressed about the approach by the government to this matter, the timescales, delays and their impact. Concern was also expressed about risks associated with entering into long-term contractual obligations that involved private financing.

RESOLVED – That the report be noted.

15 **MINUTES OF THE PREVIOUS MEETING**

The minutes of the previous meeting held on 20 June 2017 were approved as a correct record and signed by the Chair.

16 **TRANSPORT FOR THE NORTH (TFN) - INCORPORATION AS A SUB-NATIONAL TRANSPORT BODY**

Submitted: A report of the Thematic Lead for Transport and Digital Connectivity (previously circulated and copy attached to Official Minutes).

RESOLVED – That the consideration of the report be deferred to allow further discussions.

17 **FINANCE UPDATE - 2016/17 OUTTURN AND 2017/18 UPDATE**

Submitted: A report of the Chief Finance Officer (previously circulated and copy attached to Official Minutes).

Members considered the report which presented the outturn position for 2016/17 against the revenue budget and the capital programme and provided an update on the revenue budget and capital programme for 2017/18.

As an update, Members noted comments made recently by the Governance Committee with regard to the presentation of reserves suggesting it should be expanded to show that a large proportion of reserves was ring-fenced.

Clarification was provided on the timescales for the completion of the refurbishment works to the Tyne Pedestrian and Cyclist Tunnels which were scheduled to reopen in spring 2018.

RESOLVED – That:

i. The outturn position on the revenue budget and the capital programme for 2016/17 as set out in the report be noted; and

ii. The update about the revenue budget position and capital programme for 2017/18 be noted.

18 **PROJECT APPROVALS - LOCAL GROWTH FUND**

Submitted: A joint report of the Head of Paid Service and Chief Finance Officer (previously circulated and copy attached to Official Minutes).

Members considered the report which sought grant funding agreement for the following two projects in the approved Local Growth Fund (LGF) programme:

- A185/A104/A19 (The Arches) scheme in South Tyneside; and
- A19 North Bank of Tyne (Swans site) in North Tyneside.

RESOLVED – That:

i. A full Grant Funding Agreement of £6.35 million to deliver the Traffic movements along A185/A194/A19 (The Arches) scheme be approved. This was in addition to the stage 1 agreement for £650,000 that had been approved by Leadership Board on 17 January 2017 and had been subject to South Tyneside Council's Cabinet approval of the Works Contractor;

ii. A full Grant Funding Agreement of £4.525 million to deliver the A19 to North Bank of Tyne (Swans site and Port of Tyne) scheme be approved. This was in addition to the stage 1 agreement for £175k that had been approved by Leadership Board 17 January 2017; and

iii. The Monitoring Officer be authorised to finalise and enter into any legal and Grant Funding documentation required to enable these schemes of the approved Local Growth Funding programme to proceed.

19 **DATE AND TIME OF NEXT MEETING**

Tuesday, 19 September 2017 at 2pm.

20 **APPOINTMENT OF THE MONITORING OFFICER**

Submitted: A report of the Head of Paid Service (previously circulated and copy attached to Official Minutes).

Members considered the report which sought their agreement to the designation of Charles Peter Judge as the Monitoring Officer for the North East Combined Authority on a fixed term basis.

RESOLVED – That agreement be given to the designation of Charles Peter Judge as the Monitoring Officer for the North East Combined Authority for 3 days a week on a 12 months fixed term basis.

THANKS TO VIVIENNE GEARY, THE OUTGOING MONITORING OFFICER OF THE COMBINED AUTHORITY

The Chair, on behalf of the Leadership Board, thanked Vivienne Geary for her work as the Monitoring Officer of the Combined Authority and praised the quality of her work.

21 **EXCLUSION OF PRESS AND PUBLIC**

There was no exclusion of press and public.

22 **TRANSPORT FOR THE NORTH (TFN) - INCORPORATION AS A SUB-NATIONAL TRANSPORT BODY - BACKGROUND INFORMATION**

The consideration of the relevant agenda item (agenda item 5) was deferred for further discussions.

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North East Combined Authority, Leadership Board

7 August 2017

(3.00 - 3.14 pm)

Meeting held Tyne and Wear Fire and Rescue Service Headquarters, Nissan Way, Sunderland, SR5 3QY

Present:

Councillor: Mayor N Redfearn (Chair)

Councillors: C Donovan, N Forbes, Mr A Hodgson, P Jackson, A Kerr

23 **APOLOGIES FOR ABSENCE (MEMBERS)**

Apologies for absence were received from Councillors S Henig, M Gannon, I Malcolm and P Watson.

24 **DECLARATIONS OF INTEREST**

There were no declarations of interest.

25 **TRANSPORT FOR THE NORTH (TFN) - INCORPORATION AS A SUB-NATIONAL TRANSPORT BODY**

Submitted: Report of Thematic Lead for Transport and Digital Connectivity (previously circulated and copy attached to Official Minutes)

Members considered the report, which sought their consent to the making of regulations by the Secretary of State to allow Transport for the North (TfN) to become a Sub-national Transport Body (STB).

The report was introduced by the Thematic Lead for Transport and Digital Connectivity who drew Members' attention to the key points and emphasised that the main benefit of NECA being a part of TfN would be the increased influence that the STB could have with the Department for Transport and with the national delivery agencies of Network Rail and Highways England.

RESOLVED – That the Leadership Board consented to:

(i) The making by the Secretary of State of Regulations under section 102E of the Local Transport Act 2008 to establish Transport for the North as a Sub-National Transport Body;

(ii) The transfer of Rail North Limited to Transport for the North so that it can be subsumed within Transport for the North;

(iii) The signing of a new Rail Franchise Management Agreement with Transport for the North replicating as far as possible the current Rail North Limited Members Agreement; and

(iv) Continuation of the payment of the current funding for Rail North Limited to Transport for the North after its inauguration.

The Leadership Board further agreed that:

(v) Delegated authority was given to the Head of Paid Service to fully consent to items (i) to (iv) on the Leadership Board's behalf, provided that she was satisfied, in consultation with the Chair of the Leadership Board and the Monitoring Officer, that the final draft Regulations serve only to give Transport for the North the statutory powers to carry out the functions set out in paragraph 1.3; and

(vi) That the Thematic Lead for Transport be designated as NECA's main representative, and that Cllr Carl Marshall be designated as NECA's alternate representative, on Transport for the North.

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Leadership Board

Date: **19th September 2017**

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

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

Executive Summary

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

Recommendations

The Leadership Board is recommended to note this report for information.

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Leadership Board

1. Background Information

1.1 This report provides an update on activity and progress under the Economic Development and regeneration theme of the Combined Authority, including:

- Inward Investment North East Update
- Strategic Economic Plan Update
- Brexit Monitoring
- Enterprise Zone Update
- European Structural Investment Fund update

1.2 The Leadership Board is recommended to receive the update for information.

2. Inward Investment North East Update

2.1 **Department for International Trade (DIT) Inward Investment Figures 2016/17**

DIT end of year figures have confirmed that the North East is ahead of every other area of the UK, outside of London, for creating new jobs from foreign investment, compared to population size.

In the last financial year, there were nearly twice as many new overseas investment jobs for every one million people of the working age population compared to the UK average in the NECA area.

The NECA area secured 3,160 jobs from foreign direct investment and reinvestment in 2016-17 per one million working age people, compared to the UK average of 1,600 posts.

The North East Combined Authority (NECA) formal relationship with the Northern Power House Trade & Investment service will be with Councillor Iain Malcolm Leader of South Tyneside as Chair of the NECA Economic Board and with Martin Swales Chief Executive of South Tyneside Council as his support CEO.

2.2 **Enquiries**

Enquiry levels remain consistent, received either directly, through DIT and the lead generation contract. However DIT enquiries have not reached the levels received in previous years, which matches the national picture.

Current enquiries on the Invest North East England (INEE) pipeline include both UK and foreign owned enquiries in a number of sectors from life sciences, software, contact centres, automotive and other advanced manufacturing including offshore energy.

Of particular interest is a very significant potential advanced manufacturing enquiry for the energy sector. Also, through DIT's new approach to highlighting life sciences enquiries, there have been a number of conversations generated with potential inward investors.

2.3 **Marketing**

The INEE team, with support from the NELEP communications team and Sarah Hall Consulting, continue to improve and refresh a range of marketing materials, website and plan/ deliver campaigns. Of particular note is the increasingly successful social media presence. On Twitter, the INEE page now has over 1700 followers, which is increasing daily as a result of a successful social media strategy. Over time, it is expected that this will generate new investment enquiries in addition to raising the profile of the region nationally and internationally.

2.4 **Invest North East England Proactive Lead Generation**

The INEE team continues to increase the size and quality of the investment enquiry pipeline through a more proactive approach to generating new investment enquiries.

As previously reported to the Leadership Board, INEE appointed OCO Global as a lead generation consultant. OCO Global is providing in-market representation for INEE in London and the South East. The focus of the contract is twofold:

- Actively generate new leads for the North East, with a particular focus on software/digital, and financial, professional and business services.
- Work with key London-based intermediaries (e.g. property agents, solicitors, accountants, Venture Capitalists etc.) to ensure they understand the North East offer to companies so they will consider the area for current and future client requirements.

The contract was for an initial period of six months with a possible extension of a further year. The initial contract review will take place in early October and a decision will be made on how best to proceed in consultation with Investment Gateway Management Group and the Thematic Lead for Economic Development and Regeneration.

The team has visited London to meet some key contacts and leads generated by OCO Global and further trips are scheduled.

Moving forward OCO Global will continue lead generation in London and the South East, and will also start utilising their strong networks in Ireland to identify additional leads (particularly in digital and tech), following recent intelligence that suggests there is a growing opportunity to attract firms to the North East from Dublin.

2.5 **Events**

The INEE team have attended/will attend a number of events in 2017 which align with some of the key priority sectors which are being targeted for investment. These include:

MIPIM London 2017
After a successful event in 2016, attendance has now been confirmed at MIPIM London 2017 in order to showcase the key investment opportunities and sites in the NECA area. The event is at Olympia, London on 18th and 19th October. As in previous years, the INEE team will represent the region with support from individual local authorities and private sector sponsors.

Vrtgo Conference, November 2017
Following a very successful Vrtgo Conference for the Virtual Reality/Immersive Reality tech sector in Gateshead in 2016, INEE are working with a range of partners, including local authorities, DIT, the Digital Catapult and Secret Sauce events management company, to attract potential inward investors to the conference. A 'wrap around' programme of activity is also being developed in addition to the conference to showcase the strength and assets of the digital and tech sector in the North East.

TIGA Awards, November 2017
INEE will sponsor a category at this key games industry awards in London to raise the profile of the digital gaming sector in the NE. Plans are underway to organise a separate event, arranged in association with TIGA, around the actual awards ceremony showcasing the sector and opportunities in the region. The event will be delivered in partnership with the Digital Catapult North East.

Offshore Wind Week, November 2017
For the past two years in November, the offshore wind industry has come together to create Offshore Wind Week to promote the capabilities of the UK offshore wind supply chain and present the UK as an attractive inward investment proposition. Working with NOF Energy, INEE and Tees Valley Unlimited propose to sponsor a three day series of events in the North East of England. The primary objective is to get a number of inward investors to visit the region, meet key players in the sector and to visit the sites and support assets (e.g. the Offshore Renewable Energy Catapult in Blyth).

2.6 **Offshore Energy Study**

Consultants WSP were commissioned in 2016 by INEE to produce a report which would enable INEE and local authorities to develop a collective strategy to bring further investment into the region. A Steering Group to manage the study was established (INEE and interested local authority representatives).

The study had various key components. These were:

1. Provide a comprehensive NECA–wide assessment of our competitive position in relation to specified offshore and sub-sea markets and the likely direction of travel for these markets (or new sub-market opportunities) going forward.

2. Identification and assessment of umbrella assets (the wider ecosystem of support assets such as R+D, Innovation, Catapults, Training, professional services etc.), the further mobilisation/development/attraction of which will enhance the NECA area's attractiveness.

3. An assessment of the key riverside sites in the NECA area located on the three principal rivers of Blyth, Tyne, and Wear, and their suitability/attractiveness as a location for particular type(s) of activity based on the market assessment. This includes a high level assessment of the essential and desirable capital investments required to gain/maintain or enhance each site's competitive position in these markets.

4. Update intelligence on the likely annual profile of receipts of business rates income from key Marine/offshore Enterprise Zone sites (a sub-set of the sites included above) to further enhance the case for public sector intervention.

5. Production of an INEE marketing action plan, listing target inward investors in key markets/sub-sectors, suggested key messages (the NECA area's strengths and weaknesses in these key markets and ways to ameliorate weaknesses.) This will include an assessment of the benefits of collective action 'one voice' to strengthen our presence in specific target markets.

The study has recently been finalised and INEE have produced a strategy document and recommendations. A working group from across the local authorities, chaired by INEE, will be established in September to implement an action plan.

2.7 **DIT Account Management Resource**

Contracts have recently been put in place to broaden the delivery of Strategic Account Management of foreign owned firms in the North East. DIT Northern Powerhouse (NPH) have committed funding to INEE and local partners to deliver additional account management which adds value to the existing arrangements delivered by DIT.

2.8 **Northern Powerhouse**

INEE continues to work closely with the DIT Northern Powerhouse team. There are now sector specialists in place covering:

- Advanced Manufacturing;

- Digital and Creative;
- Financial, Professional and Business Services; and,
- Energy
- Life sciences (post currently vacant)

The INEE team has arranged for each sector specialist to visit the region and also hosts regular visits by DIT overseas staff and Investment Service Team HQ staff to ensure they are aware of the North East's offer. The team is also feeding information into the Northern Powerhouse proposition documents that are being prepared.

INEE have recently coordinated a response for Economic Directors following consultation on the 'Closer Working in the North of England' report and presentation.

3. Strategic Economic Plan Update

3.1 Following the launch of refreshed Strategic Economic Plan (SEP) in March 2017, the focus is on delivery and growing the North East economy.

The North East LEP Board receives progress updates on the SEP actions at each of its meetings. The latest report can be found at: http://www.nelep.co.uk/governance/

A lot of work has also been undertaken to ensure that the SEP becomes more central to the work of the LEP and the NECA and is more visible in regional discussions. To ensure the key SEP messages are communicated to partners, the SEP Communications plan sets out a number of actions. A summary of this communications activity, both current and planned, is set out below.

- The SEP itself has been published in full and summary formats, both of which are available on line and in printed format and have been extremely well received;

- The design of the new website is framed around the structure and programmes of the SEP and is scheduled for soft launch in August, with full roll out from September;

- Work is underway on a video which will be designed to be used on a variety of platforms and relevant for a number of audiences. It is anticipated this will be used by both the Board and the Executive Team at events, meetings exhibitions as well as being promoted on social media and hosted on the North East LEP website;

- A core presentation of the SEP has been developed which is available for use alone, or in a format which can be embedded within wider presentations. This is used by the team regularly at events to reinforce and ensure consistency of SEP messages to a range of audiences;

- All other media output, including social and mainstream media, seeks to make reference to the SEP and key corporate messaging, in terms of SEP targets, areas of opportunity or programme delivery. This is being extended into the work of partners in NECA, for example the Inward Investment Team;

- We are also in the process of updating and replacing our suite of 'smart specialisation' brochures, which have been extremely well received over the past two years.

4. Brexit Monitoring

4.1 Following the general election on June 8, negotiations on the terms of the UK leaving the EU officially began in Brussels on 19 June 2017. The Prime Minister confirmed that a bill was to be introduced to repeal the European Communities Act during the Queen's Speech on 21 June 2017. The PM stated that the Government will "seek to maintain a deep and special partnership with European allies and to forge new trading relationships across the globe". The European Union (Withdrawal) Bill 2017-19 was published and had its first reading on 13 July.

The Government is continuing to debate whether a transitional arrangement should be negotiated in the period immediately following the UK exit from the EU, with views differing from a transitional arrangement that would allow complex supply chains and business relationships to continue to the position of the UK being fully outside of the customs union and single market by March 2019. To date, the UK has produced one position paper on citizen rights, while the EU has issued positions covering all aspects of the UK's exit.

On 27 July the Home Office commissioned the Migration Advisory Committee (MAC) to report on the impact on the UK labour market of the UK's exit from the EU and how the UK's immigration system should be aligned with a modern industrial strategy. The MAC is due to produce interim reports, reporting back finally in September 2018.

In June 2017 South Tyneside Council hosted a regional BREXploration event to explore opportunities and challenges of life post-Brexit. Attended by over 80 senior representatives including Council Leaders, Business representatives, current and former MEPs, health and higher education partners, participants contributed to in-depth round-table discussions across three themes identified as being critical to the North East. BBC Home Editor Mark Easton provided a national perspective and chaired a plenary session, facilitating debate on themed findings. An Increasing Prosperity group examined terms of trade and international direct investment. The

Workforce and Skills roundtable looked at current and anticipated shortages in skills across different sectors; and the Community Collaboration discussion gave consideration to community strengths and needs, and how successfully devolved services and former-EU powers could look.

The key recommendations emerging from the discussions and a follow-up consultation will be submitted to Government as an important piece of evidence to inform the Brexit negotiations, ensuring future policy decisions reflect the needs and aspirations of the North East. A formal report will be launched in the Autumn.

The Key Recommendations are:

- One voice - The region will speak with one voice, with confidence and self-determination, clearly setting out the needs and aspirations of the north east to inform the Brexit negotiations both at national and European level;

- Agreed economic priorities - The north east unites around the agreed priorities for economic growth, and more and better jobs, set out within the Strategic Economic Plan (SEP); particularly:
    - Recognising those sectors which have the greatest growth potential,
    - the need for a cohesive business support system which provides support and funding for businesses to start up and grow;
    - the North East to strengthen its place as an innovation hot spot in Europe – an exemplar in ‘smart specialisation’ and open innovation systems and practice;
    - a focus on creating quality jobs and developing a skilled workforce; and
    - An effective partnership between with schools, providers and business to develop a pipeline of home grown talent.

- Replacement for EU Structural Funds - There must be a replacement to the EU Structural Funds, which have been an important source of funding for the North East.
    - The proposed UK Shared Prosperity Fund provides the opportunity to simplify and fully devolve a multi-year fund, to allow strategic management and long-term investment decisions in support of inclusive economic growth.
    - The fund should be allocated based on economic need, be at least at a scale of the current programme and start in 2020/2021 to ensure continuity in activity.

- Free flow of skilled people - As a region which will rely upon an inflow of individuals for our future growth and workforce needs there must be a free flow of skilled individuals.

- Workers' rights - The rights of employees must be maintained and protected as EU law becomes domestic legislation.

- Tariff-free Trade - In recognition of the key sectors in the north east there must be arrangements which allow tariff-free trade and the elimination of non-tariff barriers.

- Natural Capital -The environment must be protected and rural and coastal communities supported to maximise the potential and production of food, farming and fisheries.

- Valuable Partnerships - There must be a continuation of partnerships between the region's Universities, businesses and European research and innovation networks.

- We will continue to work in strong partnership between the public and private sector, with our colleagues in the community and voluntary sector and with Government to deliver our shared ambitions for the North East.

4.2 This builds on the work undertaken by the North East Combined Authority and Local Enterprise Partnership with the key business representative organisations in the North East over the last year. This strategic North East group developed a set of 8 key messages to influence Government thinking. These are:

1. The North's business voice and economic interests should be heard in the BREXIT negotiations and the expertise of North East business leaders utilised.
2. On-going access to the Single Market, and priority recognition within a new visa/immigration system is of widespread importance and vital for the following key sectors: automotive and passenger vehicle manufacturing; pharmaceuticals, energy and oil & gas, and digital services, financial and professional services, higher education, health care.
3. The future terms of trade for our key sectors are of vital importance to sustain the growth achieved over recent years.
4. Successor arrangements to the current EU regeneration funds need to be made clear urgently and are essential to the delivery of our Strategic Economic Plan and to wider regional rebalancing. They should be much

more flexible. There are opportunities to look at areas like state aid rules to enable more flexible and dynamic public procurement environments.

5. The relationships between North East Universities, Business and European research and innovation networks are of crucial importance across a range of disciplines, as is access to EU programmes such as Horizon 2020. Government needs to provide further assurances to universities around on-going access to European research funding and collaboration and to ensure that the visa/immigration system promotes further growth in international student numbers.
6. The North East remains open for business and will continue to secure significant inward investment, and there are also significant opportunities to increase Government investment and spending in region, as part of the new Industrial Strategy.
7. In addition to making a significant allocation to the North East in response to the Local Growth Fund bid, the Government should make early investments into key projects which can build confidence in key sectors, in particular the automotive and pharmaceutical industries and into the digital infrastructure.
8. There should be increased support for trade missions, particularly with a regional or Northern Powerhouse flavour, and for businesses attending international trade shows. There should also be a strengthened overseas trade representation for the UK (e.g. in embassies).

The group will use the learning from the Brexploration event to continue the work to position the needs of the North East in Government's Brexit thinking.

5. Enterprise Zone Update

5.1 The Leadership Board received a comprehensive update on the progress with the Enterprise Zone sites at the meeting of the 18th July 2017 setting out the key activities in relation to the financial modelling and initial project development fund application. Since the last meeting additional on-going work has been undertaken to refine the financial model with Cushman and Wakefield with a final report due shortly.

The drafting of the legal framework and agreement for the Enterprise Zone programme for the life of the sites has now been started. This is drawing on the Commercial Support grant awarded by the Department for Communities and Local Government. The legal agreement will sit alongside the Memorandum of Understanding already agreed and will provide an additional level of detail over the long-term approach and is being developed by the North East LEP in partnership with local authorities.

6. European Structural Investment Fund Update

6.1 The European Structural Investment Fund (ESIF) continues to be delivered in the North East. The region is split into two areas; More Developed (Gateshead, Newcastle, North Tyneside, Northumberland, South Tyneside and Sunderland) and Transitional (Durham). An update on European Regional Development Fund (ERDF), European Social Fund (ESF) and European Agricultural Fund for Rural Development (EAFRD) is provided below.

6.2 **ERDF**

The notional allocation for the More Developed area is £152.74m, of this £118.49m is committed, leaving a remainder of £34.25m for future calls.

In the Transitional area the notional allocation is £66.9m, of which £36.7m is legally committed, leaving £30.2 for future calls.

There are currently no open calls for ERDF, with the last two calls having closed on 30 July.

A Sustainable Urban Development (SUD) call is expected to be announced in September. The total funding available for SUD projects is £18.6m.

Due to the overall levels of committed funding, it is likely that there will only be further two more ERDF calls (SME Competitiveness and Promoting Research & Innovation) before the end of the programme. With the exception of SUD calls. These are expected to be announced in September/October 2017.

6.3 **ESF**

Across the whole NELEP region there was an allocation of £144.6m of which £73.29 has already been committed leaving £71.31m for the current and future calls.

There are currently five ESF open calls, which were announced at the end of July. These five calls are:

- North East Ambition Pilot Strategic Framework - £3m
- North East Ambition Pilot Tailored Delivery- £3m
- Digital Skills North East - £20m
- North East Employment Support for Young People 18-29 - £3m
- North East Specialist Support for the Unemployed/Inactive (Health Barriers and 50+) - £6m

There is a 50% match requirement for all ESF calls and closing deadlines are during September and October 2017.

It is anticipated that there will be a further two more ESF calls in September/October; Specialist Employment Support for Protected Characteristics and Skills for Health & Social Care Workforce in September/October.

6.4 **EAFRD**

EAFRD funds form part of the National Growth Programme, from which the North East received an allocation of £10.5m. Although a number of scattered localities are potentially eligible for EAFRD funding in Tyne and Wear, the focus is on the designated rural areas of Northumberland, Durham and neighbouring parts of western Gateshead, including the Derwent Valley.

Current calls are open until 31st January 2018 with a value of £9.7m, this is capital funding to create jobs in rural areas, minimum grant value of £35,000 and maximum of c£170,000. These calls are:

- Business Development - £1.4m
- Rural Tourism Infrastructure – £6.7m
- Food Processing – £1.6m

A further call for Broadband Infrastructure is expected to follow in Autumn 2017.

7. Potential Impact on Objectives

7.1 The report sets out issues that will support the Authority in meeting its objectives, particularly in relation to those set out in the Strategic Economic Plan.

8. Financial and Other Resources Implications

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

9. Legal Implications

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

10. Key Risks

10.1 There are no key risks arising from this report.

11. Equality and Diversity

11.1 There are no specific equalities and diversity implications arising from this report.

12. Crime and Disorder

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

13. Consultation/Engagement

13.1 There are no issues arising from this report for consultation.

14. Other Impact of the Proposals

14.1 There will be no other impacts arising from this report.

15. Contact Officers

15.1 John Scott, Corporate Lead Officer – Business, Employment and Skills
Tel: (0191) 424 6250 Email: john.scott@southtyneside.gov.uk

16. Sign off

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

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north east combined authority

Leadership Board

Date: **19 September 2017**

Subject: **Employability and Inclusion Update**

Report of: **Thematic Lead for Employment and Inclusion**

Executive Summary

The purpose of this report is to provides an update as to the latest progress being made in delivering the Employability and Inclusion, and Skills themes of the Strategic Economic Plan (SEP) for the North East.

Recommendations

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

north east combined authority

Leadership Board

1. Background Information

1.1 This report provides an update on the employability, inclusion and skills programmes and projects that the Combined Authority and the LEP are delivering within the context of the SEP for the North East.

Labour Market Intelligence (LMI)

1.2 Labour Market Intelligence (LMI) for the North East continues to be developed. Discussions about future developments are taking place with the North East LEP and a number of digital partners who are designing some innovative tools to present data and information to various audiences.

1.3 A series of Careers Videos to promote our key priority sectors was completed in February 2017 and is part of a toolkit available for schools and colleges in the North East. Their purpose is to help teachers communicate the many exciting careers available in the North East, and the paths young people can take to get them. The videos and toolkit have now been requested by over 180 educational establishments.

1.4 The toolkit includes four videos, all showcasing young people and the jobs and training they're participating in, in our region. Feedback has been extremely positive.

1.5 Each of the four videos is accompanied by a toolkit for teachers, including powerpoint presentations and lesson plans. Anyone can sign up to receive the resources from the North East LEP website.

1.6 Work is ongoing to support various initiatives with their LMI needs including the Good Career Guidance Benchmarks, development of Devolution proposals and support to ensure that ESF proposals meet our strategic priorities.

DWP European Social Fund Opt-In for the North East

1.7 The DWP 'Opt-In' programme for the North East is utilising £6m European Social Fund (ESF) to test a local approach to support 2,500 long term unemployed residents with health conditions to find work over 2017-19. The programme is delivered by Working Links.

1.8 Performance data shared by Working Links shows 480 participants attached to the programme for the period from January to the end of July. 54 have moved into employment. The best performing area is County Durham, with over 40% of total participants and job outcomes.

Leadership Board

1.9 Almost two thirds of participants are male, and one third are aged 50+. Participants are typically long-term unemployed and display a range of barriers to work, including health conditions. A number referred to the programme have undiagnosed conditions and require specialist health treatments. The vast majority referred by Jobcentre Plus are Jobseekers Allowance claimants, rather than those claiming health related benefits that the programme was designed for. This issue has been raised with DWP with a view to finding ways to engage those most in need of the provision. The target cohorts, and how they are defined, is under consideration by DWP in discussion with the LEP and the provider.

1.10 A range of other provision, including DWP and Big Lottery commissioned activity, is being delivered to work with long-term unemployed residents. DWP is scheduled to commission the Work and Health Programme (targeting support to a similar cohort) this autumn, to begin delivery in late January 2018. Additionally DWP issued a call for ESF bids to support unemployed and inactive residents with health conditions in July. The call will close in October with activity also expected to launch in early 2018. Programmes will need to take a co-ordinated approach to maximise resource and performance. North East LEP has convened an ESF partnership and provider network to manage co-ordination. Working Links is involved in the network, and is continuing to work closely with each local authority to ensure co-ordination with interventions in respective areas.

1.11 The issue of release of performance data and case study material has been raised with DWP and discussed at ESIF sub-committee, the discussions are on-going. A data sharing agreement is being issue to LEPs. It is important that both qualitative and quantitative data is made available to assess local impact.

North East Mental Health Trailblazer

1.12 The North East Mental Health Trailblazer is piloting integration of employment and mental health services, with employment coaches delivering Individual Placement and Support (IPS) services in Increasing Access to Psychological Therapies (IAPT) teams in co-ordination with clinical staff. The programme targets support to long-term unemployed residents with depression and anxiety acting as barriers to work.

1.13 By end July 2017, the programme had a total of 130 participants. 18 participants to date have moved into employment. Participant numbers are below performance projections due to delayed programme start, however job outcomes against number of participants is performing well. County Durham remains the best performing area in terms of referrals, with more than one third of all participants and 8 of the 18 moving in employment. This is a result of good engagement by both Jobcentre Plus and Talking Changes in Durham. For job outcomes, Gateshead is performing well with half of the total jobs to date.

1.14 Early referral volumes from Jobcentres indicated a high level of demand but demand has declined latterly. Intensive work is underway with Jobcentre Plus to improve referral rates. The DWP / DH Work and Health Unit, responsible for all Trailblazer trials is supporting the North East to improve Jobcentre referral volumes and accuracy (to ensure assessments are accurate and identify appropriate participants to support engagement and positive outcomes)

1.15 Participants have a range of barriers to work, along with anxiety and / or depression but the job outcomes rate of 14% is a positive sign at this early stage. The project does not hold clinical data but the evaluation will measure recovery rates along with job outcomes.

1.16 Due to the late start of the project in January 2017, an extension is being sought from DWP to allow delivery to continue to March 2019. If approved, this would ensure a full two years of delivery and provide the optimum opportunity of achieving the performance projection of 1,500 participants and maximising the evaluation sample size.

1.17 NHS England has committed to doubling IPS access in mental health services by 2020 and NHS Sustainability and Transformation Partnerships (STP) areas will be invited to bid for funds to expand their services. STP areas are currently being consulted in advance of a bidding process from November 2017. The managers of the Trailblazers are attending the consultation events and will work with the STP to assess how an effective bid can be developed, building on the Trailblazer delivery model. To note – Northumberland and Tyne and Wear covers one STP 'footprint'. County Durham is included in an STP with Tees Valley and North Yorkshire.

Generation NE

1.18 Generation NE has been operational since July 2014 and the programme has supported 3996 young people, of which 1775 have moved into employment to date; 1030 of those gaining employment have now sustained employment for 6 months or more.

1.19 Delivery of Generation NE has now extended to cover the full NECA geography and the service is being received positively by Jobcentre Plus.

1.20 A Digital Service has been launched to complement the support available through Generation NE on a face to face basis; this service is testing innovative approaches to engaging and supporting young people which accommodates their changing attitudes, particularly a desire to engage with services in non-traditional ways. There are currently 160 young people being supported in this way with, on average, an additional 30 young people engaged each month. Support delivered digitally for Generation NE participants currently includes mock interviews via Skype and support to create CVs and complete application forms provided by an advisor remotely through Google Docs.

1.21 A call for project to support young people into employment and training was released under the European Social Fund (ESF) on 26th July 2017 with a deadline for response of 25th September. Work is underway to submit an outline application to extend the Generation NE programme and widen the target group to those young people not claiming benefit.

Durham Youth Employment Initiative (DurhamWorks)

1.22 At the end of Q2 (June 2017), 2833 young people had registered with DurhamWorks and 2485 had been verified which is above target by 235 (10.4%). During the quarter, work was undertaken to source additional match funding and identify potential Delivery Partners. This followed the offer to Durham County Council of an additional £1.26m of YEI / ESF funding for the DurhamWorks programme. However, following a re-profiling exercise and contract management of existing Delivery Partners, the decision was taken to decline the growth unless the programme end date was extended accordingly.

1.23 Additional Delivery Partners have still been identified to replace the match deficit created by the withdrawal of Social Enterprise Acumen earlier in the year and to backfill any underperformance elsewhere. The new quarter will see the confirmation of that additional match, the expansion of the delivery by several existing Delivery Partners and confirmation of the new Delivery Partners who will be brought into the programme, strengthening the offer to participants further through the addition of new Employment Routeway provision.

1.24 The DurhamWorks Achievement Awards tookplace on 24 May and went extremely well. There were five award categories with one Winner and two Highly Commended:

- Achieving Through Work
- Employer Award
- Inspirational Individual
- Inspirational Mentor
- Making an Impact – group award.

1.25 Unfortunately the restrictions of Purdah meant that we had to wait until 9th June before we could promote and celebrate its success and the achievements of the winners.

Good Career Guidance Benchmarks

1.26 From June 2015 and in partnership with The Gatsby Foundation, North East LEP has been supporting the application of the Good Career Guidance benchmarks. This provides the opportunity to test the benchmarks in action; lead the development of practice which will have local impact and national profile; and improve the quality of provision and opportunity for young people.

1.27 The pilot has been subject to on-going review, with schools and colleges submitting regular reports and case studies, and analysis against each benchmark to track progress. Year 2 progress data will be reported in September 2017.

1.28 Reports now evidence impact in a number of key areas:-

- One clear finding from the pilot in the North East is the usefulness of the benchmarks as an auditing tool for users to report on their own career guidance provision and to 'action plan' specific, measurable improvements
- The rate of progress in year one (+2) is accelerated in year 2 (+4)
- Every school and college now fully achieves at least four benchmarks (previously 50% of the schools / colleges fully achieved zero benchmarks). All schools and colleges now partially achieve every benchmark.
- 75% of schools and colleges now fully achieve 6-8 benchmarks (previous national surveys showed that no school had achieved more than 5 of the benchmarks)
- The results demonstrate that it is possible to make significant and rapid progress – using the benchmarks as a framework – to carefully target improvements in schools / colleges of every type, size, location and structure. These improvements are documented in focussed actions plans with measurable targets.
- New strategic relationships with employers now existing and schools / colleges have clear plans for engagement and systems in place to measure quality and impact. This includes an increase in the number of 'careers' or 'business' governors.
- New strategic delivery structure structures have also emerged in schools and colleges maximising the impact of the benchmarks, including the reallocation of existing resource towards careers provision.
- Curriculum integration – joint CPD, teacher / career leader placement in industry.

- The pilot has inspired collaboration and pioneering thinking in the approach to delivering good career guidance
- Schools and college participating in the pilot are significantly closer to providing 'good career guidance' for 'each and every' young person than they were at the outset.

1.29 Analysis of evidence, emerging data and observations within the school and college visits over the duration of the pilot also suggests that progress against the benchmarks is greater and more rapid when the careers leader is either a member of the senior leadership team or when they have a dedicated and active SLT link responsible for the strategic leadership and quality of careers provision.

1.30 The career benchmarks are central to the skills element of the Strategic Economic Plan. From the start of the Autumn term 2017 / 2018 all schools and colleges in the North East LEP area are encouraged to adopt the benchmarks in anticipation of the launch of the new Careers Strategy in Autumn 2017.

1.31 An event titled 'North East Ambition' marking the end of the pilot phase and the introduction of a LEP-wide roll-out was held in July 2017. There were over 300 attendees, including over 150 schools and colleges. Feedback and uptake was extremely positive. To facilitate the roll-out and in addition to the LEP facilitation, the pilot schools are providing peer to peer support Gatsby are supportive of this approach and have made some funding available for the benchmark 'champions' – careers leads and heads from the pilot schools to be trained as facilitators. This will commence in September 2017.

1.32 The North East LEP is preparing to expand the career benchmarks, designed originally for secondary schools and colleges, for use in primary schools. We continue to seek funding to allow us to map the benchmarks for delivery in a primary setting, engage 10% of primary schools across the region (approx. 70 schools) in a pilot that seeks to test the implementation of the benchmarks and facilitate support for primary schools to achieve the benchmarks. Evidence of the impact will be though an action research approach. The proposal has the support of the members of the Careers IAG Advisory Group, chaired by the CBI. Discussions are on-going with a number of foundations and charitable trusts.

Enterprise Advisors

1.33 This key Government-backed initiative was initiated in September 2015. The Careers & Enterprise Company (CEC) is an employer-led organisation that has been set up to inspire and prepare young people for the fast-changing world of work.

1.34 The North East LEP has taken the opportunity to shape and adapt the original CEC model to enhance the opportunities for school and business engagement. The Enterprise Advisor network is active in 38 or 39 LEP areas. A dedicated coordinator was recruited in November 2015 and another in May 2016, a third was recruited in March 2017. A fourth will be recruited in September 2017.

1.35 To date over 140 Enterprise Advisers have signed up. 80 schools and colleges have returned their self-assessment and supporting Enterprise Adviser action plan. Of the 80 schools, 68 have been matched with an EA, and a number of further schools and colleges who have met with an Enterprise Coordinator are in the process of completing the self-assessment document and are being followed up. From a slow start due to the rigorous matching process opted for by the North East LEP, we are pleased that our ‘matches’ and the sustainability of those matches are now amongst the highest in the country.

1.36 With the support of the Communications Team we continue to grow the numbers of business leaders becoming Enterprise Advisors in the North East network.

Apprenticeships

1.37 The North East has a strong and active part to play in meeting the Government’s target of three million apprentices by 2020. However, there is also a recognition that there is still much to be done to deliver the ambitious targets that the region has set within the Strategic Economic Plan (SEP).

1.38 In light of the apprenticeship reforms this year, the Apprenticeship Growth Partnership (AGP) reviewed its work plan and membership at its meeting in July 2017; and confirmed their role in supporting the following:-

- Maximise employer engagement and the take-up of apprenticeships including higher and degree apprenticeships.
- Promote the parity of apprenticeships with academic routes and qualifications.

- Encourage and support greater collaboration across and within sectors to share good practice.
- Consider the impact of the apprenticeship reforms on employers as they are implemented – ensuring examples of good practice are promoted, lessons learned and potential 'unintended consequences' are carefully monitored to inform future policy and strategy.

1.39 The North East LEP has developed part of the Growth Hub to provide digital information to employers regarding apprenticeships. Information includes labour market information, a Q & A of commonly asked questions, details of the new standards, important relevant web links and useful presentations from local and national partners to assist the understanding of the reforms and the opportunities and challenges.

Skills – capital investment

1.40 Four from five original LGF Skills Projects are now physically completed and the remaining project at Northumberland College in Ashington commenced on site in early December 2016 and is on schedule to open in September 2017.

1.41 Following the project call in March 2016, two new skills focussed projects were approved, both are social-enterprise led – Foundation of Light in Sunderland, which is underway and Eagles Foundation in Newcastle where construction commenced in summer 2017.

1.42 In January 2017 the North East LEP received confirmation from Government of its funding award from Round 3 of the Local Growth Fund. A total of £49.7m has been awarded over the period 2017-21 to support the development of the 'International Advanced Manufacturing Park', north of the Nissan factory and the introduction of an 'Innovation, Skills and High Growth business' mini programme. The focus of the mini programme is still under development

2 Proposals

2.1 There are no proposals as this is an information item.

3 Reasons for the Proposals

3.1 This section does not apply as the report is only for information.

4 Alternative Options Available

4.1 This section does not apply as the report is only for information.

5 Next Steps and Timetable for Implementation

5.1 The Employability, Inclusion and Skills Steering Group will continue to co-ordinate and monitor the delivery of these programmes and projects.

6 Potential Impact on Objectives

6.1 The work being taken forward is consistent with the Combined Authority's stated objectives and SEP for the North East.

7 Financial and Other Resources Implications

7.1 There are no financial implications arising from this report.

8 Legal Implications

8.1 There are no legal implications arising from this report.

9 Key Risks

9.1 There are no key risks arising from this report.

10 Equality and Diversity

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

11 Crime and Disorder

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

12 Consultation/Engagement

There are no consultation or engagement issues arising from this report.

Leadership Board

13 Other Impact of the Proposals

13.1 There are no other impacts arising from this report.

14. Appendices

14.1 This report has no appendices

15. Background Papers

15.1 There are no background papers for this report

16. Contact Officers

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17. Sign off

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

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Leadership Board

Date: 19 September 2017

Subject: Transport (and Digital Connectivity) Thematic Lead Update Report

Report of: Thematic Lead for Transport and Digital Connectivity

Executive Summary

This report provides an update to the Committee on progress in our region regarding activities that are helping to deliver the key principles of the Transport Manifesto.

A number of key announcements have been made that impact this region, some positively and some negatively. A DfT decision to cancel electrification schemes elsewhere in the North is disappointing. However, the region was successful in securing funding for Horden Station and additional funds for improving our local Highways.

The Leadership Board has now given its consent for Transport for the North (TfN) to become a Sub National Transport Body. Chief Executives intend to develop a draft set of priorities that NECA may wish to achieve through its membership of TfN, along with internal protocols for the governance of NECA's involvement in TfN, for the Leadership Board to review at a later meeting.

Discussions with the DfT continue in respect of new rolling stock for the Tyne and Wear Metro. The DfT does not disagree with the need for urgent replacement of the rolling stock given its age and poor levels of performance, but further analysis is being carried out into the best approach to securing finance. The NECA plans to make representations to the Chancellor concerning the 2017 Autumn Budget, regarding the need to provide funding for a new fleet of Metrocars.

The Transport Plan and Cycling and Walking Strategy continue to be developed. Progress is also being made on the development of a Bus Strategy for the NECA area, to set out a future vision for bus services in the area.

NECA has responded to the Government's Air Quality Plan consultation and the region is taking steps to improving Electric Vehicle charging infrastructure.

Recommendations

It is recommended that Leadership Board notes the contents of this report and to agree that it supports the NECA to make representations to the Chancellor for the 2017 Autumn Budget, regarding the need to provide funding for a new fleet of Metrocars.

north east combined authority

Leadership Board

1.0 Background Information

1.01 As well as ensuring that public transport is delivered to a high standard, the NECA is preparing for the future in order to facilitate a revitalisation of economic prospects for the area. The region has some big ambitions, including the acquisition of funding for a new Metro fleet and expanding the Metro system, improving bus services, enhancing strategic connectivity across the North and reducing the impact of transport-based emissions.

1.02 The announcement of a ban on the sale of diesel and petrol cars from 2040 underscores the importance of developing an ambitious Transport Plan for our region, supported by strong daughter documents, such as the Cycling and Walking strategy. The strategic importance of these documents cannot be underestimated, and work continues on their development.

1.03 This report provides a commentary on recent activities in the transport and digital connectivity sectors.

1.1 Key Announcements

1.11 Electrification Schemes

- The Department for Transport (DfT) has announced the cancellation of some planned electrification schemes, including one in Cumbria. Whilst it is still currently planned to electrify the Transpennine route, there is now some doubt about the extent to which it will be electrified. There is now an expectation that the technology of new ‘bi mode trains’ will be able to partly cater for future demands, without some of the expensive and disruptive works associated with electrification.
- Shortly after the announcement on electrification, Transport Secretary Chris Grayling announced that he was receptive to the case for Crossrail 2 in London, which is currently estimated to cost £30bn.
- These announcements suggest a continuation of the disparity in the levels of Transport investment between the North and the South East of England, most recently highlighted by the independent think tank IPPR North.

1.12 Horden Station

- NECA has been successful in securing £4.4 million from the DFTs new stations fund for a new station at Horden near Peterlee in County Durham.
- Together with funding from Durham County Council and a £3.3m contribution from the Local Growth Fund, this funding will allow construction of a two platform, fully accessible station.
- The new station will deliver a boost in accessibility for those living in Horden and Peterlee, an area that traditionally has low levels of car ownership.

1.13 Highways Maintenance Challenge Fund

- Tranche 2A of the Highways Maintenance Challenge Fund has been announced and our region is set to benefit from £10 million of investment.
- The two schemes that have been awarded funding include Heworth roundabout in Gateshead, which will see strengthening, re-waterproofing and traffic signal renewal of A184 / A185 junction and also rural road network maintenance in Northumberland.

1.2 Transport for the North (TfN) and Rail North

1.21 On 7th August 2017, the Leadership Board gave approval for NECA to give its consent for Transport for the North to become a Sub National Transport Body (STB). Policies and protocols in relation to TfN will now need to be drawn up.

1.22 NECA Chief Executives intend to develop a draft set of priorities that the Combined Authority may wish to achieve through its membership of TfN, along with internal protocols for the governance of NECA's involvement in TfN. Leadership Board will be able to review this work at a later meeting.

1.23 In the meantime, the development of the TfN Strategic Transport Plan continues, with input from officers. This plan will build on the March 2015 Northern Transport Strategy to make a prioritised case for investment in the North of England to 2050. A draft version of the Plan will be published in the Autumn and, following 12 weeks statutory public consultation, the final version of the Strategic Transport Plan will be published in 2018.

1.24 Work continues to develop integrated and smart travel across the North, with the current focus to introduce the use of Smartcards across the North's Heavy Rail services. Investigations are also underway to seek the infrastructure required to allow the use of contactless bank cards across all modes of transport in the North.

1.25 As part of the Northern Rail Franchise, there is a committed obligation to raise the standards of station facilities to a consistent level. Investment in Dunston, Hexham, Metrocentre and Sunderland stations will soon get underway to install new ticket vending machines and improved signage. In addition, a replacement waiting shelter and new CCTV cameras will be installed at Dunston, whilst waiting rooms at Hexham will be refurbished.

1.3 Metro

1.31 Whilst performance of the Metro has improved since the transition from DB Regio, fleet failures remain a significant challenge to improving overall punctuality. Fleet failure rates remain amongst the highest across comparable fleets and this is unlikely to improve given the age and condition of the rolling stock. This underscores the importance of acquiring a new Metro fleet as soon as possible.

1.32 Discussions with DfT to date suggest that the government accepts the need for new rolling stock for the Metro system. However a firm position regarding financing options has not yet been reached. Work is therefore being carried out by Nexus and its financial advisers, in consultation with DfT, into a range of options including both public and private finance, so that the government can take full account of the comparative costs and value for money analysis. Further to this, NECA will make representations to the Chancellor ahead of the 2017 Autumn Budget regarding the need to provide funding for a new fleet of Metrocars.

1.33 Once discussions have progressed further and a clear offer is on the table from the government, Leadership Board will be asked for its approval for the proposed financial and contracting arrangements.

1.34 A major £20m programme of modernisation work commenced on 31st July with the replacement of the Killingworth Road Metro bridge and track replacement works. A significant marketing campaign was put in place to raise awareness of the travel disruption as a result of the scheme. Bus replacement services were operation for the duration of the works. The completion of this work marks the completion of all major track renewals in the North Tyneside area.

1.4 NECA Transport Plan

1.41 Development of the NECA Transport Plan continues, with a number of engagement events occurring over the last few months including:

- A report to Overview and Scrutiny Committee on 11th July and a workshop for Committee Members on 1st August.
- A Transport North East Committee Members' workshop also on 11th July and a report to Transport North East Committee on 13th July
- On-going briefings for Leaders and Elected Mayors, Chief Executives and Economic Directors

More work is to be done however with the following next steps:

- The Transport Plan to be included in the transport thematic lead update report to 14th December Overview and Scrutiny Committee
- Incorporation of comments from all the above into the draft Plan.
- Member approval of the Transport Plan will be sought before any public consultation takes place.
- Incorporation of all the comments from the public consultation into a final version for Member approval and publication.
- Produce and publish a consultation feedback report

1.5 NECA Cycling and Walking Strategy and Implementation Plan

1.51 Progress continues in developing a ten year NECA Cycling and Walking Strategy and a five year Implementation Plan for the area, which will become a daughter document to the Transport Plan.

1.52 Significant stakeholder engagement has already taken place to help inform the Strategy and Implementation Plan, including two stakeholder workshops at the Northern Design Centre in Gateshead on the 12th and 13th of June and working with key deliver partners. This was followed up by an on-line survey to gather further views and presentations at seminar sessions for Members of TNEC and Overview and Scrutiny Committee.

1.53 It is anticipated that a final draft of the NECA Cycling and Walking Strategy and Implementation Plan will be presented to TNEC in February 2018 for approval.

1.6 Bus Services

1.61 Work continues on the development of a NECA Bus Strategy. Like the Metro and Local Rail Strategy, the Bus Strategy will be a daughter document of the NECA Transport Plan and aims to provide a strategic plan to improve bus services.

1.62 Both large and small bus operators are being involved in the development of the NECA Bus Strategy. Four working groups have been set up to delve into the detail of what will be included in the strategy.

1.63 Work to improve the ticketing offer for young people continues. TNEC endorsed the establishment of a Task and Finish group with a vision to “develop a more consistent and attractive ticketing offer for young people travelling by bus across the NECA area”. Following work by the Task and Finish group, commercial bus operators Arriva and Stagecoach are introducing improved ticketing for young people aged up to 19 from September 2017. Further discussions will continue to take place to look at improving the multi-modal ticket offer for young people.

1.7 Air Quality

1.71 NECA is committed to tackling poor air quality and provided a detailed response to the recent Air Quality Plan consultation. NECA emphasised the need for clear guidance from Government, introducing measures at a national level, rather than passing responsibility to local authorities. Piecemeal treatment at a local level could result in varying approaches that could be confusing. Key to the success of tackling air quality sufficiently will be the need for additional financial support.

1.8 Electric Vehicles Charging Infrastructure

1.81 NECA and the University of Newcastle have successfully secured grant funding to deliver two Electric Vehicle Filling Stations, including one in Newcastle that will be owned by the University of Newcastle and one in Sunderland which will be owned by NECA. Further to these filling stations, up to eight rapid electric vehicle chargers will be installed across the NECA area.

1.82 With this project, the NECA aims to enhance electric vehicle charging infrastructure and test a commercial model for the operation of the infrastructure to inform the future development of rapid charging in the region.

1.83 Work continues on developing a specification for the filling station and a feasibility study is underway to identify the best locations for the rapid charging clusters, based on demand, technical feasibility and deliverability. Work is also on-going with the local authorities to construct a model for the management, operation and enhancement of the existing estate of charging posts to improve the offering to the customer and compliment the rapid charging installations.

1.9 Digital Connectivity Update

1.91 The North East Digital Leads group are making significant progress with their work to position the region as a 5G Connectivity trailblazer and to sustain and grow the region's competitiveness in the Digital Economy. Work is being undertaken in anticipation for potential funding opportunities from the Government this coming Autumn.

1.92 Officers are looking to capitalise on future events to help showcase regional innovation, including the Great Exhibition of the North and the potential to host at least one globally significant event, to ensure the region can maximise its ability and potential in this area. This is in addition to initiatives that include a project to strengthen the fibre network across the Tyne and Wear Metro line, and collaborating with the European Space Agency to explore innovative ways of accelerating digital inclusion and connectivity in rural areas.

2. Proposals

2.1 This report is for information purposes only. Therefore, no proposals are contained in this report.

3. Reasons for the Proposals

3.1 This report is for information purposes only.

4. Alternative Options Available

4.1 Not applicable to this report.

5. Next Steps and Timetable for Implementation

5.1 Development of the Transport Plan and NECA Cycling and Walking Strategy will continue, with further opportunities for members to scrutinise the process through various forums. Nexus will continue to work with the DfT to define the type of funding for a new fleet of Metrocars. In addition, the project to enhance Electric Vehicle charging infrastructure across the NECA is gaining momentum, with further updates to follow in the future.

6. Potential Impact on Objectives

6.1 Successful delivery of the various transport and digital connectivity schemes and investment proposals outlined in this document will assist the Combined Authority in delivering its objective to maximise the area's opportunities and potential.

7. Financial and Other Resources Implications

7.1 The report includes information on funding and financial opportunities. There are no specific additional financial implications for NECA arising from this report.

7.2 There are no Human Resource of ICT implications.

8. Legal Implications

8.1 There are no specific legal implications arising from this report.

9. Key Risks

9.1 Risk of work streams not progressing in a timely manner may impact upon the region’s ability to achieve its aspirations for improving transport.

10. Equality and Diversity

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

11. Crime and Disorder

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

12. Consultation/Engagement

12.1 Many of the transport programmes outlined in this report have been the subject of consultation, at either a regional or national level.

13. Other Impact of the Proposals

13.1 No specific impacts

14. Appendices

14.1 None

15. Background Papers

15.1 Not applicable

16. Contact Officers

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17. Sign off

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

18. Glossary

north east combined authority

Leadership Board

Date: **19 September 2017**

Subject: **Statement of Accounts 2016/17**

Report of: **Chief Finance Officer**

Executive Summary

At its meeting on 18th July the Leadership Board received a report which summarised the outturn financial position for 2016/17. The purpose of this report is to present the final accounts for approval and summarise the findings of the audit. The 2016/17 external audit programme is now largely complete and Mazars, as the external auditor, expect to issue their final opinion before the end of September. No significant issues have been identified during the audit and their report indicates that they are likely to issue an unqualified opinion on the accounts and an unqualified value for money opinion, subject to the satisfactory completion of some outstanding areas of the audit. Their detailed report is provided as an appendix to this report. The final Statement of Accounts for 2016/17 is now presented for approval by the Leadership Board.

Recommendations

The Leadership Board is recommended to:

i) Consider the report of the External Auditor (Appendix 1);

ii) Authorise the Chief Finance Officer to sign the Letter of Representation on behalf of the Authority;

iii) Approve the final NECA Accounts for 2016/17 (Appendix 3), taking into account any views from the Governance Committee;

iv) Authorise the Chair of the Leadership Board and the Chief Finance Officer to sign the NECA and Group Accounts;

v) Approve the Annual Governance Statement (Appendix 4);

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

north east combined authority

Leadership Board

1. Background Information

1.1 The draft Annual Report and Accounts was completed and signed off by the Chief Finance Officer on 31 May 2017, in advance of the statutory deadline. A summary of the Outturn position was report to the Leadership Board on 18 July.

1.2 Governance Committee have considered the financial statements, Annual Governance Statement and reports of the External Auditor at their meetings in July and September.

1.3 The Statement of Accounts has been subject to a period of public inspection and external audit and the final Statement of Accounts is now presented for approval along with the report of the External Auditor, Mazars.

1.4 The Statement of Accounts must be signed off by the Chair of the Leadership Board and the Chief Finance Officer on behalf of the Authority and published online by 30 September 2017.

2. Proposals

2.1 Independent Auditor's Opinion

2.1.1 The detailed report of the external auditor is attached as Appendix 1. Mazars anticipate issuing an unqualified audit opinion, dependent on the successful completion of some outstanding items which are set out in their report.

2.1.2 NECA officers are working with the external auditors to finalise the audit work and a verbal update will be provided at the meeting on any outstanding items.

2.2 Statement of Accounts

2.2.1 A number of adjustments have been made between the draft and final accounts, which are set out in the external auditor's report at Appendix 1.

2.2.2 The Statement of Accounts was presented to Governance Committee on 12 September. Any issues or comments raised following the meeting will be reported verbally to the Leadership Board.

2.3 Arrangements to secure economy, efficiency and effectiveness in the use of resources

2.3.1 As part of the audit of the Authority's accounts, the External Auditor is required to assess the Authority's arrangements to secure economy, efficiency and effectiveness in the use of resources, commonly referred to as the Value for Money (VFM) assessment.

2.3.2 At the time of writing their report, the external auditors have assessed that NECA had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources, and anticipate issuing an unqualified VFM opinion.

2.4 **Annual Governance Statement**

2.4.1 Governance Committee reviewed the draft Annual Governance Statement (AGS) at its meeting on 4 July and the final version on 12 September. Since that point, there have been no additional governance and control issues arising either through internal audit work or from the audit of the accounts. NECA officers are not aware of any other issues arising that would need to be reflected in the AGS.

2.4.2 It is therefore recommended that the AGS included as Appendix 4 with this report be approved for inclusion with NECA's final accounts for 2016/17, and signed off by the Chair of the North East Combined Authority and the Head of Paid Service.

3 Reasons for the Proposals

3.1 The Accounts must be signed by the Chair of the North East Combined Authority and the Chief Finance Officer by 30 September 2017, and published online by this date.

4 Alternative Options Available

4.1 The recommended option is that the Leadership Board agree the recommendations as set out in order that the Authority can meet the statutory deadlines of 30 September 2017 for authorisation of the accounts.

5. Next Steps and Timetable for Implementation

5.1 The Accounts must be signed by the Chair of the North East Combined Authority and the Chief Finance Officer by 30 September 2017, and published online by this date.

6 Potential Impact on Objectives

6.1 There is no direct impact on objectives as a result of this report. Sound financial stewardship improves the ability of the Authority to meet all of its objectives.

7 Financial and Other Resources Implications

7.1 Financial and other resource implications are set out in the body of the report.

8 Legal Implications

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

9. Key Risks

9.1 There are no risk management implications directly arising from this report.

10. Equality and Diversity

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

11. Other Impact of the Proposals

11.1 There are no other impacts arising from this report.

12. Appendices

12.1 Appendix 1 – Report of the External Auditor

Appendix 2 – Narrative Report by the Chief Finance Officer

Appendix 3 – North East Combined Authority Statement of Accounts 2016/17

Appendix 4 – Annual Governance Statement 2016/17

13. Background Papers

13.1 None

14. Contact Officers

14.1 Paul Woods, Chief Finance Officer, paul.woods@northeastca.gov.uk,
Tel: 07446936840

Eleanor Goodman, Principal Accountant, eleanor.goodman@northeastca.gov.uk,
Tel: 0191 277 7518

north east combined authority

Leadership Board

15. Sign off

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

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Audit Completion Report

North East Combined Authority

north east combined authority

For the year ended 31 March 2017

MAZARS

Contents

1. Executive summary

Purpose of this report

The Audit Completion Report sets out the findings of our audit of the North East Combined Authority (NECA) for the year ended 31 March 2017, and forms the basis for discussion at North East Leadership Board meeting on 19 September 2017.

The scope of our work and overall summary

The detailed scope of our work as your appointed auditor for 2016/17 is set out in the National Audit Office's (NAO) Code of Audit Practice. Our responsibilities and powers are derived from the Local Audit and Accountability Act 2014 and include the matters outlined in the following table.

Financial statements	In our Audit Strategy Memorandum we reported that materiality for the financial statements as a whole was set at £4.526 million for NECA and £5.782 million for the Group. We have updated our assessment as part of our continuous planning processes and have set materiality at £5.147 million for NECA and £5.927 million for the Group. Our clearly trivial threshold for reporting matters to you has been set at £154,000 for NECA and £178,000 for the Group. We communicated identified significant risks to you as part of our Audit Strategy Memorandum in April 2017. Section 2 of this report outlines the work we have undertaken, and the conclusions we have reached, for each significant risk. At the time of issuing this report, and subject to the satisfactory conclusion of the remaining audit work, we anticipate issuing an unqualified opinion, without modification, on the financial statements. Our draft auditor's report is provided in Appendix C.
Identified misstatements	Our work identified a number of misstatements that have been discussed with management. A summary of the identified misstatements is provided in Appendix A.
Value for Money	At the time of issuing this report, and subject to the satisfactory conclusion of the remaining audit work, we anticipate having no matters to report in respect of NECA's arrangements to secure economy, efficiency and effectiveness in its use of resources. Our draft auditor's report is provided in Appendix C.
Whole of Government Accounts (WGA)	We anticipate completing our work on your WGA submission, in line with the group instructions issued by the National Audit Office, by the deadline of 30 September 2017. We anticipate reporting that the WGA submission is consistent with the audited financial statements.

Page 49

The status of our work

We have substantially completed our audit in respect of the financial statements for the year ended 31 March 2017.
At the time of preparing this report, the following significant matters remain outstanding:

Area outstanding	Work to be completed
Cut – Off Testing	Our work in relation to the sample testing of transactions to ensure that they have been recognised in the correct year is still ongoing. This work impacts on CIES, Debtors and Creditors.
Expenditure and Funding Analysis	Our work in relation to reconciliation to reported outturn in both years is still ongoing.
Group accounts	Completion of our standard audit programme for group accounts.
Closure procedures	We will complete our standard closure procedures, including review of the amended financial statements and consideration of post balance sheet events.

We will provide an update to you in relation to these outstanding matters in a follow up letter prior to giving our opinion.

2. Significant findings

This section sets out the significant findings from our audit and provides information on a number of matters that we are required to report to you by ISA 260 ‘Communication with those charged with governance’.

Significant risks

As part of our planning procedures we considered the risks of material misstatement in NECA’s financial statements that required special audit consideration. Although we report identified significant risks at the planning stage of the audit in our Audit Strategy Memorandum, our risk assessment is a continuous process and we regularly consider whether new significant risks have arisen and how we will mitigate these risks. No new risks have been identified since we issued our Audit Strategy Memorandum. The significant risks identified, and our conclusions against each are outlined below.

Management override of control (relevant to single entity and group accounts) In all entities, management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such overrides could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits.	Our testing strategy included: • reviewing material accounting estimates, which may be subject to management bias, included in the financial statements; • consideration and reviewing unusual or significant transactions outside the normal course of business; and • testing of journals recorded in the general ledger and other adjustments made in preparation of the financial statements.	Work ongoing.
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	We addressed this risk through performing audit work over: • the design and implementation of controls management had in place to ensure income is recognised in the correct period; • cash receipts around the year end to ensure they had been recognised in the right year;	Work ongoing.

significant management judgement in determining if there are any conditions and if they have been met.	• the judgements made by management in determining when grant income was recognised; and • for major grant income, obtaining counterparty confirmation.	
Property, Plant and Equipment Valuation (relevant to single entity and group accounts) Our previous audit work identified the lack of a detailed asset register to fully support the land & buildings and infrastructure assets in the Authority's balance sheet.	Our testing strategy included: • reviewing the Authority's arrangements for ensuring that all assets in the asset register were accounted for in the financial statements and vice versa; and • testing a sample of assets and obtaining suitable evidence that these assets existed at the balance sheet date and that the Authority held the rights to the asset.	Work identified asset categories for PPE were incorrect in that the land and buildings should have been classed as infrastructure as they were intrinsically part of the old Tyne Tunnel. This issue has been corrected and the asset register updated accordingly.
Pension Estimates (IAS 19) (relevant to group accounts only) The financial statements contain material pension entries in respect of the retirement benefits. The calculation of these pension figures, both assets and liabilities, can be subject to significant volatility and includes estimates based upon a complex interaction of actuarial assumptions. This results in an increased risk of material misstatement.	We discussed with key contacts significant changes to the pension estimates prior to the preparation of the financial statements. In addition to our standard programme of work in this area, we also: • evaluated the management controls you had in place to assess the reasonableness of the figures provided by the Actuary; and • considered the reasonableness of the Actuary's output, referring to an expert's report on all actuaries nationally which was commissioned annually by the National Audit Office.	Our work has provided the assurance we sought and has not highlighted any material issues to bring to your attention.

Qualitative aspects of NECA's accounting practices

We are required to communicate to you our views on the significant qualitative aspects of NECA's accounting practices, including the accounting policies used and the quality of disclosures.

Qualitative aspect	Our views
Accounting policies and disclosures	We have reviewed NECA's accounting policies and disclosures and found these to be in line with the requirements of the Code of Practice on Local Authority Accounting (the Code). In line with our expectations, there have been no significant changes to accounting policies for the year ended 31 March 2017.
Quality of the draft financial statements	We received draft financial statements from management on 20 June 2017. We have identified a number of changes to be made to the draft accounts.
Quality of supporting working papers	Producing high-quality working papers is as crucial part of compiling financial statements that are complete and materially accurate. They also support the delivery of an efficient audit. The Principal Accountant has have worked closely with us to provide working papers which has enabled the audit to progress as smooth as possible.

Significant matters discussed with management

Last year we reported that we were concerned at the lack of staffing support allocated to the Principal Accountant to help produce both the draft and audited accounts whilst also being available to assist in responding to audit queries. This issue is still ongoing and will become even more important for next year as the deadlines for the publication of both the draft and audited accounts will come forward to 31 May 2018 and 31 July 2018 respectively.

Significant difficulties during the audit

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

3. Internal control recommendations

The purpose of our audit is to express an opinion on the financial statements. As part of our audit we have considered the internal controls in place that are relevant to the preparation of the financial statements. We do this to design audit procedures that allow us to express an opinion on the financial statements; this does not extend to expressing an opinion on the effectiveness of internal control or to identify any significant deficiencies in their design or operation.

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

Our findings and recommendations are set out below.
We have not identified any significant deficiencies as a result of our work this year.

Follow-up of previous internal control deficiencies and recommendations

Description of deficiency	**Service Level Agreement (SLA) with Newcastle City Council is not up to date**
Potential effects	Given the services that the Council provides to NECA, the Authority should ensure that the SLA is up to date.
Action taken	NECA have agreed an SLA which identifies all of the services provided by the Council.

Description of deficiency	**Lack of formal loan agreements with Nexus**
Potential effects	NECA has lent Nexus £45.237 million. Whilst both parties fully understand the terms of the loan and subsequent repayments, there is no formal agreement in place. Existing arrangements would be strengthened by introducing formal agreements between both parties.
Action taken	Loan agreements with Nexus have been agreed and introduced during the year.

Description of deficiency	**Lack of detailed assets register to support land & buildings and infrastructure assets in the balance sheet**
Potential effects	NECA should further strengthen the asset register that is currently in place.
Action taken	Up to date, relevant asset register now in place.

4. Value for Money Conclusion

Our approach to Value for Money

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

The overall criterion is that, 'in all significant respects, NECA had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.' To assist auditors in reaching a conclusion on this overall criterion, the following sub-criteria are set out by the NAO:

- Informed decision making.
- Sustainable resource deployment.
- Working with partners and other third parties.

Significant Value for Money risks

The NAO's guidance requires us to carry out work to identify whether or not a risk to the Value for Money conclusion exists. Risk, in the context of our work, is the risk that we come to an incorrect conclusion rather than the risk of the arrangements in place at the Commissioner being inadequate. We did not identify any significant risks at the planning stage of our audit, and as such did not report any in our Audit Strategy Memorandum. We have kept this under review throughout our audit and are satisfied that there are no significant risks apparent in respect of VFM.

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

Sub-criteria	Commentary	Arrangements in place?
Informed decision making	The North East Leadership Board (NELB) is made up of the Leaders of the seven constituent bodies. The NELB is supplemented by elected members who serve on a number of committees along with non-executives. There is a very experienced senior officer team in post at NECA led by Helen Golightly, the Interim Head of Paid Service who was appointed in September 2016. NECA has an update to date Constitution (June 2017) which is available on their website. Risk management arrangements along with an up to date risk register is in place. A risk update is reported regularly to Governance Committee, who provide the necessary challenge	Yes

	No indicators of inappropriate governance arrangements. An Annual governance statement is prepared, reviewed and approved before being included in the financial statements.	
Sustainable resource deployment	Very experienced officer team in place Financial and performance reports demonstrate a history of achieving financial targets. The 2017/18 revenue budget and capital programme was approved by the NELB on 17 January 2017. Arrangements in place for the Financial Plan to be updated as appropriate. 2016-17 Outturn report to Governance Committee on 4 July 2017 identified an underspend of £0.570m at the year end. Relevant HR policies and procedures in place	Yes
Working with partners and other third parties	NECA work very closely with the North East Local Enterprise Partnership (NELEP). This is a business-led, strategic partnership responsible for promoting and developing economic growth in the area. NECA supports the work of the enterprise partnership and they work together to ensure co-ordination across their range of activities. The NELEP board includes 18 representatives from across the private and public sectors. Each of the leaders and the elected Mayor representing the seven NECA councils are members of the NELEP and the Chair of the NELEP is a non-voting member of the NELB. The Combined Authority provides the formal accountability arrangements for the enterprise partnership. A service concession exists in relation to the Tyne Tunnel. This is subject to a detailed 30 year agreement with the operator TT2 which was introduced in 2008.	Yes

Having gathered evidence of NECA's arrangements for each criterion we conducted a 'reality check', building upon our existing knowledge of NECA and considering the robustness of our assessment by referring to:

- reports by statutory inspectorates or other regulators;
- achievement of performance and other targets; and
- performance against budgets and other financial targets.

Evidence	Auditor assessment
Reports by statutory inspectorates or other regulators	We are not aware of any relevant work which impacts upon our value for money conclusion.
Achievement of performance and other targets	No issues identified.
Performance against budgets and other financial targets	All relevant financial targets have been achieved.

Overall conclusion

Having completed our assessment, and having carried out a ‘reality check’, we can conclude that our initial risk assessment remains appropriate and we can be confident in our conclusion that NECA has adequate arrangements in place for each criterion. We therefore intend to issue an unqualified Value for Money conclusion as set out in Appendix C.

Appendix A – Summary of misstatements

The misstatements identified for adjustment during the course of the audit that are above the trivial level of £154,000, are set out below.

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

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

Unadjusted misstatements 2016/17 – work ongoing as at 1 September 2017					
		Comprehensive Income and Expenditure Statement		**Balance Sheet**	
		Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
1	Dr:				
	Cr:				
	Explanation				
2	Dr:				
	Cr:				
	Explanation				

Adjusted misstatements 2016/17– work ongoing as at 1 September 2017		Comprehensive Income and Expenditure Statement		Balance Sheet	
		Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
1	Dr: income (NEL)	263			
	Cr: short term creditors				263
	Explanation: Correction of duplicate entry for grants received in advance incorrectly deducted from short term creditors.				
2	Dr: Transport – Tyne Tunnels expenditure	608			
	Cr: PPE				608
	Explanation: Additional depreciation charge as a result of reclassification of other land and buildings to infrastructure (old Tyne Tunnel) as these were an intrinsic part of the tunnel.				
3	Dr: NELEP expenditure	423			
	Cr: Tyne tunnel expenditure		423		
	Explanation: Expenditure on airport advertising which relates to LEP advertising rather than Tyne Tunnels.				
4	Dr: NELEP income	256			
	Cr: NELEP expenditure		256		
	Explanation: Business rate income which was netted off expenditure when income should have been grossed up.				

Disclosure amendments (work ongoing as at 1 September 2017)

The main disclosure issues identified during the course of the audit are outlined below, all of which have been corrected by management

- Note 7 – Officer Remuneration. A number of disclosure issues have been identified in relation to the bandings in the Note.
- Cash Flow Statement – our work identified a number of errors which required amendment.

- Note 10 –Property, plant and equipment. Other land and buildings has been reclassified as infrastructure assets as they are an intrinsic part of the old Tyne Tunnel and this is consistent with treatment of similar assets which are part of new Tyne Tunnel.
- Note 15 – short term creditors. Amendment required between amount owed to “other local authorities” and amount owed to “other entities & individuals – other”.
- Additional disclosure required to explain the restatement of Comprehensive Income and Expenditure Statement.
- We identified a number of other minor errors, omissions, clarifications and typographical errors.

Appendix B – Draft management representation letter

North East Combined Authority - audit for year ended 31 March 2017

This representation letter is provided in connection with your audit of the statement of accounts for the North East Combined Authority (NECA) and Group for the year ended 31 March 2017 for the purpose of expressing an opinion as to whether the statement of accounts give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

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

My responsibility for the statement of accounts and accounting information

I believe that I have fulfilled my responsibilities for the true and fair presentation and preparation of the statement of accounts in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

My responsibility to provide and disclose relevant information

I have provided you with:

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

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

Accounting records

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

Accounting policies

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

Accounting estimates, including those measured at fair value

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

Contingencies

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

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

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

There are no contingent gains which should be disclosed.

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

Laws and regulations

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

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

Fraud and error

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

I have disclosed to you:

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

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

Related party transactions

I confirm that all related party relationships, transactions and balances, have been appropriately accounted for and disclosed in accordance with the requirements of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

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

Impairment review

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

Future commitments

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

Service Concession Arrangements

I am not aware of any material contract variations, payment deductions or additional service charges in 2015/16 in relation to the Authority's PFI schemes that you have not been made aware of.

Subsequent events

I confirm all events subsequent to the date of the financial statements and for which the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom require adjustment or disclosure have been adjusted or disclosed.

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

Going concern

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

Yours sincerely

Chief Finance Officer

Date………………………

Appendix C – Draft audit report

INDEPENDENT AUDITOR’S REPORT TO THE MEMBERS OF NORTH EAST COMBINED AUTHORITY

Opinion on the financial statements

We have audited the financial statements of the North East Combined Authority (NECA) and Group for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014. The financial statements comprise the NECA and Group Movement in Reserves Statements, the NECA and Group Comprehensive Income and Expenditure Statements, the NECA and Group Balance Sheets, the NECA and Group Cash Flow Statements and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

This report is made solely to NECA, in accordance with Part 5 of the Local Audit and Accountability Act 2014 as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than NECA, for this report or for the opinions we have formed.

Respective responsibilities of the Chief Finance Officer and auditor

As explained more fully in the Statement of the Chief Finance Officer’s Responsibilities, the Chief Finance Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board’s Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to NECA and Group’s circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Finance Officer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Narrative Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements
In our opinion the financial statements:

- give a true and fair view of the financial position of NECA (and Group) as at 31 March 2017 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

Opinion on other matters
In our opinion, the information given in the Narrative Report for the financial year for which the financial statements are prepared, is consistent with the financial statements.

Matters on which we report by exception
We report to you if:

- in our opinion the Annual Governance Statement does not comply with Delivering Good Governance in Local Government: Framework (2016);
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make a recommendation under section 24 of the Local Audit and Accountability Act 2014; or
- we exercise any other special powers of the auditor under the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

Conclusion on the North East Combined Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources

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

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

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources
We are required to conclude whether NECA has put in place arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We have planned and undertaken our work in accordance with the Code of Audit Practice as issued by the Comptroller and Auditor General, and had regard to relevant guidance. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, NECA had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General, we are satisfied that in all significant respects, NECA put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

Certificate

We certify that we have completed the audit of the financial statements of the North East Combined Authority (and Group) in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

[*Signature*]

Cameron Waddell
For and on behalf of Mazars LLP
Salvus House
Aykley Heads
Durham
DH1 5TS

[*Date*]

Appendix D – Independence

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

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

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north east combined authority

Chief Finance Officer's Narrative Report for the Year ended 31 March 2017

1. Introduction

This Narrative Report provides information about the North East Combined Authority, including the key issues affecting the 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 2016/17 and its future financial prospects.

This report provides the reader with:

- A guide to the different financial statements within the Statement of Accounts.
- An overview of the activities and significant matters which occurred during the year.
- A summary of the Authority's financial performance during the year ending 31 March 2017 and its financial position at that date.
- A look ahead to 2017/18 and beyond.

The Statement of Accounts sets out the financial performance of the Authority for the year ending 31 March 2017 and its financial position at that date. They have been prepared in accordance with proper practices as set out in the Chartered Institute of Public Finance & Accountancy (CIPFA) Code of Practice on Local Authority Accounting in the United Kingdom (the Code). The Code requires that the accounts give a true and fair view of the financial position of the Authority. In line with the Code, suitable accounting policies have been applied and where necessary prudent judgements and estimates have been made.

The accounts feature four main financial statements:

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

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

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

These statements and accounts collectively provide a comprehensive view of the Authority's financial position during the period to which they relate.

The 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 2017/18, available on the NECA website (www.northeastca.gov.uk) sets out how we will do this looking forward. The Statement of Accounts accompanying this report looks back at our performance over the past year. Reviewed together they provide the reader with a complete understanding of the financial position of the Authority.

2. What is the North East Combined Authority?

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

The Authority was established in April 2014 in order to enable more effective collaboration on the key regeneration and transport issues which cut across council boundaries.

NECA is working closely with the North East Local Enterprise Partnership (NELEP) and the wider business community to deliver the Strategic Economic Plan for the North East and capitalise on these opportunities. NECA is the Accountable Body for the NELEP and all of the financial information relating to the NELEP is included in the accounts of NECA. This has a significant impact on the accounts in 2016/17 because NECA received significantly more Local Growth Fund (LGF) grant in 2016/17 than was spent on projects in the year, which means an increased surplus in the CIES and an equivalent increase in capital grants unapplied which increases the useable reserves of the Authority. Ten new Enterprise Zone sites have been approved to start in April 2017 and NECA and the LEP is working jointly to secure a £120m North East extension to the JEREMIE access to finance for business fund, which is due to start in 2017. In the absence of a devolution deal for the North East, the authority will continue to seek external funding such as Local Growth funding; infrastructure funding for major transport projects; and will seek to maximise European funding and the replacement of Europe regional funding following Brexit for the North East.

3. Revenue Financial Summary 2016/17

Revenue expenditure covers the cost of the Authority's day to day operations and contributions to and from reserves.

A summary of NECA expenditure against the budget is set out in the table overleaf (Table 1). Expenditure totalling £119.328m was managed within the approved revenue budget and income, with an underspend of around £0.570m at the year end which means the requirement to fund activity from reserves is less than originally budgeted for.

This statement provides a comparison with the NECA revenue budget for 2016/17 and does not include the Corporate budget of the NELEP, which is shown in detail in Table 4 (page 6).

Table 1: Summary of Revenue Expenditure Against Budget

	2016/17 Revised Budget	2016/17 Actual	Variance
	£000	£000	£000
Expenditure			
Transport Levy Budget			
- NECA retained (less contributions to other NECA activity)	2,333	2,262	(71)
- Grant to Durham	15,414	15,414	-
- Grant to Nexus	62,500	62,500	-
- Grant to Northumberland	6,293	6,293	-
Tyne Tunnels			
- Contract Payments	22,049	21,201	(848)
- NECA costs	224	206	(18)
- Financing Costs	7,002	6,824	(178)
Other Transport Activity			
- Regional Transport Team	1,153	997	(156)
- Go Smarter Programme	2,343	2,343	-
Inward Investment	439	337	(102)
Corporate/Central Budget	450	461	11
North East Technical Assistance match funding contribution	-	16	16
Devolution Activity	474	474	-
Skills - Mental Health Trailblazer Project	-	-	-
Total Expenditure	**120,674**	**119,328**	**(1,346)**
Income			
External Grant Funding	(3,243)	(3,295)	(52)
Transport Levies	(86,894)	(86,894)	-
Tolls Income	(28,775)	(27,795)	980
Interest/Investment Income	(251)	(272)	(21)
Contributions from Constituent Authorities	(440)	(440)	-
Contributions from NELEP	(166)	(146)	20
Tyne Tunnels Miscellaneous Income	-	(146)	(146)
Other Income	(10)	(15)	(5)
Total Income	**(119,779)**	**(119,003)**	**776**
Net Revenue Expenditure to fund from Reserves	**895**	**325**	**(570)**

Within the accompanying Statement of Accounts document the **Comprehensive Income & Expenditure Statement** (CIES, page 12) sets out the Authority’s financial position for the year before taking account of statutory adjustments required to be made to the accounts.

The **Movement in Reserves Statement** (MIRS, page 11) reflects these statutory adjustments and shows how the financial performance for the year has impacted on the Authority’s reserves. The figures presented in these statements are different from the budgeted revenue expenditure as they include accounting adjustments for costs such as Depreciation, and Revenue Expenditure Funded by Capital Under Statute and other grant-funded expenditure not included in the revenue budget.

The gross cost of services during the year including capital grants to third parties as well as revenue expenditure was £200.352m (£200.453m in 2015/16). This includes all areas of the NECA's and NELEP's activity. This includes 'Revenue Expenditure Funded by Capital Under Statute' – representing investment in capital assets owned by third parties, not by the Authority itself.

After deducting specific grants and income from fees and charges, the net cost of services was £66.703m, funded from a range of sources including the Transport Levy, other contributions from Constituent Authorities, Government Grants, Fees and Charges, and Enterprise Zones Business Rates Growth.

The CIES shows a net surplus for the year on the Provision of Services of £19.940m. This largely reflects Local Growth Fund (LGF) grant income being credited to the CIES where grant conditions have been met but it has not yet been used to fund expenditure. This is carried forward in the 'Capital Grants Unapplied Reserve' to fund expenditure in future years.

The General Fund balance at the year end was £34.897m. However, this is made up of a number of amounts which are held for specific purposes and the true unringfenced balance available to the Authority (the NECA Corporate reserve) is relatively low. Table 2 below sets out a breakdown of the General Fund balance.

Table 2: Breakdown of the General Fund Balance

	2016/17
	£000
NECA Corporate General Fund	(283)
Tyne and Wear Transport General Fund	(475)
Tyne Tunnels	(25,993)
Inward Investment Budget	(110)
Revenue Grants Unapplied	(1,434)
NELEP General Fund	(592)
Enterprise Zones reserve	(2,602)
North East Investment Fund	(3,408)
Total	**(34,897)**

4. North East Local Enterprise Partnership

NECA is the Accountable Body for the North East Local Enterprise Partnership (NELEP) and, as such, these accounts include details of its income and expenditure during 2016/17, fully consolidated with the figures for NECA itself.

The NELEP brings together business leaders, universities and members of the NECA Leadership Board. It is the fourth largest LEP in the country and covers the seven local authority areas which also make up NECA. It is responsible for promoting and developing economic growth in the area and works together with NECA to ensure there is co-ordination across a range of activities.

One of the NELEP's major areas of activity is the North East Investment Fund (NEIF), a capital loans fund supporting projects that specifically encourage local economic growth and create jobs in the area. Table 3 below shows a summary of the NEIF activity in 2016/2017.

Table 3: Summary of North East Investment Fund Activity 2016/17

	Grants Paid	Loans Advanced	Total Payments 2016/17	Interest Repayments 2016/17	Principal Repayments 2016/17	Total Repayments 2016/17
	£000	£000	£000	£000	£000	£000
Growing Places Fund	1,306	734	2,040	(59)	(271)	(330)
Regional Growth Fund	-	125	125	(347)	(213)	(560)
Contribution to North East Property Fund	3,000	-	3,000	-	-	-
Total	**4,306**	**859**	**5,165**	**(406)**	**(484)**	**(890)**

Table 4 overleaf summarises the LEP's revenue expenditure in 2016/17.

Table 4: North East LEP Revenue Expenditure

The LEP core budget covers LEP operational activity and also management of the Local Growth Fund (LGF) programme. Table 3 below provides a summary of actual spend against the revised budget for the year. Total revenue expenditure amounted to £2.999m, which was £0.053m lower than the revised budget for the year. Income was £3.181m, resulted in a net surplus of £0.182m carried over into 2017/18.

The main underspend in the year was on the recharge from the regional transport team for LGF transport project support, which was £127k below the budget set at the beginning of the year. This underspend was primarily due to delays in procuring two studies, which commenced in March and will be completed in the current year, and also reduced independent scheme assessment work for LGF transport schemes in the year. An underspend on the Inward Investment Budget means that the one off earmarked contribution of £0.020m carried over from 2015/16 will no longer be required. Income received, was in line with the revised budget for the majority of the funding streams.

Table 4: North East LEP Revenue Expenditure

	2016/17 Original Budget	2016/17 Revised Budget	2016/17 Actual Spend	2016/17 Variance
	£000	£000	£000	£000
Expenditure				
Employees	1,550	1,234	1,285	51
Premises	95	95	95	-
Communications	247	251	216	(35)
Transport LGF Monitoring and Evaluation	400	385	258	(127)
Gatsby and Growth Hub Operational Costs	106	377	389	12
Other Operational Costs	615	570	616	46
Inward Investment Contribution	160	140	140	-
Gross Expenditure	**3,173**	**3,052**	**2,999**	**(53)**
Income				
LEP Core Grant	(250)	(250)	(250)	-
Local Authority Match Contributions	(250)	(250)	(250)	-
LEP Strategy Grant	-	(250)	(250)	-
Local Growth Fund (2.5% Top-Slice)	(1,985)	(1,250)	(1,192)	58
NEIF/EZ Business Rate Receipts	(50)	(100)	(100)	-
Gatsby and Growth Hub Grants	(168)	(606)	(646)	(40)
Other Grants / Enterprise Advisor	(175)	(31)	(69)	(38)
NECA contribution to Head of Paid Service	-	(36)	(36)	-
Interest on Balances	(295)	(305)	(349)	(44)
Other Income	-	-	(39)	(39)
Gross Income	**(3,173)**	**(3,078)**	**(3,181)**	**(103)**
Net (Surplus)/Deficit	**-**	**(26)**	**(182)**	**(156)**

Table 5 below shows the North East LEP revenue balances as at the 31 March 2017. The general reserve has increased by £112k over the year to £548k. This is £86k higher than anticipated in the revised budget.

Table 5: North East LEP Revenue Balances

	Opening Balance	Movement in 2016/17	Closing Balance
	£000	£000	£000
General Reserve	436	112	548
LGF Revenue Allocation	-	44	44
GPF Revenue Allocation	66	(66)	-
Total	**502**	**90**	**592**

Further details of the activities of the NELEP are available at www.nelep.co.uk.

5. Capital Investment

Capital investment during the year totalled £116.8m, less than the 2015/16 figure of £127m. This consisted of capital expenditure on the Authority's own assets, capital expenditure via capital grants to third parties and long-term capital loans to third parties. An analysis of capital investment by programme and by thematic area are shown in the following table and charts.

Table 6: Capital Expenditure by Programme

	2015/16 £000	2016/17 £000
Local Growth Fund Programme	51,472	61,794
Metro Asset Renewal Plan	39,747	37,817
Transport Grants	11,070	11,877
North East Investment Fund	22,820	5,165
Other	2,111	129
Total	**127,220**	**116,782**

Included within the Local Growth Fund Programme (LGF) is £1.826m expenditure on the refurbishment of the Tyne Pedestrian and Cycle Tunnels, which was temporarily funded from grant as part of a funding swap, with an equivalent amount to be repaid to the LGF Programme from Tyne Tunnels reserves in future years.

Chart 1: Capital Expenditure by Programme

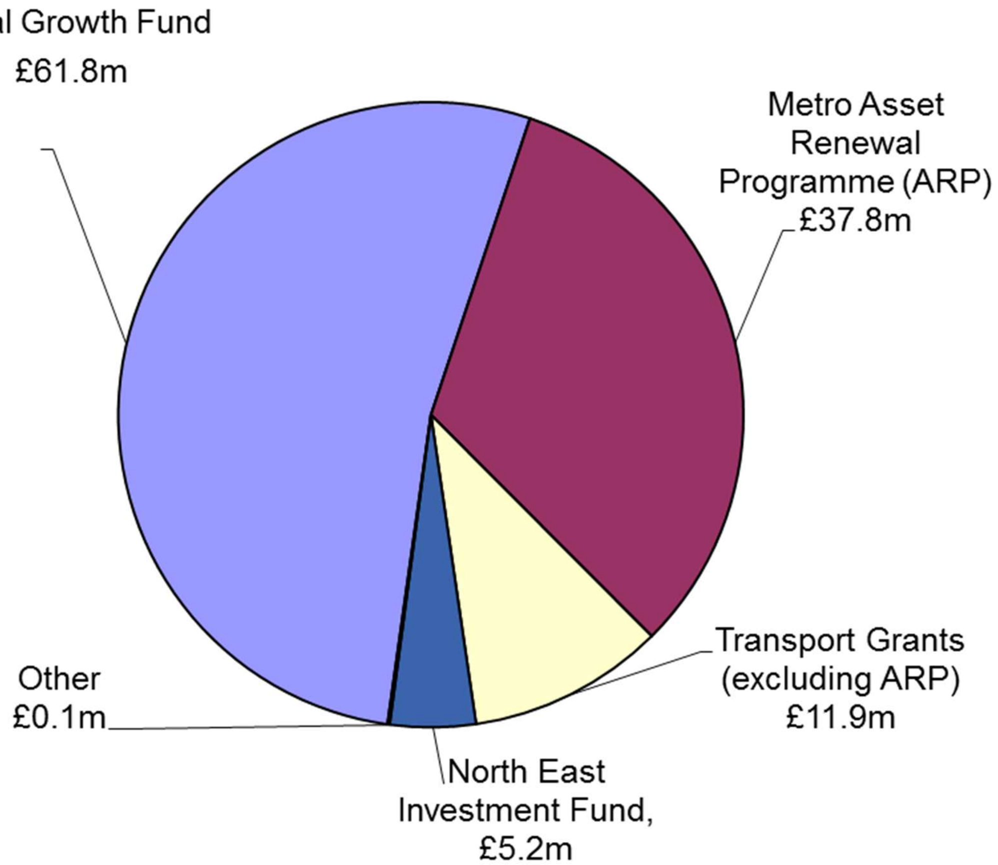
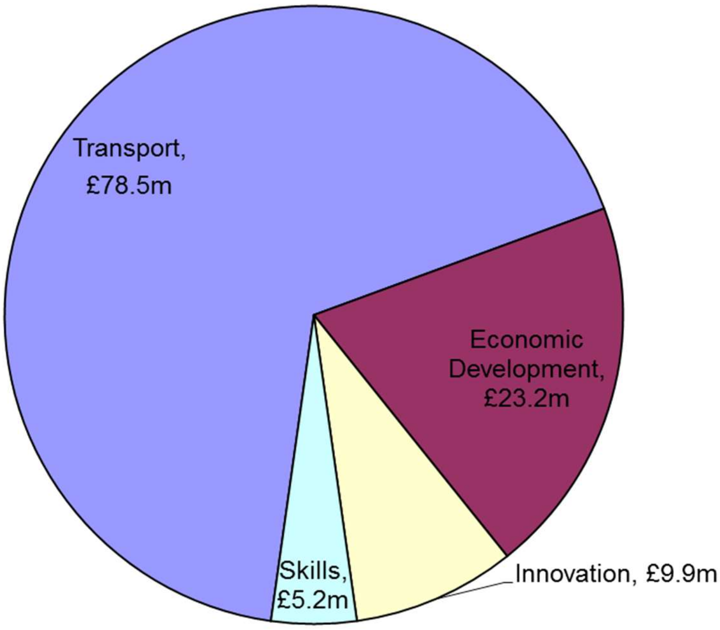


Chart 2: Capital Expenditure by Thematic Area



The largest area of capital expenditure is in relation to Transport and Digital Connectivity, reflecting the NECA's responsibilities as a Transport Authority, which it inherited from the former Tyne and Wear Integrated Transport Authority. Activity on Economic Assets and Infrastructure and Economic Development continues to grow, building on strong performance in 2015/16, and includes the North East Investment Fund. Skills and Innovation were new areas of activity for NECA in 2015/16 and have continued to be supported in 2016/17.

A selection of the significant by value capital projects / programmes under each thematic area are set out below (figures in brackets represent capital investment in the year funded by NECA sources).

Economic Assets and Infrastructure

- North East Investment Fund – Loans and grants including the contribution to the North East Property Fund (£5.1m)
- LGF – Infrastructure for Forrest Park (£2.1m) (Durham County Council)
- LGF – Sunderland Central Business District (£1.5m) (Sunderland City Council)
- LGF – Rural Growth Network (£0.757) (Northumberland County Council)

Innovation

- LGF – Centre for Innovation in Formulation (£1.0m)
- LGF – Newcastle Laboratory and Life Science Incubation Hub (£1.0m) (Newcastle City Council)
- LGF – Northern Centre for Emerging Technologies (£0.9m) (Gateshead Council)

LGF – NetPark Infrastructure Phase 3 (£0.8m)**Transport and Digital Connectivity**

- Metro Asset Renewal Programme (£37.8m) (Tyne & Wear – Nexus)

- LGF – A19 Employment Corridor Improvements (£2.0m) (North Tyneside Council)
- LGF – South Shields Transport Hub (£1.8m) (South Tyneside Council)
- Tyne Tunnels Capital Programme (£1.9m)

Skills

- LGF – Rural Skills Development East Durham College (£2.5m)
- LGF – Beacon of Light World of Work (£1.8m)
- LGF – Northumberland College STEM centre (£0.9m)

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

Table 7: Capital Funding 2016/17

	2016/17	2016/17
	£000	%
Local Growth Fund Grant	(61,794)	52.9%
Local Transport Plan Grant	(14,460)	12.4%
Metro Capital Grant	(34,252)	29.3%
North East Investment Fund	(2,864)	2.5%
Growing Places Fund Capital Grant	(2,358)	2.0%
Revenue/Reserves	(1,054)	0.9%
Total Funding	**(116,782)**	**100.0%**

6. Enterprise Zones

The North East Low Carbon Enterprise Zone is located across four Local Authority areas: Newcastle upon Tyne, North Tyneside, Northumberland and Sunderland. Business rates growth generated on these designated sites accrues to the benefit of the North East LEP for a 25 year period. 2016/17 was the fourth year of the zone's life.

Analysis of the business rates generated to date is shown in Table 8 overleaf. This funding is available to support future NELEP activity; primarily additional Enterprise Zone site development works to future enhance this income stream in the coming years.

Table 8: North East Enterprise Zone Business Rates Growth 2016/17

	2013/14	2014/15	2015/16	2016/17
	£000	£000	£000	£000
Local Authority Area				
Newcastle upon Tyne	(312)	(330)	(262)	(614)
North Tyneside	(14)	(55)	(100)	(165)
Northumberland	(12)	(28)	(96)	(173)
Sunderland	(696)	(653)	(745)	(743)
Gross Expenditure	**(1,034)**	**(1,066)**	**(1,203)**	**(1,695)**
NEIF Repayment	-	-	542	1,306
Financing Costs	-	-	424	-
EZ Costs	-	9	9	121
Interest	-	(3)	(7)	(5)
Total Surplus	**(1,034)**	**(1,060)**	**(235)**	**(273)**
Cumulative Surplus	**(1,034)**	**(2,094)**	**(2,329)**	**(2,602)**

Business Rate Income for 2016/17 amounted to £1.695m and Expenditure, including accelerated repayments back to the NEIF, amounted to £1.422m. The surplus for the year was £0.273m, resulting in a cumulative surplus of £2.602m being held. This is higher than the cumulative surplus forecast set out in the 2014 Financial Model of £1.727m.

7. Treasury Management

The Balance Sheet on page 13 of the accounts shows external borrowing of £169.999m at the end of the year, which is split between short term borrowing (£2.332 and long term borrowing (£167.667m). This compares to £171.690 for 2015/16. The decrease is due to the regular principal repayments made on Equal Instalment of Principal (EIP) loans. The average rate of interest on external borrowing for the year was 4.3%, which is comparable with the previous year.

The Balance Sheet also shows short term external investments of £104m at the end of the year compared to £89m at the end of the previous year, consisting of £66m NECA’s own investments and £38m of investments held on behalf of Nexus. The increase in NECA investments in 2016/17 compared to the previous year is primarily due to receipt of a greater level of LGF grant income in advance of payments being made to projects and the need to achieve better investment returns leading to deposits being placed for longer time periods where it is considered safe to do so.

8. Debtors

The Balance Sheet on page 13 shows short term debtors of £10.904m at the end of the year compared to £9.965m at the end of the previous year. These balances are analysed in more detail in Note13 on page 38.

9. Creditors

The Balance Sheet on page 13 shows short term creditors of £88.624m at the end of the year compared to £113.252m at the end of the previous year. These balances are analysed in more detail in Note 15 on page 38. The main reason for the significant reduction compared to the previous year is a reduction in the balance of cash owed to Newcastle City Council which was £43.015m in 2015/16 but had reduced to £8.896m at 31 March 2017. This balance exists because NECA receives the majority of its income into its own bank account but payments are made from Newcastle City Council's account as NECA uses its financial systems. This balance was reconciled following the year end and settled during April 2017, with monthly settlements ongoing during 2017/18.

10. Pensions Costs

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

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

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

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

NECA has two types of pension liabilities – described as funded and unfunded. Funded pension liabilities are within the LGPS and are backed by assets attributable to the Authority. For the funded element of the scheme, NECA is in a surplus position amounting to £7.46m, reflecting the decision of the former Tyne and Wear ITA to make a lump sum payment to clear its pension deficit in December 2013, and the high employers' contribution rate on employee costs paid in recent years. This approach has given significant increases in the value of assets in the fund, well above the levels of return that could have been achieved by the Authority itself, and also significant savings in the revenue budget.

For accounting purposes this surplus is limited to nil on the NECA balance sheet because, under Pension Fund arrangements, the Authority is not able to "withdraw" the surplus from the Fund. It gets a benefit from the surplus in the form of savings on employers' pension contributions for current employees, which has enabled significant savings on the revenue budget particularly in relation to the LEP.

Unfunded or discretionary benefits e.g. early retirement awards sit outside the Authority's funded part of the scheme and are therefore not backed by assets, but must be paid as incurred on a monthly basis. These costs all relate to former Tyne Tunnels employees and are paid from the Tyne Tunnels revenue account, at a cost of approximately £51k in 2016/17. At the end of the year there was a pension fund deficit of £0.980m and this is disclosed on the Balance Sheet on page 13. This compares with a deficit of £0.890m at the end of the previous year. The main reason for the small increase is due to the assumptions made by the pension fund actuary, particularly a reduction in the discount rate used to revalue liabilities from 3.3% to 2.5%. A decrease in the discount rate increases the current value of the liability outstanding.

Further disclosures related to the pension fund are included in Note 18 from pages 41-46 of the Statement of Accounts.

11. Net Assets

The Authority's total net assets have increased from £150.878m at 31 March 2016 to £170.698m at 31 March 2017, matched by a corresponding increase in Reserves. This increase is primarily due to the slippage against the LGF Programme during the year and is therefore expected to be a short-term increase only, with the grant not yet used to fund up expenditure being held in the Capital Grants Unapplied Account. It is anticipated that this will be drawn down in full during 2017/18 and 2018/19.

12. Group Results

The Group Accounts included as part of the Statement of Accounts fully incorporate the results of Nexus (the Tyne and Wear Passenger Transport Executive). More details can be found in Group Note 1 on page 83.

The Group results show a surplus for the year of £33.097m (2015/16 £29.328m). The net assets of the Group stood at £632.811m at 31 March 2017 (£599.718m at 31 March 2016). The increase is due to the increase in LGF grant carried forward to 2017/18 in the single entity accounts, as described above, and an increase in non-current assets held by Nexus.

13. Accounting Developments

The main changes in the current year are as follows:

- **Faster Closure of Accounts** – the deadline for faster closure of accounts from 2017/18 will be for draft accounts to be prepared and signed by the Chief Finance Officer by 31st May (currently 30th June) and for approval and publication of financial statements with audit opinion by 31st July (currently 30th September). Many of the procedures implemented during 2016/17 are designed to ensure these revised reporting deadlines are met.

- **Highways Network Assets** – on 8th March 2017 the CIPFA / Local Authority Accounting Code Board announced the decision not to proceed with the introduction of the Highways Network Asset Code into the financial reporting requirements for Local Authorities.

- **Telling the Story review of the presentation of Local Authority financial statements** – Following the Telling the Story review of the presentation of Local Authority financial statements, the 2016/17 Code changed the segmental reporting arrangements for the Comprehensive Income and Expenditure Statement and introduced the Expenditure and Funding Analysis.

  The new Expenditure and Funding Analysis seeks to bring together Local Authority performance reported on the basis of expenditure measured under proper accounting practices with statutorily defined charges to the General Fund.

Both the Comprehensive Income and Expenditure Statement and the Expenditure and Funding Analysis now require Local Authorities to report performance on the basis of how they are structured and how they operate, monitor and manage financial performance.

Additional accounting developments have been reviewed and determined to have no significant impact on the Authority, see Note 26 (page 55) within the Statement of Accounts.

14. Looking Ahead

In the absence of a Devolution Agreement at the current time, the focus for 2017/18 and beyond is on supporting the existing objectives of the NECA and delivering the objectives of the North East Strategic Economic Plan (SEP). The 2017/18 net revenue budget was agreed by the Leadership Board in January 2017, was made up of several elements and amounted to £85.5m, excluding grant funded elements of the LEP budget. Total Gross Revenue Expenditure before applying income and funding from external grants is forecast to be in excess of £231m. A capital programme for the year totalling £148.9m (including overprogramming) was set, covering a wide range of transport improvements and economic and regeneration initiatives.

NECA activity for the year ahead falls into three key themes:

Transport

Transport is seen as a key driver of growth and the strategic alignment of transport within economic growth strategies emphasises a clear link between transport and skills, housing and economic prosperity. NECA has ensured political leadership at the highest level on strategic transport planning, set within the context of the wider economic strategy for the area.

Since its establishment, NECA has facilitated greater co-operation amongst regional and local partners which has resulted in improvements to the region's public transport network, increased opportunity to address congestion on the local road network, and a step change in information and ticketing provision for the travelling public. Since the publication of the SEP in 2014, NECA and NELEP have continued to develop collaborative working arrangements across the region and provide a single approach to transport.

NECA transport activity is focused on providing leadership and a united voice on key strategic transport issues; representing the North East on transport issues of national significance; coordinating the area's public transport network; and managing the transport investment programme. NECA has produced and consulted on the Transport Manifesto setting out the vision and objectives for transport in the area. This will feed into the Transport Plan which will be developed in 2017/18.

During 2016/17, NECA also agreed outline business cases for the replacement of the Metrocar fleet and the continuation of the programme of essential renewals across the Metro network. The funding required for these business cases will be pursued with Department for Transport (DfT) next year and Nexus' budget for 2017/18 provides the necessary provision to take the Metrocar replacement project forward through procurement.

NECA has also recently approved the Metro and Local Rail Strategy which in addition to the need for investment to replace the Metrocar fleet and continue the programme of essential renewals, sets out an ambitious vision which will potentially bring the planning of all local rail services within the region's scope for the first time; essential building blocks for route expansion plans, service enhancements and improved network capacity.

Specifically, in terms of Metro, during 2017/18, 400+ employees will transfer into Nexus from DB Regio Tyne and Wear Limited, whose concession for operating the Metro system will expire on 1 April 2017. The re-introduction of a vertically integrated model where operations, maintenance and renewals are undertaken by the same organisation is expected to help improve reliability, notwithstanding the need to replace the life expired fleet of Metrocars.

Nexus' overall budget proposal for 2017/18 will allow it to maintain frontline services despite a £1.610m reduction in the grant it receives from the NECA. This is possible because of a combination of permanent savings being achieved in the current year, further planned efficiency savings next year and the application of reserves which will be augmented this financial year-end as a result of the outturn for 2016/17.

NECA Transport Team activity for 2017/18 includes strategy development, the coordination of bids and regional initiatives, continuous development of the transport pipeline and programme management of the transport investment programme. The team will continue to represent the North East at an interregional and national level including engagement with Transport for the North, liaison with Government and other national agencies and NECA representation on strategic rail partnerships.

Employment and Skills

NECA and its constituent authorities, in partnership with NELEP, and local education organisations deliver against the Employability and Inclusion and Skills themes of the Strategic Economic Plan (SEP) for the North East. NECA's and NELEP's objective is to ensure that economic growth benefits the whole of the North East, delivering an increase in the economic participation rate and closing the gap in performance with the national average. Key themes of work revolve around raising attainment; implementing a responsive skills system; tackling social exclusion and improving employment prospects.

NECA wide initiatives currently being delivered, and will continue in 2017/18, include the Mental Health Trailblazer and Generation North East. NECA has successfully developed a Mental Health Trailblazer project, which will support 1,500 Employment Support Allowance (ESA)claimants. This was one of four projects nationally to secure support though the Cabinet Office Transformation Challenge Award in December 2014. The North East model supports ESA claimants with common mental health conditions into employment through integrating employment support with psychological therapy.

Generation North East is delivering a significant part of the support offer available to young unemployed people in the NECA area. The NECA area was awarded a £4.5m grant in April 2014 under the Cabinet Office's Youth Contract for Cities initiative to test locally devolved approaches to tackling youth unemployment. The programme has now been operational for two years and to date over 2200 young people have benefited from support with over 800 moving into employment to date.

NECA employment and skills activity for 2017/18 includes maintaining effective and efficient delivery of pan-NECA initiatives, supporting the development and implementation of the Area Based Review, maximising European Social Fund investment for employment and skills interventions and options development for the future implementation of a devolved Adult Education Budget.

Economic Development and Regeneration

The Economic Development and Regeneration Portfolio focuses on overseeing the coordination of inward investment activity and providing the right environment and infrastructure for attracting and embedding investment.

NECA sees a strong housing, employment and urban core offer as critical in securing the North East's sustained economic growth. NECA's role is to create the conditions to enable an appropriate quantity, of good quality developments in the right places to meet the North East's demands and aspirations and build on well-connected infrastructure to support economic growth.

The North East Enterprise Zone sites provide specific additional benefits to businesses and room to grow and are central to NECA's and NELEP's plans to create 'more and better jobs'. The targeted investment and benefits to businesses provided through the scheme have already supported over 27 businesses and brought in over £116m private investment which has resulted in over 1,700 jobs by enabling employers to grow. An additional round of Enterprise Zone sites (10 new sites) have also been secured, which will be available from April 2017.

Co-operation between NELEP, NECA and its constituent authorities has secured the £120m European funded JEREMIE 2 financial support for Business fund, which will be operational in 2017. There will be continued activity next year to support the new Special Purpose Vehicle (SPV) company that has been established to deliver JEREMIE 2 and to explore options for further support for Business. It is estimated that JEREMIE 2 could provide financial support for 600 businesses; help create around 3,500 jobs over the next five years and deliver a legacy fund of up to £80m over the next decade for further financial support to businesses.

Key areas of work for the NECA Economic Development and Regeneration Theme in 2017/18, includes continuing to oversee activity relating to inward investment, providing strategic advice and intelligence relating to key drivers of and barriers to investment and growth, supporting the development of enterprise zones secured for the area and developing regional priorities for investment and maintaining a robust project pipeline to respond to funding calls.

15. The Statement of Accounts

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

Movement in Reserves Statement (Statement of Accounts page 11)

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

Comprehensive Income and Expenditure Statement (Statement of Accounts page 12)

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

Balance Sheet (Statement of Accounts page 13)

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

Cash Flow Statement (Statement of Accounts page 14)

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

Group Financial Statements and Notes (Statement of Accounts pages 83-101)

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

16. 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.

17. Non-Financial Performance

The Statement of Accounts is focused on the Financial Performance of the Authority. NECA also monitors and reports its non-financial Performance, particularly in the following areas:

Economic Development and Regeneration

- Inward Investment – in the financial year 2016/17, in total there were 84 inward investments into the NECA area which will lead to the creation of 6,126 jobs. This contrasts with 2015/16 of 107 inward investments leading to 3,368 jobs.
    - Foreign Direct Investment – 64 investments leading to the creation of 4,257 new jobs and many thousands safeguarded.
    - Investments by UK-owned Companies from Outside of the Region – 20 investments leading to the creation of 1,869 jobs.
- Strategic Economic Plan Update – the NELEP has worked with the local authorities, the business community and partners across the region to refresh the SEP for 2017. Headlines are:
    - The North East is ahead of schedule to reach its 100,000 more and better jobs target before 2024 – over 53,000 jobs created since 2014, with 63% of these classed as higher skilled jobs.
    - Job growth added at a rate of 6.6% over the past two years eclipsing the national rate of 5.4% in England.

Employability and Inclusion

- DWP European Social Fund Opt-In for the North East – the programme is still at a relatively early stage of delivery (the first referrals began in January). 210 participants are being supported by the programme, 12 people to date have moved into work.
- North East Mental Health Trailblazer – the programme began to take referrals in mid-January, 99 people are currently being supported and 13 participants have moved into work.
- Generation NE – the scheme has been operational since July 2014 and the programme has supported 3250 young people of which 1600 have moved into employment (914 of those sustaining employment for 6 months or more).

Transport

- Tyne Tunnels

NECA owns the Tyne Tunnels, which link the A19 under the River Tyne between Howdon and Jarrow. There are two tolled vehicle tunnels, and tunnels for both pedestrians and cyclists. The Tunnels are entirely self-financing from the tolls, i.e. there is no call on the Authority's budget or local tax payers to support them, and assets and liabilities associated with the tunnels are ringfenced to the Tyne and Wear constituent councils within the Authority.

The Tunnels are operated under a contract to a concessionaire company, TT2 Ltd.

Traffic Indicators:

	Class 1	Class 2	Class 3	Exempt	Total
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**
2012/13	160,889	13,066,933	775,757	396,412	**14,399,991**

- Tyne and Wear Passenger Transport Executive – Nexus

NECA sets public transport policy for the region, which in Tyne and Wear is delivered operationally by Nexus. The following indicators describe the general performance of public transport in Tyne and Wear during 2016/17.

- The number of passenger journeys across Tyne and Wear was estimated at 168 million; a reduction when compared to 170 million in the previous year.
- Patronage increased slightly on Bus, with the number of journeys rising by 0.4% in 2016/17 to 128.8 million.
- Metro patronage declined by over 2 million in 2016/17 to 37.7 million journeys.
- Ferry carried 441,000 passengers in 2016/17, down slightly from 442,000 the year before.
- Rail passengers in Tyne and Wear made 1.5 million journeys on local services, an increase on the previous year of 1.3 million.
- Metro reliability (operated mileage) was 97.9% during 2016/17, a small decrease on the 98.0% achieved in the previous year.
- Metro Charter punctuality was 82.8% during 2016/17, an increase compared to the 80.4% achieved in the previous year.

NECA Structure

- Still a relatively new organisation, NECA continues to adapt and grow to meet the requirements of the region, while keeping costs to a minimum. Movement in employee numbers, which mainly relates to staff supporting the North East LEP, is set out in table below:

	Employees at the year end
2016/17	21
2015/16	15
2014/15	2

18. Further Information Available

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

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

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P.Woods

Paul Woods
Chief Finance Officer, North East Combined Authority

North East Combined Authority

Statement of Accounts 2016/17

north east combined authority

www.northeastca.gov.uk

North East Combined Authority Statement of Accounts 2016/17

Contents **Page**

1.0 Statement of Responsibilities for the Statement of Accounts

1.0 Statement of Responsibilities for the Statement of Accounts

1.1 The Authority's Responsibilities

The Authority is required:

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

The Chief Finance Officer's Responsibilities:

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

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

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

The Chief Finance Officer has also:

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

Certification of the Accounts

I certify that the Statement of Accounts gives a true and fair view of the financial position of the North East Combined Authority at 31 March 2017 and its income and expenditure for the year ended 31 March 2017.

Signed:

Paul Woods, Chief Finance Officer

Signed:

Councillor Paul Watson, Chair, North East Leadership Board

2.0 Core Financial Statements and Explanatory Notes

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

	Usable Reserves							
	Note	General Fund Balance £000	Earmarked General Fund Reserves £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000
Balance at 1 April 2015		**(32,702)**	**(12,985)**	**(1,050)**	**(10,688)**	**(57,425)**	**(91,284)**	**(148,709)**
Movement in reserves during 2015/16								
Total Comprehensive Income & Expenditure		**(2,039)**	**-**	**-**	**-**	**(2,039)**	**(130)**	**(2,169)**
Adjustments between accounting basis & funding basis under regulations	2	4,340	-	(2,553)	(300)	**1,487**	(1,487)	-
Net (Increase)/Decrease before transfers to Earmarked Reserves		**2,301**	**-**	**(2,553)**	**(300)**	**(552)**	**(1,617)**	**(2,169)**
Transfers (To)/From Earmarked Reserves	20	(4,606)	1,003	3,603	-	**-**	-	-
(Increase)/Decrease in 2015/16		**(2,305)**	**1,003**	**1,050**	**(300)**	**(552)**	**(1,617)**	**(2,169)**
Balance at 31 March 2016 carried forward		**(35,007)**	**(11,982)**	**-**	**(10,988)**	**(57,977)**	**(92,901)**	**(150,878)**
Movement in reserves during 2016/17								
Total Comprehensive Income & Expenditure		**(19,940)**	**-**	**-**	**-**	**(19,940)**	**120**	**(19,820)**
Adjustments between accounting basis & funding basis under regulations	2	22,638	-	(439)	(14,738)	7,461	(7,461)	-
Net (Increase)/Decrease before transfers to Earmarked Reserves		**2,698**	**-**	**(439)**	**(14,738)**	**(12,479)**	**(7,341)**	**(19,820)**
Transfers (To)/From Earmarked Reserves	20	(2,588)	2,317	271	-	-	-	-
(Increase)/Decrease in 2016/17		**110**	**2,317**	**(168)**	**(14,738)**	**(12,479)**	**(7,341)**	**(19,820)**
Balance at 31 March 2017 carried forward		**(34,897)**	**(9,665)**	**(168)**	**(25,726)**	**(70,456)**	**(100,242)**	**(170,698)**

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 to be funded from the levy and other sources of income which is set out in the Movement in Reserves Statement.

2015/16 (restated*)					2016/17		
Gross Expenditure £000	Gross Income £000	Net Expenditure £000		Note	Gross Expenditure £000	Gross Income £000	Net Expenditure £000
757	(300)	457	Corporate		1,318	(656)	662
149	(140)	9	Inward Investment		344	(169)	175
50,958	(53,910)	(2,952)	Local Growth Fund Programme		61,268	(77,575)	(16,307)
15,449	(16,785)	(1,336)	North East LEP		6,348	(2,658)	3,690
49	(49)	0	Skills		1,148	(1,148)	-
224	(5)	219	Transport - Retained Levy Budget		461	-	461
16,071	-	16,071	Transport - Durham		15,414	-	15,414
5,896	-	5,896	Transport - Northumberland		6,293	-	6,293
64,500	-	64,500	Transport - Tyne and Wear		62,500	-	62,500
19,927	(20,117)	(190)	Transport - Other		19,320	(18,160)	1,160
26,474	(33,538)	(7,064)	Transport - Tyne Tunnels		25,938	(33,283)	(7,345)
200,454	**(124,844)**	**75,610**	**Cost of Services**		**200,352**	**(133,649)**	**66,703**
3,672	-	3,672	Other Operating Expenditure		-	-	-
12,240	(3,181)	9,059	Financing & Investment Income & Expenditure	3	7,450	(3,677)	3,773
-	(90,380)	(90,380)	Taxation & Non-Specific Grant Income	4	-	(90,416)	(90,416)
		(2,039)	**(Surplus) on Provision of Services**				**(19,940)**
		(130)	Re-measurements of the defined benefit liability	18			120
		(130)	**Other Comprehensive Income & Expenditure**				**120**
		(2,169)	**Total Comprehensive Income & Expenditure (Surplus)**				**(19,820)**

* The 2015/16 position has been restated across the Authority's Service Expenditure

2.3 Balance Sheet

The Balance Sheet summarises the Authority's financial postion at 31 March each year. The net assets of the Authority (total assets less total liabilities) are matched by the reserves held by the Authority. Reserves are reported in two categories, Usable and Unusable. Unusable Reserves include those which hold unrealised gains and losses (e.g. the Revaluation Reserve) where amounts only become availbale 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 2016 £000		Note	31 March 2017 £000
355,673	Property, Plant & Equipment	10	353,056
58,172	Long Term Debtors	11	56,521
413,845	**Long Term Assets**		**409,577**
89,000	Short Term Investments	11	104,000
9,965	Short Term Debtors	11, 13	10,904
41,739	Cash and Cash Equivalents	14	16,212
140,704	**Current Assets**		**131,116**
(3,356)	Short Term Borrowing	11	(2,332)
(113,252)	Short Term Creditors	11, 15	(88,624)
(4,955)	Grants Receipts in Advance	5	(2,483)
(5,092)	New Tyne Crossing - Deferred Income	16	(5,093)
(126,655)	**Current Liabilities**		**(98,532)**
(106,938)	New Tyne Crossing - Deferred Income	16	(101,845)
(168,333)	Long Term Borrowing	11	(167,667)
(855)	Grants Receipts in Advance	5	(971)
(890)	Pension Liability	11, 18	(980)
(277,016)	**Long Term Liabilities**		**(271,463)**
150,878	**Net Assets**		**170,698**
(57,977)	Usable Reserves	19	(70,456)
(92,901)	Unusable Reserves	21	(100,242)
(150,878)	**Total Reserves**		**(170,698)**

Chief Finance Officer Certificate

I certify that the accounts set out on pages 11 to 74 give a true and fair view of the financial position of the North East Combined Authority as at the 31 March 2017.

2.4 Cash Flow Statement

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

2015/16 £000		Note	2016/17 £000
2,039	Net Surplus/(Deficit) on the provision of services	23	19,940
66,842	Adjustments to net surplus or deficit on the provision of services for non cash movements	23	(25,856)
(81,803)	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	23	(94,332)
(12,922)	**Net cash flows from Operating Activities**		**(100,248)**
13,432	Investing Activities	24	76,438
(27,302)	Financing Activities	25	(1,717)
(26,792)	**Net (Decrease)/Increase in cash and cash equivalents**		**(25,527)**
68,531	Cash and cash equivalents at the beginning of the reporting period	14	41,739
41,739	**Cash and cash equivalents at the end of the reporting period**	14	**16,212**

2.5 Index of Explanatory Notes to the Core Statements

1 Expenditure and Funding Analysis

The Expenditure and Funding Analysis shows how annual expenditure is used and funded from resources (transport levy, government grants, constituent authority contributions) 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 Authority's services/thematic areas. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

2015/16 (Restated)						2016/17				
	Adjustments between the Funding and Accounting Basis						Adjustments between the Funding and Accounting Basis			
Net Expenditure Chargeable to the General Fund	Adjustments for Capital Purposes	Pension Adjustments	Other Differences	Net Expenditure in the CIES		Net Expenditure Chargeable to the General Fund	Adjustments for Capital Purposes	Pension Adjustments	Other Differences	Net Expenditure in the CIES
£000	£000	£000	£000	£000		£000	£000	£000	£000	£000
377	-	80	-	457	Corporate	662	-	-	-	662
9	-	-	-	9	Inward Investment	175	-	(1)	-	175
(1,054)	(1,898)	-	-	(2,952)	Local Growth Fund	1,898	(19,506)	-	-	(17,608)
5,743	(7,019)	(60)	-	(1,336)	North East LEP	3,455	1,544	(9)	-	4,991
-	-	-	-	-	Skills	-	-	-	-	-
1,300	(1,081)	-	-	219	Transport - Retained Levy	1,500	(1,038)	-	-	461
16,072	-	-	-	16,072	Transport - Durham	15,414	-	-	-	15,414
5,896	-	-	-	5,896		6,293	-	-	-	6,293
64,500	-	-	-	64,500	Transport - Northumberland	62,500	-	-	-	62,500
					Transport - Tyne and Wear					
1,720	(1,910)	-	-	(190)	Transport - Other	1,549	(389)	-	-	1,159
(4,527)	(2,487)	(50)	-	(7,064)	Transport - Tyne Tunnels	(5,159)	(2,135)	(50)	-	(7,344)
90,036	(14,395)	(30)	-	75,610	Net Cost of Services	88,287	(21,524)	(60)	-	66,703
(87,735)	3,672	30	6,384	(77,649)	Other Income and Expenditure	(85,589)	-	30	(1,084)	(86,643)
2,301	(10,723)	-	6,384	(2,039)	Surplus or Deficit	2,698	(21,524)	(30)	(1,084)	(19,940)

2015/16 (Restated)						2016/17				
	Adjustments between the Funding and Accounting Basis						Adjustments between the Funding and Accounting Basis			
Net Expenditure Chargeable to the General Fund	Adjustments for Capital Purposes	Pension Adjustments	Other Differences	Net Expenditure in the CIES		Net Expenditure Chargeable to the General Fund	Adjustments for Capital Purposes	Pension Adjustments	Other Differences	Net Expenditure in the CIES
£000	£000	£000	£000	£000		£000	£000	£000	£000	£000
(45,686)					Opening General Fund Balances	(46,989)				
(3,604)					Transfer from Capital Receipts Reserve	(271)				
2,301					Less Surplus on General Fund Balances in Year	2,698				
(46,989)					Closing General Fund Balances at 31 March	(44,562)				

Adjustments for Capital Purposes

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 disposals with a transfer of income on disposal of assets and the amounts written off for those assets.
- **Financing and investment income and expenditure** - the statutory charges for capital financing i.e. Minimum Revenue Provision and other revenue contributions are deducted from other income and expenditure as these are not chargeable under generally accepted accounting practices.
- **Taxation and non-specific grant income and expenditure** - capital grants are adjusted for income not chargeable under generally accepted accounting practices.

Net Change for the Pension Adjustments

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

- **For services** this represents the removal of the employer pension contributions made by the authority as allowed by statute and the replacement with current service costs and past service costs.
- **For Financing and Investment Income and Expenditure -** the net interest on the defined benefit liability is charged to the CIES.

Other Differences

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

- **For Financing and Investment Income and Expenditure -** the Other Differences column recognises adjustments to the General Fund for the timing differences for premiums and discounts.

1a Expenditure and Income Analysed by Nature

	2015/16	2016/17
	£000	£000
Expenditure		
Employee benefit expenses	937	1,088
Other service expenses	118,914	118,359
Depreciation, impairment and Revenue Expenditure Funded from Capital Under Statute (REFCUS)	78,177	80,905
Interest payments	14,666	7,451
Loss/gain on disposal of non-current assets	3,672	-
Total expenditure	**216,366**	**207,802**
Income		
Fees, charges and other service income (Tyne Tunnels tolls)*	(28,408)	(27,804)
Interest and investment income	(3,181)	(3,677)
Income from business rates on enterprise zones	(1,203)	(1,696)
Income from transport levy	(89,177)	(86,894)
Government grants and contributions	(91,259)	(101,413)
Other income	(5,177)	(6,259)
Total income	**(218,405)**	**(227,742)**
Surplus / Deficit on the provision of services	**(2,039)**	**(19,940)**

* Fees, charges and other service income relates wholly to tolls charged on the Tyne Tunnels, which is reported as income in the Tyne Tunnels line of the CIES.

2 Adjustments between Accounting Basis and Funding Basis Under Regulations

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

2015/16				Adjustments between Accounting Basis and Funding Basis Under Statute	2016/17			
General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Unusable Reserves £000		General Fund Balance £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				
(4,182)	-	-	4,182	Charges for depreciation and impairment of non current assets	(4,572)	-	-	4,572
5,128	-	-	(5,128)	Other Income that cannot be credited to the General Fund	5,092	-	-	(5,092)
81,803	-	-	(81,803)	Capital grants and contributions applied	74,216	-	-	(74,216)
(73,995)	-	-	73,995	Revenue expenditure funded from capital under statute	(75,981)	-	-	75,981
(3,672)	-	-	3,672	Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	-	-	-	-
				Insertion of items not debited or credited to the CIES				
2,309	-	-	(2,309)	Statutory provision for the financing of capital investment	2,523	-	-	(2,523)
314	-	-	(314)	Capital expenditure charged against the General Fund	130	-	-	(130)
				Adjustments primarily involving the Capital Grants Unapplied Account:				
3,019	-	(3,019)	-	Grants & contributions unapplied credited to CIES	20,116	-	(20,116)	-
-	-	2,719	(2,719)	Application of grants to capital financing transferred to Capital Adjustment Account	-	-	5,378	(5,378)
				Adjustments involving the Capital Receipts Reserve:				
-	(6,322)	-	6,322	Loan principal repayments	-	(2,250)	-	2,250
-	1,936	-	(1,936)	Use of Capital Receipts Reserve to finance new Capital Expenditure	-	46	-	(46)
-	1,833	-	(1,833)	Application of Capital Receipts to repayment of debt	-	1,765	-	(1,765)
				Adjustments involving the Financial Instruments Adjustment Account:				
(6,384)	-	-	6,384	Amount by which finance costs charged to the CIES are different from finance costs chargeable in the year in accordance with statutory requirements	1,084	-	-	(1,084)
				Adjustments involving the Pensions Reserve:				
110	-	-	(110)	Reversal of items relating to retirement benefits debited or credited to the CIES	(150)	-	-	150
(110)	-	-	110	Employer's pensions contributions and direct payments to pensioners payable in the year	180	-	-	(180)
4,340	**(2,553)**	**(300)**	**(1,487)**	**Total Adjustments**	**22,638**	**(439)**	**(14,738)**	**(7,461)**

3 Financing and Investment Income and Expenditure

	Note	2015/16 £000	2016/17 £000
Interest payable and similar charges		12,210	7,420
Interest on defined benefit liability	18	30	30
Interest receivable and similar income		(3,181)	(3,677)
Total		**9,059**	**3,773**

4 Taxation and Non Specific Grant Income

	Note	2015/16 £000	2016/17 £000
Transport Levy		(89,177)	(86,894)
Enterprise Zone income		(1,203)	(1,696)
Non-specific Capital Grant (LGF grant applied to Tyne Tunnels capital expenditure)		-	(1,826)
Total		**(90,380)**	**(90,416)**

5 Grant Income and Other Contributions

The Authority credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2016/17

Credited to Services	2015/16 £000	2016/17 £000
DCLG Capacity Grant	(500)	(500)
Growth Hub	(354)	(556)
Local Authority Contributions to NECA	(440)	(440)
Local Authority Contributions to NELEP	(250)	(250)
Local Growth Fund	(53,910)	(77,576)
Local Sustainable Transport Fund	(3,850)	-
Local Transport Plan	(14,723)	(13,949)
Mental Health Trailblazer	(49)	(1,148)
North East Smart Ticketing Initiative	(789)	(901)
North East Technical Assistance	-	(356)
Other Grants	(802)	(510)
Regional Growth Fund Capital	(15,401)	(80)
Regional Growth Fund Revenue	(205)	-
Sustainable Travel Transition Year	-	(2,343)
Total	**(91,273)**	**(98,609)**

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

Grants Receipts in Advance	2015/16 £000	2016/17 £000
Revenue Grants		
Growth Hub	(146)	-
Mental Health Trailblazer	(1,051)	-
North East Smart Ticketing Initiative	(2,824)	(1,924)
Office for Low Emission Vehicles - Revenue	(30)	(30)
Other Grants	(178)	-
Capital Grants		
Office for Low Emission Vehicles - Capital	(1,500)	(1,500)
Regional Growth Fund Capital	(80)	-
Total	**(5,809)**	**(3,454)**

Shown as Short-Term Liability on Balance Sheet	(4,954)	(2,483)
Shown as Long-Term Liability on Balance Sheet	(855)	(971)
Total	**(5,809)**	**(3,454)**

6 Members' Allowances

The Authority paid the following amounts to Independent Members of its various Committees during the year. Representatives from constituent authorities receive no allowances from NECA.

	2015/16 £000	2016/17 £000
Allowances	5	4
Total	**5**	**4**

7 Officers' Remuneration

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

		Salary Fees and Allowances	Pension Contribution	Total
		£000	£000	£000
Managing Director of Transport Operations	2016/17	116	19	**135**
	2015/16	115	19	**134**

Two of the Authority's interim statutory officers are not formal employees of the authority (and therefore are not included in the statutory disclosure above), but their services have been provided via agency arrangements, details of which are set out below in the interests of transparency:

		Payment for days worked	Expenses	Total
		£000	£000	£000
Interim Chief Executive (June 2015 - July 2016)	2016/17	68	1	**69**
	2015/16	114	2	**116**
Interim Chief Finance Officer	2016/17	120	3	**123**
	2015/16	97	2	**99**

The third of the Authority's statutory officers, the Interim Monitoring Officer, is not an employee of the authority but the service is provided by the Head of Law & Governance, North Tyneside Council, under a Service Level Agreement.

The number of other officers who received remuneration greater than £50,000 (excluding employer's pension contributions) was as follows:

	2015/16	2016/17
£50,000 - £54,999	-	1
£55,000 - £59,999	-	-
£60,000 - £64,999	-	1
£65,000 - £69,999	-	-
£70,000 - £74,999	-	-
£75,000 - £79,999	-	-
£80,000 - £84,999	-	-
£85,000 - £89,999	-	-
£90,000 - £94,999	-	-
£95,000 - £99,999	-	-
Total	**-**	**2**

The increase in 2016/17 is due to officers formerly employed by other organisations and seconded to NECA being transferred into the employment of NECA during the year.

8 External Audit Costs

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

	2015/16 £000	2016/17 £000
Fees payable with regard to external audit services carried out by the appointed auditor for the year	24	24
Total	**24**	**24**

9 Related Parties

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

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

Central Government
Central government is responsible for providing the statutory framework within which the Authority operates, provides much of its funding in the form of grants and prescribes the terms of some of the transactions that the Authority has with other parties (e.g. Concessionary Fares Reimbursement). Grants received from government departments are set out in Note 4.

Elected Members of the Authority
Members of the Authority have a direct control over the Authority's financial and operating policies. No members allowances are payable to elected members of the Authority. During 2016/17 no works or services were commissioned from companies in which any members had an interest.

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

NECA Constituent Authorities
The Leaders and Elected Mayor of the seven NECA constituent Authorities serve as members of the NECA Leadership Board. Details of income and expenditure with the seven Authorities are set out in the table below.

Other Public Bodies
The Authority has a direct relationship with the Passenger Transport Executive for Tyne and Wear (Nexus). NECA sets the policy which is delivered by Nexus, and agrees its budget and revenue grant. Income and expenditure with Nexus is set out in the table below.

Other Entities

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

Arch - a wholly owned subsidiary of Northumberland County Council, and was awarded grant funding through the Regional Growth Fund and Local Growth Fund during the year.

University of Sunderland - a disclosable related party which was awarded grant funding through the Local Growth Fund during the year.

Income and expenditure and debtors/creditors at the year end with these entities is set out in the table below.

	2015/16 Receiveables	2015/16 Income	2015/16 Expenditure	2015/16 Payables	2016/17 Receiveables	2016/17 Income	2016/17 Expenditure	2016/17 Payables
	£000	£000	£000	£000	£000	£000	£000	£000
NECA Constituent Authorities								
Durham	(5)	(16,175)	19,515	6,279	-	(15,539)	21,498	6,167
Gateshead	-	(12,168)	1,547	207	-	(11,778)	1,517	1,037
Newcastle	(13)	(17,570)	2,992	51,194	(614)	(16,970)	7,098	13,386
North Tyneside	-	(12,298)	7,026	282	(165)	(11,907)	7,312	3,875
Northumberland	(13)	(5,979)	8,398	676	(173)	(6,420)	9,742	1,366
South Tyneside	(5)	(9,062)	2,234	167	(2)	(8,757)	3,528	4,512
Sunderland	(5)	(18,009)	8,375	836	(748)	(16,220)	6,767	2,207
Other Public Bodies								
Nexus	(3,378)	-	70,673	44,473	(3,251)	(3,378)	62,787	42,419
Other Entities								
Newcastle International Airport Ltd	-	-	1,588	-	-	-	-	-
Arch	(20)	-	1,858	-	-	(21)	126	4,345
University of Sunderland	-	-	1,370	771	-	-	484	-
	(3,439)	**(91,261)**	**125,576**	**104,885**	**(4,953)**	**(90,990)**	**120,859**	**79,314**

10 Property, Plant and Equipment

2016/17	Other Land and Buildings £000	Vehicles, Plant, Furniture & Equipment £000	Infrastructure Assets £000	Assets Under Construction £000	Total Property, Plant and Equipment £000
Cost or Valuation					
At 1 April 2016	**-**	**3,205**	**381,075**	**7,900**	**392,180**
Additions	-	-	130	1,826	**1,956**
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	-	-	(130)	-	**(130)**
At 31 March 2017	**-**	**3,205**	**381,075**	**9,726**	**394,005**
Accumulated Depreciation and Impairment					
At 1 April 2016	**-**	**(910)**	**(35,597)**	**-**	**(36,507)**
Depreciation Charge for the Year	-	(92)	(3,742)	-	**(3,834)**
Depreciation Adjustment	-	-	(608)	-	**(608)**
At 31 March 2017	**-**	**(1,002)**	**(39,947)**	**-**	**(40,949)**

Net Book Value

2016/17	Other Land and Buildings £000	Vehicles, Plant, Furniture & Equipment £000	Infrastructure Assets £000	Assets Under Construction £000	Total Property, Plant and Equipment £000
At 1 April 2016	**-**	**2,295**	**345,478**	**7,900**	**355,673**
At 31 March 2017	**-**	**2,203**	**341,128**	**9,726**	**353,056**

Comparative information 2015/16 (Restated)	Other Land and Buildings* £000	Vehicles, Plant, Furniture & Equipment £000	Infrastructure Assets £000	Assets Under Construction £000	Total Property, Plant and Equipment £000
Cost or Valuation					
At 1 April 2015	**3,672**	**3,205**	**381,075**	**6,346**	**394,298**
Additions	-	-	348	1,554	**1,902**
Derecognition - other	(3,672)	-	-	-	**(3,672)**
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	-	-	(348)	-	**(348)**
At 31 March 2016	**-**	**3,205**	**381,075**	**7,900**	**392,180**

Comparative information 2015/16 (Restated)	Other Land and Buildings £000	Vehicles, Plant, Furniture & Equipment £000	Infrastructure Assets £000	Assets Under Construction £000	Total Property, Plant and Equipment £000
Accumulated Depreciation and Impairment					
At 1 April 2015	-	(818)	(31,855)	-	**(32,673)**
Depreciation Charge for the Year	-	(92)	(3,742)	-	**(3,834)**
At 31 March 2016	**-**	**(910)**	**(35,597)**	**-**	**(36,507)**

The Other Land and Buildings figures for 2015/16 have been restated to correct an inconsistency of treatment between the two vehicle Tyne Tunnels. Costs of land intrinsically linked to the original Tyne Tunnel has now been included within the valuation of that Tunnel and therefore is shown as part of the Infrastructure Assets balance within this note.

11 Financial Instruments

Categories of Financial Instruments

The investments and borrowing disclosed in the Balances Sheet are made up of the following categories of financial instrument:

Long Term 31 March 2016 £000	Short Term 31 March 2016 £000		Long Term 31 March 2017 £000	Short Term 31 March 2017 £000
		Investments		
-	89,000	Fixed term deposits	-	104,000
-	**89,000**	**Total Investments**	**-**	**104,000**
		Debtors		
57,008	-	Long term debtors - Loans and advances treated as capital expenditure	55,780	-
1,164	9,965	Other debtors	741	10,904
58,172	**9,965**	**Total Debtors**	**56,521**	**10,904**
		Borrowings		
(168,333)	(1,666)	Financial liabilities at amortised cost - Loans (Principal)	(167,667)	(667)
-	(1,690)	Financial liabilities at amortised cost - Loans (Interest)	-	(1,665)
(168,333)	**(3,356)**	**Total included in Borrowings**	**(167,667)**	**(2,332)**
		Other Long Term Liabilities		
(890)	-	Pension Liability	(980)	-
(890)	**-**	**Total Other Long Term Liabilities**	**(980)**	**-**
		Creditors		
-	(113,252)	Short Term Creditors	-	(88,624)
-	**(113,252)**	**Total Creditors**	**-**	**(88,624)**

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:

Financial Liabilities at amortised cost	Financial assets: loans and receivables	Total		Financial Liabilities at amortised cost	Financial assets: loans and receivables	Total
£000	£000	£000		£000	£000	£000
12,210	-	12,210	Interest expense	7,420	-	**7,420**
12,210	**-**	**12,210**	**Total expense in Surplus on Provision of Services**	**7,420**	**-**	**7,420**
-	(3,046)	(3,046)	Investment income	-	(3,677)	**(3,677)**
-	**(3,046)**	**(3,046)**	**Total income in Surplus on Provision of Services**	-	(3,677)	**(3,677)**
12,210	**(3,046)**	**9,164**	**Net (gain)/loss for the year**	**7,420**	**(3,677)**	**3,743**

The Fair Values of Financial Assets and Financial Liabilities that are not measured at Fair Value (but for which Fair Value disclosures are required)

Financial assets classified as loans and receivables and all non-derivative financial liabilities are carried in the Balance Sheet at amortised cost. Their fair values have been estimated by calculating the net present value of the remaining contractual cash flows at 31st March 2017, using the following methods and assumptions:

- Loans borrowed by the Authority have been valued by discounting the contractual cash flows over the whole life of the instrument at the appropriate market rate for local authority loans.
- The value of "Lender's Option Borrower's Option" (LOBO) loans have been increased by the value of the embedded options. 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.
- 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 2016/17 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 e.g. interest rates or yields for similar instruments.
- Level 3 - fair value is determined using unobservable inputs, e.g. non-market data such as cash flow forecasts or estimated creditworthiness.

31 March 2016			31 March 2017	
Carrying Amount	Fair Value		Carrying Amount	Fair Value
£000	£000		£000	£000
		Financial Liabilities		
(73,000)	(96,664)	PWLB - Maturity Loans	(73,000)	(111,326)
(8,000)	(8,732)	PWLB - EIP Loans	(6,333)	(7,156)
(89,000)	(150,580)	LOBOs	(89,000)	(168,411)
(170,000)	**(255,976)**		**(168,333)**	**(286,892)**

31 March 2016 (Restated)			31 March 2017	
Carrying Amount	Fair Value		Carrying Amount	Fair Value
£000	£000		£000	£000
		Loans and receivables		
89,000	89,000	Fixed Term Investments	104,000	104,000
57,008	78,066	Long-Term debtors	56,521	84,650
146,008	**167,066**		**160,521**	**188,650**

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

The fair value differs from the carrying value as fair value is assessed according to market rates relating to the outstanding life of the loan. Carrying amount relates to the actual interest rate applicable to the loan outstanding. The fair value differences for financial instruments relates to the fact that the Authority has loans at fixed rates that result in it paying a higher interest charge than if it had taken out variable rate loans.

The 2015/16 Long Term debtors fair value has been restated as a result of a change in Accounting Policy. Previously, for loans between NECA and Nexus the fair value had been assumed to be the same as the carrying value. Now a proportion of the Authority's overall fair value of borrowing has been used to give an approximation of fair value for the Nexus loans.

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

Valuation Assumptions
The interest rate at which the fair value of soft loans has been made is derived from the prevailing market rate of interest for a similar instrument.

2016/17

Description	Term (Years)	Contracted Rate	Fair Value Rate	Opening Balance (Nominal)	Advances in Year	FV adjustment on initial recognition	Loans Repaid	Increase in discounted amount	Closing Balance (fair value)	Closing Balance (Nominal)
				£000	£000	£000	£000	£000	£000	£000
Durham University	12	1.90%	4.95%	10,000	-	(1,607)	-	-	8,393	10,000
Neptune Test Centre	9	0.00%	4.99%	5,094	-	(1,555)	-	-	3,539	5,094
Cobalt Data Centre	6	6.00%	7.00%	2,375	125	(106)	(116)	-	2,278	2,384
Boiler Shop	3	4.50%	5.02%	811	734	18	-	-	1,563	1,545
The Jesmond	2	11.00%	11.02%	1,269	-	50	-	-	1,319	1,269

2015/16

Description	Term (Years)	Contracted Rate	Fair Value Rate	Opening Balance (Nominal)	Advances in Year	FV adjustment on initial recognition	Loans Repaid	Increase in discounted amount	Closing Balance (fair value)	Closing Balance (Nominal)
				£000	£000	£000	£000	£000	£000	£000
Sunderland City Council - Vaux Loan	3	0.00%	0.95%	1,250	-	-	(1,250)	-	-	-
Durham University	12	1.90%	4.95%	5,796	4,204	(2,003)	-	-	7,997	10,000
Neptune Test Centre	9	0.00%	4.99%	2,430	2,664	(1,723)	-	-	3,371	5,094
Cobalt Data Centre	4	6.00%	7.00%	-	2,375	(60)	-	-	2,315	2,375
Boiler Shop	3	4.50%	5.02%	-	811	(8)	-	-	803	811
The Jesmond	1	11.00%	11.02%	-	1,269	5	-	-	1,274	1,269

12 Nature and Extent of risks arising from Financial Instruments

The Authority's activities expose it to a variety of financial risks:
Credit risk - the possibility that other parties might fail to pay amounts due to the Authority.

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

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

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

Credit risk

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

Customers for goods and services are assessed, taking into account their financial position, past experience and other factors, within individual credit limits being set in accordance with internal ratings within parameters set by the Authority. The Authority has a low risk of default from its customers for goods and services, since these are predominantly other local authorities or other public bodies such as Nexus. A provision for bad debt on the outstanding NEIF loans balance has been made in year, calculated at 5% of loans outstanding at 31 March 2017, although all loans are still expected to be

The Authority's maximum exposure to credit risk in relation to its investments in banks and building societies cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of non recovery applies to all of the Authority's deposits, but there was no evidence at the 31 March 2017 that this was likely to crystallise. Actions are taken immediately if an institution is downgraded and deposits withdrawn in line with Treasury Management Strategy.

Liquidity Risk

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

	31 March 2016 £000	31 March 2017 £000
Between 1-2 years	(667)	(667)
Between 2-5 years	(2,000)	(2,000)
Between 5-10 years	(3,333)	(3,000)
More than 10 years	(162,333)	(162,000)
	(168,333)	**(167,667)**
Less than 1 year	(3,356)	(2,332)
Total borrowing	**(171,689)**	**(169,999)**

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

Market Risk

Interest Rate Risk

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

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

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

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

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

The table below shows the impact on the debt portfolio at 31st March 2017 if interest rates had been 1% higher with all other variables held constant. The only loans affected by such a movement would be new loans taken during 2016/17 and variable interest rate loans. Existing fixed rate loans, which make up the greatest proportion of the portfolio, would not be affected. According to this strategy, at 31 March, if interest rates had been 1% higher with all other variables held constant, the financial effect would be:

	£000
Increase in interest payable on borrowings	-
Increase in interest receivable on investments	(832)
Impact on Surplus on the Provision of Services	**(832)**

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

13 Debtors

	31 Mar 2016 £000	31 Mar 2017 £000
Central government bodies	1,349	1,256
Other local authorities	1,274	1,800
Other entities and individuals	7,342	7,848
Total	**9,965**	**10,904**

14 Cash and Cash Equivalents

	31 Mar 2016 £000	31 Mar 2017 £000
Cash balances held by Sunderland City Council	4,545	368
Cash held in Authority's bank account	37,194	15,844
Total Cash and Cash Equivalents	**41,739**	**16,212**

15 Short Term Creditors

	31 Mar 2016 £000	31 Mar 2017 £000
Central government bodies	(63)	(63)
Other local authorities	(60,102)	(32,629)
Other entities and individuals		
- Nexus	(44,357)	(42,418)
- TT2 Ltd	(3,789)	(3,458)
- Other	(4,941)	(10,056)
Total	**(113,252)**	**(88,624)**

16 Private Finance Initiatives & Similar Contracts

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

In 2016/17 the payment under the contract was £21.201m (2015/16 £22.033m).

The contribution to the capital works by the private sector partner is recognised as a deferred income balance with a 2016/17 value of £106.938m (2015/16 £112.030m) which is written down over the remaining life of the contract, as shown in the table below.

	Deferred Income Release	
	2015/16 £000	2016/17 £000
Payable in 2016/17	(5,092)	(5,093)
Payable within 2 to 5 years	(20,369)	(20,369)
Payable within 6 to 10 years	(25,461)	(25,461)
Payable within 11 to 15 years	(25,461)	(25,461)
Payable within 16 to 20 years	(25,461)	(25,461)
Payable within 21 to 25 years	(10,186)	(5,093)
Total	**(112,030)**	**(106,938)**

	2015/16 £000	2016/17 £000
Shown as Short Term Liability on Balance Sheet	(5,092)	(5,093)
Shown as Long Term Liability on Balance Sheet	(106,938)	(101,845)
Balance outstanding at year-end	**(112,030)**	**(106,938)**

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

17 Contingent Liabilities

The Authority has a contingent liability in relation to any gains or losses in the Local Government Pension Scheme transferred assets and liabilities that were transferred to TT2 Ltd on 1 February 2008 and relate to membership accrued before that date. The project agreement provides that should there be a shortfall in the TT2 fund at the actuarial valuation, which can be attributed to pre-2008 benefits, the Authority will be required to reimburse the shortfall. As a result of the most recent triennial valuation, there is currently no reimbursement due.

18 Defined Benefit Pension Schemes

The Authority participates in two post-employment schemes:
(i) The Tyne and Wear Pension Fund, admininstered locally by South Tyneside Council - this is a funded defined benefit scheme, meaning that the Authority and employees pay contributions into a fund, calculated at a level intended to balance the pension liabilities with investment.

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

Transactions Relating to Post-employment Benefits

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

	Local Government Pension Scheme		Discretionary Benefits Arrangements	
	2015/16 £000	2016/17 £000	2015/16 £000	2016/17 £000
Comprehensive Income and Expenditure Statement				
Cost of Services:				
Current service cost	80	120	-	-
Past service costs	-	-	-	-
Financing and Investment Income and Expenditure:				
Interest on net defined benefit liability/(asset)	-	-	30	30
Pension expense recognised in profit and loss	**80**	**120**	**30**	**30**

	Local Government Pension Scheme		Discretionary Benefits Arrangements	
	2015/16 £000	2016/17 £000	2015/16 £000	2016/17 £000
Other Post Employment Benefit charged to the Comprehensive Income and Expenditure Statement:				
Return on plan assets (in excess of)/ below that recognised in net interest	520	(7,640)	-	-
Actuarial (gains)/losses due to changes in financial assumptions	(1,820)	6,300	(30)	140
Actuarial (gains)/losses due to changes in demographic assumptions	-	510	-	(20)
Actuarial (gains)/losses due to changes in liability assumptions	(890)	(920)	(80)	(10)
Adjustment in respect of paragraph 58	2,170	1,760	-	-
Total amount recognised in Other Comprehensive Income	**(20)**	**10**	**(110)**	**110**
Total amount recognised	**60**	**130**	**(80)**	**140**

Assets and Liabilities in Relation to Post-employment Benefits

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

	Funded liabilities: Local Government Pension Scheme		Unfunded liabilities: Discretionary Benefits	
	2015/16 £000	2016/17 £000	2015/16 £000	2016/17 £000
Opening balance at 1 April	(34,520)	(31,630)	(1,020)	(890)
Current service cost	(80)	(120)	-	-
Interest cost	(1,050)	(1,030)	30	(30)
Contributions by participants	(20)	(50)	-	-
Actuarial gains/(losses) on liabilities - financial assumptions	1,820	(6,300)	(30)	(140)
Actuarial gains/(losses) on liabilities - demographic assumptions	-	(510)	-	20
Actuarial gains/(losses) on liabilities - experience	890	920	80	10
Net benefits paid out	1,330	1,130	50	50
Past service costs	-	-	-	-
Closing balance at 31 March	**(31,630)**	**(37,590)**	**(890)**	**(980)**

Reconciliation of fair value of the scheme assets:

	Local Government Pension Scheme		Discretionary Benefits	
	2015/16 £000	2016/17 £000	2015/16 £000	2016/17 £000
Opening balance at 1 April	37,770	37,150	-	-
Interest income on assets	1,150	1,210	-	-
Remeasurement gains/(losses) on assets	(520)	7,640	-	-
Employer contributions	60	130	50	50
Contributions by scheme participants	20	50	-	-
Net benefits paid out	(1,330)	(1,130)	(50)	(50)
Closing balance at 31 March	**37,150**	**45,050**	**-**	**-**

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	2012/13 £000	2013/14 £000	2014/15 £000	2015/16 £000	2016/17 £000
Fair value of LGPS assets	24,990	34,920	37,770	37,150	45,050
Present value of liabilities:					
LGPS liabilities	(32,270)	(32,640)	(34,520)	(31,630)	(37,590)
Impact of minimum funding	-	(2,280)	(3,250)	(5,520)	(7,460)
(Deficit) on funded defined benefit scheme	**(7,280)**	**-**	**-**	**-**	**-**
Discretionary benefits	(970)	(960)	(1,020)	(890)	(980)
Total (Deficit)	**(8,250)**	**(960)**	**(1,020)**	**(890)**	**(980)**

The split of the defined benefit obligation at the last valuation date between the various categories of members was as follows; active members 5%, deferred pensioners 10% and pensioners 85%.

The liabilities show the underlying commitments that the Authority has in the long run to pay post employment (retirement) benefits. The total liability of £38.57m has an impact on the net worth of the Authority as recorded in the balance sheet, resulting in a negative pension balance of £0.98m. 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 2018 is £0.13m. In addition, Strain on the Fund contributions may be required. Expected payments direct to beneficiaries in the year to 31 March 2018 are £0.05m in relation to unfunded benefits.

Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. Both the Local Government Pension Scheme and Discretionary Benefits liabilities have been assessed by Aon, an independent firm of actuaries, estimates for the pension fund being based on the latest full valuation of the scheme as at 31 March 2016.

The principal assumptions used by the actuary have been:

	Local Government Pension Scheme		Discretionary Benefits	
	2015/16	2016/17	2015/16	2016/17
Mortality assumptions:-				
Longevity at 65 for current pensioners:				
Men	23.2	22.8	23.2	22.8
Women	24.8	26.3	24.8	26.3
Rate for discounting scheme liabilities	3.3%	2.5%	3.3%	2.5%
Rate of inflation - Retail Price Index	2.8%	3.1%	2.8%	3.1%
Rate of inflation - Consumer Price Index	1.7%	2.0%	1.7%	2.0%
Rate of increase in pensions	1.7%	2.0%	1.7%	2.0%
Pension accounts revaluation rate	1.7%	2.0%	n/a	n/a
Rate of increase in salaries	3.2%	3.5%	n/a	n/a

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

	31 March 2016	31 March 2017		
	% Total	% Quoted	% Unquoted	% Total
Equity investments	66.1	59.5	7.4	66.9
Property	10.4	0.0	9.2	9.2
Government bonds	3.7	3.9	0.0	3.9
Corporate bonds	11.6	11.5	0.0	11.5
Cash	2.6	2.6	0.0	2.6
Other*	5.6	3.5	2.4	5.9
Total	100.0	81.0	19.0	100.0

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

Actual Return on Assets	Funded 2015/16 £000	Funded 2016/17 £000
Interest income on assets	1,150	1,210
Remeasurement gain/(loss) on assets	(520)	7,640
Actual return on assets	**630**	**8,850**

Sensitivity Analysis

The approximate impact of changing the key assumptions on the present value of the funded defined benefit obligation as at 31 March 2017 and the projected service cost for the period ending 31 March 2018 is set out below.

Sensitivity analysis of unfunded benefits (where applicable) has not been included on materiality grounds.

Funded LGPS Benefits

Discount Rate assumption

Adjustment to Discount rate	+0.1% per annum	Base Figure	-0.1% per annum
Present value of total obligation (£m)	37.10	37.59	38.10
% change in present value of total obligation	-1.30%	0.00%	1.30%
Projected service cost (£m)	0.19	0.20	0.21
Approximate % change in projected service cost	-4.00%	0.00%	4.10%

Rate of general increase in salaries

Adjustment to salary increase rate	+0.1% per annum	Base Figure	-0.1% per annum
Present value of total obligation (£m)	37.60	37.59	37.58
% change in present value of total obligation	0.00%	0.00%	0.00%
Projected service cost (£m)	0.20	0.20	0.20
Approximate % change in projected service cost	0.00%	0.00%	0.00%

Rate of increase to pensions in payment and deferred pensions

Adjustment to pension increase rate	+0.1% per annum	Base Figure	-0.1% per annum
Present value of total obligation (£m)	38.59	37.59	36.61
% change in present value of total obligation	2.60%	0.00%	-2.60%
Projected service cost (£m)	0.21	0.20	0.19
Approximate % change in projected service cost	4.10%	0.00%	-4.10%

Post retirement mortality assumption

Adjustment to mortality age rating assumption *	+ 1 year	Base Figure	- 1 year
Present value of total obligation (£m)	39.00	37.59	36.20
% change in present value of total obligation	3.70%	0.00%	-3.70%
Projected service cost (£m)	0.21	0.20	0.19
Approximate % change in projected service cost	3.70%	0.00%	-3.70%

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

19 Usable Reserves

	31 Mar 2016 £000	31 Mar 2017 £000
General Fund Balance	(35,007)	(34,897)
Metro Reinvigoration Reserve	(10,005)	(9,126)
NELEP Earmarked Reserves	(1,976)	(539)
Capital Receipts Reserve	-	(168)
Capital Grants Unapplied Reserve	(10,988)	(25,726)
Total Usable Reserves	**(57,976)**	**(70,456)**

20 Transfers (to)/from Earmarked Reserves

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

	Opening Balance 1 April 2015 £000	Transfers Out 2015/16 £000	Transfers In 2015/16 £000	Balance at 31 March 2016 £000	Transfers Out 2016/17 £000	Transfers In 2016/17 £000	Balance at 31 March 2017 £000
Metro Reinvigoration Reserve	(10,988)	1,032	(49)	**(10,005)**	924	(45)	**(9,126)**
NELEP Restricted cashable reserve - RGF Interest	(136)	36	(81)	**(181)**	-	(358)	**(539)**
NELEP Restricted cashable reserve - GPF Loan	(1,728)	3,602	(3,603)	**(1,729)**	2,000	(271)	**(0)**
NELEP GPF Revenue Grant Unapplied	(132)	66	-	**(66)**	66	-	**0**
	(12,984)	**4,736**	**(3,733)**	**(11,981)**	**2,990**	**(674)**	**(9,665)**

21 Unusable Reserves

	31 Mar 2016 £000	31 Mar 2017 £000
Capital Adjustment Account	(93,180)	(99,672)
Financial Instruments Adjustment Account	8,113	7,029
Revaluation Reserve	(8,725)	(8,579)
Pension Reserve	890	980
Total Unusable Reserves	**(92,902)**	**(100,242)**

Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisation 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 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 accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the Authority. 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. Note 1 provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

	2015/16 £000	2016/17 £000
Opening Balance 1 April	**(85,147)**	**(93,180)**
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
Charges for depreciation and impairment of non current assets	4,182	4,572
Other income that cannot be credited to the General Fund	(5,128)	(5,092)
Revenue expenditure funded from capital under statute	73,995	75,981
Amounts of non current assets written off on disposal	3,672	-
Write down of long term debtors	6,322	2,250

Adjusting amounts written out of the Revaluation Reserve	**(162)**	**(146)**
Capital financing applied in the year:		
Capital grants and contributions credited to the CIES that have been applied to capital financing	(84,522)	(79,594)
Statutory provision for the financing of capital investment	(2,309)	(2,523)
Capital expenditure charged against the General Fund	(314)	(130)
Debt redeemed using capital receipts	(3,769)	(1,810)
Balance at 31 March	**(93,180)**	**(99,672)**

Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account 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 benefitting from gains per statutory provisions. It provides a balancing mechanism between the different rates at which gains and losses (e.g. premiums on the early repayment of debt) are recognised under the Code and are required by statute to be met from the General Fund.

	2015/16 £000	**2016/17 £000**
Opening Balance 1 April	**1,730**	**8,113**
Premiums incurred in the year and charged to the Comprehensive Income and Expenditure Statement	4,820	-
Proportion of premiums incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements	(728)	(728)
Amount by which finance costs charged to the CIES are different from finance costs chargeable in the year in accordance with statutory requirements	2,291	(356)
Balance at 31 March	**8,113**	**7,029**

Revaluation Reserve

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

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

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

	2015/16 £000	2016/17 £000
Opening Balance 1 April	**(8,887)**	**(8,725)**
Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	-	-
Difference between fair value depreciation and historical cost depreciation Amount written off to the Capital Adjustment Account	162	146
Balance at 31 March	**(8,725)**	**(8,579)**

Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions. The Authority accounts for post employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any 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 substantial 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.

Pensions Reserve

	2015/16 £000	2016/17 £000
Opening Balance 1 April	**1,020**	**890**
Remeasurements of the net defined benefit liability/(asset)	(130)	120
Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	110	150
Employer's pensions contributions and direct payments to pensioners payable in the year	(110)	(180)
Balance at 31 March	**890**	**980**

22 Capital Expenditure & Capital Financing

The total amount of capital expenditure incurred in the year is shown in the table below, together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as the assets are used by the Authority, the expenditure results in an increase in the Capital Financing Requirement (CFR) a measure of the capital expenditure incurred historically by the Authority that has yet to be financed.

	2015/16 £000	2016/17 £000
Opening Capital Financing Requirement	**205,746**	**202,438**
Capital investment:		
Property, Plant and Equipment	1,902	1,956
Revenue Expenditure Funded from Capital under Statute	73,995	75,981
Loans issued	11,709	859
Sources of finance:		
Capital receipts	-	-
Capital receipts - repayment of principal from long-term debtors	(3,769)	(1,765)
Government Grants and other contributions	(84,522)	(77,156)
Sums set aside from revenue:		
Direct revenue contributions	(314)	(130)
Minimum Revenue Provision	(2,139)	(2,123)
Additional Voluntary Provision	(170)	(400)
Closing Capital Financing Requirement	**202,438**	**199,660**
Explanation of movements in year:		
Decrease in underlying need to borrow (unsupported by government financial assistance)	(3,308)	(2,778)
Decrease in Capital Financing Requirement	**(3,308)**	**(2,778)**

23 Adjustment to net surplus or deficit on the provision of services for non cash movements and items that are Investing or Financing activities

	2015/16 £000	2016/17 £000
Surplus/(Deficit) on the provision of services	2,039	19,940
Adjustments to Surplus/(Deficit) on Provision of Services for Non-Cash Movements		
Depreciation and Impairment	4,182	4,572
(Increase)/Decrease in Creditors	70,140	(24,859)
Increase/(Decrease) in Debtors	(6,060)	(30)
Movement in Pension Liability	-	(30)
Other non-cash items charged to the net surplus or deficit on the provision of services	(1,420)	(5,509)
	66,842	**(25,856)**
Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities		
Capital grants credited to surplus/(deficit) on provision of services	(81,803)	(94,332)
	(81,803)	**(94,332)**
Net cash flow from operating activities	**(12,922)**	**(100,248)**

Cash Flow Statement -
The cash flows for operating activities include the following items:

	2015/16 £000	2016/17 £000
Interest received	2,592	2,893
Interest paid	(12,954)	(7,446)

24 Cash Flow Statement - Investing Activities

	2015/16 £000	2016/17 £000
Purchase of property, plant and equipment, investment property and intangible assets	(2,318)	(1,700)
Purchase of short-term and long-term investments	(166,140)	(102,500)
Proceeds from short-term and long-term investments	105,140	87,500
Other receipts from investing activities	76,750	93,138
Net cash flows from investing activities	**13,432**	**76,438**

25 Cash Flow Statement - Financing Activities

	2015/16 £000	2016/17 £000
Repayments of short and long-term borrowing	(27,302)	(1,717)
Net cash flows from financing activities	**(27,302)**	**(1,717)**

26 Accounting Standards Issued, Not Yet Adopted

Impact of the adoption of the new accounting standards on the 2016/17 financial statements.

The Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 (the Code) has introduced changes in accounting policy in relation to the following IFRS (International Financial Reporting Standard) statements:

- Amendments to IFRS10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 28 Investments in Associates and Joint Ventures: Investment Entities

This change has not had any impact on the NECA financial statements.

27 Critical Judgements in Applying Accounting Policies

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

Service Concession Arrangements
The Local Authority Accounting Code of Practice requires arrangements where private sector contractors provide a service for a period using a dedicated asset to be assessed under an application of the principles within IFRIC 12. There are two criteria used to determine whether arrangements fall under the scope of IFRIC 12:
- The public sector entity controls or regulates the services that the operator must provide with the infrastructure, to whom it must provide them, and at what price.
- The public sector entity controls, through ownership, beneficial entitlement or otherwise, any significant residual interest in the infrastructure at the end of the service arrangement.

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

Public Sector Funding Context
There is a high degree of uncertainty regarding future levels of funding for local government and the impact of the decision for Britain to leave the European Union remains unclear. However the Authority takes the view that this uncertainty is not yet sufficient indication that the value of the Authority's assets might need to be impaired due to reduced levels of service provision.

28 Assumptions made about the Future and Other Major Sources of Estimation Uncertainty

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

The items in the Authority's Balance Sheet at 31 March 2017 for which there is a risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Authority with expert advice about the assumptions to be applied.	The approximate impact of changing the key assumptions on the present value of the funded defined benefit obligation as at 31 March 2017 and the projected service cost for the year ending 31 March 2018 are set out below. Discount rate assumption, an adjustment to the discount rate of +0.1% p.a. would decrease the present value of the total obligation to £37.10m, a variance of £0.49m, whereas a decrease of (0.1%) p.a. results in an increase to £38.10m. The percentage change in the present value of the total obligation would be (4%) and 4.1% respectively.
		Rate of increase to pensions in payment and deferred pensions assumption, and rate of revaluation of pension accounts assumption: an adjustment to the pension increase rate of +0.1% p.a. would increase the present value of the total obligation by £1.0m to £38.59m, whereas a decrease of (0.1%) p.a. results in a decrease to £36.61m, a variance of £0.98m. The percentage change in the present value of the total obligation would be 4.1% and (4.1%) respectively.

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
		Post retirement mortality assumption: an adjustment to the mortality age rating assumption of -1 year would change the present value of the total obligation to £39.0m, an increase of £1.41m, whereas a adjustment of +1 year results in a reduction to £36.2m, a variance of £1.39m. The percentage change in the present value of the total obligation would be 3.7% and (3.7%) respectively.

29 Events after the Reporting Period

The Statement of Accounts was authorised for issue by the Chief Finance Officer on 31 May 2017. Where events taking place before this date provided information about conditions existing at 31 March 2017, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

There have been no non-adjusting events after the balance sheet date.

30 Statement of Accounting Policies

1. General Principles

The Statement of Accounts summarises the Authority's transactions for the 2016/17 financial year and its position at the year-end of 31 March 2017. The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015, which those Regulations require to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17, supported by International Financial Reporting Standards (IFRS).

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

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

2. Accruals of Income and Expenditure

The financial statements, other than the cash flow statement, are prepared on an accruals basis. This means that transactions are reflected in the accounts of the period in which they take place, as opposed to the period in which payments are made or received. Accruals are raised for income and expenditure exceeding £1,000.

3. Cash and Cash Equivalents

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

4. Exceptional Items

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

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

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

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

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

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

6. Charges to Revenue for Non-Current Assets

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

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

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

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

7. Employee Benefits

Benefits Payable during Employment

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

Termination Benefits

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

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

No such amounts are payable in 2016/17.

8. Post-Employment Benefits

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

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

The Local Government Pension Scheme

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

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

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

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

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

The change in the net pensions liability is analysed into the following components:
a) Current service cost - the increase in liabilities as a result of years of service earned this year - allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked.

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

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

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

· actuarial gains and losses, changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions, charged to the Pensions Reserve as Other Comprehensive Income and Expenditure

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

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

Further details are provided in Note 18 to the accounts.

9. Events after the Balance Sheet Date

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

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

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

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

10. Fair Value Measurement

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

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

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

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

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

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

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

11. Financial Instruments

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

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

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

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Authority has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Financial Assets

Financial assets are classified into two types:

- Loans and receivables - assets that have fixed or determinable payments but are not quoted in an active market.

· Available-for-sale assets - assets that have a quoted market price and/or do not have fixed or determinable payments.

Loans and Receivables

Loans and receivables are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the 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 loans that the Council has made, 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.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the relevant service (for receivables specific to that service) or the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

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

Where the fair value of loans and receivables is disclosed (i.e. the Financial Instruments note) the fair value of the Nexus borrowing debtor is estimated by applying a proportion of the Authority's total fair value of borrowing to the proportion of the carrying value which relates to loans taken on behalf of Nexus.

Soft Loans

A Soft Loan is a loan made to a third party at a preferential rate of interest, i.e. below market rate. In accordance with the Code of Practice on Local Authority Accounting, the difference between the interest payable to the Authority by the recipient of the loan and the amount they would have paid if they had acquired a loan for the same amount is charged to the income and expenditure account under the relevant net cost of service heading. This charge is then reversed out through the Movement in Reserves Statement to mitigate any effect on usable reserves.

Available-for-Sale Assets

Available-for-sale assets are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income (e.g. dividends) is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the Authority.

Assets are maintained in the Balance Sheet at fair value. Values are based on the following principles:

- Instruments with quoted market prices - the market price.
- Other instruments with fixed and determinable payments - discounted cash flow analysis.
- Equity shares with no quoted market prices - independent appraisal of company valuations.

Changes in fair value are balanced by an entry in the Available-for-Sale Reserve and the gain/loss is recognised in the Surplus or Deficit on Revaluation of Available-for-Sale Financial Assets. The exception is where impairment losses have been incurred - these are debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any net gain or loss for the asset accumulated in the Available-for-Sale Reserve.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made (fixed or determinable payments) or fair value falls below cost, the asset is written down and a charge made to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. If the asset has fixed or determinable payments, the impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate. Otherwise, the impairment loss is measured as any shortfall of fair value against the acquisition cost of the instrument (net of any principal repayment and amortisation).

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, along with any accumulated gains or losses previously recognised in the Available-for-Sale Reserve.

Where fair value cannot be measured reliably, the instrument is carried at cost (less any impairment losses).

12. Government Grants & Contributions

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

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

Amounts recognised as due to the Authority are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions and capital grants used to fund Revenue Expenditure Financed from Capital Under Statute) or Taxation and Non-Specific Grant Income (non-ring-fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied Reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

13. Property, Plant & Equipment

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

Recognition

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

Measurement

Assets are initially measured at cost, comprising:

- The purchase price.

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

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

The Authority does not capitalise borrowing costs incurred whilst assets are under construction.

The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have commercial substance (i.e. it will not lead to a variation in the cash flows of the Authority). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Authority.

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

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

- Infrastructure assets - depreciated historical cost.
- Assets Under Construction - cost

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

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

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

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

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

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

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

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

De Minimis Levels

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

Impairment

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

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

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

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

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, 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).

Depreciation on all Property, Plant and Equipment assets (except vehicles) is calculated by taking the asset value at 31 March 2016, divided by remaining life expectancy. Depreciation is therefore charged in the year of acquisition, but not the year of disposal. Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation that would have been chargeable based on their historic cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

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

Disposals

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

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

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

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

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

14. Public Private Partnership (PPP) Contracts

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

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

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

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

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

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

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

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

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

15. Provisions

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

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

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

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

16. Contingent Liabilities

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

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

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

17. Reserves

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

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

18. Revenue Expenditure Funded from Capital under Statute

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

19. VAT

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

20. Overheads

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

21. Tyne Tunnels Income

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

22. Group Accounts

NECA is required by the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 to produce Group Accounts to include services paid to Council Tax payers in the North East by organisations other than the Authority itself in which the Authority has an interest.

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

For the 2016/17 accounts, NECA has fully complied with the requirements of the Code, providing Group figures for 2016/17 and comparators for 2015/16. 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.

3.0 Group Financial Statements and Explanatory Notes

3.0 Group Financial Statements and Explanatory Notes

3.1 Group Movement in Reserves Statement

	NECA Usable Reserves £000	NECA Unusable Reserves £000	Total NECA Reserves £000	Authority Share of Nexus £000	Total Group Reserves £000
Balance at 1 April 2015	**(57,425)**	**(91,284)**	**(148,709)**	**(421,680)**	**(570,389)**
Movement in reserves during 2015/16					
Total Comprehensive Income & Expenditure	**(2,039)**	**(130)**	**(2,169)**	**(27,160)**	**(29,329)**
Adjustments between accounting basis & funding basis under regulations	1,487	(1,487)	-	-	-
Net (Increase)/Decrease before transfers to Earmarked Reserves	**(552)**	**(1,617)**	**(2,169)**	**(27,160)**	**(29,329)**
Transfers (To)/From Earmarked Reserves	-	-	-	-	-
(Increase)/Decrease in 2015/16	**(552)**	**(1,617)**	**(2,169)**	**(27,160)**	**(29,329)**
Balance at 31 March 2016 carried forward	**(57,977)**	**(92,901)**	**(150,878)**	**(448,840)**	**(599,718)**
Movement in reserves during 2016/17					
Adjustment to opening balance					
Total Comprehensive Income & Expenditure	**(19,940)**	**120**	**(19,820)**	**(13,273)**	**(33,093)**
Adjustments between accounting basis & funding basis under regulations	7,461	(7,461)	-	-	-
Net (Increase)/Decrease before transfers to Earmarked Reserves	**(12,479)**	**(7,341)**	**(19,820)**	**(13,273)**	**(33,093)**
Transfers (To)/From Earmarked Reserves	-	-	-	-	-
(Increase)/Decrease in 2016/17	**(12,479)**	**(7,341)**	**(19,820)**	**(13,273)**	**(33,093)**
Balance at 31 March 2017 carried forward	**(70,456)**	**(100,242)**	**(170,698)**	**(462,113)**	**(632,811)**

3.2 Group Comprehensive Income and Expenditure Statement

2015/16 Restated					2016/17		
Gross Expenditure £000	Gross Income £000	Net Expenditure £000		Note	Gross Expenditure £000	Gross Income £000	Net Expenditure £000
757	(300)	457	Corporate		1,318	(656)	662
149	(140)	9	Inward Investment		344	(169)	175
50,958	(53,910)	(2,952)	Local Growth Fund		61,268	(77,575)	(16,307)
15,449	(16,785)	(1,336)	North East Local Enterprise Partnership		6,348	(2,658)	3,690
49	(49)	-	Skills		1,148	(1,148)	-
224	(5)	219	Transport - Retained Levy		461	-	461
16,071	-	16,071	Transport - Durham		15,414	-	15,414
5,896	-	5,896	Transport - Northumberland		6,293	-	6,293
153,140	(80,286)	72,854	Transport - Tyne and Wear		150,633	(76,320)	74,313
19,927	(20,117)	(190)	Transport - Other		19,320	(18,160)	1,160
26,474	(33,538)	(7,064)	Transport - Tyne Tunnels		25,938	(33,282)	(7,344)
289,094	**(205,130)**	**83,964**	**Cost of Services**		**288,486**	**(209,968)**	**78,518**
14,035	(2,003)	12,032	Financing & Investment Income & Expenditure	G2	7,793	(1,312)	6,481
-	(122,675)	(122,675)	Taxation & Non-Specific Grant Income	G3	-	(122,736)	(122,736)
3,672	(37)	3,635	(Gain)/Loss on disposal or derecognition of non-current assets		46	-	46
		(23,044)	**Deficit/(Surplus) on Provision of Services**				**(37,692)**
		(7,370)	Re-measurements of the defined benefit liability	G11			4,810
		1,087	Taxation of Group Entities	G12			(211)
		(6,283)	**Other Comprehensive Income & Expenditure**				**4,599**
		(29,327)	**Total Comprehensive Income & Expenditure Deficit/(Surplus)**				**(33,093)**

2015/16 figures have been restated across the Authority's service areas.

3.3 Group Balance Sheet

31 March 2016 £000		Note	31 March 2017 £000
830,110	Property, Plant & Equipment	G5	840,319
2,627	Intangible Assets	G6	2,089
16,534	Long Term Debtors	G7	16,583
1	Long Term Investments	G7	1
849,272	**Long Term Assets**		**858,992**
89,000	Short Term Investments	G7	104,000
26,620	Short Term Debtors	G7, G8	21,923
66,483	Cash and Cash Equivalents	G9	43,432
750	Inventories		901
182,853	**Current Assets**		**170,256**
(3,577)	Short Term Borrowing	G7	(2,611)
(96,895)	Short Term Creditors	G7, G10	(67,286)
(4,955)	Grants Receipts in Advance	G4	(2,483)
(5,092)	New Tyne Crossing - Deferred Income	16	(5,093)
(110,519)	**Current Liabilities**		**(77,473)**
(935)	Provisions		(1,304)
(5,188)	Deferred Taxation	G12	(4,977)
(106,937)	New Tyne Crossing - Deferred Income	16	(101,845)
(168,333)	Long Term Borrowing	G7	(167,667)
(855)	Grants Receipts in Advance	G4	(971)
(39,640)	Pension Liability	G7, G11	(42,200)
(321,888)	**Long Term Liabilities**		**(318,964)**
599,718	**Net Assets**		**632,811**
(100,350)	Usable Reserves	G13	(113,670)
(499,368)	Unusable Reserves	G14	(519,141)
(599,718)	**Total Reserves**		**(632,811)**

Chief Finance Officer Certificate

I certify that the group accounts set out on pages 77 to 101 give a true and fair view of the financial position of the North East Combined Authority Group at 31 March 2017

3.4 Group Cash Flow Statement

2015/16 £000		Note	2016/17 £000
23,046	Net Surplus/(Deficit) on the provision of services after taxation of Group Entities	G15	37,692
102,353	Adjustments to net surplus or deficit on the provision of services for non cash movements	G15	(15,445)
(113,612)	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	G15	(126,556)
11,787	**Net cash flows from Operating Activities**	**G15**	**(104,309)**
(17,039)	Investing Activities	G16	84,603
(29,100)	Financing Activities	G17	(3,346)
(34,352)	**Net (Decrease)/Increase in cash and cash equivalents**		**(23,051)**
100,835	Cash and cash equivalents at the beginning of the reporting period	G9	66,483
66,483	**Cash and cash equivalents at the end of the reporting period**	**G9**	**43,432**

3.5 Index of Explanatory Notes to the Group Financial Statements

3.6 Explanatory Notes to the Group Financial Statements

G1 Group Accounts

Under the Code of Practice for Local Authority 2016/17, 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.

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

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

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

Details of NECA depreciation policy can be found on p.74 of the single entity accounts.

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

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

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

G2 Financing and Investment Income and Expenditure

	Note	2015/16 £000	2016/17 £000
Interest payable and similar charges		12,615	7,793
Interest on defined benefit liability	G11	1,420	1,220
Interest receivable and similar income		(2,003)	(2,532)
Total		**12,032**	**6,481**

G3 Taxation and Non Specific Grant Income

	2015/16 £000	2016/17 £000
Transport Levy	(89,177)	(86,894)
Enterprise Zone income	(1,203)	(1,696)
Nexus Capital Grants	(32,295)	(32,320)
LGF Grant applied to Tyne Tunnels capital expenditure	-	(1,826)
Total	**(122,675)**	**(122,736)**

G4 Grant Income and Other Contributions

The Authority credited the following grants and contributions to the Comprehensive Income and Expenditure Statement in 2015/16 and 2016/17:

Credited to Services	2015/16 £000	2016/17 £000
DCLG Capacity Grant	(500)	(500)
Growth Hub	(354)	(556)
Local Authority Contributions to NECA	(440)	(440)
Local Authority Contributions to NELEP	(250)	(250)
Local Growth Fund	(53,910)	(79,402)
Local Sustainable Transport Fund	(3,850)	-
Local Transport Plan	(14,723)	(13,949)
Mental Health Trailblazer	(49)	(1,148)
North East Smart Ticketing Initiative	(789)	(901)
North East Technical Assistance	-	(356)
Other Grants	(448)	(1,184)
Regional Growth Fund Capital	(15,401)	(80)
Regional Growth Fund Revenue	(205)	-
Sustainable Travel Transition Year	-	(2,343)
Metro Rail Grant	(24,457)	(24,689)
Heavy Rail Grant	(3,077)	(262)
Total	**(118,453)**	**(126,060)**

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

Grants Receipts in Advance	2015/16 £000	2016/17 £000
Revenue Grants		
Growth Hub	(146)	-
Mental Health Trailblazer	(1,051)	-
North East Smart Ticketing Initiative	(2,824)	(1,924)
Office for Low Emission Vehicles - Revenue	(30)	(30)
Other Grants	(178)	-
Capital Grants		
Office for Low Emission Vehicles - Capital	(1,500)	(1,500)
Regional Growth Fund Capital	(80)	-
Total	**(5,809)**	**(3,454)**

Shown as Short-Term Liability on Balance Sheet	(4,954)	(2,483)
Shown as Long-Term Liability on Balance Sheet	(855)	(971)
Total	**(5,809)**	**(3,454)**

G5 Property, Plant and Equipment

2016/17	Other Land and Buildings £000	Vehicles, Plant, Furniture & Equipment £000	Infrastructure Assets £000	Assets Under Construction £000	Total Property, Plant and Equipment £000
Cost or Valuation					
At 1 April 2016	**1,739**	**34,462**	**1,016,486**	**56,772**	**1,109,459**
Assets reclassified	-	-	-	-	**-**
Transfers from assets under construction	-	163	41,722	(41,885)	**-**
Derecognition - disposals	-	(342)	(923)	-	**(1,265)**
Derecognition - other	-	-	-	-	**-**
Additions	-	-	130	38,253	**38,383**
Revaluation increases/(decreases) recognised in the Revaluation Reserve	-	-	-	-	**-**
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	-	-	(130)	-	**(130)**
At 31 March 2017	**1,739**	**34,283**	**1,057,285**	**53,140**	**1,146,447**
Accumulated Depreciation and Impairment					
At 1 April 2016	**(582)**	**(16,602)**	**(262,165)**	**-**	**(279,349)**
Reclassification	-	-	-	-	**-**
Depreciation Adjustment	-	-	(608)	-	**(608)**
Depreciation Charge for the Year	(44)	(2,417)	(24,816)	-	**(27,277)**
Derecognition - Disposals	-	342	764	-	**1,106**
At 31 March 2017	**(626)**	**(18,677)**	**(286,825)**	**-**	**(306,128)**
Net Book Value					
At 1 April 2016	**1,157**	**17,860**	**754,321**	**56,772**	**830,110**
At 31 March 2017	**1,113**	**15,606**	**770,460**	**53,140**	**840,319**

Comparative Information 2015/16 Restated	Other Land and Buildings £000	Vehicles, Plant, Furniture & Equipment £000	Infrastructure Assets £000	Assets Under Construction £000	Total Property, Plant and Equipment £000
Cost or Valuation					
At 1 April 2015	**5,411**	**34,630**	**1,004,359**	**27,636**	**1,072,036**
Assets reclassified	-	(161)	161	-	**-**
Transfers from assets under construction	-	84	12,044	(12,128)	**-**
Derecognition - disposals	-	(92)	(78)	-	**(170)**
Derecognition - other	(3,672)	-	-	-	**(3,672)**
Additions	-	-	349	41,264	**41,612**
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	-	-	(348)	-	**(348)**
At 31 March 2016	**1,739**	**34,461**	**1,016,487**	**56,772**	**1,109,459**
Accumulated Depreciation and Impairment					
At 1 April 2015	**(538)**	**(13,918)**	**(237,480)**	**-**	**(251,936)**
Depreciation Charge for the Year	(44)	(2,776)	(24,729)	-	**(27,549)**
Derecognition - Disposals	-	92	44	-	**136**
At 31 March 2016	**(582)**	**(16,602)**	**(262,165)**	**-**	**(279,349)**
Net Book Value					
At 1 April 2015	**4,873**	**20,712**	**766,879**	**27,636**	**820,100**
At 31 March 2016	**1,157**	**17,859**	**754,322**	**56,772**	**830,110**

G6 Intangible Assets

Intangible assets in the Group Accounts relate wholly to Nexus.

Cost or valuation	2015/16 £000	2016/17 £000
Opening Balance	6,937	6,937
Reclassification	-	-
Derecognition - disposals	-	-
Transfers from assets under construction	-	-
Total	**6,937**	**6,937**

Depreciation and impairment	2015/16 £000	2016/17 £000
Opening Balance	3,509	4,310
Reclassification	-	-
Amortisation correction	-	-
Amortisation provided during the period	801	537
Derecognition - disposals	-	-
Total	**4,310**	**4,847**
Net Book Value at 31 March	**2,627**	**2,090**

G7 Financial Instruments

Categories of Financial Instruments

The investments and borrowing disclosed in the Balances Sheet are made up of the following categories of financial instrument:

Long Term 31 March 2016 £000	Short Term 31 March 2016 £000		Long Term 31 March 2017 £000	Short Term 31 March 2017 £000
		Investments		
-	89,000	Fixed term deposits	-	104,000
1	-	Long term investments	1	-
1	**89,000**	**Total Investments**	**1**	**104,000**
		Debtors		
15,370	-	Long term debtors - Loans and advances treated as capital expenditure	15,842	-
1,164	26,620	Other debtors	741	21,923
16,534	**26,620**	**Total Debtors**	**16,583**	**21,923**
		Borrowings		
(168,333)	(1,887)	Financial liabilities at amortised cost - Loans (Principal)	(167,667)	(667)
-	(1,690)	Financial liabilities at amortised cost - Loans (Interest)	-	(1,944)
(168,333)	**(3,577)**	**Total included in Borrowings**	**(167,667)**	**(2,611)**
		Other Long Term Liabilities		
(39,640)	-	Pension Liability	(42,200)	-
(39,640)	**-**	**Total Other Long Term Liabilities**	**(42,200)**	**-**
		Creditors		
-	(96,895)	Short Term Creditors	-	(67,286)
-	**(96,895)**	**Total Creditors**	**-**	**(67,286)**

G8 Short Term Debtors

	31 Mar 2016 £000	31 Mar 2017 £000
Central government bodies	16,905	9,548
Other local authorities	846	2,552
NHS bodies	93	10
Public corporations and trading funds	87	-
Other entities and individuals	8,689	9,812
Total	**26,620**	**21,923**

G9 Cash and Cash Equivalents

	31 Mar 2016 £000	31 Mar 2017 £000
Cash	42,803	16,961
Short-term deposits with financial institutions	23,680	26,470
Total Cash and Cash Equivalents	**66,483**	**43,431**

G10 Short Term Creditors

	31 Mar 2016 £000	31 Mar 2017 £000
Central government bodies	(504)	(550)
Other local authorities	(62,853)	(33,687)
Other entities and individuals	(33,538)	(33,049)
Total	**(96,895)**	**(67,286)**

G11 Defined Benefit Pension Schemes

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

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

Transactions Relating to Post-employment Benefits

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

	Local Government Pension Scheme		Discretionary Benefits Arrangements	
	2015/16 £000	2016/17 £000	2015/16 £000	2016/17 £000
Comprehensive Income and Expenditure Statement				
Cost of Services:				
Current service cost	4,590	4,500	-	-
Past service costs	-	-	-	-
Financing and Investment Income and Expenditure:				
Interest on net defined benefit liability/(asset)	1,250	1,050	170	170
Pension expense recognised in profit and loss	**5,840**	**5,550**	**170**	**170**

	Local Government Pension Scheme		Discretionary Benefits Arrangements	
	2015/16 £000	2016/17 £000	2015/16 £000	2016/17 £000
Other Post Employment Benefit charged to the Comprehensive Income and Expenditure Statement:				
Return on plan assets (in excess of)/ below that recognised in net interest	3,300	(42,300)	-	-
Actuarial (gains)/losses due to changes in financial assumptions	(9,650)	54,290	(110)	140
Actuarial (gains)/losses due to changes in demographic assumptions	-	510	-	(20)
Actuarial (gains)/losses due to changes in liability assumptions	(2,920)	(9,780)	(160)	(10)
Adjustment in respect of paragraph 58	2,170	1,760	-	-
Total amount recognised in Other Comprehensive Income	**(7,100)**	**4,480**	**(270)**	**110**
Total amount recognised	**(1,260)**	**10,030**	**(100)**	**280**

Assets and Liabilities in Relation to Post-employment Benefits
Reconciliation of present value of the scheme liabilities (defined benefit obligation):

	Funded liabilities: Local Government Pension Scheme		Unfunded liabilities: Discretionary Benefits	
	2015/16 £000	2016/17 £000	2015/16 £000	2016/17 £000
Opening balance at 1 April	(258,730)	(251,680)	(5,680)	(5,090)
Current service cost	(4,590)	(4,500)	-	-
Interest cost	(8,130)	(8,390)	(170)	(170)
Contributions by participants	(1,300)	(1,400)	-	-
Actuarial gains/(losses) on liabilities - financial assumptions	9,650	(54,290)	110	(410)
Actuarial gains/(losses) on liabilities - demographic assumptions	-	(130)	-	(210)
Actuarial gains/(losses) on liabilities - experience	2,920	9,400	160	290
Net benefits paid out	8,500	9,530	490	460
Past service costs	-	-	-	-
Closing balance at 31 March	**(251,680)**	**(301,460)**	**(5,090)**	**(5,130)**

Reconciliation of fair value of the scheme assets:

	Local Government Pension Scheme		Discretionary Benefits	
	2015/16 £000	2016/17 £000	2015/16 £000	2016/17 £000
Opening balance at 1 April	218,780	222,650	-	-
Interest income on assets	6,970	7,520	-	-
Remeasurement gains/(losses) on assets	(3,300)	42,300	-	-
Employer contributions	7,400	7,510	490	460
Contributions by scheme participants	1,300	1,400	-	-
Net benefits paid out	(8,500)	(9,530)	(490)	(460)
Closing balance at 31 March	**222,650**	**271,850**	**-**	**-**

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	2012/13 £000	2013/14 £000	2014/15 £000	2015/16 £000	2016/17 £000
Fair value of LGPS assets	179,530	194,330	218,780	222,650	271,850
Present value of liabilities:					
LGPS liabilities	(240,150)	(229,650)	(258,730)	(251,680)	(301,460)
Impact of minimum funding requirement/asset ceiling	-	(2,280)	(3,250)	(5,520)	(7,460)
(Deficit) on funded defined benefit scheme	**(60,620)**	**(37,600)**	**(43,200)**	**(34,550)**	**(37,070)**
Discretionary benefits	(6,110)	(5,740)	(5,680)	(5,090)	(5,130)
Total (Deficit)	**(66,730)**	**(43,340)**	**(48,880)**	**(39,640)**	**(42,200)**

The split of the defined benefit obligation at the last valuation date between the various categories of members was as follows; NECA - active members 5%, deferred pensioners 10% and pensioners 85%; Nexus - active members 34%, deferred pensioners 10% and pensioners 56%.

The liabilities show the underlying commitments that the Authority has in the long run to pay post employment (retirement) benefits. The total combined liabilities of NECA and Nexus of £306.590m has an impact on the net worth of the authorities as recorded in the balance sheet, resulting in a negative pension balance of £42.200m. However, statutory arrangements for funding the deficit mean that the financial position of the authorities remain 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 NECA and Nexus in the year to 31 March 2018 is £7.810m. In addition, Strain on the Fund contributions may be required. Expected payments direct to beneficiaries in the year to 31 March 2018 are £0.460m in relation to unfunded benefits.

Basis for Estimating Assets and Liabilities
Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. Both the Local Government Pension Scheme and Discretionary Benefits liabilities have been assessed by Aon, an independent firm of actuaries, estimates for the pension fund being based on the latest full valuation of the scheme as at 31 March 2016.

The principal assumptions used by the actuary have been:

	Local Government Pension Scheme		Discretionary Benefits	
	2015/16	2016/17	2015/16	2016/17
Mortality assumptions:-				
Longevity at 65 for current pensioners:				
Men	23.2	22.8	23.2	22.8
Women	24.8	26.3	24.8	26.3
Rate for discounting scheme liabilities	3.3%	2.5%	3.3%	2.5%
Rate of inflation - Retail Price Index	2.8%	3.1%	2.8%	3.1%
Rate of inflation - Consumer Price Index	1.7%	2.0%	1.7%	2.0%
Rate of increase in pensions	1.7%	2.0%	1.7%	2.0%
Pension accounts revaluation rate	1.7%	2.0%	n/a	n/a
Rate of increase in salaries	3.2%	3.5%	n/a	n/a

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

	31 March 2016	31 March 2017		
	% Total	% Quoted	% Unquoted	% Total
Equity investments	66.1	59.5	7.4	66.9
Property	10.4	0.0	9.2	9.2
Government bonds	3.7	3.9	0.0	3.9
Corporate bonds	11.6	11.5	0.0	11.5
Cash	2.6	2.6	0.0	2.6
Other*	5.6	3.5	2.4	5.9
Total	100.0	81.0	19.0	100.0

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

Actual Return on Assets	Funded 2015/16 £000	Funded 2016/17 £000
Interest income on assets	6,970	7,520
Remeasurement gain/(loss) on assets	(3,300)	42,300
Actual return on assets	**3,670**	**49,820**

Sensitivity Analysis

Sensitivity analysis of NECA pension liabilities is set out on p45-46 of the single entity accounts. Sensitivity analysis of Nexus pension liabilities is shown below.

The approximate impact of changing the key assumptions on the present value of the funded defined benefit obligation as at 31 March 2017 and the projected cost for the period ending 31 March 2017 is set out below. In each case, only the assumption mentioned is altered; all other assumptions remain the same and are summarised above.

Discount Rate assumption

Adjustment to Discount rate	+0.1% per annum	Base Figure	-0.1% per annum
Present value of total obligation (£m)	259.22	263.87	268.61
% change in present value of total obligation	-1.80%		1.80%
Projected service cost (£m)	5.97	4.39	6.35
Approximate % change in projected service cost	-3.10%		3.10%

Rate of general increase in salaries

Adjustment to salary increase rate	+0.1% per annum	Base Figure	-0.1% per annum
Present value of total obligation (£m)	265.03	263.87	262.72
% change in present value of total obligation	0.40%		-0.40%
Projected service cost (£m)	6.16	6.16	6.16
Approximate % change in projected service cost	0.00%		0.00%

Rate of increase to pensions in payment and deferred pensions

Adjustment to pension increase rate	+0.1% per annum	Base Figure	-0.1% per annum
Present value of total obligation (£m)	267.44	263.87	262.72
% change in present value of total obligation	1.40%		-1.30%
Projected service cost (£m)	6.35	6.16	5.97
Approximate % change in projected service cost	3.10%		-3.10%

Post retirement mortality assumption

Adjustment to mortality age rating assumption *	+ 1 year	Base Figure	- 1 year
Present value of total obligation (£m)	271.67	263.87	260.35
% change in present value of total obligation	3.00%		-2.90%
Projected service cost (£m)	6.38	6.16	5.94
Approximate % change in projected service cost	3.60%		-3.60%

* 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.

G12 Deferred Tax Liability

The movement for the year comprises:

	2015/16 £000	2016/17 £000
Capital Allowances	72	(154)
Roll over relief on capital gains	-	(64)
Other timing differences	29	7
Tax effect of losses	986	-
Total	**1,087**	**(211)**

The balance at the year end comprises:

	31 March 2016 £000	31 March 2017 £000
Excess of Capital Allowances over depreciation	(3,978)	(3,824)
Roll over relief on capital gains	(1,297)	(1,233)
Other timing differences	87	80
Tax effect of losses	-	-
Total	**(5,188)**	**(4,977)**

G13 Usable Reserves

	31 March 2016 £000	31 March 2017 £000
General Fund Balance	(35,007)	(34,897)
Metro Reinvigoration Reserve	(10,005)	(9,126)
NELEP Earmarked Reserves	(1,976)	(539)
Capital Receipts Reserve	-	(168)
Capital Grants Unapplied Reserve	(10,988)	(25,726)
Nexus Revenue Reserves	(14,206)	(15,540)
Nexus Capital Reserves	(28,168)	(27,674)
Total Usable Reserves	**(100,350)**	**(113,670)**

G14 Unusable Reserves

Details of movements on the Capital Adjustment Account and Financial Instruments Adjustment Account are shown on pages 48 to 49 of the NECA single entity accounts. These reserves relate to NECA only.

	31 March 2016 £000	31 March 2017 £000
Revaluation Reserve	(9,412)	(9,266)
Capital Adjustment Account	(93,180)	(99,672)
Financial Instruments Adjustment Account	8,113	7,029
Pensions Reserve	39,640	42,200
Nexus Grant Deferred Account	(415,894)	(432,093)
Nexus Unusable Capital Reserve	(28,635)	(27,338)
Total Unusable Reserves	**(499,368)**	**(519,140)**

Revaluation Reserve

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

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

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

	2015/16 £000	2016/17 £000
Balance at 1 April	(9,574)	(9,412)
Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	-	-
Difference between fair value depreciation and historic cost depreciation - amount written off to the Capital Adjustment Account	162	146
Balance at 31 March	**(9,412)**	**(9,266)**

Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions. The Authority accounts for post employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any 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 substantial 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.

	2015/16 £000	2016/17 £000
Balance at 1 April	48,880	39,640
Remeasurement of the Net Defined Benefit Liability	(7,370)	4,810
Reversal of items relating to retirement benefits debited or	6,020	5,720
Employer's pension contributions and direct payments to pensioners payable in the year	(7,890)	(7,970)
Balance at 31 March	**39,640**	**42,200**

Nexus Grant Deferred Account

	2015/16 £000	2016/17 £000
Balance at 1 April	(396,730)	(415,894)
Capital Grants Released	20,849	20,730
Capital Grants Applied	(40,013)	(36,930)
Balance at 31 March	**(415,894)**	**(432,094)**

Nexus Unusable Capital Reserve

	2015/16 £000	2016/17 £000
Balance at 1 April	(29,773)	(28,635)
Depreciation	1,138	1,297
Balance at 31 March	**(28,635)**	**(27,338)**

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

	2015/16 £000	2016/17 £000
Surplus/(Deficit) on the provision of services	23,046	37,692
Adjustments to Surplus/(Deficit) on Provision of Services for Non-Cash Movements		
Depreciation/ Impairment & Amortisation	28,698	28,551
(Gain)/Loss on disposal of non-current assets	3,635	46
(Increase)/Decrease in Creditors	76,802	(33,256)
Increase/(Decrease) in Debtors	305	(2,880)
Increase/(Decrease) in Inventories	(123)	(151)
Movement in Pension Liability	(1,870)	(2,250)
Other non-cash items charged to the net surplus or deficit on the provision of services	(5,092)	(5,505)
	102,355	**(15,445)**
Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities		
Capital grants credited to surplus/(deficit) on provision of services	(114,098)	(128,284)
Other adjustments for items that are financing or investing activities	486	1,728
	(113,612)	**(126,556)**
Net cash flow from operating activities	**11,789**	**(104,309)**

Cash Flow Statement -

The cash flows for operating activities include the following items:

	2015/16 £000	2016/17 £000
Interest received	865	1,407
Interest paid	(12,954)	(7,446)

G16 Cash Flow Statement - Investing Activities

	2015/16 £000	2016/17 £000
Purchase of property, plant and equipment, investment property and intangible assets	(42,030)	(38,125)
Purchase of short-term and long-term investments	(176,140)	(102,500)
Other payments for investing activities	(1,834)	(1,765)
Proceeds from the sale of property, plant and equipment, investment property, intangible assets & heritage assets	71	113
Proceeds from short-term and long-term investments	105,140	87,500
Other receipts from investing activities	97,754	139,381
Net cash flows from investing activities	**(17,039)**	**84,603**

G17 Cash Flow Statement - Financing Activities

	2015/16 £000	2016/17 £000
Repayments of short and long-term borrowing	(27,374)	(1,787)
Other payments for financing activities	(1,726)	(1,559)
Net cash flows from financing activities	**(29,100)**	**(3,346)**

4.0 Supplemental Information

4.0 Supplemental Information

4.1 Glossary of Terms

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

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

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

Finance Lease	A lease that transfers substantially all of the risks and rewards of ownership of a fixed asset to the lessee. The payments usually cover the full cost of the asset together with a return for the cost of finance.
Financial Instrument	Document (such as a cheque, draft, bond, share, bill of exchange, futures or options contract) that has a monetary value or evidences a legally enforceable (binding) agreement between two or more parties regarding a right to payment of money.
Financial Instruments Adjustment Account	The reserve records the accumulated difference between the financing costs included in the Comprehensive Income & Expenditure Account and the accumulated financing costs required in accordance with regulations to be charged to the General Fund Balance.
General Fund	The total services of the Authority.
Going Concern	The concept that the Authority will remain in operational existence for the foreseeable future, in particular that the revenue accounts and balance sheet assume no intention to curtail significantly the scale of operations.
Impairment	A reduction in the value of a fixed asset below its carrying amount on the balance sheet resulting from causes such as obsolescence or physical damage.
Intangible Assets	An asset that is not physical in nature, e.g. software licences.
Interest Cost (Pensions)	For a defined benefit scheme, the expected increase during the period in the present value of the scheme liabilities because the benefits are one period closer to settlement.
Investment Properties	Interest in land and buildings where construction work and development has been completed and the asset is held for its investment potential, any rental income being negotiated at arms length.
Liabilities	Any amounts owed to individuals or organisations which will have to be paid at some time in the future.

Liquid Resources	Current asset investments that are readily disposable by the Authority without disrupting its business and are either readily convertible to known amounts of cash at or close to the carrying amount or traded in an active market.
Materiality	An item is material if its omission, non-disclosure or misstatement in the financial statements could be expected to lead to a distortion of the view given by the financial statements.
Minimum Revenue Provision (MRP)	An amount charged by the Authority to the Comprehensive Income & Expenditure Account, for debt redemption or for the discharge of other credit liabilities.
Movement in Reserves Statement	The statement shows the movement in the year on the different reserves held by the Authority
Net Book Value	The amount at which fixed assets are included in the balance sheet being the historical cost or current value less the cumulative amounts provided for depreciation.
Net Debt	The Authority's borrowings less cash and liquid resources.
Operating Leases	Leases other than a finance lease.
Property, Plant & Equipment (PPE)	Assets that yield benefits to the Authority and the services that it provides for a period of more than one year. Examples include land, buildings and vehicles.
Provisions	These are sums set aside to meet liabilities or losses which have been incurred but where the amount and/or timing of such costs are uncertain.
Prudence	This accounting concept requires that revenue is not anticipated until realisation can be assessed with reasonable certainty. Provision is made for all known liabilities whether the amount is certain or can only be estimated in the light of information available.
Public Works Loan Board	This is a Government agency which provides loans to local authorities at favourable rates.

Related Party Transactions	A related party transaction is the transfer of assets or liabilities or the performance of services by, to or for a related party irrespective of whether a charge is made. An example could be the purchase, sale, lease, rental or hire of assets between related parties.
Reserves	These are sums set aside to meet possible future liabilities where there is no certainty about whether or not these liabilities will be incurred.
Residual Value	The net realisable value of an asset at the end of its useful life. Residual values are based on prices prevailing at the date of the acquisition (or revaluation) of the asset and do not take account of expected future price changes.
Revaluation Reserve	The reserve records the accumulated gains on the fixed assets held by the Authority arising from increases in value as a result of inflation or other factors.
Revenue Expenditure	Expenditure on providing day-to-day services, for example employee cost and premises costs.
Revenue Expenditure Funded from Capital under Statute	Expenditure which may be properly incurred, but which does not result in an asset owned by the Authority e.g. grants to other organisations for capital purposes.
Unusable Reserves	The Authority cannot use this category of reserves to provide services. Includes reserves that hold unrealised gains and losses (e.g. revaluation reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'adjustments between accounting basis and funding basis under regulation'.
Usable Reserves	Those reserves that the Authority may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use.
Useful Life	The period over which the Authority will derive benefits from the use of a fixed asset.

4.2 Index

4.3 External Audit Opinion

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Appendix 4

Annual Governance Statement 2016/17

Section 1: Scope Of Responsibility

The seven local authorities of Durham, Gateshead, Newcastle Upon Tyne, North Tyneside, Northumberland, South Tyneside and Sunderland, as the already established North East Leadership Board came together in April 2014 to establish a Combined Authority for the area. Building on the track record of joint working, the Authority is an enabling body, which reinforces and strengthens existing partnership arrangements to collectively drive forward change and enable economic growth. It brings together the political leadership of the seven local authorities in the region to help co-ordinate strategic transport and economic planning for growth in the long term in a global context.

The Combined Authority works closely with the Local Enterprise Partnership, for which it is the accountable body, to deliver the objectives of the Combined Authority and the Strategic Economic Plan, which sets out our ambitious vision to strengthen the area's economy and provide more opportunities for businesses and communities.

We (the North East Combined Authority) are responsible for ensuring that our business is conducted in accordance with the law and proper standards and that public money is safeguarded and properly accounted for and used economically, efficiently and effectively.

We also have a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which we exercise our functions, having regard to a combination of economy, efficiency and effectiveness.

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

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

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

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

a) identify and prioritise the risks to the achievement of our, aims and objectives; and
b) evaluate the likelihood of those risks being realised, the impact should they be realised, and to manage them efficiently, effectively and economically.

The Combined Authority has developed a Risk Management Strategy and strategic risk register, which is reported to regular meetings of the Authority's Governance Committee. This information can be found under the Governance Committee on the Authority's web-site at: http://www.northeastca.gov.uk/committee-meetings/governance-committee-background-information-papers

Section 2: Purpose Of The Governance Framework

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

The Governance Framework has been in place for the year ended 31 March 2017 and up to the date of approval of the Authority's Annual Report and Accounts.

This Annual Governance Statement meets the requirements of Regulation 3 of the Accounts and Audit (England) Regulations 2015 which requires all relevant public bodies to prepare an annual governance statement, therefore in doing so complies with the principles of corporate governance set out in the CIPFA/SOLACE Good Governance Framework 2012.

Section 3: The Governance Framework

Our Governance Framework is developing, following the formation of the North East Combined Authority in April 2014 and is maturing with the organisation. As such systems, processes and controls are developing and adapting to meet the needs of the Combined Authority going forward, to ensure we are in the best position to achieve our objectives.

The core principals and outcomes of our Governance framework are set out below and through these we will aim to provide strong governance to achieve our objectives:

<u>Focusing on our objectives and outcomes</u>

1.1 We ensure that we are clear on delivering the objectives of the Combined Authority and intended outcomes of our Strategic Economic Plan, to create the best possible conditions for growth in jobs, investment and living standards, enabling residents to develop high-level skills so they can benefit long into the future.

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

Members and officers have clearly defined roles and responsibilities

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

We promote high standards of conduct and behaviour

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

Transparent decision making subject to scrutiny and risk management

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

4.2 We ensure that our Governance Committee undertakes the core functions identified in CIPFA's Audit Committees – Practical Guidance for Local Authorities 2013.

4.3 We ensure that there are effective arrangements for "Whistle-blowing" and for receiving and investigating complaints from the public. Administration of the Authority's policies on anti-fraud and corruption is undertaken by Internal Audit.

Developing the capacity of members and officers to be effective

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

Engaging with local people and stakeholders

6.1 We have established channels of communication with the community and other stakeholders, ensuring accountability and encouraging open consultation. Meetings are held in public unless there are good reasons for confidentiality.

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

Section 4: 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 Governance Committee who provide independence and challenge. The outcomes of the review were circulated informally to Leadership Board and will be considered further by the Governance Committee.

The review is informed by:

(a) The views of our internal auditors, reported to Governance Committee through regular progress reports, and the Annual Internal Audit Opinion.

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

(c) The views of our external auditors, reported to Governance Committee through regular progress reports, and the annual Internal Audit Opinion, adhering to the principles in CIFPA Statement 2010 on the role of the Head of Internal Audit.

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

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

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

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

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

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

Section 5: 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 2016/17.

Section 6: Conclusion

We consider the governance and internal control environment operating during 2016/17 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 are in place and operating as planned.

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

Interim Head of Paid Service	**Chair of the Combined Authority**
Full Name: Helen Golightly	**Full Name: Paul Watson**
Signature:	**Signature:**
Date:	**Date:**

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north east combined authority

Leadership Board

Date:	**19 September 2017**
Subject:	**Budget Process and Timetable 2018/19**
Report of:	**Chief Finance Officer**

Executive Summary

The purpose of this report is to set out the process and timetable for the preparation, consultation and approval of the 2018/19 budget and indicative medium term financial strategy.

Recommendations

The Leadership Board is recommended to –

a) agree the 2018/19 Budget Process and timetable; and

b) commence the consultation on the Initial Budget Proposals on their publication on 14 November 2017, noting that any subsequent amendments made by the Leadership Board on 21 November 2017 will be incorporated in the Initial Budget Proposals.

1. Background Information

1.1 **2018/19 Budget and Medium Term Financial Strategy**

1.1.1 NECA is required to set its budget and Transport Levies in its area for 2018/19 before 15 February 2018. It is currently planned that the NECA Leadership Board will agree these at its meeting on 16 January 2018.

1.1.2 To achieve this, Transport levies must be considered by the Tyne and Wear Transport Sub-Committee and in Durham and Northumberland by mid-December 2017.

1.1.3 While the statutory requirement is for an annual budget and levies to be set for 2018/19, it is good practice to set a budget and in particular a capital programme within the context of a Medium Term Financial Strategy covering a three to five year period. In the last two years external factors have meant that NECA has only been able to set annual budgets. The authority will need to take into account the information available about the availability of revenue and capital resources for future years when it considers its budget position for future years.

1.2 **Budget Timetable**

1.2.1 An indicative timetable has been prepared (see Appendix 1) to enable the budget and levy decisions to be taken on 16 January 2018, and to meet the need for consultation over the 2018/19 budget proposals as set out in NECA's constitution.

1.2.2 The timetable will be challenging, and requires an outline budget for 2018/19 to be agreed on 21 November for consultation, meaning discussion of substantive policy, strategy and financial considerations in September and October.

1.2.3 Outline budget proposals will highlight the overall level of the capital and revenue budgets for 2018/19 and any significant service impacts upon which consultation would be required. It should set out the level of reserves considered prudent for NECA and an assessment of the opportunities and risks facing the authority. More detail can be agreed in early December to be added to the budget report for 16 January.

1.2.4 As in previous years, consultation with NECA Committee will take place over the coming months, to enable any comments to be reflected in the report to the January meeting of the Leadership Board. A verbal update will be given about any comments about the process and timetable made at the Committee meetings that are taking place in September.

1.3 **Reserves**

1.3.1 The budget proposals need to include an assessment of the level of financial risk facing the NECA budget. Risks to the budget are currently considered to be generally relatively low in respect of Transport as, under the Levy rules, the in-year Transport cost risks are taken by Durham and Northumberland Councils, and by Nexus for Tyne and Wear.

1.3.2 Risks from the pension fund are minimal as NECA's fund is currently in a surplus position.

1.3.3 Risks associated with Treasury Management loans and investments will be covered in a separate statement as part of the budget process.

1.3.4 Risks relating to NELEP funds will be managed within NELEP budgets, including access to funds where the use is determined by the NELEP board.

1.3.5 While NECA has substantial total reserves, these are virtually all earmarked for specific purposes, particularly capital investment and the Tyne Tunnels. The NECA corporate reserve is low (£283k at 1 April 2017). The adequacy of this reserve will be reviewed as part of the budget preparation process.

2 Proposals

2.1 The proposals are as set out above and in Appendix 1 for approval of the Leadership Board.

3. Reasons for the Proposals

3.1 This report is for information. The proposed timetable has been developed in order to meet the Authority's responsibilities for budget setting in line with regulations and its own constitution.

4. Next Steps and Timetable for Implementation

4.1 During August and September the budget process is being discussed with Economic Development Officer Group, the Directors of Finance Group, the Heads of Transport Group and individual Treasurers. Senior officers have been encouraged to have discussions within each authority as part of their budget process.

4.2 Meetings in September and October with Senior officers and members will identify the key issues that need to be reflected in the initial budget report in November.

5. Potential Impact on Objectives

5.1 The budget and Medium Term Financial Strategy will be prepared to reflect the objectives of the Authority including the delivery of the Strategic Economic Plan. Future reports will set out revenue and capital budget proposals in detail that will help deliver the objectives of the Authority.

6. Financial and Other Resources Implications

6.1 This report sets out the timetable and process for agreement of the necessary budgets and funding for the Authority. The Chief Finance Officer will draw on available resources to deliver the budget report and plan.

7. Legal Implications

7.1 NECA is required by the Transport Levying Bodies (Amendment) Regulations 2015 to issue the transport levies by 15 February preceding the commencement of the financial year in respect of which it is issued.

7.2 In accordance with the Budget and Policy Framework Rules of Procedure of the NECA's Constitution, at least 2 months before the calculation of the revenue budget and transport levies are required to be finalised, the Leadership Board will produce initial outline proposals for consultation, and these will be reported to the meeting of the Leadership Board on 21 November 2017. Given that this year there is less than two calendar months before the Leadership Board's meeting on 16th January 2018. It is proposed consultation on the draft Budget Report commence on 14 November 2017 once the Agenda has been circulated, but that the published draft Budget Report will be subject to any changes by the Leadership Board on 21 November.

7.3 Once the consultation process has been completed, details of the final proposals in relation to the revenue budget and levies will be referred to the Overview and Scrutiny Committee.

7.4 Given the timescales set out above, the detailed proposals in relation to the revenue budget and transport levies need to be considered by the Leadership Board at its meeting on 21 November and by the Governance Committee on 5 December and the Overview and Scrutiny Committee on 14 December.

8. Key Risks

8.1 The budget timetable has been developed to manage the risk that the budget is not agreed unanimously by the requisite deadline through early discussion with all constituent authorities. The budget proposals will include an assessment of the risk facing the NECA budget, which will be used to inform the level of reserves which is determined to be prudent.

8.2 The budget will need to reflect any changes needed in the event of any devolution deal being announced for the North of Tyne area.

9. Equality and Diversity

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

10. Crime and Disorder

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

11. Consultation/Engagement

11.1 The budget timetable proposed includes provision for consultation and engagement with key stakeholders, including the various committees of NECA, the North East Chamber of Commerce and officer groups representing all of the NECA constituent authorities.

12. Other Impact of the Proposals

12.1 There are no other impacts arising from this report.

13. Appendices

13.1 Appendix 1 – Budget Timetable

14. Background Papers

14.1 None

15. Contact Officers

15.1 Paul Woods, Chief Finance Officer, paul.woods@northeastca.gov.uk, Tel: 07446936840

Eleanor Goodman, Principal Accountant, eleanor.goodman@northeastca.gov.uk, Tel: 0191 277 7518

north east combined authority

Leadership Board

16. Sign off

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

north east combined authority

Leadership Board

Appendix 1 – Budget Timetable 2018/19

DATE	EVENT/MEETING	ACTION
August-September 2017	Budget preparation – discussions with local authorities and officer groups	Consider and comment on NECA budget issues
12 September 2017	NECA Governance Committee	Update on Budget Process and Timetable
14 September 2017	Transport North East Committee – Tyne and Wear Sub Committee	Update on budget process with specific reference to the Tyne and Wear Transport Levy and the Tyne Tunnels budget.
19 September 2017	NECA Leadership Board	Consider and agree 2018/19 budget process/timetable and updated 2017/18 budget position
October 2017	Meetings with individual authorities	Consult/discuss budget proposals; identify and resolve issues
16 November 2017	Transport North East Committee	Consider Transport budget/levy proposals for consideration by Leadership Board
14 November 2017		Draft NECA Leadership Board Budget Report circulated for consultation.
21 November 2017	NECA Leadership Board	Consider and agree draft budget report and any changes to the report for wider consultation
5 December 2017	Governance Committee	Consider budget report as part of consultation process
December 2017 (date to be confirmed)	Tyne and Wear (Transport) Sub Committee	Consider/agree transport budget/levy proposals for consideration by Leadership Board
12 December 2017	LA7 Leadership Briefing	Informal consideration of the content of the budget report and levy proposals
14 December 2017	NECA Overview & Scrutiny Committee	Consider budget report as part of consultation process
8 January 2018	Paper circulation	Final budget report published
16 January 2018	NECA Leadership Board	Formally agree levies and budget

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Leadership Board

Date: 19 September 2017

Subject: Update on proposed Auditor Appointment from 2018/19

Report of: Chief Finance Officer

Executive Summary

As reported to previous meetings of the Committee, NECA has chosen to opt-in to the national scheme for auditor appointments administered by Public Sector Audit Appointments (PSAA). PSAA propose appointing Mazars LLP as the auditor of NECA for a five year period from 2018/19.

Recommendations

The Leadership Board is recommended to:

i) Receive the report for information and comment.

north east combined authority

Leadership Board

1. Background Information

1.1 On 7 March 2017, the Leadership Board agreed to accept the invitation received from Public Sector Audit Appointments Limited (PSAA) for NECA to opt in to the national scheme for auditor appointments, which applies for the audit of accounts from 2018/19 onwards.

1.2 PSAA must, under regulation 13 of the Regulations, appoint an external auditor to each opted-in authority and consult the authority about the proposed appointment.

1.3 NECA has opted into PSAA's auditor appointment arrangements and has received email communications to audited bodies about the process. On 19 June 2017 PSAA wrote to the Head of Paid Service and Chief Finance Officer to advise that they had completed a procurement to let audit contracts from 2018/19. Mazars LLP was successful in winning a contract in the procurement, and PSAA propose to appoint this firm as the auditor of NECA.

1.4 Mazars are current external auditors to NECA and have been since 2015/16. Mazars is a large global audit and accounting firm with over 18,000 professionals in 79 countries worldwide. In the UK, the firm ranks in the top ten with 1,700 employees and 140 partners working out of 19 offices, and UK fee income in 2016 of £160m.The firm's dedicated public audit team has significant experience in providing external audit to public sector bodies. It comprises individuals with experience of auditing councils, combined authorities, police bodies, fire and rescue authorities, local government pension funds and other public bodies. In addition to its audit contract with PSAA, the firm also has a substantial portfolio of NHS audits and is one of the National Audit Office's framework suppliers for central government audit.

2. Proposals

2.1 It is the recommendation of the Chief Finance Officer that the appointment be formally accepted.

2.2 Should an authority wish to object to a proposed auditor arrangement, representations must be made by 5pm on Friday 22 September 2017. Representations can include matters that an authority believes may be an impediment to the proposed firm's independence. The following may represent acceptable reasons:

i. There is an independence issue in relation to the firm proposed as the auditor, which had not previously been notified to PSAA;

ii. There are formal and joint working arrangements relevant to the auditor's responsibilities, which had not previously been notified to PSAA; or

iii. There is another valid reason, for example the authority can demonstrate a history of inadequate service from the proposed firm.

2.3 It is not considered that any of these criteria apply to NECA in relation to the proposed appointment of Mazars.

3. Reasons for the Proposals

3.1 This report is presented for information.

4. Alternative Options Available

4.1 This report is presented for information.

5. Next Steps and Timetable for Implementation

5.1 The consultation by PSAA will close at 5pm on Friday 22 September 2017.

5.2 The PSAA Board will consider all proposed auditor appointments at its meeting scheduled for 14 December 2017, and will write by email to all opted-in bodies after this Board meeting to confirm auditor appointments.

6. Potential Impact on Objectives

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

7. Financial and Other Resources Implications

7.1 PSAA will consult on scale fees for 2018/19 in due course and will publish confirmed scale fees for 2018/19 for opted-in bodies on their website in March 2018. The results of the audit procurement indicate that a reduction in scale fees in the region of approximately 18% should be possible for 2018/19, based on the individual scale fees applicable for 2016/17. The level of the scale fee will not be affected by the choice of firm appointed as external auditor.

8. Legal Implications

8.1 New arrangements for the appointment of external auditors were introduced in the Local Audit and Accountability Act 2014. Local government bodies must appoint their auditor for accounts from 2018/19 onwards by the end of the calendar year.

8.2 NECA opted to meet its legal obligations to appoint an auditor under the new regime by joining the national sector led scheme managed by PSAA.

9. Key Risks

9.1 There are no risks arising from this report which is for information.

10. Equality and Diversity

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

11. Other Impact of the Proposals

11.1 There are no other impacts arising from this report.

12. Appendices

12.1 None

13. Background Papers

13.1 Public Sector Audit Appointments – Overview of Appointing Person scheme

http://www.psaa.co.uk/wp-content/uploads/2017/07/Overview_of_Appointing_Person_scheme_July_2017.pdf

14. Contact Officers

14.1 Paul Woods, Chief Finance Officer, paul.woods@northeastca.gov.uk, Tel: 07446936840

Eleanor Goodman, Principal Accountant, eleanor.goodman@northeastca.gov.uk, Tel: 0191 277 7518

15. Sign off

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

north east combined authority

Leadership Board

Date: **19 September 2017**

Subject: Agreement for the provision of temporary accommodation across North East Combined Authority (NECA)

Report of: Head of Paid Service

Executive Summary

The purpose of this report is to provide Members with information regarding the 'Agreement for the provision of temporary accommodation' (Appendix 1) across the seven Local Authorities in the North East Combined Authority.

This document enables any Local Authority within the NECA area to approach another Authority for temporary accommodation as a result of an emergency or major incident. It provides standard terms and conditions across the forum and provides a common license agreement.

Recommendations

The Leadership Board is recommended to receive the report for information and acknowledge the work being undertaken by the seven local authorities within the NECA area to work together under the 'Agreement for the provision of temporary accommodation' set out in appendix 1.

north east combined authority

Leadership Board

1. Background Information

1.1 Local authorities have a proven track record of responding swiftly and effectively to incidents and emergencies which affect the communities they serve. All local authorities will have plans in place which enable them to do this.

1.2 Recent incidents such as Grenfell Towers, however, have demonstrated that, even for the best prepared authorities, a point will be reached where it becomes difficult, if not impossible, for an authority acting alone to sustain its emergency response given the scale of demand placed upon it. In these circumstances, assistance from other authorities becomes imperative.

1.3 There is a signed Mutual Aid Agreement in place between County Durham & Darlington and Northumbria Local Resilience Forums. Each of the participating local authorities has agreed that they will provide assistance in the form of personnel and other resources in the event of or in anticipation of an emergency, disruptive or rising tide incident affecting the area of any participating local authority.

1.4 This Agreement builds on those arrangements and sets standard terms and conditions across the NECA area for provision of temporary accommodation and provides a common license agreement.

1.5 It is proposed that the seven local authorities, with support from NECA where approariate, establish a register of temporary accommodation and will provide details of the maximum number of temporary accommodation available. It is recommended that this register is co-ordinated by the Tyne and Wear Homes Partnership in conjunction with other sub regional lettings partnerships within the scope of this Agreement.

2. Proposals

2.1 It is proposed to adopt this common agreement for the provision of temporary accommodation across the North East Combined Authority area and continue to maintain an active database of available properties.

3. Reasons for the Proposals

3.1 To further strengthen our individual resilience plans through a more detailed mutual aid agreement around temporary accommodation.

4. Alternative Options Available

4.1 The alternative is to continue to rely on ad hoc arrangements at the time of crisis.

5. Next Steps and Timetable for Implementation

5.1 The proposed agreement and license are shown at appendix 1.

5.2 It is recommended that the register of temporary accommodation be collated by the Tyne and Wear Homes Partnership over the next 3 months and updated on a quarterly basis.

6. Potential Impact on Objectives

6.1 This proposal does not impact directly on existing NECA plans or strategies but is a key part of each authority's emergency planning duties and resilience plans.

7. Financial and Other Resources Implications

7.1 There are no direct financial or resource implications as a result of this report.

7.2 The agreement sets out how each local authority is able to access another NECA local authority's accommodation. It also sets out that this will be on a cost recovery basis and subject to the level of need locally at the time of the request.

8. Legal Implications

8.1 There are no direct legal implications as a result of this report.

8.2 A standard license for occupation has been produced as an appendix to the agreement. This is compliant with the requirements of Part VII of the Housing Act 1996. The provisions of the Protection from Eviction Act 1977 do not apply to this license.

9. Key Risks

9.1 Any authority is able to refuse the use of accommodation in their area. All costs are fully recoverable from the authority that places a household. There are provisions to terminate the mutual aid agreement. Therefore risks are negligible.

10. Equality and Diversity

10.1 There are no equality and diversity implications as a result of this proposal.

11. Crime and Disorder

11.1 There are no crime and disorder implications as a result of this proposal.

12. Consultation/Engagement

12.1 Chief Executives of all local housing authorities across NECA have been consulted through the production of this agreement.

13. Other Impact of the Proposals

13.1 There are no further impacts as a result of this proposal.

14. Appendices

14.1 Appendix 1 provides the detailed agreement.

15. Background Papers

15.1 There are no background papers.

16. Contact Officers

16.1 George Mansbridge, Head of Development Services, South Tyneside Council
George.mansbridge@southtyneside.gov.uk
Tel. 0191 424 6599

17. Sign off

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

Appendix 1

LICENCE FOR OCCUPATION OF

TEMPORARY ACCOMMODATION IN …………………………

This Licence is made between

1. The Council of ……………………. ("the Licensor") and

2. ("the Licensee").

The Licensee has made an application to the Licensor for accommodation under Part VII of the Housing Act 1996 and the Licensor grants the Licensee this Licence for the period beginning on the date of this Licence with the intention that it shall end either on the determination of that application or earlier in accordance with the terms of this Licence.

The Licensor allows the Licensee to occupy and use the flat/house ("the Property") known as together with the right to use the furniture in the Property as described on the Inventory attached to this Licence on the following terms and conditions. The Licensor will provide the Licensee with a key to the Property but will also retain a duplicate key to the Property.

The parties acknowledge that this Licence is not a secure tenancy and will terminate immediately when the Licensee's application has been decided or if any of the terms of the Licence are breached. For the avoidance of doubt the provisions of the Protection from Eviction Act 1977 do not apply to this Licence.

TERMS AND CONDITIONS

1. TERM

This Licence is daily commencing on the …………………………..

2. LICENCE FEE

(a) The Licence fee and all required charges are payable weekly to the Licensor or the Licensor's representative and continuing residence in the Property is conditional on payment.

(b) The Licensor shall be entitled to vary the Licence fee in line with the Licensor's agreed fees and charges schedule from time to time. The Licensor will give the Licensee one week's written notice of an increase in charges.

3. OBLIGATIONS OF THE LICENSEE

Failure to comply with any of the following obligations will entitle the Licensor to terminate this Licence forthwith.

(a) To pay the Licence fee when required by the Licensor.

(b) To allow the Licensor access to the Property at any time.

(c) To occupy the Property only as a private residence and not to use it for any trade or business or any immoral or illegal purposes.

(d) To keep the Property clean and in a sanitary condition and to remove all household rubbish and carry out basic household catering in the Property.

(e) Not to disclose your address without first discussing this with the service.

(f) Not to assign this Licence or otherwise part with possession of any part of the Property or take in lodgers or paying guests.

(g) Not to permit any visitors to remain in the Property overnight.

(h) Not to cause a nuisance or annoyance to the occupiers of neighbouring premises.

(i) To ensure that the Licensee and any of his/her permitted visitors to the Property do not say or do anything against a person of a different racial or ethnic origin on the grounds of his/her racial or ethnic origin.

(j) To ensure that the Licensee and permitted guests do not act in an abusive or violent manner to staff members of South Tyneside Council, South Tyneside Homes or their representatives.

(k) Not to damage any furniture fittings equipment fixed or moveable in the Property and to report any damage immediately to the Licensor or the Licensor's representative and to pay in full the cost of any breakages of equipment and furniture or damage to decoration or fittings.

(l) Not to use or permit to be used narcotic substances in the Property.

(m) Not to permit drunken and rowdy behaviour in the Property.

(n) Not to make any alternations additions or improvements to the Property and shall in particular not erect any outside wireless TV CB aerial or satellite dish.

(o) Not to interfere with the installations in the Property for the supply of gas and electricity to the Property and not to make any arrangements or enter into any contract for the variation alteration or change in the statutory undertaker or supplier of such gas and electricity services.

(p) Not keep any animals or birds in the Property.

(q) Not to dump rubbish in the garden/yard of the Property.

(r) To be available during working hours when required by the Licensor's representative to assist in determining the Licensee's homelessness application including viewing properties as appropriate.

(s) At the end of this Licence the Licensee shall remove all his/her belongings and personal possessions from the Property and it is specifically agreed that if the Licensee fails to do this and leaves any items in the Property the Licensor shall keep such items for a period of seven days and if the Licensee does not collect the items within that period the Licensor shall dispose of such items in whatever manner it deems appropriate.

(t) Return the keys to the Property to the Licensor or the Licensor's representative before 12:00pm on the day of termination of this Licence and it the Licensee fails to do this he/she shall be liable for the cost of replacing the locks.

(u) To leave the Property in a clean and tidy condition and ensure all fixtures and fittings are in the same clean state as they were at the beginning of this Licence.

(v) To pay any outstanding Licence fee charges or damages due to the Licensor.

4. LICENSOR'S OBLIGATIONS

The Licensor will:-

(a) Keep in good repair the structure and exterior of the Property including the outside garden and/or yard(s), except where such repair becomes necessary through the Licensee's failure to take care.

(b) Keep in good repair and working order the Licensor installations for space heating, water heating and sanitation and for the supply of electricity save where the repair is needed because the Licensee has not taken reasonable care of the Property.

5. ENTRY BY THE LICENSOR

It is hereby agreed between the parties that:-

(a) The Licensor shall retain a key to the Property and shall be at liberty at any time through its officers or agents to gain access to the Property to inspect the state of repair or condition to verify whether the terms of this Licence are being complied with and to carry out at any reasonable time works of maintenance improvement or repair to the Property or any adjoining premises.

(b) In the event of the Licensor upon such an inspection reasonably forming the view that the Licensee has vacated the Property without giving notice in accordance with clause 6 of this Licence the Licensor may leave at the Property a notice for the Licensee to that effect and if the Licensee fails to contact the Licensor within 24 hours of such notice being left the Licensor shall be entitled to change the locks of the Property such cost to be reimbursed by the Licensee and to immediately terminate this Licence.

(c) As and when the Licensor deems it necessary the Licensee shall after 24 hours' notice from the Licensor transfer his/her occupation to other accommodation selected by the Licensor.

6. NOTICE OF TERMINATION

This Licence may be terminated by

(a) either party by seven days' notice in writing to expire at any time or

(b) the Licensor forthwith upon the breach of the Licensee of any obligations of the Licensee herein contained.

Dated

Signed Licensee

Signed On behalf of ………………… Council

TEMPORARY ACCOMMODATION IN ……………………………..

LICENCE FEE OBLIGATIONS

Address of property______________________________

You, the Licensee, are required to pay all required charges for this accommodation in accordance with clause 2 of this Licence.

Your charges for this property are as follows:

Rent: £
Water: £
Sewerage: £
Service Charge: £

Total charges: £

The charges are payable on a weekly basis.

If you are in receipt of certain benefits, you may qualify for Housing Benefit. This will cover the Rent and Service charges. If you completed Housing Benefit papers when you signed for this property you must contact the Housing Benefit section, Customer Service Centre, Town Hall, South Shields within 3 working days with evidence of proof of income and identification.

Housing Benefit payments do not cover water and sewerage charges. You are expected to pay these each week. Payments can be made at any Housing Office.

Caution:
Failure to pay the required licence charges for this property will result in the termination of the licence and may affect any future permanent offer of accommodation.

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north east combined authority

Leadership Board

Date: **19th September 2017**

Subject: **Project Approvals – Local Growth Fund and Enterprise Zone Infrastructure Approvals**

Report of: **Head of Paid Service and Chief Finance Officer, NECA**

Executive Summary

This report seeks the Leadership Board's approval to Local Growth Fund (LGF) programme projects, including decisions taken ahead of the North East LEP Board on 28th September 2017 in order to expedite the implementation of the decisions taken by the LEP Board.

Specifically, this report outlines 3 proposals to be part funded from the LGF Round 3 mini programme allocation for 'Skills, Innovation and Business Growth' and an original LGF Round 1 transport programme project that requires approval under delegated arrangements from the North East LEP to the Leadership Board.

The LGF Initiatives under Round 3 Mini programme are:

- Inclusion of a new North East Education Challenge and Ambition project with an LGF request for £750,000 to match a LEP (NECA) ESF bid.
- An innovation project development fund – designed to support the research and development of projects that can strengthen the strategic innovation infrastructure capability of the North East and better position the region to secure future funding from national resources, including Industrial Strategy.
- An Incubation Development Fund – designed to support the enhancement of existing specialist and generic business incubators and to help develop new incubation facilities that plug gaps in the North East's innovation ecosystem.

LGF Transport Theme

- South Shields Metro Maintenance, Renewals and Skills Centre – approval of a grant of £7.0m. (The previous working title of this project in the LGF programme was 'Metro Enhancements').

The report also provides the Leadership Board with an update on the Enterprise Zone Infrastructure programme and the timetable for consideration of the approval of Business Cases for the individual Enterprise Zone round 1 and 2 sites and the progress being made to develop an overarching legal agreement between the constituent authorities in the NECA and the North East LEP Area. This follows an update to the North East LEP Board in July.

Leadership Board

Recommendations

The Leadership Board is recommended to -

1. Agree to programme entry for the North East Education Challenge and Ambition Programme and LGF budget allocation of £750,000 from within the LGF Round 3 Skills, Innovation and Business Growth mini programme budget, subject to business case approval by the North East LEP Board, as set out in section 2.1.2;

2. Agree to a LGF budget award of £948,364 for the Innovation Project Development Fund from the LGF Round 3 skills mini programme allocation, subject to the approval of the North East LEP Board, as set out in section 2.2;

3. Agree to a LGF budget award of £2,027,114 of for the Incubation Project Development Fund from the LGF Round 3 skills mini programme allocation, subject to the approval of the North East LEP Board, as set out in section 2.3.

4. Agree to an LGF Grant Funding Agreement of £7.0m for the South Shields Metro Maintenance, Renewals and Skills Centre, as set out in section 2.4;

5. Note the progress made with the refresh of the Enterprise Zone financial model and the development of an overarching Enterprise Zone funding agreement between the seven constituent councils and NECA as the accountable body for the LEP, and the timetable for the consideration of further Infrastructure approvals by the LEP Board and NECA as set out in section 2.5 of this report; and

6. Authorise the Monitoring Officer to finalise and enter into any legal and grant funding documentation required to enable the approved schemes in this report to proceed.

north east combined authority

Leadership Board

1 Background Information

1.1 The Local Growth Fund (LGF) programme encompasses a wide range of major projects and programmes across the region. The Round 1 and Round 2 grant approvals amount to £220.437m form part of our capital programme and a new Round 3 grant of £49.7m was approved in January by the Government. The total approved LGF grant amounts to £270.137m for the period from 2015/16 to 2020/21.

1.2 The purpose of the report is to set out several LGF programme pipeline projects for approval following business case appraisal.

1.3 Enterprise Zone sites have been active in the North East since April 2013 with ten sites across three locations having been launched to support low carbon vehicles, offshore and marine technologies and energy. The second round of sites include a further eleven locations across the North East. The focus of the Enterprise Zones is to develop difficult sites for commercial occupation and create additional jobs to help meet the SEP objectives. This report provides a brief update on the financial model and sets out the timetable for implementing an overarching legal agreement and bringing forward approvals to the remaining infrastructure works needed so that the office and manufacturing sites can attract occupiers and provide jobs in the region.

2 Proposals

2.1 North East Education Challenge and Ambition Programme (£0.750m)

2.1.1 This is an emerging initiative that will build upon the successful Good Careers benchmarks pilot model in the North East supported by the Gatsby Foundation and managed locally by the North East LEP. This expanded programme of activity will engage more schools, Colleges and Universities across the North East in the following two areas of activity:

1. **Developing Careers and Curriculum Development Framework:** To scale up the adoption of the 'Good Careers Benchmarks' within secondary schools and colleges and introduce benchmarks across the whole education sector.

2. **Delivering the Framework**:

a. **Shared learning between Business and Educators** By developing and implementing innovative ways to share learning between educators, businesses, learners and communities; promoting a more industry focussed curriculum; building capacity and expertise within education establishments to enhance their links to industry, and offering effective advice and guidance to young people on local careers and becoming 'job ready'.

b. **Educators into Industry**
Developing and implementing high quality internships, placements and work experience that supports Educators into Industry; this will develop industry relevant experience, expertise and knowledge which can be brought back to the teaching and learning environment. It will also support SMEs and business leaders to work with and support the education sector.

2.1.2 The project will be fully developed, subject to funding and rolled out from June 2018 to September 2021. A requested LGF budget of £750,000 will seek to lever in a minimum of £1.5m from a range of sources, in particular from the European Social Fund (ESF), with the quantified benefits to be finalised in the following areas:

I. Support SMEs to secure more industry focussed curriculum, leading to a pipeline of young people appropriately skilled and ready for the world of work.

II. Provide educators with industry relevant experience – enabling them to take it back to the teaching and learning environment.

III. Ensure an effective Careers Strategy in participating schools and colleges.

IV. Enabling the education system to be more industry focussed

V. Providing better destination outcomes for more young people, raising their aspirations and encouraging social mobility.

2.1.3 This outline project is being brought forward now to allow LGF to be shown as matched funding in an outline application in response to an ESF open call, which closes on 23rd October 2017. Indicative matched funding is a critical consideration in the ESF application assessment process. A full LGF business case and an ESF Full Application would follow in early 2018 with final approval by the North East LEP Board in the spring and NECA Monitoring Officer under delegation. LGF capital funding would need to be swapped with NECA revenue funding as this is essentially a revenue project.

2.2 Innovation Project Development Fund

2.2.1 This fund will provide grant assistance to help the North East accelerate the research and development of innovative infrastructure to further build capacity, particularly within the four smart specialisation areas identified in the Strategic Economic Plan. The scheme will operate over the period November 2017 to September 2020 and has a target of supporting up to four strategic studies that have the potential to be subsequently delivered through a mix of national, international and local funding. The fund will be of interest to industry sector partnerships, specialist research institutions and Universities and will encourage collaboration with the region.

2.2.2 Resources will be directed towards investment in projects which are relevant and eligible for funding in line with the North East Strategic Economic Plan and Innovate UK, currently these are:

1. Infrastructure Systems
2. Manufacturing and Materials
3. Health and Life science
4. Emerging and enabling technologies

And, the Governments' National Industry Challenge Fund, currently these are:

1. Healthcare and medicines
2. Robots and Artificial Intelligence
3. Clean and flexible energy
4. Driverless vehicles
5. Manufacturing and materials of the future
6. Satellites and space technology

2.2.3 The project budget and LGF funding profile is set out below.

Funding Source	2017/18 £	2018/19 £	2019/20 £	2020/21 £	**Total £**
LGF* revenue	7,586	390,345	397,845	152,586	**948,362**
Public / private matched funds		56,250	112,500	56,250	**225,000**
Total	**7,586**	**446,595**	**510,345**	**208,836**	**1,173,362**

* LGF revenue funding to be provided by a return of revenue funding from the NECA (Tyne Tunnel account) from a capital/revenue funding SWAP.

2.3 Incubation Development Fund

2.3.1 The North East LEPs Innovation Programme includes both a focus on specific sector advantages across the Smart Specialisation areas of economic advantage (passenger vehicle manufacture, health and life science, digital and data and offshore and subsea engineering); however, it also aims to support the broader open-innovation approach bringing together different partners and sectors to develop new approaches and solutions. To enable this requires a strong ecosystem of finance, physical infrastructure, advice and guidance, knowledge transfer and network engagement. Business incubators are identified in the strategy as a central part and will be supported through this new initiative. An enhanced incubator support programme will provide a strategic fund to help create high-quality facilities and infrastructure (such as test, demonstration and development facilities) in accessible locations.

2.3.2 The project has been developed to address and close a gap in the provision of high-quality incubation space in the North East LEP area. In comparison to those areas of best practice there is a shortage of relevant space dedicated to the start-up and growth of innovative businesses and environments conducive to the development of new products and processes and to drive economic growth.

2.3.3 The project will provide predominately capital funds to enable a small number of existing incubators to enhance facilities through upgrading premises and acquiring state of the art new equipment. Support will also be made available for up to three feasibility studies to further prepare a pipeline of strategic facilities in the medium term to help address the North East's under provision. The programme also seeks to support, with a more substantial grant, one project to be brought forward and delivered over the 3 years. Project applications will be invited through open project calls, to be issued following consultation with the North East LEPs Innovation Board.

2.3.4 The project budget and LGF funding profile is set out below

Funding Source	2017/18 £	2018/19 £	2019/20 £	2020/21 £	**Total £**
LGF capital (£)	27,586	156,596	1,170,346	402,586	**1,757,114**
LGF revenue* (£)		210,000	60,000		**270,000**
Total LGF (£)	**27,586**	**366,596**	1,230,346	402,586	**2,027,114**
Public / private matched funds (£)		15,000	402,500	500,000	**917,500**
Total (£)	**27,586**	**381,596**	**1,632,846**	**902,586**	**2,944,614**

*This element of the LGF budget will be funded by a return of revenue from a funding swap from the NECA (Tyne Tunnel account).

2.4 South Shields Metro Training and Maintenance Skills Centre (£7.0m)

2.4.1 This scheme involves the provision of new facilities located in South Shields for Metro maintenance and training which will comprise new and improved facilities, resulting in the delivery of a better Metro service. The centre, which is to be built on Nexus-owned land north of the existing Metro station, will provide extra capacity for fleet maintenance, and become the hub for all Nexus training and development activities. Hands-on training will be significantly increased and improved, with both theory and practice delivered on a single site.

2.4.2 The centre will deliver an expanding portfolio of training and operational activities across a range of specialisms including train and track maintenance, engineering, rail safety, management and other industry activities. The centre will become the hub for all Nexus training competencies: management, safety, operational and technical. It will create local jobs and provide additional economic activity within South Shields town centre, and ensure future-proofing for subsequent network improvements in this area and further afield.

2.4.3 A single building will combine a maintenance shed with a mock station platform for training activities, plus classrooms and outdoor areas for track and mechanical activities.

2.4.4 The location of the centre at the end of the South Shields Metro corridor will allow for services to begin earlier and finish later than at present and provide increased operational resilience for Metro on this part of the network, resulting in a better Metro service for South Tyneside

2.4.5 The total cost of the scheme is £9.459m, £7.000m of which is requested from the Local Growth Fund, with the balance being funded by the promoter.

Funding Sources	**2015/16 £m**	**2016/17 £m**	**2017/18 £m**	**2018/19 £m**	**Total £m**
LGF	-	-	1.000	6.000	7.000
Match funding	0.117	0.283	0.938	1.121	2.459
Total	**0.117**	**0.283**	**1.938**	**7.121**	**9.459**

2.4.6 The scheme - under the working title of Metro Enhancements - has previously been approved in principle as part of the LGF Round 1 Programme. The name of the scheme has subsequently changed to better reflect the outputs of the scheme.

2.4.7 The full business case has undergone an independent assessment and was found to be satisfactory. The scheme represents high value for money with a benefit cost ratio (BCR) of 2.51.

2.4.8 Leadership Board are asked to approve a grant of £7 million to enable the South Shields Metro Training and Maintenance Skills Centre to be delivered. Owing to procurement timescales, it is imperative that the scheme commences immediately after funding approval is received so that the promoter can award a works contract to its preferred supplier.

2.4.9 The scheme is expected to complete January 2019.

2.5 Update on Enterprise Zone Programme and the Timetable for Approvals

2.5.1 Update reports to the LEP Board in May and June reported on the financial outturn position over the last four years and set out a performance reward arrangement to incentivise delivery of development on the sites and to maximise jobs and retained income to help deliver the objectives of the SEP, which was approved.

2.5.2 The key focus of the Enterprise Zone sites is the creation of jobs in the region to help achieve the objectives in the SEP. The additional business rate income enables infrastructure and interventions to be undertaken on each of the sites to enable them to be developed. Once the costs of financing these interventions are funded, any surplus income in future years would be available to fund activity aimed at achieving the SEP objectives, as agreed by the LEP Board.

2.5.3 A commercial market validity report by Cushman and Wakefield's included commentary and recommendations about the most appropriate rateable value assumptions to use for the sites and potential market demand for the sites. The findings set out in the report have been taken into account in revising the assumptions about the level of business rate income likely to be generated over the life of the enterprise zones.

2.5.4 The report confirmed a broadly positive picture for the market for the types of properties proposed to be built on the Enterprise Zone sites in the North East - with demand increasing and a reducing supply of properties currently available: -

- There is a shortage of high-quality manufacturing and industrial premises due to expected high demand linked to long-term and sizable commitments from the likes of Hitachi, Nissan and Caterpillar. There is also an increasing challenge around logistics and warehousing in well-connected locations due to greater activity in the sector. The oil and gas/offshore sector however remains more mixed with on-going uncertainty over direction.

- There has been a long-term growth in market demand for high-quality office space in both central and out of town locations, as currently available developments have become occupied and there has been limited activity since the financial crash with very limited speculative build. This is particularly acute in city and town centre locations.

2.5.5 The information in the Financial model has been updated to reflect the current estimates of income and expenditure and the results are summarised in Table 1 below. This has resulted in greater consistency in the assumptions about business rateable values; a more realistic approach to the assumptions about the pace of additional income from new development; and has enabled income figures to be verified. The overall impact of the changes is a revised estimate of income of £341m and an estimated surplus of £164m in cash terms. The level of the surplus (excluding any potential surplus from Newcastle Airport Enterprise Zone, not yet included in the figures) should give confidence that the proposed pooling arrangements will help manage risks of financing the capital infrastructure plans even if income fell significantly as a result of adverse economic conditions. For example, if income was 40% lower than expected it would fall by £136m, which would significantly reduce the surplus but still enable financing costs to be met.

Table 1 : Summary of Enterprise Zone Financial Model Estimates

Estimated Total Figures for Enterprise Zones	**Round 1**	**Round 2**	**Total**
	£m	**£m**	**£m**
Income (less a contingency of up to 15%)	129	212	341
Revenue Costs	3	4	7
Capital Financing Costs	72	98	170
Estimated Net Cash Surplus	**54**	**110**	**164**
Potential use of EZ surplus approved by LEP	4	8	12
Residual Net Cash Surplus	**50**	**128**	**152**

2.5.6 The LEP contribution of up to £500k a year to help fund the costs of the LEP team would only be used when required and would be reviewed periodically by the LEP Board to reflect the affordability of this contribution in future years taking into account future updates about the surplus that is likely to be generated. It is shown as being affordable over the period at £12m.

2.5.7 Once this indicative future net cash surplus of £152m is discounted back down to current prices (using a discount rate of 2%, the same as the assumption for CPI inflation used to calculate future business rate income) it would indicate a present value surplus of around £110m. It would however be several years before any net surplus could be approved for use. This is because it would be necessary to confirm the income generated from each site, which would take several years to grow and to repay any borrowing taken out to finance the proposed capital investment. There is still considerable uncertainty about the level of any residual surplus as it could be significantly reduced in the event of a downturn in economic activity. It is intended that the estimate of the surplus will be updated each year and that there will be a full refresh of the model and its assumptions every three years.

2.5.8 All sites now appear to be delivering a surplus after the financing costs of interventions are met. The affordability of the interventions will be reviewed at the point at which the business cases for each of the sites are evaluated and signed off by the LEP Board.

2.5.9 The business cases for the funding of the interventions on each of the sites are being prepared and will be submitted to the LEP team for evaluation before being reported to the Investment Panel for consideration and then reported to the LEP Board for approval. The estimated level of new investment to be approved on the Enterprise Zone sites is currently estimated to be up to £100m. The outcome of the LEP Board decisions will also be reported to the NECA Leadership Board. An estimate of the timetable for the submission of business cases and consideration by the LEP Board, is set out in the following table.

	Business Case Submitted	LEP Board
ROUND 1 (Remaining Investment)		
Northumberland - Bates	November 2017	January 2018
North Bank of Tyne		
- Newcastle, North Bank	September 2017	November 2017
- North Tyneside – Swans Site	November 2017	January 2018
- North Tyneside - Port of Tyne	Received	November 2017
ROUND 2		
Durham – Hawthorn (Jade)	November 2017	January 2018
Gateshead - Follingsby	September 2017	November 2017
Newcastle - North Bank Extension	November 2017	January 2018
Newcastle - Airport	Tbc 2018	Tbc 2018
Northumberland		
- Ramparts, Berwick	September 2017/ November 2017	November 2017/ January 2018
	September 2017/ November 2017	November 2017/ January 2018
- Ashwood Business Park	September 2017/	November 2017/

	November 2017	January 2018
South Tyneside		
- Holborn Riverside Phase 1	November 2017	January 2018
- Holborn Riverside Phase 2	November 2017	January 2018
Sunderland		
- IAMP	September 2017	November 2017
- Port of Sunderland	September 2017	November 2017

2.5.10 A draft overarching Legal Agreement will be prepared for consideration and approval of the LEP Board and the Local Authorities in September/October, which will incorporate the principles for the operation of the Enterprise Zones and will provide more detail and transparency about how the arrangement will operate. This will enable the separate legal agreements for the interventions on each site to be simplified so that the implementation of the development of the sites can be progressed in a timely way once the LEP Board approval has been granted. A summary of the Heads of Terms being used to prepare the overarching agreement is set out at Appendix A.

2.5.11 Borrowing arrangements for individual local authorities are having to be put in place because a simpler arrangement, by which the accountable body for the LEP could centrally manage the borrowing is currently not possible because combined authorities have not been given general borrowing powers which would include economic development activity. This important flexibility has been raised before with Government and has not so far been accepted, although some limited borrowing powers are being given to Mayoral combined authorities. It is a flexibility that could continue to be requested to support the effective and efficient management of enterprise zones and economic activity of the Local Enterprise partnerships.

3 Reasons for the Proposals

3.1 The North East LEP is responsible for the management of the Local Growth Fund (LGF) Programme, including decisions about new projects and changes to the programme. NECA, as the accountable body for the North East LEP, and for the Local Growth Fund grant, needs to includes the LGF programme in its overall capital programme and helps implement the decisions of the North East LEP. The reason for this report is to set out the changes to the LGF programme that have been approved by the North East LEP, and to actions grants and prepare grant agreements on behalf of the LEP, as its accountable body.

3.2 In terms of the Enterprise Zones, the LEP is responsible for the Key decisions and NECA as the LEP's accountable body for implementing the decisions, including any legal funding agreements with delivery partners that are necessary to do this.

4 Alternatives

4.1 There are two options: -

Option 1 – The Leadership Board may accept the recommendations set out in this report; and

Option 2 – The Leadership Board may not accept some of the recommendations, if there are sound legal or financial reasons for not accepting the recommendations and to refer these to the LEP for further consideration.

Option 1 is the recommended option.

5 Next Steps and Timetable for Implementation

5.1 Final LGF funding approvals will be subject to the detailed appraisal of business cases, which are subject to the approval of the LEP and will be subject to further reports to the Leadership Board or managed under delegated arrangements over the course of the next six to nine months.

5.2 The grant agreement for the Metro Maintenance, Renewals and Skills Centre, South Shields will be implemented following the LEP Board decision to enable Nexus to be able to let the works contract;

5.3 The Enterprise Zone funding agreement is being discussed with the Legal Teams from the seven local authorities. The aim is to reach agreement in October/November in time for detailed funding agreements for individual projects to be put in place.

6 Potential Impact on Objectives

6.1 The timely delivery of projects within the Local Growth Fund Programme and Enterprise Zone will positively contribute to the delivery of the economic development objectives in the regional Strategic Economic Plan for the North East and Local Transport Plans, as well as those of individual local authorities' Local Plans.

7 Finance and Other Resources Implications

7.1 The Local Growth Fund proposals set out in this report will be funded with the existing Local Growth Fund approvals.

7.2 The financial implication of the individual Enterprise Zone approvals will be updated and set out in more detail as each report is presented for approval over the next four to six months.

8 Legal

8.1 In terms of Local Growth Fund, in so far as the new projects are concerned, there will be a need for the Monitoring Officer to sign appropriate Local Growth Funding Agreements and any other ancillary legal or other documentation on behalf of NECA as the Accountable Body for the LEP to enable the projects to proceed once he is satisfied that it is appropriate to do so.

8.2 In terms of the implementation of the grant approved for the Metro Maintenance, Renewals and Skills Centre, South Shields, the Monitoring officer will to sign appropriate Local Growth Fund Agreements and any other ancillary legal or other documentation on behalf of NECA as the Accountable Body for the LEP to enable the projects to proceed once he is satisfied that it is appropriate to do so.

8.3 In terms of the Enterprise Zone Business Rates Pooling and Funding agreement the Monitoring officer will work with the legal teams of the seven constituent authorities, using external legal advice as appropriate, to complete the overarching legal agreement.

8.4 If there are any specific legal implications or concerns that the Monitoring Officer identifies in relation to any of the projects referred to in this report the Monitoring Officer will draw these to the attention of the Leadership Board by way of report.

9 Key Risks

9.1 Risks associated with project delivery will be considered through the development of individual project business cases.

10 Equalities and Diversity

10.1 Equality matters will be considered within the consultation, design and business case development of each individual project detailed in this report.

11 Crime and Disorder

11.1 There are no specific crime and disorder considerations arising from the contents and recommendations of this report. They will be considered further as part of the business case development for each project.

12 Consultation/Community Engagement

12.1 Local Authorities have been consulted on the proposals. Individual projects will be subject to community/consultation arrangements appropriate to the scale and nature of the projects. As an example, the IAMP project has been the subject to public community consultation and is currently subject to a formal planning enquiry.

13 Other Implications

13.1 Environmental and sustainability considerations will be addressed on an individual project basis through the development of each project's business case, and where necessary, in project-specific Environmental Impact Assessment.

14 Appendices

Appendix A: Enterprise Zone Business Rates Pooling and Funding Agreement – Draft Heads of Terms

15 Background Papers

15.1 Confidential Report to the North East LEP Board 27th July 2017

16 Contact Officers

16.1 Paul Woods, Chief Finance Officer, paul.woods@northeastca.gov.uk Tel: 07446936840

17 Sign off

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

north east combined authority

Leadership Board

Appendix A

ENTERPRISE ZONE BUSINESS RATES POOLING AND FUNDING AGREEMENT DRAFT HEADS OF TERMS

These heads of terms are prepared to set out the proposals for a Business Rates Pooling Agreement to be entered into by the North East Local Enterprise Partnership (North East LEP), its accountable body (currently North East Combined Authority (NECA)), and each of the 7 LA's (Durham, Gateshead, Newcastle, North Tyneside, Northumberland, South Tyneside and Sunderland). The aim is to provide consistency and clarity for all parties.

1. Proposed Agreement

It is proposed that the North East LEP / NECA will enter into the Business Rates Pooling Agreement (BRPA) with each of the 7 LA's of NECA (Newcastle, North Tyneside, Northumberland and Sunderland have round 1 sites; Durham, Gateshead, Newcastle, Northumberland, South Tyneside and Sunderland have Round 2 sites). The Agreement will be drafted such that any obligations / liabilities will pass to successor bodies of North East LEP (as the recipient of funds and of Business Rates Growth Income (BRGI)), NECA (as the current accountable body for the North East LEP or its successor) or any signatory LA.

The BRPA will provide an umbrella agreement in relation to both Round 1 and Round 2 Sites, to provide and accommodate all standard requirements of funding / facility agreements for an Enterprise Zone (EZ) site moving forward, and will therefore enable the individual Business Rates Agreement each LA will be required to enter into in relation to any individual grant funding / facility arrangement to be simplified and to address site specific issues.

It is proposed that future funding / facility agreements for development of Enterprise Zone (EZ) sites will be by way of provision of monies received by the North East LEP as Business Rates Growth Income to fund finance costs (including capital repayment) incurred by the LA's in borrowing capital sums. In the absence of agreement to enter into the BRPA by an individual LA, no additional approval would be provided by the North East LEP / NECA for additional funding linked to BRGI for the EZ sites for that individual LA and as such there would be no opportunity for the LA to receive Performance Reward Grant.

It is anticipated that the BRPA will sit alongside Business Rates Agreements on a site specific basis, with the existing agreements held by Newcastle, North Tyneside, Northumberland and Sunderland being replaced to ensure consistency of approach across the whole North East LEP area.

2. **Agreement Term**

It is proposed that the BRPA will remain in force for the full period of Enterprise Zone status. Whilst the end dates for the individual LA's under the Business Rates Agreements will vary:

- North Tyneside – 2038 (round 1 only);
- Durham, Gateshead, Newcastle, Northumberland and South Tyneside – 2042 (round 2 commencing April 2017);
- Sunderland – 2043 (round 2 site commencing April 2018).

the end date for the BRPA will need to encompass all sites / LA's and will therefore be 2043.

3. **Business Rates Income**

The BRPA will set out in detail the method of calculation and payment of –

- Business Rates Growth Income (BRGI) over the 25 year periods for each site; and
- Treatment of discounts and other adjustments and payment of any grant received by the LA's in lieu of rates, (e.g. section 31 grants for small business rates relief).

to the North East LEP.

The calculation will be on the basis that no LA will be required to ultimately repay more to the North East LEP than they are projected to receive in BRGI and / or grant in lieu of rates. The payment due each year will be no more than the BRGI received by the individual LA and any deficit will be addressed at the end of the BRPA term

4. **Pooled Surplus across all EZ schemes and its use**

The BRGI will set out that the North East LEP / NECA and the LA signatories agree to the pooling of any EZ BRGI surplus from all schemes across the North East LEP / NECA area, to assist in managing the capital financing risk for all local authorities.

The BRGI will be used in the following order –

a) Revenue costs of financing all schemes in accordance with Grant Funding Agreements / Facility Agreements;

b) Meet capital financing (borrowing) costs;

c) Sums earmarked for Performance Reward Incentive – to be released to the relevant LA performing beyond expectations, once a surplus is being made on specific EZ site for use in line with principles to be agreed by the North East LEP (strategic economic projects helping to achieve SEP objectives);

d) Fund limited contributions to North East LEP operational costs of up to £500,000 per annum for three years, approved on a rolling basis whilst an overall surplus is anticipated;

e) The 'Surplus' BRG will be used to meet the financing costs of schemes in deficit as performing schemes will not need to draw upon the surplus. In the event that there are insufficient funds in the pool to cover all financing costs of underperforming schemes the surplus will be split proportionately between those schemes in accordance with their deficit on a pro rata basis.

Once all of the above have been met on all schemes, other uses of any General Surplus will be approved by the North East LEP / NECA, and will remain at the absolute discretion of the North East LEP / NECA in consultation with all parties to the BRPA.

Each of the signatory LA's will be eligible to benefit from the Performance Incentive / Reward allocation of the surplus in line with the North East LEP Board approval in May 2017.

The BRGI projected will be reviewed / monitored annually by the North East LEP / NECA against BRGI received, with a full refresh of projections undertaken a minimum of every 3 years. As a result any LA at risk of being in deficit at the end of the EZ period will be alert to this on an ongoing basis.

5. Capital Expenditure

The BRPA will cover:

- Funding the approved costs of intervention through eligible capital expenditure including appropriate contingencies;

- Treatment of capital expenditure that can be funded from income over time (e.g. commercial land acquisition or building construction tht would facilitate early development) to be funded by an agreed schedule of payments by the LA acquiring the land including recovery of reasonable interest costs, (currently assuming 2%) when rental income starts to be generated from the sites;

- Treatment of costs overruns (the responsibility of the contracting LA unless the North East LEP agrees that the cost over run can be met by BRGI);

- Obligations upon LA's to maximise eligibility of capital expenditure for other grants, particularly where expenditure could not be funded by anticipated EZ BRGI, so minimising the cost of borrowing to the EZ site with a view to maximising the surplus and managing and reducing financial risk; and

- Process of business case sign off – LEP Investment Panel and LEP Board followed by accountable body (currently NECA Leadership Board).

6. Revenue Costs

The BRPA will cover:

- North East LEP / NECA costs of administering the EZ and the marketing costs together with any intervention costs that cannot be treated as 'capital' expenditure' (as detailed above);

- Incentives to accelerate construction of units on EZ sites on a speculative basis (e.g. return of empty property rates to developer of the LA, support to manage the revenue cash flow impact of rent free periods) subject to satisfactory resolution of any State aid considerations.

7. Capital Financing (Borrowing)

The BRPA will address the principles and arrangements for borrowing to finance expenditure including:

- Borrowing arrangements will be agreed between the North East LEP, its accountable body and the individual LA with details set out in a legal agreement for each scheme;

- Whether it will be the accountable body for the North East LEP undertaking borrowing or the LA – reflecting the nature of capital works and whether the accountable body is permitted to undertake the borrowing;

- Treatment of pooled borrowing costs will be set out as will the treatment of any borrowing costs that would be required at an individual LA level. All approved borrowing costs will be covered by payments from the EZ income pool to avoid revenue impacts for individual LA's;

- The expectation that the LA within whose area the EZ is situated or the NECA (where agreed and permitted) will undertake the borrowing, however the relevant LA will retain ultimate responsibility to meet borrowing costs. Upon issue of an individual Business Rates Agreement, a term for borrowing will be agreed by the North East LEP and an Indicative Payment Profile will be provided to set out anticipated payments from the North East LEP that will be made to the individual LA to meet the costs of borrowing the funds (including capital expenditure, interest and loan repayment costs)

- Once the intervention is completed the LA will be provided with a Final Payment Profile setting out the payments that will be made by the North East LEP to the LA over the term of the Final Payment Profile, detailing the agreed term and rate of interest for the period of borrowing. This will be set and will not alter irrespective of whether a LA provides funding through external prudential borrowing or use of internal reserves.

- In the event of any overpayment by the North East LEP between the Indicative Payment Profile and the Final Payment Profile, the LA will repay this overpayment to the North East LEP. The North East LEP / NECA will not alter the payments to be made depending upon the funding source and this remains a matter for the individual LA.

- The North East LEP / NECA will guarantee recipient LA that the payments detailed upon the Indicative Payment Profile / Final Payment Profile will be made in advance of any final reconciliation.

- In 2037 (the final year of the Round 1 EZ Sites) the North East LEP / NECA will provide a Round 1 Reconciliation Statement, detailing whether each individual round 1 scheme has met targets for BRGI generation or whether a deficit exists. Any LA with a deficit will therefore be at risk of being asked to repay this deficit at the time of the Final Reconciliation Statement as referred to below, in the event of insufficient surplus being available in the BRGI Pool.

- In 2042 (the final year of the final Round 2 EZ Site) a Final Reconciliation Statement will be provided by the North East LEP / NECA to each LA in respect of all schemes. The Final Reconciliation Statement will confirm whether there is an overall surplus or deficit. If there is an overall deficit the individual LA's who have failed to meet their target will be required to repay to the North East LEP / NECA the relevant sum to meet the deficit (or in the event some deficit can be met a proportion thereof in accordance with 4b above).

- If during the period between the Round 1 Reconciliation Statement and the Final Reconciliation Statement the North East LEP / NECA holds sufficient funds, generated from BRGI, to meet all capital and revenue borrowing costs scheduled in all ongoing funding / facility agreements such that it can be confident that an overall surplus will be made, confirmation can be provided to the Round 1 LA's that no deficit (if any has arisen) will fall due and the sum can be removed as a liability from their accounts.

- Full repayment of loans from the North East Investment Fund from 2018/19 by NECA or the LA's, with refinancing and new borrowing being used together with a mix of short term interest only use of local fund at a cost of 1.25% and medium term annuity rates of interest appropriate to the agreed annuity period of 10, 15, 20 and 22 years with interest rates of up to 2.3%. Details of the borrowing arrangements will be contained in the agreement for each scheme.

- Treatment of repayment of the NEIF loan for the North of Tyne Shepherds wet berth testing facility to be repaid from the BRGI pool so long as there is an overall surplus.

8. <u>Management of Risk</u>

The approach of the North East LEP / NECA to management of borrowing costs and managing the risk of loan repayment, involves several key steps, which are summarised below: –

- Scrutiny of the level of capital investment required when a business case for each site is presented by LA and their partners to the North East LEP for approval. The level of approved capital investment is constrained to the amount that is necessary to develop each Enterprise Zone and the amount that can be funded from the estimated BRGI to be generated in each site.

- Minimising the cost of external borrowing by using temporary grant funding where this is possible and by looking at ways of reducing interest costs.

- The latest model assumes that a mixture of internal funds and external borrowing from the PWLB will be used in future years. Projected interest costs are now significantly less than originally envisaged and this increases the estimate surplus available to repay any borrowing.

- The use of BRGI to repay loans as a priority before other commitment of an estimated surplus is made, subject to the need to retain a positive cash flow balance over time.

- The development of the BRPA to manage and spread risk across both Round 1 and Round 2 Enterprise Zones.

- Maximising income to manage risk and the introduction of the performance Reward incentive to ensure that income generation is incentivised.

- Ultimate responsibility for any deficit remaining with the relevant LA.

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Leadership Board

Date: **19th September 2017**

Subject: **Housing Infrastructure Fund**

Report of: **Head of Paid Service**

Executive Summary

The purpose of this report is to brief the Leadership Board on the £2.3bn national Housing Infrastructure Fund which is aimed at providing infrastructure improvements to unlock housing development.

Recommendations

The Leadership Board is recommended to:

I. Note the content of the report; and
II. Agree to progress the development of a NECA proposal for the Forward Funding Element of the Housing Infrastructure fund; and
III. Agree delegated authority is given to the Head of Paid Service in consultation with the Chair and Vice Chairs of the Leadership Board and the Chief Finance Officer to submit an Expression of Interest form to Government on the 28th September.

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Leadership Board

1. Background Information

1.1 The Housing Infrastructure Fund is a government capital grant programme of up to £2.3 billion, which will help to deliver up to 100,000 new homes in England. Funding will be awarded on a competitive basis, providing grant funding for new infrastructure that will unlock new homes in the areas of greatest housing demand. The Fund is available over four years from 2017/18 to 2020/21 and all funding must be committed by March 2021.

1.2 There are two types of funding bids. Bids can be up to £10 million for Marginal Viability proposals and bids can be up to £250 million for Forward Funding proposals. Higher levels of funding may be made awarded to exceptional bids that can demonstrate a robust case for widespread and transformational delivery of new homes. The split between the two funding streams will depend on the bids received but Government expect the majority of the funding to go to forward funding proposals. Government may decide, on the basis of the bids received, not to allocate all of the £2.3 billion in this wave. Another wave of funding could be run in the future with potentially different criteria.

1.3 For Marginal Viability Funding, single and lower tier local authorities can bid and local authorities within the North East Combined Authority are bidding directly to Government. For Forward Funding, the uppermost tier of local authority can bid. The uppermost tier is defined as the Greater London Authority, Combined Authorities or single and upper tier authorities, where they are outside London and combined authority areas. Authorities can submit multiple bids which must be ranked in order of priority. Therefore the North East Combined Authority can submit a bid for the Forward Fund.

1.4 Bids must:

- Require grant funding to deliver physical infrastructure and provide strong evidence that the infrastructure is necessary to unlock new homes and cannot be funded through another route.
- Support delivery of an up to date plan or speed up getting one in place.
- Have support locally
- Spend the funding by 2020/21

2. Proposals

2.1 Local authorities are preparing Marginal Viability proposals for submission and NECA, as the uppermost tier authority in the NECA area, needs to consider proposals for the Forward Funding element of the fund.

2.2 The Government want combined authorities/local authorities to submit their most ambitious bids and are therefore asked to rank the bids they submit in order of priority. When ranking bids, authorities need to consider the degree of ambition in the bid, primarily in terms of the value for money and number of additional homes;

the strategic approach; and the deliverability of the infrastructure and homes.

2.3 When Government assess the bids against their criteria, they will look at the highest priority bid first, they may then assess lower priority bids in ranking order. Government will prioritise schemes based on their impact against the main criteria and the types of proposal supported need to create confidence at an early stage of the scheme(s). Multiple bids can be made but should be ranked. Government do not expect authorities to bundle together lots of different proposals into a single bid or programme bid. Instead, they are looking for proposals that make cohesive and strategic sense, delivering at scale. For example a single piece of infrastructure which will unlock multiple sites or multiple pieces of infrastructure that unlock a specific location.

2.4 Strategically a bid needs to unite:

- Local Authorities (ideally several) to get a new funding stream. Local authorities can keep any costs recovered (to achieve more housing delivery).
- Developers - through timely provision of infrastructure, make developments viable.
- Local Communities – providing much needed infrastructure supported by local communities.
- Utility companies and infrastructure providers – by supporting current position that bill payers are not asked to pay for future growth

2.5 Applications should:

- Demonstrate market failure / requirement for grant. In addition the amount of any funding award will take into account other financial information. If a local authority is able to recover funding from developers and delivery partners in subsequent years, or make efficiency savings, then this money can be retained and recycled in order to help them to achieve more housing delivery in the future. In return, if there are any cost increases, then the local authority, and their delivery partners, will be expected to find other sources of funding to meet such costs, rather than additional grant being provided through this Fund.
- Support getting an up to date plan in place. The Housing White Paper sets out proposals to make sure every part of the country has an up to date, sufficiently ambitious plan so that local communities decide where development should go. Authorities need to reflect this in the HIF bids:
- The local authority must have adopted plan OR demonstrate funding will unlock the release of otherwise undeliverable land which will speed up getting the plan in place.
- Have support locally. This means they will seek evidence of a strong local commitment to delivery, including between different tiers of local government and with delivery partners and providers; the involvement of local communities and MPs; and engagement with Local Enterprise Partnerships

- Delivers physical infrastructure to get homes built. This can include for example:
    - Transport and travel
    - Utilities
    - Schools, community, heritage and healthcare facilities
    - Land assembly
    - Digital communications
    - Green infrastructure
    - Blue infrastructure

2.6 Eligible applications will be assessed on how well they meet the following criteria:

- The proposal is value for money, on the basis of an economic appraisal following the principles set out in the Green Book and the DCLG appraisal guidance. Government will use land value uplift in quantifying the net benefits of a proposal. This measures the difference of value from the land's current use to when it is used for housing and captures all private sector costs of development.
- The proposal takes a strategic approach, with strong local leadership and joint working to achieve higher levels of housing growth in the local area, in line with price signals, and supported by clear evidence.
- The proposal can be delivered. This is about both delivering the infrastructure and how that will then lead to the delivery of new homes. It also means all the key delivery partners need to be working together.

2.7 Applications to the Forward Funding element of the fund will follow a two stage application process –

- Stage 1 – Expression of Interested to be submitted by 28 September; initial funding decision late 2017/early 2018
- Stage 2 – Successful applicants to enter a phase of co-design with the HCA to develop full business cases to be submitted by Spring 2018, for funding award Summer 2018. The awards will be made under section 31 of LGA 2003.

3. Reasons for the Proposals

3.1 The Housing Infrastructure Fund is a substantial national fund and an opportunity for NECA to secure large scale funding to unlock housing growth.

4. Alternative Options Available

4.1 There are two options:

- Option 1 – The Leadership Board may accept the recommendations set out in this report
- Option 2 – The Leadership Board may not accept the recommendations set out in this report and not progress a NECA proposal for the Forward

Funding element of the Housing Infrastructure Fund.

Option 1 is the recommended option.

5. Next Steps and Timetable for Implementation

5.1 Local Authorities are preparing possible proposals for the Expression of Interest stage for the Forward Funding element of the Housing Infrastructure Fund and these will be evaluated independently against the criteria the Government have set out.

5.2 The Economic Directors Group and Chief Executives group will consider the outcome of the evaluation and make recommendations in regards to the NECA submission for the forward funding element of the fund.

5.3 The Leadership Board are being asked to agree delegated authority to the Head of Paid Service, in consultation with the Chair and Vice Chairs of the Leadership Board and the Chief Finance Officer to submit the Expression of Interest form by the Government's deadline of the 28th September.

6. Potential Impact on Objectives

7. Financial and Other Resources Implications

7.1 The proposals if successful at the Expression of Interest Stage and the final Business Case Stage will be funded through the Housing Infrastructure Fund. More details for the specific proposals will be provided at the business case stage.

8. Legal Implications

8.1 In so far as the new projects are concerned, there will be a need for the Monitoring Officer to sign appropriate Housing Infrastructure Fund Agreements and any other ancillary legal or other documentation to enable the projects to proceed once he is satisfied that it is appropriate to do so.

8.2 If there are any specific legal implications or concerns that the Monitoring Officer identifies in relation to any of the proposals as they progress through the evaluation stage the Monitoring Officer will draw these to the attention of the Leadership Board by way of report.

9. Key Risks

9.1 Risks associated with project delivery will be considered through the development of individual project business cases

10. Equality and Diversity

10.1 Equality matters will be considered within the consultation, design and business case development of the proposal.

11. Crime and Disorder

11.1 There are no specific crime and disorder considerations arising from the contents and recommendations of this report. They will be considered further as part of the business case development

12. Consultation/Engagement

12.1 Proposals if successful will be subject to community/consultation arrangements appropriate to the scale and nature of the projects.

13. Other Impact of the Proposals

13.1 Environmental and sustainability considerations will be addressed on an individual project basis through the development of a project's business case, and where necessary, in project-specific Environmental Impact Assessment.

14. Appendices

15. Background Papers

16. Contact Officers

16.1 Helen Golightly, head of Paid Service

17. Sign off

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

18. Glossary

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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