NORTH OF TYNE COMBINED AUTHORITY

Audit and Standards Committee

Tuesday 25 April 2023 at 10.00 am

Meeting to be held: Pandon Room, Civic Centre, Newcastle upon Tyne, NE1 8QH

www.northoftyne-ca.gov.uk

AGENDA

To be confirmed.

Contact Officer: Helen Thompson
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NORTH OF TYNE COMBINED AUTHORITY

Audit and Standards Committee

24 January 2023

(10.03 - 11.15 am)

Meeting held: Committee Room 0.01, North Tyneside Council, Quadrant, The Silverlink North, Cobalt Business Park, North Tyneside, NE27 0BY

Draft Minutes

Present:

Chair: D Willis OBE

Councillors: L Bowman, C Ferguson, C Gray, C Hardy, A McMullen, T Mulvenna and J Shaw

1 **WELCOME AND APOLOGIES**

The new Chair introduced himself and welcomed everyone to the meeting. Brief introductions were made.

Apologies for absence were received from Councillors Castle, Purvis, Seymour and Sheraton. Councillors Bowman and Gray were attending as substitute members.

2 **DECLARATIONS OF INTEREST**

None.

3 **APPOINTMENT OF VICE CHAIR FOR THE MUNICIPAL YEAR 2022-23**

Councillor McMullen nominated Councillor Mulvenna as Vice Chair of the Committee.

Councillor Gray seconded the nomination.

There being no other nominations received, it was **RESOLVED** that Councillor Mulvenna be appointed as Vice Chair for the remainder of the municipal year 2022/23.

4 **AGREEMENT OF THE MINUTES OF THE MEETING HELD ON 5 JULY 2022**

It was **RESOLVED** that the minutes of the meeting held on 5 July 2022 be agreed as an accurate record and were signed by the Chair.

5 **AGREEMENT OF THE NOTES OF THE MEETING HELD ON 15 NOVEMBER 2022**

It was **RESOLVED** that the notes of the meeting held on 15 November 2022 be agreed as an accurate record.

6 **DRAFT ANNUAL GOVERNANCE STATEMENT**

Submitted: Report of the Risk Advisor to North of Tyne Combined Authority (NTCA) (previously circulated and a copy attached to the official records) to present the outcome of the annual review of the Authority's governance and internal control arrangements and highlights one area for improvement identified by the review regarding the Authority's compliance with the CIPFA Financial Management Code.

P Slater advised there were no significant changes to the document since July 2022 and that it would remain a 'live' document until the external auditor's opinion was included and the accounts were signed off.

It was **RESOLVED** that the NTCA Annual Governance Statement for inclusion in the Authority's 2021/22 annual accounts be approved and agreed to recommend for signature by the Mayor, Chief Executive, Chief Finance Officer and the Chair of Audit and Standards Committee.

7 **FINAL STATEMENT OF ACCOUNTS 2021/22 UPDATE**

Submitted: Report of Director of Finance (previously circulated and a copy attached to the official records) for the External Auditors, Mazars, to provide to Audit and Standards Committee the 2020/21 Value for Money (VFM) extract, Draft 2021/22 North of Tyne (NTCA) Audit Completion Report, and Draft 2021/22 Narrative Report and Audited Statement of Accounts.

K Laing, Strategic Finance Manager, introduced the report which provided committee with an update on the progress being made on the process to finalise NTCA's accounts for 2020/21 and 2021/22. The committee were reminded that the 2020/21 Value for Money (VFM) extract, Draft 2021/22 North of Tyne (NTCA) Audit Completion Report, and Draft 2021/22 Narrative Report and Audited Statement of Accounts could not be signed-off until the process to resolve the infrastructure issue was completed. In addition, the pension fund assurance letter was also required.

G Barker, External Auditors, Mazars, gave an update on the current position and explained government guidance had been published on 25 December 2022 that informed a process to resolve the infrastructure issue to sign-off the 2021/22 Final Statement of Accounts and would complete the accounts for the 2020/21 financial year. Amendments would be involved within both financial years of accounts and would be addressed in year order. G Barker also advised the solution would provide a smoother process going forward and would work from 2022/23, for the next three financial years.

With reference to the draft commentary to the 2020/21 Value for Money (VFM) document, G Barker advised there were no significant weaknesses identified across the three areas of reporting criteria and there would not be any formal recommendations.

Regarding the pension fund issue, G Barker explained the pension fund assurance letter for the financial year 2021/22 was awaited from the audit of the Tyne & Wear Pension Fund, being audited by another firm. Audit processes were on going and no clear date had been given. G Barker suggested it could be up to the end of February 2023 before the assurance letter was received.

G Barker advised that the outstanding areas of work identified had been progressed since the drafted audit report was circulated to committee. The internal control recommendations were to be discussed further with officers. Members would receive an update on the final position of all current outstanding work when the follow-up letter was issued on the audit completion report at the point of the audit sign-off.

G Barker noted that Appendix C, the Draft 2021/22 North of Tyne (NTCA) Audit Completion Report was independent and therefore would not be impacted upon by the ongoing issues.

In response to questions from the Chair, G Barker confirmed:

- The infrastructure issue partly impacted more on Nexus/NECA than NTCA, however infrastructure was still a large figure within the NTCA statements.

- The VFM for 2022/23 had not yet been done.

- There were difficulties obtaining the pension fund letter which was needed to sign-off the accounts. It was not viewed that this was an indicator of anything untoward, rather it was pressure of work on auditors. The pension assurance letter was a formality and arrangements were in place to obtain the letter. It had not been an issue previously and was expected the matter would be resolved by the committee’s next meeting.

- Audit capacity was a big issue. A lack of audit resource had contributed to the majority of the delays to signing-off the financial statement of accounts, combined with the increasing levels of work involved with pension audit work within the current climate. This was an issue nationally.

The Chair commented on the significant time delay and noted there could be further delays should the pension letter of assurance not be received by the end of February 2023.

In response to a member’s query, G Barker clarified that the infrastructure issue was a technical accounting matter and was not the same as the pension fund issue. He also confirmed the two issues were not connected.

A member expressed concerns about the amount of outstanding work coupled with the capacity constraints explained by G Barker. Given the length of time involved to date and the accounts from the last two financial years outstanding, the member did not feel assured the process would be completed by the next meeting (the last meeting of the 2022/23 municipal year). The member also questioned the progress made since the document was published on a supplemental agenda last week.

G Barker fully appreciated the member’s concerns and advised it had taken 10 months to receive government guidance to resolve the infrastructure issue, with the last piece received in January 2023. The infrastructure issue had also added a level of scrutiny to the audit process. He assured the committee every effort would be made in the next month to resolve the outstanding work.

The Chair acknowledged members concerns from the discussion about the current position and how to ensure the same problem would not happen in the future. A post-audit meeting would be held by the Chair with G Barker and officers to discuss lessons learned going forward and how they could prevent the same problems in the future.

It was **RESOLVED** that:

i. The 2020/21 Value for Money (VFM) be noted.
ii. The draft 2021/22 North of Tyne (NTCA) Audit Completion Report be noted.
iii. The draft 2021/22 Narrative Report and Audited Statement of Accounts be noted.
iv. Committee agreed to delegate authority to the Chair of Audit and Standards Committee in consultation with the Director of Finance to agree the Draft 2021/22 Statement of Accounts for approval by the Mayor and Cabinet, further to any subsequent changes following the finalisation of the external audit work which in the opinion of the Director of Finance are not so significant as to require reconsideration by the committee.

8 STRATEGIC RISK AND OPPORTUNITIES REGISTER

Submitted: Report of Risk Advisor to North of Tyne Combined Authority (NTCA) (previously circulated and a copy attached to the official records) to provide assurance to Audit and Standards Committee that the most significant risks and opportunities have been identified, are being monitored and measures are being taken to mitigate them.

P Slater, Risk Advisor, presented the report, referencing paragraph 2.3 of the report which highlighted that the risk relating to devolution would need to be updated in the near future to assess if the impact of devolution were a risk or an opportunity.

It was noted by P Slater there were no major changes from a review of the risks and there had been a few updates from the previous meeting.

A member raised a query about the wider risks and implications associated to businesses accessing government funding following Britishvolt going into administration.

R Hamilton, NTCA Chief Economist, acknowledged conditions were attached to government funding but did not think the issues faced by Britishvolt could be extrapolated to other local businesses. He said the news about Britishvolt was a disappointment but was not unexpected. The site remained a good manufacturing site and he was confident in the short to medium term it would be utilised.

Responding to a question from the Chair, P Slater advised he considered Britishvolt an isolated incident and in terms of risk he would not change the current amber ratings for the combined authority. P Slater explained a toolkit was used to assess risk rating and assured committee that in his view the risk rating scores for the combined authority were accurate and would be kept under review.

Responding to a query from a member about how devolution is reflected on the risk register, P Slater advised following the government announcement in December 2022, the mechanics of devolution would need to be discussed and decided how it would be shown on the next paper.

R Hamilton acknowledged there were legal and financial complexities around establishing the new combined authority and that there was sufficient time to get those issues resolved. The new combined authority would have a positive impact longer term and provide greater resources for the region.

The Chair noted that the risk register would be expected to change substantially with the proposed new combined authority.

It was **RESOLVED** that the outcomes of the strategic risk review be accepted.

9 **INTERNAL AUDIT 2022/23 - QUARTERLY UPDATE REPORT & DEVELOPMENT OF STRATEGIC INTERNAL AUDIT PLAN 2023/24**

Submitted: Report of Interim Chief Internal Auditor (previously circulated and a copy attached to the official records) to outline the proposed approach to the Strategic Internal Audit Plan for 2023/24 and ensures that the Audit and Standards Committee is engaged in the assurance planning process. A full Internal Audit Plan will be presented at the Audit and Standards Committee meeting on 25 April 2023.

R Dunlop, Interim Chief Internal Auditor, introduced the report and confirmed the position with the audit work undertaken in 2021/22 and 2022/23 and were on plan to finish the internal audit plan by the end of the year. Preparation work was underway for the next financial year, noting the future changes with the proposed new combined authority, and involved discussions in the background with the senior management team.

In response to a member's query about discussing the performance management audit with senior management, R Dunlop described there was work in progress for a more hands-on consultancy arrangement for the performance management work, whereby they would be available for discussion and to provide recommendations. This was expected to continue as work progressed towards the proposed new combined authority. M Oldham, Acting Group Assurance Manager, explained that following a meeting last week with the Director of Finance, it was agreed to change the business process changes audit from a traditional audit to a programme of assurance, that would challenge and take on the form of consultancy work. K Laing, the Strategic Finance Manager, added the importance of getting processes in place in preparation for the new devolution deal, and the increase in size of the proposed new combined authority.

It was **RESOLVED** that the report be accepted.

10 STANDARDS UPDATE

There were no issues or matters to report.

11 DATE AND TIME OF NEXT MEETING

25 April 2023, 10.00am at Newcastle Civic Centre

The Chair expressed to members the importance of regular attendance to ensure meetings were quorate and to understand the business of the committee.

NORTH OF TYNE COMBINED AUTHORITY

Audit and Standards Committee

25 April 2023

Subject: **2020-21, 2021-22 Final Statement of Accounts update**
Report of: **Interim Chief Finance Officer**
Portfolio: **All**

Report Summary

The intention of this report is to provide an update on the finalisation of the Statement of Accounts for the year ended 31 March 2021 and for the year ended March 2022.

At the time of writing this report the audit on both sets of accounts was substantially complete and the external auditors (Mazars) tabled their draft Audit Completion Report (ACR) to the Audit and Standards Committee on the 18 January 2022 for the 2020-21 Accounts and on the 24 January 2023 for the 2021-22 Accounts no significant issues raised in either years, and an unqualified opinion anticipated.

In relation to the national issue raised regarding the value of infrastructure assets the relevant amendments have now been made in the 2020-21 and 2021-22 accounts and are with the external auditors for review. In anticipation of the amendments to the accounts being agreed by the external auditors the 2020-21 Audit Completion Report (previously presented in January 2022), 2020-21 Follow Up Letter to ACR (previously presented in March 2022) and the 2020-21 Further Follow Up Letter to ACR in addition to the 2020-21 Annual Governance Statement, Narrative Report and updated 2020-21 Statement of Accounts have been included for Audit and Standards to note.

An issue in relation to the 2021-22 Pension fund valuation has arisen which may require an updated set of actuarial valuations to be undertaken in order to align with the outcome of the triannual valuation undertaken March 2022. The ongoing delay in the external auditor being able to finalise their work is such that report provides Audit and Standards with an update on progress and revised timelines for conclusion of the 2021-22 audit work. This report also provides an update in respect of planning for the preparation of the 2022-23 Statement of accounts and associate documents.

Recommendations

The Audit and Standards Committee is recommended to:

1. Note the update on the work to complete the audit of the 2021-22 Statement of Accounts.
2. Note the planning in place for the preparation of the 2022-23 Statement of Accounts

1. Background Information, Proposals and Timetable for Implementation

1.1 The 2020-21 Statement of Accounts were taken to Audit and Standards Committee and then onto Cabinet in January 2022. As the Audit was not quite complete a delegation was given to authorise the Managing Director and the Chief Finance Officer in consultation with the Mayor to agree any final amendments or changes to the NTCA 2020-21 Statement of Accounts made by the external auditors after the Cabinet meeting to approve the final 2020-21 Final Statement of accounts. The Infrastructure Asset Valuation issue was raised shortly after, in February 2022 preventing final completion of the 2020-21 Statement of Accounts process allowing them to be published.

1.2 The 2021-22 audit of the Statement of Accounts is substantially complete, with no issues arising. However, the Infrastructure Asset Valuation issue and the delay to the completion of the Pension Fund Audit for 2021-22 have prevented the completion of the Audited Statement of Accounts.

1.3 A national approach to the infrastructure issue was agreed early this year and officers at NECA prepared the relevant adjustments in consultation with authority officers. NTCA's external auditors, Mazars, have concluded their review of the proposed approach and this will be rolled forward into the 2020-21 accounts through to 2021-22. Mazars do not anticipate any difficulties with this. A verbal update in respect of this will be provided to the Committee with the anticipation that the infrastructure amendments are agreed as acceptable to the external auditors in advance of the Audit and Standards Committee date, the suite of documents relating to the 2020-21 Statement of Accounts have been appended to this report for Committee.

1.4 The outcome of the Pension Fund audit for 2021-22 (which informs part of the Audit of the Statement of Accounts) has led to a further unexpected issue being raised. Mazars had been expecting the assurance work(upon which Mazars place reliance and is undertaken by a different firm of auditors), to be completed by the end of March 2023. Due to this delay in concluding the 2021-22 Pension Fund Audit, it had been highlighted that the triennial review valuation provided more up to date figures. Mazars is assessing this issue and have not reached a conclusion yet, and the understanding is that other audit firms and interested parties are doing likewise.

1.5 The pension fund issue does not impact on the 2020-21 Accounts. On this basis and with the anticipation that Mazars are satisfied with the infrastructure amendments now reflected in the 2020-21 Statement of Accounts, the 2020-21 Accounts can be finalised. The 2020-21 Annual Governance Statement, Narrative Report and 2020-21 Annual Statement of Accounts including the External Audit Opinion are attached as appendices to this report for information.

1.6 A further update will be brought to Audit and Standards Committee on the 2021-22 NTCA Annual Statement of Accounts as a firmer conclusion on the completion of the 2021-22 Statement of Accounts is understood.

1.7 Work is progressing towards meeting the deadlines that are required in order for the Combined Authority to be able to publish the Statement of Accounts no later than the date of 31 May 2023.

2. Potential Impact on Objectives

2.1 The production of an Audited Statement of Accounts is the statutory responsibility of the Combined Authority as per the Accounts and Audit Regulations 2015 and as revised Account and Audit Regulations 2022-23.

3. Key Risks

3.1 The production of the NTCA accounts is reliant on the production of Nexus and NECA accounts and whilst we work together those elements are "out of our control". A risk log has been set up which identifies the key risks and issues associated with the closedown process. The management of these risks is part of the overall process.

4. Financial and Other Resources Implications

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

5. Legal Implications

5.1 The Accounts and Audit Regulations 2022-23, which take effect from 31 March 2023, reverts the requirement for the audited accounts to be published from 31 July to 30 September, with the exercise of public rights, common inspection date being removed and the draft accounts published no later than 31 May.

6. Equalities Implications

6.1 There are no equality and diversity implications arising from the recommendations in this report

7. Inclusive Economy Implications

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

8. Climate Change Implications

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

9. Consultation and Engagement

9.1 Consultation will take place with the key personnel and interested parties involved in the closedown process.

10. Appendices

10.1 2020-21 Audit Completion Report (previously presented in January 2022)

2020-21 Follow Up Letter to ACR (previously presented in March 2022)

2020-21 Further Follow Up Letter to ACR

2020-21 NTCA Annual Governance Statement

2020-21 NTCA Narrative Report

2020/21 NTCA Annual Statement of Accounts

11. Background Papers

11.1 None

12. Contact Officers

12.1 Janice Gillespie, Chief Finance Officer Janice.gillespie@northtyneside.gov.uk

Tel: 0191 6435701

13. Sign-off

1) Chief Executive: Yes	2) Chief Finance Officer: Yes	3) Monitoring Officer: Yes

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Audit Completion Report

North of Tyne Combined Authority
Year ended 31 March 2021

January 2022

Contents

mazars

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

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

14 January 2022

Dear Members

Audit Completion Report – year ended 31 March 2021

We are pleased to present our Audit Completion Report for the year ended 31 March 2021. The purpose of this document is to summarise our audit conclusions.

The scope of our work, including identified significant audit risks and other areas of management judgement, was outlined in our updated Audit Strategy Memorandum which we presented to the Audit and Standards Committee on 20 July 2021. We have reviewed our Audit Strategy Memorandum and concluded that the original significant audit risks and other areas of management judgement remain appropriate. We noted in our Audit Strategy Memorandum that our risk assessment in respect of our VFM work was not complete; following completion of this risk assessment, we did not identify any significant risks of weaknesses in arrangements.

We would like to express our thanks for the assistance of your team during our audit.

If you would like to discuss any matters in more detail then please do not hesitate to contact me on 07896 684 771.

Yours faithfully

Gavin Barker

Gavin Barker
Mazars LLP

01

Section 01:

Executive summary

1. Executive summary

Principal conclusions and significant findings

The detailed scope of our work as your appointed auditor for 2020/21 is set out in the National Audit Office's (NAO) Code of Audit Practice. Our responsibilities and powers are derived from the Local Audit and Accountability Act 2014 and, as outlined in our Audit Strategy Memorandum, our audit has been conducted in accordance with International Standards on Auditing (UK) and means we focus on audit risks that we have assessed as resulting in a higher risk of material misstatement.

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

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

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

Status and audit opinion

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

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

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

Audit opinion

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

Value for Money

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

Whole of Government Accounts (WGA)

At the time of preparing this report , we have not yet received group instructions from the National Audit Office in respect of our work on the Council's WGA submission. We are unable to commence our work in this area until such instructions have been received. Until this work is completed we are unable to issue our certificate.

Wider powers

The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of NTCA and to consider any objection made to the accounts. No questions or objectives have been received.

1. Executive summary

COVID-19 impacts

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

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

02

Section 02:

Status of the audit

2. Status of the audit

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

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

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

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

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

03

Section 03:

Audit approach

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3. Audit approach

Changes to our audit approach

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

Materiality

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

Group audit approach

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

04

Section 04:

Significant findings

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4. Significant findings

In this section we outline the significant findings from our audit. These findings include:

- our audit conclusions regarding significant risks and key areas of management judgement outlined in the Audit Strategy Memorandum;
- our comments in respect of the accounting policies and disclosures that you have adopted in the financial statements. On page 15 we have concluded whether the financial statements have been prepared in accordance with the financial reporting framework and commented on any significant accounting policy changes that have been made during the year;
- any further significant matters discussed with management; and
- any significant difficulties we experienced during the audit.

Significant risk – management override of controls

Management override of controls (single entity and group)

Description of the risk

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

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

How we addressed this risk

We addressed this risk through performing audit work over:

- accounting estimates impacting amounts included in the financial statements;
- consideration of identified significant transactions outside the normal course of business; and
- journals recorded in the general ledger and other adjustments made in preparation of the financial statements.

Audit conclusion

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

4. Significant findings – significant risk: revenue recognition

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

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

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

4. Significant findings

Qualitative aspects of NTCA's accounting practices

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

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

Significant difficulties during the audit

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

Wider responsibilities

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

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

We have not exercised any of these powers as part of our 2020/21 audit.

The 2014 Act also gives rights to local electors and other parties, such as the right to ask questions of the auditor and the right to make an objection to an item of account. No questions or objections have been raised.

Delay in the audit certificate

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

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

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

05

Section 05:

Internal control recommendations

5. Internal control recommendations

The purpose of our audit was to express an opinion on the financial statements. As part of our audit we have considered the internal controls in place relevant to the preparation of the financial statements in order to design audit procedures to allow us to express an opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of internal controls or to identify any significant deficiencies in their design or operation.

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

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

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

5. Internal control recommendations

NTCA – single entity issues

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

NTCA: Follow-up on previous internal control points

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

- The need to develop and publish a partnership register on the NTCA website (Level 2 issue) – a list of significant partnerships has been published on the NTCA website. We now consider this issue to have been addressed and closed.
- Strengthen quality control arrangements in relation to the production of the draft financial statements (Level 2 issue) – fewer issues were identified in the 2020/21 audit, indicating that procedures have improved. We now consider this issue to have been addressed and closed.
- Obtaining related party disclosures from Members (Level 3 issue) – at the time of preparing this report, we had still not completed our review in this area.

Group position - Nexus reporting issues

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

5. Internal control recommendations

Nexus: Other deficiencies in internal control – Level 3

Description of deficiency

Related Party Disclosures

We identified the following as part of audit work:

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

Potential effects

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

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Recommendations

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

Management response

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

5. Internal control recommendations

Nexus - Other deficiencies in internal control – Level 3

Description of deficiency

Asset Impairment process

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

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

Potential effects

Impaired assets may not be identified.

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

Recommendation

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

Management response

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

Nexus - Follow-up on previous internal control points

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

06

Section 06:

Summary of misstatements

Page 31

6. Summary of misstatements

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

Unadjusted misstatements

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

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

Adjusted misstatements

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

6. Summary of misstatements

Disclosure amendments

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

Other issues

The financial statements for NTCA include a share of the Joint Transport Committee assets and liabilities. We have reported in previous years an unadjusted misstatement in relation to cash balances between NTCA and NECA (the North East Combined Authority). In 2019/20 the figure was £796k. We reported this as follows: “On recalculation of Cash split for the devolution a variance has arisen as cash is a balancing figure due to the number of estimations used during the process.”

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

07

Section 07:

Value for Money

Page 34

7. Value for Money

Approach to Value for Money

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

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

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

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

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

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

Status of our work

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

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

Appendices

A: Draft management representation letter

B: Draft audit report

C: Independence

D: Other communications

Appendix A: Draft management representation letter

To: Mr Gavin Barker
Director
Mazars LLP

Date:

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

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

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

My responsibility for the financial statements and accounting information

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

My responsibility to provide and disclose relevant information

I have provided you with:

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

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

Accounting records

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

Appendix A: Draft management representation letter

Accounting policies

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

Accounting estimates, including those measured at fair value

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

Contingencies

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

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

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

There are no contingent gains which should be disclosed.

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

Laws and regulations

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

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

Appendix A: Draft management representation letter

Fraud and error

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

I have disclosed to you:

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

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

Related party transactions

I confirm that all related party relationships, transactions and balances, have been appropriately accounted for and disclosed in accordance with the requirements of the Code and applicable law. I have disclosed to you the identity of NTCA and Group's related parties and all related party relationships and transactions of which I am aware.

Charges on assets

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

Impairment review

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

Future commitments

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

Appendix A: Draft management representation letter

Subsequent events

I confirm all events subsequent to the date of the financial statements and for which the Code and applicable law, require adjustment or disclosure have been adjusted or disclosed .Should further material events occur after the date of this letter which may necessitate revision of the figures included in the financial statements or inclusion of a note thereto, I will advise you accordingly.

Going concern

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

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

Unadjusted misstatements

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

Yours faithfully

Chief Finance Officer

Date: ……………………….

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Appendix B: Draft audit report

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

Report on the audit of the financial statements

Opinion on the financial statements

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

In our opinion, the financial statements:

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

Basis for opinion

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

Conclusions relating to going concern

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

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

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

Appendix B: Draft audit report

Other information

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

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

We have nothing to report in this regard.

Responsibilities of the Chief Finance Officer for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

Appendix B: Draft audit report

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

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

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

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

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

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

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

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

Matter on which we are required to report by exception

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

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

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

Appendix B: Draft audit report

Responsibilities of North of Tyne Combined Authority

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

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

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

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

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

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

We have nothing to report in these respects.

Use of the audit report

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

Appendix B: Draft audit report

Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to satisfy ourselves that North of Tyne Combined Authority and Group has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Gavin Barker
Director
For and on behalf of Mazars LLP

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

Date

Appendix C: Independence

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

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

Appendix D: Other communications

Other communication	Response
Compliance with laws and regulations	We have not identified any significant matters involving actual or suspected non-compliance with laws and regulations. We will obtain written representations from management that all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements have been disclosed.
External confirmations	We did not experience any significant issues with respect to obtaining external confirmations.
Related parties	Issues were identified in respect of related parties disclosures, as set out in section 04 'significant matters discussed with management' along with an internal control recommendations raised in section 05. We will obtain written representations from management confirming that: a. they have disclosed to us the identity of related parties and all the related party relationships and transactions of which they are aware; and b. they have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the applicable financial reporting framework.
Going concern	We have not identified any evidence to cause us to disagree with the Chief Finance Officer that North of Tyne Combined Authority will be a going concern, and therefore we consider that the use of the going concern assumption is appropriate in the preparation of the financial statements. We will obtain written representations from management, confirming that all relevant information covering a period of at least 12 months from the date of approval of the financial statements has been taken into account in assessing the appropriateness of the going concern basis of preparation of the financial statements.

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Appendix D: Other communications

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

Gavin Barker, Director

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11 April 2022

Dear Members

North of Tyne Combined Authority
Follow Up Letter to the Audit Completion Report, 2020/21 Audit

As required by International Standards on Auditing (UK), I am writing to communicate an update on those matters that were marked as outstanding within our Audit Completion Report dated 14 January 2022, and to draw your attention to an additional issue that has arisen since we presented our report to the Audit and Standards Committee on 18 January 2022 and to the Cabinet on 25 January 2022.

The expectation when presenting our report was that the outstanding work at that time would be completed and we then anticipated being able to issue an unqualified opinion on the financial statements.

Unfortunately, an additional issue has arisen that has prevented the audit opinion being issued.

The paragraphs below:

- Outline the additional issue that has arisen; and
- How the other matters reported as outstanding in the Audit Completion Report have been concluded.

Additional issue that has prevented the audit opinion being issued at this stage

In early February a technical issue began to be discussed among the audit firms and sector lead bodies including the National Audit Office.

The issue impacts on authorities that have material infrastructure assets. NTCA's single-entity financial statements include Infrastructure at a net book value of £151.021m at 31 March 2021, and NECA's Group financial statements include Infrastructure at a net book value of £362.265m at 31 March 2021. Clearly, Infrastructure assets are material to both the Authority's and the Group's financial statements.

As a result of this issue arising, our firm has instructed its auditors, in common we understand with the other audit firms in the sector, to pause the issue of audit opinions where financial statements include material infrastructure assets.

The issue is a technical accounting issue and relates to the arrangements in place to remove the original costs and associated depreciation from the Balance Sheet when Infrastructure is updated and the extent to which records are sufficient to enable such adjustments to be made accurately and in accordance with the current CIPFA Code on Practice on Local Authority Accounting.

This is a national issue and not an issue specific to the North of Tyne Combined Authority.

An important message for Members is that this issue does not impact on the underlying financial position, the outturn for the year or the usable reserves available to the Authority and the Group.

In terms of the resolution of this issue, we anticipate that steps are likely to be taken by CIPFA in the near future to determine and implement a national solution.

We will be unable to issue our audit opinion on the financial statements of the Authority and Group until this issue is resolved, and unfortunately this means a further delay in what has already been an extended process.

Resolution of outstanding issues in the Audit Completion Report

The outstanding matters and the conclusions we reached are detailed below:

Matter	Update/conclusion reached	Status
Work still outstanding at the point of drafting the Audit Completion Report We are finalising our testing in a number of areas, and continuing to write up our documentation of the audit file. We continue to discuss some matters arising with officers.	The remaining work was completed. There were no significant issues arising. Based on further discussion with officers, there was a change to the adjustments included in the Audit Completion Report. A full updated set of adjustments is included in Appendix A.	Cleared
WGA Our audit work will be completed once the Group Instructions have been received from the National Audit Office.	Group Instructions are still not available to set out the work we are required to undertake. The timescale for this now appears to have moved towards the summer of 2022.	Still outstanding

Matter	Update/conclusion reached	Status
Audit quality control and completion procedures Our audit work is subject to ongoing review and quality control procedures. In addition, there are residual procedures to complete, including agreeing the expected amendments to the final Statement of Accounts, updating post balance sheet event considerations to the point of issuing the opinion and reviewing management's going concern assertion.	Our review and closure procedures are now largely completed. However, we will still need to consider post balance sheet events and going concern at the point we are able to issue the audit opinion. We will also need to obtain a letter of representation at this point from the Chief Finance Officer.	Consideration of post balance sheet events and going concern at the point we are able to issue the audit opinion

Current status of our audit work

At the time of preparing this update letter, the following matters remain outstanding, which as we have explained will be reported at a later date:

Audit area	Status	Description of outstanding matters
Infrastructure assets - National issue	🟡	As summarised earlier in our letter, this is a national issue awaiting a national solution. We are unable to issue our audit opinion until this has been resolved.
Value for money commentary	🟢	We are yet to complete our work in respect of the Authority's arrangements for the year ended 31 March 2021. At the time of preparing this letter, we have not identified any significant weaknesses in arrangements that require us to make a recommendation, however we continue to undertake work on the Authority's arrangements.
WGA	🟢	We have not yet received group instructions from the National Audit Office. The timescale for this now appears to have moved towards the summer of 2022.

Status

- 🔴 Likely to result in material adjustment or significant change to disclosures within the financial statements
- ⚪ Potential to result in material adjustment or significant change to disclosures within the financial statements
- 🟢 Not considered likely to result in material adjustment or change to disclosures within the financial statements

In our Audit Completion Report, we reported follow up on 2019/20 internal control recommendations, but at the time of reporting we had not completed our work on related party disclosures, so were unable to report our conclusion in relation to last year's issue. In 2020/21, we were able to obtain the assurance we needed into related party disclosures, but we had similar issues in terms of returns not being dated and we were unable to follow some of the links on the Authority's website.

We will keep management informed of progress in resolving the national issue preventing the audit opinion being issued. When we are in a position to sign our audit opinion, we will provide a further update for Members.

If you wish to discuss these or any other points then please do not hesitate to contact me.

Yours faithfully

Gavin Barker

Gavin Barker
Director

APPENDIX A – SUMMARY OF MISSTATEMENTS

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

Unadjusted misstatements

There were no unadjusted misstatements in the NTCA single entity financial statements.

Group financial statements

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

		Comprehensive Income and Expenditure Statement / Movement in Reserves Statement		Balance Sheet	
		Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
2	Dr: Provisions			1,148	
	Cr: Debtors – Provision for Bad Debts				1,148
	Being the correction of a long-term provision. This is a provision for bad debts, which should have been netted off debtors.				
3	Dr: Gross Income	462			
	Cr: Gross Expenditure		472		
	Dr: Net impact of the above differences			10	
	Being the correction of differences in gross income and gross expenditure for Nexus between the figures in the Group accounts and the figures included in Nexus's audited financial statements. The net difference of £10k is below our reporting threshold.				
4	Dr: General Fund (Reserves)			384	
	Cr: Earmarked reserves				634
	Dr: Net impact of the above differences			250	
	Being the correction of differences in General Fund (Reserves) and Earmarked Reserves between the figures in the Group accounts and the individual accounts of each entity. The net difference of £250k is below our reporting threshold.				

Management does not propose to amend the Group financial statements, as the adjustments are not material.

Adjusted misstatements

There were no adjusted misstatements in either NTCA single-entity or Group financial statements.

Disclosure amendments

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

For completeness, we reproduce a full list of amendments below:

NORTH EAST COMBINED AUTHORITY SINGLE-ENTITY FINANCIAL STATEMENTS

Item of account / disclosure note	Description of the disclosure error	Has the error been amended?
Note 11 - Officer Remuneration	Minor amendment made to ensure pension contributions were reflected in the disclosure.	Yes
Note 13 - Related Party Transactions	Minor amendment to ensure the correct disclosures.	Yes
Note 14 - Property, Plant and Equipment	Minor amendment to a line description.	Yes
Note 15 - Financial Instruments	Amendment to include a reconciliation of soft loans.	Yes
Note 22 - Defined Benefits Pension Scheme	Minor amendment to the disclosures.	Yes

GROUP FINANCIAL STATEMENTS:

Item of account / disclosure note	Description of the disclosure error	Has the error been amended?
G7 - Property, Plant and Equipment	Minor amendment to disclosures.	Yes
G9 - Financial Instruments	A number of corrections to the disclosures.	Yes
G13 - Defined Benefits Pension Scheme	A number of corrections to the disclosures.	Yes
G21 - Capital Expenditure and Capital Financing	This note was missing from the draft accounts.	Yes

Other issues

The financial statements for NTCA include a share of the Joint Transport Committee assets and liabilities. We have reported in previous years an unadjusted misstatement in relation to cash balances between NTCA and NECA (the North East Combined Authority). In 2019/20 the figure was £796k. We reported this as follows: "On recalculation of Cash split for the devolution a variance has arisen as cash is a balancing figure due to the number of estimations used during the process."

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

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13 April 2023

Dear Members

Update/conclusion of pending matters – Audit Completion Report 2020/21

There has been a substantial delay in being able to conclude the 2020/21 Audit.

We initially reported our Audit Completion report to the meeting of the Audit and Standards Committee on 18 January 2022.

As required by International Standards on Auditing (UK), we then wrote a follow up letter dated 11 April 2022 to communicate an update on those matters that were marked as outstanding within our Audit Completion Report dated 14 January 2022. The follow up letter was presented to the Audit and Standards Committee on 26 April 2022.

In our follow up letter of 11 April 2022, we also reported an additional national issue that had arisen. This has only now been finally resolved, and this follow up letter communicates an update on how this additional issue has been addressed, and includes an update on other matters since that date.

Together, our Audit Completion Report dated 14 January 2022, and our follow up letters dated 11 April 2022 and 13 April 2023 provide a complete record of the matters arising from the audit and how the audit has been concluded.

The outstanding matters and the conclusions we reached are detailed below:

Matter	Update/conclusion reached	Status
Infrastructure	As Members are aware, there has been a national issue in relation to accounting for infrastructure which has impacted on every local authority related entity with material infrastructure balances. The issue identified that there was insufficiently detailed information available to allow local authorities to demonstrate the material accuracy of the gross carrying value of infrastructure assets. Specifically, the information deficits related to the type of assets held within the infrastructure balance, their useful lives and whether or not any capitalised expenditure was incurred to replace existing components. Members should note that this issue was entirely technical in nature and it did not impact on the resources available to NTCA or the level of usable reserves held by NTCA. A statutory override was put in place by Government to address the information deficits and CIPFA guidance was issued to allow authorities to disclose net infrastructure and not disclose gross infrastructure and gross depreciation in the financial statements. The statutory override made it clear that adjustments were not required to previous infrastructure balances even where errors may have existed. NTCA has adopted the statutory override in full. NTCA also made amendments to the disclosures about infrastructure in the financial statements, as required by the guidance, but the figures relating to infrastructure have not been amended (See Appendix 1). As part of our review of NTCA's application of CIPFA's "Update to the Code and Specifications for Future Codes for Infrastructure Assets (Code update)", we considered NTCA's asset lives per its accounting policies for infrastructure assets. We considered CIPFA Bulletin 12, which includes a commentary on the useful lives of the components of the highways network by the "UK Roads Leadership Group Asset Management Board". The guidance includes a range of "reasonable useful lives" for different types of assets which we compared to those applied by NTCA. NTCA's assets are its tunnels, and the reasonable useful lives applied were within the range in the CIPFA guidance. We also reviewed the work of management's expert in determining the useful economic lives of NTCA's assets and there were no issues arising from this. Following completion of our work, we are satisfied that NTCA has followed the relevant guidance when reviewing its infrastructure	Complete

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Matter	Update/conclusion reached	Status
	assets and has made the required disclosures in the financial statements. Nexus, as a significant component within the Group accounts, was also impacted by the infrastructure issue. Nexus also applied the statutory override and there are no matters arising to report in terms of the audit of the Group accounts.	
Value for money arrangements	At the time of our previous reporting, we had not completed our VFM work. We have now completed this work and we did not identify any significant weaknesses or recommendations as part of our review.	Complete
Whole of Government Accounts	We have been unable to carry out the work necessary to report on WGA, as we were unable to complete this work until our audit opinion is issued. When we issue our audit opinion we will be able to report on WGA for 2020/21.	Ongoing
Audit quality control and completion procedures	We are awaiting the final version of the financial statements. Once received we will undertake our final closure procedures including a review of the management representation letter and post balance sheet events.	This will be completed at the point we are ready to issue our audit opinion

Our draft Audit Report is shown in Appendix 2. This highlights in red any changes from the previous version included in our Audit Completion Report. The main change is that we can now report in our audit opinion that we have completed our value for money work for the year ended 31 March 2021.

We will inform the Audit and Standards Committee of any further matters when we have completed the WGA work formally closing the audit of the North of Tyne Combined Authority.

If you wish to discuss these or any other points then please do not hesitate to contact me.

Yours faithfully

Gavin Barker

Gavin Barker
Director

APPENDIX 1 SUMMARY OF MISSTATEMENTS

This Appendix only highlights the amendments made in relation to the infrastructure issue.

All previous misstatements were as reported in Appendix A of the Follow Up Letter dated 11 April 2022.

Infrastructure amendments:

In accordance with CIPFA guidance, NTCA updated its Accounting Policies and Infrastructure Assets notes to include:

- Clarification that the statutory override was claimed;
- To ensure that only net infrastructure assets are disclosed rather than the gross value and gross depreciation; and
- More information on the nature of the infrastructure assets and NTCA's accounting treatment of them.

The values of infrastructure disclosed in the financial statements were unchanged.

APPENDIX 2 – DRAFT AUDIT REPORT

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

Report on the audit of the financial statements

Opinion on the financial statements

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

In our opinion, the financial statements:

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

Basis for opinion

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

Conclusions relating to going concern

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

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

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

Other information

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

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

We have nothing to report in this regard.

Responsibilities of the Chief Finance Officer for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

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

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

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

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

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

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

Matter on which we are required to report by exception

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

~~We have not completed our work on the Council's arrangements. On the basis of our work to date, having regard to the guidance issued by the Comptroller and Auditor General in December 2021, we have not identified any significant weaknesses in arrangements for the year ended 31 March 2022.~~

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

We have nothing to report in this respect.

Responsibilities of the North of Tyne Combined Authority

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

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

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

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

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

We are required by the Code of Audit Practice to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make a recommendation under section 24 of the Local Audit and Accountability Act 2014; or
- we exercise any other special powers of the auditor under sections 28, 29 or 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

Use of the audit report

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

Delay in certification of completion of the audit

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

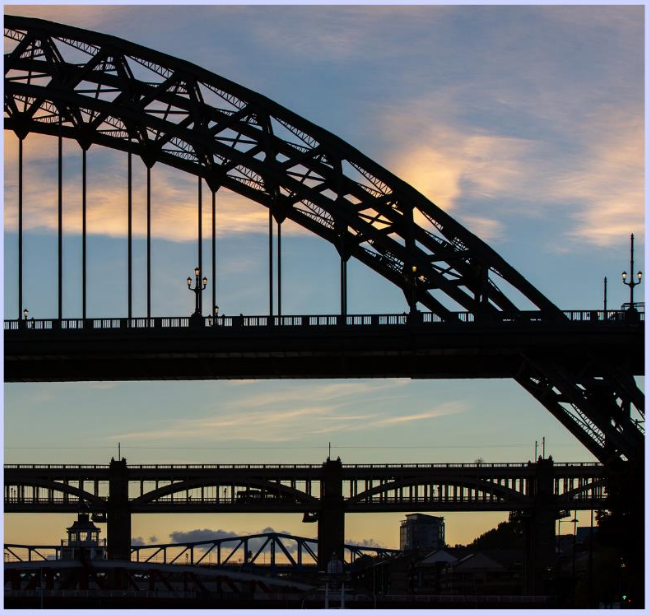
- the work necessary to issue our assurance statement in respect of the North of Tyne Combined Authority's Whole of Government Accounts consolidation pack.~~; and~~
- ~~the work necessary to satisfy ourselves that the North of Tyne Combined Authority has made proper arrangements for securing economy,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

Gavin Barker
Director
For and on behalf of Mazars LLP

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

Date: To be confirmed

ANNUAL GOVERNANCE STATEMENT 2020/21



NORTH OF TYNE COMBINED AUTHORITY

Section 1: Introduction

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

Section 2: Scope Of Responsibility

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

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

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

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

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

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

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

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

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

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

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

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

Section 3: Purpose Of The Governance Framework

Corporate governance is a phrase used to describe how organisations direct and control what they do. The Chartered Institute of Public Finance and Accountancy (CIPFAs) publication "Delivering Good Governance in Local Government" (2016 Edition), sets a framework, and the standard, for local authority governance in the UK. The Framework sets out a set of principles which we test our governance arrangements against to consider the extent to which the Authority complies with the principles of good governance as set out in the Framework. This is reported through the Annual Governance Statement. It also enables us to monitor the achievement of the Authority's priorities and to consider whether those priorities have led to the delivery of appropriate services which represent value for money.

The Governance Framework has been in place for the year ended 31 March 2021 and up to the date of approval of the Authority's Annual Report and Accounts.

This Annual Governance Statement meets the requirements of the Accounts and Audit Regulations 2015 (6) (1) to conduct a review of the effectiveness of the system of internal controls required by Regulation 3 and prepare an Annual Governance Statement.

Section 4: The Governance Framework

The core principles and outcomes of our Governance Framework are set out overleaf. This includes examples of how the Authority has adhered to its governance commitments set out in the Constitution and includes hyperlinks to sources of further information which include more detail about how NTCA has implemented its commitments.

Principles of Good Governance

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

B. Ensuring openness and comprehensive stakeholder engagement

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Section 5: Annual Review Of Effectiveness Of Governance Framework

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Section 7: Investment Fund Programme & Brownfield Housing

Investment Fund Programme

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

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

Brownfield Housing

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

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

Section 8: Adult Education Budget

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

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

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

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

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

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

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

Section 9: Significant Weaknesses In Governance and Internal Control

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

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

Section 10: Covid-19 Response and Recovery

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

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

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

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

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

The programme of activity is built around five themes:

1. **Job recovery:** Rapid and sustained interventions to help people into jobs and training, including a jobs recovery programme that will provide jobs and training for 20,000
2. **Building the economy of the future:** Maximising the potential of our existing assets and exploring opportunities to enter new markets and supply chains – powered by innovation
3. **Supporting businesses:** Rapid recovery of businesses and sectors
4. **Communities and place**: Creating resilient places and strong communities as they adapt to living with Covid-19, as well as other challenges and opportunities and supporting the cultural recovery
5. **Digital and connectivity infrastructure investment:** Building infrastructure to lead transformation and encourage future investment

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

Section 11: Governance and Internal Control Improvements

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

Section 12: Conclusion

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

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

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

Mayor of the North of Tyne Combined Authority	**Managing Director**
Full Name: Jamie Driscoll	**Full Name: Henry Kippin**
Signature: Jamie Driscoll	**Signature: Henry Kippin**
Date: 25 January 2022	**Date: 25 January 2022**
Chair of Audit and Standards Committee	**Chief Finance Officer**
Full Name: Doug Ross	**Full Name: Janice Gillespie**
Signature: Doug Ross	**Signature: Janice Gillespie**
Date: 21 January 2022	**Date: 21 January 2022**

Section 13: Governance and Internal Control Improvements Appendix A

<u>CIPFA Financial Management Code</u>

Background Risk

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

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

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

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

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

Accountable Officer: Chief Finance Officer

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

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

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NORTH OF TYNE COMBINED AUTHORITY

Narrative Report year ended 31 March 2021

Narrative Statement

Introduction

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

The report provides the reader with:

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

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

The accounts feature four main financial statements:

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

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

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

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

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

Annual Governance Statement

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

About North of Tyne Combined Authority (NTCA)

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

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

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

Key facts about North of Tyne Combined Authority

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

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

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

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

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

Key Facts about Governance Arrangements

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

NTCA Order and Constitution

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

Management Structure

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

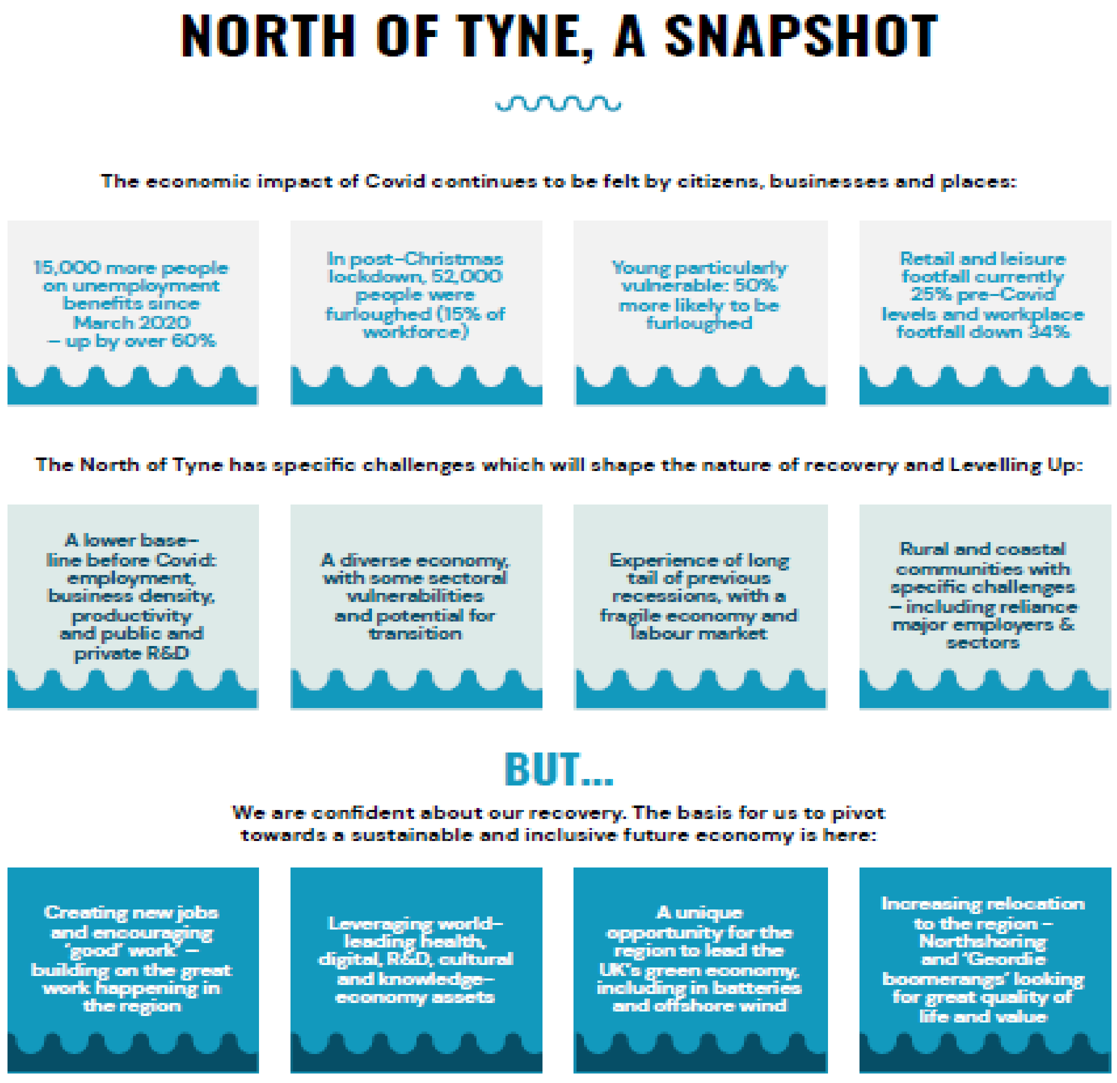
The Combined Authority has grown to 48 employees during 2020/21 with support services being provided under Service Level Agreements with the three constituent North of Tyne authorities.

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

North of Tyne Vision and Purpose

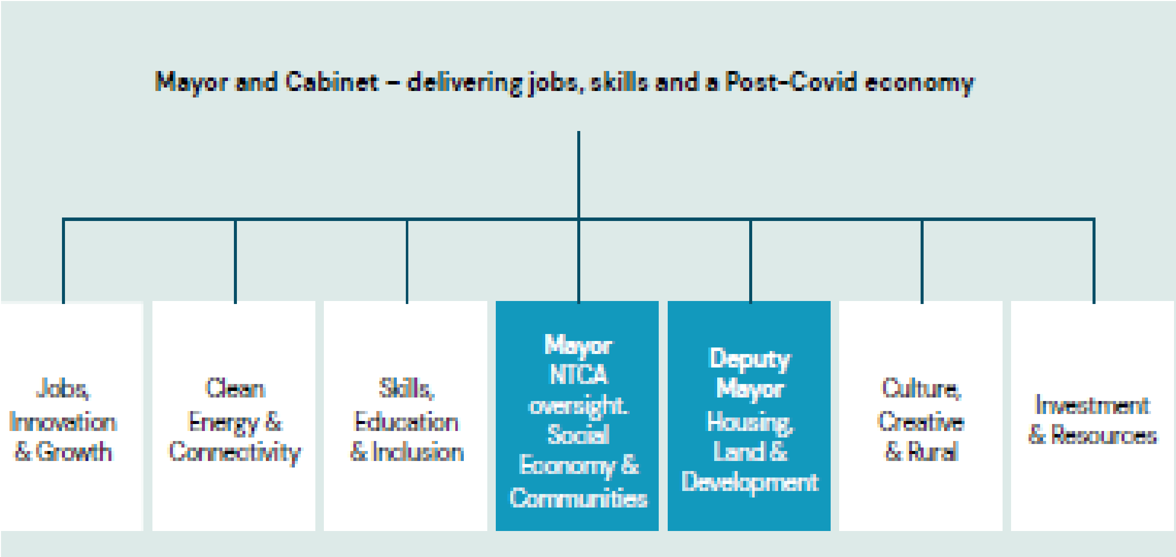
The North of Tyne vision is of a dynamic and more inclusive economy, one that brings together people and opportunities to create vibrant communities and a high quality of life, narrowing inequalities and ensuring that all residents have a stake in our region’s future.

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



Delivering together…

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

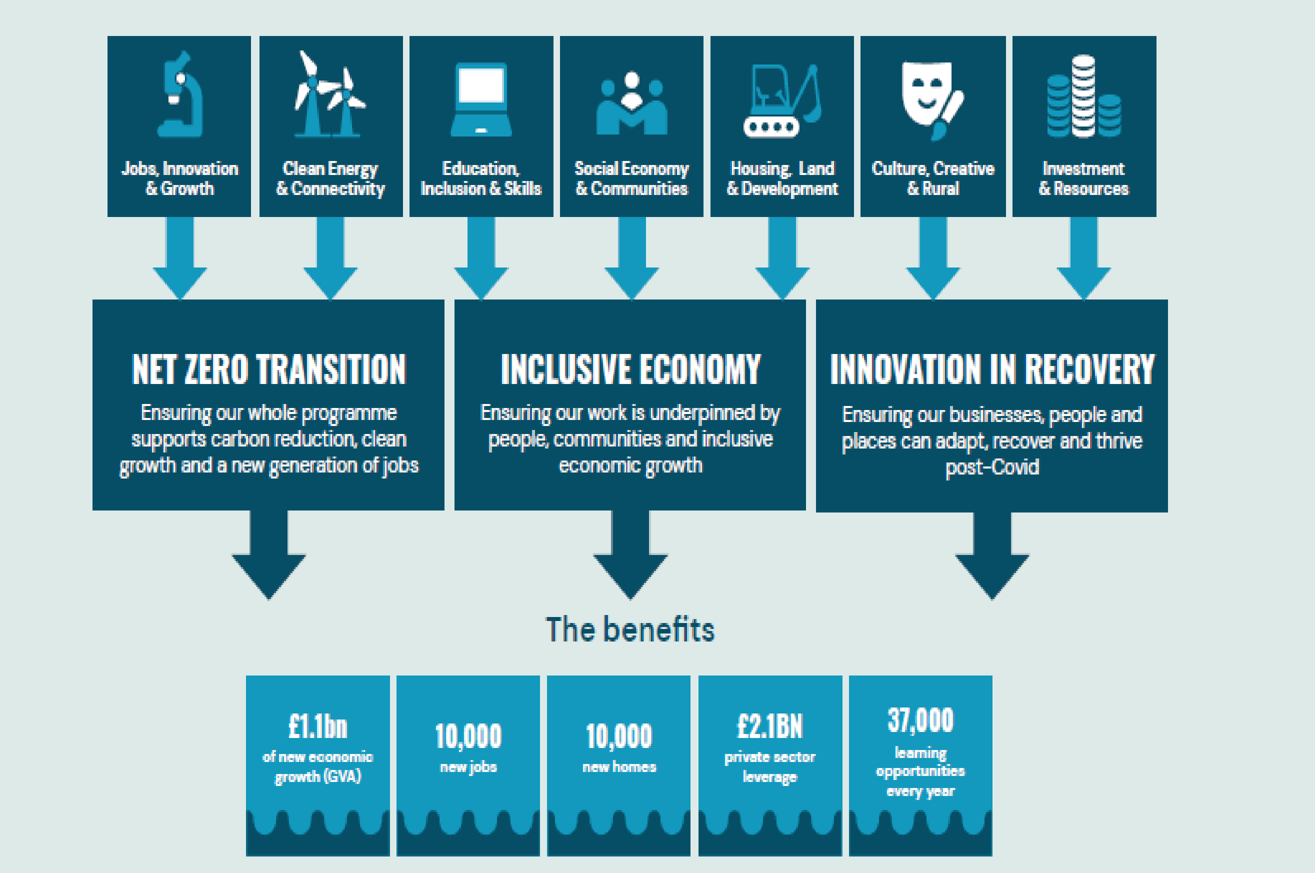


Cabinet Members lead specific portfolios and give collective strategic direction and oversight of NTCA work. This also ensures that local priorities are reflected, and that the connection is maximised between our urban, rural, and coastal geographies and our unique local assets and strengths.

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

Cross-cutting Themes

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



Funding, Investment and Resources

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

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

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

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

Headline Targets

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

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

Financial Performance of the Combined Authority 2020/21

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

Table 1: 2020/21 Budget Outturn

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

Corporate Budget Outturn

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

Table 2: Corporate Budget Outturn

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

Investment Fund Outturn

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

Table 3 2020/21 Investment Fund Budget Outturn

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

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

Table 4 Commitment against Investment Fund Thematic Area

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

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

Brownfield Housing Fund

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

Table 5 Brownfield Housing Funding Profile updated for Year 1 underspend

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

Adult Education Budget (AEB)

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

Table 6 Adult Education Budget 2020/21 Outturn

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

Reserves Statement

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

Table 7 Reserves as at 31 March 2021

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

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

Borrowing Facilities

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

North East Local Enterprise Partnership (NE LEP)

NTCA became the accountable body for the NE LEP on the 1 April 2020 and these accounts include details of its income and expenditure. The NE LEP brings together business leaders, universities, and the Leaders and Elected Mayor of the seven local authorities in the North East LEP area. It is the fourth largest LEP in the country and covers the seven local authorities in the North East area. It is responsible for promoting and developing economic growth in the area and works together with NTCA to ensure there is coordination across a range of activities. The North East LEP core budget covers operational activity and also management of the Local Growth Fund (LGF) programme and the new Getting Building Fund (GBF) other activities undertaken by the LEP and funded by additional income. Table 8 below provides a summary of actual spend against the revised budget for the year.

Table 8: North East LEP 2020/21 Outturn

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

Total revenue expenditure amounted to £6.345m, which was within the revised budget for the year. There was a small surplus of £0.010m for the year, which was as per the revised budget position with LEP reserves of £0.613m to be carried into 2021/22. Considerable additional business support and advice was provided by the LEP's North East Growth Hub in the run up to Brexit and towards the year end in relation to the impact of the Covid-19 pandemic and this additional work was undertaken by existing staff and resources.

Local Growth Fund and North-East Investment Fund

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

North East Investment Fund

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

Enterprise Zones

Round 1 Enterprise Zones are located across four local authority areas: Newcastle, North Tyneside, Northumberland, and Sunderland. Business rates growth generated on these designated sites accrues to the benefit of the North East LEP for a 25-year period, 2020/21 was the eighth year of the Round 1 zones' life.

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

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

Table 9 Enterprise Zone Account

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

Invest North East England (INEE)

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

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

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

- INEE’s primary function is to focus on attracting new inward investment to the North East (rather than seeking to secure re-investment in existing companies)
- INEE works closely with, and on behalf of, all seven constituent authorities, its aim being to maximise levels of inward investment regardless of location in North East (a ‘North East First’ principle).
- INEE activity aims not to duplicate but add value to activities undertaken by

the constituent local authorities.

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

Performance

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

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

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

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

Main points from Financial Statements

Comprehensive Income & Expenditure Statement

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

Balance Sheet

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

Group Results

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

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

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

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

Non-Financial Performance of the Authority

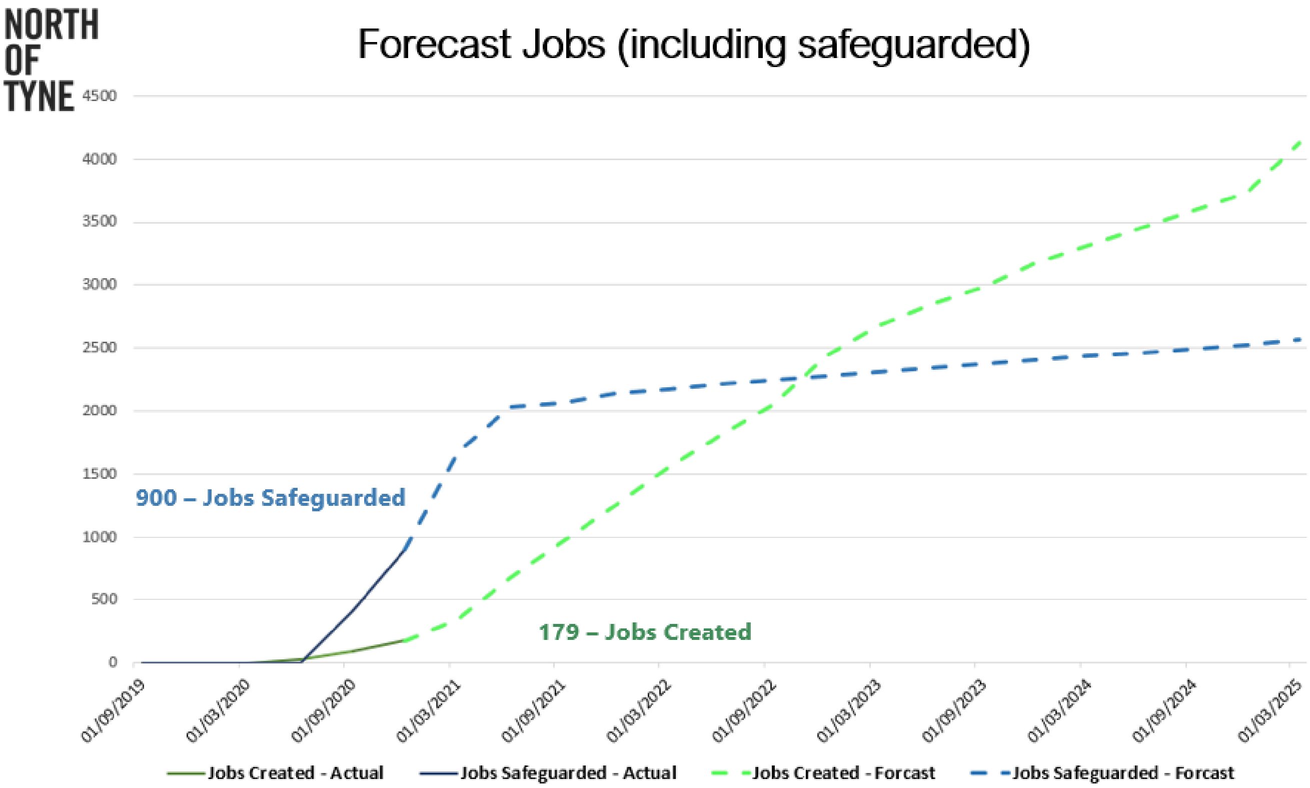
Investment Fund non-financial performance

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

To date the Combined Authority has achieved:

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

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



Brownfield Housing
Non-financial Performance

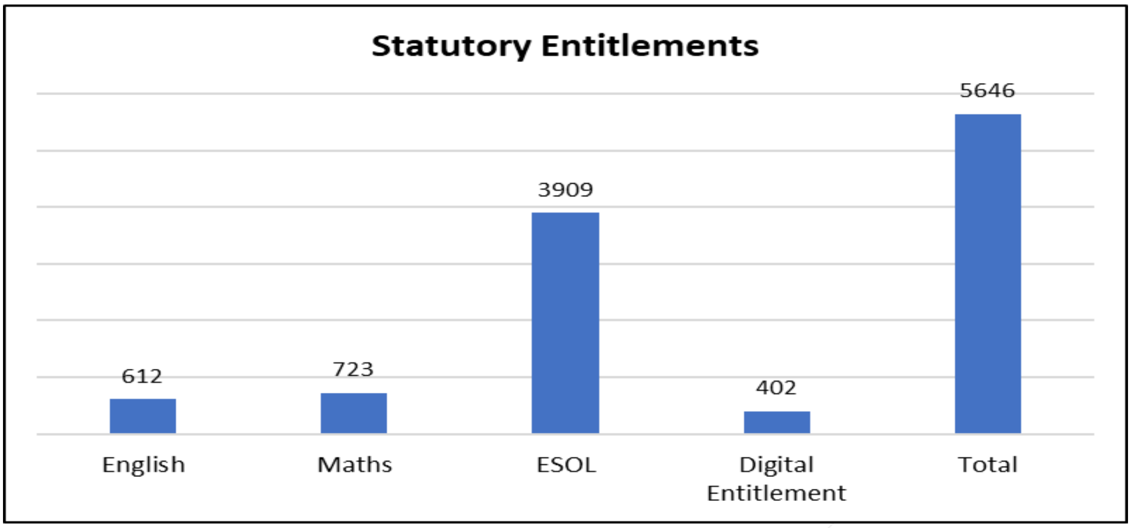
- Contracted projects are forecasting the creation of 1402 housing units with the extended pipeline accounting for 4171. Our contracted target with MHCLG is 1500.

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

Adult Education Budget
Non-financial Performance

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

This is shown below as per constituent authority.



Key Priorities and upcoming Milestones

The NTCA Corporate Plan outlined the following commitments below:

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

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

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

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

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

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

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

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

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

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

Our role in regional transport

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

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

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

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

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

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

Significant issues relating to 2021/22 and beyond

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

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

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

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

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

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

The North East LEP has been leading a 'Covid-19 Economic Response Group' made up of NTCA, NECA, local authorities, the Confederation of British Industry (CBI) on behalf of business, North East JTC and regional universities. NTCA will work with the LEP and other partners on the Covid-19 recovery. Further rounds of LGF/Future prosperity/ Economic Recovery funding will be required to support the capital investment and Revenue support that is needed to help the region's economy to recover and grow.

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

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

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

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

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

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

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

Work is continuing in developing the 'Tyne Pass' project to introduce a fully automated payment system using Automatic Number Plate Recognition (ANPR) technology at the Tyne Tunnels, to replace the existing coin and permit systems, and it is planned to launch later in the 2021/22 financial year.

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

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

Explanation of Accounting Statements included within the Accounts

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

Core Financial Statements

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

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

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

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

Notes to the Accounts

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

Group Accounts and Associated Notes

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

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

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

Implementation of the Devolution order

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

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

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

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

For the 2020/21 accounts the mid-year estimated population published by the Office of National Statistics as at June 2018 is used, which is the basis on which the Transport Levy payments for the year are required to be calculated. The calculation of the proportion used to allocate the figures in the accounts at 31 March 2021 is shown in Table 11 below.

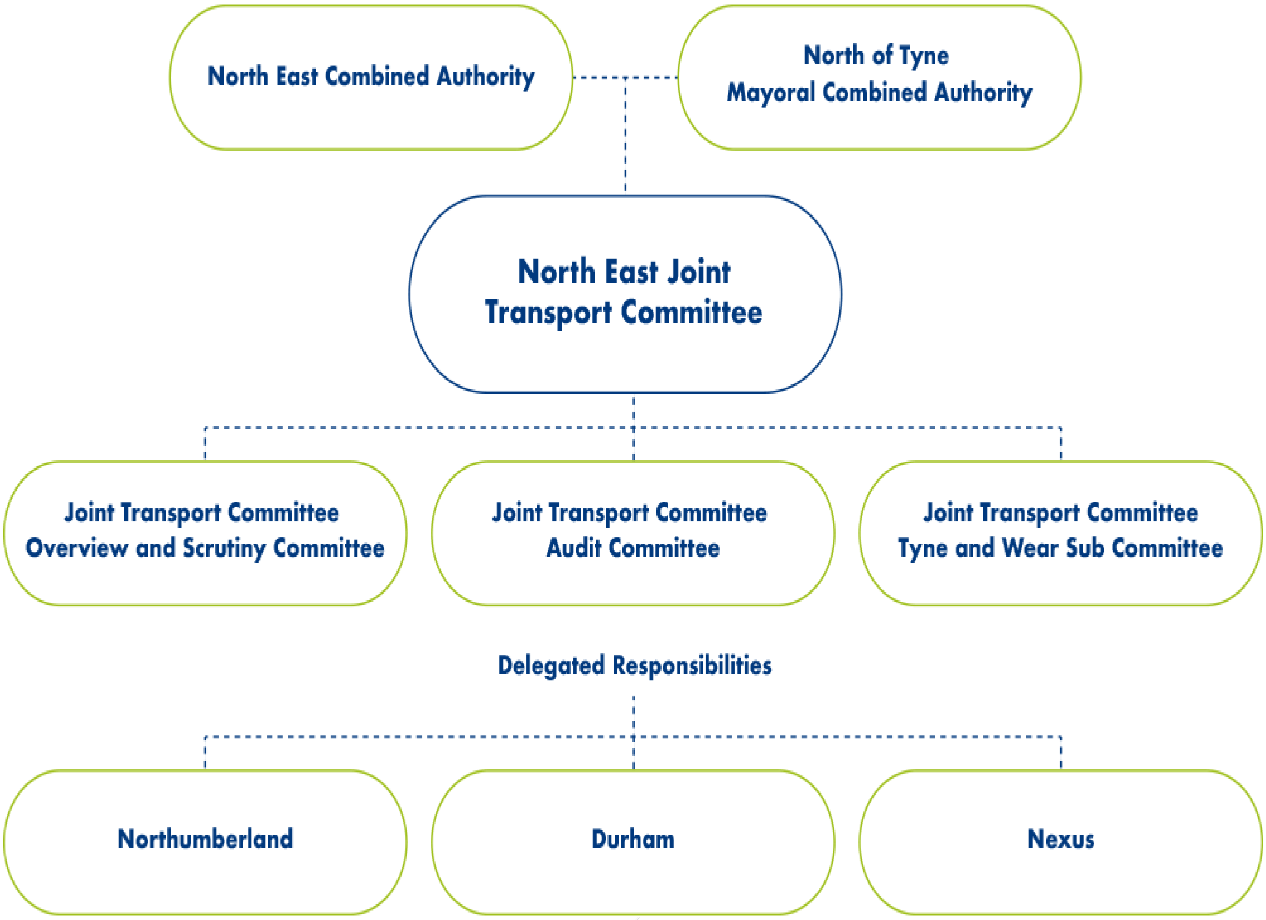
Table 11 - Population used to allocate Transport Assets/Liabilities between NECA and NTCA

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

The Joint Transport Committee

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

Transport is of strategic importance to the North East, and the collaborative working of both Combined Authorities allows effective decision making across the region, which ensures that the local needs and priorities are delivered.
The structure for Transport that was established in November 2018 is shown in the diagram overleaf.



Transport

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

Table 12 overleaf shows Tyne Tunnel Flow data shows a small increase in traffic in 2020/21 until the end of March when the impact of the Covid-19 pandemic took effect. The increase was seen in all classes of vehicle except Class 1.

Table 12: Tyne Tunnel Traffic Flow data

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

Class 1 = Motorcycles; Class 2 = Car, Van, or Bus less than 3m high with 2 axles; Class 3 = HGV, Van, or Bus more than 3m high or 3 axles or more; Exempt = emergency vehicles and blue badge holders

The tolls were increased in line with inflation on 25 August 2020 from £3.60 to £3.70 (or £3.33 with a pre-paid permit) for Class 3 vehicles. There was no increase applied during the financial year for Class 2 vehicles which remained at £1.80 (or £1.62 with a pre-paid permit).

Tyne and Wear Passenger Transport Executive – Nexus

The North East Joint Transport Committee sets public transport policy for the region, which in Tyne and Wear is delivered operationally by Nexus. The following performance indicators describe the general performance of public transport in Tyne and Wear during 2020/21.

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

Annual Governance Statement

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

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

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

NTCA Staffing

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

Table 13 – Change in Staffing numbers during 2020/21

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

- As per North East Combined Authority Narrative Report

The Authority seeks to make the best possible use of resources available with regard to economy, efficiency, and effectiveness. This is a responsibility shared by Members and Officers of the Authority, with the Chief Finance Officer having a specific role in ensuring the adequacy of resources and proper financial administration. Our budget proposals for 2021/22, available on the NTCA website Cabinet-26-January-2021 sets out how we will do this looking forward. The Statement of Accounts accompanying this report looks back at our performance since establishment. Reviewed together they provide the reader with an understanding of the financial position of the Authority.

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

J Gillespie.

Janice Gillespie
Chief Finance Officer (S73 Officer)

21/01/2022

North of Tyne Combined Authority

Statement of Accounts

2020/21

Table of Contents

1.0 Statement of Responsibilities for the Statement of Accounts

The Authority's Responsibilities

The Authority is required:

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

Signed: **Date:25/01/2022**
Jamie Driscoll
Mayor of the North of Tyne Combined Authority

The Chief Finance Officer's Responsibilities

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

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

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

The Chief Finance Officer has also:

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

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

J Gillespie

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

2.0 Core Financial Statements and Explanatory Notes

2.1 Movement in Reserves Statement

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

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

2.2 Comprehensive Income and Expenditure Statement

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

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

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

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

2.3 Balance Sheet as at 31 March 2021

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

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

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

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

J Gillespie

Janice Gillespie, Chief Finance Officer (Section 73 Officer)

2.4 Cash Flow Statement for period ended 31 March 2021

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

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

2.5 Index to the Notes to the Financial Statements

1. Narrative Explanatory Note on Devolution

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

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

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

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

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

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

2. Transfer of North East Local Enterprise Partnership

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

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

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

Prior to the creation of the Combined Authority, the seven local authorities and NECA entered into a Deed of Co-operation which set out the parties' intention that NECA

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

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

3. Expenditure and Funding Analysis

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

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

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

2020/21

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

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

2019/20

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

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

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

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

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

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

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

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

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

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

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

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

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

4. Income and Expenditure Analysed by Nature

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

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

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

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

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

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

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

6. Adjustments between Accounting Basis and Funding Basis under Regulations

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

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

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

7. Financing and Investment Income and Expenditure

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

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

8. Taxation and Non-Specific Grant Income

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

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

9. Grants and Contributions Income

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

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

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

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

10. Members' Allowances

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

11. Officers' Remuneration

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

Table 1

2019/20				2020/21		
Salary, Fees & Allowances £000	**Pension Contributions £000**	**Total £000**		**Salary, Fees & Allowances £000**	**Pension Contributions £000**	**Total £000**
-	-	-	Helen Golightly Chief Executive (LEP)*	135	7	142
46	10	56	Director of Economic Growth	130	7	137
35	9	44	Director of Performance and Policy	109	6	115
-	-	-	Innovation Director (LEP)*	94	5	99
-	-	-	Director Invest North East *	68	4	72
-	-	-	Skills Director (LEP)*	68	4	72
-	-	-	Strategy & Policy Director (LEP)*	69	4	72
-	-	-	Business Growth Director (LEP)*	68	4	72
127	-	127	Managing Director of Transport Arrangements**	131	-	131
208	**19**	**227**	**Total**	**872**	**41**	**913**

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

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

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

Table 2

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

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

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

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

12. Audit Costs

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

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

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

13. Related Party Transactions

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

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

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

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

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

NTCA Constituent Authorities – The leaders of the three constituent authorities serve as members on the NTCA Cabinet. Details of material transactions with the seven north east authorities are set out in the table below.

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

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

2019/20					**2020/21**			
Receivables £000	**Income £000**	**Expenditure £000**	**Payables £000**		**Receivables £000**	**Income £000**	**Expenditure £000**	**Payables £000**
				NTCA Constituent Authorities				
(783)	(7,871)	1,519	1,189	Newcastle	(539)	(27,322)	6,404	2,818
(1,918)	(6,863)	1,237	286	North Tyneside	(374)	(27,396)	2,867	995
(2,359)	(8,468)	7,507	88	Northumberland	(437)	(6,349)	10,016	2,544
				NECA Constituent Authorities				
-	-	1,383	69	Durham	(329)	(68)	5,388	1,588
-	(4,850)	853	21	Gateshead	(256)	(68)	7,494	1,018
-	(3,583)	535	610	South Tyneside	0	(68)	1,030	1,902
-	(6,643)	1,000	105	Sunderland	(1,372)	(68)	9,943	548
				Other Public Bodies				
-	-	8	8	North East Combined Authority	(355)	(77)	34,367	2,044
(672)	-	27,226	22,609	Nexus	(559)	(611)	29,907	27,048
(5,732)	(38,278)	41,268	24,985	**Total**	(4,220)	(62,028)	107,417	40,506

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

14. Property, Plant and Equipment excluding Highways Infrastructure

2020/21	**Vehicles, Plant, Furniture & Equipment £000**	**Assets Under Construction £000**	**Total Property, Plant & Equipment excluding Highways Infrasturcture Assets £000**	**Service Concession Assets included in PPE £000**
Cost or Valuation				
At 1 April 2020	1,754	934	2,688	-
Additions	-	152	152	-
Reclassification	544	(544)	-	-
Impairment recognised in the Surplus/Deficit on the Provision of Services	-	-	-	-
Other adjustments	-	-	-	-
At 31 March 2021	**2,298**	**542**	**2,840**	**-**
Accumulated Depreciation & Impairments				
At 1 April 2020	(599)	-	(599)	-
Depreciation charge	(129)	-	(129)	-
At 31 March 2021	**(728)**	**-**	**(728)**	**-**
Net Book Value				
At 1 April 2020	1,155	934	2,089	-
At 31 March 2021	**1,570**	**542**	**2,112**	**-**

2019/20	Vehicles, Plant, Furniture & Equipment £000	Assets Under Construction £000	Total Property, Plant & Equipment £000	Service Concession Assets included in PPE £000
Cost or Valuation				
At 1 April 2019	1,420	7,999	9,419	-
Additions	-	1,373	1,373	-
Reclassification	334	(8,438)	(8,104)	-
Impairment recognised in the Surplus/Deficit on the Provision of Services	-	-	-	-
Other Adjustments	-	-	-	-
At 31 March 2020	**1,754**	**934**	**2,688**	**-**
Accumulated Depreciation & Impairments				
At 1 April 2019	(525)	-	(525)	-
Depreciation charge	(74)	-	(74)	-
At 31 March 2020	**(599)**	**-**	**(599)**	**-**
Net Book Value				
At 1 April 2019	895	7,999	8,894	-
At 31 March 2020	**1,155**	**934**	**2,089**	**-**

14a. Highways Infrastructure Assets

Movements on balances

In accordance with the temporary relief offered by the Update to the Code on infrastructure assets this note does not include disclosure of gross cost and accumulated depreciation for infrastructure assets because historical reporting practices and resultant information deficits mean that this would not faithfully represent the asset position to the users of the financial statements.

The authority has chosen not to disclose this information as the previously reported practices and resultant information deficits mean that gross cost and accumulated depreciation are not measured accurately and would not provide the basis for the users of the financial statements to take economic or other decisions relating to infrastructure assets.

	2020/21
	£000
Net book value (modified historical cost)	
At 1 April	**151,533**
Additions	424
Derecognition	
Depreciation	(1,785)
Impairment	(16)
Other movements in cost	866
Net book value	
At 31 March	**151,022**

	2020/21
	£000
Infrastructure assets	151,022
Other PPE assets	2,112
Total PPE assets	**153,134**

The authority has determined in accordance with Regulation 30M of the Local Authorities (Capital Finance and Accounting) (England/Wales) (Amendment) Regulations 2022 that the carrying amounts to be derecognised for infrastructure assets when there is replacement expenditure is nil.

Structures – net book value

North of Tyne Combined Authority has estimated a net book value at 31 March 2021 for its structures at £151.022m. This is fully represented by the tunnels owned by the authority. The remaining useful lives for its tunnels are assessed to be as follows:

Northbound vehicle tunnel	62 years
Southbound vehicle tunnel	110 years
Pedestrian and cyclist tunnels	62 years

Depreciation for the tunnels (and total annual depreciation for 2020/21 on structures) is £1.785m.

15. Financial Instruments

Financial Assets

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

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

Financial assets held at amortised costs

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

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

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

Trade receivables

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

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

Financial liabilities held at amortised cost

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

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

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

Income, Expense, Gains and Losses

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

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

Fair Value of Assets & Liabilities carried at Amortised Cost

Financial assets classified as loans and receivables and all non-derivative financial liabilities are carried in the Balance Sheet at amortised cost. Their fair values have been estimated by calculating the net present value of the remaining contractual cash flows at 31 March 2021, using the following methods and assumptions:

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

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

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

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

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

The fair values calculated are as follows:

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

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

Soft Loans

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

- Durham University - Development of Centre for Innovation and Growth, research and development facility to work with partners and private companies to develop new technologies and processes.
- Neptune Test Centre - Construction of deep water test tank at Neptune Enterprise Zone.
- Boiler Shop - Development including office and conferencing space at South Street/Boiler Shop, Stephenson Quarter.

Description	Term (Years)	Contracted Rate	Fair Value Rate	Opening Balance Fair Value	Loans Repaid	Increase in discounted amount	Closing Balance (fair value)	Closing Balance (Nominal)
				£000	£000	£000	£000	£000
Durham University	12	1.90%	4.95%	8,420	(1,261)	417	7,575	6,354
Neptune Test Centre	9	0.00%	4.99%	3,127	(440)	156	2,843	4,000
Boiler Shop	3	4.50%	5.02%	1,710	131	(403)	1,437	1,734

16. Nature and Extent of risks arising from Financial Instruments

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

- Credit Risk- the possibility that other parties might fail to pay amounts due to the Combined Authority;
- Liquidity Risk- the possibility that the Combined Authority might not have funds available to meet its commitments to make payments; and

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

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

Credit risk

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

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

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

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

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

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

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

Liquidity Risk

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

	31 March 2020 £000	31 March 2021 £000
Between 1 and 2 years	(295)	(297)
Between 2 and 5 years	(886)	(891)
Between 5 and 10 years	(443)	(148)
More than 10 years	(73,971)	(74,388)
	(75,595)	**(75,724)**
Less than 1 year	**(1,032)**	**(21,023)**
Total Borrowing	**(76,627)**	**(96,747)**

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

Market Risk

Interest Rate Risk

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

- Borrowings at variable rates - the interest expense charged to the Surplus or Deficit on the Provision of Services will rise;

- Borrowings at fixed rates - the fair value of liabilities will fall;

- Investments at variable rates - the interest income credited to the Surplus or Deficit on the Provision of Services will rise;

- Investments at fixed rates - the fair value of the assets will fall.

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

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

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

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

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

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

If interest rates had been 1% higher with all other variables held constant, the financial effect would be a decrease of £24.591m in the fair value of fixed rate borrowings, although this would not impact on the Surplus/Deficit on the Provision of Services or Other Comprehensive Income and Expenditure.

17. Short Term Debtors

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

18. Long Term Debtors

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

19. Cash and Cash Equivalents

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

20. Short Term Creditors

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

21. Private Finance Initiatives and Similar Contracts

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

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

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

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

Payments

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

22. Defined Benefits Pension Scheme

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

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

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

Partnership Limited.

Amounts recognised in Profit and Loss and Other Comprehensive Income

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

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the balance sheet date. Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets.

Reconciliation of the Fair Value of the Scheme Assets

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

Reconciliation of present value of the scheme liabilities

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

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

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

Scheme History

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

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

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

The liabilities show the underlying commitments that the Combined Authority has in the long run to pay post-employment (retirement) benefits. The total liability of £11.201m has an impact on the net worth of the Combined Authority recorded on the balance sheet, resulting in a negative pension balance of £4.987m. However, statutory arrangements for funding the deficit mean that the financial position of the Combined Authority remains healthy:

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

- Finance is only required to be raised to cover discretionary benefits when the pensions are actually paid;

- The total contributions expected to be made to the Local Government Pension Scheme by the Combined Authority in the year to 31 March 2022 is £0.221m. In addition, strain on the fund contributions may be required. Expected payments direct to beneficiaries in the year to 31 March 2022 is nil in relation to unfunded benefits.

Basis for estimating assets and liabilities

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

A small proportion (7.9%) of the Pension Fund's investments are in direct property valuations and pooled residential property funds. The impact of Covid 19 has resulted in a significant reduction in the number of transactions in the market and consequently the relevant observable data available upon which to base a valuation judgement. As such, the Pension Fund's property investment manager has included a material valuation uncertainty clause in some of their valuation reports due to the possible impact of Covid 19. Therefore, there is less certainty and a higher degree of caution should be attached to the valuations of those unquoted assets than would normally be the case. There is a risk that current valuations may be under or overstated in the accounts.

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

The principal assumptions used by the actuary have been:

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

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

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

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

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

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

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

Sensitivity Analysis

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

The assumptions in longevity, for example, assume that life expectancy increases or decreases for men and women. In practice, this is unlikely to occur, and changes in some of the assumptions may be interrelated. The estimations in the sensitivity analysis have followed the accounting policies for the scheme, i.e. on an actuarial basis using the projected unit credit method.

The methods and types of assumptions used in preparing the sensitivity analysis below did not change from those used in the previous period.

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

Rate of general increase in salaries	+0.1% per annum	Base Figure	-0.1% per annum
Adjustment to salary increase rate			
Present value of total obligation (£M)	11.201	11.201	11.201
% change in present value of total obligation	0.0		0.0
Projected service cost (£M)	1.623	1.623	1.623
Approximate % change in projected service cost	0.0		0.0

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

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

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

23. Usable Reserves

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

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

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

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

24. Transfers (to)/from Earmarked Reserves

	Balance at 1 April 2019	Transfers out 2019/20	Transfers in 2019/20	Balance at 31 March 2020	Transfers from NECA 1 April	Transfer out 2020/21	Transfers in 2020/21	Balance 31 March 2021
	£000	£000	£000	£000	£000	£000	£000	£000
General Fund Balances	(9,643)	-	(1,048)	(10,691)	(649)	5,164	(10)	(6,186)
General Fund Reserves Investment Fund	(19,551)	-	(17,289)	(36,840)	-	7,305	(20,595)	(50,130)
Enterprise Zone					(7,345)	171	(2,016)	(9,190)
LGF SWAP					(5,610)	2,751	(6,949)	(9,808)
Metro Fleet Replacement	(2,964)	-	(1,507)	(4,471)	-	-	(40)	(4,511)
Metro Reinvigoration	(4,059)	-	(34)	(4,093)	-	-	(37)	(4,130)
Tyne Tunnel					(3,491)	-	-	(3,491)
North East Investment Fund					(1,394)	814	(340)	(920)
Metro Studies					-	-	(336)	(336)
Bus Project					-	-	(223)	(223)
Strategic	(200)	-	-	(200)	-	-	-	(200)
Business Rates Pool	-	-	(4,909)	(4,909)	-	4,909	-	-
Grant Reserves Adult Education Budget					-	-	(1,477)	(1,477)
North East Ambition					-	-	(301)	(301)
CEC Enterprise Advisor					-	-	(290)	(290)
Dept for Education					-	-	(206)	(206)
Education Challenge					-	-	(115)	(115)
Grant Reserves (individual balances under £0.100m)	(198)	17	(182)	(363)	-	181	(496)	(678)
Total General Fund Reserves	**(26,972)**	**17**	**(23,921)**	**(50,876)**	**(17,841)**	**16,132**	**(33,421)**	**(86,006)**
Total Balances & Reserves	**(36,615)**	**17**	**(24,969)**	**(61,567)**	**(18,490)**	**21,296**	**(33,431)**	**(92,192)**

25. Unusable Reserves

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

Capital Adjustment Account

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

The CAA is credited with the amounts set aside by the Combined Authority as finance for the costs of acquisition, construction and enhancement. The CAA also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains. The Adjustments between Accounting Basis and Funding Basis under Regulations Statement (Note 6) provides details of the source of all the transactions posted to the CAA, apart from those involving the Revaluation Reserve.

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

Financial Instruments Adjustment Account

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

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

Revaluation Reserve

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

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

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

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

Accumulated Absences Account

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

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

Pensions Reserve

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

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

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

26. Capital Expenditure and Capital Financing

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

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

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

The cash flows for operating activities include the following items

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

28. Cash Flow Statement – Investing Activities

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

29. Cash Flow Statement – Financing Activities

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

30. Reconciliation of liabilities arising from Financing Activities

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

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

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

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

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

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

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

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

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

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

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

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

32. Critical Judgements in Applying Accounting Policies

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

<u>Service Concession Arrangements</u>

The Code requires arrangements where private sector contractors provide a service for a period using a dedicated asset to be assessed under an application of the principles within IFRIC12. There are two criteria used to determine whether arrangements fall under the scope of IFRIC12:

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

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

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

Transferred assets and liabilities in Local Government Pension Scheme transferred to TT2 Ltd

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

Accounting for the North East Joint Transport Committee

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

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

33. Assumptions made about the future and other major sources of estimation uncertainty

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

The items in the Combined Authority's Balance Sheet at 31 March 2021 for which there is a risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Combined Authority with expert advice about the assumptions to be applied.	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. The Pension Fund engages a firm of specialist actuaries to provide the Combined Authority with expert advice about the assumptions to be applied. See Note 22 Defined

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

34. Accounting Policies

1. General Principles

The Statement of Accounts summarises the Combined Authority's transactions for the 2020/21 financial year and its position at the year-end of 31 March 2021. The Combined Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015, which those Regulations require to be prepared in accordance with property accounting practices.

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

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

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

2. Accruals of Income and Expenditure

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

- Revenue from the sale of goods is recognised when the Combined Authority transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Combined Authority;

- Revenue from the provision of services is recognised when the Combined Authority can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Combined Authority;

- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet;

- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made;

- Interest receivable on investments and payments on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract; and

- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected. The Combined Authority has a policy of not accruing for manual sundry creditors or sundry debtors provision for less than £1,000, other than in exceptional circumstances.

3. Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in 90 days or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

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

4. Charges to Revenue for Non-Current Assets

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

- Depreciation attributable to the assets used by the relevant service;

- Revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off; and,

- Amortisation of intangible fixed assets attributable to the service.

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

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

5. Contingent Liabilities

A contingent liability arises where an event has taken place that gives the Combined Authority a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Combined Authority. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required, or the amount of the obligation cannot be measured reliably. Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts. There are no contingent liabilities disclosed in 2020/21.

6. Employee Benefits

Benefits Payable during Employment

Short-term employee benefits are those due to be settled within 12 months of the year end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render service to the Combined Authority.

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

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

Termination Benefits

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

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

No such amounts are payable in 2020/21.

7. Events after the Balance Sheet Date

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

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

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

8. Exceptional Items

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

9. Fair Value measurement

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

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

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

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

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

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

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

10. Financial Instruments

Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Combined Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost.

Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument.

The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

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

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

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

Financial Assets

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

- Amortised Cost – assets held within a business model with the sole objective of collecting contractual cash flows on specified dates that are solely payments of principal and interest;
- Fair value through other comprehensive income (FVOCI) – assets held within a business model with the objective to either sell the asset or collect contractual cash flows on specified dates that are solely payments of principal and interest; and,
- Fair value through profit and loss (FVPL) – objectives are achieved by any other means than collecting contractual cash flows.

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

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

Amortised Cost

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

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

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

Expected Credit Loss Model

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

Fair Value through other Comprehensive Income

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

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

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

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

Fair Value through Profit and Loss (FVPL)

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

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

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

- Level 1 inputs – quoted prices (unadjusted) in active markets for identical assets that the Combined Authority can access at the measurement date.

- Level 2 inputs – inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly.

- Level 3 inputs – unobservable inputs for the asset

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

11. Government Grants and Contributions

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

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

- The grants or contributions will be received.

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

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

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

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

12. Group Accounts

NECA and the Combined Authority are required by the Code of Practice on Local Authority Accounting 2020/21 to produce Group Accounts to include services paid to Council Tax payers by organisations other than the Combined Authority itself in which the Combined Authority has an interest.

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

For the 2020/21 accounts, NECA and the Combined Authority have fully complied with the requirements of the Code, providing group figures for 2020/21 and comparators for 2019/20. From 2010/11, Passenger Transport Executives have been required to produce their accounts under International Financial Reporting Standards, and as if the proper practices in relation to accounts applicable to a local authority were, so far as appropriate, applicable to an Executive. The group financial statements are prepared in accordance with the policies set out in the Statement of Accounting Policies above.

13. Joint Transport Committee

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

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

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

- Assets and liabilities transferred at book value.

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

In order to comply with CIPFA Code, NECA must:

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

- The revenues which relate to Tyne and Wear must then be divided into that which relates wholly to Newcastle and /or North Tyneside (allocated to the Combined Authority), that which relates wholly to Gateshead, South Tyneside and/or Sunderland (allocated to NECA) and that which relates to activities not wholly attributable under the preceding two points which requires apportionment.

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

By similar rationale and argument, the division of assets, liabilities and expenditure incurred will also be divided on this basis.

14. Overheads and Support Services

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

15. Post-Employment Benefits

The Combined Authority and NECA are members of the Local Government Pension Scheme, which provides members with defined benefits relating to pay and service. Its pension obligations relate primarily to former employees.

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

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

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

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

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

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

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

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

- Past service costs – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years, debited to the Surplus or Deficit on the Provision of Services in the CIES as part of the Combined Authority and NECA Corporate Costs line;

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

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

- Remeasurements comprising:

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

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

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

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

Further details are provided in Note 22 to the accounts.

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

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

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

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

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

17. Property, Plant and Equipment

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

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

Measurement

Assets are initially measured at cost, comprising:

- The purchase price;

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

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

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

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

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

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

- Assets Under Construction – cost;

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

The following useful economic lives are used for PPE assets in relation to NECA: Tyne Tunnels 120 years, Tunnels vehicles, Plant and Equipment 30 years.

Where there is no market-based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of fair value.
Where non-property assets that have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for fair value.

Assets included in the Balance Sheet at current value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their current value at the year-end, but as a minimum every five years. All valuations will be undertaken by or under the supervision of a fully qualified Chartered Surveyor (MRICS – Member of the Royal Institution of Chartered Surveyors). These revaluations are detailed within the Notes to the Core Financial Statements. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains.

Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.

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

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

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

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

<u>De Minimis Levels</u>

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

<u>Impairment</u>

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

Where impairment losses are identified, they are accounted for by:

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

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

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

<u>Depreciation</u>

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

Deprecation on all Property, Plant and Equipment assets (except Vehicles) is calculated by taking the asset value at the 31 March 2021 divided by remaining life expectancy. Depreciation is charged in the year of acquisition, but not the year of disposal.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation that would have been charged based on their historic cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

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

Disposals

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

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

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

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

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

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

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

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

17a Highways Infrastructure Assets

Highways infrastructure assets include carriageways, footways and cycle tracks, structures (e.g. bridges and tunnels), street lighting, street furniture (e.g. illuminated traffic signals, bollards), traffic management systems and land which together form a single integrated network. NTCA holds highways infrastructure assets in the form of the Tyne Tunnels – the two vehicle tunnels and the pedestrian and cyclist tunnels.

<u>Recognition</u>

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

Measurement

Highways infrastructure assets are generally measured at depreciated historical cost. However, this is a modified form of historical cost – opening balances for highways infrastructure assets were originally recorded in balance sheets at amounts of capital undischarged for sums borrowed as at 1 April 1994, which was deemed at that time to be historical cost.

Impairment

Where impairment losses are identified, they are accounted for by the carrying amount of the asset being written down to the recoverable amount.

Depreciation

Depreciation is provided on the parts of the highways infrastructure assets that are subject to deterioration or depletion and by the systematic allocation of their depreciable amounts over their useful lives. Depreciation is charged on a straight-line basis.

Annual depreciation is the depreciation amount allocated each year.

Useful lives of the various parts of the highways network have been assessed by the authority using industry standards where applicable as follows:

- Structures (tunnels) – useful life of up to 120 years

Disposals and derecognition

When a component of the network is disposed of or decommissioned, the carrying amount of the component in the Balance Sheet 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).

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

17. Provisions

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

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

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

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

18. Public Private Partnership (PPP) Contracts

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

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

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

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

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

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

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

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

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

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

- The Formula Tolls are the initially-defined sequence of tolls to be charged to users and collected by NECA. If NECA varies a Real Toll from its corresponding Formula Toll beyond a certain level, the operator is compensated for the effect of this adjustment on demand.

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

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

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

19. Reserves

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

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

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

20. Revenue Expenditure Funded from Capital under Statute

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Combined Authority has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charges so that there is not impact on the levy.

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 period end.

22. Value Added Tax (VAT)

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

35. Events after the Balance Sheet Date

Adjusting events after the Balance Sheet date

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

3.0 Group Financial Statements and Explanatory Notes

3.1 Group Movement in Reserves Statement

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

3.2 Group Comprehensive Income and Expenditure Statement

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

3.3 Group Balance Sheet

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

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

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

J Gillespie

Janice Gillespie, Chief Finance Officer (Section 73 Officer)

3.4 Group Cash Flow Statement

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

3.5 Index to the Notes to the Group Financial Statements

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

G1 Group Accounts

Under the 9.1.17 of the Code of Practice for Local Authority Accounting 2020/21, authorities with interest in subsidiaries, associates and/or joint ventures shall prepare Group Accounts in addition to their single entity financial statements, unless their interest is considered to be not material.

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

Deferred Taxation

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

Property, Plant and Equipment and Intangible Assets

Nexus uses the following estimated useful lives for each class of assets:

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

Details of NTCA's depreciation policy can be found within the accounting policies of the single entity accounts. Nexus's policy is to commence depreciation on assets with effect from the month following capitalisation, whereas NTCA and NECA charge a full year depreciation in the year of acquisition.

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

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

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

Assumptions made about the future and other major sources of uncertainty

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

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

G2 Expenditure and Funding Analysis

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

G3 Income and Expenditure Analysed by Nature

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

G4 Financing and Investment Income and Expenditure

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

G5 Taxation and Non-Specific Grant Income

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

G6 Grant Income and Other Contributions

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

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

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

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

G7 Property, Plant and Equipment

2020/21	**Vehicles, Plant, Furniture & Equipment £000**	**Land & Buildings £000**	**Assets Under Construction £000**	**Total Property, Plant & Equipment excluding Highways Infrastureucture £000**	**Service Concession Assets included in PPE £000**
Cost or Valuation					
At 1 April 2020	**16,855**	**1,440**	**20,703**	**38,998**	**-**
Additions	-	-	29,201	29,201	-
Transfers from Assets under Construction	544	-	(22,012)	(21,468)	-
Transfers between Categories	-	-			
Derecognition – disposals	(1,348)	(155)	(20)	(1,523)	-
Impairment recognised in the Provision of Services	-	-	-	-	-
Other Adjustments	-	-	-	-	-
At 31 March 2021	**16,051**	**1,285**	**27,872**	**45,207**	**-**
At 1 April 2020	(11,185)	(330)	-	(11,515)	-
Depreciation charge	(690)	(18)	-	(708)	-
Derecognition – disposals	542	104	-	646	-
At 31 March 2021	**(11,333)**	**(244)**	**-**	**(11,577)**	**-**
Net Book Value					
At 1 April 2020	5,670	1,110	20,703	27,483	-
At 31 March 2021	**4,244**	**1,041**	**27,872**	**33,631**	**-**

2019/20

	Vehicles, Plant, Furniture & Equipment £000	Land & Buildings £000	Assets Under Construction £000	Total Property, Plant & Equipment £000	Service Concession Assets included in PPE £000
Cost or Valuation					
At 1 April 2019	**16,570**	**770**	**18,851**	**36,191**	**-**
Additions	-	-	24,996	24,996	-
Transfers from Assets under Construction	334	-	(22,212)	(21,878)	-
Transfers between categories	-	(115)	-	(115)	-
Intangibles	-	-	(655)	(655)	-
Derecognition – disposals	(49)	-	(277)	(326)	-
Revaluation Recognised in Revaluation Reserve	-	785	-	785	-
At 31 March 2020	**16,855**	**1,440**	**20,703**	**38,998**	**-**
At 1 April 2020	**(10,382)**	**(312)**	**-**	**(10,694)**	**-**
Depreciation charge	(852)	(18)	-	(870)	-
Derecognition – disposals	49	-	-	49	-
At 31 March 2020	**(11,185)**	**(330)**	**-**	**(11,515)**	**-**
Net Book Value					
At 1 April 2019	6,188	458	18,851	370,855	-
At 31 March 2020	**5,670**	**1,110**	**20,703**	**27,483**	**-**

G7a Highways Infrastructure Assets

Movements on balances

In accordance with the temporary relief offered by the Update to the Code on infrastructure assets this note does not include disclosure of gross cost and accumulated depreciation for infrastructure assets because historical reporting practices and resultant information deficits mean that this would not faithfully represent the asset position to the users of the financial statements.

The authority has chosen not to disclose this information as the previously reported practices and resultant information deficits mean that gross cost and accumulated depreciation are not measured accurately and would not provide the basis for the users of the financial statements to take economic or other decisions relating to infrastructure assets.

	2020/21
	£000
Net book value (modified historical cost)	
At 1 April	**151,533**
Additions	424
Derecognition	
Depreciation	(1,785)
Impairment	(16)
Other movements in cost	865
Net book value	
At 31 March	**151,022**

	2020/21
	£000
Infrastructure assets	151,022
Other PPE assets	2,112
Total PPE assets	**153,134**

The authority has determined in accordance with Regulation 30M of the Local Authorities (Capital Finance and Accounting) (England/Wales) (Amendment) Regulations 2022 that the carrying amounts to be derecognised for infrastructure assets when there is replacement expenditure is nil.

Structures – net book value

North of Tyne Combined Authority has estimated a net book value at 31 March 2021 for its structures at £151.022m. This is fully represented by the tunnels owned by the authority. The remaining useful lives for its tunnels are assessed to be as follows:

Northbound vehicle tunnel	62 years
Southbound vehicle tunnel	110 years
Pedestrian and cyclist tunnels	62 years

Depreciation for the tunnels (and total annual depreciation for 2020/21 on structures) is £1.785m.

G8 Intangible Assets

Intangible assets in the Group Accounts relate wholly to Nexus.

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

G9 Financial Instruments

Financial Assets

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

	Non-current				Current			
	Investments		Debtors		Investments		Debtors	
	31 March 2020 £000	31 March 2021 £000	31 March 2020 £000	31 March 2021 £000	31 March 2020 £000	31 March 2021 £000	31 March 2020 £000	31 March 2021 £000
Amortised cost	-	-	-	13,152	35,581	142,617	6,436	16,756
Total Financial Assets	-	**-**	-	**13,152**	**35,581**	**142,617**	**6,436**	**16,756**
Non-financial Assets	-	-	-	-	-	-	7,050	2,568
Total	-	**-**	-	**13,152**	**35,581**	**142,617**	**13,486**	**19,324**

Financial assets at amortised cost

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

- The asset is held within a business model whose objective is to collect the contractual cash flows; and

- The contractual terms give rise to cash flows that are solely payments of principal and interest.

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

Trade receivables

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

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

Financial Liabilities held at amortised cost

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

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

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

Income, Expense, Gains and Losses

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

31 March 2020				31 March 2021		
Financial Liabilities at amortised cost £000	Financial assets measured at amortised cost £000	Total £000		Financial Liabilities at amortised cost £000	Financial assets measured at amortised cost £000	Total £000
4,225	-	4,225	Interest expense	3,386	-	3,386
4,225	**-**	**4,225**	**Total expense in Surplus on Provision of Services**	**3,386**	-	**3,386**
-	(757)	(757)	Investment Income	-	(1,603)	(1,603)
-	**(757)**	**(757)**	**Total income in Surplus on Provision of Services**	-	**(1,603)**	**(1,603)**
4,225	**(757)**	**3,468**	**Net (gain)/loss for the year**	**3,386**	**(1,603)**	**1,783**

Fair Value of Assets & Liabilities carried at Amortised Cost

Financial assets classified as loans and receivables and all non-derivative financial liabilities are carried in the Balance Sheet at amortised cost. Their fair values have been estimated by calculating the net present value of the remaining contractual cash flows at 31 March 2021, using the following method and assumptions:

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

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

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

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

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

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

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

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

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

The fair values calculated are as follows:

		31 March 2020		**31 March 2021**	
	Level	**Carrying Amount £000**	**Fair Value £000**	**Carrying Amount £000**	**Fair Value £000**
Financial liabilities at amortised cost	2	(76,627)	(132,125)	(96,747)	(142,065)
Total		**(76,627)**	**(132,125)**	**(96,747)**	**(142,065)**
Financial Assets at amortised cost					
Held to Maturity investments	2	35,581	35,581	142,617	142,617
Total		**(41,046)**	**(96,544)**	**142,617**	**142,617**

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

Details of the nature and extent of risks arising from Financial Instruments are set out in Note 16 of the single entity accounts.

G10 Short Term Debtors

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

G11 Cash and Cash Equivalents

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

G12 Short Term Creditors

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

G13 Defined Benefit Pension Schemes

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

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

Consolidated Pension Liability

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

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

Transactions relating to post-employment Benefits

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

Comprehensive Income & Expenditure Statement	LGPS		Discretionary Benefits	
	2019/20 £000	2020/21 £000	2019/20 £000	2020/21 £000
Cost of Services				
Current Service Costs	6,119	8,495	-	-
Past Service Costs	71	-	-	-
Settlement Costs	-	2,080	-	-
Exceptional loss on transfer of pension liability loss	1,346	(796)	-	-
Financing and Investment Income and Expenditure				
Interest Cost	4,042	3,884	35	27
Expected Return on Scheme Assets	(3,289)	(3,053)	-	-
Total Post Employment Benefit Charged to the Surplus on the Provision of Services	**8,289**	**10,610**	**35**	**27**
Other Post Employment Benefit charged to the Comprehensive Income and Expenditure Statement:				
Return on plan assets (excluding the amount included in the net interest expense)	(14,355)	(33,057)	-	-
Remeasurement of the net Defined Benefit Liability	7,013	38,025	(235)	53
Total Amount recognised in Other Comprehensive Income & Expenditure	**(7,342)**	**4,968**	**(235)**	**53**
Total amount recognised in the CIES	**947**	**15,577**	**(200)**	**80**

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the balance sheet date. Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets.

Reconciliation of the Fair Value of the Scheme Assets

	LGPS		Discretionary Benefits	
	2019/20 £000	**2020/21 £000**	**2019/20 £000**	**2020/21 £000**
Opening fair value of scheme assets	**136,697**	**153,358**	**-**	**-**
Interest Income	3,294	3,164	-	-
Remeasurement gain on plan assets	14,356	27,932	-	-
Employer contributions	3,243	1,917	155	14
Contributions by scheme participants	1,254	1,613	-	-
Net Benefits paid out	(5,486)	(5,006)	(155)	(14)
Net decrease in assets from Stadler Transfer	-	(6,878)	-	-
Settlements	-	4,025	-	-
Closing fair value of scheme assets	**153,358**	**180,125**	**-**	**-**

Reconciliation of present value of the scheme liabilities

	LGPS		Discretionary Benefits	
	2019/20 £000	**2020/21 £000**	**2019/20 £000**	**2020/21 £000**
Opening balance at 1 April	**(168,582)**	**(182,952)**	**(1,580)**	**(1,230)**
Current Service Cost	(6,126)	(8,496)	-	-
Interest Cost	(4,045)	(3,997)	(35)	(27)
Contributions by participants	(1,254)	(1,613)	-	-
Remeasurement of the Net Defined Liability	(7,013)	(39,110)	234	(53)
Net benefits paid	5,486	5,006	151	143
Past service costs	(72)	-	-	-
Net increase in liabilities from disposals/acquisitions		137		
Net increase in liabilities from NEMOL transfer	(1,346)	7,675	-	-
Settlements	-	(6,105)	-	-
Closing balance at 31 March	**(182,952)**	**(229,455)**	**(1,230)**	**(1,167)**

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

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

Scheme History	**2019/20 £000**	**2020/21 £000**
Fair Value of LGPS Assets	**153,358**	**186,161**
Present value of LGPS liabilities		
- LGPS liabilities	(182,952)	(229,455)
Deficit on funded defined benefit scheme	**(29,596)**	**(43,290)**
Discretionary benefits	(1,230)	(1,171)
Total Deficit	**(30,826)**	**(44,462)**

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

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

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

The liabilities show the underlying commitments that the Authority has in the long run to pay post employment (retirement) benefits. The total liability of £229.455m has an impact on the net worth of the Authority recorded on the balance sheet, resulting in a negative pension balance of £50.362m. However, statutory arrangements for funding the deficit mean that the financial position of the Authority remains healthy:

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

- Finance is only required to be raised to cover discretionary benefits when the pensions are actually paid;

- The total contributions expected to be made to the Local Government Pension Scheme by the Authority in the year to 31 March 2022 is £0.221m for NTCA, £3.600m for Nexus and nil for NEMOL (of which £1.603m is attributed to NTCA). In addition, strain on the fund contributions may be required.

Basis for estimating assets and liabilities

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

The principal assumptions used by the actuary in updating the latest valuation of the Fund for IAS19 purposes were:

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

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

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

*At date of transfer (4 October 2020)

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

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

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

Actual Return on Assets	**Local Government**	
	2019/20 £000	**2020/21 £000**
Interest Income on Assets	3,294	3,164
Remeasurement gain on assets	14,356	27,932
Actual Return on Assets	**17,650**	**31,096**

Sensitivity Analysis

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

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

The assumptions in longevity, for example, assume that life expectancy increases or decreases for men and women. In practice, this is unlikely to occur, and changes in some of the assumptions may be interrelated. The estimations in the sensitivity analysis have followed the accounting policies for the scheme, i.e. on an actuarial basis using the projected unit credit method. The methods and types of assumptions used in preparing the sensitivity analysis below did not change from those used in the previous period. Sensitivity of unfunded benefits has not been included on materiality grounds.

Discount rate assumption	**+0.1% per annum**	**Base Figure**	**-0.1% per annum**
Adjustment to discount rate			
Present value of total obligation (£M)	491.54	501.17	510.82
% change in present value of total obligation	(1.9%)		4.9%
Projected service cost (£M)	19.82	20.51	21.23
Approximate % change in projected service cost	(3.4%)		3.5%

Rate of general increase in salaries	**+0.1% per annum**	**Base Figure**	**-0.1% per annum**
Adjustment to salary increase rate			
Present value of total obligation (£M)	503.13	501.17	499.70
% change in present value of total obligation	0.4%		(0.3%)
Projected service cost (£M)	20.51	20.51	20.51
Approximate % change in projected service cost	0.0%		0.0%

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

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

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

G14 Deferred Tax Liability

The movement for the year comprises:

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

The balance at the year-end comprises:

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

G15 Usable Reserves

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

G16 Unusable Reserves

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

<u>Revaluation Reserve</u>

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

- Revalued downwards or impaired and the gains are lost;
- Used in the provision of services and the gains are consumed through depreciation; or
- Disposed of and the gains are realised.

The Reserve contains only revaluation gains accumulated since 1 April 2007, the date on which the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

	£000s
Balance at 1 April 2019	(3,974)
Difference between fair value depreciation and historical cost depreciation – written off to the Capital Adjustment Account	64
Revaluation gain recognised in Revaluation Reserve	(785)
Balance at 31 March 2020	**(4,695)**
Difference between fair value depreciation and historical cost depreciation – written off to the Capital Adjustment Account	**44**
Revaluation gain recognised in Revaluation Reserve	**-**
Balance at 31 March 2021	**(4,651)**

Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income & Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis).

The account is credited with the amounts set aside by the Authority as finance for the costs of acquisition, construction and enhancement of assets.

The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

	£000
Balance at 1 April 2019	(241,599)
Reversal of items relating to capital expenditure debited or credited to the CIES:	
Charges for depreciation & impairment of non-current assets	13,532
Amounts of non-current assets written off on disposal or sale	785
Other income that cannot be credited to the General Fund	(2,256)
Revenue expenditure funded from capital under statute	8,881
Write down of long-term debtors	698
Adjusting amounts written out of the Revaluation Reserve	**(64)**
Capital financing applied in the year:	
Capital grants & contributions credited to the CIES that have been applied to capital financing	(31,574)
Statutory provision for the financing of capital investment charged against the General Fund	(766)
Capital expenditure charged against the General Fund	(1,640)
Debt redeemed using capital receipts	(698)
Balance at 31 March 2020	**(254,701)**
Transfer from NECA in respect of LEP Balances	**(16,282)**
Reversal of items relating to capital expenditure debited or credited to the CIES:	
Charges for depreciation & impairment of non-current assets	14,699
Amounts of non-current assets written off on disposal or sale	1,630
Other income that cannot be credited to the General Fund	(2,268)
Revenue expenditure funded from capital under statute	47,230
Write down of long-term debtors	676
Adjusting amounts written out of the Revaluation Reserve	**(44)**
Capital financing applied in the year:	
Capital grants & contributions credited to the CIES that have been applied to capital financing	(79,850)
Statutory provision for the financing of capital investment charged against the General Fund	(1,117)
Capital expenditure charged against the General Fund	(1,280)
Debt redeemed using capital receipts	(676)
Balance at 31 March 2021	**(291,983)**

Accumulated Absences Account

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the account.

	2020/21 £000
Balance at 1 April	
Adjustment to the accrual required	556
Adjustment to the debtor in respect of leave taken in advance	-
Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	**556**
Balance at 31 March	**556**

Pension Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions. The Authority accounts for post-employment benefits in the CIES as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on resources set aside to meet the costs.

However, statutory arrangements require benefits earned to be financed as the Authority makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a shortfall in the benefits earned by past and current employees and the resources the Authority has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

	£000
Balance at 1 April 2019	**19,225**
Remeasurements of the net defined benefit liability	(7,578)
Reversal of items relating to retirement benefits debited or credited to the Surplus on the Provision of Services in the CIES	8,955
Employer's pension contributions and direct payments to pensioners	(2,304)
Nemol Pension Transfer	6,454
Interest expense on net defined asset	(2)
Balance at 31 March 2020	**24,750**

Balance at 1 April 2020	**24,750**
Remeasurements of the net defined benefit liability (asset)	11,056
Reversal of items relating to retirement benefits debited or credited to the Surplus on the Provision of Services in the CIES	16,634
Employer's pension contributions and direct payments to pensioners	(1,983)
Nemol Pension Transfer	-
Interest expense on net defined asset	49
Balance at 31 March 2021	**50,506**

G17 Adjustments to net surplus or deficit on the provision of services for non-cash movements and items that are Investing or Financing Activities

2019/20 £000		2020/21 £000
34,032	Surplus on the provision of services	**41,424**
	Adjustments to Surplus on Provision of Services for Non-Cash Movements:	
13,991	Depreciation, Impairment and Amortisation	15,357
943	Loss on disposal of non-current assets	1,641
5,148	Increase in Creditors	40,394
(6,004)	Increase in Debtors	(31,118)
(287)	Decrease in Inventories	1,201
4,932	Movement in Pension Liability	8,452
(1,957)	Other non-cash items charged to the surplus/deficit on the provision of services	(2,147)
16,766		33,780
	Adjustments for items included in the net surplus on the provision of services that are investing and financing activities:	
(33,258)	Capital grants credited to surplus on provision of services	(95,739)
470	Other adjustments for items that are financing or investing activities	1,406
18,010	**Net cash flow from operating activities**	**(19,129)**

The cash flows for operating activities include the following items:

2019/20 £000		2020/21 £000
1,080	Interest Received	4,656
(3,289)	Interest Paid	(7,296)

G18 Cash Flow Statement – Investing Activities

2019/20 £000		2020/21 £000
(24,915)	Purchase of property, plant and equipment, investment property and intangible assets	(31,116)
(90,393)	Purchase of short-term and long-term investments	(150,936)
21,560	Other payments for investing activities	
8	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	-
80,419	Proceeds from short-term and long-term investments	41,371
13,022	Other receipts from investing activities	95,115
(299)	**Net cash flows from investing activities**	**(45,566)**

G19 Cash Flow Statement – Financing Activities

2019/20 £000		2020/21 £000
1,265	Repayments of short and long-term borrowing	19,430
(436)	Other payments and receipts for financing activities	(1,368)
829	**Net cash flows from financing activities**	**18,062**

G20 Reconciliation of liabilities arising from Financing Activities

	1 April 2020 £000	Financing Cash Flows £000	Changes which are not financing cash flows £000	31 March 2021 £000
Long-term borrowings	(75,595)	(570)	441	(75,724)
Short-term borrowings	(1,032)	(20,000)	9	(21,023)
Total liabilities from financing activities	**(76,627)**	**(20,570)**	**450**	**(96,747)**

	1 April 2019 £000	Financing Cash Flows £000	Changes which are not financing cash flows £000	31 March 2020 £000
Long-term borrowings	(73,508)	(2,087)	-	(75,595)
Short-term borrowings	(1,023)	-	(9)	(1,032)
Total liabilities from financing activities	**(74,531)**	**(2,087)**	**(9)**	**(76,627)**

G21 Summary of Capital Expenditure and Sources of Finance

2019/20 £000		2020/21 £000
86,352	**Opening Capital Financing Requirement**	**85,789**
	Capital Investment	
24,918	Property, Plant & Equipment	29,625
316	Intangible Assets	636
8,881	Revenue Expenditure Funded from Capital Under Statute	47,230
	Sources of Finance	
(698)	Capital Receipts – repayment of principal from long-term debtors	(676)
(31,574)	Government Grants and other Contributions	(79,850)
	Sums set aside from Revenue	
(1,640)	Direct Revenue Contributions	(1,280)
(766)	Minimum Revenue Provision	(783)
-	Additional Voluntary Provision	(334)
85,789	**Closing Capital Financing Requirement**	**80,357**
(563)	Decrease in underlying need to borrow (unsupported by Government financial assistance)	(5,432)

4.0 Supplemental Information

4.1 Glossary of Terms

A

Abbreviations: The symbol ‘k’ followed by a figure represents £ thousand. The symbol ‘m’ following a figure represents £ million.

Accounting policies: Those principles, bases, conventions, rules and practices applied by an entity that specify how the effects of transactions and other events are to be reflected in its financial statements.

Accruals: Income and expenditure are recognised as they are earned or incurred, not as money is received or paid.

Actuarial gains or losses (Pensions): For a defined benefit pension scheme, the changes in actuarial deficits or surpluses that arise either because events have not coincided with the actuarial assumptions made for the last valuation (experience or losses), or the actuarial assumptions themselves have changed.

Amortise: To write off gradually and systematically a given amount of money within a specific number of time periods.

Assets: Items of worth which are measurable in terms of money.

Assets Held for Sale: Those assets, primarily long-term assets, that the Authority wishes to dispose of through sale to others.

B

Balances: The total level of surplus funds the Authority has accumulated over the years.

Budgets: A statement of the Authority’s forecast expenditure, that is, net revenue expenditure for the year.

C

Capital Adjustment Account: The account accumulates (on the debit side) the write down of the historical cost of fixed assets as they are consumed by depreciation and impairments or written off on disposal. It accumulates (on the credit side) the resources that have been set aside to finance capital expenditure. The same process applies to capital expenditure that is only capital by statutory definition (revenue expenditure funded from capital under statute). The balance on the account represents timing differences between the amount of the historical cost of fixed assets that has been consumed and the amount that has been financed in accordance with statutory requirements.

Capital expenditure: Expenditure on the acquisition of a fixed asset or expenditure which adds to and not merely maintains the value of an existing fixed asset.

Capital receipts: Monies received from the disposal of land and other fixed assets, and from the repayment of grants and loans made by the Authority.

Code of Practice on Local Authority Accounting (The Code): The Code specifies the principles and practices of accounting to give a 'true and fair' view of the financial position and transactions of a local authority.

Comprehensive Income & Expenditure Statement: This account summarises the resources that have been generated and consumed in providing services and managing the Authority during the financial year.

Consistency: The principal that the accounting treatment of like items within an accounting period and from one period to the next should be the same.

Contingent Asset: A contingent asset is a possible asset arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Authority's control.

Contingent Liability: A contingent liability is either (i) a possible obligation arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Authority's control, or (ii) a present obligation from past events where it is not probable that a transfer of economic benefits will be required or the amount of the obligation cannot be measured with sufficient reliability.

Corporate & Democratic Core: The corporate & democratic core comprises all activities which local authorities engage in specifically because they are elected, multipurpose authorities.

Creditors: An amount owed by the Authority for work done, goods received or services rendered but for which payment has not been made.

Current Service Cost (Pension): The increase in the present value of a defined benefit scheme's liabilities expected to arise from employee service in the current period.

Curtailment (Pensions): For a defined benefit pension scheme an event that reduces the expected years of future service of present employees or reduces for a number of employees the accrual of defined benefits for some or all of their future service. Examples include termination of employee's service through redundancy or amendment of the terms affecting future benefits.

D

Debtors: Monies owed to the Authority but not received at the balance sheet date.

Defined Benefit Scheme (Pensions): A pension or other retirement scheme other than a defined contribution scheme. Usually, the scheme rules define the benefits independently of the contributions payable, and the benefits are not directly related to the investments of the scheme. The scheme may be funded or unfunded.

Depreciation: The measure of the wearing out, consumption or other reduction in the useful economic life of an asset.

E

Earmarked reserves: A sum set aside for a specific purpose.

Emoluments: Payments received in cash and benefits for employment.

Events after the Balance Sheet Date: Events after the Balance Sheet date are those events, favourable and unfavourable, that occur between the Balance Sheet date and the date when the Statement of Accounts are authorised for issue.

Expected Rate of Return on Pensions Assets: This is an actuarially calculated estimate of the return on the scheme's investment assets during the year.

F

Fair Value: The fair value of an asset is the price at which it could be exchanged in an arm's length transaction less, where applicable, any grants receivable towards the purchase or use of the asset.

Fees and Charges: Income arising from the provision of services, for example, charges for the use of leisure facilities.

Financial Instrument: Document (such as a cheque, draft, bond, share, bill of exchange, futures or options contract) that has a monetary value or evidences a legally enforceable (binding) agreement between two or more parties regarding a right to payment of money.

Finance Lease: A lease that transfers substantially all of the risks and rewards of ownership of a fixed asset to the lessee. The payments usually cover the full cost of the asset together with a return for the cost of finance.

Financial Instruments Adjustment Account: The reserve records the accumulated difference between the financing costs included in the Comprehensive Income & Expenditure Account and the accumulated financing costs required in accordance with regulations to be charged to the General Fund Balance

G

General Fund: The total services of the Authority.

Going Concern: The concept that the Authority will remain in operational existence for the foreseeable future, in particular that the revenue accounts and balance sheet assume no intention to curtail significantly the scale of operations.

I

Impairment: A reduction in the value of a fixed asset below its carrying amount on the balance sheet resulting from causes such as obsolescence or physical damage.

Intangible Assets: An asset that is not physical in nature, e.g. software licences.

Interest Costs (Pensions): For a defined benefit scheme, the expected increase during the period in the present value of the scheme liabilities because the benefits are one period closer to settlement.

Investment Properties: Interest in land and buildings where construction work and development has been completed and the asset is held for its investment potential, any rental income being negotiated at arms length.

L

Liabilities: Any amount owed to individuals or organisations which will have to be paid at some time in the future.

Liquid Resources: Current asset investments that are readily disposable by the Authority without disrupting its business and are either readily convertible to known amounts of cash at or close to the carrying amount or traded in an active market.

M

Materiality: An item is material if its omission, non-disclosure or misstatement in the financial statements could be expected to lead to a distortion of the view given by the financial statements.

Minimum Revenue Provision (MRP): An amount charged by the Authority to the Comprehensive Income & Expenditure Account, for debt redemption or for the discharge of other credit liabilities.

Movement in Reserves Statement: The statement shows the movement in the year on the different reserves held by the Authority.

N

Net Book Value: The amount at which fixed assets are included in the balance sheet, being their historical cost or current value less the cumulative amounts provided by depreciation.

Net Debt: The Authority's borrowings less cash and liquid resources.

O

Operating Leases: Leases other than a finance lease.

P

Property, Plant and Equipment (PPE): Assets that yield benefits to the Authority and the services that it provides for a period of more than one year. Examples include land, buildings and vehicles.

Provisions: These are sums set aside to meet liabilities or losses which have been incurred but where the amount and/or timing of such costs are uncertain.

Prudence: This accounting concept requires that revenue is not anticipated until realisation can be assessed with reasonable certainty. Provision is made for all known liabilities whether the amount is certain or can only be estimated in the light of the information available.

Public Works Loan Board (PWLB): This is a Government agency which provides loans to local authorities at favourable rates.

R

Related Parties: A related party transaction is the transfer of asset or liabilities or the performance of services by, to or for a related party irrespective of whether a charge is made. An example could be the purchase, sale, lease, rental or hire of assets between related parties.

Reserves: These are sums set aside to meet possible future liabilities where there is no certainty about whether or not these liabilities will be incurred.

Residual Value: The net realisable value of an asset at the end of its useful life. Residual values are based on prices prevailing at the date of the acquisition (or revaluation) of the asset and do not take account of expected future price changes.

Revaluation Reserve: The reserve records the accumulated gains on the fixed assets held by the Authority arising from increases in value as a result of inflation or other factors.

Revenue Expenditure: Expenditure on providing day-to-day services, for example employee costs and premises costs.

Revenue Expenditure Funded from Capital under Statute: Expenditure which may be properly incurred, but which does not result in an asset owned by the Authority e.g. grants to other organisations for capital purposes.

U

Unusable Reserves: The Authority cannot use this category of reserves to provide services. Includes reserves that hold unrealised gains and losses (e.g. revaluation reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement of Reserves Statement line ‘adjustments between accounting basis and funding basis under regulation.’

Usable Reserves: Those reserves that the Authority may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use.

Useful life: The period over which the Authority will derive benefits from the use of a fixed asset.

Independent auditor's report to the Members of North of Tyne Combined Authority and the Group

Report on the audit of the financial statements

Opinion on the financial statements

We have audited the financial statements of North of Tyne Combined Authority and Group for the year ended 31 March 2021, which comprise the North of Tyne Combined Authority and Group Comprehensive Income and Expenditure Statements, the North of Tyne Combined Authority and Group Balance Sheets, the North of Tyne Combined Authority and Group Movement in Reserves Statement, the North of Tyne Combined Authority and Group Cash Flow Statements and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.
In our opinion, the financial statements:

- give a true and fair view of the financial position of North of Tyne Combined Authority and Group as at 31st March 2021 and of North of Tyne Combined Authority and Group's expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities section of our report. We are independent of North of Tyne Combined Authority and Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Chief Finance Officers' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.
Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on North of Tyne Combined Authority and Group's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Chief Finance Officer with respect to going concern are described in the relevant sections of this report.

Other information

The Chief Finance Officer is responsible for the other information. The other information comprises the Narrative Statement and the Annual Governance Statement and information included in the Statement of Accounts, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of the Chief Finance Officer for the financial statements

As explained more fully in the Statement of the Chief Finance Officer's Responsibilities, the Chief Finance Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21, and for being satisfied that they give a true and fair view. The Chief Finance Officer is also responsible for such internal control as the Chief Finance Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Chief Finance Officer is required to comply with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 and prepare the financial statements on a going concern basis, on the assumption that the functions of North of Tyne Combined Authority and Group will continue in operational existence for the foreseeable future. The Chief Finance Officer is responsible for assessing each year whether or not it is appropriate for North of Tyne Combined Authority and Group to prepare its accounts on the going concern basis and disclosing, as applicable, matters related to going concern.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Based on our understanding of North of Tyne Combined Authority and Group, we identified that the principal risks of non-compliance with laws and regulations related to the Local Government Act 2003 (and associated regulations made under section 21), the Local Government Finance Acts of 1988, 1992 and 2012, and the Accounts and Audit Regulations 2015, and we considered the extent to which non-compliance might have a material effect on the financial statements.

We evaluated the Chief Finance Officer's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls) and determined that the principal risks were related to posting manual journal entries to manipulate financial performance, management bias through judgements and assumptions in significant accounting estimates and significant one-off or unusual transactions.

Our audit procedures were designed to respond to those identified risks, including non-compliance with laws and regulations (irregularities) and fraud that are material to the financial statements. Our audit procedures included but were not limited to:

- discussing with management and Those Charged with Governance the policies and procedures regarding compliance with laws and regulations;
- communicating identified laws and regulations throughout our engagement team and remaining alert to any indications of non-compliance throughout our audit; and
- considering the risk of acts by North of Tyne Combined Authority and the Group which were contrary to applicable laws and regulations, including fraud.

Our audit procedures in relation to fraud included but were not limited to:

- making enquiries of management and Those Charged with Governance on whether they had knowledge of any actual, suspected or alleged fraud;
- gaining an understanding of the internal controls established to mitigate risks related to fraud;
- discussing amongst the engagement team the risks of fraud; and
- addressing the risks of fraud through management override of controls by performing journal entry testing.

There are inherent limitations in the audit procedures described above and the primary responsibility for the prevention and detection of irregularities including fraud rests with management and Those Charged with Governance. As with any audit, there remained a risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal controls.

We are also required to conclude on whether the Chief Finance Officer's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

We performed our work in accordance with Practice Note 10: Audit of financial statement and regularity of public sector bodies in the United Kingdom, and Supplementary Guidance Note 01, issued by the National Audit Office in April 2021.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on North of Tyne Combined Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Matter on which we are required to report by exception

We are required to report to you if, in our view, we are not satisfied that North of Tyne Combined Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021.

We have not completed our work on North of Tyne Combined Authority's arrangements. On the basis of our work to date, having regard to the guidance issued by the Comptroller and Auditor General in April 2021, we have not identified any significant weaknesses in arrangements for the year ended 31 March 2021.

We will report the outcome of our work on North of Tyne Combined Authority's arrangements in our commentary on those arrangements within the Auditor's Annual Report. Our audit completion certificate will set out any matters which we are required to report by exception.

Responsibilities of North of Tyne Combined Authority

North of Tyne Combined Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities for the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We are required under section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that North of Tyne Combined Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of North of Tyne Combined Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our work in accordance with the Code of Audit Practice, having regard to the guidance issued by the Comptroller and Auditor General in April 2021.

Matters on which we are required to report by exception under the Code of Audit Practice

- We are required by the Code of Audit Practice to report to you if:
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make a recommendation under section 24 of the Local Audit and Accountability Act 2014; or
- we exercise any other special powers of the auditor under sections 28, 29 or 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

Use of the audit report

This report is made solely to the members of North of Tyne Combined Authority, as a body, in accordance with part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 44 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the members of North of Tyne Combined Authority those matters we are required to state to them in an auditor’s report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the members of North of Tyne Combined Authority, as a body, for our audit work, for this report, or for the opinions we have formed.

Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until we have completed:

- the work necessary to issue our assurance statement in respect of the North of Tyne Combined Authority’s Whole of Government Accounts consolidation pack; and
- the work necessary to satisfy ourselves that the North of Tyne Combined Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Gavin Barker
Director
For and on behalf of Mazars LLP

The Corner
Bank Chambers
26 Mosley Street
Newcastle upon Tyne
NE1 1DF
Date: January 2022

NORTH OF TYNE COMBINED AUTHORITY

Audit and Standards Committee

25 April 2023

Subject: **2022/23 Preparation for the Statement of Accounts**

Report of: **Interim Chief Finance Officer**
Portfolio: **All**

Report Summary

The purpose of this report is to provide Audit and Standards Committee with details of the plan that will be used to produce the Annual Statement of Accounts (the Accounts).

Recommendations

The Audit and Standards Committee is recommended to note the work outlined in respect of the closure of the 2022/23 Accounts.

1. Background Information, Proposals and Timetable for Implementation

1.1 This is the fifth year of the production of the Statement of Accounts for the North of Tyne Combined Authority (NTCA). For 2022/23, the statutory requirement for the NTCA and all category 1 authorities revert to the original requirement in the 2015 regulations, to make unaudited accounts available for public inspection for a period that includes the first 10 working days of June (publication of the unaudited accounts by 31 May 2023).

In the previous two years the date for the requirement of the draft accounts to be published was 31 July.

1.2 The Accounts of the North of Tyne Combined Authority (NTCA) incorporate the assets and liabilities of the Joint Transport Committee and include the accounts of Nexus as part of their Group Accounts, therefore the NTCA are dependant on the North East Combined Authority (NECA) and Nexus to complete their Accounts before their draft Accounts can be completed. Early planning meetings have already taken place with the Finance Manager of North East Combined Authority, Nexus, and the External Auditors Mazars, to agree the timetable to achieve the statutory deadlines.

1.3 Work has been undertaken to identify all key areas and tasks that are required to be completed and by whom with focus on additional quality assurance checks. Additional capacity on the Finance Team has also been secured to assist in the production of the Accounts. Detailed guidance notes have been distributed across NTCA, North East LEP and Invest North England outlining key tasks and actions required to be taken in relation to the closure of accounts ensuring all staff are aware of the deadlines for the closure of the accounts.

1.4 Regular update meetings will be held with the Chief Finance Officer where any issues identified will be raised.

1.5 Liaison with the External Auditors will be ongoing throughout the production of the accounts to raise any points of clarification. Elsewhere on the agenda the External Auditor, Mazars, are presenting their Audit Strategy Memorandum which sets out the timing and scope of the audit of the Accounts.

1.6 Work is progressing towards meeting the deadlines that are required in order for the Combined Authority to be able to publish the Statement of Accounts no later than the date of 31 May 2023. However, it should be noted that the production of the NTCA accounts is reliant on the production of Nexus and NECA accounts and whilst we work together those “elements” are out of our control and remains a key risk.

2. Potential Impact on Objectives

2.1 The production of an Audited Statement of Accounts is the statutory responsibility of the Combined Authority as per the Accounts and Audit Regulations 2015 and as revised Account and Audit Regulations 2022/23.

3. Key Risks

3.1 The production of the NTCA accounts is reliant on the production of Nexus and NECA accounts and whilst we work together those elements are “out of our control”. A risk log has been set up which identifies the key risks and issues associated with the closedown process. The management of these risks is part of the overall process.

4. Financial and Other Resources Implications

4.1 There are no financial or other resource implications arising from this report.

5. Legal Implications

5.1 The Accounts and Audit Regulations 2022/23, which take effect from 31 March 2023, reverts the requirement for the audited accounts to be published from 31 July to 30 September, with the exercise of public rights, common inspection date being removed and the draft accounts published no later than 31 May.

6. Equalities Implications

6.1 There are no equality and diversity implications arising from the recommendations in this report

7. Inclusive Economy Implications

7.1 There are no inclusive economy implications arising from the recommendations in this report.

8. Climate Change Implications

8.1 There are no climate change implications arising from the recommendations in this report.

9. Consultation and Engagement

9.1 Consultation will take place with the key personnel and interested parties involved in the closedown process.

10. Appendices

10.1 None

11. Background Papers

11.1 None

12. Contact Officers

12.1 Janice Gillespie, Chief Finance Officer Janice.gillespie@northtyneside.gov.uk

Tel: 0191 6435701

13. Sign-off

1) Head of Paid Service: Yes	2) Chief Finance Officer: Yes	3) Monitoring Officer: Yes

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Audit and Standards Committee

25 April 2023

Subject: **2022/23 Report on Accounting Policies to be used in the compilation of the Statement of Accounts**
Report of: **Interim Chief Finance Officer**
Portfolio: **All**

Report Summary

The purpose of this report is to provide the Audit and Standards Committee with details of the proposed accounting policies to be applied in the preparation of the 2022/23 Statement of Accounts of the North of Tyne Combined Authority (NTCA), and to apprise the Audit and Standards Committee of an exceptional update to the 'Code of Practice on Local Authority Accounting in the UK 2022/23' in relation to Infrastructure Assets.

The preparation of the accounts should be in accordance with the accounting concepts and policies as per the 'Code of Practice on Local Authority Accounting in the UK 2022/23' (The Code). The accounting policies applied in the preparation of the 2022/23 Statement of Accounts remain appropriate for the preparation of the 2022/23 Statement of Accounts.

An exceptional update to the Code was issued in November 2022 to include a temporary relief in respect of the reporting of Infrastructure Assets. The key accounting changes to the Code from 2021/22 to 2022/23 are outlined in Appendix 1, detailing their relevance and applicability to the Combined Authority.

The accounting policies applied in the preparation of the 2022/23 Statement of Accounts remain appropriate for the preparation of the 2022/23 Statement of Accounts.

Under the terms of reference of the Audit and Standards Committee, the Committee has the responsibility to review the Accounting Policies that will be used to compile the Annual Statement of Accounts.

The full list of accounting policies the authority proposes to disclose in its Statement of Accounts notes are detailed in Appendix 2.

Recommendations

The Audit and Standards Committee is recommended to:

i) The Audit and Standards Committee is recommended to note the key accounting changes to the Code in relation to temporary relief in respect of the reporting of Infrastructure Assets from 2021/22 and 2022/23 (Appendix 1).

ii) Note the Accounting Policies to be adopted by the Combined Authority and used to compile the Accounts for the financial year ended 31 March 2023 (Appendix 2).

1. Background Information, Proposals and Timetable for Implementation

1.1 In preparing the annual Statement of Accounts we closely follow CIPFA's Code of Practice for Local Authority Accounting in the UK (the Code) which is based upon approved accounting standards.

1.2 The Code is based on International Financial Reporting Standards (IFRS) and has been developed by the joint CIPFA/Local Authority (Scotland) Accounts Advisory Committee (LASAAC) Code Board overseen by the Financial Reporting Advisory Board. It is based on approved accounting standards issued by the International Accounting Standards Board and interpretations of the International Financial Reporting Interpretations Committee, except where these are inconsistent with specific statutory requirements.

1.3 In England and Wales, the Code constitutes a ‘proper accounting practice’ under the terms of section 21(2) of the Local Government Act 2003. The CIPFA/LASAAC Code Board, overseen by the Financial Reporting Advisory Board, is in a position to issue mid-year updates to the Code in exceptional circumstances. In November 2022, the board issued an update to the 2022/23 Code, which will apply to subsequent years until the 2024/25 financial year, to include a temporary relief in respect of the reporting of Infrastructure Assets.

1.4 In addition, the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2022 allows that where a local authority in England replaces a component of an infrastructure asset, for the purposes of determining the carrying amount to be derecognised in respect of that component, the authority is able to determine that the amount to be derecognised is nil.

1.5 Appendix 1 provides a key summary of the key accounting changes to the Code and their relevance to the authority in preparing its Statement of Accounts for the year ended 31 March 2023. Infrastructure assets within the NTCA Statement of Accounts relates specifically to the Joint Transport Committee (JTC) element of accounts of which we reflect a North of Tyne population share within our Accounts.

1.6 Accounting policies are defined in the CIPFA Code as “the specific principles, bases, conventions, rules and practices applied by an authority in preparing and presenting financial statements”. The purpose of the Accounting Policies is to explain the basis for the recognition, measurement and disclosure of transactions and other events in the accounts of the Combined Authority.

1.7 Accounting policies need not be applied if the effect of applying them would be immaterial. Materiality is defined in the Code as it applies to omissions and misstatements:

Omissions or misstatements of items are material if they could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements. Materiality depends on the nature or size of the omission or misstatement judged in the surrounding circumstances. The nature or size of the item, or a combination of both, could be the determining factor.

1.8 The proposed accounting policies for 2022/23 are attached as Appendix 2 these have been prepared in consultation with the Finance Manager for the North East Combined Authority (NECA) to ensure that the inclusion of the Joint Transport Committee (JTC) figures and those of the North East LEP and INEE are properly accounted for within the NTCA Accounts as in previous years.

2. Potential Impact on Objectives

2.1 There are no impacts on objectives arising from this report.

3. Key Risks

3.1 There are no risk management implications arising from this report.

4. Financial and Other Resources Implications

4.1 There are no financial or other resource implications arising from this report.

5. Legal Implications

5.1 The Combined Authority has a duty to ensure it produces an Annual Statement of Accounts by 1 June 2023 in accordance with the Accounts and Audit (Amendment) Regulations 2022. Part of the approval process is the endorsement of the Accounting Policies by Audit and Standards Committee.

6. Equalities Implications

6.1 There are no equality and diversity implications arising from this report

7. Inclusive Economy Implications

7.1 There are no inclusive economy implications arising from this report.

8. Climate Change Implications

8.1 There are no climate change implications arising from this report.

9. Consultation and Engagement

9.1 Internal consultation has taken place with the Chief Finance Officer, relevant Finance staff and the External Auditor.

10. Appendices

10.1 Appendix 1 - Changes to the Code of Practice for Local Authority Accounting in the UK for 2022/23

Appendix 2 – Accounting Policies 2022/23

11. Background Papers

11.1 Code of Practice on Local Authority Accounting in the UK 2022/23

12. Contact Officers

12.1 Janice Gillespie, Chief Finance Officer

Janice.gillespie@northtyneside.gov.uk Tel: 0191 6435701

13. Sign-off

1) Chief Executive: Yes	2) Chief Finance Officer: Yes	3) Monitoring Officer: Yes

Appendix 1

Changes to the Code of Practice for Local Authority Accounting in the UK for 2022/23

The table below provides a summary of the key accounting changes in the 2022/23 CIPFA Code and their applicability to JTC element of the NTCA Statement of Accounts

	Change	Relevant to JTC Accounts
1	Amendments to Section 1.3 (Applicability of the Code) to clarify and expand the applicability of the Code to Welsh authorities and bodies including corporate joint committees.	No
2	Revision of Section 4.2 (Leases) to allow authorities to voluntarily adopt the provisions of IFRS 16 in advance of mandatory implementation, in line with requirements set out in Appendix F.	No, as we are not intending to voluntarily adopt IFRS 16 early
3	Revision of Section 4.3 (Service Concession Arrangements: Local Authority as Grantor) to specify that if IFRS 16 is adopted in advance of mandatory implementation, then the service concession arrangement liability is measured in accordance with the measurement requirements of IFRS 16, as set out in Appendix F. However, at the time of writing, CIPFA LASAAC is considering deferring this to 2023/24 to be consistent with central government adoption.	Only relevant to early adopters of IFRS 16
4	Amendments to Section 8.2 (Provisions, Contingent Liabilities and Contingent Assets) to clarify the treatment of social benefits under IAS 37/IPSAS 19 Provisions, Contingent Liabilities and Contingent Assets.	Yes
5	Confirmation in Appendix C (Changes in Accounting Policies: Disclosures in the 2021/22 and 2022/23 Financial Statements) of the transitional reporting requirements of the new standards introduced in the 2022/23 Code, while also having regard to requirements in relation to voluntary adoption of IFRS 16.	Yes
6	Confirmation in Appendix D (New or Amended Standards Introduced to the 2022/23 Code) of the new or amended standards introduced to the 2022/23 Code.	Yes
7	Minor change to Disclosure Requirements, paragraph 4.1.4.3 (bullet point 5) to clarify that the actual capital financing requirement at the end of the reporting period measured in accordance with paragraph 90 of the Prudential Code.	Yes
8	Update to the Code in respect of Infrastructure Assets: Amendments to Section 4.1 of the Code include a temporary relief so that local authorities are not required to report the gross book value and accumulated depreciation for infrastructure assets. This temporary relief is applied from the 2021/22 Code up to and including the Code applicable to the 2024/25 financial year but may also apply to local authority financial statements before this period where the auditor's opinion on those statements has not been given. Where a local authority choses to apply this temporary relief, the Code requires that additional information is provided to explain an authority's rationale for this decision.	Yes

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Accounting Policies

1. General Principles

The Statement of Accounts summarises the Combined Authority's transactions for the 2021/22 financial year and its position at the year-end of 31 March 2022. The Combined Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015, which those Regulations require to be prepared in accordance with property accounting practices.

These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 (the Code), supported by International Financial Reporting Standards (IFRS).

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

The Code requires that a Local Authority's Statement of Accounts is prepared on a 'going concern' basis, that is, the accounts are based on the assumption that the Combined Authority will continue in operational existence for the foreseeable future.

2. Accruals of Income and Expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue from the sale of goods is recognised when the Combined Authority transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Combined Authority;

- Revenue from the provision of services is recognised when the Combined Authority can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Combined Authority;

- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet;

- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made;

- Interest receivable on investments and payments on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract; and

- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected. The Combined Authority has a policy of not accruing for manual sundry creditors or sundry debtors provision for less than £1,000, other than in exceptional circumstances.

3. Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in 90 days or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Combined Authority's cash management.

4. Charges to Revenue for Non-Current Assets

Services, support services and trading accounts are debited with the following amounts to record the cost of holding non-current assets during the year:

- Depreciation attributable to the assets used by the relevant service;

- Revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off; and,

- Amortisation of intangible fixed assets attributable to the service.

The Combined Authority is not required to raise the levy to fund depreciation, revaluation and impairment losses or amortisations. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the Combined Authority in accordance with statutory guidance.

Depreciation, revaluation and impairment losses and amortisations are therefore replaced by the contribution in the General Fund Balance (Minimum Revenue Provision), by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

5. Contingent Liabilities

A contingent liability arises where an event has taken place that gives the Combined Authority a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Combined Authority. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required, or the amount of the obligation cannot be measured reliably. Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts. There are no contingent liabilities disclosed in 2021/22.

6. Employee Benefits

Benefits Payable during Employment

Short-term employee benefits are those due to be settled within 12 months of the year end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render service to the Combined Authority.

An accrual is made for the cost of holiday entitlements (or any form of leave e.g. time off in lieu, flexi balances) earned by employees but not taken before the year-end which employees can carry forward into the next financial year.

The accrual is charged to the Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Termination Benefits

Termination benefits are amounts which would be payable as a result of a decision by the Combined Authority to terminate an officer’s employment before the normal retirement date or an officer’s decision to accept voluntary redundancy and are charged on an accruals basis to the Corporate Costs line in the CIES when the Combined Authority is demonstrably committed to the termination of the employment of an officer or group of officers or making an offer to encourage voluntary redundancy.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Combined Authority to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

7. Events after the Balance Sheet Date

Events after the balance sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- Those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events; and

- Those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

8. Exceptional Items

When items of income and expense are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the Accounts, depending on how significant the items are to an understanding of the Combined Authority's financial performance.

9. Fair Value measurement

The Combined Authority measures some of its non-financial assets such as surplus assets, assets held for sale and investment properties and some of its financial instruments such as equity shareholdings at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability; or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The Combined Authority measures the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

When measuring the fair value of a non-financial asset, the Combined Authority takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Combined Authority uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the Combined Authority's financial statements are categorised within the fair value hierarchy, as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the Combined Authority can access at the measurement date;
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; or
- Level 3 – unobservable inputs for the asset or liability.

10. Financial Instruments

Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Combined Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost.

Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument.

The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For most of the borrowings that the Combined Authority has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Combined Authority has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Financial Assets

Financial assets are recognised on the Balance Sheet when the Combined Authority becomes a party to the contractual provisions of the financial instrument and are classified into three types using an approach that is based on the business model for holding the financial assets and their cashflow characteristics.

- Amortised Cost – assets held within a business model with the sole objective of collecting contractual cash flows on specified dates that are solely payments of principal and interest;

- Fair value through other comprehensive income (FVOCI) – assets held within a business model with the objective to either sell the asset or collect contractual cash flows on specified dates that are solely payments of principal and interest; and,

- Fair value through profit and loss (FVPL) – objectives are achieved by any other means than collecting contractual cash flows.

The Combined Authority can at initial recognition of the asset override the above classifications in the following circumstances and the decision is irrecoverable:

- An equity instrument can be elected into FVOCI rather than FVPL if it is not held for trading;

- Any financial asset can be designated as measured at FVPL if this removes any deemed inconsistency in measurement by treating assets based upon the above classification.

Amortised Cost

Financial assets measured at amortised cost are recognised on the Balance Sheet when the Combined Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual creditors to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the financial assets held by the Combined Authority, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

However, the Combined Authority can make loans to organisations at less than market rates (soft loans). When soft loans are made, a loss is recorded in the CIES (debited to the appropriate service) for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal.

Interest is credited to the Financing and Investment Income and Expenditure line in the CIES at a marginally higher effective rate of interest than the rate receivable from the organisations, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provisions require that the impact of the soft loans on the General Fund Balance is the interest receivable for the financial year – the reconciliation of amounts debited and credited to the CIES to net gain required against the General Fund Balance is managed by a transfer to for from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Expected Credit Loss Model

The Combined Authority recognises expected credit losses on all its financial assets held at amortised cost, either on a 12-month or lifetime basis. Impairment losses are calculated to reflect the expectation that the future cashflows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since and instrument was initially recognised, losses are assessed on a lifetime basis expected losses. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses.

Fair Value through other Comprehensive Income

Changes in fair value are recorded against Other Comprehensive Income and Expenditure gain/loss by an entry in the Financial Instrument Revaluation Reserve through the Movement in Reserves Statement.

However, interest is charged to the Surplus/Deficit on the Provision of Services as though the asset had been measured at amortised cost

Where assets are identified as impaired because of a likelihood arising from a future event that cashflows due under the contract will not be made, a charge for the value of the impairment is made to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement with a corresponding entry being recognised in Other Comprehensive Income through the Financial Instruments Revaluation Reserve on the Balance Sheet.

When the asset is de-recognised the cumulative gain or loss previously recognised in Other Comprehensive Income is reclassified from the Financial Instrument Revaluation Reserve to the Surplus/Deficit on the Provision of Services as a reclassification adjustment.

Fair Value through Profit and Loss (FVPL)

Financial assets that are measured at FVPL are recognised on the Balance Sheet when the Combined Authority becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Fair value gains and losses are recognised as they arrive in the Surplus or Deficit on the Provision of Services. The fair value measurements of the financial assets are based on the following techniques:

- Instruments with quoted market prices – the market price
- Other instruments with fixed and determinable payments – discounted cash flow analysis.

The inputs to the measurement techniques are categorised in accordance with the following three levels:

- Level 1 inputs – quoted prices (unadjusted) in active markets for identical assets that the Combined Authority can access at the measurement date.

- Level 2 inputs – inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly.

- Level 3 inputs – unobservable inputs for the asset

Any gains and losses that arise on the derecognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

11. Government Grants and Contributions

Whether paid on account, by instalments or in arrears, government grants and third- party contributions and donations are recognised as due to the Combined Authority when there is reasonable assurance that:

- The Combined Authority will comply with the conditions attached to the payments; and

- The grants or contributions will be received.

Amounts recognised as due to the Combined Authority are not credited to the Comprehensive Income and Expenditure Statement until there is reasonable assurance that the conditions attached to the grant or contribution will be satisfied.

Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions and capital grants used to fund Revenue Expenditure Financed from Capital Under Statute) or Taxation and Non-Specific Grant Income (non-ring-fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied Account. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied Account are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

12. Group Accounts

NECA and the Combined Authority are required by the Code of Practice on Local Authority Accounting 2021/22 to produce Group Accounts to include services paid to Council Tax payers by organisations other than the Combined Authority itself in which the Combined Authority has an interest.

Although there has been no definitive ruling by CIPFA or central government in relation to Combined Authorities and Passenger Transport Executives, it is recognised that the accounts of Nexus fall within the definition of a subsidiary. As such, group accounts have been prepared on the basis of a full consolidation of the financial transactions and balances of the Combined Authority and Nexus. Nexus has been incorporated as a subsidiary, whereby the accounts of the two organisations are combined and any intra-group transactions are cancelled out.

For the 2021/22 accounts, NECA and the Combined Authority have fully complied with the requirements of the Code, providing group figures for 2021/22 and comparators for 2020/21. From 2010/11, Passenger Transport Executives have been required to produce their accounts under International Financial Reporting Standards, and as if the proper practices in relation to accounts applicable to a local authority were, so far as appropriate, applicable to an Executive. The group financial statements are prepared in accordance with the policies set out in the Statement of Accounting Policies above.

13. Joint Transport Committee

On 2 November 2018, the Newcastle upon Tyne, North Tyneside and Northumberland Combined Authority (Establishment and Functions) Order 2018 (the Order) changed the boundaries of NECA and established the new Mayoral Combined Authority.

The reconfiguration of NECA has been classed as a transfer by absorption meaning:

- NECA has accounted for its control up to the date of the reconfiguration albeit with clear disaggregation of the financial results relating to the functions being transferred; and

- Assets and liabilities transferred at book value.

The Order establishing the NTCA also required the seven local authorities to establish the Joint Transport Committee (JTC). Under the CIPFA Code, the JTC meets the definition of a 'joint operation' which determines its accounting treatment. Where a Join Committee is accounted for as a Joint Arrangement each Joint Operator (in this case NECA and NTCA) must account for their own share of the assets, liabilities, revenues and expenses held or incurred jointly in their own single entity financial statements.

In order to comply with CIPFA Code, NECA must:

- Split the revenues between that which relates to NECA and the Combined Authority. In this case the constitution of the JTC and its funding arrangements suggests that, in the first instance, the revenues should be divisible into that which relates to Northumberland (allocated wholly to the Combined Authority), that which relates to Durham (allocated wholly to NECA) and that which relate to Tyne and Wear (requires further division into NECA and the Combined Authority).

- The revenues which relate to Tyne and Wear must then be divided into that which relates wholly to Newcastle and /or North Tyneside (allocated to the Combined Authority), that which relates wholly to Gateshead, South Tyneside and/or Sunderland (allocated to NECA) and that which relates to activities not wholly attributable under the preceding two points which requires apportionment.

The Order gives no clear instruction on the basis of division of revenues, but the Deed of Cooperation made on 4 July 2018 between the seven local authorities in the area provides that "those costs and liabilities which are attributable to the exercise of functions exclusively in the area of the Tyne and Wear Authorities shall be shared between the Tyne and Wear Authorities on a per capita basis relating to their resident populations at that time."

By similar rationale and argument, the division of assets, liabilities and expenditure incurred will also be divided on this basis.

14. Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

The Authority as Lessee

Rentals paid under operating leases are charge to the Comprehensive Income and Expenditure Statement as an expense of the service benefitting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease; even if this does not match the pattern of payments (e.g. there is a rent free period at the commencement of the lease).

15. Overheads and Support Services

The costs of overheads and support services e.g. Finance and Legal services are shown within the Corporate Costs line on the Comprehensive Income and Expenditure Statement on the basis of Service Level Agreements in accordance with the Combined Authority's arrangements for accountability and financial performance and in accordance with guidance given by the Chartered Institute of Public Finance and Accountancy (CIPFA), this is also the case for NECA.

16. Post-Employment Benefits

The Combined Authority and NECA are members of the Local Government Pension Scheme, which provides members with defined benefits relating to pay and service. Its pension obligations relate primarily to former employees.

The relevant fund is the Tyne & Wear Pension Fund, administered by South Tyneside Metropolitan Borough Council, from whom a copy of the annual report may be obtained. The Fund website may be visited at www.twpf.info.

The Local Government Scheme is accounted for as a defined benefits scheme:

- The liabilities of the pension fund attributable to the Combined Authority are included in the Balance Sheet on an actuarial basis using the projected unit method i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates and projections of earnings for current employees.

- Liabilities are discounted to their value at current prices, using a discount rate determined annually, based on the indicative rate of return on high quality corporate bonds.

- The assets of the pension fund attributable to the Combined Authority are included in the Balance Sheet at their fair value:

    - Quoted securities at current bid price
    - Unquoted securities based on professional estimate
    - Unitised securities at current bid price
    - Property at market value

The change in the net pensions liability is analysed into the following components:

- Current service cost – the increase in liabilities as a result of years of service earned this year, allocated in the CIES to the Combined Authority and NECA Corporate Costs line;

- Past service costs – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years, debited to the Surplus or Deficit on the Provision of Services in the CIES as part of the Combined Authority and NECA Corporate Costs line;

- Net interest on the net defined liability i.e. net interest expense for the Combined Authority – the change during the period in the net defined benefit liability that arises from the passage of time charged to the Financing and Investment Income and Expenditure line in the CIES. This is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability at the beginning of the period taking into account any changes in the net defined benefit liability during the period as a result of contribution and benefit payments.

- Gains or losses on settlements and curtailments – the result of actions to relieve the Combined Authority of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Corporate Costs

- Remeasurements comprising:

    - The return on plan assets, excluding amounts included in net interest on the net defined benefit liability, charged to the Pensions Reserve as Other Comprehensive Income & Expenditure; and

    - Actuarial gains and losses, changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions, charged to the Pensions Reserve as Other Comprehensive Income & Expenditure

- Contributions paid to the pension fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Combined Authority to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pension Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

Further details are provided in Note 21 to the accounts.

17. Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or if the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Combined Authority's financial position or financial performance.

Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

18. Property, Plant and Equipment

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accrual's basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Combined Authority and the cost of the item can be measured reliably.

Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

Measurement

Assets are initially measured at cost, comprising:

- The purchase price;

- Any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management; and

- The initial estimate of the costs dismantling and removing the item and restoring the site on which it is located.

The Combined Authority does not capitalise borrowing costs incurred whilst assets are under construction.

The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have commercial substance (i.e. it will not lead to a variation in the cash flows of the Combined Authority). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Combined Authority.

Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the Taxation and Non-specific Grant Income line of the Comprehensive Income and Expenditure Statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the Donated Assets Account. Where gains are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance to the Capital Adjustment Account in the Movement in Reserves Statement.

Assets are then carried in the Balance Sheet using the following measurement bases:

- Assets Under Construction – cost;

- All other assets – current value, determined as the amount that would be paid for the asset in its existing use (EUV).

The following useful economic lives are used for PPE assets in relation to NECA: Tyne Tunnels 120 years, Tunnels vehicles, Plant and Equipment 30 years.

Where there is no market-based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of fair value.
Where non-property assets that have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for fair value.

Assets included in the Balance Sheet at current value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their current value at the year-end, but as a minimum every five years. All valuations will be undertaken by or under the supervision of a fully qualified Chartered Surveyor (MRICS – Member of the Royal Institution of Chartered Surveyors). These revaluations are detailed within the Notes to the Core Financial Statements. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains.

Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.

Where decreases in value are identified, they are accounted for as follows:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains); or

- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

<u>De Minimis Levels</u>

The use of a de-minimis level for capital expenditure means that in the above categories assets below the de-minimis level are charged to the revenue account and are not classified as capital expenditure i.e. the asset is not included in the balance sheet unless they are part of an overall project costing more than the established de-minimis level. For all capital expenditure the de-minimis level is £10,000.

<u>Impairment</u>

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for by:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains); or

- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land) and assets that are not yet available for use (i.e. assets under construction).

Deprecation on all Property, Plant and Equipment assets (except Vehicles) is calculated by taking the asset value at the 31 March 2022 divided by remaining life expectancy. Depreciation is charged in the year of acquisition, but not the year of disposal.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation that would have been charged based on their historic cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Where an item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately. In the most recent valuations of the Tyne Tunnels it was assessed that, although Mechanical and Electrical Services and the Toll Plazas have an economic life of 20 years, these formed less than 20% of the overall valuation and have not therefore been classed as significant components.

Disposals

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell.

Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previously recognised losses in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell.

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal.

Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for disposal in excess of £10,000 are categorised as capital receipts. Receipts are required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Combined Authority's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

The written-off value of disposals is not a charge against the general fund, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

18.a Highways Infrastructure Assets

Highways infrastructure assets include carriageways, footways and cycle tracks, structures (e.g. bridges and tunnels), street lighting, street furniture (e.g. illuminated traffic signals, bollards), traffic management systems and land which together form a single integrated network. NTCA holds highways infrastructure assets in the form of the Tyne Tunnels – the two vehicle tunnels and the pedestrian and cyclist tunnels.

<u>Recognition</u>

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accrual's basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Combined Authority and the cost of the item can be measured reliably.

Measurement

Highways infrastructure assets are generally measured at depreciated historical cost. However, this is a modified form of historical cost – opening balances for highways infrastructure assets were originally recorded in balance sheets at amounts of capital undischarged for sums borrowed as at 1 April 1994, which was deemed at that time to be historical cost.

Impairment

Where impairment losses are identified, they are accounted for by the carrying amount of the asset being written down to the recoverable amount.

Depreciation

Depreciation is provided on the parts of the highways infrastructure assets that are subject to deterioration or depletion and by the systematic allocation of their depreciable amounts over their useful lives. Depreciation is charged on a straight-line basis.

Annual depreciation is the depreciation amount allocated each year.

Useful lives of the various parts of the highways network have been assessed by the authority using industry standards where applicable as follows:

- Structures (tunnels) – useful life of up to 120 years

Disposals and derecognition

When a component of the network is disposed of or decommissioned, the carrying amount of the component in the Balance Sheet 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).

The written-off amounts of disposals are not a charge against the General Fund, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are transferred to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

19. Provisions

Provisions are made where an event has taken place that gives the Combined Authority a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the Combined Authority may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Combined Authority becomes aware of the obligation and are measured at the best estimate at the Balance Sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the Combined Authority settles the obligation.

20. Public Private Partnership (PPP) Contracts

Public Private Partnerships are agreements to receive services and provide capital jointly with the private sector. The New Tyne Crossing Partnership is judged to be such an arrangement.

The Code requires these arrangements to be assessed under an application of the principles within International Financial Reporting Interpretation Committee 12 (IFRIC12) 'Service Concessions'.

Arrangements fall in scope of the application where both of the following IFRIC 12 criteria are met:

- The public sector entity ('grantor') controls or regulates the services that the operator must provide with the infrastructure, to whom it must provide them, and at what price; and

- The grantor controls, through ownership, beneficial entitlement or otherwise, any significant residual interest in the infrastructure at the end of the service arrangement.

For any service concession within the scope of the application, the grantor will recognise the cost of the property, plant and equipment underlying the service concession as a tangible fixed asset. The New Tyne Crossing is considered to meet both IFRIC 12 criteria, and therefore the costs are recognised on the Combined Authority's Balance Sheet.

In most arrangements within the scope of the application, the grantor will account for the arrangement's financing by recording and measuring a long-term liability in accordance with IAS 17. This treatment reflects an obligation to pay the operator for the full value of the asset along with the operator's costs of finance. However, in the New Tyne Crossing project, TT2 Ltd (the operator) receives a defined proportion of the total toll revenue and uses this to meet its cost of constructing and operating both vehicle tunnels. The Combined Authority may therefore have no long-term obligation to transfer economic resources to TT2, and hence should not recognise a liability.

The provisions within the Payment Mechanism for payment of toll revenue to the operator are as follows:

- In each month a Shadow Toll is paid to the operator, this being a fixed amount per vehicle, adjusted for changes in RPI;
- Throughout the term, Formula Tolls for each vehicle type are defined to equal the corresponding vehicle Shadow Tolls; and
- The Formula Tolls are the initially-defined sequence of tolls to be charged to users and collected by NECA. If NECA varies a Real Toll from its corresponding Formula Toll beyond a certain level, the operator is compensated for the effect of this adjustment on demand.

The Combined Authority therefore has no exposure to any risk and reward associated with the operator revenue, but only an executor contract to transfer the operator's share of total revenues to the operator as it is collected.

It therefore follows from this conclusion that the Combined Authority has no long-term obligation to transfer economic resources to the operator, since the operator revenue is in substance transferred directly to it. The Combined Authority therefore should not recognise a long-term liability to finance the project assets.

In relation to such an arrangement, the Code and the accompanying notes do not provide clear guidance. However, the guidance notes accompanying the Code suggest that the credit that matches the asset should be a deferred income balance. The Combined Authority has therefore recognised a deferred credit balance, added to as each Phase 1 and Phase 2 of the project were completed, and equal to the fair value of the asset addition under each Phase. This balance is then released to the Comprehensive Income and Expenditure Statement over the life of the contract.

21. Reserves

The Combined Authority sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by transferring amounts out of the General Fund Balance in the Movement in Reserves Statement.

When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service within the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against the levy for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirement and employee benefits and do not represent usable resources for the Combined Authority.

22. Revenue Expenditure Funded from Capital under Statute

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Combined Authority has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charges so that there is not impact on the levy.

23. Tyne Tunnels Income

The majority of the income from tolls is received on a cash basis. Accruals are made to apportion income credited to the bank account to the correct financial year. Prepayments on permit accounts are also received, and the balance on these accounts are accrued as income received in advance at the period end.

24. Value Added Tax (VAT)

VAT is payable and is included as an expense only to the extent that it is not recoverable from HM Revenue and Customs. VAT receivable is excluded from income.

34. Events after the Balance Sheet Date

Adjusting events after the Balance Sheet date

Where events take place after 31 March which provide information about conditions exiting at 31 March, the financial statements and notes are adjusted to reflect the impact of this information. No such events have taken place.

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NORTH OF TYNE COMBINED AUTHORITY

Audit and Standards Committee

25 April 2023

Subject: **2022/23 Draft Annual Governance Statement**

Report of: **Risk Advisor to North of Tyne Combined Authority (NTCA)**

Report Summary

The purpose of this report is to provide Audit and Standards Committee with the approach that will be taken to produce the NTCA 2022/23 Annual Governance Statement (AGS).

Recommendations

The Audit and Standards Committee is recommended to agree the approach to be taken to produce the NTCA 2022/23 Annual Governance Statement, including the Authority's assurance framework.

1. Background Information, Proposals and Timetable for Implementation

This report recommends the approach to produce the NTCA 2022/23 Annual Governance Statement (AGS).

2. The Combined Authority has a statutory duty under the Accounts and Audit Regulations 2015 to do the following on an annual basis:

- Conduct a review of the effectiveness of its governance framework, including the system of internal control;
- Prepare an Annual Governance Statement; and
- Through a relevant committee review and approve the Annual Governance Statement

3. Production of the 2022/23 Annual Governance Statement

3.1 The Chartered Institute of Public Finance and Accountancy (CIPFAs) publication "Delivering Good Governance in Local Government" (2016 Edition), sets a framework, and the standard, for local authority governance in the UK. The Framework sets out a set of principles which we test our governance arrangements against:

- Ensuring openness and comprehensive stakeholder engagement
- Developing the entity's capacity, including the capability of its leadership and the individuals within it
- Behaving with integrity, demonstrating strong commitment to ethical values and respecting the rule of law
- Determining the interventions necessary to optimise the achievement of the intended outcomes
- Managing risks and performance through robust internal control and strong public financial management
- Defining outcomes in terms of sustainable economic social and environmental benefits

- Implementing good practices to transparency, reporting and audit to deliver effective accountability

4. Annual Governance Statement Assurance Framework – 2022/23

4.1 The approach to produce the 2022/23 AGS is based on a framework of assurance and in preparing it, evidence from the following sources will be reviewed. This approach complies with the CIPFA recommended practice:

- Governance Arrangements e.g., the Authority's Constitution
- Assurance from the Statutory Officers, including the Monitoring Officer, Chief Finance Officer and Senior Information Risk Owner, through written statements
- Members - Views of Audit and Standards Committee
- Internal Audit Activity – including the Chief Internal Auditor's annual opinion
- Risk Management – Strategic risk reviews
- Performance Management – outcomes reported during 2022/23
- Views of the external auditor and other external inspectorates
- Key partnerships, including the voluntary, community and social enterprise organisations (VCSE)
- Nexus, through an assurance statement signed by Nexus' Director of Finance and Resources
- North East Local Enterprise Partnership, through a partnership assurance statement, signed by the Chief Executive

5. Next Steps

5.1 The draft 2022/23 AGS will be presented to Audit and Standards Committee prior to the publication of the draft 2022/23 statement of accounts which is expected 31 May 2023.

6. Potential Impact on Objectives

6.1 No direct impact on objectives.

7. Key Risks

7.1 There are no specific risk implications directly arising from this report. The management of risks has been considered as part of the production of the Annual Governance Statement.

8. Financial and Other Resources Implications

8.1 This work to produce the Annual Governance Statement has been carried out by Newcastle City Council's Internal Audit Service under the Service Level Agreement.

9. Legal Implications

9.1 There are no direct legal implications arising from this report.

10. Equalities Implications

10.1 There are no direct equalities implications arising from this report.

11. Inclusive Economy Implications

11.1 There are no direct inclusive economy implications arising from this report.

12. Climate Change Implications

12.1 There are no direct climate change implications arising from this report.

13. Consultation and Engagement

13.1 Consultation will take place with the NTCA Senior Management Team and other key personnel during the production of the draft 2022/23 AGS.

14. Appendices

14.1 None

15. Background Papers

15.1 None

16. Contact Officers

16.1 Philip Slater, Chief Internal Auditor Newcastle City Council (acting as Risk Advisor to NTCA)

E mail: philip.slater@newcastle.gov.uk
Tel: 0191 2116511

17. Glossary

17.1 None

18. Sign-off

1) Chief Executive: Yes	2) Chief Finance Officer: Yes	3) Monitoring Officer: Yes

NORTH OF TYNE COMBINED AUTHORITY

Audit and Standards Committee

25 April 2023

Subject: **Internal Audit 2022/23 Quarterly Update Report**

Report of: **Richard Dunlop, Interim Chief Internal Auditor**

Report Summary

The Work Programme for the Audit and Standards Committee includes quarterly updates from Internal Audit at each of the four scheduled meetings during the year. The Work Plan was approved by the Audit and Standards Committee at its meeting on 26 April 2022. This report provides Audit and Standards Committee with the fourth progress update against the 2022/23 Internal Audit Plan, and includes any other unplanned work undertaken. The majority of assignments planned for 2022/23 are complete or in progress, with one postponed to 2023/24 at the Authority's request. There is no work undertaken to date which is likely to provide a negative view in Chief Internal Auditor's Annual Opinion on the Framework of Governance, Risk Management and Control for 2022/23.

Recommendations

The Audit and Standards Committee is recommended to consider and note Internal Audit's report.

1. Background Information, Proposals and Timetable for Implementation

1.1 The Internal Audit Plan approved by Audit and Standards Committee on 26 April 2022 set out a number of assignments selected on a risk-based approach. The Plan also included a contingency for advice & guidance, and programme assurance work. A summary of each of these areas, and any other work included in internal audit's work programme is provided below.

1.2 Internal Audit has worked with the NTCA to plan and spread the internal audit work over the financial year to minimize any possible disruption to NTCA staffing resources.

Work Completed Since Previous Meeting

Area of Review	Description of Assignment and Current Status
Governance Arrangements in relation to the North-East Local Enterprise Partnership (NELEP) (Governance Review)	The objective of the audit was to review the financial management, decision-making and reporting arrangements established between NELEP and the Combined Authority as the accountable body. The report provided a significant assurance opinion. One medium and two low priority recommendations were made. The audit identified that there was generally a sound system of control with only one main finding. The main finding was a minor system weakness, in that the Scheme of Delegation potentially allowed NELEP to operate outside of an NTCA policy relating to employees.. This audit was carried over from 2021/22.

Evidence Checking of Recommendations (Corporate and cross Cutting)	In accordance with Internal Audit's established processes, evidence checking is undertaken in relation to the implementation of medium and high priority recommendations that have passed their agreed implementation date. During March 2023 Internal Audit followed up on 19 medium priority recommendations (there were no high priority recommendations to follow up) that had passed the agreed implementation date. Ten of the recommendations were found to be implemented, and this included recommendations that were made in the Key Financial Systems, Business Continuity Management and Service Level Agreements audits. In respect of the 9 recommendations that had not been fully implemented, there was clear evidence that work was in progress to implement these. Appropriate revised target dates have been agreed. These recommendations will continue to be monitored through the evidence checking process.

Work In Progress

Area of Review	Description of Assignment and Current Status
Monitoring of grant conditions (in respect of grant funding both received by NTCA and issued by NTCA) (Governance Review)	This audit is underway and is examining and evaluating the NTCA arrangements to monitor both: • its own grant conditions as a grant funding recipient and ensuring that the specified outcomes are delivered; and • its arrangements as a grant funding body to set appropriate grant conditions when issuing funding to other organisations and monitor and evidence compliance with those grant conditions. In this respect the audit will build upon the Investment Fund audit undertaken in 2019/20 when the Combined Authority was at an embryonic stage in establishing its Investment Fund arrangements. The draft report expected to be issued April 2023.
National Fraud Initiative (NFI) Data Matching Exercise (Financial Systems and Probity)	The NFI is the Cabinet Office's data matching exercise to aid with the prevention and detection of fraud. Data relating to Trade Creditors and Payroll was submitted to the Cabinet Office in October 2022 and six reports were made available for review late January 2023. Five of the six reports returned have been reviewed and no issues were identified. The reports identified matches for review in relation to Trade Creditors. These were mainly 'fuzzy' matches relating to potential duplicate suppliers or duplicate payments. Work has almost concluded on the final report and no issues have been identified so far.
Operational Capacity and Resources	This audit is underway, with the objective to examine the arrangements in place to ensure that as the NTCA continues

(Governance Review)	to develop, it has the necessary operational capacity, skills and expertise available in order to successfully deliver agreed objectives, plans and responsibilities.
Adult Education Budget (AEB) Steering Group (Advice and Programme Assurance)	One aspect of Internal Audit's work is to attend the AEB steering group approximately once a month in a 'programme assurance' capacity.
Performance Management (Advice and Programme Assurance)	As previously brought to the attention of Audit and Standards Committee, it was agreed with NTCA Management that assurance in this area would be provided in the form of 'programme assurance' rather than a traditional audit. The change in approach was agreed to take into account a refresh of current arrangements by NTCA. The work provides assurance for the original agreed objective, recorded below, and continues into the new financial year. This audit will determine the extent to which NTCA's performance management arrangements are aligned to the Authority's corporate plan objectives. This includes Inclusive Economy and Innovation in Recovery, and whether performance management arrangements cascaded through the Authority are likely to support delivery of achievement of planned outcomes. The audit will include a review of the OPS Project and Grant Management System.

Work Deferred to 2023/24

Area of Review	Description of Assignment and Current Status
Net Zero Transition (Governance Review)	Following discussions with Management it was agreed to defer the audit to the 2023/24 municipal year due to resourcing issues in this area within NTCA. It is hoped to commence the audit in Quarter 1 2023/24, but the start date is being kept under review due to absence of key personnel.

Summary and Status of all Work Items During 2022/23 (Including 2021/22 planned work concluded in 2022/23)

Audit Assignment	Status	Opinion
Governance arrangements and Service Level Agreements	Complete	Limited
Governance Arrangements in relation to NELEP	Complete	Significant
Key Finance Systems-Budget Monitoring	Complete	Significant
Key Finance Systems-Creditor Payments	Complete	Limited
Key Finance Systems-Payroll	Complete	Significant
Business Continuity Arrangements	Complete	Limited
Monitoring of Grant Conditions	Work in Progress	N/A
Operational Capacity and Resources	Work in Progress	N/A
Net Zero Transition	Deferred to 23/24	N/A

Other Areas of Work	Status
National Fraud Initiative	Ongoing
Performance Management – Programme Assurance	Ongoing
Adult Education Budget Steering Group – Programme Assurance	Ongoing

2. Potential Impact on Objectives

2.1 The North of Tyne Combined Authority Corporate Plan sets out the strategic objectives and priorities of the Combined Authority. The work of Internal Audit and Audit and Standards Committee contributes to the overall achievement of the Authority's objectives and priorities.

3. Key Risks

3.1 Internal Audit coverage is based on an assessment of audit risk, both that inherent in organisational service delivery and also those risks and opportunities associated with the North of Tyne Combined Authority's main aims. As such, Internal Audit is a key strand in the governance arrangements of the North of Tyne Combined Authority and an integral tool in managing risk.

4. Financial and Other Resources Implications

4.1 There are no direct financial or other resource implications arising from the recommendations set out in this report. Through its review of a range of audit, accounting and governance related items, the Audit and Standards Committee assesses the Authority's use of financial resources and value for money.

5. Legal Implications

5.1 The Cities and Local Government Devolution Act 2016 established that Combined Authorities must arrange for the appointment of an Audit Committee and sets out the functions of the Audit Committee. This includes reviewing and assessing the authority's risk management, internal control and corporate governance arrangements.

5.2 The Accounts and Audit Regulations 2015, as amended, are a statutory instrument and require the Authority to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.

5.3 The Public Sector Internal Audit Standards and related Local Government Application Note establish the professional standards Internal Audit must apply when planning the use of its resources. This report and the Internal Audit Strategic Plan 2022/23 have been prepared in accordance with both the Accounts and Audit Regulations 2015 and the Public Sector Internal Audit Standards.

6. Equalities and Implications

6.1 There are no direct equalities implications arising out of the recommendations in this report. The Audit and Standards Committee is mindful of its duty under the Public Sector Equality Duty and will always consider whether what is before them eliminates discrimination, harassment and victimisation; advances equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it; and fosters good relations between persons who share a relevant protected characteristic and persons who do not share it. The Committee also considers the implications for people from different socio-economic backgrounds/low pay as a protected characteristic.

7. Inclusive Economy Implications

7.1 There are no direct inclusive economy implications arising out of the recommendations in this report. The Audit and Standards Committee is mindful of the NTCA's inclusive economy ambitions and the five characteristics of an inclusive economy: participation; equity; growth; stability and sustainability.

8. Climate Change Implications

8.1 There are no direct climate change implications arising out of the recommendations in this report. The Audit and Standards Committee is mindful that the NTCA and the three constituent Local Authorities have each declared a Climate Emergency.

9. Consultation and Engagement

9.1 The Chief Executive, Chief Finance Officer and Director of Policy and Performance were consulted in preparation of Internal Audit's 2021/22 and 2022/23 audit coverage.

10. Appendices

There are no appendices.

11. Background Papers

(a) Internal Audit Strategic Audit Plan 2021/22
(b) Internal Audit Strategic Audit Plan 2022/23
(c) Cities and Local Government Devolution Act 2016
(d) Accounts and Audit Regulations 2015
(e) Public Sector Internal Audit Standards, Chartered Institute of Public Finance & Accountancy / Institute of Internal Auditors, April 2017
(f) Local Government Application Note for the UK Public Sector Internal Audit Standards, Chartered Institute of Public Finance & Accountancy / Institute of Internal Auditors, February 2019

12. Contact Officers

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13. Glossary

Abbreviation	Description
NFI	National Fraud Initiative - The Cabinet Office's data matching exercise
NELEP	North East Local Enterprise Partnership
AEB	Adult Education Budget

14. Sign-off

1) Chief Executive: Yes	2) Chief Finance Officer: Yes	3) Monitoring Officer: Yes

NORTH OF TYNE COMBINED AUTHORITY

Audit and Standards Committee

25 April 2023

Subject: **Review of Audit and Standards Committee Arrangements**

Report of: **Richard Dunlop, Interim Chief Internal Auditor**

Report Summary

The purpose of this report is to present a 2022/23 self-assessment of the effectiveness of Audit and Standards Committee (ASC) arrangements. This has been undertaken with reference to the revised good practice guidance published in October 2022 by the Chartered Institute of Public Finance and Accountancy (CIPFA). A draft self-assessment was undertaken by officers in conjunction with the Independent Chair of ASC, before it was circulated to ASC members during March 2023 for comment, as recommended by CIPFA.

Recommendations

The Audit and Standards Committee is recommended to:

(a) Consider and endorse the self-assessment of Audit and Standards Committee arrangements attached as Appendix A.

(b) Agree that the self-assessment and actions contained within will form the basis of an annual report from Audit and Standards Committee, which will be authored on behalf of the committee by the Chair and Chief Internal Auditor, for presentation to Cabinet.

1. Background Information, Proposals and Timetable for Implementation

1.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) periodically publishes good practice guidance covering the role, functions and operation of Audit Committees in Local Government. The latest such guidance (‘Audit Committees – Practical Guidance for Local Authorities and Police’) was published in 2022.

1.2 It is also important to note the distinction between the North of Tyne Combined Authority, and a local authority. Whilst the guidance from CIPFA is good practice for all Audit Committees, as a Combined Authority, our Audit and Standards Committee is bound by the requirements of the Cities and Local Government Devolution Act 2016 and the subsequent Combined Authorities (Overview and Scrutiny Committees, Access to Information and Audit Committees) Order 2017.

1.3 The self-assessment demonstrates that Audit Committee arrangements continue to reflect statutory provisions within the legislation for Combined Authorities. A good level of performance against good practice recommended by CIPFA was found with a score of 186 out of a possible 200. Where questions are not completely applicable to the Combined Authority then a full score of five has been awarded. There are two main areas where committee arrangements could be developed further:

- Strengthening the evaluation of the Committee’s knowledge and skills with a view to

implementing training if / where gaps are identified.
- Improving attendance so that all meetings are quorate and scheduled business is completed.

1.4 The self-assessment will form the basis of a 2022/23 Annual Report to Cabinet. The Annual Report will also include an update on the work of the Committee throughout the municipal year and commentary on how it is meeting its terms of reference.

2. Potential Impact on Objectives

2.1 The North of Tyne Combined Authority Corporate Plan 2022-2023 sets out the strategic objectives and priorities of the Combined Authority. The work of Internal Audit and Audit and Standards Committee contributes to the overall achievement of the Authority's objectives, vision, policies and priorities.

3. Key Risks

3.1 There are no key risks identified from the approach outlined. The report presents findings from an assessment of the effectiveness of the Audit & Standards Committee with the aim of identifying areas of improvement.

4. Financial and Other Resources Implications

4.1 There are no direct financial or other resource implications arising from the recommendations set out in this report.

5. Legal Implications

5.1 The Cities and Local Government Devolution Act 2016, and subsequent Combined Authorities (Overview and Scrutiny Committee, Access to Information and Audit Committee) Order 2017, establishes that Combined Authorities must arrange for the appointment of an Audit Committee and sets out the functions of the Audit Committee. The review of Audit and Standards Committee arrangements will support the Combined Authority in ensuring compliance with statutory requirements and good practice as set out by CIPFA.

6. Equalities and Implications

6.1 There are no direct equalities implications arising out of the recommendations in this report. The Audit and Standards Committee is mindful of its duty under the Public Sector Equality Duty and will always consider whether what is before them eliminates discrimination, harassment and victimisation; advances equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it; and fosters good relations between persons who share a relevant protected characteristic and persons who do not share it. The Committee also considers the implications for people from different socio-economic backgrounds/low pay as a protected characteristic.

7. Inclusive Economy Implications

7.1 There are no direct inclusive economy implications arising out of the recommendations in this report. The Audit and Standards Committee is mindful of the NTCA's inclusive economy ambitions.

8. Climate Change Implications

8.1 There are no direct climate change implications arising out of the recommendations in this report. The Audit and Standards Committee is mindful that the NTCA and the three constituent Local Authorities have declared a Climate Emergency.

9. Consultation and Engagement

9.1 The approach to the review of Audit and Standards Committee (ASC) arrangements was agreed with the Independent Chair of the Audit and Standards Committee. A draft self-assessment, completed by officers in conjunction with the Chair, was circulated to ASC members for comment and feedback.

10. Appendices

Appendix A - Self-Assessment of Audit and Standards Committee Arrangements

11. Background Papers

(a) The Cities and Local Government Devolution Act 2016
(b) The Combined Authorities (Overview and Scrutiny Committees, Access to Information and Audit Committees) Order 2017
(c) The Accounts and Audit Regulations 2015, as amended June 2022
(d) Audit Committees, Practical Guidance for Local Authorities and Police, CIPFA, 2022
(e) North of Tyne Combined Authority Constitution, November 2018

12. Contact Officers

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0191 64375711

13. Glossary

None

14. Sign-off

1) Chief Executive: Yes	2) Chief Finance Officer: Yes	3) Monitoring Officer: Yes

Audit Committee Arrangements: Self-Assessment of Good Practice – March 2023
(Extract from CIPFA, Audit Committees: Practical Guidance for Local Authorities and Police, published October 2022)

CIPFA outlines that the checklist below provides a high-level review that incorporates the key principles set out in CIPFA's Position Statement on Audit Committees in Local Authorities, and broader practical guidance referred to above. Within the practical guidance CIPFA specifically states:

"Where an audit committee has a high degree of performance against the good practice principles, it is an indicator that the committee is soundly based and has in place a knowledgeable membership. These are the essential factors in developing an effective audit committee. A regular self-assessment should be used to support the planning of the audit committee work programme and training plans. It will also inform the annual report."

Good Practice Question		**Does not comply**	**Partly Complies and extent of improvement needed**			**Fully Complies**	**Comment**
		Major improvement	**Significant improvement**	**Moderate improvement**	**Minor improvement**	**No further improvement**	
Weighting of Answers		0	1	2	3	5	
Audit Committee Purpose and Governance							
1	Does the authority have a dedicated audit committee that is not combined with other functions (e.g., standards, ethics, scrutiny)?				3		The requirement for an audit committee is a requirement of Section 8 of the Cities and Local Government Devolution Act 2016. Whilst the Audit Committee is combined with Standards, so does not appear to be a dedicated committee, there is only a small volume of work in relation to Standards. It is felt that it would be disproportionate to split the Committee. Given the imminent proposed changes of the new devolution deal it is not recommended to change the current arrangements, but it will be considered when establishing the new organisation.

2	Does the audit committee report directly to the governing body (PCC and chief constable / full council / fire authority etc)					5	This is not directly applicable for a Combined Authority. The Audit and Standards Committee (ASC) reports to the Cabinet as the only decision-making body.
3	Has the audit committee maintained its advisory role by not taking on any decision-making powers?				3		No, the ASC currently does have the power to grant dispensations to members in its Standards role (Standards 6 of the Constitution), so is not purely advisory. As per the comment at question 1, this element of the ASC is historically minor and there are no current plans to change the constitution and split the committee, but it will be considered as part of the new organisation.
4	Do the terms of reference clearly set out the purpose of the committee in accordance with CIPFAs 2022 Position Statement?					5	Notwithstanding the earlier comment about Standards, the terms of reference, which are set out in 2.7 of the Constitution, make clear the purpose of the ASC.
5	Do all those charged with governance and in leadership roles have a good understanding of the role and purpose of the committee?					5	All senior staff in leadership roles and those charged with governance have significant prior experience coupled with the necessary required qualifications for their roles. As such they have consistently demonstrated a good understanding of the role and purpose of the ASC and supported its operation.
6	Does the audit committee escalate issues and concerns promptly to those in governance and leadership roles?					5	This has not been required to date, but the ASC would do so through the Chair.
7	Does the governing body hold the audit committee to account for its performance at least annually?					5	Notwithstanding the answer to question 2 regarding reporting to Cabinet. An Annual Report from the Audit and Standards Committee (ASC) for the 2021/22 financial year was presented to Cabinet on 20 September 2022. The report included commentary on the ASCs review of its own effectiveness, how it met its Terms of Reference and provided a summary of the work of the ASC throughout the year. A similar Annual Report for 2022/23 will be compiled and taken to Cabinet early in 2023/24. The presentation of the report allows Cabinet to ask questions and hold the ASC to account.

8	Does the audit committee publish an annual report in accordance with the 2022 guidance, including:						
	• Compliance with the CIPFA position statement 2022					5	Yes, the previous annual report was set against the earlier (2018) CIPFA position statement. The annual report for the 2022/23 financial year will be based upon this current assessment against the 2022 position statement.
	• Results of the annual evaluation, development work undertaken and planned improvements					5	
	• How it has fulfilled its terms of reference and the key issues escalated in the year?					5	
Functions of the Audit Committee							
9	Do the committee's terms of reference explicitly address all the core areas identified in CIPFA's position statement as follows:						
	Governance arrangements					5	The Audit and Standards Committee's terms of reference address the core areas identified within CIPFA's Position Statement (2.7 Constitution). The terms of reference also explicitly address the requirements of the Cities and Local Government Devolution Act 2016 which state that the functions of Audit Committees must include: (a) Reviewing and scrutinising the authority's financial affairs, (b) Reviewing and assessing the authority's risk management, internal control and corporate governance arrangements, (c) Reviewing and assessing the economy, efficiency and effectiveness with which resources have been used in discharging the authority's functions, and Making reports and recommendations to the Combined Authority in relation to reviews conducted under paragraphs (a), (b) and (c).
	Risk management arrangements					5	The risk management service is provided through an SLA by Newcastle City Council
	Internal control arrangements, including • Financial management • Value for money • Ethics and standards • Counter fraud and corruption					5	Financial management is not explicitly stated in the terms of reference, but the CIPFA Financial Management Code (FMC) compliance is reported within the Annual Governance Statement. It is recommended the terms of reference are updated to reference financial management and the FMC

							when they are next updated to make these elements explicit.
	Annual governance statement					5	Constitution 2.7 4 (a)
	Financial reporting					5	Constitution 2.7 4 (g)
	Assurance framework					5	Constitution 2.7, 1.2, 4 (a)
	Internal Audit					5	Constitution 2.7 4 (f)
	External Audit					5	Constitution 2.7 4 (f)
10	Over the last year, has adequate consideration been given to all core areas?					5	Yes, an indicative work programme for the ASC is established and agreed at the first meeting of the municipal year. Whilst flexible, this programme helps to ensure consideration of all core areas.
11	Over the last year, has the committee only considered agenda items that align with its core functions, as set out in the 2022 guidance?				3		Yes, other than the potential for Standards issues to be brought to the ASC as previously identified.
12	Has the committee met privately with the external auditors and head of internal audit in the last year?					5	The Chair has met privately with the Head of Internal Audit and External Auditor. The full ASC is aware that it can meet with these parties if desired.
Membership and Support							
13	Has the committee been established in accordance with the 2022 guidance as follows?						
	• Separation from executive					5	Constitution 2.7
	• A size that is not unwieldy and avoids use of substitutes					5	There are nine members, three from each constituent authority, and an independent co-opted Chair. The size of the committee is specified in the Order and allows the specific requirement for Combined Authorities regarding reflecting the balance of political parties, to be met. The current size of the ASC has not been 'unwieldy', and it facilitates the engagement a wider pool of other LA members across the constituent authorities. Substitute members are currently allowed to help ensure meetings are quorate.

	• Inclusion of lay/co-opted independent members in accordance with legislation or CIPFA's recommendation.					5	For a Combined Authority, this is a mandatory requirement. Schedule 5A (referred to in Schedule 3) of the Cities and Local Government Devolution Act 2016
14	Have all committee members been appointed or selected to ensure a committee membership that is knowledgeable and skilled?					5	Other than the Independent Chair, ASC members are appointed from the current serving elected members of the three constituent Authorities. Due consideration of appointments will be given by each constituent Authority as far as practically and pragmatically possible in the democratic circumstances.
15	Has an evaluation of knowledge, skills and the training needs of the chair and committee members been carried out within the last two years?				3		A formal review of effectiveness of ASC was undertaken by the Chair and Chief Internal Auditor in March 2022 and included discussions around knowledge and skills. There has been changes in membership since the previous exercise, and therefore an e-form knowledge and skills survey was sent to all ASC members in March 2023 for completion. At the time of writing, two members and the independent chair have completed the survey. **Action:** request all members complete the survey to enable the evaluation to be complete.
16	Have regular training and support arrangements been put in place covering the areas set out in the 2022 guidance?				3		No training issues were identified through the review undertaken by the Chair and Chief Internal Auditor in March 2022. However, it is proposed that generic training be provided early in the new municipal year, and further training be established, if necessary, based upon the outcome of the survey referred at question 15. **Action:** undertake generic training
17	Across the committee membership, is there a satisfactory level of knowledge, as set out in the 2022 guidance?				3		Throughout the financial year appropriate and challenging questions have been asked at ASC meetings, but it is difficult to be certain that there is a satisfactory level of knowledge and skills until further responses to the e-form survey are received.

							Action: reassess once further e-form surveys are complete
18	Is adequate secretariat and administrative support provided to the committee?					5	The Committee is supported by Combined Authority's Governance team, and Democratic Services through the SLA with Newcastle City Council.
19	Does the committee have good working relations with key people and organisations, including external audit, internal audit and the CFO?					5	The Independent Chair of the Committee regularly meets with the key officers who serve the Committee, including Finance, Internal Audit and Risk Management.
Effectiveness of the Committee							
20	Has the committee obtained positive feedback on its performance from those interacting with the committee or relying on its work?					5	Whilst there have been occasional inquorate meetings, the work programme has been attained and ASC received positive comments from Cabinet in September 2022 when the ASC Annual Report was presented.
21	Are meetings well chaired, ensuring key agenda items are addressed with a focus on improvement?					5	The previous and current independent Chair ensure the meetings are well run and discussion is encouraged.
22	Are meetings effective with a good level of discussion and engagement from all the members?				3		As per question 21 above there is a good level of discussion, but this is not always possible as a number of meetings have been inquorate in the last two years.
23	Has the committee maintained a non-political approach to discussions throughout?					5	There have not been any examples of politicisation.
24	Does the committee engage with a wide range of leaders and managers, including discussion of audit findings, risks and action plans with the responsible officers?					5	Senior officers regularly attend the ASC. An example of which was in January 2023 when the Chief Economist attended. Outside of ASC meetings the Chair meets with senior leaders and managers.
25	Does the committee make recommendations for the improvement of governance, risk and control arrangements?					5	Historically this has been achieved but there are no recent examples of improvement which have been required.
26	Do audit committee recommendations have traction with those in leadership roles?					5	As per the answer to question 25, there has not been any recent recommendations. However, it is felt that they would be taken up as the senior officer team are engaged with the ASC.

27	Has the committee evaluated whether and how it is adding value to the organisation?					5	The annual report sets out how the ASC has discharged its responsibilities outlined in its terms of reference, and through this it is ‘adding value’. As an example, the ASC will shortly be recommending to Cabinet that it approves the accounts and Annual Governance Statement for the last two financial years.
28	Does the committee have an action plan to improve any areas of weakness?					5	Actions to improve any areas of weakness were identified and recorded in the 2021/22 annual report. Further actions identified through this assessment against the latest good practice guidance, have been noted and will form an action plan where necessary. In terms of demonstrating action in respect of areas of weakness, the Director of Policy and Performance recently wrote to the Leaders of each constituent authority, reiterating the importance of quoracy of the ASC as it had been identified as an issue.
29	Has this assessment been undertaken collaboratively with the audit committee members?					5	This draft was shared with all Audit and Standards Committee Members on 13 March 2023, with a request to return any comments or provide any feedback by 31 March 2023.
	Subtotal Score	0	0	0	21	165	
	Total Score (max score is 200 – 40 questions multiplied by 5)	**186**					

NORTH OF TYNE COMBINED AUTHORITY

Audit and Standards Committee

25 April 2023

Subject: **Audit and Standards Committee Work Programme – 2023/24**

Report of: **Richard Dunlop, Interim Chief Internal Auditor**
John Softly, Interim Monitoring Officer

Report Summary

This report sets out a proposed programme of core business to be considered by the Audit and Standards Committee during the 2023/24 Municipal Year. This is in line with its Terms of Reference as set out in the Combined Authority's Constitution (Section 1.2, paragraph 11).

Recommendations

The Audit and Standards Committee is recommended to:

(a) Agree the proposed core business work programme set out within this report for the 2023/24 Municipal Year;
(b) Note that it may be necessary to change or adapt the proposed reports to be considered, to ensure optimum timing of consideration of governance issues and to respond to emerging trends during the year; and
(c) Note that the Committee will receive additional reports on any ad-hoc items of business arising during the year, as these relate to its responsibilities under its Terms of Reference.

1. Background Information, Proposals and Timetable for Implementation

1.1 The Audit and Standards Committee's responsibilities were agreed by the Cabinet in November 2018 and are set out in its Terms of Reference in the Constitution. The Terms of Reference identify a number of clear roles for the Audit and Standards Committee to discharge throughout the course of the year and ensure compliance with the functions established by the Cities and Local Government Devolution Act 2016.The Audit Committee's responsibilities are also supplemented by a variety of regulations, professional guidance and best practice.

1.2 Against these requirements, this work programme aims to ensure that the Committee is properly able to discharge its duties effectively and efficiently. The programme highlights which reports are planned for presentation to each meeting in the 2023/24 Municipal Year. This work programme helps to strengthen the Combined Authority's overall governance arrangements. Some aspects of the Committee's business are time-bound in nature (e.g. relating to the Combined Authority's Accounts, or agreeing future plans of work), whilst other items can reasonably be considered at any point during the year allowing some flexibility in planning the work programme of the Committee.

<u>Programme of Core Business</u>

1.3 The following programme of core business for the Audit and Standards Committee during the 2023/24 Municipal Year is proposed. This sets out the suggested timing and frequency of reports in the coming year, allowing the Committee's responsibilities to be met.

Month	Item of Business
July 2023	Internal Audit • Chief Internal Auditor's Annual Opinion on the Framework of Governance, Risk Management and Control (2022/23) • Quarterly Update Report Risk Management • Strategic Risk Review Finance (Note these may require an additional meeting towards the end of May 2023) • Draft Statement of Accounts (2022/23) • Draft Annual Governance Statement (2022/23) External Audit • Audit Progress Report • Audit Strategy Memorandum (2022/23) Standards • Standards Update (as appropriate)
September 2023	Internal Audit • Quarterly Update Report Risk Management • Strategic Risk Review Finance (Note these items may need to be moved to January 2024) • Final Statement of Accounts (2022/23) • Final Annual Governance Statement (2022/23) External Audit • Audit Progress Report Standards • Standards Update (as appropriate)
January 2024	Internal Audit • Quarterly Update Report Risk Management • Strategic Risk Review Standards • Standards Update (as appropriate) External Audit • Audit Completion Report (2022/23)

Month	Item of Business
April 2024	Internal Audit • Internal Audit Quarterly Update • Internal Audit Strategic Audit Plan (2024/25) * • Audit and Standards Committee Work Programme – 2024/25 Municipal Year * • Chief Internal Auditor's Annual Opinion on the Framework of Governance, Risk Management and Control (2023/24) * • Audit and Standards Committee Self-Assessment of Effectiveness * - Dependent on the transition to the new North East Mayoral Combined Authority Risk Management • Strategic Risk Review Finance • Report on accounting policies to be used in Compilation of Annual Statement of Accounts (2023/24) • Report on preparation of Annual Statement of Accounts (2023/24) • Draft Annual Governance Statement (2023/24) External Audit • Auditor's Annual Report (2022/23) • Audit Strategy Memorandum (2023/24) Standards • Standards Update (as appropriate)

1.4 In addition to these core business items, it may also be necessary to update the Audit and Standards Committee on an ad-hoc basis, as relevant and topical areas arise during the year. Accordingly, the Audit and Standards Committee will receive additional reports on emerging issues and trends as appropriate.

1.5 The proposed work programme should be treated as a helpful guide, and it may be necessary to alter or amend the proposed timing of reports during the year as work progresses. Where this is the case, the relevant report author will be responsible for informing the Chair of the Audit and Standards Committee, and Democratic Services, of any changes to proposed reporting.

2. Potential Impact on Objectives

2.1 The North of Tyne Combined Authority Corporate Plan 2021-22 sets out the strategic objectives of the Authority. The work of Internal Audit and Audit and Standards Committee contributes to the overall achievement of the Authority's plans and priorities.

3. Key Risks

3.1 There are no key risks identified from the approach outlined. The report proposes a work programme for the Committee, optimising the proposed frequency and timing of reporting.

4. Financial and Other Resources Implications

4.1 There are no direct financial or other resource implications arising from the recommendations set out in this report. Through its review of a range of audit, accounting and governance related items, the Audit and Standards Committee assesses the Authority's use of financial resources and value for money.

5. Legal Implications

5.1 The Cities and Local Government Devolution Act 2016 established the requirement for Combined Authorities to appoint an audit committee whose functions include; reviewing and scrutinising the authority's financial affairs; reviewing and assessing the authority's risk management, internal control and corporate governance arrangements; reviewing and assessing the economy, efficiency and effectiveness with which resources have been used in discharging the authority's functions; and making reports and recommendations to the combined authority in relation to reviews conducted in accordance with these functions.

5.2 The Accounts and Audit Regulations 2015 are a statutory instrument and require the Authority to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance; to have a sound system of internal control; to maintain appropriate accounting records and control systems; and to prepare and publish a statement of accounts in accordance with proper practices in relation to accounts.

5.3 The proposed work programme reflects the requirements of the Cities and Local Government Devolution Act 2016, the Accounts and Audit Regulations 2015 and the Accounts and Audit (Amendment) Regulations 2022 and will help the North of Tyne Combined Authority to adhere to relevant legal obligations.

5.4 With regard to standards, the Combined Authority is required by the Localism Act 2011 to promote high standards of conduct, adopt a Code of Conduct for its members and to have in place arrangements for dealing with alleged breaches of the Code. The Committee will have a key role in ensuring that the Combined Authority complies with these requirements.

6. Equalities and Implications

6.1 There are no direct equalities implications arising out of the recommendations in this report. The Audit and Standards Committee is mindful of its duty under the Public Sector Equality Duty and will always consider whether what is before them eliminates discrimination, harassment and victimisation; advances equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it; and fosters good relations between persons who share a relevant protected characteristic and persons who do not share it. The Committee also considers the implications for people from different socio-economic backgrounds/low pay as a protected characteristic.

7. Inclusive Economy Implications

7.1 There are no direct inclusive economy implications arising out of the recommendations in this report. The Audit and Standards Committee is mindful of the NTCA's inclusive economy ambitions.

8. Climate Change Implications

8.1 There are no direct climate change implications arising out of the recommendations in this report. The Audit and Standards Committee is aware of NTCA's net zero transition ambitions and that the three constituent Local Authorities have declared a Climate Emergency.

9. Consultation and Engagement

9.1 The proposed work programme of core business items has been proposed with reference to the Constitution and Terms of Reference for the Committee and following consultation with the regular contributors in relation to finance, risk management, external audit, and standards.

10. Appendices

None.

11. Background Papers

(a) Public Sector Internal Audit Standards, Chartered Institute of Public Finance & Accountancy / Institute of Internal Auditors, April 2017
(b) Local Government Application Note for the UK Public Sector Internal Audit Standards, Chartered Institute of Public Finance & Accountancy / Institute of Internal Auditors, February 2019
(c) The Accounts and Audit Regulations 2015, as amended June 2022
(d) The Cities and Local Government Devolution Act 2016
(e) North of Tyne Combined Authority Constitution, November 2018

12. Contact Officers

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13. Glossary

None

14. Sign-off

1) Chief Executive: Yes	2) Chief Finance Officer: Yes	3) Monitoring Officer: Yes

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NORTH OF TYNE COMBINED AUTHORITY

Audit and Standards Committee

25 April 2023

Subject: **Internal Audit Strategic Audit Plan – 2023/24**

Report of: **Richard Dunlop, Interim Chief Internal Auditor**

Report Summary

The purpose of this report is to outline the proposed Strategic Audit Plan for 2023/24. This document outlines the planned work of Internal Audit during this period, with full Strategic Internal Audit Plan attached as Appendix A.

Recommendations

The Audit and Standards Committee is recommended to consider and endorse the proposed Strategic Audit Plan 2023/24, attached as Appendix A. This plan is based on an assessment of audit risk and designed to focus on the North of Tyne Combined Authority's key objectives in the 2023/24 year.

1. Background Information, Proposals and Timetable for Implementation

Proposed Internal Audit Plan for 2023/24

1.1 The Combine Authority's Financial Regulations (Section 7) recognise that the requirement for an internal audit function for local authorities is implied by section 73 of the Local Government Act 1985. This requires the Authority to "make arrangements for the proper administration of its financial affairs". The Accounts and Audit (England) Regulations 2015 as amended, more specifically requires that a "a relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control, and governance processes, taking into account public sector internal auditing standards or guidance. A critical part of meeting these requirements is the development of a risk-based strategic internal audit plan.

1.2 A copy of the Strategic Audit Plan 2023/24 is attached at Appendix A. The plan sets out detailed assurance coverage and follows an assessment of audit risk and engagement with senior officers. The Strategic Audit Plan helps to ensure that internal audit can fulfil its prescribed definition as "an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes" as established by the Public Sector Internal Audit Standards.

1.3 In accordance with the Audit and Standards Committee Work Plan, progress against this Strategic Audit Plan will be reported to the Audit & Standards Committee quarterly throughout the year, along with any proposed revisions and key outcomes from work. A final outturn report is expected to be provided to the Audit and Standards Committee in April 2024 at the same time as the Chief Internal Auditor's annual opinion on the overall adequacy and effectiveness of the Authority's framework of governance, risk management and control for 2023/24. These may be subject to change as reporting arrangements will be finalised and agreed as part of the establishment of the new Mayoral combined Authority.

1.4 A key area arising from our risk assessment for 2023/24, is with regard to the transition to the new North East Mayoral Combined Authority following the North East Devolution Deal. Our work in this area will be in a programme assurance capacity, providing support throughout the transition process.

2.1 The North of Tyne Combined Authority Corporate Plan sets out the strategic objectives and priorities of the Combined Authority. The work of Internal Audit and Audit and Standards Committee contributes to the overall achievement of the Authority's objectives and priorities.

3. Key Risks

3.1 The Internal Audit coverage proposed in this report is based on an assessment of audit risk, both that inherent in organisational service delivery and also those risks and opportunities associated with the North of Tyne Combined Authority's main aims. As such, Internal Audit is a key strand in the governance arrangements of the North of Tyne Combined Authority and an integral tool in managing risk.

4. Financial and Other Resources Implications

4.1 There are no direct financial or other resource implications arising from the recommendations set out in this report. Through its review of a range of audit, accounting and governance related items, the Audit and Standards Committee assesses the Authority's use of financial resources and value for money.

5. Legal Implications

5.1 The Cities and Local Government Devolution Act 2016 established the requirement for Combined Authorities to appoint an audit committee whose functions include reviewing and assessing the authority's risk management, internal control and corporate governance arrangements.

5.2 The Accounts and Audit Regulations 2015 are a statutory instrument and require the Authority to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.

5.3 The Public Sector Internal Audit Standards and related Local Government Application Note establish the professional standards Internal Audit must apply when planning the use of its resources.

5.4 The Strategic Audit Plan 2023/24 has been prepared in accordance with both the Accounts and Audit Regulations, and the Public Sector Internal Audit Standards.

6. Equalities and Implications

6.1 There are no direct equalities implications arising out of the recommendations in this report. The Audit and Standards Committee is mindful of its duty under the Public Sector Equality Duty and will always consider whether what is before them eliminates discrimination, harassment and victimisation; advances equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it; and fosters good relations between persons who share a relevant protected characteristic and persons who do not share it. The Committee also considers the implications for people from different socio-economic backgrounds/low pay as a protected characteristic.

7. Inclusive Economy Implications

7.1 There are no direct inclusive economy implications arising out of the recommendations in this report. The Audit and Standards Committee is mindful of the NTCA's inclusive economy ambitions.

8. Climate Change Implications

8.1 There are no direct climate change implications arising out of the recommendations in this report. The Audit and Standards Committee is aware of NTCA's net zero transition ambitions and that the three constituent Local Authorities have declared a Climate Emergency.

9. Consultation and Engagement

9.1 The Chief Executive, Chief Finance Officer and Director of Policy & Performance were consulted in preparation of Internal Audit's proposed 2023/24 coverage.

10. Appendices

Appendix A - Strategic Audit Plan 2023/24.

11. Background Papers

(a) Development of Strategic Audit Plan 2023-24 Report to Audit and Standards Committee January 2023
(b) Public Sector Internal Audit Standards, Chartered Institute of Public Finance & Accountancy / Institute of Internal Auditors, April 2017
(c) Local Government Application Note for the UK Public Sector Internal Audit Standards, Chartered Institute of Public Finance & Accountancy / Institute of Internal Auditors, February 2019
(d) The Accounts and Audit Regulations 2015, April 2015
(e) The Cities and Local Government Devolution Act 2016
(f) North of Tyne Combined Authority Constitution, November 2018

12. Contact Officers

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13. Glossary

None

14. Sign-off

1) Chief Executive: Yes	2) Chief Finance Officer: Yes	3) Monitoring Officer: Yes

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NORTH OF TYNE COMBINED AUTHORITY	**Internal Audit Report:** **Strategic Audit Plan 2023/24**

1 Introduction

1.1 The Public Sector Internal Audit Standards (PSIAS) are published by the Chartered Institute of Public Finance and Accountancy/Chartered Institute of Internal Auditors, and are the prescribed internal audit standards under The Accounts and Audit Regulations 2015 (as amended). The PSIAS describe Internal Audit as "*an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes*". Internal Audit therefore objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources.

1.2 Internal Audit is an independent resource available to assist the Authority to explore areas of potential efficiency and matters of probity and internal control. We seek to use our business intelligence and knowledge of the Combined Authority to make sensible, informed recommendations for improvement, and thus contribute to the effective running of the Authority.

1.3 Internal Audit provides assurance that controls established to manage risks to the achievement of the Combined Authority's objectives are operating effectively. This has a positive impact on the risk environment, informing management whether the action taken to control and manage risks is operating satisfactorily.

1.4 This Strategic Audit Plan has been prepared in accordance with the current PSIAS. These standards build upon the good practice set out in previous professional regulations, including audit planning requirements. Preparation has involved establishing a risk-based plan to determine the priorities of internal audit activity, consistent with the Authority's goals and the aspirations of key stakeholders.

1.5 The Strategic Audit Plan, which is included in section 9, helps to ensure that Internal Audit is able to meet its objectives as set out above, and to provides the basis for the Chief Internal Auditor's independent and objective opinion to the Authority on the adequacy and effectiveness of the framework of governance, risk management, and control. Internal Audit must be independent in its planning and operation. Accordingly, in producing the Strategic Audit Plan, the Chief Internal Auditor is required to determine the priorities of Internal Audit, following a risk based approach and consultation with stakeholders, before presenting this Plan to senior management and the Board (Audit and Standards Committee) for review and approval.

2 Period Covered by the Strategic Audit Plan

2.1 The Strategic Audit Plan sets out the assurance coverage which Internal Audit will deliver within the coming financial year, 2023/24. The Plan is required to be realistic, achievable, and flexible to respond to changing priorities. Each year the areas which may benefit from audit review, and the audit risk associated with the Authority's operations, are reassessed and prioritised. This updated Strategic Audit Plan is than presented to the Audit and Standards Committee for approval in line with the PSIAS. The key objectives for the 2023/24 Strategic Audit Plan are shown in section 9 of this document.

3 Risk Assessment and Audit Planning

3.1 It is important that audit resources are targeted at areas in which audit coverage will produce greatest benefit. Risk-based internal auditing requires Internal Audit to understand and analyse management's assessment of risk, and base audit efforts around this assessment of risk to the Authority.

3.2 The risks contained within the Strategic Risk Register were reviewed and discussed with risk owners and consultation has been undertaken with the Chief Executive Director, Chief Finance Officer and Director of Policy and Performance. Potential assurance requirements were discussed, and views were sought on any additional areas considered worthy of audit review over the course of the Strategic Audit Plan.

3.3 Following this risk assessment and client engagement, a number of areas were prioritised by Internal Audit. Changes in the risk environment, along with progress against the Plan, will be monitored and assessed throughout the year. The results of this assessment used to inform in-year and future audit priorities. This ensures that the Plan remains flexible and reflects the evolving risks facing the Combined Authority.

3.4 The Strategic Audit Plan has therefore been based on an assessment of the Combined Authority's objectives and business goals, risks facing the Authority and its achievement of these goals, known strengths and weaknesses in the internal control system, the Accounts and Audit Regulations 2015, and the views of consultees.

4 Internal Control: Roles of Management and of Internal Audit

4.1 It is a management responsibility to establish effective internal controls in order that activities are conducted in an efficient and well-ordered manner. Internal control comprises the whole system of controls and systems, financial and otherwise, established by management to:

- safeguard assets and prevent fraud;
- ensure the completeness and reliability of records;
- monitor adherence to laws, regulations, policies and directives;
- promote operational efficiency and good value for money; and
- manage risk.

4.2 Amongst its responsibilities, Internal Audit examines, evaluates and reports on the adequacy of internal control as a contribution to the proper, economic, efficient and effective use of resources. Internal Audit will assist the management of the Authority in delivering the objectives of the Combined Authority through assessing exposure to risk and recommending, where appropriate, practical improvements to the control environment. Internal Audit's remit includes:

- assessing if operations are being carried out as planned, and if objectives / goals are being achieved;
- assessing the adequacy of systems established to ensure compliance with policies, plans, procedures, laws and regulations, i.e. rules established by the management of the Authority or externally;

- assessing the completeness, reliability and integrity of information, both financial and operational;
- assessing the extent to which the Combined Authority's assets, data and interests are properly accounted for and safeguarded from losses of all kinds, including fraud, corruption, waste, extravagance, abuse, ineffective management and poor value for money; and
- assessing the economy, efficiency and effectiveness with which resources are deployed.

4.3 It is usual that a project brief is produced and distributed prior to an audit starting. This allows the objectives of the audit and the audit approach to be understood by both Internal Audit and the audit client.

5 Quality Standards

5.1 As outlined above, Internal Audit will adopt the good practice set out in the PSIAS in the conduct of its assurance coverage for the North of Tyne Combined Authority.

5.2 The PSIAS incorporate both a Code of Ethics for internal auditors and a number of clear attribute and performance standards with which Internal Audit functions are required to comply.

6 Resource Management

6.1 The Chief Internal Auditor must ensure that internal audit resources are appropriate, sufficient and effectively deployed to achieve the approved plan. An indicative resource allocation has been identified for the 2023/24 audit of the North of Tyne Combined Authority which, based on the Strategic Audit Plan and experience, appears appropriate. This resource input will continue to be reviewed in conjunction with the Chief Finance Officer.

7 Key Themes in the Strategic Audit Plan, 2023/24

7.1 The Strategic Audit Plan recognises Internal Audit's Project Assurance role. This increasing role involves advising on, and challenging, the approach to internal control within new or improved systems and methods of service delivery. By undertaking this role, the Internal Audit Service proactively acts as a partner to the business and adds maximum value to service improvement to assist the Authority to achieve its objectives. This aspect of Internal Audit's role has increased in prominence over recent years. A key area of work throughout 2023/24 will be providing programme assurance support to the Combined Authority through the transition to the new North-East Mayoral Combined Authority.

7.2 As well as offering Advice & Programme Assurance, the Plan highlights key prioritised areas of assurance coverage. Due to short term resourcing issues one audit originally planned for 2022/23, Net Zero Transition, has been reprogrammed to 2023/24 at the request of the Combined Authority. Realignment of audit work is a normal part of the audit planning and management process, and reflects that work is undertaken on a dynamic basis to ensure optimal timing and effectiveness.

7.3 In addition to the above, reviews of key governance and financial process arrangements, including monitoring the effectiveness of Information Governance, Risk Management and Key Financial Systems have been identified for review in this year's Plan.

8 Annual Opinion on the adequacy of the framework of governance, risk management and control

8.1 An annual opinion on the ‘adequacy and effectiveness of the framework of governance, risk management and control’ will be drafted and presented to the Chief Executive, Section 73 Officer, and Audit and Standards Committee, outlining the audit work performed during the year and summarising key themes.

8.2 The undertaking to present an annual opinion of this nature means that the Chief Internal Auditor must have unrestricted access to all aspects of the Combined Authority's operations.

Section 9: North of Tyne Combined Authority - Strategic Internal Audit Plan 2023/24

Advice & Programme Assurance

Auditable Area	Audit Objectives
Advice & Guidance Contingencies & Work Requests Fraud & Special Investigations	• Responding to ad-hoc queries and requests for advice • Responding to requests for one-off audit assignments, where it is considered that audit involvement is necessary • Responding to allegations of fraud, if such allegations are received, and • Assess whether appropriate consideration has been given to internal control & governance issues when new systems are introduced.

Programme Assurance – New Systems / Methods of Service Delivery	Following the audit planning and risk assessment process, time has been set aside to provide support to the Combined Authority as it establishes new, or modified, systems and processes throughout the financial year. During the year Internal Audit will provide support in the following areas:
	
	• Transition to new North-East Mayoral Combined Authority
	    ○ a key area requiring assurance support throughout 2023/24 as NTCA moves towards the new Authority.
	• Performance Management
	    ○ continuing the work commenced in 2022/23 looking at changes to process and how they align and support delivery of corporate objectives.
	• Adult Education Budget
	    ○ continuing the work of previous year's by offering advice and guidance through the steering group

Corporate and Cross Cutting

Auditable Area	Audit Objectives
Annual Opinion	An annual opinion on the adequacy and effectiveness of the framework of governance, risk management and control will be drafted and presented to the Chief Executive, Section 73 Officer, and Audit and Standards Committee, outlining the audit work performed during the year, summarising key themes and evaluating the control framework.

Follow up of Recommendations	Monitoring the implementation of Internal Audit recommendations which will take the form of following up and evidence checking recommendations from those internal audits undertaken during 2021/22 and 2022/23.

Governance Reviews

Auditable Area	**Audit Objectives**
Net Zero Transition	To review the plans in place to deliver the Authority's Net Zero Transition priorities, to assess the extent to which planned actions will support achievement of the Authority's objectives in this area.
Information Governance	To determine whether the information governance framework is satisfactory and enables the Authority to comply with all relevant data protection legislation.
Risk Management	To review risk management arrangements and assess the extent to which appropriate risk assessment and identification systems are in place and operating effectively.

Financial Systems & Probity

Auditable Area	**Audit Objectives**
Key Financial Systems	The key financial systems are fundamental to internal financial control and management, as they are the systems by which the Combined Authority's income is received and disbursed. The Combined Authority needs to be assured that high standards of probity are present in these systems. During 2023/24 Internal Audit's review of the key financial systems will focus on the following areas: • Creditors – Purchasing and Payments • Payroll • Budget Monitoring and Reporting