north east combined authority

Leadership Board

Tuesday, 20th September 2016 at 2.00 pm

Meeting to be held in a Committee Room, Sunderland Civic Centre, Burdon Road, Sunderland, SR2 7SN

www.northeastca.gov.uk

SUPPLEMENTAL AGENDA

Members are requested to note the intention to circulate Appendix 4 on a supplemental agenda in accordance with the provisions of the Local Government (Access to Information) Act 1985.

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

To All Members

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North East Combined Authority

Leadership Board

Date:	**20 September 2016**
Subject:	**Annual Report and Accounts**
Report Of:	**Chief Finance Officer**

Executive Summary

At its meeting on 19th July the Leadership Board received a report which summarised the outturn financial position for 2015/16. The purpose of this report is to present the final accounts for approval and summarise the findings of the audit. The 2015/16 audit programme is now largely complete and Mazars, as the external auditor, expect to issue their opinion before the end of September. No significant issues have been identified during the audit and their report indicates that they are likely to issue an unqualified opinion on the accounts and an unqualified value for money opinion, subject to the satisfactory completion of some outstanding areas of the audit. Their detailed report is provided with this report. The final Statement of Accounts is now presented for approval by the Leadership Board.

Recommendations

It is recommended that the Leadership Board agree to:

1. Consider the report of the External Auditor (Appendix 1);
2. Authorise the Chief Finance Officer to sign the Letter of Representation on behalf of the Authority;
3. Approve the final NECA Accounts for 2015/16 (Appendix 3), taking into account any views from the Governance Committee;
4. Authorise the Chair of the Leadership Board and the Chief Finance Officer to sign the NECA and Group Accounts;
5. Approve the Annual Governance Statement (Appendix 4);
6. Authorise the Chair of the Leadership Board and the Head of Paid Service to sign the Annual Governance Statement.

1 Background Information

1.1 The full Annual Report and Accounts was completed and signed off by the Chief Finance Officer on 30 June 2016, in line with the statutory deadline. A summary of the Outturn position was report to the Leadership Board on 19 July.

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

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

1.4 The Statement of Accounts must be signed off by the Chair of the Leadership Board and the Chief Finance Officer on behalf of the Authority and published online by 30 September 2016.

2 Proposals

2.1 Independent Auditor's Opinion

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

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

2.2 Statement of Accounts

2.2.1 A number of adjustments have been made between the draft and final accounts, which are set out in the external auditor's report at Appendix 1. No adjustments have affected the cash or usable reserves position of the Authority, which remains as per the draft accounts and as reported to this meeting in July 2016.

2.2.2 The Statement of Accounts was presented to Governance Committee on 13 September. No specific issues to be brought to the attention of the Leadership Board were raised at the meeting. Any issues or comments raised following the meeting will be reported verbally to the Leadership Board.

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

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

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

2.4 **Annual Governance Statement**

2.4.1 Governance Committee reviewed the draft Annual Governance Statement (AGS) at its meeting on 13 July 2016 and the final version on 13 September. Since that point, there have been no additional governance and control issues arising either through internal audit work or from the audit of the accounts. NECA officers are not aware of any other issues arising that would need to be reflected in the AGS.

2.4.2 It is therefore recommended that the AGS included as Appendix 4 with this report be approved for inclusion with NECA's final accounts for 2015/16, and signed off by the Chair of the North East Combined Authority and the Head of Paid Service.

3 Next Steps

3.1 The Accounts must be signed by the Chair of the North East Combined Authority and Chief Finance Officer by 30 September 2016, and published online by this date.

4 Potential Impact on Objectives

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

5 Finance and Other Resources

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

6 Legal

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

7 Other Considerations

7.1 **Consultation/Community Engagement**
The accounts have been subject to a period of public inspection from 1 July to 11 August 2016. No issues were identified.

7.2 **Human Rights**
There are no human rights implications directly arising from this report.

7.3 **Equalities and Diversity**
There are no equalities and diversity implications directly arising from this report

7.4 **Risk Management**
There are no risk management implications directly arising from this report.

7.5 **Crime and Disorder**
There are no crime and disorder implications directly arising from this report.

7.6 **Environment and Sustainability**
There are no environment and sustainability implications directly arising from this report.

8 Background Documents

8.1 North East Combined Authority Annual Report and Accounts 2015/16.

9 Links to the Local Transport Plans

9.1 The annual report sets out expenditure relating to activity in 2015/16 undertaken to delivery all of the plans in the policy framework

10 Appendices

10.1 Appendix 1 – Report of the External Auditor
Appendix 2 – Narrative Report by the Chief Finance Officer
Appendix 3 – North East Combined Authority Statement of Accounts 2015/16
Appendix 4 – Annual Governance Statement 2015/16

11 Contact Officers

11.1 Paul Woods, Chief Finance Officer, NECA, paul.woods@northeastca.gov.uk, 07446936840;

Eleanor Goodman, Principal Accountant, NECA, eleanor.goodman@newcastle.gov.uk, 0191 277 7518

12 Sign off

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

Audit Completion Report

North East Combined Authority – year ended 31 March 2016

September 2016

Mazars LLP
The Rivergreen Centre
Aykley Heads
Durham
DH1 5TS

North East Leadership Board
North East Combined Authority
Quadrant
Cobalt Business Park
The Silverlink North
North Tyneside
NE27 0BY

20 September 2016

Dear Members

Audit Completion Report – Year ended 31 March 2016

We are delighted to present our Audit Completion Report for the year ended 31 March 2016. The purpose of this document is to summarise our audit conclusions.

The scope of our work, including identified significant audit risks and areas of management judgement was outlined in our Audit Strategy Memorandum which we presented on 1 April 2016. We have reviewed our Audit Strategy Memorandum and concluded that the original significant audit risks and areas of management judgement remain appropriate.

We would like to take this opportunity to express our thanks to your officers for their assistance during the course of our audit.

If you would like to discuss any matters in more detail then please do not hesitate to contact me on 0191 383 6314 or cameron.waddell@mazars.co.uk.

Yours faithfully

Cameron Waddell
Partner
Mazars LLP

Contents

01 Executive summary

Purpose of this document

This document has been prepared to communicate the findings of our audit for the year ended 31 March 2016 to the Leadership Board of the North East Combined Authority (NECA) and forms the basis for discussion at the North East Leadership Board meeting on 20 September 2016.

Our communication with you is important to:

- share information to assist both the auditor and those charged with governance to fulfil our respective responsibilities;
- provide you with constructive observations arising from the audit process;
- ensure, as part of the two-way communication process, we gain an understanding of your attitude and views in respect of the internal and external operational, financial, compliance and other risks facing NECA; and
- receive feedback from yourselves as to the performance of the engagement team.

Our work on NECA's accounts is designed to provide reasonable assurance that they are free from material misstatement. In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit. The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'. We consider materiality when planning and performing our work and in assessing audit results.

At the planning stage, we made a judgement about the size of misstatements which we would consider to be material and which gave a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures. We determined overall materiality to be £4.606 million (being 2.0% of Group gross revenue expenditure), with a clearly trivial threshold of £138k below which identified errors will not usually be reported. We also set lower materiality values for accounting entries we consider to be more sensitive, for example, senior officer's remuneration.

We updated our materiality calculation when we received the draft accounts and set the overall level at £5.956 million (being 2.0% of gross revenue expenditure) with a clearly trivial threshold of £179k. Appendix C provides more information on our approach.

As outlined in our Audit Strategy Memorandum, our audit has been conducted in accordance with International Standards of Auditing (UK and Ireland) which means we focus on audit risks that we have assessed as resulting in a higher risk of material misstatement. Section 2 of this report includes our conclusions on the significant risks and areas of management judgement that we set out in our Audit Strategy Memorandum.

We also set out details of internal control recommendations in section 4 and a summary of misstatements discovered as part of the audit in section 5.

Status and audit opinion

At the time of preparing this report, the following matters remain outstanding:

Area outstanding	Work to be completed
Control Environment	Work ongoing in relation to IT assurance and related testing.
Property, Plant and Equipment	Work ongoing in relation to fixed assets.
Pension Fund auditor assurance	We need to consider the findings of the Pension Fund auditor (EY) when these are received.
Fraud and Related Parties	• Response to our letter from Those Charged with Governance regarding Understanding management processes and arrangements. • Testing of related party disclosures for completeness and accuracy.

Area outstanding	Work to be completed
Group Accounts	Audit testing of Group Accounts ongoing.
Closure procedures	We will complete our standard closure procedures, including review of the amended financial statements and consideration of post balance sheet events.

We will provide an update to you on these outstanding matters in the form of a letter to the Leadership Board.

Subject to the satisfactory conclusion of the remaining audit work, we anticipate:

- issuing an unqualified opinion, without modification, on your statement of accounts; and
- concluding that you have made proper arrangements to secure economy, efficiency and effectiveness in your use of resources.

We also anticipate completing our work in respect of your Whole of Government Accounts submission in line with the group instructions issued by the National Audit Office by the deadline of 21 October 2016.

Our proposed audit report is as set out in Appendix B.

02 Significant findings

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

- Our audit conclusions regarding the 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 6 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 significant difficulties we experienced during the audit.

Significant risks and key areas of management judgement

Management override of controls

Description of the risk

In all entities, management at various levels is in a unique position to perpetrate fraud because of the ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits.

How we addressed this risk

Our testing strategy included:

- reviewing material accounting estimates, which may be subject to management bias, included in the financial statements;
- consideration and review of unusual or significant transactions outside the normal course of business; and
- testing of journals recorded in the general ledger and other adjustments made in preparation of the financial statements

Audit conclusion

Our work has provided the assurance we sought and has not highlighted any material issues to bring to your attention.

Revenue recognition (in relation to Tyne Tunnel tolls and grant income)

Description of the risk

Revenue recognition was 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; and
- for major grant income, obtaining counterparty confirmation.

Audit conclusion

Our work has provided the assurance we sought and has not highlighted any material issues to bring to your attention.

Pension Estimates (IAS 19) – Group level only

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 discussed with key contacts any significant changes to the pension estimates prior to the preparation of the financial statements. In addition to our standard programme of work in this area, we also:

- evaluated the management controls you had in place to assess the reasonableness of the figures provided by the Actuary; and
- considered the reasonableness of the Actuary's output, referring to an expert's report on all actuaries nationally which is commissioned annually by the National Audit Office.

Audit conclusion

We are awaiting the findings of the Pension Fund auditor (EY).

Accounting policies and disclosures

We have reviewed NECA's accounting policies and disclosures and concluded they comply with the requirements of the Code of Practice on Local Authority Accounting 2015/16.

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.

Other matters discussed with management

From the 2017/18 financial year, the deadlines for the publication of both the draft and audited accounts will come forward to 31 May and 31 July respectively. In preparation for this change, the Authority should consider giving additional staffing support to the Principal Accountant to help ensure that this demanding target will be achieved. We understand that management are already making progress on this issue.

Electors' rights to inspect the accounts

The Accounts and Audit (England) Regulations 2015 ('the regulations'), introduced new requirements in respect of publishing the financial statements and the period within which local electors may raise questions on the financial statements or make an objection to an item of account. For 2015/16 NECA set this period as 1 July 2016 to 11 August 2016. We received no questions or objections within this period.

03 Internal control recommendations

The purpose of our audit is to express an opinion on the financial statements. As part of our audit we 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 control or to identify any significant deficiencies in their design or operation.

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

Our findings and recommendations are set out below.

Finding	Recommendation
Service Level Agreement (SLA) with Newcastle Council is not up to date	Given the services that the Council provides to NECA, the Authority should ensure that the SLA is up to date.
Lack of formal loan agreements with Nexus	NECA has lent Nexus £45.237 million. Whilst both parties fully understand the terms of the loan and subsequent repayments, there is no formal agreement in place. Existing arrangements would be strengthened by introducing formal agreements between both parties.
Lack of detailed assets register to support land & buildings and infrastructure assets in the balance sheet	NECA should further strengthen the asset register that is currently in place.

04 Summary of misstatements

The misstatements identified for adjustment during the course of the audit that are above the trivial level, are set out below. The first table outlines the identified misstatements which management has assessed as not being material, either individually or in aggregate to the financial statements, and does not currently plan to adjust.

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

Unadjusted misstatements 2015/16

		CIES		Balance Sheet	
		Dr £'000	Cr £'000	Dr £'000	Cr £'000
1	Dr: Debtors			794	
	Cr: Planning Services expenditure		794		
	Error identified in the recognition of a prepayment.				
2	Dr: Creditors			261	
	Cr: Planning services	66			
	Cr: Highways and Transport services	195			
	Our testing of a sample of creditors identified that one of four invoices tested was over accrued by £54k. When extrapolated over the whole population this resulted in a £261k overstatement				

Adjusted misstatements 2015/16					
		CIES		Balance Sheet	
		Dr £'000	Cr £'000	Dr £'000	Cr £'000
1	Work ongoing				

Disclosure amendments

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

- CashFlow Statement – Statement had not been prepared strictly on a cash basis as no adjustments was made for opening and closing interest receivable and payable.
- Private Finance initiatives and similar contracts (Note 16) – Note updated to correct a number of references to "payments" however the only values from this Note recognised in balance sheet are for deferred income.
- Financial Instruments (Note 11) – A number of issues were identified including consistency with other Notes to the Accounts.
- Amounts Reported for Resource Allocation (Note 5) - The 2014/15 table on Page 22 had been restated, however no narrative information had been provided to explain the restatement.
- The Annual Governance Statement was updated to provide further explanation.
- We identified a number of other minor errors, omissions, clarifications and typographical errors.

05 Value for money

We are required to conclude whether NECA put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources by considering one overall criterion which is made up of three sub-criteria.

The overall criterion set out by the NAO is:

'In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.'

We intend to issue an unqualified Value for Money conclusion as set out in Appendix B.

The tables below summarise our findings in respect of the three sub-criteria applicable to NECA specified by the NAO.

Informed decision making

Proper arrangements	Arrangements at NECA	Audit Assurance obtained?
Acting in the public interest, through demonstrating and applying the principles and values of sound governance	• The North East Leadership Board (NELB) is made up of the Leaders of the seven constituent bodies. The NELB is supplemented by elected members who serve on a number of committees along with non-executives. • In relation to officer support, there is now a Head of Service along with an Interim Chief Finance Officer. In addition there is an Interim Monitoring Officer who is not an employee of the authority but the service is provided by the Head of Law & Governance, North Tyneside Council, under a Service Level Agreement. These governance arrangements help to ensure that no one party within NECA is able to unduly influence others. • Constitution in place, and which is available on the NECA website. • Governance committee in place to provide challenge • No indicators of inappropriate governance arrangements.	Yes
Understanding and using appropriate and reliable financial and performance information (including, where relevant, information from regulatory/monitoring bodies) to support informed decision making and performance management.	• Performance monitored and reviewed, and regular reporting of financial and performance information. • Financial Plan is in place and although only a one year plan this is deemed appropriate given the ongoing uncertainty surrounding NECS's future role.	Yes
Reliable and timely financial reporting that supports the delivery of strategic priorities.	• Performance monitored and reviewed, and regular reporting of financial and performance information. • MTFP updated routinely, as above.	Yes

MAZARS

Proper arrangements	Arrangements at NECA	Audit Assurance obtained?
Managing risks effectively and maintaining a sound system of internal control.	• Risk register and risk management arrangements in place. Risks reported to Governance Committee and regular reporting by Internal Audit. • Annual governance statement prepared, reviewed and approved.	Yes

Sustainable resource deployment

Proper arrangements	Arrangements at NECA	Audit Assurance obtained?
Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.	• Financial and performance reports demonstrate a history of achieving financial targets. • Arrangements in place for the Financial Plan to be updated as appropriate.	Yes
Managing and utilising assets effectively to support the delivery of strategic priorities.	• Capital programme in place which had been increased significantly on previous years due to the commencement of the Local Growth Fund Programme. • One year Financial Plan in place as per above	Yes
Planning, organising and developing the workforce effectively to deliver strategic priorities.	• Relevant HR policies and procedures in place • Very experienced officer team in place	Yes

Working with partners and other third parties

Proper arrangements	Arrangements at NECA	Audit Assurance obtained?
Working with third parties effectively to deliver strategic priorities.	• NECA work very closely with the North East Local Enterprise Partnership (NELEP). This is a business-led, strategic partnership responsible for promoting and developing economic growth in the area. NECA supports the work of the enterprise partnership and they work together to ensure co-ordination across their range of activities. The NELEP board includes 18 representatives from across the private and public sectors. Each of the	Yes
Commissioning services effectively to support the delivery of strategic priorities.		

Proper arrangements	Arrangements at NECA	Audit Assurance obtained?
Procuring supplies and services effectively to support the delivery of strategic priorities.	leaders and the elected Mayor representing the seven NECA councils are members of the NELEP and the Chair of the NELEP is a member of the Combined Authority. The Combined Authority provides the formal accountability arrangements for the enterprise partnership. • A service concession exists in relation to the Tyne Tunnel. This is subject to a detailed 30 year agreement with the operator TT2 which was introduced in 2008	

Annual Governance Statement

Our review of your Annual Governance Statement has not identified any risks for our value for money conclusion.

Work of other regulatory bodies or Inspectorates

We are not aware of any relevant work which impacts upon our value for money conclusion.

Overall assessment

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

- achievement of performance and other targets; and
- performance against budgets and other financial targets.

Evidence	Auditor assessment
Achievement of performance and other targets	No issues identified.
Performance against budgets and other financial targets	NECA has achieved relevant targets.

Overall conclusion

Having completed our assessment, and having carried out a ‘reality check’, we can conclude that our initial risk assessment remains appropriate and we can be confident in our conclusion that the NECA has adequate arrangements in place for each criterion.

We intend to issue an unqualified Value for Money conclusion as set out in Appendix B.

Appendix A – Draft management representation letter

North East Combined Authority - audit for year ended 31 March 2016

This representation letter is provided in connection with your audit of the statement of accounts for the North East Combined Authority (the Authority) for the year ended 31 March 2016 for the purpose of expressing an opinion as to whether the statement of accounts give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

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

My responsibility for the statement of accounts and accounting information

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

My responsibility to provide and disclose relevant information

I have provided you with:

- access to all information of which we are aware that is relevant to the preparation of the statement of accounts such as records, documentation and other material;
- additional information that you have requested from us for the purpose of the audit; and
- unrestricted access to individuals within the Council 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 Authority and Committee meetings, have been made available to you.

Accounting policies

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

Accounting estimates, including those measured at fair value

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

Contingencies

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

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

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

There are no contingent gains which should be disclosed.

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

Laws and regulations

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

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

Fraud and error

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

I have disclosed to you:

- all the results of my assessment of the risk that the statement of accounts may be materially misstated as a result of fraud;
- all knowledge of fraud or suspected fraud affecting the Authority 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 the Authority's statement of accounts communicated by employees, former employees, analysts, regulators or others.

Related party transactions

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

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

Impairment review

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

Future commitments

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

Service Concession Arrangements

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

Subsequent events

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

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

Going concern

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

Unadjusted misstatements

I confirm that the effects of the uncorrected misstatements as included in the auditor's draft Audit Completion Report are immaterial, both individually and in aggregate, to the statement of accounts as a whole.

Yours sincerely

Interim Chief Finance Officer

Date………………………

Appendix B – Draft audit report

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

Opinion on the Authority financial statements

We have audited the financial statements of the North East Combined Authority (NECA) for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014. The financial statements comprise the NECA and Group Movement in Reserves Statements, the NECA and Group Comprehensive Income and Expenditure Statements, the NECA and Group Balance Sheets, the NECA and Group Cash Flow Statements and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

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

Respective responsibilities of the Chief Financial Officer and auditor

As explained more fully in the Statement of the Chief Financial Officer's Responsibilities, the Chief Financial 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 2015/16, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of NECA as at 31 March 2016 and of its expenditure and income for the year then ended;
- give a true and fair view of the financial position of the Group as at 31 March 2016 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

Opinion on other matters

In our opinion, the information given in the Narrative Statement for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007 and the December 2012 addendum;

- we issue a report in the public interest under section 24, schedule 7 of the Local Audit and Accountability Act 2014;
- we make a recommendation under section 24, schedule 7 of the Local Audit and Accountability Act 2014; or
- we exercise any other special powers of the auditor under the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

Conclusion on NECA's arrangements for securing economy, efficiency and effectiveness in the use of resources

Respective responsibilities of NECA and the auditor

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

We are required under section 20 of the Local Audit and Accountability Act 2014 to satisfy ourselves that NECA has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office, requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the National Audit Office.

We report if significant matters have come to our attention which prevent us from concluding that NECA has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of NECA's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We are required to conclude whether NECA has put in place arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

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

Conclusion

On the basis of our work, having regard to the guidance on the specified criterion published by the National Audit Office, we are satisfied that, in all significant respects, NECA put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2016.

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 authority's Whole of Government Accounts consolidation pack. We are satisfied that this work does not have a material effect on the financial statements or on our value for money conclusion.

Cameron Waddell

Partner

For and on behalf of Mazars LLP, Appointed Auditors

The Rivergreen Centre

Aykley Heads

Durham, DH1 5TS

xx September 2016

Appendix C - Materiality

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

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

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

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

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

We considered materiality whilst planning and performing our audit.

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

In 2015/16 we set materiality at the planning stage at £4.606 million (2 per cent of Group gross revenue expenditure) with a clearly trivial threshold of £138k below which identified errors will not usually be reported. We set lower materiality levels for the accounting entries we consider to be more sensitive, for example, related party transactions, as we considered these items to be of specific interest to users of the accounts sufficient to warrant audit procedures which would not otherwise be applied based on the materiality level for the audit as a whole. The materiality determined at the planning stage did not necessarily establish an amount below which uncorrected misstatements, either individually or in aggregate, would be considered as immaterial.

We revised materiality for the financial statements as our audit progressed. Our closing assessment of materiality in 2015/16, based upon the final version of the financial statements, was £5.956 million with a clearly trivial threshold of £179k below which identified errors were not reported.

We discussed with management any significant misstatements or anomalies that we identified during the course of the audit and we reported in our Audit Completion Report all unadjusted misstatements we identified other than those which were clearly trivial, and obtained written representation that explained why these remain unadjusted.

Appendix D – Independence

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

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

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Chief Finance Officer's Narrative Report for the Year ended 31 March 2016

1. Introduction

This Narrative Report (a new requirement for 2015/16, replacing the Explanatory Foreword) provides information about the North East Combined Authority, including the key issues affecting the Authority and its accounts. This report provides an explanatory narrative to key elements of the statements and sections in the accounts and also provides a summary of the Authority's financial performance for 2015/16 and its future financial prospects.

This report provides the reader with:

- A guide to the different financial statements within the Statement of Accounts.
- An overview of the activities and significant matters which occurred during the year.
- A summary of the Authority's financial performance during the year ended 31 March 2016 and its financial position at that date.
- A look ahead to 2016/17 and beyond.

The Statement of Accounts sets out the financial performance of the Authority for the year ended 31 March 2016 and its financial position at that date. They have been prepared in accordance with proper practices as set out in the Chartered Institute of Public Finance & Accountancy (CIPFA) Code of Practice on Local Authority Accounting in the United Kingdom (the Code). The Code requires that the accounts give a true and fair view of the financial position of the Authority. In line with the Code, suitable accounting policies have been applied and where necessary prudent judgements and estimates have been made.

The accounts feature four main financial statements:

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

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

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

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

The Authority seeks to make 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 2016-17, available on the NECA website (www.northeastca.gov.uk) set out how we will do this looking forward. The Statement of Accounts accompanying this report looks backwards at our performance over the past year. Reviewed together they provide the reader with a complete understanding of the financial position of the Authority.

2. What is the North East Combined Authority?

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

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

Work on a number of projects is already underway – most notably the first year of the Local Growth Fund programme – and there have already been a number of successes and achievements. Across the area 2015/16 has seen significant inward investment, leading to the creation of thousands of new jobs, and important steps forward in relation to transport improvements.

In addition NECA is spearheading a number of projects aimed at helping people into jobs and apprenticeships through improved training and better transport. There is an increasingly positive picture for the North East economy, with growth in employment and productivity being reported, and evidence of opportunities for further improvements.

NECA is working closely with the North East Local Enterprise Partnership and the wider business community to deliver the Strategic Economic Plan for the North East and capitalise on these opportunities. Ten new enterprise zone sites have been approved to start in April 2017 and NECA and the LEP is working jointly to secure a £120m North East extension to the JEREMIE access to finance for business fund, which is due to start in 2017. In the absence of a devolution deal for the North East, the authority will continue to seek external funding such as Local Growth funding; infrastructure funding for major transport projects; and will seek to maximise European funding and the replacement of Europe regional funding following Brexit for the North East.

3. Revenue Financial Summary 2015/16

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

A summary of NECA expenditure against budget is set out in the table overleaf. Expenditure totalling £118m was managed within the approved revenue budget and income, with an underspend of around £0.775m at the year end which means the requirement to fund activity from reserves is less than originally budgeted.

Table 1: Summary of Revenue Expenditure Against Budget

	2015/16 Revised Budget	2015/16 Actual	Variance
	£000	£000	£000
Expenditure			
Transport Levy Budget			
- NECA retained (less contributions to other NECA activity)	2,447	2,310	(137)
- Grant to Durham	16,072	16,072	-
- Grant to Nexus	64,500	64,500	-
- Grant to Northumberland	5,896	5,896	-
Tyne Tunnels			
- Contract Payments	21,658	22,033	375
- NECA costs	237	303	66
- Financing Costs	6,419	6,404	(15)
Inward Investment	360	211	(149)
Corporate/Central Budget	300	456	156
Devolution Activity	500	250	(250)
Skills - Mental Health Trailblazer Project	-	48	48
Total Expenditure	**118,389**	**118,483**	**94**
Income			
External Grant Funding	-	(48)	(48)
Transport Levies	(89,177)	(89,177)	-
Tolls Income	(27,457)	(28,396)	(939)
Interest/Investment Income	(344)	(226)	118
Contributions from Constituent Authorities	(440)	(440)	-
Contributions from NELEP	(140)	(140)	-
Total Income	**(117,558)**	**(118,427)**	**(869)**
Net Revenue Expenditure to fund from Reserves	**831**	**56**	**(775)**

Within the accompanying Statement of Accounts document the **Comprehensive Income & Expenditure Statement** (CIES, page 12) sets out the Authority's financial position for the year before taking account of statutory adjustments required to be made to the accounts. The **Movement in Reserves Statement** (MIRS, page 11) reflects these statutory adjustments and shows how the financial performance for the year has impacted on the Authority's reserves. The figures presented in these statements are different from the budgeted revenue expenditure as they include accounting adjustments for costs such as Depreciation, and Revenue Expenditure Funded by Capital Under Statute and other grant-funded expenditure not included in the revenue budget.

The gross cost of services during the year including capital grants to third parties as well as revenue expenditure was £200.453m (£129.513m in 2014/15). This includes all areas of the NECA's activity. The significant increase is primarily due to Local Growth Fund activity during the year. This programme began from April 2015. A further increase in Highways and Transport Services expenditure is as a result of this being the first year of the seven-authority Transport Levy and corresponding grants paid to Durham and Northumberland County Councils for the delivery of highways and transport services.

Although Local Growth Fund grant is capital in nature, these payments are disclosed in the Cost of Services as 'Revenue Expenditure Funded by Capital Under Statute' – as they represent investment in capital assets owned by third parties, not by the Authority itself.

After deducting specific grants and income from fees and charges, the net cost of services was £75.610m (£59.966m in 2014/15). This was funded from a range of sources including the Transport Levy, other contributions from Constituent Authorities, Government Grants, Fees and Charges, and Enterprise Zones Business Rates Growth.

The CIES shows a net surplus for the year on the Provision of Services of £2.039m. This largely reflects grant income being credited to the CIES where conditions have been met but they have not yet been used to fund expenditure, and grant income released to the CIES which has been used to fund the issue of North East Investment Fund loans (which under accounting practice are not shown in the CIES as they are capital expenditure).

4. North East Local Enterprise Partnership

NECA is the Accountable Body for the North East Local Enterprise Partnership (NELEP) and, as such, these accounts include details of its income and expenditure during 2015/16, fully consolidated with the figures for NECA itself.

The NELEP brings together business leaders, universities and members of the NECA Leadership Board. It is the fourth largest LEP in the country and covers the seven local authority areas which also make up NECA. It is responsible for promoting and developing economic growth in the area and works together with NECA to ensure there is co-ordination across a range of activities. One of its major areas of activity is the North East Investment Fund (NEIF), a capital loans fund supporting projects that specifically encourage local economic growth and create jobs in the area.

Table 2: Summary of North East Investment Fund Activity 2015/16

	Grants Paid	Loans Advanced	Total Payments 2015/16	Interest Repayments 2015/16	Principal Repayments 2015/16	Total Repayments 2015/16
	£000	£000	£000	£000	£000	£000
Growing Places Fund	2,719	200	2,919	(658)	(3,603)	(4,261)
Regional Growth Fund	3,891	11,509	15,400	(78)	(885)	(963)
Contribution to JEREMIE 1 Extension	4,500	-	4,500	-	-	-
Total	**11,110**	**11,709**	**22,819**	**(736)**	**(4,488)**	**(5,224)**

The table below summarises the LEP's revenue expenditure in 2015/16.

Table 3: North East LEP Revenue Expenditure

	LEP Core Activity	NE Growth Hub	National Careers Pilot	NEIF Coordination	Total
	£000	£000	£000	£000	£000
Expenditure					
Employees	946	67	67	-	1,080
Premises	88	-	-	-	88
Support Services	420	-	-	25	445
Other Operational Costs	393	290	24	144	851
Contribution to other NECA activity	105	-	-	69	174
Gross Expenditure	**1,952**	**357**	**91**	**238**	**2,638**
Income					
LA Contributions	(250)	-	-	-	(250)
Government Grant	(1,568)	(500)	(165)	(169)	(2,402)
Other Contributions	(3)	-	-	-	(3)
Brought forward balances	(93)	-	-	-	(93)
Interest	(224)	-	-	(69)	(293)
Miscellaneous	(10)	(2)	-	-	(12)
Gross Income	**(2,148)**	**(502)**	**(165)**	**(238)**	**(3,053)**
Net (Surplus)/Deficit	**(196)**	**(145)**	**(74)**	**-**	**(415)**

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

5. Capital Investment

Capital investment during the year totalled £127m (£89m in 2014/15). This consisted of capital expenditure on the Authority's own assets, capital expenditure via capital grants to third parties and long-term capital loans to third parties. An analysis of capital investment by programme and by thematic area are shown in the following charts:

Chart 1: Capital Investment by Programme

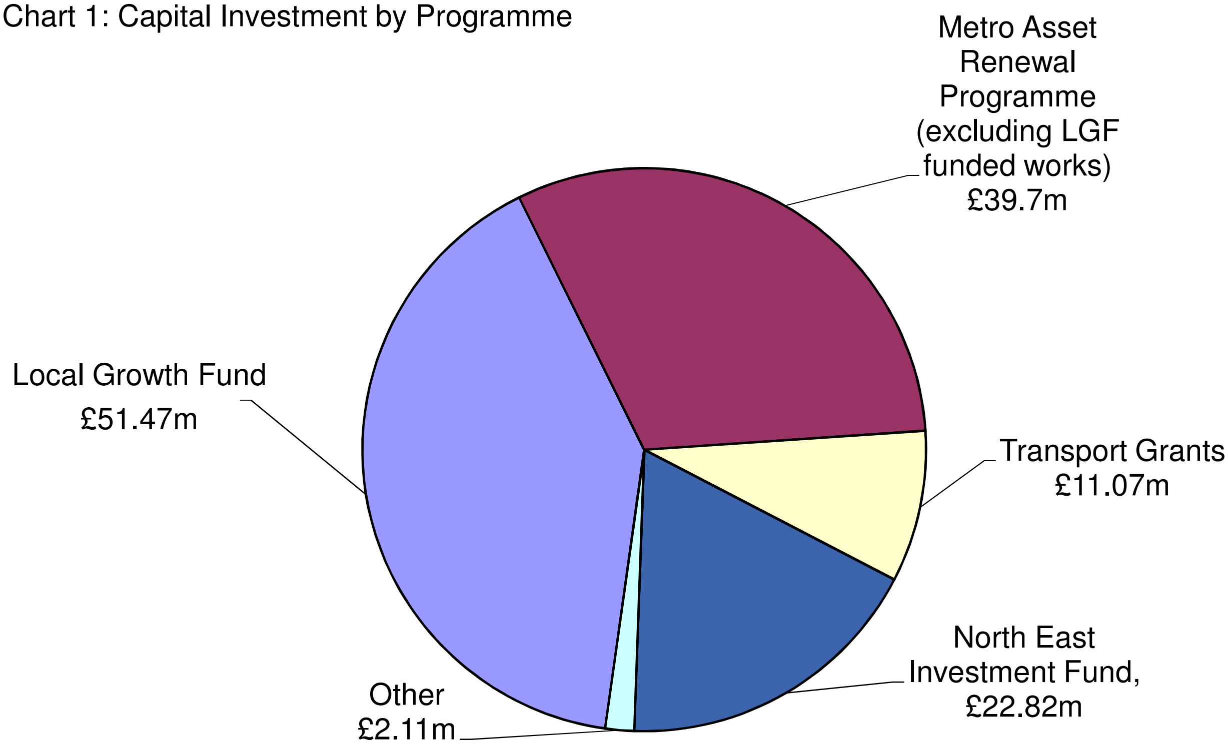
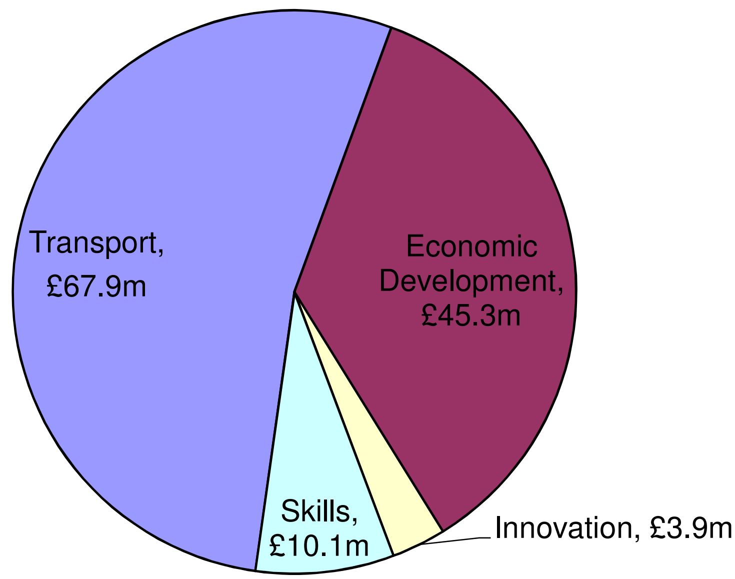


Chart 2: Capital Investment by Thematic Area



The largest area of capital expenditure is in relation to Transport, reflecting the NECA's responsibilities as Transport Authority, which it inherited from the former Tyne and Wear Integrated Transport Authority. Activity on Economic Development continues to grow, building on strong performance in 2014/15, and includes the North East Investment Fund. Skills and Innovation are new areas of activity for NECA in 2015/16.

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

Economic Development

- North East Investment Fund – Loans and grants including the region's round 1 Enterprise Zone sites, Centre for Innovation and Growth at Durham University, Vantec's second warehouse development, SME Office Accomodation in Jesmond (£18.3m)
- Extension of the NE Jeremie Fund (£4.5m)
- LGF – Infrastructure for Forrest Park (£6.2m)
- LGF – Commissioners Quay, Blyth (£1.9m)
- LGF – North East Rural Growth Network (£1.6m)

Innovation

- LGF – Sunderland Enterprise and Innovation Hub (£2.2m)
- LGF – Centre for Innovation in Formulation (£0.8m)
- LGF – Newcastle Laboratory and Life Science Incubation Hub (£0.6m)

Transport

- Metro Asset Renewal Programme (£39.8m)
- LGF – Northern Access Corridor Phase 2 (£3.6m)
- LGF – Local Sustainable Transport Fund Package (£2.7m)
- LGF – Central Metro Station Refurbishment (£2.5m)
- Tyne Tunnels Capital Programme (£1.9m)

Skills

- LGF – Rural Skills Development, East Durham College (£7.5m)
- LGF – Tyne Met College STEM and Innovation Centre (£1m)
- LGF – Facilities for Marine and Offshore Engineering (£1.2m)

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

Table 4: Capital Funding 2015/16

	2015/16	2015/16
	£000	%
Local Growth Fund Grant	(51,472)	40.5%
Local Transport Plan Grant	(13,603)	10.7%
Metro Capital Grant	(32,601)	25.6%
Regional Growth Fund	(15,401)	12.1%
Growing Places Fund	(2,919)	2.3%
Other Capital Grants	(108)	0.1%
Capital Receipts	(4,500)	3.5%
Revenue/Reserves	(6,616)	5.2%
Total Funding	**(127,220)**	**100.0%**

6. Enterprise Zones

The North East Low Carbon Enterprise Zone is located across four local authority areas: Newcastle upon Tyne, North Tyneside, Northumberland and Sunderland. Business rates growth generated on these designated sites accrues to the benefit of the North East LEP for a 25 year period. 2015/16 was the third year of the zone's life.

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

Table 5: NE Enterprise Zone Business Rates Growth

	2013/14	2014/15	2015/16	Total
	£000	£000	£000	£000
Local Authority Area				
Newcastle upon Tyne	(312)	(330)	(262)	(904)
North Tyneside	(14)	(55)	(100)	(169)
Northumberland	(12)	(28)	(96)	(136)
Sunderland	(696)	(653)	(745)	(2,094)
Gross Expenditure	**(1,034)**	**(1,066)**	**(1,203)**	**(3,303)**
NEIF Repayment	-	-	542	542
Financing Costs	-	-	424	424
EZ Costs	-	9	9	18
Interest	-	(3)	(7)	(10)
Total Surplus	**(1,034)**	**(1,060)**	**(235)**	**(2,329)**

During the year, NECA and NELEP received confirmation of a second Enterprise Zone covering 10 areas and 175 hectares, with a start date of April 2017.

7. Treasury Management

The Balance Sheet on page 13 of the accounts shows external borrowing of £171.690m at the end of the year, which is split between short term borrowing (£3.356m) and long term borrowing (£168.333m). This compares to £198.824 for 2014/15. The decrease is due to the early repayment of some Public Works Loans Board (PWLB) loans and the regular principal repayments made on Equal Instalment of Principal (EIP) loans. The average rate of interest on external borrowing for the year was 4.28% which is comparable with the previous year.

The Balance Sheet also shows short term external investments of £89m at the end of the year compared to £28m at the end of the previous year, consisting of £51m NECA's own investments and £38m of investments held on behalf of Nexus. The increase in NECA investments in 2015/16 compared to the previous year is primarily due to receipt of grant income in advance of payments being made to projects and the need to achieve better investment returns leading to deposits being placed for longer time periods where it is considered safe to do so.

8. Debtors

The Balance Sheet on page 13 shows short term debtors of £11.129m at the end of the year compared to £11.243m at the end of the previous year. These balances are analysed in more detail in Note 13 on page 39. The main reasons for the movement during the year are:

- An increase in the level of central government debtors as a payment of Local Sustainable Transport Fund grant was outstanding from DfT at 31 March 2016;
- A decrease in amounts owed by Other Local Authorities due to the repayment of North East Investment Fund loans in the year.
- An increase in amounts owed by Other Entities due to additional North East Investment Fund loans being made during the year.

9. Creditors

The Balance Sheet on page 13 shows short term creditors of £113.252m at the end of the year compared to £43.697m at the end of the previous year. These balances are analysed in more detail in Note 15 on page 39. The main reasons for the movement during the year are:

- A significant increase in amounts owed to Other Local Authorities due to a creditor of £43m with Newcastle City Council. NECA's banking arrangements have changed during the year so that it receives income into its own account, but payments are still made from Newcastle's account due to NECA using its financial systems. The balance outstanding was reconciled following the year end and settled during April
- Further amounts were owed to Other Local Authorities and Other Entities for accrual claims on the Local Growth Fund, for which there was no equivalent in the prior year.
- An increase in amounts owed to Nexus due to an increase from £28m to £38m in investments NECA places on its behalf. A creditor is shown to recognise the fact that these investments must be repaid to Nexus on request.

10. Pensions Costs

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

- Pension benefits that are being paid out to former employees who have retired.

- Pension benefits earned to date by current employees but not yet paid out.

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

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

At the end of the year there was a pension fund deficit of £0.890m and this is disclosed on the Balance Sheet on page 13. This compares with a deficit of £1.020m at the end of the previous year. The main reason for the decrease is due to the assumptions made by the pension fund actuary, particularly a higher discount rate used to revalue liabilities which are based upon reference to market yields on high quality corporate bonds or market yields on government bonds. An increase in the discount rate reduces the current value of the liability outstanding.

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

11. Net Assets

The Authority's total net assets have increased from £149m at 31 March 2015 to £151m at 31 March 2016. This is primarily due to an increase in short term assets in terms of external investments, and a decrease in external borrowing.

12. Group Results

The Group Accounts included as part of the Statement of Accounts fully incorporate the results of Nexus, the Tyne and Wear Passenger Transport Executive. Details of the relationship can be found in Note G1 on page 90 of the Statement of Accounts.

The Group results show a surplus for the year of £23.046m (surplus of £3.125m in 2014/15). This increase is largely a result of a movement in Nexus accounts with regard to the re-measurement of the Pensions defined benefit liability, and a decrease in depreciation costs. The net assets of the Group stood at £599.718m at 31st March 2016 (£570.389m in at 31st March 2015). The increase mainly results from an increase in Long Term Assets owned by Nexus, and a significant increase in short term investments, and a decrease in the pension liability resulting from a change to the discount rate applied by the actuary.

13. Accounting Developments

The main changes in the current year which have affected the accounts for NECA are as follows:

- **IFRS 13 – Fair Value measurement**: clarification of the term 'fair value' as a valuation approach. The fair value of surplus assets 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.
- **Accounts and Audit Regulations 2015 – Narrative Report:** there is now a requirement to produce a separate Narrative Report to the Statement of Accounts, replacing the former Foreword within the Annual Report and Statement of accounts. This must include a commentary by the Authority on its financial performance and economy, efficiency and effectiveness in its use of resources.
- **Accounts and Audit Regulations 2015 – Inspection Period**: the public inspection period is increased from 20 to 30 working days and must include the first 10 working days of July. The audit of the Statement of Accounts cannot be completed until this inspection period has closed.

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

14. Looking Ahead

In the absence of a devolution deal, NECA will continue to provide transport services and will work with the North East LEP to help deliver an updated Strategic Economic Plan. This will include the establishment of a JEREMIE 2 North East access to Finance fund.

The constituent councils of the Authority face significant government funding reductions in the coming years. This means there is likely to be pressure for budget reductions and further savings to be delivered by NECA.

15. The Statement of Accounts

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

Movement in Reserves Statement (Statement of Accounts page 11)

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

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

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

Balance Sheet (Statement of Accounts page 13)

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

Cash Flow Statement (Statement of Accounts page 14)

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

Group Financial Statements and Notes (Statement of Accounts pages 83-108)

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

16. Annual Governance Statement

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

17. Non-Financial Performance

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

NECA Structure

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

	Employees at the year end
2015/16	15
2014/15	2

Tyne Tunnels

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

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

Traffic Indicators:

	Class 1	Class 2	Class 3	Exempt	Total
2015/16	204,751	16,218,493	989,451	581,377	**17,994,072**
2014/15	195,798	15,265,379	873,270	508,444	**16,842,891**
2013/14	185,471	13,970,360	804,147	464,529	**15,424,507**
2012/13	160,889	13,066,933	775,757	396,412	**14,399,991**

Tyne and Wear Passenger Transport Executive – Nexus

NECA sets public transport policy for the region, which in Tyne and Wear is delivered operationally by Nexus. The following indicators describe the general performance of public transport in Tyne and Wear during 2015/16.

- The number of passenger journeys across Tyne and Wear was estimated at 170 million; a reduction when compared to 173 million in the previous year.
- We estimate that patronage declined on Bus, with the number of journeys falling by 3.2% in 2015/16 to 128 million.
- Metro patronage increased by over 2 million in 2015/16 to 40 million journeys.
- The Ferry carried 442,000 passengers in 2015/16, down slightly from 469,000 the year before.
- Rail passengers in Tyne and Wear made more than 1.4 million journeys on local services, in line with the previous year.
- Metro reliability (operated mileage) was 98.0% during 2015/16, a small decrease on the 98.2% achieved in the previous year.
- Metro Charter punctuality was 80.2% during 2015/16, a marginal reduction when compared to the 80.4% achieved in the previous year.

18. Further Information Available

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

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

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Paul Woods
Chief Finance Officer, North East Combined Authority

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North East Combined Authority

Statement of Accounts 2015/16

north east combined authority

www.northeastca.gov.uk

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1.0 Statement of Responsibilities for the Statement of Accounts

1.0 Statement of Responsibilities for the Statement of Accounts

1.1 The Authority's Responsibilities

The Authority is required:

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

The Chief Finance Officer's Responsibilities

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

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

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

The Chief Finance Officer has also:

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

Certification of the Accounts

I certify that the Statement of Accounts gives a true and fair view of the financial position of the North East Combined Authority at 31 March 2016 and its income and expenditure for the year ended 31 March 2016.

Signed:

Paul Woods, Chief Finance Officer
Date: 20 September 2016

Signed:

Paul Watson, Chair, North East
Leadership Board
Date: 20 September 2016

2.0 Core Financial Statements and Explanatory Notes

2.0 Core Financial Statements and Explanatory Notes

2.1 Movement in Reserves Statement

	Note	Usable Reserves: General Fund Balance £000	Usable Reserves: Earmarked General Fund Reserves £000	Usable Reserves: Capital Receipts Reserve £000	Usable Reserves: Capital Grants Unapplied £000	Usable Reserves: Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000
Balance at 1 April 2014		-	-	-	-	-	-	-
Balances transferred on establishment of NECA		(34,946)	(11,753)	(150)	(18,639)	(65,488)	(80,754)	(146,242)
Adjusted opening balance		**(34,946)**	**(11,753)**	**(150)**	**(18,639)**	**(65,488)**	**(80,754)**	**(146,242)**
Movement in reserves during 2014/15								
Surplus on Provision of Services		(3,616)	-	-	-	(3,616)	-	(3,616)
Other Comprehensive Income & Expenditure		-	-	-	-	-	1,149	1,149
Total Comprehensive Income & Expenditure		**(3,616)**	**-**	**-**	**-**	**(3,616)**	**1,149**	**(2,467)**
Adjustments between accounting basis & funding basis under regulations	1	6,257	-	(2,528)	7,951	11,680	(11,680)	-
Net (Increase)/Decrease before transfers to Earmarked Reserves		2,641	-	(2,528)	7,951	8,064	(10,531)	**(2,467)**
Transfers (To)/From Earmarked Reserves	20	(397)	(1,231)	1,628	-	-	-	-
Increase in 2014/15		2,244	(1,231)	(900)	7,951	8,064	(10,531)	(2,467)
Balance at 31 March 2015 carried forward		**(32,702)**	**(12,984)**	**(1,050)**	**(10,688)**	**(57,424)**	**(91,285)**	**(148,709)**
Movement in reserves during 2015/16								
Surplus on Provision of Services		(2,039)	-	-	-	(2,039)	-	(2,039)
Other Comprehensive Income & Expenditure		-	-	-	-	-	(130)	(130)
Total Comprehensive Income & Expenditure		**(2,039)**	**-**	**-**	**-**	**(2,039)**	**(130)**	**(2,169)**
Adjustments between accounting basis & funding basis under regulations	1	4,340	-	(2,553)	(300)	1,487	(1,487)	-
Net (Increase)/Decrease before transfers to Earmarked Reserves		**2,301**	**-**	**(2,553)**	**(300)**	**(552)**	**(1,617)**	**(2,169)**
Transfers (To)/From Earmarked Reserves	20	(4,606)	1,003	3,603	-	-	-	-
(Increase)/Decrease in 2015/16		**(2,305)**	**1,003**	**1,050**	**(300)**	**(552)**	**(1,617)**	**(2,169)**
Balance at 31 March 2016 carried forward		**(35,007)**	**(11,981)**	**-**	**(10,988)**	**(57,976)**	**(92,902)**	**(150,878)**

2.2 Comprehensive Income and Expenditure Statement

2014/15					2015/16		
Gross Expenditure £000	Gross Income £000	Net Expenditure £000		Note	Gross Expenditure £000	Gross Income £000	Net Expenditure £000
209	(490)	(281)	Corporate & Democratic Core		677	(300)	377
-	-	-	Non Distributed Costs		80	-	80
13,746	(13,128)	618	Planning Services		51,134	(55,414)	(4,280)
115,558	(55,929)	59,629	Highways & Transport Services		148,562	(69,129)	79,433
129,513	**(69,547)**	**59,966**	**Cost of Services**		**200,453**	**(124,843)**	**75,610**
-	-	-	Other Operating Expenditure		3,672	-	3,672
8,528	(2,839)	5,689	Financing & Investment Income & Expenditure	2	12,240	(3,181)	9,059
-	(69,271)	(69,271)	Taxation & Non-Specific Grant Income	3	-	(90,380)	(90,380)
		(3,616)	**(Surplus) on Provision of Services**				**(2,039)**
		1,079	(Surplus)/Deficit on Revaluation of Non Current Assets	10			-
		70	Re-measurements of the defined benefit liability	18			(130)
		1,149	**Other Comprehensive Income & Expenditure**				**(130)**
		(2,467)	**Total Comprehensive Income & Expenditure (Surplus)**				**(2,169)**

2.3 Balance Sheet

31 March 2015 £000		Note	31 March 2016 £000
361,625	Property, Plant & Equipment	10	355,673
52,669	Long Term Debtors	11	57,008
414,294	**Long Term Assets**		**412,681**
28,000	Short Term Investments	11	89,000
11,243	Short Term Debtors	11, 13	11,129
68,531	Cash and Cash Equivalents	14	41,739
107,774	**Current Assets**		**141,868**
(28,824)	Short Term Borrowing	11	(3,356)
(43,697)	Short Term Creditors	11, 15	(113,252)
(10,898)	Grants Receipts in Advance	4	(4,955)
(5,092)	New Tyne Crossing - Deferred Income	16	(5,092)
(88,511)	**Current Liabilities**		**(126,655)**
(112,030)	New Tyne Crossing - Deferred Income	16	(106,938)
(170,000)	Long Term Borrowing	11	(168,333)
(1,798)	Grants Receipts in Advance	4	(855)
(1,020)	Pension Liability	18	(890)
(284,848)	**Long Term Liabilities**		**(277,016)**
148,709	**Net Assets**		**150,878**
(57,425)	Usable Reserves	19	(57,976)
(91,284)	Unusable Reserves	21	(92,902)
(148,709)	**Total Reserves**		**(150,878)**

Chief Finance Officer Certificate

I certify that the accounts set out on pages 11 to 79 give a true and fair view of the financial position of the North East Combined Authority as at 31 March 2016.

2.4 Cash Flow Statement

2014/15 £000		Note	2015/16 £000
3,616	Net Surplus/(Deficit) on the provision of services	23	2,039
4,128	Adjustments to net surplus or deficit on the provision of services for non cash movements	23	66,842
(18,669)	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	23	(81,803)
(10,925)	**Net cash flows from Operating Activities**		**(12,922)**
94,676	Investing Activities	24	13,432
(15,220)	Financing Activities	25	(27,302)
68,531	**Net (Decrease)/Increase in cash and cash equivalents**		**(26,792)**
-	Cash and cash equivalents at the beginning of the reporting period	14	68,531
68,531	**Cash and cash equivalents at the end of the reporting period**	14	**41,739**

2.5 Index of Explanatory Notes to the Core Statements

2.6 Explanatory Notes to the Core Financial Statements

The financial statements have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom. The following notes offer more information for the readers of the accounts.

1 Adjustments between Accounting Basis and Funding Basis Under Regulations

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

2014/15					2015/16			
General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Unusable Reserves £000	**Adjustments between Accounting Basis and Funding Basis Under Statute**	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Unusable Reserves £000
				Adjustments primarily involving the Capital Adjustment Account:				
				Reversal of items debited or credited to the CIES				
(5,020)	-	-	5,020	Charges for depreciation and impairment of non current assets	(4,182)	-	-	4,182
5,092	-	-	(5,092)	Other Income that cannot be credited to the General Fund	5,128	-	-	(5,128)
31,782	-	-	(31,782)	Capital grants and contributions applied	81,803	-	-	(81,803)
(29,989)	-	-	29,989	Revenue expenditure funded from capital under statute	(73,995)	-	-	73,995
1	-	-	(1)	Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	(3,672)	-	-	3,672
				Insertion of items not debited or credited to the CIES				
2,160	-	-	(2,160)	Statutory provision for the financing of capital investment	2,309	-	-	(2,309)
3,808	-	-	(3,808)	Capital expenditure charged against the General Fund	314	-	-	(314)
				Adjustments primarily involving the Capital Grants Unapplied Account:				
-	-	-	-	Grants & contributions unapplied credited to CIES	3,019	-	(3,019)	-
-	-	7,951	(7,951)	Application of grants to capital financing transferred to Capital Adjustment Account	-	-	2,719	(2,719)
				Adjustments involving the Capital Receipts Reserve:				
-	(82)	-	82	Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the CIES	-	-	-	-
-	(4,433)	-	4,433	Loan principal repayments	-	(6,322)	-	6,322
-	82	-	(82)	Use of Capital Receipts Reserve to finance new Capital Expenditure	-	1,936	-	(1,936)
-	1,905	-	(1,905)	Application of Capital Receipts to repayment of debt	-	1,833	-	(1,833)

2014/15 General Fund Balance £000	2014/15 Capital Receipts Reserve £000	2014/15 Capital Grants Unapplied £000	2014/15 Unusable Reserves £000	Adjustments between Accounting Basis and Funding Basis Under Statute	2015/16 General Fund Balance £000	2015/16 Capital Receipts Reserve £000	2015/16 Capital Grants Unapplied £000	2015/16 Unusable Reserves £000
				Adjustments involving the Financial Instruments Adjustment Account:				
(1,587)	-	-	1,587	Amount by which finance costs charged to the CIES are different from finance costs chargeable in the year in accordance with statutory requirements	(6,384)	-	-	6,384
				Adjustments involving the Pensions Reserve:				
(40)	-	-	40	Reversal of items relating to retirement benefits debited or credited to the CIES	110	-	-	(110)
50	-	-	(50)	Employer's pensions contributions and direct payments to pensioners payable in the year	(110)	-	-	110
6,257	(2,528)	7,951	(11,680)	**Total Adjustments**	4,340	(2,553)	(299)	(1,487)

2 Financing and Investment Income and Expenditure

	Note	2014/15 £000	2015/16 £000
Interest payable and similar charges		8,488	12,210
Interest on defined benefit liability	18	40	30
Interest receivable and similar income		(2,839)	(3,181)
Total		**5,689**	**9,059**

3 Taxation and Non Specific Grant Income

	Note	2014/15 £000	2015/16 £000
Transport Levy	5	(68,207)	(89,177)
Enterprise Zone income	5	(1,064)	(1,203)
Total		**(69,271)**	**(90,380)**

4 Grant Income and Other Contributions

The Authority credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2015/16

Credited to Services	2014/15 £000	2015/16 £000
DCLG Capacity Grant	(529)	(500)
Local Authority Contributions to NECA	(590)	(440)
Local Authority Contributions to NELEP	(250)	(250)
Local Growth Fund	-	(53,910)
Local Sustainable Transport Fund	(6,310)	(3,850)
Local Transport Plan	(17,038)	(14,723)
North East Smart Ticketing Initiative	(607)	(789)
Regional Growth Fund Capital	(11,917)	(15,401)
Regional Growth Fund Revenue	(328)	(103)
Transformation Challenge Award	-	(49)
Other	(757)	(459)
Total	**(38,326)**	**(90,474)**

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

Grants Receipts in Advance	2014/15 £000	2015/16 £000
Revenue Grants		
Regional Growth Fund Revenue	(205)	-
North East Smart Ticketing Initiative	(3,614)	(2,824)
Transformation Challenge Award	-	(1,051)
Growth Hub	-	(146)
Other Grants	(622)	(1,709)
Capital Grants		
Local Transport Plan	(775)	-
Regional Growth Fund Capital	(7,480)	(80)
Total	**(12,696)**	**(5,810)**
Shown as Short-Term Liability on Balance Sheet	(10,898)	(4,955)
Shown as Long-Term Liability on Balance Sheet	(1,798)	(855)
Total	**(12,696)**	**(5,810)**

5 Amounts Reported for Resource Allocation

The analysis of income and expenditure on the face of the CIES is that specified by the Service Reporting Code of Practice (SERCOP). However, decisions about resource allocation are taken by the Authority on the basis of budget reports analysed across functions. These reports are prepared on a different basis from the accounting policies used in the financial statements. In particular, no charges are reported in relation to capital expenditure (whereas depreciation, revaluation and impairment losses in excess of the balance on the Revaluation Reserve and amortisation are charged to Services in the CIES); and the cost of retirement benefits is based on cash flows (payment of Employer's pension contributions and deficit payments) rather than the current service cost of benefits accrued in the year.

Prior year comparatives have been restated to reflect the current reporting structure of the NECA budget.

Service Income and Expenditure

2015/16

	NECA Corporate £000	Inward Investment £000	Skills £000	North East LEP £000	Transport £000	Tyne Tunnels £000	Total £000
Fees, charges & other service income	-	-	-	(12)	-	(28,396)	(28,408)
Levy income	-	-	-	-	(89,177)	-	(89,177)
Interest income	(110)	-	-	(593)	-	(77)	(780)
Other grants and contributions	(300)	(280)	(49)	(2,575)	-	-	(3,204)
Other income	-	-	-	-	(5)	(44)	(49)
Total Income	(410)	(280)	(49)	(3,180)	(89,182)	(28,517)	(121,618)
Exployee expenses	-	16	-	863	-	88	967
Other service expenses	207	120	49	1,681	86,507	22,144	110,708
Support services	499	76	-	-	184	103	862
Provision for Debt Repayment	-	-	-	-	1,081	1,228	2,309
Interest Payments	-	-	-	-	1,010	5,177	6,187
Other amounts charged against Reserves	-	-	-	1,073	-	1,103	2,176
Total Expenditure	706	212	49	3,617	88,782	29,843	123,209
Net Expenditure	296	(68)	-	437	(400)	1,326	1,591

Service Income and Expenditure

2014/15 Comparative (Restated)

	NECA Corporate £000	Inward Investment £000	Skills £000	North East LEP £000	Transport £000	Tyne Tunnels £000	Total £000
Fees, charges & other service income	-	-	-	-	-	(26,116)	(26,116)
Levy income	-	-	-	-	(68,207)	-	(68,207)
Interest income	-	-	-	(111)	(10)	(155)	(276)
Other grants and contributions	(490)	(100)	-	(1,161)	-	-	(1,751)
Other income	-	-	-	(1,077)	-	(243)	(1,320)
Total Income	(490)	(100)	-	(2,349)	(68,217)	(26,514)	(97,670)
Exployee expenses	-	-	-	446	-	89	535
Other service expenses	12	-	-	306	65,241	19,683	85,242
Support services	224	37	-	540	251	98	1,150
Provision for Debt Repayment	-	-	-	-	1,139	1,093	2,232
Interest Payments	-	-	-	-	1,131	5,354	6,485
Other amounts charged against Reserves	-	-	-	107	-	4,415	4,522
Total Expenditure	236	37	-	1,399	67,762	30,732	100,166
Net Expenditure	(254)	(63)	-	(950)	(455)	4,218	2,496

This reconciliation shows how the figure in the analysis by function relate to a subjective analysis of the deficit on the Provision of Services included in the Comprehensive Income and Expenditure Statement.

2015/16	Analysis by Function £000	Amounts not reported for Decision Making £000	Amounts not included in CIES Cost of Services £000	Cost of Services £000	Corporate Amounts £000	Total £000
Fees, charges & other service income	(28,408)	-	-	(28,408)	-	(28,408)
Levy income	(89,177)	-	89,177	-	(89,177)	(89,177)
Interest income	(780)	-	780	-	(3,181)	(3,181)
Other grants and contributions	(3,204)	(89,257)	1,203	(91,258)	(1,203)	(92,461)
Other income	(49)	(5,128)	-	(5,177)	-	(5,177)
Total Income	(121,618)	(94,385)	91,160	(124,843)	(93,561)	(218,404)
Exployee expenses	967	80	(110)	936		936
Other service expenses	110,708	5,167	-	115,876	-	115,876
Support services	862	-	-	862	-	862
Provision for Debt Repayment	2,309	-	(2,309)	-	-	-
Interest Payments	6,187	2,426	(6,186)	2,426	12,240	14,665
Other amounts charged against reserves	2,176	-	-	2,176	-	2,176
Depreciation and REFCUS	-	78,177	-	78,177	3,672	81,849
Total Expenditure	123,209	85,850	(8,605)	200,453	15,912	216,364
(Surplus) on the Provision of Services	1,591	(8,535)	82,554	75,610	(77,649)	(2,039)

2014/15 Comparative	Analysis by Function £000	Amounts not reported for Decision Making £000	Amounts not included in CIES Cost of Services £000	Cost of Services £000	Corporate Amounts £000	Total £000
Fees, charges & other service income	(26,116)	-	-	(26,116)	-	(26,116)
Levy income	(68,207)	-	68,207	-	(68,207)	(68,207)
Interest income	(276)	-	276	-	(2,839)	(2,839)
Other grants and contributions	(1,751)	(36,332)	-	(38,083)	-	(38,083)
Other income	(1,320)	(5,092)	1,064	(5,348)	(1,064)	(6,412)
Total Income	(97,670)	(41,424)	69,547	(69,547)	(72,110)	(141,657)
Exployee expenses	535	-	-	535	-	535
Other service expenses	85,242	8,595	-	93,837	-	93,837
Support services	1,150	-	-	1,150	-	1,150
Provision for Debt Repayment	2,232	-	(2,232)	-	-	-
Interest Payments	6,485	-	(6,485)	-	8,528	8,528
Other amounts charged against reserves	4,522	-	-	4,522	-	4,522
Depreciation and REFCUS	-	33,277	(3,808)	29,469	-	29,469
Total Expenditure	100,166	41,872	(12,525)	129,513	8,528	138,041
(Surplus) on the Provision of Services	2,496	448	57,022	59,966	(63,582)	(3,616)

6 Members' Allowances

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

	2014/15 £000	2015/16 £000
Allowances	5	5
Total	**5**	**5**

7 Officers' Remuneration

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

		Salary Fees and Allowances	Pension Contribution	Total
		£000	£000	£000
Managing Director of Transport Operations	2015/16	115	19	**134**
	2014/15 (from 1 Jan 2015)	29	5	**34**

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

		Payment for days worked	Expenses	Total
		£000	£000	£000
Interim Chief Executive	2015/16 (from June 2015)	111	2	**113**
	2014/15	-	-	**-**
Interim Chief Finance Officer	2015/16	97	2	**99**
	2014/15 (from May 2014)	63	2	**65**

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

8 External Audit Costs

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

	2014/15 £000	2015/16 £000
Fees payable with regard to external audit services carried out by the appointed auditor for the year	32	24
Rebate on audit fee received from Audit Commission	(2)	-
Total	**30**	**24**

9 Related Parties

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

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

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

Elected Members of the Authority
Members of the Authority have a direct control over the Authority's financial and operating policies. No members allowances are payable to elected members of the Authority. During 2015/16 no works or services were commissioned from companies in which any members had an interest.

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

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

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

Other Entities

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

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

Income and expenditure and payables/receivables with these entities is set out in the table below.

	2014/15 Receivables	2014/15 Income	2014/15 Expenditure	2014/15 Payables	2015/16 Receiveables	2015/16 Income	2015/16 Expenditure	2015/16 Payables
	£000	£000	£000	£000	£000	£000	£000	£000
Durham	(82)	(36)	29	54	(5)	(16,175)	19,515	6,279
Gateshead	(82)	(12,355)	2,499	1,213	-	(12,168)	1,547	207
Newcastle	(392)	(17,657)	3,778	275	(13)	(17,570)	2,992	51,194
North Tyneside	(117)	(12,454)	3,290	824	-	(12,298)	7,026	282
Northumberland	(88)	(56)	51	-	(13)	(5,979)	8,398	676
South Tyneside	(62)	(9,191)	1,288	518	(5)	(9,062)	2,234	167
Sunderland	(715)	(18,277)	5,889	1,519	(5)	(18,009)	8,375	836
Nexus	(3,519)	-	65,454	4,885	(3,378)	-	70,673	44,473
Newcastle International Airport Ltd	-	-	1,588	-	-	-	1,588	-
Arch	-	-	1,215	-	(20)	-	1,858	-
University of Sunderland	-	-	-	-	-	-	1,370	771
	(5,057)	**(70,026)**	**85,081**	**9,288**	**(3,439)**	**(91,261)**	**125,576**	**104,885**

10 Property, Plant and Equipment

2015/16	Other Land and Buildings £000	Vehicles, Plant, Furniture & Equipment £000	Infrastructure Assets £000	Assets Under Construction £000	Total Property, Plant and Equipment £000
Cost or Valuation					
At 1 April 2015	**12,147**	**3,205**	**372,600**	**6,346**	**394,298**
Assets reclassified	-	-	-	-	**-**
Transfers from assets under construction	-	-	-	-	**-**
Disposals	(3,672)	-	-	-	**(3,672)**
Additions	-	-	348	1,554	**1,902**
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	-	-	(348)	-	**(348)**
At 31 March 2016	**8,475**	**3,205**	**372,600**	**7,900**	**392,182**
Accumulated Depreciation and Impairment					
At 1 April 2015	**-**	**(818)**	**(31,855)**	**-**	**(32,673)**
Depreciation Charge for the Year	-	(92)	(3,742)	-	**(3,834)**
At 31 March 2016	**-**	**(910)**	**(35,597)**	**-**	**(36,507)**

Net Book Value

2015/16	Other Land and Buildings £000	Vehicles, Plant, Furniture & Equipment £000	Infrastructure Assets £000	Assets Under Construction £000	Total Property, Plant and Equipment £000
At 1 April 2015	**12,147**	**2,387**	**340,745**	**6,346**	**361,625**
At 31 March 2016	**8,475**	**2,295**	**337,003**	**7,900**	**355,675**

Comparative information 2014/15	Other Land and Buildings £000	Vehicles, Plant, Furniture & Equipment £000	Infrastructure Assets £000	Assets Under Construction £000	Total Property, Plant and Equipment £000
Cost or Valuation					
At 1 April 2014	-	-	-	-	**-**
Balances transferred in	12,230	3,205	374,439	2,880	**392,754**
Revised Opening Balance	**12,230**	**3,205**	**374,439**	**2,880**	**392,754**
Disposals	(83)	-	-	-	**(83)**
Additions	-	-	425	3,466	**3,891**
Revaluation increases/(decreases) recognised in the Revaluation Reserve	-	-	(1,079)	-	**(1,079)**
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	-	-	(1,185)	-	**(1,185)**
At 31 March 2015	**12,147**	**3,205**	**372,600**	**6,346**	**394,298**

Comparative information 2014/15	Other Land and Buildings £000	Vehicles, Plant, Furniture & Equipment £000	Infrastructure Assets £000	Assets Under Construction £000	Total Property, Plant and Equipment £000
Accumulated Depreciation and Impairment					
At 1 April 2014	-	-	-	-	**-**
Balances transferred in	-	(726)	(28,113)	-	**(28,839)**
Revised Opening Balance	**-**	**(726)**	**(28,113)**	**-**	**(28,839)**
Depreciation Charge for the Year	-	(92)	(3,742)	-	**(3,834)**
At 31 March 2015	**-**	**(818)**	**(31,855)**	**-**	**(32,673)**

11 Financial Instruments

Categories of Financial Instruments

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

Long Term 31 March 2015 £000	Short Term 31 March 2015 £000		Long Term 31 March 2016 £000	Short Term 31 March 2016 £000
		Investments		
-	28,000	Fixed term deposits	-	89,000
-	**28,000**	**Total Investments**	**-**	**89,000**
		Debtors		
52,669	-	Long term debtors - Loans and advances treated as capital expenditure	57,008	-
-	11,243	Short term debtors	-	11,129
52,669	**11,243**	**Total Debtors**	**57,008**	**11,129**
		Borrowings		
(170,000)	(26,967)	Financial liabilities at amortised cost - Loans (Principal)	(168,333)	(1,666)
	(1,858)	Financial liabilities at amortised cost - Loans (Interest)	-	(1,690)
(170,000)	**(28,825)**	**Total included in Borrowings**	**(168,333)**	**(3,356)**
		Other Long Term Liabilities		
(1,020)	-	Pension Liability	(890)	-
(1,020)	-	**Total Other Long Term Liabilities**	**(890)**	**-**
		Creditors		
-	(43,697)	Short Term Creditors	-	(113,252)
-	**(43,697)**	**Total Creditors**	**-**	**(113,252)**

Income, Expense, Gains and Losses

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

Financial Liabilities at amortised cost	Financial assets: loans and receivables	Total		Financial Liabilities at amortised cost	Financial assets: loans and receivables	Total
£000	£000	£000		£000	£000	£000
8,488	-	8,488	Interest expense	**12,210**	**-**	**12,210**
8,488	**-**	**8,488**	**Total expense in Surplus on Provision of Services**	**12,210**		**12,210**
-	(2,811)	(2,811)	Investment income	-	(3,046)	**(3,046)**
-	**(2,811)**	**(2,811)**	**Total income in Surplus on Provision of Services**	-	(3,046)	**(3,046)**
8,488	**(2,811)**	**5,677**	**Net (gain)/loss for the year**	**12,210**	**(3,046)**	**9,164**

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

Financial assets classified as loans and receivables and all non-derivative financial liabilities are carried in the Balance Sheet at amortised cost. Their fair values have been estimated by calculating the net present value of the remaining contractual cash flows at 31st March 2016, using the following methods and assumptions:

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

For 2015/16 the fair values shown in the table below are split by their level in the fair value hierarchy:
- Level 1 - fair value is only derived from quoted prices in active markets for identical assets or liabilities, e.g. bond prices.
- Level 2 - fair value is calculated from inputs other than quoted prices that are observable for the asset or liability e.g. interest rates or yields for similar instruments.
- Level 3 - fair value is determined using unobservable inputs, e.g. non-market data such as cash flow forecasts or estimated creditworthiness.

31 March 2015			31 March 2016	
Carrying Amount	Fair Value		Carrying Amount	Fair Value
£000	£000		£000	£000
		Financial Liabilities		
(97,300)	(142,508)	PWLB - Maturity Loans	(73,000)	(96,664)
(10,666)	(11,856)	PWLB - EIP Loans	(8,000)	(8,732)
(89,000)	(149,469)	LOBOs	(89,000)	(150,580)
(196,966)	**(303,833)**		**(170,000)**	**(255,976)**

31 March 2015			31 March 2016	
Carrying Amount	Fair Value		Carrying Amount	Fair Value
£000	£000		£000	£000
		Loans and receivables		
28,000	28,000	Fixed Term Investments	89,000	89,000
52,669	52,669	Long-Term debtors	57,008	57,008
80,669	**80,669**		**146,008**	**146,008**

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

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

Soft Loans

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

Valuation Assumptions

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

2015/16

Description	Term (Years)	Contracted Rate	Fair Value Rate	Opening Balance	Advances in Year	FV adjustment on initial recognition	Loans Repaid	Increase in discounted amount	Closing Balance (fair value)	Closing Balance (Nominal)
				£000	£000	£000	£000	£000	£000	£000
Sunderland City Council - Vaux Loan	3	0.00%	0.95%	1,250	-	-	(1,250)	-	-	-
Durham University	12	1.90%	4.95%	5,796	4,204	(2,003)	-	-	7,997	10,000
Neptune Test Centre	9	0.00%	4.99%	2,430	2,664	(78)	-	-	3,371	5,094
Cobalt Data Centre	4	6.00%	7.00%	-	2,375	(60)	-	-	2,315	2,375
Boiler Shop	3	4.50%	5.02%	-	811	(8)	-	-	803	811
The Jesmond	1	11.00%	11.02%	-	1,269	5	-	-	1,274	1,269

2014/15

Description	Term (Years)	Contracted Rate	Fair Value Rate	Opening Balance	Advances in Year	FV adjustment on initial recognition	Loans Repaid	Increase in discounted amount	Closing Balance (fair value)	Closing Balance (Nominal)
				£000	£000	£000	£000	£000	£000	£000
Sunderland City Council - Vaux Loan	3	0.00%	0.95%	2,500	-	(26)	(1,250)	(30)	1,234	1,250
Durham University	12	1.90%	4.95%	-	5,796	(982)	-	-	4,815	5,796
Neptune Test Centre	9	0.00%	4.99%	-	2,430	(706)	-	-	1,725	2,430

12 Nature and Extent of risks arising from Financial Instruments

The Authority's activities expose it to a variety of financial risks:
Credit risk - the possibility that other parties might fail to pay amounts due to the Authority
Liquidity risk - the possibility that the Authority might not have funds available to meet its commitments to make payments.
Market risk - the possibility that financial loss might arise for the Authority as a result of changes in such measures as interest rates and financial market movements.

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

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

Customers for goods and services are assessed, taking into account their financial position, past experience and other factors, within individual credit limits being set in accordance with internal ratings within parameters set by the Authority. The Authority has a low risk of default from its customers for goods and services, since these are predominantly other local authorities or other public bodies such as Nexus. A provision for bad debt on the outstanding NEIF loans balance has been made in year, calculated at 5% of loans outstanding at 31 March 2016.

The Authority's maximum exposure to credit risk in relation to its investments in banks and building societies cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of non recovery applies to all of the Authority's deposits, but there was no evidence at the 31 March 2016 that this was likely to crystallise. Actions are taken immediately if an institution is downgraded and deposits withdrawn in line with Treasury Management Strategy.

Liquidity Risk

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

	31 March 2015 £000	31 March 2016 £000
Between 1-2 years	(2,667)	(667)
Between 2-5 years	(3,667)	(2,000)
Between 5-10 years	(3,333)	(3,333)
More than 10 years	(160,333)	(162,333)
	(170,000)	**(168,333)**
Less than 1 year	28,824	(3,356)
Total borrowing	**(198,824)**	**(171,689)**

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

Market Risk

Interest Rate Risk

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

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

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

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

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

The table below shows the impact on the debt portfolio at 31st March 2016 if interest rates had been 1% higher with all other variables held constant. The only loans affected by such a movement would be new loans taken during 2015/16 and variable interest rate loans. Existing fixed rate loans, which make up the greatest proportion of the portfolio, would not be affected. According to this strategy, at 31 March, if interest rates had been 1% higher with all other variables held constant, the financial effect would be:

	£000
Increase in interest payable on borrowings	-
Increase in interest receivable on investments	(565)
Impact Deficit on the Provision of Services	**(565)**

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

Foreign Exchange Risk

The Authority has no financial assets or liabilities denominated in foreign currencies and thus has no exposure to loss arising from movements in exchange rates.

13 Debtors

	31 Mar 2015 £000	31 Mar 2016 £000
Central government bodies	506	1,349
Other local authorities	2,747	1,274
Other entities and individuals	7,990	8,506
Total	**11,243**	**11,129**

14 Cash and Cash Equivalents

	31 Mar 2015 £000	31 Mar 2016 £000
Cash balances held by Newcastle City Council	45,097	-
Cash balances held by Sunderland City Council	23,434	4,545
Cash held in Authority's bank account	-	37,194
Total Cash and Cash Equivalents	**68,531**	**41,739**

15 Short Term Creditors

	31 Mar 2015 £000	31 Mar 2016 £000
Central government bodies	(38)	(63)
Other local authorities	(4,724)	(60,102)
Other entities and individuals		
- Nexus	(33,368)	(44,357)
- TT2 Ltd	(3,100)	(3,789)
- Other	(2,467)	(4,941)
Total	**(43,697)**	**(113,252)**

16 Private Finance Initiatives & Similar Contracts

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

In 2015/16 the payment under the contract was £22.033m (2014/15 £19.643m).

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

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

	2014/15 £000	2015/16 £000
Shown as Short Term Liability on Balance Sheet	(5,092)	(5,092)
Shown as Long Term Liability on Balance Sheet	(112,030)	(106,938)
Balance outstanding at year-end	**(117,122)**	**(112,030)**

Payments
Payments made by the Authority to TT2 Ltd are based on actual traffic volumes using the tunnel, and so will vary from year to year. Estimated payments over the life of the contract are shown below.

17 Contingent Liabilities

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

18 Defined Benefit Pension Schemes

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

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

Transactions Relating to Post-employment Benefits

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

	Local Government Pension Scheme		Discretionary Benefits Arrangements	
	2014/15 £000	2015/16 £000	2014/15 £000	2015/16 £000
Comprehensive Income and Expenditure Statement				
Cost of Services:				
Current service cost	10	80	-	-
Past service costs	-	-	-	-
Financing and Investment Income and Expenditure:				
Interest on net defined benefit liability/(asset)	-	-	40	30
Pension expense recognised in profit and loss	**10**	**80**	**40**	**30**

	Local Government Pension Scheme		Discretionary Benefits Arrangements	
	2014/15 £000	2015/16 £000	2014/15 £000	2015/16 £000
Other Post Employment Benefit charged to the Comprehensive Income and Expenditure Statement:				
Return on plan assets (in excess of)/ below that recognised in net interest	(2,750)	520	-	-
Actuarial (gains)/losses due to changes in financial assumptions	(2,750)	(1,820)	80	(30)
Actuarial (gains)/losses due to changes in demographic assumptions	-	-	-	-
Actuarial (gains)/losses due to changes in liability assumptions	(460)	(890)	(10)	(80)
Adjustment in respect of paragraph 58	870	2,170	-	-
Total amount recognised in Other Comprehensive Income	**(5,090)**	**(20)**	**70**	**(110)**
Total amount recognised	**(5,080)**	**60**	**110**	**(80)**

Assets and Liabilities in Relation to Post-employment Benefits

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

	Funded liabilities: Local Government Pension Scheme		Unfunded liabilities: Discretionary Benefits	
	2014/15 £000	2015/16 £000	2014/15 £000	2015/16 £000
Opening balance at 1 April	(32,640)	(34,520)	(960)	(1,020)
Current service cost	(10)	(80)	-	-
Interest cost	(1,340)	(1,050)	(40)	(30)
Contributions by participants	-	(20)	-	-
Actuarial gains/(losses) on liabilities - financial assumptions	(2,340)	1,820	(80)	30
Actuarial gains/(losses) on liabilities - demographic assumptions	-	-	-	-
Actuarial gains/(losses) on liabilities - experience	460	890	10	80
Net benefits paid out	1,350	1,330	50	50
Past service costs	-	-	-	-
Closing balance at 31 March	**(34,520)**	**(31,630)**	**(1,020)**	**(890)**

Reconciliation of fair value of the scheme assets:

	Local Government Pension Scheme		Discretionary Benefits	
	2014/15 £000	2015/16 £000	2014/15 £000	2015/16 £000
Opening balance at 1 April	34,920	37,770	-	-
Interest income on assets	1,440	1,150	-	-
Remeasurement gains/(losses) on assets	2,750	(520)	-	-
Employer contributions	10	60	50	50
Contributions by scheme participants	-	20	-	-
Net benefits paid out	(1,350)	(1,330)	(50)	(50)
Closing balance at 31 March	**37,770**	**37,150**	**-**	**-**

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	2011/12 £000	2012/13 £000	2013/14 £000	2014/15 £000	2015/16 £000
Fair value of LGPS assets	22,800	24,990	34,920	37,770	37,150
Present value of liabilities:					
LGPS liabilities	(28,630)	(32,270)	(32,640)	(34,520)	(31,630)
Impact of minimum	-	-	(2,280)	(3,250)	(5,520)
(Deficit) on funded defined benefit scheme	**(5,830)**	**(7,280)**	**-**	**-**	**-**
Discretionary benefits	(900)	(970)	(960)	(1,020)	(890)
Total (Deficit)	**(6,730)**	**(8,250)**	**(960)**	**(1,020)**	**(890)**

The split of the defined benefit obligation at the last valuation date between the various categories of members was as follows; active members 26%, deferred pensioners 13% and pensioners 61%.

The liabilities show the underlying commitments that the Authority has in the long run to pay post employment (retirement) benefits. The total liability of £31.63m has an impact on the net worth of the Authority as recorded in the balance sheet, resulting in a negative pension balance of £0.89m. 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 2017 is £0.11m. In addition, Strain on the Fund contributions may be required. Expected payments direct to beneficiaries in the year to 31 March 2017 are £0.05m in relation to unfunded benefits.

Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. Both the Local Government Pension Scheme and Discretionary Benefits liabilities have been assessed by Aon, an independent firm of actuaries, estimates for the pension fund being based on the latest full valuation of the scheme as at 31 March 2013.

The principal assumptions used by the actuary have been:

	Local Government Pension Scheme		Discretionary Benefits	
	2014/15	2015/16	2014/15	2015/16
Mortality assumptions:-				
Longevity at 65 for current pensioners:				
Men	23.1	23.2	23.1	23.2
Women	25.1	24.8	24.7	24.8
Rate for discounting scheme liabilities	3.1%	3.3%	3.1%	3.3%
Rate of inflation - Retail Price Index	2.9%	2.8%	2.9%	2.8%
Rate of inflation - Consumer Price Index	1.8%	1.7%	1.8%	1.7%
Rate of increase in pensions	1.8%	1.7%	1.8%	1.7%
Pension accounts revaluation rate	1.8%	1.7%	n/a	n/a
Rate of increase in salaries	3.3%	3.2%	n/a	n/a

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

	31 March 2015	31 March 2016		
	% Total	% Quoted	% Unquoted	% Total
Equity investments	66.4	57.5	8.6	66.1
Property	9.5	0.0	10.4	10.4
Government bonds	3.7	3.7	0.0	3.7
Corporate bonds	11.7	11.6	0.0	11.6
Cash	2.4	2.6	0.0	2.6
Other*	6.3	3.1	2.5	5.6
Total	100.0	78.5	21.5	100.0

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

Actual Return on Assets	Funded 2014/15 £000	Funded 2015/16 £000
Interest income on assets	1,440	1,150
Remeasurement gain/(loss) on assets	2,750	(520)
Actual return on assets	**4,190**	**630**

Sensitivity Analysis

The approximate impact of changing the key assumptions on the present value of the funded defined benefit obligation as at 31 March 2016 and the projected service cost for the period ending 31 March 2017 is set out below.

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

Funded LGPS Benefits

Discount Rate assumption

Adjustment to Discount rate	+0.1% per annum	Base Figure	-0.1% per annum
Present value of total obligation (£m)	31.21	31.63	32.05
% change in present value of total obligation	-1.30%		1.30%
Projected service cost (£m)	0.12	0.12	0.13
Approximate % change in projected service cost	-3.60%		3.90%

Rate of general increase in salaries

Adjustment to salary increase rate	+0.1% per annum	Base Figure	-0.1% per annum
Present value of total obligation (£m)	31.64	31.63	31.62
% change in present value of total obligation	0.00%		0.00%
Projected service cost (£m)	0.12	0.12	0.12
Approximate % change in projected service cost	0.00%		0.00%

Rate of increase to pensions in payment and deferred pensions

Adjustment to pension increase rate	+0.1% per annum	Base Figure	-0.1% per annum
Present value of total obligation (£m)	32.52	31.63	30.15
% change in present value of total obligation	2.80%		-2.80%
Projected service cost (£m)	0.13	0.12	0.12
Approximate % change in projected service cost	3.90%		-3.80%

Post retirement mortality assumption

Adjustment to mortality age rating assumption *	+0.1% per annum	Base Figure	-0.1% per annum
Present value of total obligation (£m)	32.68	31.63	30.58
% change in present value of total obligation	3.30%		-3.30%
Projected service cost (£m)	0.13	0.12	0.12
Approximate % change in projected service cost	3.60%		-3.60%

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

19 Usable Reserves

	31 Mar 2015 £000	31 Mar 2016 £000
General Fund Balance	(32,703)	(35,007)
Metro Reinvigoration Reserve	(10,988)	(10,005)
NELEP Earmarked Reserves	(1,996)	(1,976)
Capital Receipts Reserve	(1,050)	-
Capital Grants Unapplied Reserve	(10,688)	(10,988)
Total Usable Reserves	**(57,425)**	**(57,976)**

20 Transfers to/from Earmarked Reserves

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

	Balance at 31 March 2014 £000	Transfers Out 2014/15 £000	Transfers In 2014/15 £000	Balance at 31 March 2015 £000	Transfers Out 2015/16 £000	Transfers In 2015/16 £000	Balance at 31 March 2016 £000
Metro Reinvigoration Reserve	(11,425)	488	(51)	**(10,988)**	1,032	(49)	**(10,005)**
NELEP Restricted cashable reserve - RGF Interest	(39)	-	(97)	**(136)**	36	(81)	**(181)**
NELEP Restricted cashable reserve - GPF Loan	(100)	-	(1,628)	**(1,728)**	3,602	(3,603)	**(1,729)**
NELEP GPF Revenue Grant Unapplied	(189)	57	-	**(132)**	66	-	**(66)**
	(11,753)	**545**	**(1,776)**	**(12,984)**	**4,736**	**(3,733)**	**(11,981)**

21 Unusable Reserves

	31 Mar 2015 £000	31 Mar 2016 £000
Capital Adjustment Account	(85,147)	(93,180)
Financial Instruments Adjustment Account	1,730	8,113
Revaluation Reserve	(8,887)	(8,725)
Pension Reserve	1,020	890
Total Unusable Reserves	**(91,284)**	**(92,902)**

Capital Adjustment Account

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

The Account also contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the Authority. The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains. Note 1 provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

	2014/15 £000	2015/16 £000
Balance at 1 April	**-**	**(85,147)**
Balances transferred in	(71,729)	-
Revised opening Balance	**(71,729)**	**(85,147)**
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
Charges for depreciation and impairment of non current assets	5,020	4,182
Other income that cannot be credited to the General Fund	(5,092)	(5,128)
Revenue expenditure funded from capital under statute	29,989	73,995
Amounts of non current assets written off on disposal	-	3,672

Write down of long term debtors	4,432	6,322
Adjusting amounts written out of the Revaluation Reserve	**(162)**	**(162)**
Capital financing applied in the year:		
Capital grants and contributions credited to the CIES that have been applied to capital financing	(39,732)	(84,522)
Statutory provision for the financing of capital investment	(2,160)	(2,309)
Capital expenditure charged against the General Fund	(3,808)	(314)
Debt redeemed using capital receipts	(1,905)	(3,769)
Balance at 31 March	**(85,147)**	**(93,180)**

Financial Instruments Adjustment Account

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

	2014/15 £000	2015/16 £000
Balance at 1 April	**-**	**1,730**
Balances transferred in	143	-
Revised Opening Balance	**143**	**1,730**
Premiums incurred in the year and charged to the Comprehensive Income and Expenditure Statement	-	4,820
Proportion of premiums incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements	(72)	(728)
Amount by which finance costs charged to the CIES are different from finance costs chargeable in the year in accordance with statutory requirements	1,659	2,291
Balance at 31 March	**1,730**	**8,113**

Revaluation Reserve

The Revaluation Reserve contains the gains made by the Authority arising from increases in the value of its Property, Plant and Equipment. The balance is reduced when assets with accumulated gains are:
- Revalued downwards or impaire and the gains are lost
- Used in the provision of services and the gains are consumed through depreciation
- Disposed of and the gains are realised

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

	2014/15 £000	2015/16 £000
Balance at 1 April	-	**(8,887)**
Balances transferred in	(10,128)	-
Revised Opening Balance	**(10,128)**	**(8,887)**
Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	1,079	-
Difference between fair value depreciation and historical cost depreciation Amount written off to the Capital Adjustment Account	162	162
Balance at 31 March	**(8,887)**	**(8,725)**

Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions. The Authority accounts for post employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Authority makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Authority has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

	2014/15 £000	2015/16 £000
Balance at 1 April	**-**	**1,020**
Balances transferred in	960	-
Revised Opening Balance	**960**	**1,020**
Remeasurements of the net defined benefit liability/(asset)	70	(130)
Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	40	110
Employer's pensions contributions and direct payments to pensioners payable in the year	(50)	(110)
Balance at 31 March	**1,020**	**890**

22 Capital Expenditure & Capital Financing

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

	2014/15 £000	2015/16 £000
Opening Capital Financing Requirement	**210,418**	**205,746**
Capital investment:		
Property, Plant and Equipment	3,891	1,902
Revenue Expenditure Funded from Capital under Statute	29,989	73,995
Loans issued	9,022	11,709
Sources of finance:		
Capital receipts	(83)	-
Capital receipts - repayment of principal from long-term debtors	(1,905)	(3,769)
Government Grants and other contributions	(39,618)	(85,537)
Sums set aside from revenue:		
Direct revenue contributions	(3,808)	(314)
Minimum Revenue Provision	(2,160)	(2,139)
Additional Voluntary Provision	-	
Closing Capital Financing Requirement	**205,746**	**201,603**
Explanation of movements in year:		
Decrease in underlying need to borrow (unsupported by government financial assistance)	(4,672)	(4,143)
Decrease in Capital Financing Requirement	**(4,672)**	**(4,143)**

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

	2014/15 £000	2015/16 £000
Surplus/(Deficit) on the provision of services	3,616	2,039
Adjustments to Surplus/(Deficit) on Provision of Services for Non-Cash Movements		
Depreciation and Impairment	5,020	4,182
(Increase)/Decrease in Creditors	4,600	70,140
Increase/(Decrease) in Debtors	7,691	(6,060)
Movement in Pension Liability	(10)	-
Other non-cash items charged to the net surplus or deficit on the provision of services	(3,349)	(1,420)
	13,952	**66,842**
Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities		
Capital grants credited to surplus/(deficit) on provision of services	(18,669)	(81,803)
	(18,669)	**(81,803)**
Net cash flow from operating activities	**(1,101)**	**(12,922)**

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

	2014/15 £000	2015/16 £000
Interest received	2,248	2,592
Interest paid	(8,644)	(12,954)

24 Cash Flow Statement - Investing Activities

	2014/15 £000	2015/16 £000
Purchase of property, plant and equipment, investment property and intangible assets	(3,675)	(2,318)
Purchase of short-term and long-term investments	(32,000)	(166,140)
Other payments for investing activities	13,123	-
Proceeds from the sale of property, plant and equipment, investment property, intangible assets & heritage assets	-	-
Proceeds from short-term and long-term investments	24,500	105,140
Other receipts from investing activities	4,516	76,750
	6,464	**13,432**
Cash flows relating to business combinations	78,388	-
Total Net cash flows from investing activities	**84,852**	**13,432**

25 Cash Flow Statement - Financing Activities

	2014/15 £000	2015/16 £000
Cash receipts of short and long-term borrowing	-	-
Other receipts from financing activities	-	-
Cash payments for the reduction of the outstanding liabilities relating to on-balance sheet PFI contracts	-	-
Repayments of short and long-term borrowing	(5,926)	(27,302)
Other payments for financing activities	(9,294)	-
Net cash flows from financing activities	**(15,220)**	**(27,302)**

26 Accounting Standards Issued, Not Adopted

Impact of the adoption of the new accounting standards on the 2015/16 financial statements

The Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 (the Code) has introduced changes in accounting policy in relation to the following IFRS (International Financial Reporting Standard) statements:

- Amendments to IAS 19 Employee Benefits (Defined Benefit Plans: Employee Contributions)
- Annual Improvements to IFRSs 2010-2012 Cycle
- Amendment to IFRS 11 Joint Arrangements (Accounting for Acquisitions of Interests in Joint Operations)
- Amendment to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets (Clarification of Acceptable Methods of Depreciation and Amortisation)
- Annual Improvements to IFRSs 2012-2014 Cycle
- Amendment to IAS 1 Presentation of Financial Statements (Disclosure Initiative)
- The changes to the format of the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement and the introduction of the new Expenditure and Funding Analysis
- The changes to the format of the Pension Fund Account and the Net Assets Statement.

An assessment of the impact of these changes has been made which determined there will be no likely material impact on the information provided in NECA's financial statements as a result - i.e. there is unlikely to be a change to the reported information in the reported Net Cost of Services or the Surplus or Deficit on the Provision of Services. However, in the 2016/17 year the comparator 2015/16 Comprehensive Income and Expenditure Statement and the Movement in Reserves Statement must reflect the new formats and reporting requirements as a result of the 'Telling the Story' review of the presentation of local authority financial statements.

27 Critical Judgements in Applying Accounting Policies

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

Service Concession Arrangements

The Local Authority Accounting Code of Practice requires arrangements where private sector contractors provide a service for a period using a dedicated asset to be assessed under an application of the principles within IFRIC 12. There are two criteria used to determine whether arrangements fall under the scope of IFRIC 12:

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

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

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

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

The items in the Authority's Balance Sheet at 31 March 2016 for which there is a risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Authority with expert advice about the assumptions to be applied.	The approximate impact of changing the key assumptions on the present value of the funded defined benefit obligation as at 31 March 2016 and the projected service cost for the year ending 31 March 2017 are set out below. Discount rate assumption, an adjustment to the discount rate of +0.1% p.a. would decrease the present value of the total obligation to £31.21m, a variance of £0.420m, whereas a decrease of (0.1%) p.a. results in an increase to £32.05m. The percentage change in the present value of the total obligation would be (1.3%) and 1.3% respectively.
		Rate of increase to pensions in payment and deferred pensions assumption, and rate of revaluation of pension accounts assumption: an adjustment to the pension increase rate of +0.1% p.a. would increase the present value of the total obligation to £32.52m by £0.89m, whereas a decrease of (0.1%) p.a. results in a decrease to £30.15m, a variance of £1.48m. The percentage change in the present value of the total obligation would be 2.8% and (2.8%) respectively.

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
		Post retirement mortality assumption: an adjustment to the mortality age rating assumption of +1 year would change the present value of the total obligation to £32.68m, an increase of £1.05m, whereas a increase of (1) year results in a reduction to £30.58m, a variance of £1.05m. The percentage change in the present value of the total obligation would be 3.3% and (3.3%) respectively.

29 Events after the Reporting Period

The Statement of Accounts was authorised for issue by the Chief Finance Officer on 30 June 2016. Where events taking place before this date provided information about conditions existing at 31 March 2016, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

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

30 Statement of Accounting Policies

1. General Principles

The Statement of Accounts summarises the Authority's transactions for the 2015/16 financial year and its position at the year-end of 31 March 2016. The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015, which those Regulations require to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and the Service Reporting Code of Practice 2015/16, supported by International Financial Reporting Standards (IFRS).

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

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

2. Accruals of Income and Expenditure

The financial statements, other than the cash flow statement, are prepared on an accruals basis. This means that transactions are reflected in the accounts of the period in which they take place, as opposed to the period in which payments are made or received.

3. Cash and Cash Equivalents

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

4. Exceptional Items

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

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

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

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

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

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

6. Charges to Revenue for Non-Current Assets

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

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

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

Depreciation, revaluation and impairment losses 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.

7. Employee Benefits

Benefits Payable during Employment

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

Termination Benefits

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

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

No such amounts are payable in 2015/16.

8. Post-Employment Benefits

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

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

The Local Government Pension Scheme

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

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

- Liabilities are discounted to their value at current prices, using a discount rate of 3.3% based on the indicative rate of return on high quality corporate bonds.

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

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

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

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

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

d) Remeasurements comprising:

- the return on plan assets, excluding amounts included in net interest on the net defined benefit liability, charged to the Pensions Reserve as Other Comprehensive Income & Expenditure
- actuarial gains and losses, changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions, charged to the Pensions Reserve as Other Comprehensive Income and Expenditure

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

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

Further details are provided in Note 18 to the accounts.

9. Events after the Balance Sheet Date

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

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

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

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

10. Fair Value Measurement

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

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

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

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

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

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

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

11. Financial Instruments

Financial Liabilities

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

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

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

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

Financial Assets

Financial assets are classified into two types:

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

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

Loans and Receivables

Loans and receivables are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

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

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

Available-for-Sale Assets

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

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

- Instruments with quoted market prices - the market price.

- Other instruments with fixed and determinable payments - discounted cash flow analysis.

- Equity shares with no quoted market prices - independent appraisal of company valuations.

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

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

Any gains and losses that arise on the derecognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any accumulated gains or losses previously recognised in the Available-for-Sale Reserve.

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

12. Government Grants & Contributions

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

- The Authority will comply with the conditions attached to the payments.

- The grants or contributions will be received.

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

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

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

13. 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.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

NECA's contractual arrangements have been reviewed and it is not currently party to any lease arrangements.

a) The Authority as Lessee

Finance Leases

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Authority are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

- A charge for the acquisition of the interest in the property, plant or equipment - applied to write down the lease liability.

- A finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Property, Plant and Equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the council at the end of the lease period).

The Authority is not required to raise the levy to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services 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 premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the long term on the same basis as rental income.

b) The Authority as Lessor

Finance Leases

Where the Authority grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, 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. A gain, representing the Authority's net investment in the lease, is 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), matched by a lease (long-term debtor) asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

- A charge for the acquisition of the interest in the property - applied to write down the lease debtor (together with any premiums received).

- Finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Deferred Capital Receipts Reserve in the Movement in Reserves Statement. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.

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

Operating Leases

Where the Authority grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits 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 premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

14. Property, Plant & Equipment

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

Recognition

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

Measurement

Assets are initially measured at cost, comprising:

- The purchase price.

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

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

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

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

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

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

- Infrastructure and community assets - depreciated historical cost.
- Assets Under Construction - cost
- All other assets – current value, determined as the amount that would be paid for the asset in its existing use (existing use value - EUV).

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

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

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

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

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

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

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

De Minimis Levels

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

Impairment

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

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

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

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

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

Depreciation

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

Depreciation on all Property, Plant and Equipment assets (except vehicles) is calculated by taking the asset value at 31 March 2016, divided by remaining life expectancy. Depreciation is therefore charged in the year of acquisition, but not the year of disposal. Revaluation gains are also depreciated, with an amount equal to the

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

Disposals

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

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

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

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing disposals (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is payable to the Government. The balance of receipts is 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 Council'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 council tax, 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.

15. Public Private Partnership (PPP) Contracts

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

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

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

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

For any service concession within the scope of the Application, the grantor will recognise the cost of the property, plant and equipment underlying the service concession as a tangible fixed asset. The New Tyne Crossing is considered to meet both of the IFRIC 12 criteria, and NECA therefore recognises the costs of the new tunnel on its Balance Sheet.
In most arrangments within the scope of the Application, the grantor will account for the arrangement's financing by recording and measuring a long term liability in accrodance with IAS 17. This treatment reflects an obligation to pay the operator for the full value of the asset along with the operator's cost of finance. However, in the New Tyne Crossing project, TT2 Ltd. (the Operator) receives a defined proportion of the total toll revenue and uses this to meet its cost of constructing and operating both vehicle tunnels. NECA may therefore have no long term obligation to transfer economic resources to TT2, and hence should not recognise a liability.

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

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

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

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

16. Provisions

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

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

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

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

17. Contingent Liabilities

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

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

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

18. Reserves

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

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

19. Revenue Expenditure Funded from Capital under Statute

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

20. VAT

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

21. Overheads

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

22. Tyne Tunnels Income

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

23. Group Accounts

NECA is required by the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 to produce Group Accounts to include services paid to Council Tax payers in the North East by organisations other than the Authority itself in which the Authority has an interest.

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

For the 2015/16 accounts, NECA has fully complied with the requirements of the Code, providing Group figures for the 2015/16 accounts and comparators for 2014/15. From 2010/11, Passenger Transport Executives have been required to produce their accounts under International Financial Reporting Standards, and as if the proper practices in relation to accounts applicable to a local authority were, so far as appropriate, applicable to an Executive. The group financial statements are prepared in accordance with the policies set out in the Statement of Accounting Policies above.

3.0 Group Financial Statements

3.0 Group Financial Statements and Explanatory Notes

3.1 Group Movement in Reserves Statement

	NECA Usable Reserves £000	NECA Unusable Reserves £000	Total NECA Reserves £000	Authority Share of Nexus £000	Total Group Reserves £000
Balance at 1 April 2014	-	-	-	-	-
Balances transferred on establishment of NECA	(65,488)	(80,754)	(146,242)	(429,845)	(576,087)
Adjusted opening balance	**(65,488)**	**(80,754)**	**(146,242)**	**(429,845)**	**(576,087)**
Movement in reserves during 2014/15					
(Surplus) on Provision of Services	(3,616)	-	(3,616)	491	(3,125)
Other Comprehensive Income & Expenditure	-	1,149	1,149	7,674	8,823
Total Comprehensive Income & Expenditure	**(3,616)**	**1,149**	**(2,467)**	**8,165**	**5,698**
Adjustments between accounting basis & funding basis under regulations	11,680	(11,680)	-	-	-
Net (Increase)/Decrease before transfers to Earmarked Reserves	**8,064**	**(10,531)**	**(2,467)**	**8,165**	**5,698**
Transfers (To)/From Earmarked Reserves	-	-	-	-	-
(Increase)/Decrease in 2014/15	8,064	(10,531)	(2,467)	8,165	5,698
Balance at 31 March 2015 carried forward	**(57,424)**	**(91,285)**	**(148,709)**	**(421,680)**	**(570,389)**
Movement in reserves during 2015/16					
(Surplus) on Provision of Services	(2,039)	-	(2,039)	(21,007)	(23,046)
Other Comprehensive Income & Expenditure	-	(130)	(130)	(6,153)	(6,283)
Total Comprehensive Income & Expenditure	**(2,039)**	**(130)**	**(2,169)**	**(27,160)**	**(29,329)**
Adjustments between accounting basis & funding basis under regulations	1,487	(1,487)	-	-	-
Net (Increase)/Decrease before transfers to Earmarked Reserves	**(552)**	**(1,617)**	**(2,169)**	**(27,160)**	**(29,329)**
Transfers (To)/From Earmarked Reserves	-	-	-	-	-
(Increase)/Decrease in 2015/16	**(552)**	**(1,617)**	**(2,169)**	**(27,160)**	**(29,329)**
Balance at 31 March 2016 carried forward	**(57,976)**	**(92,902)**	**(150,878)**	**(448,840)**	**(599,718)**

3.2 Group Comprehensive Income and Expenditure Statement

2014/15 (Restated)					2015/16		
Gross Expenditure £000	Gross Income £000	Net Expenditure £000		Note	Gross Expenditure £000	Gross Income £000	Net Expenditure £000
2,218	(490)	1,728	Corporate & Democratic Core		5,099	(300)	4,799
13,746	(13,128)	618	Planning and Development Services		51,134	(55,414)	(4,280)
205,538	(133,316)	72,222	Highways & Transport Services		233,218	(149,416)	83,802
652	-	652	Non Distributed Costs		(359)	-	(359)
222,154	**(146,934)**	**75,220**	**Cost of Services**		**289,092**	**(205,130)**	**83,962**
10,552	(1,584)	8,968	Financing & Investment Income & Expenditure	G2	14,035	(2,003)	12,032
-	(98,417)	(98,417)	Taxation & Non-Specific Grant Income	G3	-	(122,675)	(122,675)
11,104	-	11,104	(Gain)/Loss on disposal of non-current assets		3,672	(37)	3,635
		(3,125)	**Deficit/(Surplus) on Provision of Services**				**(23,046)**
		8,900	Re-measurements of the defined benefit liability	G11			(7,370)
		-	Taxation of Group Entities	G12			1,087
		392	(Surplus)/Deficit on Revaluation of Non Current Assets	G5			-
		9,292	**Other Comprehensive Income & Expenditure**				**(6,283)**
		6,167	**Total Comprehensive Income & Expenditure Deficit/(Surplus)**				**(29,329)**

* Details of the restatement are set out in note G18

3.3 Group Balance Sheet

31 March 2015 £000		Note	31 March 2016 £000
820,100	Property, Plant & Equipment	G5	830,110
3,428	Intangible Assets	G6	2,627
9,266	Long Term Debtors	G7	15,370
1	Long Term Investments	G7	1
832,795	**Long Term Assets**		**848,108**
28,000	Short Term Investments	G7	89,000
21,166	Short Term Debtors	G8	27,784
100,835	Cash and Cash Equivalents	G9	66,483
627	Inventories		750
150,628	**Current Assets**		**184,017**
(28,824)	Short Term Borrowing	G7	(3,577)
(30,640)	Short Term Creditors	G10	(96,895)
(10,898)	Grants Receipts in Advance	G4	(4,955)
(5,092)	New Tyne Crossing - Deferred Income		(5,092)
(75,454)	**Current Liabilities**		**(110,519)**
(771)	Provisions		(935)
(4,101)	Deferred Taxation	G12	(5,188)
(112,030)	New Tyne Crossing - Deferred Income		(106,937)
(170,000)	Long Term Borrowing	G7	(168,333)
(1,798)	Grants Receipts in Advance	G4	(855)
(48,880)	Pension Liability	G11	(39,640)
(337,580)	**Long Term Liabilities**		**(321,888)**
570,389	**Net Assets**		**599,718**
(99,775)	Usable Reserves	G13	(100,350)
(470,614)	Unusable Reserves	G14	(499,368)
(570,389)	**Total Reserves**		**(599,718)**

Chief Finance Officer Certificate

I certify that the accounts set out on pages 83 to 108 give a true and fair view of the financial position of the North East Combined Authority at 31 March 2016

3.4 Group Cash Flow Statement

2014/15 (Restated) £000		Note	2015/16 £000
3,125	Net Surplus/(Deficit) on the provision of services after taxation of Group Entities		23,046
50,960	Adjustments to net surplus or deficit on the provision of services for non cash movements	G15	102,353
(45,697)	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	G15	(113,612)
8,388	**Net cash flows from Operating Activities**		**11,787**
109,506	Investing Activities	G16	(17,039)
(17,059)	Financing Activities	G17	(29,101)
100,835	**Net (Decrease)/Increase in cash and cash equivalents**		**(34,352)**
-	Cash and cash equivalents at the beginning of the reporting period	G9	100,835
100,835	**Cash and cash equivalents at the end of the reporting period (Note 16)**	**G9**	**66,483**

* Details of the restatement are set out in note G18

3.5 Index of Explanatory Notes to the Core Statements

3.6 Explanatory Notes to the Group Financial Statements

G1 Group Accounts

Under the Code of Practice for Local Authority 2015/16, authorities with interest in subsidiaries, associates and/or joint ventures shall prepare Group Accounts in addition to their single entity financial statements, unless their interest is considered to be not material.

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

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

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

Useful lives used by NECA can be found on p.x of the single entity accounts.

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

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

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

G2 Financing and Investment Income and Expenditure

	Note	2014/15 £000	2015/16 £000
Interest payable and similar charges		8,882	12,605
Interest on defined benefit liability	11	1,670	1,430
Interest receivable and similar income		(1,584)	(2,003)
Total		**8,968**	**12,032**

G3 Taxation and Non Specific Grant Income

	Note	2014/15 £000	2015/16 £000
Transport Levy	4	(68,207)	(89,177)
Enterprise Zone income	4	(1,064)	(1,203)
Nexus Capital Grants	4	(29,146)	(32,976)
Total		**(98,417)**	**(123,356)**

G4 Grant Income and Other Contributions

The Authority credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2015/16

Credited to Services	2014/15 £000	2015/16 £000
DCLG LEP Grant	(529)	(500)
Local Authority Contributions to NECA	(590)	(440)
Local Authority Contributions to NELEP	(250)	(250)
Local Growth Fund	-	(53,910)
Local Sustainable Transport Fund	(6,310)	(3,850)
Local Transport Plan	(17,038)	(14,723)
North East Smart Ticketing Initiative	(607)	(789)
Regional Growth Fund Capital	(11,917)	(15,401)
Regional Growth Fund Revenue	(328)	(103)
Transformation Challenge Award	-	(49)
Metro Rail Grant	(24,582)	(24,457)
Heavy Rail Grant	(2,997)	(3,077)
Other	(757)	(459)
Total	**(65,905)**	**(118,008)**

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

Grants Receipts in Advance	2014/15 £000	2015/16 £000
Revenue Grants		
Regional Growth Fund Revenue	(205)	-
North East Smart Ticketing Iniative	(3,614)	(2,825)
Transformation Challenge Award	-	(1,051)
Growth Hub	-	(146)
Other Grants	(622)	(1,708)
Capital Grants		
Local Transport Plan	(775)	-
Regional Growth Fund Capital	(7,480)	(80)
Total	**(12,696)**	**(5,809)**
Shown as Short-Term Liability on Balance Sheet	(10,898)	(4,954)
Shown as Long-Term Liability on Balance Sheet	(1,798)	(855)
Total	**(12,696)**	**(5,809)**

G5 Property, Plant and Equipment

2015/16	Other Land and Buildings £000	Vehicles, Plant, Furniture & Equipment £000	Infrastructure Assets £000	Assets Under Construction £000	Total Property, Plant and Equipment £000
Cost or Valuation					
At 1 April 2015	**13,886**	**34,630**	**995,884**	**27,636**	**1,072,036**
Assets reclassified	-	(161)	161	-	**-**
Transfers from assets under construction	-	84	12,044	(12,128)	**-**
Disposals	(3,672)	(92)	(78)	-	**(3,842)**
Additions	-	-	349	41,264	**41,613**
Revaluation increases/(decreases) recognised in the Revaluation Reserve	-	-	-	-	**-**
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	-	-	(348)	-	**(348)**
At 31 March 2016	**10,214**	**34,461**	**1,008,012**	**56,772**	**1,109,459**
Accumulated Depreciation and Impairment					
At 1 April 2015	**(538)**	**(13,918)**	**(237,480)**	**-**	**(251,936)**
Reclassification	-	-	-	-	**-**
Depreciation Adjustment	-	-	-	-	**-**
Depreciation Charge for the Year	(44)	(2,776)	(24,729)	-	**(27,549)**
Derecognition - Disposals	-	92	44	-	**136**
At 31 March 2016	**(582)**	**(16,602)**	**(262,165)**	**-**	**(279,349)**
Net Book Value					
At 1 April 2015	**13,348**	**20,712**	**758,404**	**27,636**	**820,100**
At 31 March 2016	**9,632**	**17,859**	**745,847**	**56,772**	**830,110**

Comparative information 2014/15	Other Land and Buildings £000	Vehicles, Plant, Furniture & Equipment £000	Infrastructure Assets £000	Assets Under Construction £000	Total Property, Plant and Equipment £000
Cost or Valuation					
At 1 April 2014	-	-	-	-	**-**
Balances transferred	13,066	31,173	1,028,388	28,828	**1,101,455**
Revised Opening Balance	**13,066**	**31,173**	**1,028,388**	**28,828**	**1,101,455**
Assets reclassified	390	15,183	(18,987)	-	**(3,414)**
Transfers from assets under construction	-	2,897	35,885	(38,782)	**-**
Disposals	(257)	(14,623)	(47,563)	-	**(62,443)**
Additions	-	-	425	37,590	**38,015**
Revaluation increases/(decreases) recognised in the Revaluation Reserve	687	-	(1,079)	-	**(392)**
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	-	-	(1,185)	-	**(1,185)**
At 31 March 2015	**13,886**	**34,630**	**995,884**	**27,636**	**1,072,036**
Accumulated Depreciation and Impairment					
At 1 April 2014	-	-	-	-	**-**
Balances transferred in	(506)	(22,656)	(248,107)	-	**(271,269)**
Revised Opening Balance	**(506)**	**(22,656)**	**(248,107)**	**-**	**(271,269)**
Reclassification	(96)	(2,983)	3,769	-	**690**
Depreciation Adjustment	-	87	(5,221)	-	**(5,134)**
Depreciation Charge for the Year	(55)	(2,802)	(24,174)	-	**(27,031)**
Derecognition - Disposals	119	14,436	36,253	-	**50,808**
At 31 March 2015	**(538)**	**(13,918)**	**(237,480)**	**-**	**(251,936)**

G6 Intangible Assets

Intangible assets in the Group Accounts relate wholly to Nexus.

Cost or valuation	2014/15 £000	2015/16 £000
Opening Balance	-	6,937
Balances Transferred In	3,676	-
Revised Opening Balance	**3,676**	**6,937**
Reclassification	3,414	-
Derecognition - disposals	(153)	-
Transfers from assets under construction	-	-
Total	**6,937**	**6,937**

Depreciation and impairment	2014/15 £000	2015/16 £000
Opening Balance	-	3,509
Balances Transferred In	1,767	-
Revised Opening Balance	**1,767**	**3,509**
Reclassification	690	-
Amortisation correction	(118)	-
Amortisation provided during the period	1,306	801
Derecognition - disposals	(136)	-
Total	**3,509**	**4,310**

Net Book Value at 31 March	**3,428**	**2,627**

G7 Financial Instruments

Categories of Financial Instruments

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

Long Term 31 March 2015 £000	Short Term 31 March 2015 £000		Long Term 31 March 2016 £000	Short Term 31 March 2016 £000
		Investments		
-	28,000	Fixed term deposits	-	89,000
1		Long term investments	1	-
1	**28,000**	**Total Investments**	**1**	**89,000**
		Debtors		
9,266	-	Long term debtors - Loans and advances treated as capital expenditure	15,370	-
-	21,166	Short term debtors	-	27,784
9,266	**21,166**	**Total Debtors**	**15,370**	**27,784**
		Borrowings		
(170,000)	(26,967)	Financial liabilities at amortised cost - Loans (Principal)	(168,333)	(1,667)
	(1,858)	Financial liabilities at amortised cost - Loans (Interest)	-	(1,690)
(170,000)	**(28,825)**	**Total included in Borrowings**	**(168,333)**	**(3,356)**
		Other Long Term Liabilities		
(48,880)	-	Pension Liability	(39,640)	-
(48,880)	-	**Total Other Long Term Liabilities**	**(39,640)**	**-**
		Creditors		
-	(30,640)	Short Term Creditors	-	(96,895)
-	**(30,640)**	**Total Creditors**	**-**	**(96,895)**

G8 Short Term Debtors

	31 Mar 2015 £000	31 Mar 2016 £000
Central government bodies	12,393	16,905
Other local authorities	3,576	846
NHS bodies	3	93
Public corporations and trading funds	134	87
Other entities and individuals	5,060	9,853
Total	**21,166**	**27,784**

G9 Cash and Cash Equivalents

	31 Mar 2015 £000	31 Mar 2016 £000
Cash	69,495	42,803
Short-term deposits with financial institutions	31,340	23,680
Total Cash and Cash Equivalents	**100,835**	**66,483**

G10 Short Term Creditors

	31 Mar 2015 £000	31 Mar 2016 £000
Central government bodies	(1,245)	(504)
Other local authorities	(4,236)	(62,853)
NHS bodies	-	-
Public corporations and trading funds	(248)	-
Other entities and individuals	(24,911)	(33,538)
Total	**(30,640)**	**(96,895)**

G11 Defined Benefit Pension Schemes

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

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

Transactions Relating to Post-employment Benefits

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

	Local Government Pension Scheme		Discretionary Benefits Arrangements	
	2014/15 £000	2015/16 £000	2014/15 £000	2015/16 £000
Comprehensive Income and Expenditure Statement				
Cost of Services:				
Current service cost	3,690	4,590	-	-
Past service costs	90	-	-	-
Financing and Investment Income and Expenditure:	-	-	-	-
Interest on net defined benefit liability/(asset)	1,440	1,250	230	170
Pension expense recognised in profit and loss	**5,220**	**5,840**	**230**	**170**

	Local Government Pension Scheme		Discretionary Benefits Arrangements	
	2014/15 £000	2015/16 £000	2014/15 £000	2015/16 £000
Other Post Employment Benefit charged to the Comprehensive Income and Expenditure Statement:				
Return on plan assets (in excess of)/ below that recognised in net interest	(15,470)	3,300	-	-
Actuarial (gains)/losses due to changes in financial assumptions	24,850	(9,650)	100	(110)
Actuarial (gains)/losses due to changes in demographic assumptions	-	-	-	-
Actuarial (gains)/losses due to changes in liability assumptions	(1,580)	(2,920)	(50)	(160)
Adjustment in respect of paragraph 58	870	2,170	-	-
Total amount recognised in Other Comprehensive Income	**8,670**	**(7,100)**	**50**	**(270)**
Total amount recognised	**13,890**	**(1,260)**	**280**	**(100)**

Assets and Liabilities in Relation to Post-employment Benefits

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

	Funded liabilities: Local Government Pension Scheme		Unfunded liabilities: Discretionary Benefits	
	2014/15 £000	2015/16 £000	2014/15 £000	2015/16 £000
Opening balance at 1 April	(229,650)	(258,730)	(5,740)	(5,680)
Current service cost	(3,690)	(4,590)	-	-
Interest cost	(9,680)	(8,130)	(230)	(170)
Contributions by participants	(1,250)	(1,300)	-	-
Actuarial gains/(losses) on liabilities - financial assumptions	(24,850)	9,650	(280)	110
Actuarial gains/(losses) on liabilities - demographic assumptions	-	-	-	-
Actuarial gains/(losses) on liabilities - experience	1,580	2,920	50	160
Net benefits paid out	8,900	8,500	520	490
Past service costs	(90)	-	-	-
Closing balance at 31 March	**(258,730)**	**(251,680)**	**(5,680)**	**(5,090)**

Reconciliation of fair value of the scheme assets:

	Local Government Pension Scheme		Discretionary Benefits	
	2014/15 £000	2015/16 £000	2014/15 £000	2015/16 £000
Opening balance at 1 April	194,330	218,780	-	-
Interest income on assets	8,340	6,970	-	-
Remeasurement gains/(losses) on assets	15,470	(3,300)	-	-
Employer contributions	8,290	7,400	520	490
Contributions by scheme participants	1,250	1,300	-	-
Net benefits paid out	(8,900)	(8,500)	(520)	(490)
Closing balance at 31 March	**218,780**	**222,650**	**-**	**-**

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	2011/12 £000	2012/13 £000	2013/14 £000	2014/15 £000	2015/16 £000
Fair value of LGPS assets	159,040	179,530	194,330	218,780	222,650
Present value of liabilities:					
LGPS liabilities	(214,830)	(240,150)	(229,650)	(258,730)	(251,680)
Impact of minimum	-	-	(2,280)	(3,250)	(5,520)
(Deficit) on funded defined benefit scheme	**(55,790)**	**(60,620)**	**(37,600)**	**(43,200)**	**(34,550)**
Discretionary benefits	(6,130)	(6,110)	(5,740)	(5,680)	(5,090)
Total (Deficit)	**(61,920)**	**(66,730)**	**(43,340)**	**(48,880)**	**(39,640)**

The split of the defined benefit obligation at the last valuation date between the various categories of members was as follows; NECA - active members 26%, deferred pensioners 13% and pensioners 61%; Nexus - active members 35%, deferred pensioners 11% and pensioners 54%.

The liabilities show the underlying commitments that the Authority has in the long run to pay post employment (retirement) benefits. The total combined liabilities of NECA and Nexus of £251.68m has an impact on the net worth of the authorities as recorded in the balance sheet, resulting in a negative pension balance of £39.64m. However, statutory arrangements for funding the deficit mean that the financial position of the authorities

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

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

The total contributions expected to be made to the Local Government Pension Scheme by NECA and Nexus in the year to 31 March 2017 is £7.55m. In addition, Strain on the Fund contributions may be required. Expected payments direct to beneficiaries in the year to 31 March 2017 are £0.49m in relation to unfunded benefits.

Basis for Estimating Assets and Liabilities
Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. Both the Local Government Pension Scheme and Discretionary Benefits liabilities have been assessed by Aon, an independent firm of actuaries, estimates for the pension fund being based on the latest full valuation of the scheme as at 31 March 2013.

The principal assumptions used by the actuary have been:

	Local Government Pension Scheme		Discretionary Benefits	
	2014/15	2015/16	2014/15	2015/16
Mortality assumptions:-				
Longevity at 65 for current pensioners:				
Men	23.1	23.2	23.1	23.2
Women	25.1	25.3	24.7	24.8
Rate for discounting scheme liabilities	3.1%	3.3%	3.1%	3.3%
Rate of inflation - Retail Price Index	2.9%	2.8%	2.9%	2.8%
Rate of inflation - Consumer Price Index	1.8%	1.7%	1.8%	1.7%
Rate of increase in pensions	1.8%	1.7%	1.8%	1.7%
Pension accounts revaluation rate	1.8%	1.7%	n/a	n/a
Rate of increase in salaries	3.3%	3.2%	n/a	n/a

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

	31 March 2015	31 March 2016		
	% Total	% Quoted	% Unquoted	% Total
Equity investments	66.4	57.5	8.6	66.1
Property	9.5	0.0	10.4	10.4
Government bonds	3.7	3.7	0.0	3.7
Corporate bonds	11.7	11.6	0.0	11.6
Cash	2.4	2.6	0.0	2.6
Other*	6.3	3.1	2.5	5.6
Total	100.0	78.5	21.5	100.0

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

Actual Return on Assets	Funded 2014/15 £000	Funded 2015/16 £000
Interest income on assets	1,440	1,150
Remeasurement gain/(loss) on assets	2,750	(520)
Actual return on assets	**4,190**	**630**

Sensitivity Analysis

The approximate impact of changing the key assumptions on the present value of the funded defined benefit obligation as at 31 March 2016 and the projected service cost for the period ending 31 March 2017 is set out below.

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

Funded LGPS Benefits

Discount Rate assumption

Adjustment to Discount rate	+0.1% per annum	Base Figure	-0.1% per annum
Present value of total obligation (£m)	31.21	31.63	32.05
% change in present value of total obligation	-1.30%		1.30%
Projected service cost (£m)	0.12	0.12	0.13
Approximate % change in projected service cost	-3.60%		3.90%

Rate of general increase in salaries

Adjustment to salary increase rate	+0.1% per annum	Base Figure	-0.1% per annum
Present value of total obligation (£m)	31.64	31.63	31.62
% change in present value of total obligation	0.00%		0.00%
Projected service cost (£m)	0.12	0.12	0.12
Approximate % change in projected service cost	0.00%		0.00%

Rate of increase to pensions in payment and deferred pensions

Adjustment to pension increase rate	+0.1% per annum	Base Figure	-0.1% per annum
Present value of total obligation (£m)	32.52	31.63	30.15
% change in present value of total obligation	2.80%		-2.80%
Projected service cost (£m)	0.13	0.12	0.12
Approximate % change in projected service cost	3.90%		-3.80%

Post retirement mortality assumption

Adjustment to mortality age rating assumption *	+0.1% per annum	Base Figure	-0.1% per annum
Present value of total obligation (£m)	32.68	31.63	30.58
% change in present value of total obligation	3.30%		-3.30%
Projected service cost (£m)	0.13	0.12	0.12
Approximate % change in projected service cost	3.60%		-3.60%

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

G12 Deferred Tax Liability

The movement for the year comprises:

	2014/15 £000	2015/16 £000
Capital Allowances	667	150
Roll over relief on capital gains	65	-
Other timing differences	(8)	(29)
Tax effect of losses	(255)	(1,216)
Total	**469**	**(1,095)**

The balance at the year end comprises:

	31 March 2015 £000	31 March 2016 £000
Excess of Capital Allowances over depreciation	(3,906)	(3,757)
Roll over relief on capital gains	(1,297)	(1,297)
Other timing differences	116	87
Tax effect of losses	986	(230)
Total	**(4,101)**	**(5,197)**

G13 Usable Reserves

	31 Mar 2015 £000	31 Mar 2016 £000
General Fund Balance	(32,704)	(35,007)
Metro Reinvigoration Reserve	(10,988)	(10,005)
NELEP Earmarked Reserves	(1,996)	(1,976)
Capital Receipts Reserve	(1,050)	-
Capital Grants Unapplied Reserve	(10,688)	(10,988)
Nexus Revenue Reserves	(13,507)	(14,206)
Nexus Capital Reserves	(28,842)	(28,168)
Total Usable Reserves	**(99,775)**	**(100,350)**

G14 Unusable Reserves

Details of movements on the Capital Adjustment Account and Financial Instruments Adjustment Account are shown on pages 48 to 49 of the NECA single entity accounts. These reserves relate to NECA only.

	31 Mar 2015 £000	31 Mar 2016 £000
Revaluation Reserve	(9,574)	(9,412)
Capital Adjustment Account	(85,147)	(93,180)
Financial Instruments Adjustment Account	1,730	8,113
Pensions Reserve	48,880	39,640
Nexus Grant Deferred Account	(396,730)	(415,894)
Nexus Unusable Capital Reserve	(29,773)	(28,635)
Total Unusable Reserves	**(470,614)**	**(499,368)**

Revaluation Reserve

The Revaluation Reserve contains the gains made by the Authority arising from increases in the value of its Property, Plant and Equipment. The balance is reduced when assets with accumulated gains are:
- Revalued downwards or impaired and the gains are lost
- Used in the provision of services and the gains are consumed through depreciation
- Disposed of and the gains are realised

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

	2014/15 £000	2015/16 £000
Balance at 1 April	-	(9,574)
Balances transferred in	(10,128)	-
Revised Opening Balance	**(10,128)**	**(9,574)**
Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	392	-
Difference between fair value depreciation and historic cost depreciation - amount written off to the Capital Adjustment	162	162
Balance at 31 March	**(9,574)**	**(9,412)**

Pensions Reserve

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

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

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

	2014/15 £000	2015/16 £000
Balance at 1 April	-	48,880
Balances transferred in	43,340	-
Revised Opening Balance	**43,340**	**48,880**
Remeasurement of the Net Defined Benefit Liability	8,900	(7,370)
Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services	5,440	6,020
Employer's pension contributions and direct payments to pensioners payable in the year	(8,800)	(7,890)
Balance at 31 March	**48,880**	**39,640**

Nexus Grant Deferred Account

	2014/15 £000	2015/16 £000
Balance at 1 April	(396,194)	(396,730)
Capital Grants Released	33,834	20,849
Capital Grants Applied	(34,370)	(40,013)
Balance at 31 March	**(396,730)**	**(415,894)**

Nexus Unusable Capital Reserve

	2014/15 £000	2015/16 £000
Balance at 1 April	(33,133)	(29,773)
Depreciation	3,360	1,138
Balance at 31 March	**(29,773)**	**(28,635)**

G15 Adjustment to net surplus or deficit on the provision of services for non cash movements and items that are Investing or Financing activities

	2014/15 £000	2015/16 £000
Surplus/(Deficit) on the provision of services	3,125	23,046
Adjustments to Surplus/(Deficit) on Provision of Services for Non-Cash Movements		
Depreciation/ Impairment & Amortisation	34,539	28,698
(Gain)/Loss on disposal of non-current assets	11,104	3,635
(Increase)/Decrease in Creditors	2,260	76,802
Increase/(Decrease) in Debtors	9,480	305
Increase/(Decrease) in Inventories	286	(123)
Movement in Pension Liability	(3,360)	(1,870)
Other non-cash items charged to the net surplus or deficit on the provision of services	(3,349)	(5,092)
	50,960	**102,355**
Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities		
Capital grants credited to surplus/(deficit) on provision of services	(47,815)	(114,098)
Other adjustments for items that are financing or investing activities	2,118	486
	(45,697)	**(113,612)**
Net cash flow from operating activities	**8,388**	**11,789**

Cash Flow Statement -

The cash flows for operating activities include the following items:

	2014/15 £000	2015/16 £000
Interest received	982	865
Interest paid	(9,027)	(12,954)

G16 Cash Flow Statement - Investing Activities

	2014/15 £000	2015/16 £000
Purchase of property, plant and equipment, investment property and intangible assets	(37,799)	(42,030)
Purchase of short-term and long-term investments	(32,000)	(176,140)
Other payments for investing activities	(1,905)	(1,834)
Proceeds from the sale of property, plant and equipment, investment property, intangible assets & heritage assets	465	71
Proceeds from short-term and long-term investments	24,500	105,140
Other receipts from investing activities	42,957	97,754
Net cash flows from investing activities	**(3,782)**	**(17,039)**

G17 Cash Flow Statement - Financing Activities

	2014/15 £000	2015/16 £000
Cash receipts of short and long-term borrowing	-	-
Other receipts from financing activities	-	-
Repayments of short and long-term borrowing	(6,000)	(27,374)
Other payments for financing activities	(11,059)	(1,727)
Net cash flows from financing activities	**(17,059)**	**(29,101)**

G18 Prior Year Adjustments

The Nexus statements for 2015 have been restated to take account of changes in accounting treatment of the following:

(i) Concessionary Travel Income and Expenditure
For the purposes of its management accounts Nexus allocates payments representing lost income as the result of the concessionary travel scheme to its operating activities (Metro/Ferry and Secured Bus Services). In the accounts in years to 31 March 2015 and prior, this reimbursement has been shown as both income and expenditure in the CIES. Although this allocation is retained in the internal accounts presented to Nexus management it is now considered appropriate to exclude it from the CIES. This change in presentation results in no change to the Total Comprehensive Income and Expenditure for the year but, rather, changes income and expenditure figures in equal and cancelling measures. The CIES for the year to March 2015 has been restated as follows:

Year end 31 March 2015

Group	**Originally stated £000**	**Adjustment £000**	**Revised £000**
Highways and transport services			
Gross expenditure	213,685	(8,147)	205,538
Gross income	(141,463)	8,147	(133,316)
Net expenditure	**72,222**	**-**	**72,222**

4.0 Supplemental Information

4.0 Supplemental Information

4.1 Glossary of Terms

Abbreviations	The symbol 'k' following a figure represents £ thousand. The symbol 'm' following a figure represents £ million.
Accruals	Income and expenditure are recognised as they are earned or incurred, not as money is received or paid.
Accounting policies	Those principles, bases, conventions, rules and practices applied by an entity that specify how the effects of transactions and other events are to be reflected in its financial statements.
Actuarial gains or losses (Pensions)	For a defined benefit pension scheme, the changes in actuarial deficits or surpluses that arise either because events have not coincided with the actuarial assumptions made for the last valuation (experience gains or losses), or the actuarial assumptions themselves have changed.
Amortise	To write off gradually and systematically a given amount of money within a specific number of time periods.
Assets	Items of worth which are measurable in terms of money.
Assets Held for Sale	Those assets, primarily long-term assets, that the Authority wishes to dispose of through sale to others.
Balances	The total level of surplus funds the Authority has accumulated over the years.
Budgets	A statement of the Authority's forecast expenditure, that is, net revenue expenditure for the year.
Capital Expenditure	Expenditure on the acquisition of a fixed asset or expenditure which adds to and not merely maintains the value of an existing fixed asset.
Capital Adjustment Account	The account accumulates (on the debit side) the write down of the historical cost of fixed assets as they are consumed by depreciation and impairments or written off on disposal. It accumulates (on the credit side) the resources that have been set aside to finance capital expenditure. The same process applies to capital expenditure that is only capital by statutory definition (revenue expenditure funded from capital under statute). The balance on the account represents timing differences between the amount of the historical cost of fixed assets that has been consumed and the amount that has been financed in accordance with statutory requirements.

Capital Receipts	Monies received from the disposal of land and other fixed assets, and from the repayment of grants and loans made by the Authority
Code of Practice on Local Authority Accounting in the	The Code specifies the principles and practices of accounting to give a 'true and fair' view of the financial position and transactions of a local authority.
Comprehensive Income & Expenditure Statement	This account summarises the resources that have been generated and consumed in providing services and managing the Authority during the financial year.
Consistency	The principle that the accounting treatment of like items within an accounting period and from one period to the next is the same.
Contingent Asset	A contingent asset is a possible asset arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Authority's control.
Contingent Liability	A contingent liability is either (i) a possible obligation arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Authority's control, or (ii) a present obligation from past events where it is not probable that a transfer of economic benefits will be required or the amount of the obligation cannot be measured with sufficient reliability.
Corporate & Democratic Core	The corporate & democratic core comprises all activities which local authorities engage in specifically because they are elected, multipurpose authorities.
Creditors	An amount owed by the Authority for work done, goods received or services rendered, but for which payment has not been made.
Current Service Cost (Pensions)	The increase in the present value of a defined benefit scheme's liabilities expected to arise from employee service in the current period.

Curtailment (Pensions)	For a defined benefit pension scheme an event that reduces the expected years of future service of present employees or reduces for a number of employees the accrual of defined benefits for some or all of their future service. Examples include termination of employee's service through redundancy or amendment of the terms affecting future benefits.
Debtors	Monies owed to the Authority but not received at the balance sheet date.
Defined Benefit Scheme (Pensions)	A pension or other retirement scheme other than a defined contribution scheme. Usually, the scheme rules define the benefits independently of the contributions payable, and the benefits are not directly related to the investments of the scheme. The scheme may be funded or unfunded.
Depreciation	The measure of the wearing out, consumption or other reduction in the useful economic life of an asset.
Earmarked Reserve	A sum set aside for a specific purpose.
Emoluments	Payments received in cash and benefits for employment.
Events after the Balance Sheet Date	Events after the balance sheet date are those events, favourable and unfavourable, that occur between the balance sheet date and the date when the statement of Accounts is authorised for issue.
Expected Rate of Return on Pensions Assets	This is an actuarially calculated estimate of the return on the scheme's investment assets during the year.
Fair Value	The fair value of an asset is the price at which it could be exchanged in an arm's length transaction less, where applicable, any grants receivable towards the purchase or use of the assets.
Fees and Charges	Income arising from the provision of services, for example, charges for the use of leisure facilities.

Finance Lease	A lease that transfers substantially all of the risks and rewards of ownership of a fixed asset to the lessee. The payments usually cover the full cost of the asset together with a return for the cost of finance.
Financial Instrument	Document (such as a cheque, draft, bond, share, bill of exchange, futures or options contract) that has a monetary value or evidences a legally enforceable (binding) agreement between two or more parties regarding a right to payment of money.
Financial Instruments Adjustment Account	The reserve records the accumulated difference between the financing costs included in the Comprehensive Income & Expenditure Account and the accumulated financing costs required in accordance with regulations to be charged to the General Fund Balance.
General Fund	The total services of the Authority.
Going Concern	The concept that the Authority will remain in operational existence for the foreseeable future, in particular that the revenue accounts and balance sheet assume no intention to curtail significantly the scale of operations.
Impairment	A reduction in the value of a fixed asset below its carrying amount on the balance sheet resulting from causes such as obsolescence or physical damage.
Intangible Assets	An asset that is not physical in nature, e.g. software licences.
Interest Cost (Pensions)	For a defined benefit scheme, the expected increase during the period in the present value of the scheme liabilities because the benefits are one period closer to settlement.
Investment Properties	Interest in land and buildings where construction work and development has been completed and the asset is held for its investment potential, any rental income being negotiated at arms length.
Liabilities	Any amounts owed to individuals or organisations which will have to be paid at some time in the future.

Liquid Resources	Current asset investments that are readily disposable by the Authority without disrupting its business and are either readily convertible to known amounts of cash at or close to the carrying amount or traded in an active market.
Materiality	An item is material if its omission, non-disclosure or misstatement in the financial statements could be expected to lead to a distortion of the view given by the financial statements.
Minimum Revenue Provision (MRP)	An amount charged by the Authority to the Comprehensive Income & Expenditure Account, for debt redemption or for the discharge of other credit liabilities.
Movement in Reserves Statement	The statement shows the movement in the year on the different reserves held by the Authority
Net Book Value	The amount at which fixed assets are included in the balance sheet being the historical cost or current value less the cumulative amounts provided for depreciation.
Net Debt	The Authority's borrowings less cash and liquid resources.
Operating Leases	Leases other than a finance lease.
Property, Plant & Equipment (PPE)	Assets that yield benefits to the Authority and the services that it provides for a period of more than one year. Examples include land, buildings and vehicles.
Provisions	These are sums set aside to meet liabilities or losses which have been incurred but where the amount and/or timing of such costs are uncertain.
Prudence	This accounting concept requires that revenue is not anticipated until realisation can be assessed with reasonable certainty. Provision is made for all known liabilities whether the amount is certain or can only be estimated in the light of information available.
Public Works Loan Board	This is a Government agency which provides loans to local authorities at favourable rates.

Related Party Transactions	A related party transaction is the transfer of assets or liabilities or the performance of services by, to or for a related party irrespective of whether a charge is made. An example could be the purchase, sale, lease, rental or hire of assets between related parties.
Reserves	These are sums set aside to meet possible future liabilities where there is no certainty about whether or not these liabilities will be incurred.
Residual Value	The net realisable value of an asset at the end of its useful life. Residual values are based on prices prevailing at the date of the acquisition (or revaluation) of the asset and do not take account of expected future price changes.
Revaluation Reserve	The reserve records the accumulated gains on the fixed assets held by the Authority arising from increases in value as a result of inflation or other factors.
Revenue Expenditure	Expenditure on providing day-to-day services, for example employee cost and premises costs.
Revenue Expenditure Funded from Capital under Statute	Expenditure which may be properly incurred, but which does not result in an asset owned by the Authority e.g. grants to other organisations for capital purposes.
Unusable Reserves	The Authority cannot use this category of reserves to provide services. Includes reserves that hold unrealised gains and losses (e.g. revaluation reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'adjustments between accounting basis and funding basis under regulation'.
Usable Reserves	Those reserves that the Authority may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use.
Useful Life	The period over which the Authority will derive benefits from the use of a fixed asset.

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North East Combined Authority Statement of Accounts 2015/16

4.3 Audit Opinion