North East Combined Authority

DURHAM • GATESHEAD • SOUTH TYNESIDE • SUNDERLAND

Audit and Standards Committee

Tuesday 27 June 2023 at 10.00am

Meeting to be held at: Council Chamber, Gateshead Civic Centre, NE8 1HH

www.northeastca.gov.uk

AGENDA

Contact Officer: Toby Ord
Tel: 0191 4247541
Email: toby.ord@northeastca.gov.uk

North East Combined Authority
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Item 3

Audit and Standards Committee

DRAFT MINUTES TO BE APPROVED

11 April 2023

(10.00am – 10.30am)

Meeting held at: Committee Room 1A, Durham County Hall, DH1 5UZ

Present:

Independent Members:	M Scrimshaw (Chair), S Green (Vice-Chair)
Councillors:	K Dawes (South Tyneside), L Mavin (Durham), A Mullen (Sunderland)
Officers:	Tracy Davis (Senior Manager of Assurance, Sunderland City Council), Gavin Barker (Audit Director, Mazars), Patsy O'Reagan (Principal Accountant, Durham County Council), and Toby Ord (Strategy and Democratic Services Assistant, NECA)

1 **APOLOGIES FOR ABSENCE (MEMBERS)**

Apologies for absence were received from Councillor Kirton, Eleanor Goodman, Paul Darby, and Gavin Armstrong.

2 **DECLARATIONS OF INTEREST**

None.

3 **MINUTES OF THE PREVIOUS MEETING HELD ON 28 JUNE 2022**

The minutes of the meeting held on 28 June 2022 were approved as a correct record.

4 **MINUTES OF THE PREVIOUS MEETING HELD ON 27 SEPTEMBER 2022**

The minutes of the meeting held on 27 September 2022 were approved as a correct record.

5 **MINUTES OF THE PREVIOUS MEETING HELD ON 22 NOVEMBER 2022**

The minutes of the meeting held on 22 November 2022 were approved as a correct record.

6 **NECA INTERNAL AUDIT PLAN 2023/24**

Submitted: Report of the Senior Manager of Assurance (previously circulated and copy attached to the official minutes).

The Senior Manager of Assurance at Sunderland City Council delivered a brief summary of the report, noting that work planned for undertaking is laid out within.

There was mention of coordination of an audit certificate for the local transport grant which have been received from other Authorities for residual spending. NECA will send these certificates off on behalf of participating Authorities. Any risks rising from the transition to the new Combined Authority will also be taken into consideration.

Members were made aware of performance indicators also included in the report for information.

RESOLVED that: -

i. the report be noted.

7 **AGREEMENT OF ACCOUNTING POLICIES FOR APPLICATION IN THE 2022/23 FINANCIAL STATEMENTS**

Submitted: Report of the Chief Finance Officer (previously circulated and copy attached to the official minutes).

The Principal Accountant delivered the report on behalf of the Chief Finance Officer which provided a brief update on accounting policies for the current financial year.

Members were made aware that the accounting policies applied for the previous financial year are appropriate for 2022/23 with the exception of Policy 13, Property, Plant and Equipment (excluding Highways Infrastructure Assets). A new Policy 14 has also been implemented due to changes in code. A final change to Policy 22, Tyne Tunnels Income was also made due to the Tyne Tunnel no longer receiving cash payments in tolls.

The Chair questioned the success of the new Tyne Tunnel ANPR toll system – the new system has a 97% success rate, meaning only 3% of users travelling through the tunnel do not result in directly paid tolls.

The Committee was made aware that the Authority has a policy of not accruing for manual sundry creditor or sundry debtor provisions for less than

£1,000, other than in exceptional circumstances, in addition to a capitalisation threshold of £10,000. The Vice-Chair queried whether there was any consideration for moving these thresholds, though due to NECA's low volume of transactions, this was said to be unnecessary.

RESOLVED that: -

i. the report be noted.

8 CHANGES TO THE CODE OF PRACTICE FOR LOCAL AUTHORITY ACCOUNTING IN THE UK

Submitted: Report of the Chief Finance Officer (previously circulated and copy attached to the official minutes).

The Principal Accountant delivered the report on behalf of the Chief Finance Officer which provided a brief overview of changes to the code of practice.

It was noted that the statement of accounts has been prepared in accordance with CIPFA code of practice and that an exceptional update to the Code was issued in November 2022 to include a temporary relief in respect of the reporting of Infrastructure Assets which will be applied until 2024/25.

Members were directed to appendix 1 of the report which provided a summary of key changes from 2021/22 to 2022/23.

RESOLVED that: -

i. the report be noted.

9 AUDIT COMPLETION REPORT 2020/21

Submitted: Report of the External Auditor (previously circulated and copy attached to the official minutes).

The Audit Director of Mazars delivered the report which provided a summary of the audit completion for the 2020/21 year.

It was stated that there was hope to have both the 2020/21 and 2021/22 audit completion reports brought to the Committee. An issue regarding infrastructure previously held up the former, though this was said to now be resolved. The latter cannot be concluded due to a pensions fund audit assurance letter – another national issue.

The External Auditor explained that when draft accounts are produced, auditors aim to use the current pension rules, using a technique denoted as 'roll forward'. A technique of triangular evaluation is also employed every three years. Under regular circumstances the audit would have concluded in November, though due to an information update on current pensions figures, a discussion has arisen within the audit sector whether or not this new information should be reflected within the report to reflect experienced delays and expenses incurred.

Some actuaries were said to have approached authorities for consideration on the matter, though Tyne & Wear Pension Fund has not to the best of their knowledge. If an additional report is not required, it was stated that Mazars can move swiftly in signing off the 2021/22 audit. The External Auditor conceded that any required changes would be an inconvenience though relatively straightforward to handle. The additional report would likely result in additional charges from the actuary also. There was also said to be major difficulty in having people testing data provided for the actuary – work which is a prerequisite to having the report signed off. This has led to concerns over pension fund auditors' ability to do required work. Due to the aforementioned, there is no current prediction on a resolution timeframe and the 2021/22 report will remain on hold.

As for the 2020/21 report, it was explained that the national issue regarding material infrastructure inhibited completion of the report. This did not impact NECA reserves as the problem only existed in accounting terms. A Government statutory override was put in place on Christmas Day 2022, CIPFA guidance was provided mid-January, and NECA and Nexus opted to adopt the override in full. It was noted that this was an agreeable course of action as CIPFA clarified that the Authority only has to disclose its net position. It was added that UK Roads Leadership Group did not have any residual issues with asset management.

NECA had followed all relevant guidance and appropriate disclosures, with a clarification of statutory override claimed. A similar process was conducted by Nexus, with no impact on group accounts.

Two documents, the Narrative Statement and the Annual Governance Statement, were omitted from the report as they remain unchanged since they were last presented to the Committee on 25 January 2022.

The External Auditor noted that there were no recommendations or significant movements arising from the value for money arrangements, and that the Whole of Government Accounts remain unaddressed as an opinion hasn't been issued – this can be designated once the paper has been presented to the NECA Leadership Board.

The proposed audit report was said to have been updated though no exceptions have been raised. The Value for Money section has been updated to declare no significant reports, though the Auditors were said to be anticipating an inhibition in formally concluding the report due to the Whole of the Government Accounts issue.

The Vice-Chair resonated with the External Auditor on the national issues inhibiting their progress and queried whether the Tyne & Wear Pension Fund could be approached to commission further work, and whether it was in-part their fault for the delays. It was clarified that the actuary provides the information, not the Fund, and that current reports have been drafted in accordance with the most up to date information available. As auditing and accounting standards advises to work on the most up-to-date information available, it's necessary to wait for further updated guidance before moving forward.

The Senior Manager of Assurance informed the Committee that the draft accounts for 2022/23 are due to be issued on 31 May 2023, in which an Annual Review of Audit and Governance Arrangements will be undertaken. Members were asked if they'd be happy for this to be distributed external to the meeting, to which they agreed. It was noted that any changes to this paper will be brought to the following meeting.

RESOLVED that: -

i. the report be noted.
ii. the Annual Review of Audit and Governance Arrangements be distributed to Members externally once prepared.

10 **STATEMENT OF ACCOUNTS 2020/21**

Submitted: Report of the Chief Finance Officer (previously circulated and copy attached to the official minutes).

The Principal Accountant gave a brief update, noting that the statement was mostly unchanged aside from note 11a, which has been split between policy 13 & 14. It was noted that papers were not issued prior to the meeting due to staff leave and can be recirculated if required.

The report is due to be taken to NECA Leadership Board for approval.

RESOLVED that: -

i. the report be noted.

11 **DATE AND TIME OF NEXT MEETING:** 27 June 2023 at 10.00am (TBC).

North East Combined Authority

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Item 4

Audit and Standards Committee

Date:	**27 June 2023**
Subject:	**Consideration of 'Going Concern Status' for the Statement of Accounts for the year ended 31 March 2023**
Report of:	**Chief Finance Officer**

Executive Summary

NECA is required to assess whether it should be considered as a 'going concern' organisation and whether the authority's annual accounts should be prepared on that basis. This report considers NECA's status as a going concern and recommends that Members approve this.

When preparing the annual statement of accounts, NECA complies with the Code of Practice on Local Authority Accounting 2022/23 (the Code) as published by the Chartered Institute of Public Finance and Accountancy (CIPFA). The Code requires the accounts to be prepared on a going concern basis.

This report details the reasons why it is recommended that NECA be considered as a going concern and it is appropriate for the statement of accounts to be prepared on that basis. In summary those reasons are:

a) The financial position of the authority remains healthy;
b) As at 31 March 2023 NECA held general reserves of £8.176m and reserves earmarked for specific future purposes, including those held on behalf of Nexus, of £59.669m;
c) Net assets at 31 March 2023 amounted to £217.837m;
d) The authority has been able to set a balanced budget for 2023/24 and has a clear plan in place to continue to deliver transport services up to (at least) 2024/25;
e) The authority has a history of stable finance and ready access to financial resources in the future; and
f) There are no significant financial, operating or other risks that would jeopardise the authority's continuing operation.

Recommendations

Audit and Standards Committee

The Audit and Standards Committee is recommended to note the opinion of the Chief Finance Officer that NECA be considered as a going concern and the statement of accounts be prepared on that basis.

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Audit and Standards Committee

1. Background Information

1.1 The general principles adopted in compiling the statement of accounts are in accordance with the Code of Practice on Local Authority Accounting 2022/23 (the Code) as published by the Chartered Institute of Public Finance and Accountancy (CIPFA). The Code defines proper accounting practices for local authorities in England, Wales, Scotland and Northern Ireland.

1.2 The Code requires that a local authority's statement of accounts is prepared on a going concern basis; that is, the accounts should be prepared on the assumption that the authority will continue in operational existence for the foreseeable future. This means that the Comprehensive Income and Expenditure Statement and the Balance Sheet assume no intention to curtail significantly the scale of the operation.

1.3 An inability to apply the going concern concept can have a fundamental impact on the financial statements. In reality, it would be highly unusual for a local authority to have a going concern problem. There may be cases where part of an authority's operations cease to be viable or affordable. However, this will not give rise to a going concern issue for the authority given that the impact would be restricted to only that part of the operation.

1.4 Transfers of services under combinations of public sector bodies similarly do not negate the presumption of going concern. In December 2022, the Government and the seven North East Councils agreed a “minded to” devolution deal”. In order to establish the new regional Mayoral Combined Authority, the existing combined authorities (NECA and NTCA) will need to be abolished. The statutory order is expected to provide appropriate continuity and transitional arrangements so that any acts of the existing combined authorities are to be treated as the acts of the new mayoral combined authority. The order is also to provide for the staffing, assets, rights and liabilities of the existing combined authorities to transfer to the MCA. This will ensure that the regional transport arrangements which are currently overseen by the Joint Transport Committee (JTC) and other funding programmes of NECA and NTCA will be maintained by the MCA without interruption. For this reason it is considered appropriate, in line with the Code of Practice on Local Authority Accounting, for these accounts to be prepared on a going concern basis.

2. Proposals

2.1 The assumption that a local authority's services will continue to operate for the foreseeable future is made because local authorities carry out functions essential to the local community and are themselves revenue raising bodies (with limits on their revenue raising powers arising only at the discretion of central government). If an authority were in financial difficulty, the prospects are therefore that alternative arrangements might be made by central government either for the continuation of the services it provides or for assistance with the recovery of a deficit over more than one financial year.

2.2 Local authorities, including Combined Authorities, derive their powers from statute and their financing and accounting framework is closely monitored by primary and secondary legislation. It is a fundamental concept of local authority accounting that wherever accounting principles and legislative requirements are in conflict, the legislative requirements then apply.

2.3 An organisation must consider its financial performance to assess its ability to continue as a going concern. This assessment should cover historical, current and future performance.

Historical Position

2.4 The following table shows the net assets of the authority for the last six years:

Year ended 31 March	Net Assets (£ million)
2018	163.599
2019	114.283
2020	125.141
2021	99.316
2022	145.419
2023	217.837

2.5 The significant reduction in net assets between 31 March 2018 and 31 March 2019 was due to the changes to the boundaries of NECA and the establishment of the NTCA in that year. From this point onwards the net assets of the North East Joint Transport Committee (JTC) were split between the accounts of NECA and NTCA. Similarly, the reduction between 31 March 2020 and 31 March 2021 is due to the transfer of the net assets of the North East LEP to NTCA. As set out in paragraph 1.4 above, these transfers of functions do not negate the going concern presumption.

2.6 The external auditor provides a ‘Value for Money’ conclusion at each year end providing their opinion on whether the authority has put arrangements in place for securing economy, efficiency and effectiveness in its use of resources. The authority's arrangements are considered against one overall criterion which is made up of three sub criteria as set out by the National Audit Office (NAO).

2.7 The overall criterion 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'. The three sub-criteria are: informed decision-making; sustainable resource deployment; and working with partners and other third parties.

2.8 The last Audit Completion Report related to 2021/22 and was reported to the Audit and Standards Committee on 22 November 2022. Within that report the external auditor stated that although there was a delay in issuing the audit opinion, they anticipated having no significant weaknesses to report in relation to the arrangements that NECA has in place to secure economy, efficiency and effectiveness in its use of resources.

Current Position

2.9 At 31 March 2023 the authority held general reserves of £8.176m and reserves earmarked for specific future purposes, including those held on behalf of Nexus, of £59.669m.

2.10 The financial position of the authority remains healthy. Net assets at 31 March 2023 amounted to £217.837m, an increase of £72.418m during 2022/23.

Future Plans

2.11 The authority approved its budget for 2023/24 and Medium Term Financial Strategy (MTFS) to 2025/26, at the Leadership Board meeting on 24 January 2023.

Medium Term Financial Strategy – 2023/24 to 2025/26

2.12 The financial outlook for the constituent local authorities that form NECA will continue to be extremely uncertain until the Fair Funding Review is concluded and the long term impact of the pandemic and of the UK exit from the European Union and associated impacts arising from the Trade Deal are fully understood.

2.13 It is uncertain when there will be clarity on these areas, with the local government minister confirming that councils will not receive multi-year funding settlements until the Fair Funding Review is concluded, for which a revised date has not been set. This continues to make medium term financial planning difficult because NECA is largely funded by government grants and the constituent local authority contributions in the form of the Transport Levy and contributions to the Corporate costs of the authority.

2.14 Recovery from the COVID-19 pandemic will also continue to have a significant financial impact on the constituent authorities and NECA in 2023/24 and future years. NECA and the JTC began to experience the impact of the pandemic in March 2020 when levels of traffic using the Tyne Tunnels and the passengers using the Tyne and Wear Metro reduced significantly. Although Tyne Tunnels traffic levels have now recovered, metro patronage remains below pre-pandemic levels. Nexus and constituent local authorities have received significant grant funding from DfT to manage and offset the additional costs and reduced income arising from the pandemic, however, future funding is uncertain and local authorities may still be expected to use their own reserves to fund any shortfall in future funding.

2.15 The authority continues to have a robust financial standing with sound and continuously improving financial management procedures and processes in place. During 2020/21 the NECA financial management and accounting systems were transferred onto the Durham County Council platform and during 2021/22 these arrangements received ‘substantial’ assurance from internal audit.

2.16 The authority continues to face a range of budget pressures including general inflation and increases in staff costs for directly employed staff and for services provided through Service Level Agreements with constituent local authorities.

2.17 The MTFS sets out the authority’s approach to achieving a sustainable budget over the medium term whilst ensuring that all revenue resources are directed towards corporate priorities. The MTFS describes the financial direction of the authority over the planning period and outlines the financial pressures it will face.

2.18 In general, the authority has been accurate in forecasting the level of budget pressures and savings required, which has allowed the development of strong plans and enabled the authority to robustly manage the implementation and delivery on time. This has put the authority in as strong a position as possible to meet the ongoing financial challenges across this MTFS and beyond.

2.19 After taking into account base budget pressures, additional investment and savings and specific government grants, the authority’s net budget requirement for 2023/24 is £91.340m. The financing of the net budget requirement is detailed in the following table:

Financing of the 2023/24 Budget

Funding Stream	**£m**
JTC Transport Levies	91.170

Contributions from constituent local authorities – NECA Corporate	0.100
Contributions from constituent local authorities – JTC Accountable Body	0.070
Total	**91.340**

Capital Funding

2.20 On 17 January 2023, the JTC agreed the revised 2022/23 capital budget and the indicative capital programme for the period 2023/24 to 2025/26.

	2023/24 £m	2024/25 £m	2025/26 £m
Transforming Cities Fund	44.009	0.000	0.000
Active Travel Fund Tranche 2	4.161	0.000	0.000
Active Travel Fund Tranche 3	16.000	0.000	0.000
Metro Asset Renewal Plan	43.897	46.314	38.474
Metro Fleet Replacement	115.236	44.348	13.765
Nexus Other Capital Projects	3.107	10.399	0.340
Metro Flow	1.075	0.000	0.000
Tyne Tunnels	0.200	0.000	0.000
Local Transport Plan	11.309	11.309	11.309
Total	**238.994**	**112.370**	**63.888**

2.21 The capital programme delivers some of the investment in transport infrastructure necessary to work towards the JTC's aspirations in its North East Transport Plan 2021-2035 of "moving to a green, healthy, dynamic and thriving North East".

2.22 The authority has been able to set a balanced budget for 2023/24 and has a clear plan in place to continue to deliver services up to 2026. Based upon this, it is evident that the authority is a going concern.

Financial Reserves

2.23 Reserves are held as a:

- Working balance to help cushion the impact of any uneven cash flows and avoid unnecessary temporary borrowing – this forms part of the general reserves;
- Contingency to cushion the impact of any unexpected events or emergencies – this also forms part of general reserves;
- Means of building up funds, earmarked reserves to meet known or predicted future liabilities and fund future capital expenditure.

2.24 Based on the level of reserves held, the authority has demonstrated robust financial management that underpins its status as a going concern.

Risk

2.25 The authority has previously recognised that a wide range of financial risks need to be managed and mitigated across the medium term. All risks will be assessed continually throughout the budget period. Some of the key risks identified include:

- Ensuring the achievement of a balanced budget and financial position across the MTFS period;
- Ensuring savings plans are risk assessed across a range of factors e.g. impact on customers, stakeholders, partners and employees;
- There is no certainty over the quantum of government funding available for local government beyond 2023/24. Given the pressures faced, particularly from social care, it is imperative that the quantum is increased and that a long-term settlement is agreed;
- The outcomes of the government's Fair Funding Review, which has been delayed from 2020 with no clear implementation date. This review could result in significant changes to the distribution of government funding;
- Sources and levels of funding available to the JTC to develop the North East region's transport infrastructure may reduce;
- Failure of the JTC to secure the maximum amount of transport funding available to progress transport infrastructure in the North East region;
- Funding secured for transport initiatives within the North East region by the JTC and its partners may not be able to be used on a timely basis or be sufficient to complete intended projects;

- The impact of future increases in inflationary factors such as pay awards. Levels of information remain high and are reducing more slowly than had been forecast;
- It is not possible to be clear at this point as to any long-term impact from the Covid-19 pandemic on NECA costs and sources of income. This will be closely monitored with any ongoing impact needing to be built into future MTFS plans;
- The ongoing impact of Brexit, which could affect future government finance settlements, business rate income, price inflation and European funding.

2.26 Based on the above there are no risks which would indicate that the authority is not a going concern.

Conclusion

2.27 When considering and approving the accounts the Leadership Board, being those charged with governance for the authority, will need to consider which of the following three basic scenarios is the most appropriate:

a) The body is clearly a going concern and it is appropriate for the accounts to be prepared on the going concern basis;
b) The body is a going concern but there are uncertainties regarding future issues which should be disclosed in the accounts to ensure the true and fair view;
c) The body is not a going concern and the accounts will need to be prepared on an appropriate alternative basis.

2.28 Based upon the assessment undertaken, in my view:

- The authority has a history of stable finance and ready access to financial resources in the future;
- There are no significant financial, operating or other risks that would jeopardise the authority’s continuing operation;
- The authority is therefore a going concern and it is appropriate for the statement of accounts to be prepared on that basis.

3. Reasons for the Proposals

3.1 This report is presented to the Audit and Standards Committee as per point 12 of its terms of reference: “the Audit and Standards Committee will review key information relating to NECA’s Statement of Accounts”.

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Audit and Standards Committee

4. Alternative Options Available

4.1 This report is provided for information.

5. Next Steps and Timetable for Implementation

5.1 The draft accounts and the audited statement of accounts will be presented to the Audit and Standards Committee for consideration and to the Leadership Board for approval following the conclusion of the audit later this financial year.

6. Potential Impact on Objectives

6.1 There are no impacts on objectives arising from this report.

7. Financial and Other Resources Implications

7.1 This report considers NECA as a 'going concern'.

8. Legal Implications

8.1 Compliance with the Accounts and Audit Regulations 2015 and the CIPFA Code of Practice on Local Authority Accounting 2022/23 which is based upon approved accounting standards in England and Wales and constitutes proper accounting practice under the terms of section 21(2) of the Local Government Act 2003.

9. Key Risks

9.1 There are no risk implications arising from this report. Key financial risks to the authority are set out in the main body of the report.

10. Equality and Diversity

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

11. Crime and Disorder

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

12. Consultation/Engagement

12.1 The statement of accounts will be subject to a public inspection period during June and July 2023.

13. Other Impact of the Proposals

Audit and Standards Committee

13.1 There are no other impacts arising from these proposals.

14. Appendices

14.1 None

15. Background Papers

15.1 NECA Budget and MTFS – Leadership Board 24 January 2023 Leadership-Board-Agenda-Pack-FINAL-24-January-2023.pdf (northeastca.gov.uk)

16. Contact Officers

16.1 Eleanor Goodman, Finance Manager – NECA, eleanor.goodman@northeastca.gov.uk, 0191 433 3860

17. Sign off

17.1

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

18. Glossary

18.1 CIPFA – Chartered Institute of Public Finance and Accountancy

DfT – Department for Transport

MCA – Mayoral Combined Authority

NECA – North East Combined Authority

NTCA – North of Tyne Combined Authority

North East Combined Authority

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Item 5

Audit and Standards Committee

Date:	**27 June 2023**
Subject:	**Draft Statement of Accounts 2022/23**
Report of:	**Chief Finance Officer**

Executive Summary

This report presents the draft unaudited NECA Statement of Accounts for the 2022/23 financial year to the Audit and Standards Committee for consideration. Attached to the report are the unaudited Statement of Accounts and an accompanying Narrative Report.

There are four core statements produced to provide fundamental information on the financial activities and position of the Authority to 31 March 2023:

a) Movement in Reserves Statement;
b) Comprehensive Income and Expenditure Statement;
c) Balance Sheet; and
d) Cash Flow Statement.

NECA also produces Group accounts which consolidate the results of Nexus.

The unaudited Statement of Accounts were authorised by the Chief Finance Officer and published on the NECA website on 31 May 2023, in line with the statutory deadline.

The Statement of Accounts is subject to a 30 working days period of public inspection, from 1 June 2023 to 12 July 2023.

The external audit of the accounts will take place later this year and the timing is subject to further discussion and planning with the external auditors.

Recommendations

The Audit and Standards Committee is recommended to note the contents of the report and the draft unaudited Statement of Accounts that are attached.

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Audit and Standards Committee

1. Background Information

1.1 The Accounts and Audit (Amendment) Regulations 2021, which stipulate a two stage approval process for the statement of accounts, extended the statutory audit deadlines for 2020/21 and 2021/22 for local authorities. For 2022/23, the deadline for the publication of unaudited financial statements reverted to 31 May.

1.2 The first statutory deadline requires that the responsible financial officer, by no later than 31 May (was 31 July), should sign and certify that the statement of accounts presents a true and fair view of:

a) The financial position of the authority for the year to 31 March previous; and

b) Its income and expenditure for the year to 31 March previous.

1.3 The second stage requires that on or before 30 September (was 30 November), approval needs to be given to the statement of accounts by resolution of a committee, which for NECA is the Leadership Board. This approval will take account of the views of the external auditor. This is done in order that the Statement of Accounts can then be formally published.

1.4 There is a requirement for the authority to hold a thirty working day inspection period which must include the first ten working days in June.

1.5 The unaudited statement of accounts for the financial year ended 31 March 2023 was authorised by the responsible financial officer (the Chief Finance Officer) and published on the NECA website by 31 May 2023, in line with the statutory deadline.

1.6 The statement of accounts is subject to audit by the appointed external auditor, Mazars LLP. The audit of the accounts will commence later in the year, and upon completion, the Auditor’s report will be incorporated into the published version of the document.

1.7 Subject to completion of the external audit, the audited statement of accounts for 2022/23 will be presented for consideration at a later meeting of the Audit and Standards Committee and then to the Leadership Board for approval.

1.8 The attached unaudited statement of accounts is available for inspection by the public from 1 June 2023 to 12 July 2023.

2. Proposals

Statement of Accounts

2.1 The statement of accounts for the financial year ended 31 March 2023 has been prepared in accordance with the ‘Accounts and Audit Regulations’ 2003, as amended by the 'Accounts and Audit (Amendment) (England) Regulations' 2006 and 2009, the 'Accounts and Audit (England) Regulations 2015', the 'Accounts and Audit (Amendment) Regulations 2021' and the 'Code of Practice on Local Authority Accounting 2022/23' (the Code) as published by the Chartered Institute of Public Finance and Accountancy (CIPFA).

2.2 The Code is based on approved/recommended accounting standards in England and Wales and constitutes 'proper accounting practice' under the terms of section 21 (2) of the Local Government Act 2003. The authority is therefore legally required to follow this code of practice. Explanatory notes are included in the document to assist in the interpretation of the accounts, which are unavoidably technical and complex.

Key information from the Statement of Accounts

2.3 Page numbers used in this covering report refer to the page numbers on the statement of accounts document, not those used in the full agenda pack of reports. There are four core statements to provide fundamental information on the financial activities and position of the Authority, and the purpose of these is described below.

2.4 a) Movement in Reserves Statement (page 4);

b) Comprehensive Income and Expenditure Statement (page 5);

c) Balance Sheet (page 6);

d) Cash Flow Statement (page 7).

NECA also produces Group accounts which consolidate the results of Nexus (page 79 onwards).

Movement in Reserves Statement

2.5 This statement shows the movement in year on the different reserves held by NECA analysed into 'usable' reserves and 'unusable' reserves.

2.6 There has been a significant increase in total reserves held from £145.419m at 31 March 2022 to £217.837m at 31 March 2023, mainly due to receipt during the year of grants (namely Bus Service Improvement Plan, Active Travel Fund and Transforming Cities Fund) which are committed to fund capital and revenue expenditure in future years but which have not yet been used for project delivery or claimed by local authorities delivering capital projects on the JTC's behalf. Capital grants are held in the Capital Grants Unapplied account at the year end and revenue grants are held in earmarked reserves. These will be drawn upon in

2023/24 as projects are delivered and funding paid out to cover expenditure defrayed.

2.7 Usable reserves totalled £145.472m at 31 March 2023 which included £59.669m earmarked reserves and £77.627m capital grants unapplied, representing funds committed to meet expenditure requirements in future years. The corresponding balances held on these reserves at 31 March 2022 was £11.305m earmarked reserves and £60.986m capital grants unapplied.

2.8 Unusable reserves totalled £72.365m at 31 March 2023, which includes reserves absorbing timing differences arising from the different arrangements for accounting for and financing non-current assets, financial instruments and pensions assets and liabilities in accordance with statutory provisions, and for containing gains made by the Authority arising from increases in the value of Property, Plant and Equipment. Unusable reserves totalled £64.557m at 31 March 2022.

Comprehensive Income and Expenditure Statement (CIES)

2.9 The CIES shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount charged against the General Fund and therefore funded from the Transport levy and other sources of income such as grants.

2.10 The gross cost of services during the year, including capital grants paid to third parties as well as revenue expenditure incurred in year, was £108.318m (£80.578m in 2021/22). This includes a significant amount of 'Revenue Expenditure Funded by Capital Under Statute' (REFCUS) – representing investment in capital assets owned by third parties, not by the Authority itself.

2.11 After deducting specific grants and income from fees and charges, the net cost of services was a surplus of £15.544m in 2022/23 (deficit of £7.016m in 2021/22). The net cost was lower in 2022/23 mainly due to significant grants received in the year which have been released to the CIES as conditions are met through commitment to fund expenditure programmes such as the BSIP, but where the grants have not yet been used to fund the expenditure. (These grants are held in the year-end in the Capital Grants Unapplied reserve for capital, and Earmarked reserves for revenue). Net expenditure was funded from a range of sources including the Transport Levy, other contributions from Constituent Authorities and Government Grants.

Balance Sheet

Audit and Standards Committee

2.12 The Balance Sheet shows the value of assets and liabilities recognised at 31 March. The net assets (total assets less liabilities) are matched by the reserves held by the Authority.

2.13 Net assets in the NECA accounts increased from £145.419m at 31 March 2022 to £217.837m at 31 March 2023 which, as described above, is primarily due to the volume of grants received during the year which are held as short term investments to fund expenditure committed for future years.

Cash Flow Statement

2.14 The Cash Flow Statement shows the change in cash and cash equivalents during the financial year. The statement shows how the Authority generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities.

2.15 Cash and cash equivalents increased from £40.013m at 31 March 2022 to £51.321m at 31 March 2023. The majority of the funds received as grants during the year but not yet defrayed and held to fund activity in future years were placed as fixed term investments in line with the planned programme of works and these are shown in the 'Short Term Investments' line on the Balance Sheet (which increased from £89.792m at 31 March 2022 to £152.694m at 31 March 2023).

Notes to the Core Financial Statements

2.16 The notes are important in the presentation of a true and fair view of the financial performance and position of NECA to 31 March 2023. They aim to assist understanding by presenting information about the basis of preparation of the core financial statements, by disclosing information required by the Code that is not presented elsewhere and by providing information that is not provided elsewhere but is relevant to the understanding of the accounts. They also include the Accounting Policies adopted in preparing the accounts.

Group Accounts

2.17 The Group Financial Statements and Notes report the financial picture of all activities conducted by the Authority, including those delivered through partnerships and separate undertakings controlled by the Authority, in this case Nexus.

Other Documents

2.18 Published alongside the draft Statement of Accounts are two further documents which do not form part of the accounts for audit but provide further context. The Narrative Report (attached here as Appendix 1) aims to offer interested parties a more understandable guide to the most significant matters reported in the accounts. The Annual Governance Statement (elsewhere on this agenda) gives assurance that appropriate mechanisms are in place for the maintenance of good governance across the activities of the Authority.

Accounting for the North East Joint Transport Committee

2.19 The North East Joint Transport Committee (JTC) brings together a total of seven members from each of the Constituent Authorities of the region: four from the North East Combined Authority (NECA) and three from the North of Tyne Combined Authority (NTCA) in accordance with the Order and was created on the 2 November 2018.

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

1. Split the revenues between that which relates to NECA and NTCA. In this case, the constitution of the JTC and its funding arrangements suggests that, in the first instance, the revenues should be divisible into that which relates to Durham (allocated wholly to NECA), that which relates to Northumberland (allocated wholly to NTCA) and that which relates to Tyne and Wear (requires further division into NECA and NTCA).
2. The revenues which relate to Tyne and Wear must be divided into that which relates wholly to the NECA or NTCA area and that which relates to activities now wholly attributable under the preceding two points which require apportionment.

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

2.22 For the 2022/23 accounts, the mid-year estimated population published by the Office of National Statistics as at June 2020 is used, which is the basis on which the Transport levy payments for the 2022/23 year are required to be calculated.

3. Reasons for the Proposals

Audit and Standards Committee

3.1 This report is presented to the Audit and Standards Committee as per point 12 of its terms of reference: "The Audit and Standards Committee will review key information relating to NECA's Statement of Accounts".

4. Alternative Options Available

4.1 This report is provided for information and for consideration as part of the audit process to comply with the 'Accounts and Audit Regulations 2003', as amended by the 'Accounts and Audit (Amendment) (England) Regulations 2006 and 2009', the 'Accounts and Audit (England) Regulations 2015' the 'Accounts and Audit (Amendment) Regulations 2021' and the 'Code of Practice on Local Authority Accounting 2022/23' (the Code) as published by the Chartered Institute of Public Finance and Accountancy (CIPFA).

5. Next Steps and Timetable for Implementation

5.1 The audit of the NECA accounts will take place later this year, after which the final accounts, along with the report of the external auditor, will be reported to the Audit and Standards Committee and presented to the NECA Leadership Board for approval.

6. Potential Impact on Objectives

6.1 There are no impacts on objectives arising from this report.

7. Financial and Other Resources Implications

7.1 The report and the draft statements that are appended to this report detail the financial position of the Authority as at 31 March 2023.

8. Legal Implications

8.1 NECA is required to comply with the Accounts and Audit Regulations 2015 and prepare accounts compliant with the CIPFA Code of Practice on Local Authority Accounting 2022/23 which is based upon approved accounting standards in England and Wales and constitutes proper accounting practice under the terms of section 21(2) of the Local Government Act 2003.

9. Key Risks

9.1 There are no risk implications arising from this report.

10. Equality and Diversity

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

North East Combined Authority
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Audit and Standards Committee

11. Crime and Disorder

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

12. Consultation/Engagement

12.1 The statement of accounts will be subject to a public inspection period from 1 June 2023 to 12 July 2023. Consultation on this report has taken place with NECA statutory officers.

13. Other Impact of the Proposals

13.1 There are no other impacts arising from these proposals.

14. Appendices

14.1 Appendix 1 – Narrative Report 2022/23

Appendix 2 – NECA Statement of Accounts 2022/23 (Subject to Audit)

15. Background Papers

15.1 None

16. Contact Officers

16.1 Eleanor Goodman, Finance Manager – NECA, eleanor.goodman@northeastca.gov.uk, 0191 433 3860

17. Sign off

17.1
- Head of Paid Service:
- Monitoring Officer:
- Chief Finance Officer:

18. Glossary

Please provide a glossary in respect of any abbreviations used in the report – e.g. DfT, TfN, HMRC – or any technical terms with which an ordinary member of the public may not be familiar.

18.1 BSIP – Bus Service Improvement Plan

CIPFA – Chartered Institute of Public Finance and Accountancy

DfT – Department for Transport

Audit and Standards Committee

JTC – Joint Transport Committee

NECA – North East Combined Authority

NTCA – North of Tyne Combined Authority

Appendix 1

North East Combined Authority

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Narrative Report for the Year ended 31 March 2023

North East Combined Authority Narrative Report 2022/23

1. Introduction

This Narrative Report provides information about the North East Combined Authority (NECA), including the key issues affecting the Authority and its accounts. It 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 2022/23 and its future financial prospects.

This report provides the reader with:

- A guide to the different financial statements within the Statement of Accounts.
- An overview of the activities and significant matters which occurred during the year.
- A summary of the Authority's financial performance during the year ending 31 March 2023 and its financial position at that date.
- A look ahead to 2023/24 and beyond.

The Statement of Accounts sets out the financial performance of the Authority for the year ending 31 March 2023 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 information 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.

These statements and accounts collectively provide a comprehensive view of the Authority's financial position during the period to which they relate. The format of the accounts changed in 2018/19 to reflect the impact of the Newcastle upon Tyne, North Tyneside and Northumberland Combined Authority (Establishment and Functions) Order 2018 (the Order) which changed the boundaries of NECA on 2 November 2018.

The Authority seeks to make the best possible use of resources available with regard to economy, efficiency and effectiveness. This is a responsibility shared by Members and Officers of the Authority, with the Chief Finance Officer having a specific role in ensuring the adequacy of resources and proper financial administration. Our budget proposals for 2023/24, available on the NECA website (www.northeastca.gov.uk) sets out how we will do this looking forward. The Statement of Accounts accompanying this report looks back at our performance over the past year. Reviewed together they provide the reader with an 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 legal body that brought together the seven councils which serve Durham, Gateshead, Newcastle upon Tyne, North Tyneside, Northumberland, South Tyneside and Sunderland. It had transport and economic development powers and its ambition was 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 North of Tyne authorities secured a devolution deal with devolution funding for the North of Tyne area, which required the establishment of a separate North of Tyne Mayoral Combined Authority during 2018/19. On the 2 November 2018, the Newcastle upon Tyne, North Tyneside and Northumberland Combined Authority (Establishment and Functions) Order 2018 changed the boundaries of NECA.

As a result of these governance changes, from 2 November 2018 the boundary of NECA covers the Local Authorities of Durham, Gateshead, South Tyneside and Sunderland. At the same time the North of Tyne Combined Authority was established, and the North East Joint Transport Committee was created, which continues to exercise the Transport functions over the area covered by the two Combined Authorities.

A Deed of Cooperation was made on the 4 July 2018 between the seven Constituent Authorities in the area that outlines a framework for collaborative working across the region, the Deed of Co-operation was updated in March 2020.

On 20 November 2018 NECA was formally confirmed as retaining the Accountable Body role for Transport on behalf of the North East Joint Transport Committee.

NECA continued to be the accountable body for the North East Local Enterprise Partnership (North East LEP) until the North of Tyne Mayoral Combined Authority (NTCA) was fully established. The role of accountable body for the North East LEP transferred on 1 April 2020. NECA continues to work closely with other bodies in the region to secure external funding, including funding for transport; infrastructure; economic development; skills and employment activities. NECA works closely with the North East LEP and the wider business community to deliver the Strategic Economic Plan for the North East and capitalise on these opportunities.

On 28 December 2022, HM Government announced a “minded to” devolution deal with the seven local councils across the North East (i.e. Durham, Gateshead, Newcastle, North Tyneside, Northumberland, South Tyneside and Sunderland). The “minded to” devolution deal would see a significant shift of powers, funding and responsibility which would enable the Councils to pursue their ambitions for inclusive growth. In total, it is expected to provide £4.2 billion of additional investment to the region over 30 years, including a £1.4 billion investment fund alongside significant funding for transport, education and skills, housing and regeneration.

The deal requires the creation of a new mayoral combined authority for the region. This will be dependent on the Secretary of State making a statutory order under the Local Democracy, Economic Development and Construction Act 2009 to deliver the following proposals:

a. The abolition of the two existing combined authorities, i.e. NECA and NTCA; and
b. The creation of a new mayoral combined authority which covers the area of all 7 Councils, which will be called the North East Mayoral Combined Authority (NEMCA).

These changes would also entail the abolition of the Joint Transport Committee as NEMCA would be responsible for the exercise of transport functions across the regions in the future.

As the first stage of the statutory process, the North East Councils undertook a governance review regarding the proposals set out above. The results of the governance review were reported to their respective Cabinets in January 2023. On the basis of the governance review, each Council's Cabinet concluded that the proposals were likely to improve the exercise of statutory functions in accordance with sections 108 and 111 of the 2009 Act. The North East Councils therefore agreed to progress to the next stage of the statutory process by publishing a scheme relating to the proposals and then carrying out a public consultation exercise.

The public consultation began on 26 January 2023 and closed on 23 March 2023. It provided information about how the devolution deal would be implemented and the proposed changes to governance across the region, and allowed residents, businesses and other stakeholders to comment on these proposals. Opportunities to take part in the consultation included the completion of surveys, attending an event or by submitting written comments. In total, around 3,235 people or organisations took part in the consultation process.

The majority of responses from residents, businesses, the voluntary and community sector and other key stakeholder groups have been positive, and in agreement with the proposed governance changes as set out in the constitution. In addition, their comments have expressed strong support for the overall aims and objectives of the "minded to" devolution deal. There was particularly strong support for devolution around transport, skills, employment and adult education.

Revenue Financial Summary 2022/23

Revenue expenditure covers the cost of the Authority's day to day operations and contributions to and from reserves. A summary of NECA expenditure against the budget is set out in Table 1 below. Expenditure totalling £136.693m was slightly lower than the revenue budget of £138.773m due to the reprofiling of some Transport North East project based work, such as Active Travel Fund revenue projects and aspects of the Metro Futures Studies work, into the 2023/24 financial year. Income received was £139.315m, which resulted in a net transfer to reserves of £2.622m which has been carried forward to fund expenditure in 2023/24, particularly on the Transport devolution workstreams.

Table 1: Summary of Revenue Expenditure

	2022/23 Revised Budget	2022/23 Actual	Variance
	£000	£000	£000
Expenditure			
Joint Transport Committee			
- Retained Levy Budget	2,120	1,998	(122)
- Grant to Durham	15,609	15,609	-
- Grant to Nexus	63,125	63,125	-
- Grant to Northumberland	6,347	6,347	-
Tyne Tunnels			
- Contract Payments	24,104	24,555	451
- JTC costs	1,038	1,334	296
- Financing Costs	6,466	6,241	(225)
Other Transport Activity			
- Transport North East Core Budget	860	929	69
- Transport North East Grants/Revenue Projects	18,218	15,648	(2,570)
Corporate/Central Budget	886	907	21
Total Expenditure	**138,773**	**136,693**	**(2,080)**
Income			
Revenue Grants	(19,564)	(17,119)	2,445
Transport Levies	(87,201)	(87,201)	-
Tolls Income	(30,977)	(31,530)	(553)
Interest/Investment Income	(356)	(2,868)	(2,512)
Contributions from Constituent Authorities	(170)	(170)	-
Other Income	(436)	(427)	9
Total Income	**(138,704)**	**(139,315)**	**(611)**
Net Revenue Expenditure to fund from Reserves	**69**	**(2,622)**	**(2,691)**

This statement provides a comparison of the outturn position with the NECA (including JTC) revised revenue budget for 2022/23, before any allocation of costs and income between the accounts of NECA and NTCA. The purpose of this statement is to give the reader an understanding of overall spending and income for the whole year, in comparison with the revised budget.

Within the accompanying Statement of Accounts document the **Comprehensive Income & Expenditure Statement** (CIES, page 5 of the Statement of Accounts) sets out the Authority's financial position for the year before taking account of statutory adjustments required to be made to the accounts. The figures presented in the accounts can appear different from the budgeted revenue income and expenditure as they include accounting adjustments for costs such as Depreciation, Revenue Expenditure Funded by Capital Under Statute and certain pensions account adjustments not included in the revenue budget.

The **Movement in Reserves Statement** (MIRS, page 4 of the Statement of Accounts) reflects these statutory adjustments and shows how the financial performance for the year has impacted on the Authority's reserves. There has been an increase in reserves from £145.419m at 31 March 2022 to £217.747m at 31 March 2023, mainly due to an increase in the capital grants unapplied reserve and earmarked reserves holding revenue grants, arising from a significant amount of grants being received during the year which have not yet been applied to fund transport activity.

The gross cost of services during the year including capital grants to third parties as well as revenue expenditure was £108.336m (£80.578m in 2021/22). This includes a significant amount of 'Revenue Expenditure Funded by Capital Under Statute' – representing investment in capital assets owned by third parties, not by the Authority itself.

After deducting specific grants and income from fees and charges, the net cost of services was £15.544m surplus (£7.016m deficit in 2021/22). Expenditure was funded from sources including the Transport Levy, other contributions from Constituent Authorities and Government Grants and was a surplus position due to specific capital and revenue grants being credited to the CIES where conditions are met but where they have not yet been applied to fund expenditure, in line with accounting requirements for grants and contributions.

Usable reserves totalled £145.472m at 31 March 2023, which included £59.669m earmarked reserves (including earmarked revenue grants) and £77.627m capital grants unapplied, representing funds committed to meet expenditure requirements in future years.

3. Treasury Management

The Balance Sheet on page 6 of the accounts shows total external borrowing of £94.069m at the end of the year, which is split between short term borrowing (£1.260m) and long term borrowing (£92.809m), after the allocation of part of the transport borrowing to NTCA accounts. This is a small decrease compared to the total external borrowing of £94.834m the previous year due to repayments made on Equal Instalment of Principal (EIP) loans during the year. The average rate of interest on external borrowing for the year was 4.3%, which is comparable with the previous year.

The Balance Sheet also shows short term external investments of £152.694m in the NECA Group accounts at the end of the year compared to £89.792m at the end of the previous year. The total of investments included £34.391m of investments held on behalf of Nexus. A further £17.058m cash equivalents were held on behalf of Nexus. The increase compared to the previous year is due to NECA receiving a significant amount of transport grants during the year which have not yet been applied to fund capital expenditure on projects, particularly in relation to the Bus Service Improvement Plan (BSIP) but also the Transforming Cities Fund and Active Travel Fund programmes.

4. Debtors

The Balance Sheet on page 6 of the accounts shows a short-term debtors balance at 31 March 2023 of £3.277m (£1.890m at 31 March 2022). This relates mainly to interest income due on short term investments (which has increased significantly during this financial year as interest rates have increased) and interest and principal repayments due within 12 months on borrowing by Nexus and is analysed in more detail in Note 14.

5. Creditors

Short term creditors at 31 March 2022 were £66.212m (£56.654m at 31 March 2022). These balances are analysed in more detail in Note 17. This includes a creditor for balances owed to Nexus for short term investments and cash equivalents placed on their behalf (£93.500m total creditor of which £51.448m is shown in the NECA accounts) and has increased during the year due to a higher value of Quarter 4 claims submitted by project sponsors as part of the Transforming Cities Fund programme where the majority of schemes are now in delivery.

6. Pensions Costs

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

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

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

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

NECA has two types of pension liabilities – described as funded and unfunded. Funded pension liabilities are within the LGPS and are backed by assets attributable to the Authority. For the funded element of the scheme, the NECA pension fund is in a notional surplus position amounting to £12.460m at 31 March 2023, compared with £6.240m at 31 March 2022. The increase in the net surplus is primarily due to a lower valuation of future liabilities due to a higher discount rate.

Unfunded or discretionary benefits (such as early retirement awards) sit outside the Authority's funded part of the scheme and are therefore not backed by assets and must be paid as incurred on a monthly basis. These costs relate to former Tyne Tunnels employees and are paid from the Tyne Tunnels revenue account, at a cost of approximately £50,000 in 2022/23. At the end of the year there was an unfunded liability of £0.570m (£0.670m at 31 March 2022).

Note 19 to the accounts provides further analysis and detailed disclosures in relation to Pension liabilities.

7. Net Assets

Net assets in the NECA accounts have increased from £145.419m at 31 March 2022 to £217.747m at 31 March 2023. The increase is due to mainly to a significant amount of grants being received during the year which have not yet been applied to fund transport activity. Cash balances have been placed in short term investments in line with the authority's treasury management policies until such time as they are required to fund revenue and capital expenditure.

8. Group Results

The Group Accounts included as part of the Statement of Accounts fully incorporate the results of Nexus (The Tyne and Wear Passenger Transport Executive). More details can be found in Group Note G01 on page 82.

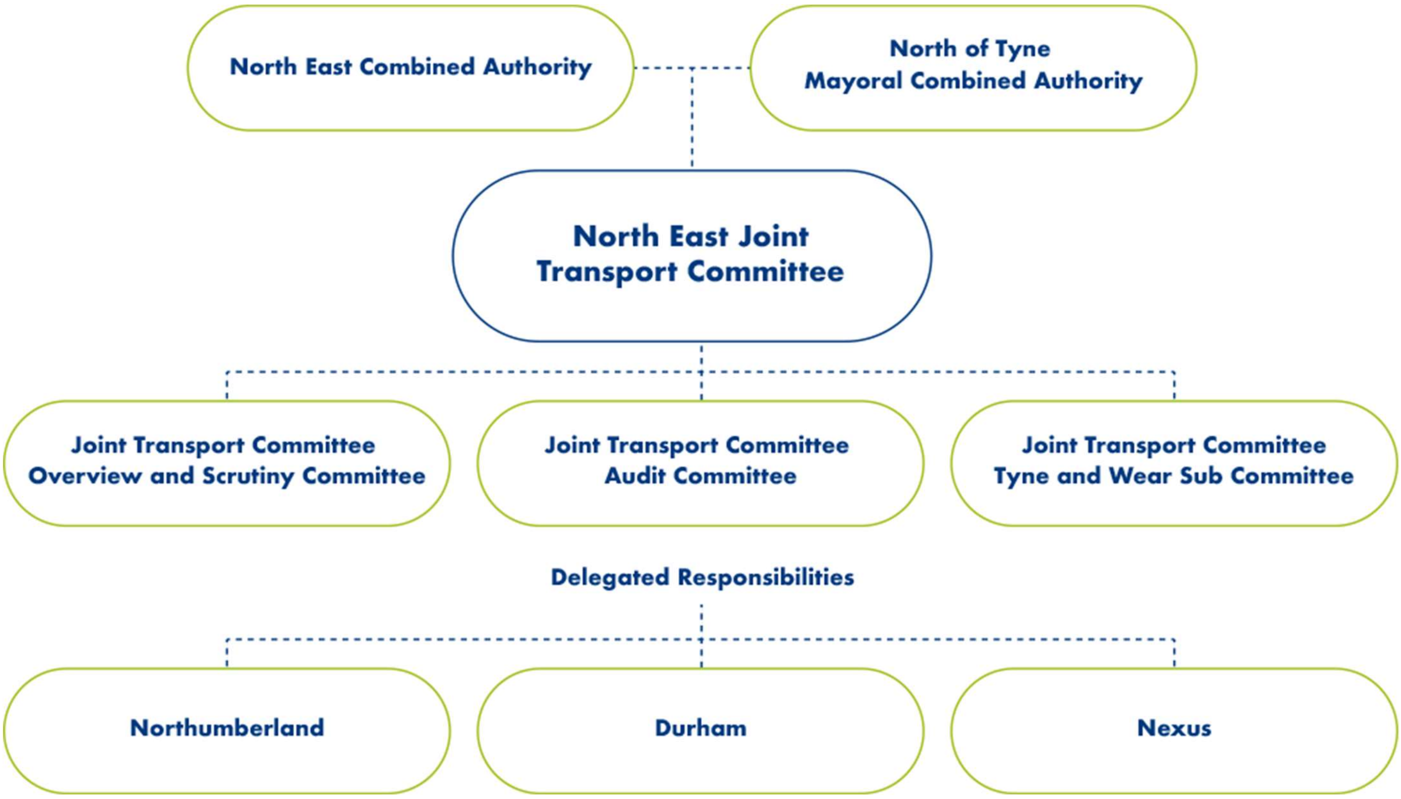
The Nexus accounts are apportioned between NTCA and NECA accounts (after elimination of intra-Group transactions), with the balance sheet information at 31 March 2023 allocated between the two Combined Authorities in proportion to their relative share of Tyne and Wear Population as set out in table 2. The full accounts for the Nexus Group and more information about their activity and performance can be obtained from the Nexus website at https://www.nexus.org.uk.

9. Accounting for the North East Joint Transport Committee

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

Transport is of strategic importance to the North East, and the collaborative working of both Combined Authorities allows effective decision making across the region, which ensures that the local needs and priorities are delivered.

The structure for Transport that was established in November 2018 is shown in the diagram below.



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

1. Split the revenues between that which relates to NECA and NTCA. In this case, the constitution of the JTC and its funding arrangements suggests that, in the first instance, the revenues should be divisible into that which relates to Northumberland (allocated wholly to

NTCA), that which relates to Durham (allocated wholly to NECA) and that which relate to Tyne and Wear (requires further division into NECA and NTCA).

2. The revenues which relate to Tyne and Wear must be divided into that which relates wholly to the NECA or NTCA area and that which relates to activities now wholly attributable under the preceding two points which requires apportionment.

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

For the 2022/23 accounts the mid-year estimated population published by the Office of National Statistics as at June 2020 is used, which is the basis on which the Transport Levy payments for the year are required to be calculated. The calculation of the proportion used to allocate the figures in the accounts at 31 March 2023 is shown in Table 2 below.

Table 2 - Population used to allocate Transport Assets/Liabilities between NECA and NTCA

	Mid-Year 2020 Population	Proportion
	People	**Proportion**
NECA		
- Gateshead	201,950	
- South Tyneside	151,133	
- Sunderland	277,846	
	630,929	0.55025
NTCA		
- Newcastle	306,824	
- North Tyneside	208,871	
	515,695	0.44975
Tyne and Wear Total	**1,146,624**	

10. 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 4)

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 5)

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 6)

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 7)

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.

Expenditure and Funding Analysis (Statement of Accounts page 9)

The objective of the expenditure and funding analysis is to demonstrate to council tax payers how the funding available to the authority (i.e. government grants, levies, contributions) for the year has been used in providing services in comparison with those resources consumed or earned by authorities in accordance with generally accepted accounting practices. The expenditure and funding analysis also shows how this expenditure is allocated for decision making purposes between the authority's service areas. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

Group Financial Statements and Notes (Statement of Accounts page 77 onwards)

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

11. 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.

12. Non-Financial Performance

The Statement of Accounts is focused on the financial performance of the Authority. NECA also reports non-financial Performance through thematic updates on Economic Development and Digital, Transport, and Finance, Skills & Employability. These are available on the NECA website under the Leadership Board agendas.

Transport

Since the formation of the North East Joint Transport Committee, the LA7 Authorities have been working together on shared transport priorities. During 2022/23 progress has been made in delivering the key priorities detailed in the North East Transport Plan, including:

- Bus Service Improvement Plan (BSIP) – following the highest allocation in England of £163.5m in government funding to improve bus services in the North East, stakeholders across the bus industry are working together through the newly formed Enhanced Partnership to implement the interventions outlined in the BSIP. One of the early measures is the introduction of a capped fares scheme which allows Under 22s to travel on a single fare anywhere in the region for £1. Further fare initiatives are set to be introduced later this year, including capped adult tickets and free travel for young people leaving local authority care. Work also continues on a variety of other improvements to the bus network, including bus priority implementation, new bus services and enhancements to existing services through increasing frequencies. The combination of these measures will lead to bus travel becoming cheaper, faster and more reliable.
- **Active Travel Fund** – approximately half of the £9.049m Tranche 2 programme is now complete. An additional £17.9m was secured through Tranche 3 with delivery of schemes expected to commence imminently. At the end of March 2023, the region was also successful in securing an additional £17.4m through the Tranche 4 bid, taking the total to £46.5m of active travel funding since March 2020.
- **Capability Fund (Active Travel)** - £2.16m of capability fund activities have been delivered providing resources and training for those using the active travel network, this includes maps, itineraries and family friendly roadshows. The region successfully secured £1.4m through the 2022/23 bid which is actively being used to support the development of schemes and wider behaviour change initiatives.
- **Transforming Cities Fund –** the TCF programme is well under way with 20 schemes now in delivery. By the end of March 2023, £102.6m of investment in sustainable transport projects was approved by the JTC. In December 2022, Nexus completed the delivery of the £104m TCF funded Metro Flow project to enhance capacity and improve reliability across the network.
- **Levelling Up Fund –** In January 2023, the region received an indicative award of £19.5m from the Levelling Up Fund, to deliver new high-quality zero emission buses and supporting infrastructure, which will operate on eight of the highest frequency bus routes across the North East which currently experience some of the highest levels of air pollution. Up to 82 new Electric Vehicle (EV) chargers will be provided across 36 regional sites including Park and Ride locations and other key destinations to encourage multi-modal journeys.
- **Leamside Line** – TNE has continued its campaign for the full reopening of the Leamside Line, the most important piece of infrastructure for the economic future of the North East which would operate as a diversionary route for the East Coast Main Line, freeing up much-needed capacity to meet future rail needs, and allow the extension of rail and Metro services to more communities in the region. In January 2023 the Strategic Outline Business Case for the “Washington Metro Loop” was submitted to the Department for Transport and work on the more detailed “Outline Business Case” has now begun.
- **Tyne Tunnels** – in November 2021 the ‘Tyne Pass’ scheme for barrierless open road tolling was launched at the Tyne Tunnels. The barrierless scheme has modernised the payment

system, reduced journey times and provides other benefits for the area, including significantly reduced carbon emissions and the creation of new local jobs. Traffic during 2022/23 has recovered to and exceeded pre-pandemic levels. Whilst the rise in traffic will be in part due to the effects of displaced traffic from other river crossings, the tunnel operators, TT2, considers that the main reason for the higher traffic level is the faster journey times due to the barrierless system at the Tyne Tunnels and other A19 improvements such as Testos and Silverlink which have also improved journey times on this stretch of road.

Table 3 – Tyne Tunnel Traffic Flow data

	Class 1	Class 2	Class 3	Exempt	Total
2022/23	80,736	16,848,793	1,054,301	508,011	18,491,841
2021/22	102,536	14,371,810	931,608	472,178	15,878,132
2020/21	99,990	10,441,472	775,745	423,317	11,740,524
2019/20	153,474	14,928,809	824,798	648,435	16,555,516
2018/19	171,626	14,839,928	823,469	631,444	16,466,467
2017/18	172,655	14,802,233	855,656	584,809	16,415,353
2016/17	197,688	15,705,319	951,785	605,670	17,460,462
2015/16	204,751	16,218,493	989,451	581,377	17,994,072
2014/15	195,798	15,265,379	873,270	508,444	16,842,891
2013/14	185,471	13,970,360	804,147	464,529	15,424,507

Class 1 = Motorcycles; Class 2 = Car, Van or Bus less than 3.5 tonnes; Class 3 = LGV, Van or Bus more than 3.5 tonnes Exempt = emergency vehicles and blue badge holders

The tolls were increased in line with inflation on 11 April 2022 from £3.70 to £3.90 for Class 3 vehicles. There was no increase for Class 2 vehicles during the 2022/23 financial year.

Tyne and Wear Passenger Transport Executive – Nexus

The North East Joint Transport Committee sets public transport policy for the region, which in Tyne and Wear is delivered operationally by Nexus. The following performance indicators describe the general performance of public transport in Tyne and Wear during 2022/23.

- The number of passenger journeys across all modes within Tyne and Wear in 2022/23 was estimated at 123.4 million, a 15.4% increase when compared to the 106.9 million in the previous year and a 20.1% decline when compared to 154.5 million in 2019/20.
  - Bus patronage was 92.1 million in 2022/23; a 13.1% increase when compared to 81.4 million in the previous year and a 22.9% decline when compared to 119.4 million in 2019/20.
  - Metro patronage was 29.3 million in 2022/23; a 21.1% increase when compared to 24.2 million in the previous year and a 11.5% decline when compared to 33.1 million in 2019/20.
  - Ferry patronage was 0.292 million passengers in 2022/23; a 8.6% increase when compared to 0.269 million journeys in the previous year and 8.3% decline when compared to 0.353 million journeys in 2019/20.
  - Rail patronage was 1.695 million journeys in 2022/23; a 54.1% increase when compared to 1.1 million journeys in the previous year and a 12.6% decline when compared to 1.94 million journeys in 2019/20.

- Metro reliability (operated mileage) was 94.6% during 2022/23, a decrease of 0.7% versus the figure of 95.3% achieved in the previous year.

- Metro reliability (Charter punctuality) was 81.7% during 2022/23, a decrease of 2.4% on the 81.4% achieved in the previous year.

NECA Staffing

- NECA continues to adapt and change to meet the requirements of the area, while keeping costs to a minimum. Many services are provided through Service Level Agreements with constituent local authorities.
- The majority of the NECA employees work on behalf of Transport North East with numbers growing in 2022/23 as the responsibilities of the team increase following successful bids for grant funding.

Table 4 – Change in Staffing numbers since 2015/16

	Total NECA Employees at the year end	Employed on behalf of North East LEP
2022/23	30	0
2021/22	26	0
2020/21	16	0
2019/20	63	56
2018/19	43	39
2017/18	29	21
2016/17	21	18
2015/16	15	11

13. Looking Ahead

As set out in section 2, the Government and the seven North East Councils agreed a "minded to" devolution deal during the year. The governance review carried out by the North East Councils concluded that the creation of a new mayoral combined authority would meet the necessary statutory criteria under the Local Democracy, Economic Development and Construction Act 2009, namely that it would improve the exercise of statutory functions across the region.

In order to establish the new regional NEMCA, the existing combined authorities – NECA and NTCA – will need to be abolished. The Leadership Board of NECA and the Mayor and Cabinet of NTCA will therefore also need to consent to the statutory order which provides for their abolition and the creation of NEMCA. It is envisaged that the existing combined authorities would be abolished and NEMCA established simultaneously when the elected mayor for NEMCA takes office in early May 2024.

The statutory order is expected to provide appropriate continuity and transitional arrangements so that any acts of the existing combined authorities are to be treated as the acts of the new mayoral combined authority. The order is also to provide for the staffing, assets, rights and liabilities of the existing combined authorities to transfer to NEMCA. This will ensure that the regional transport arrangements which are currently overseen by the Joint Transport Committee (and the existing funding programmes of NTCA) are maintained by the NEMCA without interruption. For this reason it is considered appropriate, in line with the Code of Practice on Local Authority Accounting, for these accounts to be prepared on a going concern basis. Officers from both combined authorities and the local authorities are liaising on the operational requirements of the transition.

NECA continues to focus on working with delivery partners on its thematic areas of Transport, Economic Development and Digital, and Finance, Skills and Employability. Key areas of focus for the year ahead are detailed below.

Transport

During 2023/24 the EP signed with regional bus operators will begin to deliver fares initiatives and capital infrastructure aimed at making bus travel cheaper, faster and more reliable.

2023/24 is the planned final year of the Transforming Cities Fund Programme, which will at completion have delivered over £153m of investment in sustainable transport when local and private contributions are taken into account.

In 2023/24 TNE will continue to deliver improvements to the region's walking and cycling network totalling £17.9m awarded through Tranche 3 of the Active Travel Fund and £17.4m awarded through Tranche 4.

The Local Electric Vehicle Infrastructure fund (LEVI) aims to deliver public electric vehicle chargepoints, primarily aimed at benefiting residents who do not have off street parking. The region has already received £250k of capability funding and this is being used to support a bid for a further initial allocation of up to £15.8m capital and a further £1.1m capability funding.

Work is underway on development of a programme level business case for the delivery of the City Region Sustainable Transport Fund, which must be agreed with DfT and HMT and will set out the schemes the region wishes to bring forward.

Economic Development and Digital

The economic picture across the NECA area continues to be one of challenges as businesses continue to recover from the impact of the pandemic and are now being buffeted by both skills shortages and, most pointedly, the surge in inflation.

Invest North East England has a healthy project and visit pipeline which it hopes to secure investments in 2023/24. Key areas of focus include electrification projects, renewables, digital technology and advanced manufacturing.

Finance, Skills and Employability

Employment and Skills issue and the opportunities for development remain under development through meetings of the Skills and Employment Working Group. Working arrangements and the Employment and Skills focus may change over the coming months in line with the further development and consultation on the recently announced North East Devolution Deal.

Activity continues to progress all aspects of the Finance, Skills and Employment needs and opportunities across NECA. The UK Shared Prosperity Fund (UKSPF) provides £2.6bn of funding for local investment by March 2025. Every place in the UK has been allocated a share of the UKSPF. In order to access UKSPF funding, lead local authorities are being asked to complete an investment plan, setting out how they intend to use and deliver the funding, in conjunction with local stakeholders.

14. 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:

Eleanor Goodman
Finance Manager, NECA
Eleanor.goodman@northeastca.gov.uk

Appendix 2

North East Combined Authority

DURHAM • GATESHEAD • SOUTH TYNESIDE • SUNDERLAND

North East Combined Authority

Statement of Accounts 2022/23

Draft - subject to audit

Contents **Page**

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

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 and Group Statement of Accounts in accordance with proper practices as set out in the CIPFA (Chartered Institute of Public Finance & Accountancy) Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

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

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

The Chief Finance Officer has also:

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

Certification of the Accounts

I hereby certify that the Statement of Accounts for the year ended 31 March 2023, required by the Accounts and Audit Regulations 2015, are set out in the following pages.

I certify that the Statement of Accounts gives a true and fair view of the financial position of the North East Combined Authority and Group at 31 March 2023 and its income and expenditure for the year ended 31 March 2023.

Signed:	Signed:
Paul Darby Chief Finance Officer	Cllr Graeme Miller Chair of the North East Combined Authority Leadership Board

2.1 Movement in Reserves Statement

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

		Usable Reserves					
	Note	General Fund Balance	Earmarked General Fund Reserves	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Authority Reserves
		£000	£000	£000	£000	£000	£000
Balance at 1 April 2021		**(7,893)**	**(11,454)**	**(23,687)**	**(43,032)**	**(56,284)**	**(99,316)**
Total Comprehensive Income and Expenditure		(39,383)	-	-	**(39,383)**	(6,720)	**(46,103)**
Adjustments between accounting basis & funding basis under regulations	3	38,853	-	(37,300)	**1,553**	(1,553)	**-**
Net (Increase)/Decrease before transfers to Earmarked Reserves		**(530)**	**-**	**(37,300)**	**(37,830)**	**(8,273)**	**(46,103)**
Transfers (To)/From Earmarked Reserves	21	(148)	148	-	-	-	-
(Increase)/Decrease in 2021/22		(678)	148	(37,300)	**(37,830)**	(8,273)	**(46,103)**
Balance at 31 March 2022 carried forward		**(8,571)**	**(11,306)**	**(60,987)**	**(80,862)**	**(64,557)**	**(145,419)**
Total Comprehensive Income and Expenditure		(65,668)	-	-	**(65,668)**	(6,750)	**(72,418)**
Adjustments between accounting basis & funding basis under regulations	3	17,699	-	(16,641)	**1,058**	(1,058)	**-**
Net (Increase)/Decrease before transfers to Earmarked Reserves		(47,969)	-	(16,641)	(64,610)	(7,808)	(72,418)
Transfers (To)/From Earmarked Reserves	21	48,365	(48,365)	-	-	-	-
(Increase)/Decrease in 2022/23		**396**	**(48,365)**	**(16,641)**	**(64,610)**	**(7,808)**	**(72,418)**
Balance at 31 March 2023		**(8,175)**	**(59,671)**	**(77,628)**	**(145,472)**	**(72,365)**	**(217,837)**

2.2 Comprehensive Income and Expenditure Statement

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

2021/22					2022/23		
Gross Expenditure	**Gross Income**	**Net Expenditure**		**Note**	**Gross Expenditure**	**Gross Income**	**Net Expenditure**
£000	**£000**	**£000**			**£000**	**£000**	**£000**
			Continuing NECA Services				
941	(162)	779	Corporate		1,749	(1,043)	705
338	-	338	Transport - Retained Levy Budget		377	(24)	353
15,457	-	15,457	Transport - Durham		15,609	-	15,609
33,264	-	33,264	Transport - Tyne and Wear		34,734	-	34,734
16,012	(53,998)	(37,986)	Transport - Other		39,540	(102,478)	(62,938)
13,673	(17,983)	(4,310)	Transport - Tyne Tunnels		16,309	(20,317)	(4,008)
893	(1,419)	(526)	Covid-19 Grants		-	-	-
80,578	**(73,562)**	**7,016**	**Cost of Services**		**108,318**	**(123,862)**	**(15,544)**
3,820	(950)	2,870	Financing and Investment Income and Expenditure	4	3,804	(2,405)	1,398
-	(49,270)	(49,270)	Taxation and Non-Specific Grant Income	5	-	(51,522)	(51,522)
		(39,384)	**(Surplus) on Provision of Services**				**(65,668)**
		(6,720)	Re-measurement of the defined benefit liability	19			(6,750)
		(6,720)	**Other Comprehensive Income and Expenditure**				**(6,750)**
		(46,104)	**Total Comprehensive Income and Expenditure**				**(72,418)**

2.3 Balance Sheet

The Balance Sheet summarises NECA's financial position at 31 March each year. The Net Assets of the Authority (total assets less total liabilities) are matched by Reserves. Reserves are reported in two categories, Usable and Unusable. Unusable Reserves 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 in the Movement in Reserves Statement line "adjustments between accounting basis and funding basis under regulations".

31 March 2022 £000		Note	31 March 2023 £000
188,013	Property, Plant and Equipment	11, 11a	185,047
17,870	Long Term Debtors	15	17,049
5,570	Net Pension Asset	19	11,890
211,453	**Long Term Assets**		**213,986**
89,792	Short Term Investments	12	152,694
1,890	Short Term Debtors	14	3,277
40,013	Cash and Cash Equivalents	16	51,321
131,695	**Current Assets**		**207,292**
(1,266)	Short Term Borrowing	12	(1,260)
(56,654)	Short Term Creditors	17	(66,212)
(1,220)	Grants Receipts in Advance	6	(1,130)
(2,814)	New Tyne Crossing Deferred Income	18	(2,802)
(61,954)	**Current Liabilities**		**(71,404)**
(42,207)	New Tyne Crossing Deferred Income	18	(39,228)
(93,568)	Long Term Borrowing	12	(92,809)
-	Pension Liability	19	-
(135,775)	**Long Term Liabilities**		**(132,037)**
145,419	**Net Assets**		**217,837**
(80,862)	Usable Reserves	20	(145,472)
(64,557)	Unusable Reserves	22	(72,365)
(145,419)	**Total Reserves**		**(217,837)**

Chief Finance Officer Certificate

I certify that the accounts set out on pages 4 to 77 give a true and fair view of the financial position of the North East Combined Authority as at the 31 March 2023.

Signed:

Paul Darby, Chief Finance Officer

2.4 Cash Flow Statement

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

2021/22 £000		Note	2022/23 £000
39,383	Net Surplus on the provision of services		65,668
20,807	Adjustments to net surplus or deficit on the provision of services for non-cash movements	24	9,039
(49,259)	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	24	(46,763)
10,931	**Net cash flows from Operating Activities**		**27,944**
(8,209)	Investing Activities	25	(15,682)
(893)	Financing Activities	26	(953)
1,829	**Net (Decrease)/Increase in cash and cash equivalents**		**11,309**
38,183	Cash and cash equivalents at the beginning of the reporting period	16	40,012
40,012	**Cash and cash equivalents at the end of the reporting period**		**51,321**

Note 01: Transfer of Services to the Newcastle upon Tyne, North Tyneside and Northumberland Combined Authority

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

At this date:

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

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

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

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

Paragraph 2.1.2.9 of the Code makes clear that combinations of public sector bodies are not to be taken as negating the presumption of going concern. The establishment of the NTCA and decisions about accountable body status therefore have no impact on the going concern basis of the NECA accounts.

On 1 April 2020, the Accountable Body role for the North East Local Enterprise Partnership transferred to the NTCA. This includes the employment of all North East LEP staff and administration of its income and expenditure. In addition, the Invest North East England function also transferred to the NTCA on the same date.

This was accounted for in the 2020/21 financial statements as a transfer by absorption. Assets and liabilities have been transferred at carrying value. The Comprehensive Income and Expenditure Statement shows services transferred to NTCA separately from services continuing to be reported by NECA in the prior year results, in order to aid comparatives across financial years. In the notes to the accounts, a separate line disclosing the transfer is included after the balance brought forward from the previous year.

Note 02: Expenditure and Funding Analysis

The objective of the Expenditure and Funding Analysis is to demonstrate how the funding available to the authority (i.e. government grants and contributions) for the year has been used in providing services in comparison with those resources consumed or earned by the authority in accordance with generally accepted accounting practices. The Expenditure and Funding Analysis also shows how this expenditure is allocated for decision making purposes between the authority's services. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

	2022/23				
	Net Expenditure Chargeable to the General Fund	**Adjustments for Capital Purposes**	**Pension Adjustments**	**Other Differences**	**Net Expenditure in the CIES**
	£000	**£000**	**£000**	**£000**	**£000**
Corporate	75	-	630	-	705
Transport - Retained Levy Budget	644	(291)	-	-	353
Transport - Durham	15,609	-	-	-	15,609
Transport - Tyne and Wear	34,734	-	-	-	34,734
Transport - Other	(46,686)	(16,252)	-	-	(62,938)
Transport - Tyne Tunnels	(2,517)	(1,451)	(40)	-	(4,008)
Covid-19 Grants	-	-	-	-	-
Cost of services	**1,860**	**(17,994)**	**590**	**-**	**(15,544)**
Other Income and Expenditure	**(49,829)**	-	(160)	(134)	**(50,123)**
(Surplus)/Deficit on Provision of Services	**(47,969)**	**(17,994)**	**430**	**(134)**	**(65,668)**
Opening General Fund Balances	(19,876)				
Closing General Fund Balances	**(67,846)**				

Adjustments for Capital Purposes

This column adds in depreciation and impairment and revaluation gains and losses in the service line, and adjusts for:

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

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

Net Change for the Pension Adjustments

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

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

Other Differences

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

- For Financing and investment income and expenditure, the other differences column recognises adjustments to the General Fund for the timing differences for premiums and discounts.

	2021/22				
	Net Expenditure Chargeable to the General Fund	**Adjustments for Capital Purposes**	**Pension Adjustments**	**Other Differences**	**Net Expenditure in the CIES**
	£000	**£000**	**£000**	**£000**	**£000**
Corporate	279	-	500	-	779
Transport - Retained Levy Budget	625	(287)	-	-	338
Transport - Durham	15,457	-	-	-	15,457
Transport - Tyne and Wear	33,264	-	-	-	33,264
Transport - Other	(1,094)	(36,892)	-	-	(37,986)
Transport - Tyne Tunnels	(2,487)	(1,773)	(50)	-	(4,310)
Covid-19 Grants	(526)	-	-	-	(526)
Cost of services	**45,518**	**(38,952)**	**450**	**-**	**7,016**
Other Income and Expenditure	**(46,049)**	(41)	(170)	(140)	**(46,400)**
(Surplus)/Deficit on Provision of Services	**(531)**	**(38,993)**	**280**	**(140)**	**(39,384)**
Opening General Fund Balances	(19,348)				
Closing General Fund Balances	**(19,879)**				

Note 02a: Income and Expenditure Analysed by Nature

	2021/22 £000	2022/23 £000
Expenditure		
Employee benefit expenses	541	730
Other service expenses	65,527	74,799
Depreciation, impairment and Revenue Expenditure Funded from Capital Under Statute (REFCUS)	14,510	32,789
Interest payments	3,820	3,804
Total expenditure	**84,398**	**112,122**
Fees, charges and other service income (Tyne Tunnels tolls)*	(15,948)	(17,375)
Interest and investment income	(950)	(2,405)
Income from transport levy	(49,271)	(51,509)
Government grants and contributions	(53,560)	(102,036)
Other income	(4,053)	(4,464)
Total income	**(123,782)**	**(177,789)**
Surplus/Deficit on the provision of services	**(39,384)**	**(65,668)**

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

Note 3: 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.

2021/22				Adjustments between Accounting Basis and Funding Basis Under Statute	2022/23			
General Fund	Capital Receipts Reserve	Capital Grants Unapplied	Unusable Reserves		General Fund	Capital Receipts Reserve	Capital Grants Unapplied	Unusable Reserves
£000	£000	£000	£000		£000	£000	£000	£000
				Adjustments primarily involving the Capital Adjustment Account (CAA)				
				Reversal of items debited or credited to the CIES				
(2,385)	-	-	2,385	Charges for depreciation and impairment of non current assets	(2,372)	-	-	2,372
2,814	-	-	(2,814)	Other income that cannot be credited to the General Fund	2,802	-	-	(2,802)
6,584	-	-	(6,584)	Capital grants and contributions applied	7,660	-	-	(7,660)
(12,125)	-	-	12,125	Revenue expenditure funded from capital under statute	(30,417)	-	-	30,417
				Insertion of items not debited or credited to the CIES				
993	-	-	(993)	Statutory provision for the financing of capital investment	1,018	-	-	(1,018)
437	-	-	(437)	Capital expenditure charged against the General Fund	200	-	-	(200)
				Adjustments primarily involving the Capital Grants Unapplied Account				
42,675	-	(42,675)	-	Grants and contributions unapplied credited to the CIES	39,103	-	(39,103)	-
-	-	5,375	(5,375)	Application of grants to capital financing transferred to the CAA	-	-	22,462	(22,462)
				Adjustments involving the Capital Receipts Reserve				
-	(807)	-	807	Loan principal repayments	-	(775)	-	775
-	807	-	(807)	Application of Capital Receipts to repayment of debt	-	775	-	(775)
				Adjustments involving the Financial Instruments Adjustment Account				
140	-	-	(140)	Amount by which finance costs charged to the CIES are different from finance costs chargeable in the year in accordance with statutory requirements	134	-	-	(134)
				Adjustments involving the Pensions Reserve				
(330)	-	-	330	Reversal of items relating to retirement benefits debited or credited to the CIES	(470)	-	-	470
50	-	-	(50)	Employer's pension contributions and direct payments to pensioners payable in the year	40	-	-	(40)
38,853	**-**	**(37,300)**	**(1,553)**	**Total Adjustments**	**17,699**	**-**	**(16,641)**	**(1,058)**

Note 04: Financing and Investment Income and Expenditure

	Note	2021/22	2022/23
		£000	£000
Interest Payable and Similar Charges		3,990	3,964
Interest Payable on defined benefit liability	19	(170)	(160)
Interest Receivable and similar income		(950)	(2,405)
Total		**2,870**	**1,399**

Note 05: Taxation and Non Specific Grant Income

		2021/22	2022/23
		£000	£000
Transport Levy		(49,230)	(51,509)
Non-Specific Capital Grants		(41)	(13)
Total		**(49,271)**	**(51,522)**

Note 06: Grant Income

		2021/22	2022/23
		£000	£000
Local Authority Contributions to NECA		(276)	(201)
Active Travel Fund		(10,188)	(10,336)
Active Travel Capability Fund		-	(778)
Bus Recovery Grants		(689)	(236)
Bus Service Improvement Plan		-	(64,860)
City Regional Sustainable Transport Settlement		-	(3,127)
Local Growth Fund		(15)	(12)
Local Transport Fund		-	(6,905)
Local Transport Plan		(7,755)	(7,735)
Office for Low Emission Vehicles		(41)	(1)
Other Grants		(1,582)	(506)
Transforming Cities Fund		(31,595)	(7,340)
Total		**(53,560)**	**(102,036)**

The Government have provided Grants to cover some losses, identified by Local Authorities and NEXUS, due to the COVID-19 pandemic. These have been identified separately in the table above.

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	31 March 2022 £000	31 March 2023 £000
Office for Low Emission Vehicles	(29)	(28)
Other Grants	(1,192)	(1,102)
Total	**(1,221)**	**(1,130)**

Shown as Short-Term Liability on the Balance Sheet	(1,221)	(1,130)
Short as Long-Term Liability on the Balance Sheet	-	-
Total	**(1,221)**	**(1,130)**

Note 7: Members' Allowances

The Authority paid the following amounts to independent members of its various committees during the year. Representatives from constituent authorities receive no allowances from NECA.

	2021/22 £000	2022/23 £000
Allowances	12	11
Total	**12**	**11**

Note 08: Officers' Remuneration

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

		Salary, Fees and Allowances £000	Pension Contributions £000	Total £000
Managing Director of Transport Operations	2022/23	135	-	135
	2021/22	133	-	133

All three of the Authority's statutory officers in 2022/23 were not formal employees of the authority (and are not therefore included in the statutory disclosure above). Their services are provided by Service Level Agreements between the authority and their Local Authority employers. The individuals involved received no additional remuneration for these roles.

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

	2021/22 £000	2022/23 £000
£50,000-£54,999	1	0
£55,000-£59,999	2	2
£60,000-£64,999	0	1
£65,000-£69,999	0	0
£70,000-£74,999	1	1
£75,000-£79,999	0	0
£80,000-£84,999	0	0
£85,000-£89,999	0	0
£90,000-£94,999	0	0
£95,000-£99,999	1	0
£100,000-£104,999	0	0
£105,000-£109,999	0	1
£110,000-£114,999	0	0
£115,000-£119,999	0	0
£120,000-£124,999	0	0
£125,000-£129,999	0	0
£130,000-£134,999	1	1
£135,000-£139,999	0	0
£140,000-£144,999	0	0
Total	**6**	**6**

Note 9: 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 for non-audit services provided by the Authority's external auditors.

	2021/22 £000	2022/23 £000
Scale fee for the audit of the Statement of Accounts	19	19
Total	**19**	**19**

Note 10: 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
- Joint Transport Committee Constituent Authorities
- Other Public Bodies
- Other Entities

Central Government

Central Government is responsible for providing the statutory framework within which the Authority operates, provides much of its funding in the form of grants and prescribes the terms of some of the transactions that the Authority has with other parties (e.g. Concessionary Fares reimbursement). Grants received from government departments are set out in Note 6.

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 2022/23 no works or services were commissioned from companies in which any members had an interest.

Officers

There has been no pecuniary interest involving the Head of Paid Service, the Chief Finance Officer or the Monitoring Officer to the Authority.

NECA Constituent Authorities

The Leaders of the four NECA constituent Authorities serve as members of the NECA Leadership Board. Prior to 2 November 2018, the Leaders and Elected Mayor of the seven North East local authorities were members of the NECA Leadership Board. Details of material transactions with the seven Authorities are set out in the table below.

Joint Transport Committee Constituent Authorities

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

Other Public Bodies

The Authority has a direct relationship with the Passenger Transport Executive for Tyne and Wear (Nexus). NECA (via its participation in the Joint Transport Committee) sets the policy which is delivered by Nexus, and agrees its budget and revenue grant. Details of material transactions with Nexus are set out in the table below.

Other Entities

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

	2021/22				2022/23			
	Receivables	Income	Expenditure	Payables	Receivables	Income	Expenditure	Payables
	£000	£000	£000	£000	£000	£000	£000	£000
NECA Constituent Authorities								
Durham	(12)	(15,508)	19,598	701	-	(15,851)	16,860	(597)
Gateshead	-	(10,847)	1,139	106	-	(11,695)	194	(449)
South Tyneside	-	(8,111)	573	6	-	(8,804)	157	(275)
Sunderland	-	(14,903)	2,101	24	-	(15,999)	205	(1,996)
Remaining JTC Constituent Authorities								
Newcastle	-	(10)	2,600	1,005	-	(10)	167	(1,883)
North Tyneside	-	(10)	1,895	1,157	-	(10)	102	(1,403)
Northumberland	-	(10)	1,173	90	-	(10)	585	(86)
Other Public Bodies								
North of Tyne Combined Authority	-	-	-	-	-	-	-	-
Nexus	(101)	(834)	34,208	54,268	1,036	(267)	37,046	(4,060)

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

Note 11: Property, Plant and Equipment (excluding Highways Infrastructure Assets)

	2022/23			
	Vehicles, Plant, Furniture & Equipment	Assets Under Construction	Total Property, Plant & Equipment (excluding Highways Infrastructure Assets)	Service Concession Assets included in Property, Plant and Equipment (excluding Highways Infrastructure Assets)
	£000	£000	£000	£000
Cost or Valuation				
At 1 April 2022	2,957	662	**3,619**	-
Additions	1	181	**182**	-
Reclassification from Assets Under Construction	-	-	**-**	-
Impairment recognised in the Surplus on the Provision of Services	-	-	**-**	-
Other Adjustments	-	-	**-**	-
At 31 March 2023	**2,958**	**843**	**3,801**	**-**

Accumulated Depreciation and Impairment				
At 1 April 2022	(1,081)	-	**(1,081)**	-
Depreciation charge for the Year	(163)	-	**(163)**	-
At 31 March 2023	**(1,244)**	**-**	**(1,244)**	**-**

Net Book Value				
At 1 April 2022	**1,876**	**662**	**2,537**	**-**
At 31 March 2023	**1,714**	**843**	**2,556**	**-**

	2021/22			
	Vehicles, Plant, Furniture & Equipment	Assets Under Construction	Total Property, Plant & Equipment (excluding Highways Infrastructure Assets)	Service Concession Assets included in Property, Plant and Equipment (excluding Highways Infrastructure Assets)
	£000	£000	£000	£000
Cost or Valuation				
At 1 April 2021	2,881	561	**3,442**	-
Additions	-	177	**177**	-
Reclassification from Assets Under Construction	76	(76)	**-**	-
Impairment recognised in the Surplus on the Provision of Services	-	-	**-**	-
Other Adjustments	-	-	**-**	-
At 31 March 2022	**2,957**	**662**	**3,619**	**-**
Accumulated Depreciation and Impairment				
At 1 April 2021	(914)	-	**(914)**	-
Depreciation charge for the Year	(167)	-	**(167)**	-
At 31 March 2022	**(1,081)**	**-**	**(1,081)**	**-**
Net Book Value				
At 1 April 2021	1,967	561	**2,528**	-
At 31 March 2022	**1,876**	**662**	**2,538**	**-**

Note 11a: Property, Plant and Equipment (Highways Infrastructure Assets)

Movements on balances

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

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

	2021/22	2022/23
	£000	£000
Net book value (modified historical cost)		
At 1 April	188,122	185,476
Additions	260	13
Derecognition	-	-
Depreciation	(2,218)	(2,209)
Impairment	-	-
Other movements in cost	(688)	(789)
At 31 March	185,476	182,491

Reconciliation to Balance Sheet

	2021/22	2022/23
	£000	£000
Infrastructure assets	185,476	182,491
Other PPE assets	2,538	2,557
Total PPE assets	188,014	185,048

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

Structures - net book value

NECA has estimated a net book value at 31 March 2023 for its structures at £182.491m. This is fully represented by the tunnels owned by the authority. The remaining useful lives for its tunnels are assessed to be as follows:

Northbound vehicle tunnel	60 years
Southbound vehicle tunnel	108 years
Pedestrian and cyclist tunnels	60 years

Depreciation for the tunnels (and total annual depreciation for 2022/23 on structures) is £2.209m.

Note 12: Financial Instruments

Financial Assets

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

	Non-current				Current			
	Investments		Debtors		Investments		Debtors	
	31 March 2022 £000	31 March 2023 £000	31 March 2022 £000	31 March 2023 £000	31 March 2022 £000	31 March 2023 £000	31 March 2022 £000	31 March 2023 £000
Amortised cost	-	-	17,870	17,049	89,792	152,694	658	1,270
Total financial assets	**-**	**-**	**17,870**	**17,049**	**89,792**	**152,694**	**658**	**1,270**
Non-financial assets	-	-	-	-	-	-	1,232	2,007
Total	**-**	**-**	**17,870**	**17,049**	**89,792**	**152,694**	**1,890**	**3,277**

Financial assets at amortised cost

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

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

All of NECA's financial assets fit these criteria and are classified at amortised cost.

Trade receivables

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

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

Financial Liabilities held at amortised cost

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

	Non-current				Current			
	Borrowings		Creditors		Borrowings		Creditors	
	31 March 2022	31 March 2023	31 March 2022	31 March 2023	31 March 2022	31 March 2023	31 March 2022	31 March 2023
	£000	£000	£000	£000	£000	£000	£000	£000
Amortised cost	(93,568)	(92,809)	-	-	(1,266)	(1,260)	(21,788)	(7,136)
Total financial liabilities	**(93,568)**	**(92,809)**	**-**	**-**	**(1,266)**	**(1,260)**	**(21,788)**	**(7,136)**
Non-financial liabilities	-	-	-	-	-	-	(34,866)	(59,077)
Total	**(93,568)**	**(92,809)**	**-**	**-**	**(1,266)**	**(1,260)**	**(56,654)**	**(66,212)**

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

Income, Expense, Gains and Losses

The gains and losses recognised in the CIES in relation to financial instruments are made up as follows:

31 March 2022				31 March 2023		
£000	£000	£000		£000	£000	£000
Financial Liabilities at amortised cost	Financial assets: measured at amortised cost	Total		Financial Liabilities at amortised cost	Financial assets: measured at amortised cost	Total
3,990	-	**3,990**	Interest expense	3,964	-	**3,964**
3,990	**-**	**3,990**	**Total expense in Surplus on Provision of Services**	**3,964**	**-**	**3,964**
-	(950)	**(950)**	Investment income	-	(2,406)	**(2,406)**
-	**(950)**	**(950)**	**Total income in Surplus on Provision of Services**	**-**	**(2,406)**	**(2,406)**
3,990	**(950)**	**3,040**	**Net (gain)/loss for the year**	**3,964**	**(2,406)**	**1,558**

Fair Value of Assets & Liabilities carried at Amortised Cost

Financial assets classified as loans and receivables and all non-derivative financial liabilities are carried in the Balance Sheet at amortised cost. Their fair values have been estimated by calculating the net present value of the remaining contractual cash flows at 31 March 2023 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. Lender's options to propose an increase to the interest rate of the loan have been valued according to a proprietary model for Bermudan cancellable swaps. Borrower's contingent options to accept the increased rate or repay the loan have been valued at zero, on the assumption that lenders will only exercise their options when market rates have risen above the contractual loan rate.
- The fair values of other long-term loans and investments have been discounted at the market rates for similar instruments with similar remaining terms to maturity on 31 March.
- No early repayment or impairment is recognised for any financial instrument.
- The fair value of short-term instruments, including trade payables and receivables, is assumed to approximate to the carrying amount.

For 2022/23 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.

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

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

The fair values calculated are as follows:

		31 March 2022		31 March 2023	
	Level	Carrying amount £000	Fair value £000	Carrying amount £000	Fair value £000
Financial liabilities held at amortised cost	2	(94,834)	(136,768)	(94,069)	(90,515)
Total		**(94,834)**	**(136,768)**	**(94,069)**	**(90,515)**
Financial Assets at amortised cost					
Held to maturity investments		89,792	89,792	152,694	152,694
Nexus loan debtor	2	17,870	26,018	17,049	16,562
Total		**107,662**	**115,810**	**169,743**	**169,256**

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

Note 13: 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.

The following table summarises the Authority's maximum exposure to credit risk on financial assets. This analysis is based on credit rating advice received by Treasury Management advisors and focuses on the long-term investment grade rating issued to each financial institution. The highest possible rating is AAA and the lowest rating is BBB: The UK's former AAA rating has been affected by the global financial crisis and the decision to leave the European Union.

Rating	2021/22 £000	2022/23 £000
n/a - investments with UK local authorities	34,535	34,391
n/a - investments with banks	38,679	99,045
n/a - investments with unrated building societies	16,577	19,259
Total Short-Term Investments	**89,791**	**152,695**
AAA		17,058
A-	15,196	-
Total Cash Equivalents	**15,196**	**17,058**

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 2023 that this was likely to crystallise. Actions are taken immediately if an institution is downgraded and deposits withdrawn in line with Treasury Management Strategy.

Customers for goods and services are assessed, taking into account their financial position, past experience and other factors, within individual credit limits being set in accordance with internal ratings within parameters set by the 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.

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

Liquidity Risk

The 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 2022 £000	31 March 2023 £000
Between 1-2 years	(368)	(367)
Between 2-5 years	(921)	(550)
Between 5-10 years	-	-
More than 10 years	(92,278)	(91,892)
	(93,567)	**(92,809)**
Less than 1 year	(1,266)	(1,260)
Total borrowing	**(94,833)**	**(94,069)**

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

Market (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.

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

	31 March 2022 £000	**31 March 2023 £000**
Increase in interest payable on variable rate borrowing	-	
Increase in interest receivable on variable rate investments	(458)	(1,093)
Impact on the (Surplus)/Deficit on Provision of Services	**(458)**	**(1,093)**

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. There have been no changes from the previous period in the methods and assumptions used.

If interest rates had been 1% higher with all other variables held constant, the financial effect would be a decrease of £14.035m in the fair value of fixed rate borrowings, although this would not impact on the Surplus/Deficit on the Provision of Services or Other Comprehensive Income and Expenditure.

Note 14: Short Term Debtors

	31 March 2022 £000	31 March 2023 £000
Central Government bodies	1,232	2,007
Other local authorities	374	214
Other entities and individuals	284	1,056
Total	**1,890**	**3,277**

Note 15: Long Term Debtors

	31 March 2022 £000	31 March 2023 £000
Nexus borrowing	17,870	17,049
Total	**17,870**	**17,049**

Note 16: Cash and Cash Equivalents

	31 March 2022 £000	31 March 2023 £000
Cash held in Authority's bank account	24,817	34,264
Cash equivalents	15,196	17,058
Total	**40,013**	**51,322**

Note 17: Short Term Creditors

	31 March 2022 £000	31 March 2023 £000
Central government bodies	(43)	(44)
Other local authorities	(4,984)	(9,826)
Other entities and individuals		-
- Nexus	(49,731)	(51,448)
- TT2	-	(997)
- Other	(1,896)	(3,896)
Total	**(56,654)**	**(66,211)**

Note 18: Private Finance Initiatives and 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 under the River Tyne, refurbish the existing Tyne Tunnel and operate both vehicle tunnels alongside the pedestrian and cycle tunnels for the life of the contract. The second tunnel was opened on 25 February 2011, and the refurbished original tunnel opened on 21 November 2011. Both are included on the public sector balance sheet.

In 2022/23 the total payment under the contract was £24.555m (2021/22 £20.012m) of which £13.511m is shown in the account of NECA and £11.044m shown in the accounts of NTCA.

The contribution to the capital works by the private sector partner is recognised as a deferred income balance with a 31 March 2023 value of £76.384m (31 March 2022 £81.476m), of which £42.030m is shown on the NECA balance sheet and £34.354m shown on the NTCA balance sheet.

	Deferred Income Release	
	2021/22 £000	2022/23 £000
Payable in 2021/22	(2,814)	(2,802)
Payable within 2 to 5 years	(11,255)	(11,208)
Payable within 6 to 10 years	(14,069)	(14,010)
Payable within 11 to 15 years	(14,069)	(14,010)
Payable within 16 to 20 years	(2,814)	-
Total	**(45,021)**	**(42,030)**

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.

Note 19: Defined Benefit Pension Schemes

The Authority participates in two post-employment schemes:

(i) The largest of the two, the Tyne and Wear Pension Fund is administered 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 investments.

(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 liabilities and cash has to be generated to meet actual pension payments as they fall due.

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

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 General Fund 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:

Amounts recognised in profit and loss and other comprehensive income

	Local Government Pension Scheme		Discretionary Benefits	
	2021/22	2022/23	2021/22	2022/23
	£000	£000	£000	£000
Comprehensive Income and Expenditure Statement				
Cost of Services:				
Current service cost	500	630	-	-
Settlement cost	-	-	-	-
Financing and Investment Income and Expenditure				
Interest on net defined benefit liability (asset)	(190)	(180)	20	20
Pension expense recognised in profit and loss	**310**	**450**	**20**	**20**
Other Post Employment Benefits charged to the Comprehensive Income and Expenditure Statement:				
Return on plan assets (in excess of)/below that recognised in net interest	1,430	2,000	-	-
Actuarial (gains)/losses due to changes in financial assumptions	(1,990)	(13,010)	(20)	(140)
Actuarial (gains)/losses due to changes in demographic assumptions	(40)	-	(10)	-
Actuarial (gains)/losses due to changes in liability assumptions	3,080	4,340	(140)	60
Adjustment in respect of paragraph 64	-	-	-	-
Income	**2,480**	**(6,670)**	**(170)**	**(80)**
Total amount recognised	**2,790**	**(6,220)**	**(150)**	**(60)**

North East Local Enterprise Partnership employees were transferred to the North of Tyne Combined Authority on 01 April 2020. The settlement cost in the table above reflects the transfer between employers.

Assets and Liabilities in Relation to Post-employment Benefits

Reconciliation of present value of the scheme liabilities (defined benefit

	Local Government Pension Scheme		Discretionary Benefits	
	2021/22	2022/23	2021/22	2022/23
	£000	£000	£000	£000
Opening balance at 1 April	(46,900)	(48,910)	(870)	(670)
Current service cost	(500)	(630)	-	-
Interest cost	(980)	(1,360)	(20)	(20)
Contributions by participants	(80)	(100)	-	-
Actuarial gains/(losses) on liabilities - financial assumptions	1,990	13,010	20	140
Actuarial gains/(losses) on liabilities - demographic assumptions	40	-	10	-
Actuarial gains/(losses) on liabilities - experience	(3,080)	(4,340)	140	(60)
Net benefits paid out	600	470	50	40
Past service costs	-	-	-	-
Net increase in liabilities from disposals/acquisitions	-	-	-	-
Settlements	-	-	-	-
Closing balance at 31 March	**(48,910)**	**(41,860)**	**(670)**	**(570)**

Reconciliation of the fair value of the scheme assets:

	Local Government Pension Scheme		Discretionary Benefits	
	2021/22	2022/23	2021/22	2022/23
	£000	£000	£000	£000
Opening balance at 1 April	55,930	55,150	-	-
Interest income on assets	1,170	1,540	-	-
Remeasurement gains/(losses) on assets	(1,430)	(2,000)	-	-
Employer contributions	-	-	50	40
Contributions by scheme participants	80	100	-	-
Net benefits paid out	(600)	(470)	(50)	(40)
Settlements	-	-	-	-
Closing balance at 31 March	**55,150**	**54,320**	**-**	**-**

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	2018/19	2019/20	2020/21	2021/22	2022/23
	£000	£000	£000	£000	£000
Fair value of LGPS assets	**48,300**	**45,570**	**55,930**	**55,150**	**54,320**
Present value of liabilities:					
- LGPS liabilities	(39,520)	(42,750)	(46,900)	(48,910)	(41,860)
- Impact of minimum funding	(8,780)	(2,820)	(9,030)	-	-
Surplus / (Deficit) on funded defined benefit scheme	**-**	**-**	**-**	**6,240**	**12,460**
Discretionary benefits	(900)	(840)	(870)	(670)	(570)
Total net pension asset / (liability)	**(900)**	**(840)**	**(870)**	**5,570**	**11,890**

The split of the defined benefit obligation at the last valuation date between the various categories of members was as follows: active members 9%, deferred pensioners 13% and pensioners 78%.

The liabilities show the underlying commitments that the Authority has in the long run to pay post employment (retirement) benefits. The total liability of £42.430m has an impact on the net worth of the Authority recorded on the balance sheet, resulting in a negative pension balance of £0.570m. 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 2024 is nil. In addition, Strain on the Fund contributions may be required. Expected payments direct to beneficiaries in the year to 31 March 2024 are £0.05m in relation to unfunded benefits.

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. Due to the current and unprecedented market conditions, estimates for the pension fund are based on the latest full valuation of the scheme as at 31 March 2022.

The weighted average duration of the defined benefit obligation for scheme members is 14.8 years.

The principal assumptions used by the actuary have been:

	Local Government Pension Scheme		Discretionary Benefits	
	2021/22	2022/23	2021/22	2022/23
Mortality assumptions:				
Longevity at 65 for current pensioners:				
- Men	21.5	21.6	21.8	21.8
- Women	24.5	24.6	25.0	25.0
Longevity at 65 for future pensioners:				
- Men	22.8	22.9	n/a	n/a
- Women	26.0	26.1	n/a	n/a
Principal financial assumptions (% per annum)				
Rate for discounting scheme liabilities	2.8%	4.7%	2.8%	4.7%
Rate of inflation - Consumer Price Index	3.1%	2.7%	3.1%	2.7%
Rate of increase in pensions	3.1%	2.7%	3.1%	2.7%
Pension accounts revaluation rate	3.1%	2.7%	n/a	n/a
Rate of increase in salaries	4.6%	4.2%	n/a	n/a

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

	31 March 2022	31 March 2023		
	% Total	% Quoted	% Unquoted	% Total
Equity investments	57.0%	40.1%	11.1%	51.2%
Property	8.4%	0.0%	10.5%	10.5%
Government bonds	2.0%	1.3%	0.0%	1.3%
Corporate bonds	18.8%	19.5%	0.0%	19.5%
Multi Asset Credit	0.0%	4.5%	0.0%	4.5%
Cash	1.8%	1.8%	0.0%	1.8%
Other*	0.0%	0.0%	11.2%	11.2%
Total	**88.0%**	**67.2%**	**32.8%**	**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.

A small proportion (10.5%) of the Pension Fund's investments are in direct property valuations and pooled residential property funds.

Actual Return on Assets

	Local Government Pension Scheme	
	2021/22	2022/23
	£000	£000
Interest Income on Assets	1,170	1,540
Remeasurement gain/(loss) on assets	(1,430)	(2,000)
Actual Return on Assets	**(260)**	**(460)**

Sensitivity Analysis

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the tables above. The sensitivity analyses below have been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all the other assumptions remain constant. The assumptions in longevity, for example, assume that life expectancy increases or decreases for men and women. In practice, this is unlikely to occur, and changes in some of the assumptions may be interrelated. The estimations in the sensitivity analysis have followed the accounting policies for the scheme, i.e. on an actuarial basis using the projected unit credit method. The methods and types of assumptions used in preparing the sensitivity analysis below did not change from those used in the previous period.

Sensitivity analysis of unfunded benefits has not been included on materiality grounds.

Discount rate assumption	+0.1% per annum	Base Figure	-0.1% per annum
Adjustment to discount rate			
Present value of total obligation (£M)	41.23	41.86	42.49
% change in present value of total obligation	-1.5%	0.0%	1.5%
Projected service cost (£M)	0.22	0.23	0.24
Approximate % change in projected service cost	-5.2%	0.0%	5.4%

Rate of general increase in salaries	+0.1% per annum	Base Figure	-0.1% per annum
Adjustment to salary increase rate			
Present value of total obligation (£M)	41.86	41.86	41.86
% change in present value of total obligation	0.0%		0.0%
Projected service cost (£M)	0.23	0.23	0.23
Approximate % change in projected service cost	0.0%		0.0%

Rate of increase to pensions in payment and deferred pensions assumption, and rate of revaluation of pension accounts assumption	+0.1% per annum	Base Figure	-0.1% per annum
Adjustment to pension increase rate			
Present value of total obligation	42.45	41.86	41.27
% change in present value of total obligation	1.4%		-1.4%
Projected service cost (£M)	0.24	0.23	0.22
Approximate % change in projected service cost	5.4%		-5.2%

Post retirement mortality assumption	- 1 year	Base Figure	+ 1 year
Adjustment to mortality age rating assumption *			
Present value of total obligation (£M)	42.95	41.86	40.77
% change in present value of total obligation	2.6%		-2.6%
Projected service cost (£M)	0.24	0.23	0.22
Approximate % change in projected service cost	3.7%		3.7%

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

The impact of the Covid-19 pandemic on long-term mortality trends is being monitored and was taken into account by the actuaries in the 2022 valuation assumption. Future adjustments will be made taking into account updated views on the impact of the pandemic on future longevity trends.

McCloud Judgement

In December 2018 the Government lost a Court of Appeal case (the "McCloud/Sargeant" judgement) which found that the transitional protection arrangements put in place when the firefighters' and judges' pension schemes were reformed amount to illegal age discrimination. The Government has acknowledged that the difference in treatment will need to be remedied across all public service schemes, including the LGPS. Protections applied to all active members of schemes who were within 10 years of their Normal Pension Age on 1 April 2012. In relation to the LGPS all members joined the new Scheme for membership after 1 April 2014 (2015 for NI), but members within 10 years of normal retirement were given an underpin (or "better of both") promise, so their benefits earned after that date would be at least as valuable in terms of amount and when they could be drawn, as if they had remained in the pre-reformed final salary scheme.

Figures produced by Aon last year included a McCloud "underpin" liability within the current service cost, together with an allowance within the balance sheet reflecting service since the scheme reforms (2014 in England and Wales, and 2015 in Northern Ireland). For accounting periods ending in 2023 the same approach as last year has been adopted, using a roll-forward method based on last year's results. AON have set out the methodology used as part of the 2022 valuation to address this issue in their Terms of Reference.

In summary, calculations have been made dependent on active and deferred membership joining dates, age and sex and assumption's on pay increases. Assumptions have been made that the numbers of pensioner and dependant members affected by McCloud will be small and so excluded. Under the proposed remedy the period of protection will apply from 1 April 2014 to 31 March 2022. The McCloud allowances has been included in the past service liabilities but no allowance has been made within the current service cost over this accounting period.

The method for valuing the McCloud remedy is closely aligned with the method proposed by MHCLG (now DLUHC) in its consultation issued in July 2020.

Cost Management in the LGPS

Legislation requires HM Treasury and the Scheme3 Advisory Board (SAB) to undertake periodic valuations to monitor the cost of the LGPS to ensure it remains sustainable and affordable.

The outcome to bother reviews relating to the 2016 Valuations recommended no changes to the provisions of the Scheme, however the legality of the Government's decision to include McCloud costs as a member cost within the process is being challenged by Judicial Review brought by the trades unions. If successful, this may cause the 2016 HMT% process to be re-run and could result in changes in benefits or member contributions backdated to 1 April 2019.

No allowance for the potential cost of improving members' benefits under these reviews for the period ending 31 March 2023 has been made.

Guaranteed Minimum Pension (GMP) Equalisation and Indexation

Guaranteed Minimum Pension (GMP) is a portion of pension that was accrued by individuals who were contracted out of the State Second Pension between 6 April 1978 and 6 April 1997.

Prior to 6 April 2016, public service pension schemes and the State Pension worked together to ensure pension increases on State Pension and LGPS Pension kept in line with inflation. The LGPS was not required to pay any pension increases on GMPs accrued before April 1988. The Additional Pension (AP) element of the State Pension paid top-up payments to pensioners to give inflation protection on the GMP element where this was not provided by the LGPS. However reforms were made to the State Pension system in April 2016 which scrapped AP and therefore removed the facility for central government to fully index the combined pension through AP. The government has since introduced 'interim solutions' for public sector schemes to pay full inflationary increases on GMPS for those reaching the State Pension Age (SPA) to ensure that members continue to receive full inflationary increases on the combined public sector scheme and State pensions.

The government has since introduced 'interim solutions' for public sector schemes to pay full inflationary increases on GMPS for those reaching the State Pension Age (SPA) to ensure that members continue to receive full inflationary increases on the combined public sector scheme and State pensions. This applied to those reaching SPA on or after 6 April 2016.

On 7 October 2020 MHCLG (now DLUHC) consulted on proposed solutions to compensate members reaching SPA after 5 April 2021 which focused on making further extensions to GMP indexation followed by ultimate conversion or indefinite indexation as a permanent solutions for public sector pension schemes. The Government announced on 23 March 2021 that it would compensate members in line with full indexation for members whose SPA is on or after 06 April, 2016.

The rate of which GMP was accrued, and the date it is payable, is different for men and women. On 26 October 2018 the High Court ruled in the Lloyds Bank case that equalisation for the effect of unequal GMPs is required. On 20 November 2020 the High Court ruled on the equalisation for GMPs of historic transfers out of the three largest Lloyds Banking Group pension schemes. The judgement requires all transfers between 17 May 1990 and 5 April 1997 with GMPs to be equalised. Schemes will be expected to pay a top-up to the receiving scheme with interest at Bank base rate +1%. At this point in time, the Government has not indicated an approach to rectifying this.

Note 20: Usable Reserves

	Note	31 March 2022 £000	31 March 2023 £000
General Fund Balance		(8,572)	(8,176)
Earmarked Reserves	21	(11,305)	(59,669)
Capital Receipts Reserve		-	-
Capital Grants Unapplied Reserve		(60,986)	(77,627)
Total		**(80,863)**	**(145,472)**

The **General Fund Balance** is the statutory fund into which all the receipts of an authority are required to be paid and out of which all liabilities of the authority are to be met, except to the extent that statutory rules might provide otherwise. These rules can also specify the financial year in which liabilities and payments should impact on the General Fund Balance, which is not necessarily in accordance with proper accounting practice. The General Fund Balance therefore summarises the resources that the authority is statutorily empowered to spend on its services or on capital investment (or the deficit of resources that the authority is required to recover) at the end of the financial year.

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

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

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

Note 21: Transfers (to)/From Earmarked Reserves

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

	Opening Balance 1 April 2021	Transfers Out 2021/22	Transfers In 2021/22	Balance at 31 March 2022	Transfers Out 2022/23	Transfers In 2022/23	Balance at 31 March 2023
	£000	£000	£000	£000	£000	£000	£000
Metro Reinvigoration Reserve	(5,164)	891	-	**(4,273)**	-	(87)	(4,360)
Metro Fleet Replacement Reserve	(5,641)	-	(31)	**(5,672)**	-	(109)	(5,781)
Metro and Rail Studies	(389)	-	(712)	**(1,101)**	119	-	(982)
Nexus contribution to Bus Partnership Project	(258)		-	**(258)**	18	-	(240)
Revenue Grants Unapplied	-	-	-	**-**	-	(46,890)	(46,890)
Transport Devolution	-	-	-	**-**	-	(1,416)	(1,416)
Total	**(11,452)**	**891**	**(743)**	**(11,304)**	**138**	**(48,502)**	**(59,669)**

Note 22: Unusable Reserves

Summary

	31 March 2022 £000	31 March 2023 £000
Capital Adjustment Account	(54,816)	(56,268)
Financial Instruments Adjustment Account	170	35
Revaluation Reserve	(4,340)	(4,242)
Pension Reserve	(5,570)	(11,890)
Total	**(64,555)**	**(72,365)**

Capital Adjustment Account

The Capital Adjustment Account (CAA) 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 CAA is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisation are charges to the CIES (with reconciling postings from the Revaluation Reserve to convert fair value figures on a historical cost basis). The CAA is credited with the amounts set aside by the Authority as finance for the costs of acquisition, construction and enhancement of assets.

The CAA also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains. Note 3 provides details of the source of all the transactions posted to the CAA, apart from those involving the Revaluation Reserve.

	2021/22 £000	2022/23 £000
Opening Balance 1 April	**(53,027)**	**(54,816)**
Reversal of items relating to capital expenditure debited or credited to the CIES:		
Charges for depreciation and impairment of non current assets	2,385	2,372
Other income that cannot be credited to the General Fund	(2,814)	(2,802)
Revenue expenditure funded from capital under statute	12,125	30,416
Write down of long term debtors	807	775
Adjusting amounts written out of the Revaluation Reserve	**(96)**	**(98)**
Capital financing applied in the year:		
Capital grants and contributions credited to the CIES that have been applied to capital financing	(11,959)	(30,122)
Statutory provision for the financing of capital investment	(993)	(1,018)
Capital expenditure charged against the General Fund	(437)	(200)
Debt redeemed using capital receipts	(807)	(775)
Balance at 31 March	**(54,816)**	**(56,268)**

Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account (FIAA) absorbs the timing differences arising from the different arrangements for accounting for income and expense 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.

	2021/22	2022/23
	£000	£000
Opening Balance 1 April	**309**	**170**
Proportion of premiums incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements	(140)	(135)
Balance at 31 March	**170**	**35**

Revaluation Reserve

The Revaluation Reserve (RR) 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 RR only contains 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 CAA.

	2021/22	2022/23
	£000	£000
Opening Balance 1 April	**(4,436)**	**(4,340)**
Difference between fair value depreciation and historical cost depreciation written off to the CAA	96	98
Balance at 31 March	**(4,340)**	**(4,242)**

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

	2021/22	2022/23
	£000	£000
Opening Balance 1 April	**870**	**(5,570)**
Remeasurements of the net defined benefit liability (asset)	(6,720)	(6,750)
Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the CIES	330	470
Employer's pension contributions and direct payments to pensioners payable in the year	(50)	(40)
Balance at 31 March	**(5,570)**	**(11,890)**

Note 23: Capital Expenditure and Capital Financing

	2021/22 £000	2022/23 £000
Opening Capital Financing Requirement 1 April	**102,776**	**101,142**
Capital Investment		
Property, Plant and Equipment	437	195
Revenue Expenditure Funded from Capital Under Statute	12,125	30,417
Sources of Finance		
Capital receipts - repayment of principal from long term debtors	(807)	(775)
Government Grants and other contributions	(11,959)	(30,122)
Sums set aside from revenue		
Direct revenue contributions	(437)	(200)
Minimum Revenue Provision	(993)	(1,018)
Additional Voluntary Provision	-	-
Closing Capital Financing Requirement 31 March	**101,142**	**99,639**
Decrease in underlying need to borrow (unsupported by government financial assistance)	**(1,634)**	**(1,503)**

Note 24: Adjustments to net surplus or deficit on the provision of services for non cash movements and items that are Investing or Financing activities

	2021/22 £000	2022/23 £000
Surplus on the provision of services	39,383	65,668
Adjustments to Surplus on Provision of Services for Non-Cash Movements		
Depreciation and Impairment	2,385	2,372
Increase/(Decrease) in Creditors	16,778	9,558
(Increase)/Decrease in Debtors	4,178	(519)
Movement in Pension Liability	280	430
Other non-cash items charged to the net surplus on the provision of services	(2,814)	(2,802)
	20,807	**9,039**
Adjustments for items included in the net surplus on the provision of services that are investing and financing activities		
Capital grants credited to surplus on provision of services	(49,259)	(46,763)
Net cash flow from operating activities	**10,931**	**27,944**

The cash flows for operating activities include the following items:

	2021/22 £000	2022/23 £000
Interest received	950	664
Interest paid	(3,820)	(3,163)

Note 25: Cash Flow Statement - Investing Activities

	2021/22 £000	2022/23 £000
Purchase of property, plant and equipment, investment property and intangible assets	250	594
Purchase of short-term and long-term investments	(159,968)	(226,428)
Proceeds from short-term and long-term investments	104,559	163,525
Other receipts from investing activities	46,950	46,626
Net cash flows from investing activities	**(8,209)**	**(15,683)**

Note 26: Cash Flow Statement - Financing Activities

	2021/22 £000	2022/23 £000
Repayments of short and long-term borrowing	(893)	(953)
Net cash flows from financing activities	**(893)**	**(953)**

Note 26a: Reconciliation of liabilities arising from Financing Activities

	1 April 2022	Financing Cash Flows	Changes which are not financing cash flows		31 March 2023
			Acquisition	Other	
	£000	£000	£000	£000	£000
Long term borrowings	(93,567)	759	-	-	(92,808)
Short term borrowings	(1,266)	-	-	5	(1,261)
Total Liabilities from financing activities	**(94,833)**	**759**	**-**	**5**	**(94,069)**

	1 April 2021	Financing Cash Flows	Changes which are not financing cash flows		31 March 2022
			Acquisition	Other	
	£000	£000	£000	£000	£000
Long term borrowings	(94,275)	708	-	-	(93,567)
Short term borrowings	(1,274)	-	-	8	(1,266)
Total Liabilities from financing activities	**(95,549)**	**708**	**-**	**8**	**(94,833)**

Note 27: Accounting Standards Issued, Not Yet Adopted

Impact of the adoption of new accounting standards on the 2022/23 Financial Statements

At the balance sheet date, the following new standards and amendments to existing standards have been published but not yet adopted by the Code of Practice of Local Authority Accounting in the United Kingdom:

IFRS 16 Leases will require local authorities that are lessees to recognise most leases on their balance sheets as right-of-use assets with corresponding lease liabilities (there is a recognition exemption for low-value and short-term leases). CIPFA/LASAAC have deferred implementation of IFRS 16 for local government to 1 April 2024. Work to date has shown that NECA leases identified will not have a material effect on the 2022/23 statements.

The above changes in accounting requirements for 2022/23 are minor amendments and are not anticipated to have a material impact on the Authority or the Group's financial performance or financial position.

Note 28: 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 the refurbishment of the existing Tunnel are recorded within the Authority's Property, Plant and Equipment on the Balance Sheet.

Transferred Assets and Liabilities in Local Government Pension Scheme transferred to TT2 Ltd

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

Accounting for the North East Joint Transport Committee

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

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

Accounting for the Transfer of the North East Local Enterprise Partnership

As set out in Note 1, on 1 April 2020 the Accountable Body role for the North East Local Enterprise Partnership transferred to NTCA.

This has been accounted for in the 2020/21 financial statements as a transfer by absorption. Assets and liabilities have been transferred at carrying value. The Comprehensive Income and Expenditure Statement shows services transferred to NTCA separately from services continuing to be reported by NECA in the prior year results, in order to aid comparatives across financial years. In the notes to the accounts, a separate line disclosing the transfer is included after the balance brought forward from the previous year.

Note 29: Assumptions made about the future and other major sources of estimation uncertainty

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

The items in the Authority's Balance Sheet at 31 March 2023 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 2023 and the projected service cost for the year ending 31 March 2024 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 £41.23m, a variance of £0.63m, whereas a decrease of (0.1%) p.a. results in an increase to £42.49m, a variance of £0.63m. The percentage change in the present value of the total obligation would be (1.5%) and 1.5% respectively.

		Rate of increase to pensions in payment and deferred pensions assumption, and rate of revaluation of pension accounts assumption: an adjustment to the pension increase rate of +0.1% p.a. would increase the present value of the total obligation by £0.59m to £42.45m, whereas a decrease of (0.1%) p.a. results in a decrease to £41.27m, a variance of £0.59m. The percentage change in the present value of the total obligation would be 1.4% and (1.4%) respectively.
		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 £42.95m, an increase of £1.09m, whereas an adjustment of +1 year results in a reduction to £40.77m, a variance of £1.09m. The percentage change in the present value of the total obligation would be 2.6% and (2.6%) respectively.
Property, plant and equipment	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets.	The impact of a change in valuation or useful life would be to affect the carrying value of the asset in the balance sheet and the charge for depreciation or impairment in the CIES. These changes do not have an impact on the Authority's General Fund position as funding for such non-cash charges does not come from local authority contributions and grants. Accumulated depreciation totalled £35m as at 31 March 2023 and a change in methodology resulting in a 1% movement would only change the Balance Sheet by £0.35m

Government Funding	The outcome of the Fair Funding Review which aims to distribute government funding in a fairer way to Local Authorities - expected to be implemented in 2024/25	Possible impact could be reductions in; - funding for the North East region's transport infrastructure and initiatives - contributions from Local Authorities - grant funding from government

Note 30: Accounting Policies

1. General Principles

The Statement of Accounts summarises the Authority's transactions for the 2022/23 financial year and its position at the year-end of 31 March 2023. 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 2022/23, 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

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

- Revenue from the sale of goods is recognised when the Authority transfers the significant risks and rewards of ownership to the purchaser and it is probable that the economic benefits or service potential associated with the transaction will flow to the Authority.
- Revenue from the provision of services is recognised when the Authority can measure reliability the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payments on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument, rather than the cash flows fixed or determined by the contract.

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

3. Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in 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 services where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off.
- Amortisation of intangible fixed assets attributable to the service.

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

Depreciation, revaluation and impairment losses are therefore replaced by a 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 the 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 2022/23

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 Scheme is accounted for as a defined benefits scheme:

- The liabilities of the pension fund attributable to the Authority are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates and projections of earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate determined annually, based on the indicative rate of return on high quality corporate bonds.
- The assets of the pension fund attributable to the Authority are included in the Balance Sheet at their fair value:
  - o Quoted securities at current bid price
  - o Unquoted securities based on professional estimate
  - o Unitised securities at current bid price
  - o Property at market value.

The change in the net pensions liability is analysed into the following components:

- Current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the NECA Corporate line.

- 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 the NECA Corporate line.

- Net interest on the net defined liability (asset), i.e. net interest expense for the Authority – the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of 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 (asset) at the beginning of the period, taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.

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

- Remeasurements comprising:

o The return on plan assets, excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.

o 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.

o 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 19 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 charged required against the General Fund balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Financial Assets

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

- Amortised Cost – assets held within a business model with the sole objective of collecting contractual cash flows on specified dates that are solely payments of principal and interest.
- Fair value through other comprehensive income (FVOCI) – assets held within a business model with the objective to either sell the asset or collect contractual cash flows on specified dates that are solely payments of principal and interest.
- Fair value through profit and loss (FVPL) – objectives are achieved by any other means than collecting contractual cash flows.

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

- An equity instrument can be elected into FVOCI rather than FVPL if it is not held for trading.
- Any financial asset can be designated as measured as FVPL if this removes any deemed inconsistency in measurement by treating assets based upon the above classification.

Amortised Cost

Financial assets measured at amortised cost are recognised on the Balance Sheet when the 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 CIES for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the financial assets held by the authority, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the CIES is the amount receivable for the year in the loan agreement.

However, the authority can make loans to organisations at less than market rates (soft loans). When soft loans are made, a loss is recorded in the CIES (debited to the appropriate service) for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost that the outstanding principal.

Interest is credited to the Financing and Investment Income and Expenditure line in the CIES at a marginally higher effective rate of interest than the rate receivable from the organisations, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year – the reconciliation of amounts debited and credited to the CIES to net gain required against the General Fund Balance is managed by a transfer to or form the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

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

Expected Credit Loss Model

The Authority recognises expected credit losses on all of its financial assets held at amortised cost, either on a 12-month or lifetime basis. Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses.

Fair Value Through Other Comprehensive Income (FVOCI)

Changes in fair value are recorded against Other Comprehensive Income and Expenditure gain/loss by an entry in the Financial Instrument Revaluation Reserve through the Movement in Reserves Statement.

However, interest is charged to the Surplus/Deficit on the Provision of Services as though the asset had been measured at amortised cost.

Where assets are identified as impaired, because of a likelihood arising from a future event that cashflows due under the contract will not be made, a charge for the value of the impairment is made to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement with a corresponding entry being recognised in Other Comprehensive Income through the Financial Instruments Revaluation Reserve on the Balance Sheet.

When the asset is de-recognised the cumulative gain or loss previously recognised in Other Comprehensive Income is reclassified from the Financial Instrument Revaluation Reserve to the Surplus/Deficit on the Provision of Services as a reclassification adjustment.

Fair Value through Profit and Loss (FVPL)

Financial assets that are measured at FVPL are recognised on the Balance Sheet when the authority becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Fair value gains and losses are recognised as they arrive in the Surplus or Deficit on the Provision of Services. The fair value measurements of the financial assets are based on the following techniques:

- Instruments with quoted market prices – the market price
- Other instruments with fixed and determinable payments – discounted cash flow analysis.

The inputs to the measurement techniques are categorised in accordance with the following three levels:

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

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

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 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 Funded from Capital Under Statute) or Taxation and Non-Specific Grant Income (non-ringfenced revenue grants and capital grants) in the Comprehensive Income and Expenditure Statement.

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

13. Property, Plant & Equipment (Excluding Highways Infrastructure Assets)

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:

· 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).

The following useful economic lives are in use for NECA's PPE assets: Plant and Equipment 10-30 years.

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

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

Assets included in the Balance Sheet at current value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum every five years. 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 de minimis 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 de minimis level. For all capital expenditure the de minimis level is £10,000.

Impairment

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

Where impairment losses are identified, they are accounted for 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 and adjusted for depreciation that would have been charged if the loss had not been recognised.

Depreciation

Depreciation is provided 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 2023, divided by remaining life expectancy. Depreciation is charged in the year of acquisition, but not the year of disposal. Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation that would have been chargeable based on their historic cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

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

Disposals

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

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

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

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

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

14. Highways Infrastructure Assets

Highways infrastructure assets include carriageways, footways and cycle tracks, structures (e.g. bridges and tunnels), street lighting, street furniture (e.g. illuminated traffic signals, bollards), traffic management systems and land which together form a single integrated network. NECA holds highways infrastructure assets in the form of the Tyne Tunnels - the two vehicle tunnels and the pedestrian and cyclist tunnels.

Recognition

Expenditure on the acquisition or replacement of components of the network is capitalised on an accrual basis, provided that it is probable that the future economic benefits associated with the item will flow to the authority and the cost of the item can be measured reliably.

Measurement

Highways infrastructure assets are generally measured at depreciated historical cost. However, this a modified form of historical cost - opening balances for highways infrastructure assets were originally recorded in balance sheets at amounts of capital undischarged for sums borrowed as at 1 April 1994, which was deemed at that time to be historical cost.

Impairment

Where impairment losses are identified, they are accounted for by the carrying amount of the asset being written down to the recoverable amount.

Depreciation

Depreciation is provided on parts of the highways infrastructure assets that are subject to deterioration or depletion and by the systematic allocation of their depreciable amounts over their useful lives. Depreciation is charged on a straight-line basis.

Annual depreciation is the depreciation amount allocated each year.

Useful lives of the various parts of the highways network have been assessed by the authority using industry standards where applicable as follows:
- Structures (tunnels) - useful life of up to 120 years.

Disposals and derecognition

When a component of the network is disposed of or decommissioned, the carrying amount of the component in the Balance Sheet is written off to the 'Other operating expenditure' line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement, also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of the disposal).

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

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'.

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

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

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

In most arrangements within the scope of the Application, the grantor will account for the arrangement's financing by recording and measuring a long term liability in accordance with IAS 17. This treatment reflects an obligation to pay the operator for the full value of the asset along with the operator's 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 not 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. There are no contingent liabilities disclosed in 2022/23.

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.

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.

19. VAT

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

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

Prepayments on permit accounts are received, and the balance on these accounts are accrued as income received in advance at the year end, since these must be refunded to customers should they choose to close their account. Income is recognised at the point the journey is made.

23. Group Accounts

NECA is required by the Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 to produce Group Accounts to include services provided 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 2022/23 accounts, NECA has fully complied with the requirements of the Code, providing Group figures for 2022/23 and comparators for 2021/22. 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.

24. Joint Transport Committee

On 2 November 2018, the Newcastle upon Tyne, North Tyneside and Northumberland Combined Authority (Establishment and Functions) Order 2018 (the Order) changed the boundaries of NECA and established the new mayoral combined authority.

The reconfiguration of NECA has been classed as a transfer by absorption meaning:

- NECA has accounted for its control up to the date of the reconfiguration albeit with clear disaggregation of the financial results relating to the functions being transferred; and
- Assets and liabilities transferred at book value.

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

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

- Split the revenues between that which relates to NECA and NTCA. In this case the constitution of the JTC and its funding arrangements suggests that, in the first instance, the revenues should be divisible into that which relates to Northumberland (allocated wholly to NTCA), that which relates to Durham (allocated wholly to NECA) and that which relate to Tyne and Wear (requires further division into NECA and NTCA).

- The revenues which relate to Tyne and Wear must then be divided into that which relates wholly to Newcastle and/or North Tyneside (allocated to NTCA), that which relates wholly to Gateshead, South Tyneside and/or Sunderland (allocated to NECA) and that which relates to activities not wholly attributable under the preceding two points which requires apportionment.

The Order gives no clear instruction on the basis of division of revenues, but the Deed of Cooperation made on 4 July 2018 between the seven local authorities in the area provides that "those costs and liabilities which are attributable to the exercise of functions exclusively in the area of the Tyne and Wear Authorities…shall be shared between the Tyne and Wear Authorities on a per capita basis relating to their resident populations at that time."
By similar rationale and argument, the division of assets, liabilities and expenditure incurred will also be divided on this basis.

25. Transfer of North East Local Enterprise Partnership Accountable Body role

On 1 April 2020, the Accountable Body responsibility for the North East Local Enterprise Partnership (North East LEP) transferred from NECA to the North of Tyne Combined Authority.

The transfer has been accounted for as a transfer by absorption. The authority will disclose in the financial statements that the transfer has taken place (including a brief description of the transferred function) giving the date of the transfer, the name of the transferring body and the effect on the financial statements.

Functions transferred to NTCA will be disclosed separately in the comparative year. Where the transfer requires reporting in the notes to the accounts, a separate line disclosing the transfer shall be included after the balance brought forward from the previous year. A new sub-total shall be inserted to disclose the restated opening Balance Sheet figures. These lines will be required in the notes showing the movement in assets, liabilities and reserves, including the Movement in Reserves Statement.

Note 31: Events After the Balance Sheet Date

Adjusting events after the Balance Sheet date

Where events take place after 31 March which provide information about conditions existing at 31 March, the financial statements and notes are adjusted to reflect the impact of this information. No such events have taken place.

Non-adjusting Events after the Balance Sheet date

Where events take place after 31 March which do not relate to conditions at 31 March but which provide information that is relevant to an understanding of the Authority's financial position, the financial statements and notes are not adjusted but the relevant information is disclosed.

In May 2022, the CIPFA LASAAC Local Authority Code Board announced an urgent consultation on temporary proposals to update of the Code of Practice on Local Authority Accounting in the United Kingdom for infrastructure assets. The proposals are intended to address issues raised by audit firms in relation to the derecognition (removal of the carrying amount) of parts of infrastructure assets when replacement expenditure is undertaken. The outcome of the consultation, which closes in June 2022, may require changes to the value of infrastructure reported in the 2021/22 accounts.

North East Combined Authority

Group Statement of Accounts 2022/23

Draft - subject to audit

3.1 Group Movement in Reserves Statement

	Note	NECA Usable Reserves	NECA Unusable Reserves	Total NECA Reserves	Authority Share of Nexus	Total Group Reserves
		£000	£000	£000	£000	£000
Balance at 1 April 2021 carried forward		**(43,033)**	**(56,283)**	**(99,316)**	**(270,767)**	**(370,084)**
Total Comprehensive Income and Expenditure		(39,383)	(6,720)	**(46,103)**	(55,578)	**(101,681)**
Adjustments between accounting basis & funding basis under regulations	G14	1,553	(1,553)	**-**	-	**-**
(Increase)/Decrease in 2021/22		**(37,830)**	**(8,273)**	**(46,103)**	**(55,578)**	**(101,681)**
Balance at 31 March 2022 carried forward		**(80,863)**	**(64,556)**	**(145,419)**	**(326,345)**	**(471,765)**
Total Comprehensive Income and Expenditure		(65,668)	(6,750)	**(72,418)**	(136,817)	**(209,235)**
Adjustments between accounting basis & funding basis under regulations	G14	1,058	(1,058)	**-**	-	**-**
(Increase)/Decrease in 2022/23		**(64,610)**	**(7,808)**	**(72,418)**	**(136,817)**	**(209,235)**
Balance at 31 March 2023 carried forward		**(145,473)**	**(72,364)**	**(217,837)**	**(463,162)**	**(681,000)**

3.2 Group Comprehensive Income and Expenditure Statement

2021/22					2022/23		
Gross Expenditure	Gross Income	Net Expenditure		Note	Gross Expenditure	Gross Income	Net Expenditure
£000	£000	£000			£000	£000	£000
			Continuing NECA Services				
941	(162)	779	Corporate		1,749	(1,043)	705
338	-	338	Transport - Retained Levy Budget		377	(24)	353
15,457	-	15,457	Transport - Durham		15,609	-	15,609
106,199	(50,863)	55,336	Transport - Tyne and Wear		112,488	(51,463)	61,025
13,736	(45,051)	(31,315)	Transport - Other		30,019	(102,211)	(72,192)
13,673	(17,983)	(4,310)	Transport - Tyne Tunnels		16,309	(20,317)	(4,008)
893	(10,188)	(9,295)	Covid-19 Grants		-	-	-
151,238	**(124,247)**	**26,991**	**Cost of Services**		**176,551**	**(175,058)**	**1,493**
9,650	(4,989)	4,662	**Financing and Investment Income and Expenditure**	G03	10,846	(8,797)	2,049
-	(97,089)	(97,089)	**Taxation and Non-Specific Grant Income**	G04	-	(133,696)	(133,696)
17	(697)	(680)	**(Gain)/Loss on disposal or derecognition of non-current assets**		16	-	16
		(66,117)	**Surplus on the Provision of Services**				**(130,138)**
		773	**Taxation of Group Entities**				**-**
		(65,344)	**Group Surplus**				**(130,138)**
		(24,937)	Re-measurement of the defined benefit liability	G12			**(79,097)**
		(24,937)	**Other Comprehensive Income and Expenditure**				**(79,097)**
		(90,280)	**Total Comprehensive Income and Expenditure**				**(209,235)**

3.3 Group Balance Sheet

31 March 2022 £000		Note	31 March 2023 £000
521,676	Property, Plant and Equipment	G6	588,319
3,263	Intangible Assets	G7	3,916
-	Long Term Debtors	G8	-
1	Long Term Investments	G8	1
-	Net Pension Asset	G12	47,111
524,940	**Long Term Assets**		**639,347**
89,792	Short Term Investments	G8	152,694
11,704	Short Term Debtors	G9	12,384
47,913	Cash and Cash Equivalents	G10	62,096
503	Inventories		480
149,912	**Current Assets**		**227,654**
(1,266)	Short Term Borrowing	G8	(1,257)
(34,485)	Short Term Creditors	G11	(44,027)
(1,220)	Grants Receipts in Advance		(1,130)
(2,814)	New Tyne Crossing Deferred Income		(2,802)
(39,785)	**Current Liabilities**		**(49,216)**
(42,207)	New Tyne Crossing Deferred Income		(39,228)
(93,568)	Long Term Borrowing	G8	(92,809)
(22,948)	Pension Liability	G12	-
(1,998)	Provisions		(2,180)
(2,582)	Deferred Taxation	G13	(2,571)
(163,303)	**Long Term Liabilities**		**(136,788)**
471,764	**Net Assets**		**680,997**
(111,559)	Usable Reserves	G14	(178,113)
(360,205)	Unusable Reserves	G15	(502,884)
(471,764)	**Total Reserves**		**(680,997)**

Chief Finance Officer Certificate

I certify that the accounts set out on pages 79 to 110 give a true and fair view of the financial position of the North East Combined Authority Group as at the 31 March 2022.

Signed: Paul Darby, Chief Finance Officer

3.4 Group Cash Flow Statement

2021/22 £000		Note	2022/23 £000
65,344	Surplus on the provision of services	G16	130,138
55,486	Adjustments to net surplus or deficit on the provision of services for non-cash movements	G16	37,986
(97,545)	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	G16	(87,486)
23,285	**Net cash flows from Operating Activities**	G16	**80,638**
(24,389)	Investing Activities	G17	(63,647)
(3,476)	Financing Activities	G18	(2,807)
(4,580)	**Net (Decrease)/Increase in cash and cash equivalents**		**14,184**
52,493	Cash and cash equivalents at the beginning of the reporting period		47,913
47,913	**Cash and cash equivalents at the end of the reporting period**	G10	**62,097**

3.5 Explanatory Notes to the Group Financial Statements

Note G1: Group Accounts

Under 9.1.17 of the Code of Practice for Local Authority Accounting 2022/23, authorities with interests 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 asset:
- Freehold buildings - 40 years
- Short leasehold buildings - over the lease term
- Infrastructure assets - 20 to 50 years
- Plant and Equipment - 5 to 30 years
- Vehicles - 5 to 10 years
- Marine Vessels - 30 years
- Intangibles - 5 to 10 years

Details of NECA depreciation policy can be found in Note 30 - Accounting Policies.

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

As described in Note 1 to the single entity accounts, the establishment of the North of Tyne Combined Authority (NTCA) and the North East Joint Transport Committee on 2 November 2018 necessitates the division of income and expenditure, assets and liabilities relating to Joint Transport Committee activity between the NECA and NTCA accounts. Since all Nexus activity reported in the NECA group accounts relates to Transport at the Tyne and Wear level, it has been fully apportioned between NECA and NTCA on the basis of Tyne and Wear population using the ONS statistics used as the basis of dividing the levy contributions.

For more details see Note 1.

Note G02: Expenditure and Funding Analysis

	2022/23				
	Net Expenditure Chargeable to the General Fund	Adjustments for Capital Purposes	Pension Adjustments	Other Differences	Net Expenditure in the CIES
	£000	£000	£000	£000	£000
Corporate	75	-	630	-	705
Transport - Retained Levy Budget	644	(291)	-	-	353
Transport - Durham	15,609	-	-	-	15,609
Transport - Tyne and Wear	123,022	(70,443)	8,447	-	61,025
Transport - Other	(55,940)	(16,252)	-	-	(72,192)
Transport - Tyne Tunnels	(2,517)	(1,451)	(40)	-	(4,008)
Covid-19 Grants	-	-	-	-	-
Cost of services	**80,893**	**(88,437)**	**9,037**	**-**	**1,493**
Other Income and Expenditure	(131,497)	0	-	(134)	(131,631)
(Surplus)/Deficit on Provision of Services	**(50,604)**	**(88,437)**	**9,037**	**(134)**	**(130,138)**
Opening General Fund Balances	(49,885)				
Closing General Fund Balances	**(100,489)**				

Adjustments for Capital Purposes

This column adds in depreciation and impairment and revaluation gains and losses in the service line, and adjusts for:

- Other operating expenditure - adjusts for capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets.
- Financing and investment income and expenditure - the statutory charges for capital financing i.e. Minimum Revenue Provision and other revenue contributions are deducted from other income and expenditure as these are not chargeable under generally accepted accounting practices.
- Taxation and non-specific grant income and expenditure - capital grants are adjusted for income not chargeable under generally accepted accounting practices. Revenue grants are adjusted from those receivable in the year to those receivable without conditions or for which conditions were satisfied during the year. The Taxation and Non-Specific Grant Income and Expenditure line is credited with capital grants receivable in the year without conditions or for which conditions were satisfied in the year.

Net Change for the Pension Adjustments

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

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

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

Other Differences

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

- For Financing and investment income and expenditure, the other differences column recognises adjustments to the General Fund for the timing differences for premiums and discounts.

	2021/22				
	Net Expenditure Chargeable to the General Fund	**Adjustments for Capital Purposes**	**Pension Adjustments**	**Other Differences**	**Net Expenditure in the CIES**
	£000	**£000**	**£000**	**£000**	**£000**
Corporate	279	-	500	-	779
Transport - Retained Levy Budget	625	(287)	-	-	338
Transport - Durham	15,457	-	-	-	15,457
Transport - Tyne and Wear	30,411	16,434	8,491	-	55,336
Transport - Other	5,386	(36,700)	-	-	(31,314)
Transport - Tyne Tunnels	(2,487)	(1,773)	(50)	-	(4,310)
Covid-19 Grants	(9,295)	-	-	-	(9,295)
Cost of services	**40,376**	**(22,326)**	**8,941**	**-**	**26,991**
Other Income and Expenditure	(42,575)	(49,760)	-	(773)	**(93,108)**
(Surplus)/Deficit on Provision of Services	**(2,199)**	**(72,086)**	**8,941**	**(773)**	**(66,117)**
Opening General Fund Balances	(47,685)				
Closing General Fund Balances	**(49,884)**				

Note G02a: Income and Expenditure Analysed by Nature

	2021/22 £000	2022/23 £000
Expenditure		
Employee benefit expenses	21,762	25,824
Other service expenses	94,517	94,711
Support Services Recharges	3,352	3,562
Depreciation, impairment and Revenue Expenditure Funded from Capital Under Statute (REFCUS)	31,623	52,310
Interest payments	9,651	11,006
Total expenditure	**160,904**	**187,413**
Income		
Fees, charges and other service income	(38,369)	(45,202)
Interest and investment income	(4,989)	(8,797)
Income from transport levy	(49,271)	(51,509)
Government grants and contributions	(130,536)	(207,846)
Other income	(3,857)	(4,197)
Total income	**(227,021)**	**(317,551)**
Surplus on the provision of services	**(66,117)**	**(130,138)**

Note G03: Financing and Investment Income and Expenditure

	Note	2021/22	2022/23
		£000	£000
Interest Payable and Similar Charges		4,157	4,123
Interest Payable on defined benefit liability	G12	836	572
Interest Receivable and similar income		(331)	(2,644)
Total		**4,662**	**2,050**

Note G04: Taxation and Non-Specific Grant Income

	Note	2021/22	2022/23
		£000	£000
Transport Levy		(49,230)	(51,509)
Non-Specific Capital Grants		(47,860)	(82,187)
Total		**(97,090)**	**(133,696)**

Note G05: Grant Income

	Note	2021/22	2022/23
		£000	£000
Local Authority Contributions to NECA		(276)	(201)
Active Travel Fund		(689)	(10,336)
Active Travel Capability Fund			(778)
Bus Recovery Grants		(1,469)	(236)
Bus Service Improvement Plan			(64,860)
City Regional Sustainable Transport Settlement			(3,127)
COVID-19 Grants		(10,520)	(5,593)
Nexus Energy Bill Relief Scheme			(3,105)
European Grants		-	-
Local Growth Fund		(15)	(12)
Local Transport Fund			(1,088)
Local Transport Plan		(7,755)	(5,076)
Metro Rail Grant		(16,792)	(16,948)
Nexus Non-Specific Grants		(1,006)	(1,071)
Office for Low Emission Vehicles		(41)	(1)
Other Grants		(10,888)	(506)
Transforming Cities Fund		(31,595)	(6,294)
Total		**(81,046)**	**(119,231)**

Note G06: Property, Plant and Equipment (excluding Infrastructure Assets)

	2022/23				
	Vehicles, Plant, Furniture & Equipment £000	Assets Under Construction £000	Land and Buildings £000	Total Property, Plant & Equipment (excluding Infrastructure Assets) £000	Service Concession Assets included in PPE £000
Cost or Valuation					
At 1 April 2022	19,672	73,237	2,061	94,970	-
Additions	1	92,572	-	92,573	-
Reclassifications from Assets Under Construction	419	(77,811)	2,729	(74,663)	-
Transfers between categories	-	(41)	-	(41)	-
Derecognition - Disposals	(200)	(15)	-	(215)	-
Revaluation Recognised in Revaluation Reserve	-	-	-	-	-
Impairment recognised in the Surplus/Deficit on the Provision of Services	-	-	-	-	-
Other Adjustments	-	-	-	-	-
At 31 March 2023	**19,892**	**87,942**	**4,790**	**112,624**	**-**

Accumulated Depreciation and Impairment					
At 1 April 2022	(14,882)	-	(181)	(15,063)	-
Depreciation charge	(622)	-	(14)	(636)	-
Derecognition - Disposals	125	-	55	180	-
At 31 March 2023	**(15,379)**	**-**	**(140)**	**(15,519)**	**-**

Net Book Value					
At 1 April 2022	**4,791**	**73,237**	**1,880**	**79,908**	**-**
At 31 March 2023	**4,514**	**87,942**	**4,650**	**97,106**	**-**

	2021/22				
	Vehicles, Plant, Furniture & Equipment £000	Assets Under Construction £000	Land and Buildings £000	Total Property, Plant & Equipment £000	Service Concession Assets included in PPE £000
Cost or Valuation					
At 1 April 2021	19,618	34,748	2,209	56,576	-
Additions	-	50,156	-	50,156	-
Transfers from Assets Under Construction	76	(11,611)	-	(11,535)	-
Transfers between categories				-	-
Transfers to Intangibles	-	(32)	-	(32)	-
Derecognition - Disposals	(22)	(24)	(148)	(194)	-
Revaluation Recognised in Revaluation Reserve	-			-	-
At 31 March 2022	**19,672**	**73,237**	**2,061**	**94,971**	**170,269**
Accumulated Depreciation and Impairment					
At 1 April 2021	(14,258)	-	(308)	(14,566)	-
Depreciation charge	(645)	-	(14)	(659)	-
Derecognition - Disposals	22	-	141	163	-
At 31 March 2022	**(14,881)**	**-**	**(181)**	**(15,062)**	**-**
Net Book Value					
At 1 April 2021	**5,360**	**34,748**	**1,901**	**42,009**	**-**
At 31 March 2022	**4,791**	**73,237**	**1,880**	**79,908**	**-**

Note G06a: Property, Plant and Equipment (Infrastructure Assets)

Movements on balances

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

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

	2021/22	2022/23
	£000	**£000**
Net book value (modified historical cost)		
At 1 April	**452,238**	**441,768**
Additions	260	74,676
Reclassification from Assets under construction	11,535	-
Derecognition	(1,106)	(2,258)
Depreciation	(18,021)	(20,785)
Impairment	-	-
Other movements in cost	(3,138)	(2,187)
At 31 March	**441,768**	**491,214**

Reconciliation to Balance Sheet

	2021/22	2022/23
	£000	**£000**
Infrastructure assets	441,768	491,214
Other PPE assets	97,106	97,106
Total PPE assets	**538,874**	**588,320**

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

Note G07: Intangible Assets

Intangible assets in the Group Accounts relate wholly to Nexus.

	2021/22 £000	2022/23 £000
Cost or Valuation		
Opening Balance	6,705	7,241
Additions	566	1,100
Transfers from assets under construction	32	41
Derecognition - Disposals	(1)	(4)
Total	**7,302**	**8,378**
Amortisation		
Opening Balance	(3,732)	(3,992)
Amortisation provided during the period	(307)	(470)
Total	**(4,039)**	**(4,462)**
Net Book Value at 31 March	**3,263**	**3,916**

Note G08: Financial Instruments

Financial Assets

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

	Non-current				Current			
	Investments		Debtors		Investments		Debtors	
	31 March 2022	31 March 2023	31 March 2022	31 March 2023	31 March 2022	31 March 2023	31 March 2022	31 March 2023
	£000	£000	£000	£000	£000	£000	£000	£000
Amortised cost	1	1	-	-	89,792	152,694	11,552	10,377
Total financial assets	1	1	-	-	89,792	152,694	11,552	10,377
Non-financial assets	-		-		-	-	1,232	2,007
Total	**1**	**1**	**-**	**-**	**89,792**	**152,694**	**12,784**	**12,384**

Financial assets at amortised cost

Financial assets are classified at amortised cost only if both of the following criteria are
- The asset is held within a business model whose objective is to collect the contractual cash flows; and
- The contractual terms give rise to cash flows that are solely payments of principal and interest.

All of NECA's financial assets fit these criteria and are classified at amortised cost.

Trade receivables

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

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

Financial Liabilities held at amortised cost

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

	Non-current				Current			
	Borrowings		Creditors		Borrowings		Creditors	
	31 March 2022	31 March 2023	31 March 2022	31 March 2023	31 March 2022	31 March 2023	31 March 2022	31 March 2023
	£000	£000	£000	£000	£000	£000	£000	£000
Amortised cost	(93,568)	(92,809)	-	-	(1,266)	(1,257)	(18,138)	(32,275)
Total financial liabilities	(93,568)	(92,809)	-	-	(1,266)	(1,257)	(18,138)	(32,275)
Non-financial liabilities	-	-	-	-	-	-	(7,927)	(11,751)
Total	**(93,568)**	**(92,809)**	**-**	**-**	**(1,266)**	**(1,257)**	**(26,065)**	**(44,027)**

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

Income, Expense, Gains and Losses

The gains and losses recognised in the CIES in relation to financial instruments are made up as follows:

31 March 2022				31 March 2023		
£000	£000	£000		£000	£000	£000
Financial Liabilities at amortised cost	Financial assets: measured at amortised cost	Total		Financial Liabilities at amortised cost	Financial assets: measured at amortised cost	Total
4,157	-	4,157	Interest expense	4,123	-	4,123
4,157	**-**	**4,157**	**Total expense in Surplus on Provision of Services**	**4,123**	**-**	**4,123**
-	(501)	(501)	Investment income	-	(2,644)	(2,644)
-	**(501)**	**(501)**	**Total income in Surplus on Provision of Services**	**-**	**(2,644)**	**(2,644)**
4,157	**(501)**	**3,656**	**Net (gain)/loss for the year**	**4,123**	**(2,644)**	**1,478**

Fair Value of Assets & Liabilities carried at Amortised Cost

Financial assets classified as loans and receivables and all non-derivative financial liabilities are carried in the Balance Sheet at amortised cost. Their fair values have been estimated by calculating the net present value of the remaining contractual cash flows at 31st March 2023, 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. Lender's options to propose an increase to the interest rate of the loan have been valued according to a proprietary model for Bermudan cancellable swaps. Borrower's contingent options to accept the increased rate or repay the loan have been valued at zero, on the assumption that lenders will only exercise their options when market rates have risen above the contractual loan rate.
- The fair values of other long-term loans and investments have been discounted at the market rates for similar instruments with similar remaining terms to maturity on 31 March.
- No early repayment or impairment is recognised for any financial instrument.
- The fair value of short-term instruments, including trade payables and receivables, is assumed to approximate to the carrying amount.

The fair values are shown in the table below are split by their level in the fair value

- Level 1 – fair value is only derived from quoted prices in active markets for identical assets or liabilities.
- Level 2 – fair value is calculated from inputs other than quoted prices that are observable for the asset or liability: Fair values have been estimated by discounting the loans' contractual cash flows over the whole life of the instruments at the appropriate market rates for local authority loans of equivalent remaining term. The value of “Lender’s Option Borrower’s Option” (LOBO) loans have been increased by the value of the embedded options: lenders’ options to propose an increase to the interest rate on the loan have been valued according to a proprietary model for Bermudan cancellable swaps; borrower’s contingent options to accept the increased rate or repay the loan have been valued at zero, on the assumption that lenders will only exercise their options when market rates have risen above the contractual loan rate.
- Level 3 – fair value is determined using unobservable inputs: consideration of the estimated creditworthiness of the organisation receiving the loans based on their financial performance and track record of payment.

The fair values calculated are as follows:

		31 March 2022		31 March 2023	
	Level	Carrying amount £000	Fair value £000	Carrying amount £000	Fair value £000
Financial liabilities held at amortised cost	2	(94,834)	(136,768)	(94,069)	(90,515)
Total		**(94,834)**	**(136,768)**	**(94,069)**	**(90,515)**
Financial Assets at amortised cost					
Held to maturity investments		89,792	89,792	152,694	152,694
Total		**89,792**	**89,792**	**152,694**	**152,694**

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

Details of the nature and extent of risks arising from Financial Instruments are set out in Note 13 of the single entity accounts.

Note G09: Short Term Debtors

	31 March 2022 £000	31 March 2023 £000
Central Government bodies	9,375	7,834
Other local authorities	1,304	550
NHS bodies	1	25
Other entities and individuals	1,025	3,974
Total	**11,704**	**12,383**

Note G10: Cash and Cash Equivalents

	31 March 2022 £000	31 March 2023 £000
Cash	32,717	34,936
Short-term deposits with financial institutions	15,196	27,160
Total	**47,913**	**62,096**

Note G11: Short Term Creditors

	31 March 2022 £000	31 March 2023 £000
Central government bodies	(9,870)	(3,806)
Other local authorities	(5,493)	(10,598)
Other entities and individuals	(19,122)	(29,623)
Total	**(34,485)**	**(44,027)**

Note G12: Defined Benefit Pension Schemes

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

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

Consolidated Pension Liability

The Group net pension asset of £35.221m (2022 liability £29.188m) is the sum of the NECA and Nexus net pension asset.

Transactions Relating to Post-employment Benefits

The following transactions relating to the Local Government Pension Scheme and Unfunded Benefits provided by the NECA Group have been included in the Comprehensive Income and Expenditure Statement and in the Movement in Reserves Statement during the year.

Comprehensive Income and Expenditure Statement

	LGPS		Discretionary Benefits	
	2021/22	2022/23	2021/22	2022/23
	£000	£000	£000	£000
Cost of Services:				
Current service cost [1]	10,767	10,986	-	-
Past service cost	22	-	-	-
Settlement cost	-	-	-	-
Exceptional loss on transfer of pension liability	-	-	-	-
Financing and Investment Income and Expenditure				-
Interest cost	5,446	6,676	48	48
Expected Return on Scheme Assets	(4,658)	(6,152)	-	-
Total Post-Employment benefit charged to the Surplus or Deficit on the Provision of Services	**11,577**	**11,510**	**48**	**48**
Other Post Employment Benefits charged to the Comprehensive Income and Expenditure Statement:				
Return on plan assets (in excess of)/below that recognised in net interest	(2,730)	2,000	(170)	-
Remeasurement of the net Defined Benefit Liability	(31,652)	(81,000)	(216)	(97)
Adjustment in respect of paragraph 58	4,670	-	-	-
Total amount recognised in Other Comprehensive Income and Expenditure	**(29,712)**	**(79,000)**	**(386)**	**(97)**
Total amount recognised in CIES	**(18,135)**	**(67,490)**	**(338)**	**(49)**

1. The Current Service cost includes an allowance for administration expenses of £0.010m for NECA and £0.160m for the Nexus Group (of which £0.088m attributable to NECA).

Reconciliation of the Present Value of Scheme Liabilities:

	LGPS		Discretionary Benefits	
	2021/22	2022/23	2021/22	2022/23
	£000	£000	£000	£000
Opening balance at 1 April	**(318,620)**	**(306,275)**	**(2,329)**	**(1,769)**
Current service cost	(10,767)	(10,986)	-	-
Interest cost	(6,616)	(8,216)	(48)	(48)
Contributions by participants	(1,566)	(1,833)	-	-
Remeasurement of the net Defined Benefit liability	24,599	90,148	392	101
Net benefits paid out	6,717	6,941	216	183
Past service costs	(22)	-	-	-
Net increase in liabilities from disposals/acquisitions	-	-	-	-
Settlements	-	-	-	-
Closing balance at 31 March	**(306,275)**	**(230,222)**	**(1,769)**	**(1,533)**

Reconciliation of the Fair Value of the Scheme Assets:

	LGPS		Discretionary Benefits	
	2021/22	2022/23	2021/22	2022/23
	£000	£000	£000	£000
Opening balance at 1 April	**279,963**	**285,096**	**-**	**-**
Interest income on assets	5,828	7,692	-	-
Remeasurement gains/(losses) on assets	2,494	(11,033)	-	-
Employer contributions	1,962	2,218	216	40
Contributions by scheme participants	1,566	1,833	-	-
Net benefits paid out	(6,717)	(6,941)	(216)	(40)
Settlement costs	-	-	-	-
Net decrease in assets from Stadler transfer	-	-	-	-
Closing balance 31 March	**285,096**	**278,865**	**-**	**-**

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	2018/19	2019/20	2020/21	2021/22	2022/23
	£000	£000	£000	£000	£000
Fair value of LGPS assets	**220,327**	**237,767**	**279,963**	**285,096**	**278,865**
Present value of liabilities:					
- LGPS liabilities	(251,678)	(271,818)	(318,620)	(306,275)	(230,222)
- Impact of minimum funding	(8,780)	(2,820)	(9,030)	-	-
Surplus/(Deficit) on funded defined benefit s	**(40,131)**	**(36,871)**	**(47,687)**	**(21,179)**	**48,644**
Discretionary benefits	(2,880)	(2,380)	(2,329)	(1,770)	(1,533)
Total (Deficit)	**(43,011)**	**(39,251)**	**(50,016)**	**(22,948)**	**47,111**

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

	NECA	Nexus
Active members	8%	40%
Deferred pensioners	6%	11%
Pensioners	86%	49%

The weighted average duration of the defined benefit obligation for scheme members is 14.8 years for NECA and 17.4 years for Nexus.

The liabilities show the underlying commitments that the Authority has in the long run to pay post employment (retirement) benefits. The total liability of £231.754m has an impact on the net worth of the Authority recorded on the balance sheet, resulting in a net pension asset of £47.111m. 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 2024 is nil for NECA and £4.290m for Nexus (of which £2.360m is attributable to NECA).

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 2022.

The principal assumptions used by the actuary have been:

NECA and Nexus	LGPS		Discretionary Benefits	
	2021/22	2022/23	2021/22	2022/23
Mortality assumptions:				
Longevity at 65 for current pensioners:				
Men	21.5	21.6	21.8	21.8
Women	24.5	24.6	25.0	25.0
Longevity at 65 for future pensioners:				
Men	22.8	22.9	n/a	n/a
Women	26.0	26.1	n/a	n/a
Principal financial assumptions (% per annum)				
Rate for discounting scheme liabilities	2.7%	4.7%	2.8%	4.7%
Rate of inflation - Consumer Price Index	3.0%	2.7%	3.1%	2.7%
Rate of increase in pensions	3.0%	2.7%	3.1%	2.7%
Pension accounts revaluation rate	3.0%	2.7%	n/a	n/a
Rate of increase in salaries	4.5%	4.5%	n/a	n/a

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

	31 March 2022	31 March 2023		
	% Total	% Quoted	% Unquoted	% Total
Equity investments	57.0%	40.1%	11.1%	51.2%
Property	8.4%	0.0%	10.5%	10.5%
Government bonds	2.0%	1.3%	0.0%	1.3%
Corporate bonds	18.8%	19.5%	0.0%	19.5%
Multi Asset Credit	0.0%	4.5%	0.0%	4.5%
Cash	1.8%	1.8%	0.0%	1.8%
Other*	12.0%	0.0%	11.2%	11.2%
Total	**100.0%**	**67.2%**	**32.8%**	**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

	Local Government	
	2021/22	2022/23
	£000	£000
Interest Income on Assets	5,828	7,692
Remeasurement gain/(loss) on assets	8,521	(8,067)
Actual Return on Assets	**14,349**	**(375)**

Sensitivity Analysis

Sensitivity analysis of NECA pension liabilities is set out in Note 19 of the single entity accounts. Sensitivity analysis of the Nexus pension liabilities is shown below.

The approximate impact of changing the key assumptions on the present value of the funded defined benefit obligation for Nexus as at 31 March 2023 and the projected cost for the period ending 31 March 2024 is set out below. In each case, only the assumption mentioned is altered; all other assumptions remain the same and are summarised above.

Sensitivity analysis of unfunded benefits has not been included on materiality grounds.

Discount rate assumption	**+0.1% per annum**	**Base Figure**	**-0.1% per annum**
Adjustment to discount rate			
Present value of total obligation (£M)	336.50	342.32	348.48
% change in present value of total obligation	-1.7%		1.8%
Projected service cost (£M)	7.91	8.27	8.63
Approximate % change in projected service cost	-4.3%		4.4%

Rate of general increase in salaries	+0.1% per annum	Base Figure	-0.1% per annum
Adjustment to salary increase rate			
Present value of total obligation (£M)	343.00	342.32	341.64
% change in present value of total obligation	20.0%		-20.0%
Projected service cost (£M)	8.27	8.27	8.27
Approximate % change in projected service cost	0.0%		0.0%

Rate of increase to pensions in payment and deferred pensions assumption, and rate of revaluation of pension accounts	+0.1% per annum	Base Figure	-0.1% per annum
Adjustment to pension increase rate			
Present value of total obligation	347.80	342.32	337.19
% change in present value of total obligation	1.6%		-1.5%
Projected service cost (£M)	8.63	8.27	7.91
Approximate % change in projected service cost	4.4%		-4.3%

Post retirement mortality assumption	-1 year	Base Figure	+1 year
Adjustment to mortality age rating assumption *			
Present value of total obligation (£M)	351.22	342.32	333.42
% change in present value of total obligation	2.6%		-2.6%
Projected service cost (£M)	8.57	8.27	7.97
Approximate % change in projected service cost	3.6%		-3.6%

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

Note G13: Deferred Taxation

The movement for the year comprises:

	2021/22 £000	2022/23 £000
Capital Allowances	465	-
Roll over relief on capital gains	-	-
Other timing differences	(3)	-
Tax effect of losses	311	-
Total	**773**	**-**

The balance at the year end comprises:

	31 March 2022 £000	31 March 2023 £000
Excess of capital allowances over depreciation	2,184	-
Roll over relief on capital gains	681	-
Other timing differences	(57)	-
Tax effect of losses	(226)	-
Total	**2,582**	**-**

Note G14: Usable Reserves

	31 March 2022 £000	31 March 2023 £000
General Fund Balance	(38,430)	(40,819)
Earmarked Reserves	(11,453)	(59,669)
Capital Receipts Reserve	(691)	-
Capital Grants Unapplied Reserve	(60,986)	(77,627)
Total	**(111,560)**	**(178,115)**

Note G15: Unusable Reserves

Summary

	31 March 2022 £000	31 March 2023 £000
Capital Adjustment Account	(377,614)	(450,216)
Financial Instruments Adjustment Account	169	36
Revaluation Reserve	(5,709)	(5,595)
Pension Reserve	34,349	(47,112)
Total	**(348,805)**	**(502,887)**

Details of movements on the Financial Instruments Adjustment Account is shown in Note 22 of the NECA single entity accounts. This reserve relates to NECA only.

Revaluation Reserve

The Revaluation Reserve (RR) 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 RR only contains 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 CAA.

	£000
Opening Balance 1 April 2021	**(5,805)**
Difference between fair value depreciation and historical cost depreciation written off to the CAA	96
Revaluation Gain recognised in Revaluation Reserve	-
Balance at 31 March 2022	**(5,709)**
Difference between fair value depreciation and historical cost depreciation written off to the CAA	114
Revaluation Gain recognised in Revaluation Reserve	
Balance at 31 March 2023	**(5,595)**

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

	£000
Balance at 1 April 2021	**50,015**
Remeasurements of the net defined benefit liability to 31 March 2022	(24,937)
Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the CIES to 31 March 2022	11,625
Employer's pension contributions and direct payments to pensioners to 31 March 2022	(2,354)
Balance at 31 March 2022	**34,348**
Remeasurements of the net defined benefit liability to 31 March 2023	(79,097)
Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the CIES to 31 March 2023	11,438
Employer's pension contributions and direct payments to pensioners to 31 March 2023	(2,401)
Balance at 31 March 2023	**(35,712)**

Capital Adjustment Account

The Capital Adjustment Account (CAA) 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 CAA is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisation are charges to the CIES (with reconciling postings from the Revaluation Reserve to convert fair value figures on a historical cost basis). The CAA is credited with the amounts set aside by the Authority as finance for the costs of acquisition, construction and enhancement of assets.

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

	£000
Balance at 1 April 2021	**(343,230)**
Reversal of items relating to capital expenditure debited or credited to the CIES:	
Charges for depreciation and impairment of non current assets	18,686
Other income that cannot be credited to the General Fund	(2,814)
Revenue expenditure funded from capital under statute	12,125
Write down of long term debtors	1,498
Non Current Assets written off on disposal	611
Adjusting amounts written out of the Revaluation Reserve	**(96)**
Capital financing applied in the year:	
Capital grants and contributions credited to the CIES that have been applied to capital financing	(61,678)
Statutory provision for the financing of capital investment	(993)
Capital expenditure charged against the General Fund	(915)
Debt redeemed using capital receipts	(807)
Balance at 31 March 2022	**(377,614)**
Reversal of items relating to capital expenditure debited or credited to the CIES:	
Charges for depreciation and impairment of non current assets	21,092
Other income that cannot be credited to the General Fund	(2,802)
Revenue expenditure funded from capital under statute	30,417
Write down of long term debtors	775
Non Current Assets written off on disposal	2,281
Adjusting amounts written out of the Revaluation Reserve	**(114)**
Capital financing applied in the year:	-
Capital grants and contributions credited to the CIES that have been applied to capital financing	(120,460)
Statutory provision for the financing of capital investment	(1,018)
Capital expenditure charged against the General Fund	(1,998)
Debt redeemed using capital receipts	(775)
Balance at 31 March 2023	**(450,216)**

Note G16: Adjustments to net surplus or deficit on the provision of services for non-cash movements and items that are Investing or Financing activities

	2021/22 £000	2022/23 £000
Surplus/(Deficit) on the provision of services	65,344	130,138
Adjustments to Surplus/(Deficit) on Provision of Services for Non-Cash Movements		
Depreciation, Impairment and Amortisation	19,498	18,180
Loss on disposal of non-current assets	(69)	2,025
(Increase)/Decrease in Creditors	43,373	28,235
Increase/(Decrease) in Debtors	(13,948)	(15,658)
Increase/(Decrease) in Inventories	(2)	17
Movement in Pension Liability	9,447	7,990
Other non-cash items charged to the net surplus or deficit on the provision of services	(2,814)	(2,802)
	55,486	**37,986**
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	(99,336)	(88,363)
Other adjustments for items that are financing or investing activities	1,791	877
Net cash flow from operating activities	**23,286**	**80,638**

The cash flows for operating activities include the following items:

	2021/22 £000	2022/23 £000
Interest received	950	664
Interest paid	(3,820)	664

Note G17: Cash Flow Statement - Investing Activities

	2021/22 £000	2022/23 £000
Purchase of property, plant and equipment, investment property and intangible assets	(50,305)	(75,822)
Purchase of short-term and long-term investments	(159,968)	(272,350)
Other payments for investing activities	-	-
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	697	-
Proceeds from short-term and long-term investments	84,615	163,525
Other receipts from investing activities	100,572	121,000
Net cash flows from investing activities	**(24,389)**	**(63,647)**

Note G18: Cash Flow Statement - Financing Activities

	2021/22 £000	2022/23 £000
Repayments of short and long-term borrowing	(1,671)	(1,563)
Other payments for financing activities	(1,805)	(1,244)
Net cash flows from financing activities	**(3,476)**	**(2,807)**

Note G18a: Reconciliation of liabilities arising from Financing Activities

	1 April 2022	Financing Cash Flows	Changes which are not financing cash flows		31 March 2023
			Acquisition	Other	
	£000	£000	£000	£000	£000
Long term borrowings	(93,568)	759	-	-	(92,809)
Short term borrowings	(1,266)	-	-	5	(1,261)
Total Liabilities from financing activities	**(94,834)**	**759**	**-**	**5**	**(94,070)**

	1 April 2021	Financing Cash Flows	Changes which are not financing cash flows		31 March 2022
			Acquisition	Other	
	£000	£000	£000	£000	£000
Long term borrowings	(94,276)	708	-	-	(93,568)
Short term borrowings	(1,274)	-	-	8	(1,266)
Total Liabilities from financing activities	**(95,550)**	**708**	**-**	**8**	**(94,834)**

Note G19: Capital Expenditure and Capital Financing

	£000
Opening Capital Financing Requirement 1 April 2021	**102,776**
Capital Investment	
Property, Plant and Equipment	50,416
Intangible Assets	576
Revenue Expenditure Funded from Capital Under Statute	12,125
Sources of Finance	
Capital receipts - repayment of principal from long term debtors	(807)
Government Grants and other contributions	(62,036)
Sums set aside from revenue	
Direct revenue contributions	(915)
Minimum Revenue Provision	(993)
Additional Voluntary Provision	-
Closing Capital Financing Requirement 31 March 2022	**101,142**
Decrease in underlying need to borrow (unsupported by government financial assistance)	**(1,634)**

Opening Capital Financing Requirement 1 April 2022	**101,142**
Capital Investment	
Property, Plant and Equipment	92,586
Intangible Assets	1,100
Revenue Expenditure Funded from Capital Under Statute	30,417
Sources of Finance	-
Capital receipts - repayment of principal from long term debtors	(775)
Government Grants and other contributions	(121,817)
Sums set aside from revenue	-
Direct revenue contributions	(1,997)
Minimum Revenue Provision	(1,018)
Additional Voluntary Provision	-
Closing Capital Financing Requirement 31 March 2023	**99,639**
Decrease in underlying need to borrow (unsupported by government financial assistance)	**(1,503)**

4.0 Supplemental Information

4.1 Glossary of Terms

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

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

Debtors	Monies owed to the Authority but not received at the balance sheet date.
Defined Benefit Scheme (Pensions)	A pension or other retirement scheme other than a defined contribution scheme. Usually, the scheme rules define the benefits independently of the contributions payable, and the benefits are not directly related to the investments of the scheme. The scheme may be funded or unfunded.
Depreciation	The measure of the wearing out, consumption or other reduction in the useful economic life of an asset.
Earmarked Reserve	A sum set aside for a specific purpose.
Emoluments	Payments received in cash and benefits for employment.
Events after the Balance Sheet Date	Events after the balance sheet date are those events, favourable and unfavourable, that occur between the balance sheet date and the date when the statement of Accounts is authorised for issue.
Expected Rate of Return on Pensions Assets	This is an actuarially calculated estimate of the return on the scheme's investment assets during the year.
Fair Value	The fair value of an asset is the price at which it could be exchanged in an arm's length transaction less, where applicable, any grants receivable towards the purchase or use of the assets.
Fees and Charges	Income arising from the provision of services, for example, charges for the use of leisure facilities.
Finance Lease	A lease that transfers substantially all of the risks and rewards of ownership of a fixed asset to the lessee. The payments usually cover the full cost of the asset together with a return for the cost of finance.
Financial Instrument	Document (such as a cheque, draft, bond, share, bill of exchange, futures or options contract) that has a monetary value or evidences a legally enforceable (binding) agreement between two or more parties regarding a right to payment of money.
Financial Instruments Adjustment Account	The reserve records the accumulated difference between the financing costs included in the Comprehensive Income & Expenditure Account and the accumulated financing costs required in accordance with regulations to be charged to the General Fund Balance.

General Fund	The total services of the Authority.
Going Concern	The concept that the Authority will remain in operational existence for the foreseeable future, in particular that the revenue accounts and balance sheet assume no intention to curtail significantly the scale of operations.
Impairment	A reduction in the value of a fixed asset below its carrying amount on the balance sheet resulting from causes such as obsolescence or physical damage.
Intangible Assets	An asset that is not physical in nature, e.g. software licences.
Interest Cost (Pensions)	For a defined benefit scheme, the expected increase during the period in the present value of the scheme liabilities because the benefits are one period closer to settlement.
Investment Properties	Interest in land and buildings where construction work and development has been completed and the asset is held for its investment potential, any rental income being negotiated at arms length.
Liabilities	Any amounts owed to individuals or organisations which will have to be paid at some time in the future.
Liquid Resources	Current asset investments that are readily disposable by the Authority without disrupting its business and are either readily convertible to known amounts of cash at or close to the carrying amount, or traded in an active market.
Materiality	An item is material if its omission, non-disclosure or misstatement in the financial statements could be expected to lead to a distortion of the view given by the financial statements.
Minimum Revenue Provision (MRP)	An amount charged by the Authority to the Comprehensive Income & Expenditure Account, for debt redemption or for the discharge of other credit liabilities.
Movement in Reserves Statement	The statement shows the movement in the year on the different reserves held by the Authority.
Net Book Value	The amount at which fixed assets are included in the balance sheet being the historical cost or current value less the cumulative amounts provided for depreciation.
Net Debt	The Authority's borrowings less cash and liquid resources.
Operating Leases	Leases other than a finance lease.

Property, Plant & Equipment (PPE)	Assets that yield benefits to the Authority and the services that it provides for a period of more than one year. Examples include land, buildings and vehicles.
Provisions	These are sums set aside to meet liabilities or losses which have been incurred but where the amount and/or timing of such costs are uncertain.
Prudence	This accounting concept requires that revenue is not anticipated until realisation can be assessed with reasonable certainty. Provision is made for all known liabilities whether the amount is certain or can only be estimated in the light of information available.
Public Works Loan Board	This is a Government agency which provides loans to local authorities at favourable rates.
Related Party Transactions	A related party transaction is the transfer of assets or liabilities or the performance of services by, to or for a related party irrespective of whether a charge is made. An example could be the purchase, sale, lease, rental or hire of assets between related parties.
Reserves	These are sums set aside to meet possible future liabilities where there is no certainty about whether or not these liabilities will be incurred.
Residual Value	The net realisable value of an asset at the end of its useful life. Residual values are based on prices prevailing at the date of the acquisition (or revaluation) of the asset and do not take account of expected future price changes.
Revaluation Reserve	The reserve records the accumulated gains on the fixed assets held by the Authority arising from increases in value as a result of inflation or other factors.
Revenue Expenditure	Expenditure on providing day-to-day services, for example employee costs and premises costs.
Revenue Expenditure Funded from Capital under Statute	Expenditure which may be properly incurred, but which does not result in an asset owned by the Authority e.g. grants to other organisations for capital purposes.

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.

North East Combined Authority

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Item 6

Audit and Standards Committee

Date: **27 June 2023**

Subject: **External Auditor's Annual Report – year ended 31 March 2021**

Report of: **External Auditor**

Executive Summary

At the last meeting of the Committee, the updated and audited Statement of Accounts for 2020/21 was presented. This followed a delay arising from a technical accounting issue in relation to infrastructure which required a national solution and national guidance.

The accounts were approved by the Leadership Board on 6 June 2023 and the external auditor has now been able to issue their opinion and the Auditor's Annual Report which is attached as Appendix 1.

Recommendations

The Audit and Standards Committee is recommended to note the report included as Appendix 1.

North East Combined Authority

DURHAM • GATESHEAD • SOUTH TYNESIDE • SUNDERLAND

Audit and Standards Committee

1. Background Information

1.1 At the last meeting of the Committee, the updated and audited Statement of Accounts for 2020/21 was presented. This followed a delay arising from a technical accounting issue in relation to infrastructure which required a national solution and national guidance.

1.2 The accounts were approved by the Leadership Board on 6 June 2023 and the external auditor has now been able to issue their opinion and the Auditor's Annual Report which is attached as Appendix 1.

2. Proposals

2.1 The report at Appendix 1 summarises the work undertaken by the external auditor for the year ended 31 March 2021, and sets out how the auditor has discharged the responsibilities defined by the Local Audit and Accountability Act 2014 and the Code of Practice issued by the National Audit Office (NAO).

3. Reasons for the Proposals

3.1 This report is provided for information and to provide assurance that the external audit is completed.

4. Alternative Options Available

4.1 This report is provided for information.

5. Next Steps and Timetable for Implementation

5.1 The audited Statement of Accounts for 2020/21 are now published on the NECA website. The audit certificate to formally conclude the 2020/21 audit will be issued once the NAO has confirmed whether the Authority has been selected for additional 2020/21 Whole of Government Accounts (WGA) work.

6. Potential Impact on Objectives

6.1 There are no impacts on objectives arising from this report.

7. Financial and Other Resources Implications

7.1 There are no financial or other resources implications arising from this report.

8. Legal Implications

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

9. Key Risks

9.1 There are no risk implications arising from this report.

10. Equality and Diversity

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

11. Crime and Disorder

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

12. Consultation/Engagement

12.1 The statement of accounts were subject to a period of public inspection from 1 July 2021 to 12 August 2021. No enquiries or objections were raised during this time.

13. Other Impact of the Proposals

13.1 There are no other impacts arising from this report which is for information. .

14. Appendices

14.1 None

15. Background Papers

15.1 None

16. Contact Officers

16.1 Gavin Barker, Director, Public and Social Sector, Mazars, gavin.barker@mazars.co.uk

17. Sign off

17.1
- Head of Paid Service:
- Monitoring Officer:

- Chief Finance Officer:

18. Glossary

18.1 CIPFA – Chartered Institute of Public Finance and Accountancy
NAO – National Audit Office
NECA – North East Combined Authority
WGA – Whole of Government Accounts

Appendix 1

Auditor's Annual Report

North East Combined Authority – year ended 31 March 2021

June 2023

mazars

Contents

01

Section 01:

Introduction

1. Introduction

Purpose of the Auditor's Annual Report

Our Auditor's Annual Report (AAR) summarises the work we have undertaken as the auditor for the North East Combined Authority ('the Authority') for the year ended 31 March 2021. Although this report is addressed to the Authority, it is designed to be read by a wider audience including members of the public and other external stakeholders.

Our responsibilities are defined by the Local Audit and Accountability Act 2014 and the Code of Audit Practice ('the Code') issued by the National Audit Office ('the NAO'). The remaining sections of the AAR outline how we have discharged these responsibilities and the findings from our work. These are summarised below.

Opinion on the financial statements

There was a substantial delay of 15 months in issuing our audit report for the 2020/21 audit. This was because of a technical accounting issue in relation to infrastructure, which required a national solution and national guidance, and which has only now been resolved.

We issued our audit report on 6 June 2023. Our opinion on the financial statements was unqualified.

Value for Money arrangements

In our audit report issued on 6 June 2023 we reported that we had completed our work on the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources and that we had not identified any significant weaknesses in those arrangements or made any recommendations. Section 3 provides our commentary on the Authority's arrangements.

Wider reporting responsibilities

The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of the Authority and to consider any objection made to the accounts. We did not receive any questions or objections in respect of the Authority's financial statements.

We reported on Whole of Government Accounts (WGA) on 8 June 2023, as we were only able to do this after issuing our audit opinion. As the National Audit Office (NAO) has not confirmed whether the North East Combined Authority has been selected for additional 2020/21 WGA work or not, we are unable to issue our audit certificate to formally conclude the 2020/21 audit.

02

Section 02:

Audit of the financial statements

2. Audit of the financial statements

The scope of our audit and the results of our opinion

Our audit was conducted in accordance with the requirements of the Code, and International Standards on Auditing (ISAs).

The purpose of our audit is to provide reasonable assurance to users that the financial statements are free from material error. We do this by expressing an opinion on whether the statements are prepared, in all material respects, in line with the financial reporting framework applicable to the Authority and whether they give a true and fair view of the Authority's financial position as at 31 March 2021 and of its financial performance for the year then ended. Our audit report, issued on 6 June 2023 gave an unqualified opinion on the financial statements for the year ended 31 March 2021.

Qualitative aspects of the Authority's accounting practices

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

Draft accounts were received from NECA on 30 June 2021, well ahead of the revised statutory deadline and were of a good quality, supported by comprehensive working papers.

Draft accounts and working papers were received from the Authority before the start of our work and were of good quality. The draft accounts were published on the Authority's website before the deadline of 31 July 2021.

Significant difficulties during the audit

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

Reasons for the protracted delay in completing the 2020/21 audit

We initially reported our Audit Completion report to the meeting of the Audit and Standards Committee on 25 January 2022.

As required by International Standards on Auditing (UK), we then wrote a follow up letter dated 29 March 2022 to communicate an update on those matters that were marked as outstanding within our Audit Completion Report dated 17 January 2022. The follow up letter was presented to the Audit and Standards Committee on 5 April 2022.

In our follow up letter of 5 April 2022, we also reported an additional national issue that had arisen in relation to infrastructure.

The Guidance needed to address this technical issue was published in January 2023, and this enabled the Authority to determine and implement appropriate actions to address the issue. We then carried out the appropriate audit work and reported satisfactory completion in a further follow up letter to the Audit Completion Report dated 3 April 2023.

Addressing the national issue in relation to infrastructure

The national issue in relation to accounting for infrastructure impacted on every local authority related entity with material infrastructure balances.

The issue identified that there was insufficiently detailed information available to allow local authorities to demonstrate the material accuracy of the gross carrying value of infrastructure assets. Specifically, the information deficits related to the type of assets held within the infrastructure balance, their useful lives and whether or not any capitalised expenditure was incurred to replace existing components.

This issue was entirely technical in nature and it did not impact on the resources available to the Authority or the level of usable reserves held by the Authority.

2. Audit of the financial statements

Addressing the national issue in relation to infrastructure (continued)

A statutory override was put in place by Government to address the information deficits and CIPFA guidance was issued to allow authorities to disclose net infrastructure and not disclose gross infrastructure and gross depreciation in the financial statements. The statutory override made it clear that adjustments were not required to previous infrastructure balances even where errors may have existed.

The Authority adopted the statutory override in full. The Authority also made amendments to the disclosures about infrastructure in the financial statements, as required by the guidance, but the figures relating to infrastructure were not amended.

As part of our review of Authority's application of CIPFA's "Update to the Code and Specifications for Future Codes for Infrastructure Assets (Code update)", we considered the Authority's asset lives per its accounting policies for infrastructure assets.

We considered CIPFA Bulletin 12, which included a commentary on the useful lives of the components of the highways network by the "UK Roads Leadership Group Asset Management Board". The guidance included a range of "reasonable useful lives" for different types of assets which we compared to those applied by the Authority.

The Authority's assets are its tunnels, and the reasonable useful lives applied were within the range in the CIPFA guidance.

We also reviewed the work of management's expert in determining the useful economic lives of the Authority's assets and there were no issues arising from this.

Following completion of our work, we were satisfied that the Authority had followed the relevant guidance when reviewing its infrastructure assets and has made the required disclosures in the financial statements.

Nexus, as a significant component within the Group accounts, was also impacted by the infrastructure issue. Nexus also applied the statutory override and there are no matters arising to report in terms of the audit of the Group accounts.

03

Section 03:

Commentary on VFM arrangements

3. VFM arrangements – overall summary

Approach to Value for Money arrangements work

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

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

At the planning stage of the audit, we undertake work so we can understand the arrangements that the Authority has in place under each of the reporting criteria; as part of this work we may identify risks of significant weaknesses in those arrangements. Where we identify significant risks, we design a programme of work (risk-based procedures) to enable us to decide whether there is a significant weakness in arrangements.

Although we describe this work as planning work, we keep our understanding of arrangements under review and update our risk assessment throughout the audit to reflect emerging issues that may suggest there are further risks of significant weaknesses.

Where our risk-based procedures identify actual significant weaknesses in arrangements, we are required to report these and make recommendations for improvement. There are no significant weaknesses to report.

The table below summarises the outcomes of our work against each reporting criterion. On the following page we outline further detail of the work we have undertaken against each reporting criterion, including the judgements we have applied.

Overall, we have not identified any significant weaknesses in arrangements.

Reporting criteria	Risks of significant weaknesses in arrangements identified?	Actual significant weaknesses in arrangements identified?
Financial sustainability	No	No
Governance	No	No
Improving economy, efficiency and effectiveness	No	No

3. VFM arrangements – financial sustainability

Overall commentary on the financial sustainability reporting criterion

How the Authority identifies significant financial pressures that are relevant to its short and medium-term plans

The North East Combined Authority (the Authority) covers the Local Authorities of Durham, Gateshead, South Tyneside and Sunderland.

Due to Transport being of such a strategic importance to the North East, collaborative working of both Combined Authorities allows effective decision making across the region, which helps to ensure that the local needs and priorities are delivered. This resulted in the introduction of the North East Joint Transport Committee (JTC) which brings together all seven of the Constituent Authorities of the region, being the four Members from the North East Combined Authority and three Members from the North of Tyne Combined Authority (NoTCA) in accordance with the Order that was created on the 2nd November 2018.

A timetable for the production and consultation of the 2020/21 Revenue Budget / Medium Term Financial Strategy (MTFS) was agreed by both the Authority's Leadership Board and the JTC over the summer of 2019. These documents build in financial information from JTC's delivery bodies (Nexus, Durham, Northumberland) as well as the Transport Strategy Unit and Tyne Tunnels.

The 2020/21 Revenue Budget and Medium-Term Financial Strategy was approved by the Authority's Leadership Team on 4 February 2020.

Regular budget monitoring reports are presented to the Authority's Leadership Board and JTC throughout the year. These reports monitor financial pressures and delivery of savings to help ensure that the Authority remains within budget. The Authority's Leadership Board (NELB) reports are agreed by the constituent authorities Chief Executives and are scrutinised by the Overview and Scrutiny Committee. In addition, JTC reports are agreed with the Transport North East Senior Officers Oversight Group, the Transport Strategy Board and are scrutinised by JTC Overview and Scrutiny Committee.

As at 31 March 2021, the Authority reported useable reserves of £43.0 million

How the Authority plans to bridge funding gaps and identifies achievable savings

The annual budget/MTFS sets out the Authority's spending plans over the period and how any funding gaps will be met. This is developed through working with key delivery partners for public transport services (the Authority, Durham, Northumberland) and the constituent local authorities of the Authority and the JTC.

Regular budget monitoring/forecast of outturn reports highlight any financial pressures developing, allowing action to be taken at an early stage.

How the Authority plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities

The budget development process enables resources to be identified to support the delivery of services in accordance with the strategic priorities of the Authority and the JTC. This is developed through working with key delivery partners for public transport services (the Authority, Durham, Northumberland) and the constituent local authorities of the Authority and the JTC.

3. VFM arrangements – financial sustainability

Overall commentary on the financial sustainability reporting criterion - continued

How the Authority ensures that its financial plan is consistent with other plans

The annual budget/MTFS report considers relevant implications including resources, equality, legal, human rights and risks as part of the approval process.

Consultation on budget proposals is built into the Authority Constitution (updated June 2019) and aims to ensure that appropriate and effective consultation takes place with all Members and other stakeholders on the content of the Budget.

In line with the Prudential Code, revenue implications of capital investment decisions are fully considered and form part of the budget setting process ensuring that investments are fully funded – e.g. agreement of Minimum Revenue Provision (MRP) strategy.

How the Authority identifies and manages risks to financial resilience

As set out in the Authority constitution, Designated Officers are responsible for ensuring that risk management is an integral part of their management processes and activities within their respective areas of responsibility.

There is an established risk management framework for the Authority and the JTC with regular reviews and reporting to the Authority's Audit & Standards Committee and JTC Audit Committee. This includes risks to financial resilience. Support is provided to the Authority by Sunderland City Council through a service level agreement.

Regular Revenue Budget Monitoring/Forecast of Outturn reports are brought to the Leadership board and JTC and subsequently to the relevant Overview & Scrutiny Committee.

The Authority's Chief Finance Officer and Finance Manager are part of the Transport North East (TNE) Senior Officers Oversight Group which meets monthly to discuss TNE service and budget issues with the JTC Statutory Officers. There is a monthly meeting with all TNE budget managers and the Authority's Finance Manager to discuss any service and budget issues.

Budget managers have direct access to the financial management system for up-to-date financial information but also get the support of the Authority's finance officers. The Authority uses Durham County Council's financial systems. DCC has been streamlining its financial systems which are continuously being developed to meet the need of service users and to enable the Authority to meet internal deadlines and statutory reporting. Systems have been developed to enable more up-to-date budget information to be obtained from Service budget managers and finance staff.

Financial Management Standards support the Authority's Financial Regulations set out in the Constitution. The Financial Regulations provide the overall high-level framework for managing the authority's financial affairs, and Financial Procedure Notes set out in more detail how these procedures are implemented to embed sound financial management across the authority.

The 2019/20 revenue budget and capital programme were approved by the NELB in February 2019. In February 2020, NELB approved the Authority's 2020/21 budget alongside the Medium-Term Financial Strategy covering the periods to 2022/23.

The Authority has a history of achieving financial targets as evidenced by financial and performance reports.

Arrangements are in place for the Financial Plan to be updated as appropriate.

The 2019/20 Outturn position, which was approved by the NELB on 28 July 2020 identifies an underspend of £0.273 million at the year end.

Relevant HR policies and procedures are in place.

Based on our review we have not identified any significant weaknesses in the Authority's arrangements in relation to financial sustainability.

3. VFM arrangements – governance

Overall commentary on the governance reporting criterion

How the Authority monitors and assesses risk and how the Authority gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud

The Authority endeavours to deal effectively with fraud and corruption, misuse of power and breaches of legal and regulatory provisions.

The Authority seeks to align the risk management strategy and policies on internal control with achieving objectives, as well as evaluating and monitoring risk management and internal control on a regular basis.

The Authority uses a risk-based Internal Audit plan to determine the priorities of the internal audit activity, consistent with the authority's goals.

The Authority has an Anti-Fraud and Corruption Policy and seeks in the first instance to prevent fraud and corruption through staffing policies, making members aware of their responsibilities, internal control systems and liaison with outside agencies.

The Authority is a participant in the National Fraud Initiative, a data matching exercise that helps prevent and detect fraud across the public sector.

Internal audit reviews highlight weaknesses and recommend action when required to strengthen process/ procedures. These are regularly reported to Audit Committee.

How the Authority approaches and carries out its annual budget setting process

The Authority's budget setting process, including in its role as accountable body for the JTC, is set out in the Authority's Constitution. This must be followed to ensure that appropriate and effective consultation takes place with all Members and other stakeholders on the content of the Budget and that it is agreed in accordance with the requirements of the Constitution and the JTC Standing Orders.

Outline proposals are developed in discussion with member and officer groups, including Chief Executives, Economic Development Directors and Transport Leads. Finance Directors across the Authority area will be involved throughout the process.

At least 2 months before the calculations on transport levies need to be finalised by the JTC, a report to that Committee will set out initial outline proposals and accompanying information.

The initial proposals and accompanying information will then be referred to the JTC Overview and Scrutiny Committee, who will at this stage examine the consultation proposals and timetable and make recommendations on these, where it is considered appropriate, to the JTC.

Proposals from the JTC in relation to levies and the distribution of those levies to the Constituted Authorities and Combined Authorities will be considered by the Leadership Board. The Leadership Board will consider the funding necessary to discharge the functions of the Authority and make proposals for the funding of the Authority taking into account the JTC's proposals or decisions in relation to the levies and the wider transport budget.

The Leadership Board will consider the decision and any recommendations made by the JTC and JTC Overview and Scrutiny Committee and, where it is considered appropriate, make representations to the JTC to amend the consultation process and/or timetable accordingly. The Leadership Board will refine its proposals in accordance with the recommendations and decisions made by the JTC and engage with the Overview and Scrutiny Committee.

Once the consultation process has been completed, details of the finalised proposals will be referred to the Overview and Scrutiny Committee together with the relevant background information on which the proposals have been based. It is the responsibilities of the Chair of the Leadership Board and relevant officers to ensure that the Overview and Scrutiny Committee has sufficient background information to enable it to evaluate the proposals against that background information.

The proposals will then be referred back to the Leadership Board, together with any recommendations and/or observations from the Overview and Scrutiny Committee.

The final proposals (including consideration of the final proposals and decision of the JTC) will then be considered by the Leadership Board, which may or may not include the recommendations and/or observations from the Overview and Scrutiny Committee. The Leadership Board must agree the final proposals in relation to the Authority's budget unanimously. The JTC must approve the final proposals in relation to the North East Transport Budget unanimously.

The opinion of the Chief Internal Auditor , based on the internal audit work undertaken in year, was that there was an adequate and effective framework of governance, risk management and control.

3. VFM arrangements – governance

Overall commentary on the governance reporting criterion - continued

How the Authority ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency

The Authority publishes a Forward Plan which lists all decisions that committees or officers of the Authority intend to take in the coming months. Details of each are usually included 28 days before the report is considered and any decision is taken. This allows an opportunity for people to find out about major decisions that the Combined Authority is planning to take, to review any related reports and background papers, and to submit comments to the decision maker in advance of the decision being made.

Briefings for members are held between key public meetings to discuss particular topics in depth and allow for challenge and informed decision making by members of committees such as the Joint Transport Committee and the Tyne and Wear Sub Committee.

Principles of decision making are set out in section 13.3 of the Authority's constitution and all decisions will be made in accordance with these. Report templates are set out to prompt consideration of each of the principles/implications of the decision under consideration.

The Authority has an Overview and Scrutiny Committee established to enable local councillors, on behalf of their communities, to scrutinise and challenge all matters within the remit of the Combined Authority. The Overview and Scrutiny Committee also investigates matters of significant importance to residents within the areas covered by the four councils with a view to influencing decisions made in respect of all matters within the remit of the Combined Authority.

There is also an established JTC Overview and Scrutiny Committee, which enables local councillors to scrutinise and challenge the JTC, its committees and the Authority, and to investigate matters of strategic importance to residents within the LA7 Area (being the 5 Councils of Tyne and Wear along with Durham and Northumberland Counties) with a view to influencing and adding value to the decisions.

The North East Leadership Board is made up of the Leaders of the four constituent bodies and is supplemented by elected members who serve on a number of committees along with non-executives.

There is an up to date Constitution in place which is available on the website.

The Authority's Leadership Board receive appropriate and regular reports on the financial position of the Authority.

The Head of Paid Service and Chief Executive leads a very experienced senior officer team at the Authority.

Risk management arrangements along with an up to date risk register are in place. A risk update is reported regularly to the Audit and Standards Committee, who provide challenge in this area.

An annual governance statement is prepared, reviewed and approved before being included in the financial statements.

There are no indicators of inappropriate governance arrangements.

3. VFM arrangements – governance

Overall commentary on the governance reporting criterion - continued

How the Authority monitors and ensures appropriate standards are maintained

The Authority's constitution is reviewed annually and sets out the how the authority operates, how its decisions are made and the procedures that are followed to ensure that the Authority operates efficiently, effectively and is both transparent and accountable.

There is an Authority Register of Members Interests which contains declarations of any Disclosable Pecuniary Interest and any other interest. These are published on the Authority website and must be registered within 28 days of appointment as a member of the Authority or any change taking place. Non-registerable interests in an item of business must be disclosed by members to the meeting before consideration of that item begins, and this is a standing item on the meeting agendas. Interests for Senior Officers are also recorded.

The Authority has an agreed Code of Conduct for Members which sets out the conduct that is expected of elected members appointed to the Authority when they are acting in that capacity, and which is consistent with Nolan's Seven Principles of Public Life.

The Authority has a Code of Conduct for Officers which is intended to support officers in maintaining standards and to help protect officers from misunderstanding or criticism. The Code applies to all officers of the Authority.

The Authority has a Member/Officer Relations Protocol to provide general guidance for Members and Officers in their relations with one another. It reflects the basic principles underlying the respective rules of conduct that apply to Members and Officers and is intended to offer guidance on some of the issues that commonly arise.

With the exception of co-opted Independent Members on the Audit & Standards and Overview & Scrutiny Committees, Members are elected councillors of constituent local authorities and also subject to their own Council's Codes of Conduct.

The Authority has an Audit and Standards Committee, which seeks to promote and maintain high standards of conduct by the Authority's members and co-opted members, and ensure the Authority's members and co-opted members observe the Members' Code of Conduct.

Based on our review we have not identified any significant weaknesses in the Authority's arrangements in relation to governance.

3. VFM arrangements – improving economy, efficiency and effectiveness

Overall commentary on the improving economy, efficiency and effectiveness reporting criterion

How financial and performance information has been used to assess performance to identify areas for improvement

Final Outturn reports build on the regular reporting during the year to set out financial performance against budget for the Authority and JTC revenue budgets and Capital Programme. The outturn is used to update the forecasts for the year as part of the regular forecast of outturn reports.

Treasury Management Prudential Indicators are set and updated through the Treasury Management Policy and Strategy, mid year update and outturn update.

The Narrative Report accompanying the Statement of Accounts includes key financial performance information to help inform users of the accounts.

How the Authority evaluates the services it provides to assess performance and identify areas for improvement

Durham County Council and Northumberland County Council report to the JTC on the Discharge of Transport Functions setting out performance against the Transport Functions delegated to them by the JTC.

The Authority report to the Tyne and Wear Sub Committee on its performance against its agreed Corporate Plan priorities.

The new Transport Plan for the whole JTC area sets out Key Performance Indicators that are designed to monitor the overall progress of the Transport Plan with respect to the 5 key objectives (Carbon neutral North East, Overcome inequality and grow our economy, Healthier North East, Sustainable transport choices and Safe, secure network).

How the Authority ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve

There is a register which sets out associated partners to the Authority, the purpose of the partnerships, link officer and review dates for each one.

Nexus is not included in the significant partner register due to its status as an officer of the Combined Authority. The Authority reports regularly to the Joint Transport Committee and the Tyne and Wear Sub Committee on its financial performance, and performance against its Corporate Business Plan and Risk Register. The relationship between the Authority and Nexus is set out in the Constitution.

The partnership with TT2 Ltd is governed by the Project Agreement which specifies levels of performance which must be met and roles and responsibilities of both partners, and is managed by the Tyne Tunnels Contract Manager.

The Authority's Constitution sets out that the Procurement Procedure Rules for the Constituent Authority designated as lead authority for the following exercises shall apply and be followed wherever the Combined Authority wishes to arrange for:

- The purchases of goods, materials and related services;
- The execution of works; or
- The provision of other services (including consultancy).

3. VFM arrangements – improving economy, efficiency and effectiveness

Overall commentary on the improving economy, efficiency and effectiveness reporting criterion - continued

In addition to the specific provisions of the Procurement Procedure Rules, any money procurement of goods, materials, works or services shall have regard to and seek to implement the following general principles:

- The need to ensure the Authority and those within its area obtain good value for money and are properly protected as consumers of the goods, works or services;
- The need to ensure and demonstrate true and fair competition, without unlawful discrimination;
- The need to ensure the procurement process is transparent and accountable and susceptible to full audit; and
- The need to ensure the elimination of any opportunities for fraud or corruption.

The Authority receives procurement services from Durham County Council via a Service Level Agreement. The service specification includes the undertaking of legally compliant procurement and production of procurement documentation and correspondence via competitive quote/tender process.

All DCC Procurement staff are either fully qualified or studying for Chartered Institute of Procurement and Supply to ensure the highest performance standards are achieved and is the first Council team to achieve the CIPS Corporate Ethics Standard.

A service concession exists in relation to the Tyne Tunnel. This is subject to a detailed 30 year agreement with the operator TT2 Ltd which was introduced in 2008.

The Authority works 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. The Authority supports the work of the enterprise partnership and they work together to ensure co-ordination across their range of activities.

The NELEP Board includes representatives from across the private and public sectors. Each of the leaders and the elected Mayor representing the seven local authorities councils that are members of the NELEP and the Chair of the NELEP is a non-voting member of the NELB.

The Combined Authority provides the formal accountability arrangements for the local enterprise partnership.

Based on our review we have not identified any significant weaknesses in the Authority's arrangements in relation to improving economy, efficiency and effectiveness.

04

Section 04:

Other reporting responsibilities and our fees

4. Other reporting responsibilities and our fees

Matters we report by exception

The Local Audit and Accountability Act 2014 provides auditors with specific powers where matters come to our attention that, in their judgement, require specific reporting action to be taken. Auditors have the power to:

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

We have not exercised any of these statutory reporting powers.

The 2014 Act also gives rights to local electors and other parties, such as the right to ask questions of the auditor and the right to make an objection to an item of account. We did not receive any such objections or questions.

Reporting to the NAO in respect of Whole of Government Accounts consolidation data

We reported on Whole of Government Accounts (WGA) on 8 June 2023, as we were only able to do this after issuing our audit opinion. As the National Audit Office (NAO) has not confirmed whether the North East Combined Authority has been selected for additional 2020/21 WGA work or not, we are unable to issue our audit certificate to formally conclude the 2020/21 audit.

4. Other reporting responsibilities and our fees

Fees for work as the Authority's auditor

We reported our proposed fees for the delivery of our work under the Code of Audit Practice in our Audit Strategy dated 10 June 2021. We indicated at that time that there would be additional fees in respect of the new value for money approach under the revised Code of Practice, along with any additional regulatory pressures that were not included in scale fees. Now we have completed the 2020/21 audit, we can confirm our final fees, which include additional costs arising from the national infrastructure issue.

Area of work	2019/20 fees	2020/21 fees
Planned fee in respect of our work under the Code of Audit Practice	£18,709	£18,709
Additional one-off fees for specific issues (2019/20 only)	£8,002	£nil
Additional fees in respect of the new VFM approach (recurring)	£nil	£7,500
Additional fees in respect of new ISA540 requirements in relation to Accounting estimates and related disclosures (recurring)	£nil	£2,500
Additional fees in respect of resolving the national infrastructure issue (these costs have been divided equally between 2020/21 and 2021/22 audits)	£nil	£5,000
Total fees	**£26,711**	**£33,709**

All fees are subject to VAT. All additional fees are subject to Public Sector Auditor Appointments (PSAA) approval.

Fees for other work

We did not undertake any non-audit services in 2020/21.

Gavin Barker, Director – Public and Social Sector

gavin.barker@mazars.co.uk

Mazars

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