Item 4

Audit and Standards Committee

Date: 25 January 2022

Subject: Statement of Accounts 2020/21

Report of: Chief Finance Officer

Executive Summary

The purpose of this report is to present the updated and finalised 2020/21 Statement of Accounts for review by the Audit and Standards Committee. The draft Statement of Accounts for 2020/21 were published on 30 June 2021 and have been subject to review by the External Auditor over the last two months. Due to capacity issues experienced nationally across all public sector audit firms, the external audit fieldwork was unable to begin until late November 2021.

The 2020/21 audit programme is substantially complete and Mazars, the External Auditor, anticipate issuing an unqualified and unmodified audit opinion subject to the completion of outstanding work, as set out in the Audit Completion Report elsewhere on this agenda.

The draft accounts published in June have been amended to reflect updated pension results obtained from the Tyne and Wear Pension Fund taking actual (rather than estimated) asset returns into account, and for amendments to pension figures in the Nexus accounts, which impacts on the Group Accounts of NECA.

The NECA Leadership Board is meeting on 1 February 2022 and will receive the 2020/21 account for approval, taking into accounts any comments raised by the Audit and Standards Committee.

This report sets out the changes that have been made to the draft accounts that were published on 30 June 2021 and reported to this committee on 7 September 2021. The report also includes explanations and key figures from the main financial statements to aid understanding.

No changes are required to the draft Annual Governance Statement which was considered by the Committee in June 2021 or the draft Narrative Report.

Recommendations

The Audit and Standards Committee is recommended to review and comment on the Statement of Accounts for 2020/21 in advance of the Leadership Board meeting on 1 February 2022.

1. Background Information

1.1 The Accounts and Audit (Amendment) Regulations 2021, which stipulate a two stage approval process for the statement of accounts, have extended the statutory audit deadlines for 2020/21 and 2021/22 for local authorities. The first statutory deadline requires that the responsible financial officer, by no later than 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 expenditure and income for the year to 31 March previous,

subject to the views of the external auditor.

1.2 The second stage requires that on or before 30 September, approval needs to be given to the statement of accounts by resolution of a committee, which for NECA is the Leadership Board, taking into account the views of the external auditor and the consideration of the Audit and Standards Committee. Once approved, the statement of accounts must be formally published on the authority's website.

1.3 The first stage was completed on 30 June 2021 and the draft accounts were presented to Members of the Audit Committee on 7 September 2021.

1.4 At the Audit and Standards Committee on 22 June 2021 the External Auditor presented the Audit Strategy Memorandum which informed the Committee of a revised timetable for audit fieldwork to September-November 2021, with completion of the audit in November 2021. This would be after the required publication date of 30 September 2021 with the audited Statement of Accounts being presented to the Audit and Standards Committee on 7 December and the Leadership Board on 14 December. Due to capacity issues reflected nationally across all public sector audit firms, the external audit fieldwork was further delayed to late November, and the December meeting of the Audit and Standards Committee was deferred to 25 January 2022.

1.5 The external audit began at the end of November 2021, and at the time of writing this report, is substantially complete. The Audit Completion Report is to be presented by the auditor to the Committee today and is elsewhere on the agenda. Subject to the completion of remaining audit work, the external auditor anticipates issuing an unqualified opinion without modification on the financial statements.

2 Proposals

Statement of Accounts

2.1 The statement of accounts for the financial year 2020/21 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 2020/21' (the Code) as published by the Chartered Institute of Public Finance and Accountancy (CIPFA).

2.2 The Code is based on 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. 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.

2.3 During the audit review of the draft statement of accounts, a number of 'misstatements' were identified which have since been amended. These are listed in Section 6 of the Audit Completion Report. These relate to pension asset values which were included in the draft accounts on the basis of estimated returns at 31 March 2021. Due to significant volatility in asset values in the final quarter of 2020/21, NECA and Nexus requested updated reports from the actuary based on final asset performance to establish whether differences were material and would need to be adjusted in the financial statements. The values of the adjustments required for NECA and Nexus combined exceeds performance materiality threshold and have been updated in the final Group Accounts. For consistency, the NECA accounts have also been updated although the value of the NECA adjustment was not on its own material.

2.4 In addition, a small number of minor corrections and amendments have been made to disclosure notes to ensure compliance with the Code.

Key information from the Statement of Accounts (Appendix 2)

2.5 Page numbers used in this report refer to the page numbers in the statement of accounts document attached at Appendix 2, not those used in the full 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.

i. Movement in Reserves Statement (page 5);
ii. ii. Comprehensive Income and Expenditure Statement (page 6);
iii. iii. Balance Sheet (page 7); and
iv. iv. Cash Flow Statement (page 8)

2.6 NECA also produces Group Accounts which consolidate the financial accounts of Nexus (page 77 onwards).

Movement in Reserves Statement

2.7 This statement shows the movement in the year on the different reserves held by NECA analysed into 'usable' reserves and 'unusable' reserves. There has been no change to the usable reserves from that which was reported previously to the committee and published in the draft accounts.

2.8 There has been a decrease in total reserves held from £125.139m at 31 March 2020 to £99.316m at 31 March 2021, mainly due to the transfer of reserves relating to the North East Local Enterprise Partnership (North East LEP) to the north of Tyne Combined Authority (NTCA) on 1 April 2020.

2.9 Usable reserves totalled £43.032m at 31 March 2021, which included £11.454m earmarked reserves and £23.687m capital grants unapplied, representing grants committed to fund capital expenditure in future years.

2.10 Unusable reserves totalling £56.284m at 31 March 2021, which includes reserves absorbing timing differences arising from the different arrangements for accounting for and financing non-current assets, financial instruments and pension 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.

Comprehensive Income and Expenditure Statement (CIES)

2.11 This statement 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.

2.12 The gross cost of services during the year including capital grants to third parties as well as revenue expenditure was £79.781m (£104.772m in 2019/20 – which included expenditure relating to the North East LEP). 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.

2.13 After deducting specific grants and income from fees and charges, the net cost of services was £30.325m last year (£41.758m in 2019/20). The net cost was lower in 2020/21 mainly due to a significant value of capital grants received which have been released to the CIES as conditions are met through commitment to fund the Transforming Cities Fund programme, but where the grants have not yet been used to fund the expenditure. (These grants are held at the year-end in the Capital Grants Unapplied Reserve). Net expenditure was funded from a range of sources including the Transport Levy, other contributions from Constituent Authorities and Government Grants.

Balance Sheet

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

2.15 Net assets in the NECA accounts decreased from £125.141m at 31 March 2020 to £99.316m at 31 March 2021. The decrease in total net assets is mainly due to the transfer of assets relating to the North East LEP to NTCA.

Cash Flow Statement

2.16 The Cash Flow Statement shows the changes 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.

2.17 Cash and cash equivalents increased from £22.017m at 31 March 2020 to £38.182m at 31 March 2021, mainly due to capital grants received during the year but not defrayed and held to fund activity in future years.

Notes to the Core Financial Statements

2.18 The notes are important in the presentation of a true and fair view of the financial performance and position of NECA to 31 March 2021. 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

2.19 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

2.20 Published alongside the draft Statement of Accounts are two further documents which do not form part of the audited accounts but provide further context. The Narrative Report (attached here as Appendix 4) aims to offer interested parties a more understandable guide to the most significant matters reported in the accounts. The Annual Governance Statement (Appendix 3) gives assurance that appropriate mechanisms are in place for the maintenance of good governance across the activities of the Authority. There have been no changes to the Narrative Report which was published with the draft accounts and which has previously been considered by the Committee.

2.21 Members considered the draft Annual Governance Statement for NECA on 22 June 2021, and it was noted at that time that it was subject to a final review taking into account external audit findings. One internal control recommendation has been raised by the external auditors in the Audit Completion Report, relating to authorisation and review of bank reconciliations. This recommendation was fully addressed in 2020/21 and therefore it is not considered that any change to the conclusions reached in the Annual Governance Statement is required.

3. Reasons for the Proposals

3.1 Although it is the responsibility of the Leadership Board to approve the Statement of Accounts, it is within the terms of reference of the Audit and Standards Committee to ‘review key information relating to NECA’s Statement of Accounts’ and to ‘review the External Auditor’s opinion and reports on the Statement of Accounts’.

3.2 The draft Statement of Accounts were published on 30 June 2021 and were presented to the Committee on 7 September 2021. The updated Statement of Accounts attached to this report reflects changes made as a result of the audit process.

4. Alternative Options Available

4.1 There are no alternative options associated with this report. The report is presented for information and to allow the committee to meet its obligations with regards to ‘reviewing key information relating to NECA’s Statement of Accounts’ and ‘reviewing the External Auditor’s opinion and reports on the Statement of Accounts’.

5. Next Steps and Timetable for Implementation

5.1 The updated Statement of Accounts, Annual Governance Statement and the Audit Completion Report will be presented to the Leadership Board on 1 February 2022, and the views of the Audit and Standards Committee will be reported to that meeting for the Leadership Board to take into consideration.

5.2 Subject to completion of the External Audit, the Statement of Accounts must be signed by the Chair of the Leadership Board and the Chief Finance Officer and published online.

5.3 The Audit and Standards Committee will receive a follow up letter from the External Auditor following final conclusion of the audit.

6. Potential Impact on Objectives

6.1 There are no direct impacts on objectives arising from this report. Sound financial stewardship improves the ability of the Authority to meet of its objectives. The Accounts presented reflect a true and fair view of the financial position of NECA and Group during 2020/21 and as at 31 March 2021. The work of the external auditors has confirmed that proper arrangements have been made to secure, economy, efficiency and effectiveness in the use of resources.

7. Financial and Other Resources Implications

7.1 The costs of the external audit are set by Public Sector Audit Appointments and were included in the budget for 2020/21. The statement of accounts details the financial position of the authority as at 31 March 2021.

8. Legal Implications

8.1 Compliance with the Accounts and Audit Regulations 2015 and the CIPFA Code of Practice on Local Authority Accounting 2020/21 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 risks 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 was subject to a period of public inspection from 1 July to 11 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 these proposals.

14. Appendices

14.1 Appendix 1 – Draft Management Representation Letter

Appendix 2 – Statement of Accounts 2020/21

Appendix 3 – Annual Governance Statement 2020/21

Appendix 4 – Narrative Report 2020/21

15. Background Papers

15.1 Draft Statement of Accounts 2020/21 – Audit and Standards Committee 7 September 2021 NECA-Audit-and-Standards-7-September-2021.pdf (northeastca.gov.uk)

Draft Annual Governance Statement 2020/21 – Audit and Standards Committee 22 June 2021 Audit-and-Standards-Agenda-Pack-22-June-2021.pdf (northeastca.gov.uk)

16. Contact Officers

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

17. Sign off

17.1

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

Paul Darby
North East Combined Authority
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03000 261 930

Appendix 1

To: Mr Gavin Barker
Director
Mazars LLP
Date:

North East Combined Authority (NECA) and Group - audit for year ended 31 March 2021

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

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

My responsibility for the financial statements and accounting information

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

My responsibility to provide and disclose relevant information

I have provided you with:

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

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

Accounting records

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

Accounting policies

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

Accounting estimates, including those measured at fair value

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

Contingencies

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

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

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

There are no contingent gains which should be disclosed.

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

Laws and regulations

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

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

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Fraud and error

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

I have disclosed to you:

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

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

Related party transactions

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

Charges on assets

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

Impairment review

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

Future commitments

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

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

Going concern

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

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

Unadjusted misstatements

I confirm that there were no unadjusted misstatements in the 2020/21 statement of accounts.

Yours faithfully

Chief Finance Officer

Date: ………………………

Appendix 2

North East Combined Authority

Statement of Accounts 2020/21

Contents **Page**

1.0 Statement of Responsibilities for the Statement of Accounts

1.1 The Authority's Responsibilities

The Authority is required:

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

The Chief Finance Officer's Responsibilities:

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

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

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

The Chief Finance Officer has also:

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

Certification of the Accounts

I hereby certify that the Statement of Accounts for the year ended 31 March 2021, 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 at 31 March 2021 and its income and expenditure for the year ended 31 March 2021.

Signed:

Paul Darby
Chief Finance Officer

Signed:

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 Receipts Reserve	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Authority Reserves
		£000	£000	£000	£000	£000	£000	£000
Balance at 1 April 2019		**(22,831)**	**(9,792)**	**(2,503)**	**(11,672)**	**(46,796)**	**(67,485)**	**(114,281)**
Total Comprehensive Income and Expenditure	1	(9,988)	-	-	-	(9,988)	(870)	(10,858)
Adjustments between accounting basis & funding basis under regulations	3	9,005	-	(6,386)	(1,551)	1,068	(1,068)	-
Net (Increase)/Decrease before transfers to Earmarked Reserves		**(983)**	**-**	**(6,386)**	**(1,551)**	**(8,920)**	**(1,938)**	**(10,858)**
Transfers (To)/From Earmarked Reserves		2,581	(2,581)	-	-	**-**	-	-
(Increase)/Decrease in 2019/20		1,598	(2,581)	(6,386)	(1,551)	**(8,920)**	(1,938)	(10,858)
Balance at 31 March 2020 carried forward		**(21,233)**	**(12,373)**	**(8,889)**	**(13,223)**	**(55,716)**	**(69,423)**	**(125,139)**
Transfer to NTCA 1 April 2020		12,068	1,596	8,889	5,862	**28,415**	13,724	42,139
Opening Balance at 1 April		**(9,165)**	**(10,777)**	-	**(7,361)**	**(27,301)**	**(55,699)**	**(83,000)**
Total Comprehensive Income and Expenditure	1	(16,673)	-	-	-	(16,673)	360	(16,313)
Adjustments between accounting basis & funding basis under regulations	3	17,269	-	-	(16,324)	944	(944)	-
Net (Increase)/Decrease before transfers to Earmarked Reserves		**595**	**-**	**-**	**(16,324)**	**(15,729)**	**(584)**	**(16,313)**
Transfers (To)/From Earmarked Reserves		677	(677)	-	-	**-**	-	-
(Increase)/Decrease in 2020/21		1,271	(677)	-	(16,324)	**(15,730)**	(583)	(16,313)
Balance at 31 March 2021 carried forward		**(7,893)**	**(11,454)**	**-**	**(23,685)**	**(43,030)**	**(56,284)**	**(99,313)**

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.

2019/20					2020/21		
Gross Expenditure	Gross Income	Net Expenditure		Note	Gross Expenditure	Gross Income	Net Expenditure
£000	£000	£000			£000	£000	£000
			Continuing NECA Services	1			
1,341	(678)	663	Corporate		574	(781)	(207)
290	(290)	-	Skills		-	-	-
143	-	143	Transport - Retained Levy Budget		73	-	73
15,552	-	15,552	Transport - Durham		15,456	-	15,456
31,010	-	31,010	Transport - Tyne and Wear		32,719	-	32,719
11,741	(13,609)	(1,868)	Transport - Other		11,618	(28,367)	(16,749)
14,250	(18,719)	(4,469)	Transport - Tyne Tunnels		13,267	(14,234)	(967)
-	-	-	Covid-19 Grants		6,074	(6,074)	-
74,327	**(33,296)**	**41,031**	**Cost of Services relating to continuing services excluding operations transferred to the NTCA**		**79,781**	**(49,456)**	**30,325**
375	(161)	214	Inward Investment		-	-	-
26,390	(26,053)	337	Local Growth Fund Programme		-	-	-
3,680	(3,752)	(72)	North East Local Enterprise Partnership		-	-	-
30,445	**(29,966)**	**479**	**Cost of Services relating to services transferred to the NTCA**		**-**	**-**	**-**
104,772	**(63,262)**	**41,510**	**Cost of Services**		**79,781**	**(49,456)**	**30,325**
			Financing and Investment Income and Expenditure	4			
4,196	(1,463)	2,733	- From continuing services		4,057	(963)	3,094
-	(761)	(761)	- From services transferred to the NTCA		-	-	-
			Taxation and Non-Specific Grant Income	5			
-	(51,319)	(51,319)	- From continuing services		-	(50,091)	(50,091)
-	(2,151)	(2,151)	- From services transferred to the NTCA				-
		(9,988)	**(Surplus)/Deficit on Provision of Services**				**(16,672)**
		(870)	Re-measurement of the defined benefit liability	19			360
		(870)	**Other Comprehensive Income and Expenditure**				**360**
		(10,858)	**Total Comprehensive Income and Expenditure**				**(16,312)**

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 2020 £000		Note	31 March 2021 £000
193,200	Property, Plant and Equipment	11	190,648
31,935	Long Term Debtors	15	18,715
225,135	**Long Term Assets**		**209,363**
58,236	Short Term Investments	12	34,383
8,899	Short Term Debtors	14	5,050
22,017	Cash and Cash Equivalents	16	38,183
89,152	**Current Assets**		**77,616**
(1,298)	Short Term Borrowing	12	(1,274)
(39,984)	Short Term Creditors	17	(39,879)
(891)	Grants Receipts in Advance	6	(3,356)
(2,837)	New Tyne Crossing Deferred Income	18	(2,824)
(45,010)	**Current Liabilities**		**(47,333)**
(48,224)	New Tyne Crossing Deferred Income	18	(45,184)
(95,072)	Long Term Borrowing	12	(94,276)
(840)	Pension Liability	19	(870)
(144,136)	**Long Term Liabilities**		**(140,330)**
125,141	**Net Assets**		**99,316**
(55,717)	Usable Reserves	20	(43,032)
(69,424)	Unusable Reserves	22	(56,284)
(125,141)	**Total Reserves**		**(99,316)**

Chief Finance Officer Certificate

I certify that the accounts set out on pages 5 to 77 give a true and fair view of the financial position of the North East Combined Authority as at the 31 March 2021.

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.

2019/20 £000		Note	2020/21 £000
9,988	Net Surplus/(Deficit) on the provision of services		16,672
(7,193)	Adjustments to net surplus or deficit on the provision of services for non-cash movements	24	16,000
(41,940)	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	24	(25,271)
(39,145)	**Net cash flows from Operating Activities**		**7,401**
47,036	Investing Activities	25	51,740
2,406	Financing Activities	26	(838)
10,297	**Net (Decrease)/Increase in cash and cash equivalents**		**58,303**
11,720	Cash and cash equivalents at the beginning of the reporting period	16	22,017
-	Transfer to the NTCA		(42,138)
22,017	**Cash and cash equivalents at the end of the reporting period**		**38,182**

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 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 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.

	2020/21				
	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	93	-	(300)	-	(207)
Skills	-	-	-	-	-
Transport - Retained Levy Budget	361	(288)	-	-	73
Transport - Durham	15,456	-	-	-	15,456
Transport - Tyne and Wear	32,719	-	-	-	32,719
Transport - Other	(2,720)	(14,029)	-	-	(16,749)
Transport - Tyne Tunnels	736	(1,653)	(50)	-	(967)
Cost of services	**46,645**	**(15,971)**	**(350)**	**-**	**30,325**
Other Income and Expenditure	**(46,050)**	(741)	20	(225)	**(46,997)**
(Surplus)/Deficit on Provision of Services	**595**	**(16,712)**	**(330)**	**(225)**	**(16,672)**
Opening General Fund Balances	(33,607)				
Transfer to NTCA 1 April 2020	13,664				
Closing General Fund Balances	**(19,348)**				

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.

	2019/20				
	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	(177)	-	840	-	663
Inward Investment	214	-	-	-	214
Local Growth Fund Programme	2,031	(1,694)	-	-	337
North East Local Enterprise Partnership	(72)	-	-	-	(72)
Skills	-	-	-	-	-
Transport - Retained Levy Budget	438	(295)	-	-	143
Transport - Durham	15,552	-	-	-	15,552
Transport - Tyne and Wear	31,010	-	-	-	31,010
Transport - Other	409	(2,277)	-	-	(1,868)
Transport - Tyne Tunnels	(3,184)	(1,235)	(50)	-	(4,469)
Cost of services	**46,221**	**(5,501)**	**790**	**-**	**41,510**
Other Income and Expenditure	**(50,540)**	(389)	20	(589)	**(51,498)**
(Surplus)/Deficit on Provision of Services	**(4,319)**	**(5,890)**	**810**	**(589)**	**(9,988)**
Opening General Fund Balances	(32,624)				
Transfer from Capital Receipts Reserve	3,336				
Closing General Fund Balances	**(33,607)**				

Note 02a: Income and Expenditure Analysed by Nature

	2019/20 £000	2020/21 £000
Expenditure		
Employee benefit expenses	3,007	218
Other service expenses	61,910	69,041
Depreciation, impairment and Revenue Expenditure Funded from Capital Under Statute (REFCUS)	39,855	10,542
Interest payments	4,196	4,037
Total expenditure	**108,968**	**83,838**
Income		
Fees, charges and other service income (Tyne Tunnels tolls)*	(15,866)	(11,393)
Interest and investment income	(2,224)	(963)
Income from business rates on enterprise zones	(2,151)	-
Income from transport levy	(49,598)	(49,350)
Government grants and contributions	(45,684)	(35,312)
Other income	(3,433)	(3,493)
Total income	**(118,956)**	**(100,511)**
Surplus/Deficit on the provision of services	**(9,988)**	**(16,673)**

* 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.

2019/20				Adjustments between Accounting Basis and Funding Basis Under Statute	2020/21			
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				
(2,317)	-	-	2,317	Charges for depreciation and impairment of non current assets	(2,402)	-	-	2,402
2,837	-	-	(2,837)	Other income that cannot be credited to the General Fund	2,824	-	-	(2,824)
35,904	-	-	(35,904)	Capital grants and contributions applied	7,052	-	-	(7,052)
(37,538)	-	-	37,538	Revenue expenditure funded from capital under statute	(10,391)	-	-	10,391
				Insertion of items not debited or credited to the CIES				
964	-	-	(964)	Statutory provision for the financing of capital investment	1,391	-	-	(1,391)
5	-	-	(5)	Capital expenditure charged against the General Fund	19	-	-	(19)
				Adjustments primarily involving the Capital Grants Unapplied Account				
6,036	-	(6,036)	-	Grants and contributions unapplied credited to the CIES	18,219	-	(18,219)	-
-	-	4,485	(4,485)	Application of grants to capital financing transferred to the CAA	-	-	1,895	(1,895)
				Adjustments involving the Capital Receipts Reserve				
2,481	(8,042)	-	5,561	Loan principal repayments	-	(841)	-	841
855	778	-	(1,633)	Use of Capital Receipts Reserve to finance new capital expenditure	-	-	-	-
-	878	-	(878)	Application of Capital Receipts to repayment of debt	-	841	-	(841)
				Adjustments involving the Financial Instruments Adjustment Account				
589	-	-	(589)	Amount by which finance costs charged to the CIES are different from finance costs chargeable in the year in accordance with statutory requirements	225	-	-	(225)
				Adjustments involving the Pensions Reserve				
(860)	-	-	860	Reversal of items relating to retirement benefits debited or credited to the CIES	280	-	-	(280)
50	-	-	(50)	Employer's pension contributions and direct payments to pensioners payable in the year	50	-	-	(50)
9,006	**(6,386)**	**(1,551)**	**(1,069)**	**Total Adjustments**	**17,268**	**-**	**(16,324)**	**(943)**

Note 04: Financing and Investment Income and Expenditure

	Note	2019/20 Continuing Services	2019/20 Services transferred to NTCA	2020/21
			£000	£000
Interest Payable and Similar Charges		4,176	-	4,037
Interest Payable on defined benefit liability	19	20	-	20
Interest Receivable and similar income		(1,463)	(761)	(963)
Total		**2,733**	**(761)**	**3,094**

Note 05: Taxation and Non Specific Grant Income

		2019/20 Continuing Services	2019/20 Services transferred to NTCA	2020/21
			£000	£000
Transport Levy		(49,598)	-	(49,349)
Enterprise Zones Income		-	(2,151)	-
Non-Specific Capital Grants		(1,721)	-	(741)
Total		**(51,319)**	**(2,151)**	**(50,090)**

Note 06: Grant Income

		2019/20 Continuing Services	2019/20 Services transferred to NTCA	2020/21
			£000	£000
LEP Core and Capacity Grant		-	(500)	-
Growth Hub		-	(442)	-
Local Authority Contributions to NECA		(352)	-	(161)
Local Authority Contribution to North East LEP		-	(253)	-
Local Growth Fund			(28,063)	(679)
Local Transport Plan		(7,770)	-	(7,736)
European Grants		-	(979)	(176)
North East Smart Ticketing Initiative		(202)	-	(113)
Transforming Cities Fund		(5,516)	-	(13,907)
LEP Local Industrial Strategy Grant		-	(224)	-
Office for Low Emission Vehicles		(302)		(70)
COVID-19		-	-	(6,074)
Other Grants		-	(1,082)	(5,352)
Total		**(14,142)**	**(31,543)**	**(34,268)**

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 2020 £000**	**31 March 2021 £000**
North East Smart Ticketing Initiative	(114)	-
Office for Low Emission Vehicles	(141)	(127)
Other Grants	(636)	(3,229)
Total	**(891)**	**(3,356)**

Shown as Short-Term Liability on the Balance Sheet	(891)	(3,356)
Short as Long-Term Liability on the Balance Sheet	-	-
Total	**(891)**	**(3,356)**

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.

	2019/20 £000	**2020/21 £000**
Allowances	12	12
Total	**12**	**12**

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	2020/21	131	-	**131**
	2019/20	127	-	**127**

All three of the Authority's statutory officers in 2020/21 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:

	2019/20 £000	2020/21 £000
£50,000-£54,999	5	0
£55,000-£59,999	0	1
£60,000-£64,999	2	0
£65,000-£69,999	3	0
£70,000-£74,999	0	0
£75,000-£79,999	0	0
£80,000-£84,999	0	0
£85,000-£89,999	1	0
£90,000-£94,999	0	0
£95,000-£99,999	0	1
Total	**11**	**2**

The reduction in numbers from the 2019/20 figures is due to the removal of LEP staff who were transferred to the North of Tyne Combined Authority on 01/04/2020.

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.

	2019/20 £000	2020/21 £000
Scale fee for the audit of the Statement of Accounts	19	19
Additional fee in relation to the audit of the 2019/20 Accounts (paid during 2020/21)	6	8
Total	**25**	**27**

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 2020/21 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.

	2019/20				2020/21			
	Receivables	Income	Expenditure	Payables	Receivables	Income	Expenditure	Payables
	£000	£000	£000	£000	£000	£000	£000	£000
NECA Constituent Authorities								
Durham	(3)	(15,699)	19,330	595	-	(15,499)	18,960	1,187
Gateshead	(245)	(6,463)	4,525	2,625	-	(10,291)	1,136	137
South Tyneside	(3)	(4,689)	981	791	-	(8,112)	926	206
Sunderland	(763)	(9,582)	13,099	898	-	(14,949)	1,327	131
Remaining JTC Constituent Authorities								
Newcastle	(528)	(8,940)	3,126	1,308	-	(10)	2,879	691
North Tyneside	(433)	(8,542)	3,640	290	-	(10)	1,061	130
Northumberland	(351)	(496)	3,389	271	-	(10)	2,014	315
Other Public Bodies								
North of Tyne Combined Authority	(8)	(8)	-	-	-	-	-	-
Nexus	(845)	(81)	31,803	28,695	(695)	(761)	37,234	33,671

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

	2020/21				
	Vehicles, Plant, Furniture & Equipment	Infrastructure Assets	Assets Under Construction	Total Property, Plant & Equipment	Service Concession Assets included in Property, Plant and Equipment
	£000	£000	£000	£000	£000
Cost or Valuation					
At 1 April 2020	2,204	219,358	1,049	**222,611**	219,358
Additions	-	528	189	**717**	528
Reclassification from Assets Under Construction	677	-	(677)	**-**	-
Impairment recognised in the Surplus/Deficit on the Provision of Services	-	(20)	-	**(20)**	(20)
Other Adjustments	-	(865)	-	**(865)**	(865)
At 31 March 2021	**2,881**	**219,001**	**561**	**222,443**	**219,001**

Accumulated Depreciation and Impairment					
At 1 April 2020	(754)	(28,657)	-	**(29,411)**	(28,657)
Depreciation charge for the Year	(160)	(2,222)	-	**(2,382)**	(2,222)
At 31 March 2021	**(914)**	**(30,879)**	**-**	**(31,793)**	**(30,879)**

Net Book Value					
At 1 April 2020	**1,450**	**190,701**	**1,049**	**193,200**	**190,701**
At 31 March 2021	**1,967**	**188,122**	**561**	**190,650**	**188,122**

	2019/20				
	Vehicles, Plant, Furniture & Equipment	Infrastructure Assets	Assets Under Construction	Total Property, Plant & Equipment	Service Concession Assets included in Property, Plant and Equipment
	£000	£000	£000	£000	£000
Cost or Valuation					
At 1 April 2019	1,785	209,165	10,067	**221,017**	209,165
Additions	-	-	1,594	**1,594**	-
Reclassification from Assets Under Construction	419	10,193	(10,612)	**-**	10,193
At 31 March 2020	**2,204**	**219,358**	**1,049**	**222,611**	**219,358**
Accumulated Depreciation and Impairment					
At 1 April 2019	(661)	(26,433)	-	**(27,094)**	**(26,433)**
Depreciation charge for the Year	(93)	(2,224)	-	**(2,317)**	(2,224)
At 31 March 2020	**(754)**	**(28,657)**	**-**	**(29,411)**	**(28,657)**
Net Book Value					
At 1 April 2019	**1,124**	**182,732**	**10,067**	**193,923**	**182,732**
At 31 March 2020	**1,450**	**190,701**	**1,049**	**193,200**	**190,701**

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 2020	31 March 2021	31 March 2020	31 March 2021	31 March 2020	31 March 2021	31 March 2020	31 March 2021
	£000	£000	£000	£000	£000	£000	£000	£000
Amortised cost	-		31,935	18,715	58,236	34,383	6,926	2,242
Total financial assets	**-**	**-**	**31,935**	**18,715**	**58,236**	**34,383**	**6,926**	**2,242**
Non-financial assets	-	-	-	-	-	-	1,973	2,808
Total	**-**	**-**	**31,935**	**18,715**	**58,236**	**34,383**	**8,899**	**5,050**

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 2020	31 March 2021	31 March 2020	31 March 2021	31 March 2020	31 March 2021	31 March 2020	31 March 2021
	£000	£000	£000	£000	£000	£000	£000	£000
Amortised cost	(95,072)	(94,276)	-	-	(1,298)	(1,274)	(32,487)	(33,933)
Total financial liabilities	**(95,072)**	**(94,276)**	**-**	**-**	**(1,298)**	**(1,274)**	**(32,487)**	**(33,933)**
Non-financial liabilities	-	-	-	-	-	-	(7,497)	(5,946)
Total	**(95,072)**	**(94,276)**	**-**	**-**	**(1,298)**	**(1,274)**	**(39,984)**	**(39,879)**

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 2020				31 March 2021		
£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
4,176	-	4,176	Interest expense	4,037	-	**4,037**
4,176	**-**	**4,176**	**Total expense in Surplus on Provision of Services**	**4,037**	-	**4,037**
-	(2,092)	(2,092)	Investment income	-	(963)	**(963)**
-	(132)	(132)	Movement on soft loans adjustment	**-**	-	**-**
-	**(2,224)**	**(2,224)**	**Total income in Surplus on Provision of Services**	**-**	**(963)**	**(963)**
4,176	**(2,224)**	**1,952**	**Net (gain)/loss for the year**	**4,037**	**(963)**	**3,074**

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 2021, 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
- 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 31st March.
- No early repayment or impairment is recognised for any financial instrument.
- The fair value of short-term instruments, including trade payables and receivables, is assumed to approximate to the carrying amount.

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

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

The fair values calculated are as follows:

		31 March 2020		31 March 2021	
	Level	**Carrying amount £000**	**Fair value £000**	**Carrying amount £000**	**Fair value £000**
Financial liabilities held at amortised cost	2	(96,370)	(166,167)	(95,550)	(151,970)
Total		**(96,370)**	**(166,167)**	**(95,550)**	**(151,970)**
Financial Assets at amortised cost					
Held to maturity investments		58,236	58,236	34,383	34,383
Nexus loan debtor	2	19,614	34,148	18,715	30,051
Other loan debtors	3	14,510	14,510	-	-
Total		**92,360**	**106,894**	**53,098**	**64,434**

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

Soft Loans

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

- Durham University - Development of Centre for Innovation and Growth, research and development facility to work with partners and private companies to develop new technologies and processes.

- Neptune Test Centre - construction of deep water test tank at Neptune Enterprise

- Cobalt Data Centre - Network improvements to support development of 23km 'superfast' broadband loop through Newcastle and North Tyneside.

- Boiler Shop - Development including office and conferencing space at South Street/Boiler Shop, Stephenson Quarter.

Since the transfer of Accountable Body responsibility for the North East LEP to the North of Tyne Combined Authority on 1 April 2020, NECA no longer holds any soft loans so no values are shown for 2020/21.

	2019/20							
Description	**Term (Years)**	**Contracted Rate**	**Fair Value Rate**	**Opening Balance Fair Value**	**Loans Repaid**	**Increase in discounted amount**	**Closing Balance (fair value)**	**Closing Balance (Nominal)**
				£000	**£000**	**£000**	**£000**	**£000**
Durham University	12	1.90%	4.95%	9,244	(1,282)	458	8,420	8,916
Neptune Test Centre	9	0.00%	4.99%	3,397	(440)	169	3,126	4,397
Cobalt Data Centre	6	6.00%	7.00%	1,589	(1,589)	-	-	-
Boiler Shop	3	4.50%	5.02%	1,699	(80)	90	1,709	1,465

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:

Rating	2019/20 £000	2020/21 £000
n/a - investments with UK local authorities	52,446	34,383
n/a - investments with unrated building societies [1]	5,790	-
Total Short-Term Investments	**58,236**	**34,383**
AAA	13,348	17,746
AA2	3,621	-
Total Cash Equivalents	**16,969**	**17,746**

[1] In line with its agreed Investment Strategy, NECA places investments for up to 1 year and up to £5m each with UK building societies without credit ratings with assets greater than £250m.

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 2021 that this was likely to crystallise. Actions are taken immediately if an institution is downgraded and deposits withdrawn in line with Treasury Management Strategy.

Customers for goods and services are assessed, taking into account their financial position, past experience and other factors, within individual credit limits being set in accordance with internal ratings within parameters set by the 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 2020 £000	31 March 2021 £000
Between 1-2 years	(371)	(370)
Between 2-5 years	(1,114)	(1,109)
Between 5-10 years	(557)	(185)
More than 10 years	(93,029)	(92,612)
	(95,071)	**(94,276)**
Less than 1 year	(1,298)	(1,274)
Total borrowing	**(96,369)**	**(95,550)**

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

Market Risk

Interest Rate Risk

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

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

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

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

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

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

	31 March 2020 £000	31 March 2021 £000
Increase in interest payable on variable rate borrowing	-	-
Increase in interest receivable on variable rate investments	(520)	(95)
Impact on the (Surplus)/Deficit on Provision of Services	**(520)**	**(95)**

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 £30.616m 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 2020 £000	31 March 2021 £000
Central Government bodies	3,375	610
Other local authorities	4,327	2,303
Other entities and individuals	1,197	2,137
Total	**8,899**	**5,050**

Note 15: Long Term Debtors

	31 March 2020 £000	31 March 2021 £000
Nexus borrowing	19,614	18,715
North East Investment Fund loans	12,321	-
Total	**31,935**	**18,715**

Note 16: Cash and Cash Equivalents

	31 March 2020 £000	31 March 2021 £000
Cash held in Authority's bank account	5,048	20,437
Cash equivalents	16,969	17,746
Total	**22,017**	**38,183**

Note 17: Short Term Creditors

	31 March 2020 £000	31 March 2021 £000
Central government bodies	(38)	(33)
Other local authorities	(7,213)	(2,188)
Other entities and individuals		
- Nexus	(28,224)	(33,672)
- TT2	(1,693)	(1,212)
- Other	(2,816)	(2,774)
Total	**(39,984)**	**(39,879)**

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 2020/21 the total payment under the contract was £12.717m (2019/20 £21.123m) of which £7.052m is shown in the account of NECA and £5.665m shown in the accounts of NTCA. The reduction between years is a direct result of the consequences of reduced traffic volumes in 2020/21 due to the Covid-19 pandemic.

The contribution to the capital works by the private sector partner is recognised as a deferred income balance with a 2020/21 value of £86.568m (2019/20 £91.661m), of which £48.008m is shown on the NECA balance sheet and £38.561m shown on the NTCA balance sheet

	Deferred Income Release	
	2019/20 £000	2020/21 £000
Payable in 2021/22	(2,837)	(2,824)
Payable within 2 to 5 years	(11,347)	(11,296)
Payable within 6 to 10 years	(14,183)	(14,120)
Payable within 11 to 15 years	(14,184)	(14,120)
Payable within 16 to 20 years	(8,510)	(5,648)
Total	**(51,062)**	**(48,008)**

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	
	2019/20	2020/21	2019/20	2020/21
	£000	£000	£000	£000
Comprehensive Income and Expenditure Statement				
Cost of Services:				
Current service cost	840	320	-	-
Settlement cost	-	(620)	-	-
Financing and Investment Income and Expenditure				
Interest on net defined benefit liability (asset)	-	-	20	20
Pension expense recognised in profit and loss	**840**	**(300)**	**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	2,630	(10,570)	-	
Actuarial (gains)/losses due to changes in financial assumptions	-	4,310	-	70
Actuarial (gains)/losses due to changes in demographic assumptions	(390)	-	(20)	
Actuarial (gains)/losses due to changes in liability assumptions	3,090	320	(10)	(10)
Adjustment in respect of paragraph 58	(6,170)	6,210	-	
Total amount recognised in OCI	**(840)**	**270**	**(30)**	**60**
Total amount recognised	**-**	**(30)**	**(10)**	**80**

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 obligation):

	Local Government Pension Scheme		Discretionary Benefits	
	2019/20	2020/21	2019/20	2020/21
	£000	£000	£000	£000
Opening balance at 1 April	**(39,520)**	**(42,750)**	**(900)**	**(840)**
Current service cost	(840)	(320)	-	-
Interest cost	(930)	(950)	(20)	(20)
Contributions by participants	(170)	(70)	-	-
Actuarial gains/(losses) on liabilities - financial assumptions	-	(4,310)	-	(70)
Actuarial gains/(losses) on liabilities - demographic assumptions	390	-	20	-
Actuarial gains/(losses) on liabilities - experience	(3,090)	(320)	10	10
Net benefits paid out	1,410	350	50	50
Past service costs	-	-	-	
Net increase in liabilities from disposals/acquisitions		(30)		
Settlements		1,500		
Closing balance at 31 March	**(42,750)**	**(46,900)**	**(840)**	**(870)**

Reconciliation of the fair value of the scheme assets:

	Local Government Pension Scheme		Discretionary Benefits	
	2019/20	2020/21	2019/20	2020/21
	£000	£000	£000	£000
Opening balance at 1 April	**48,300**	**45,570**	**-**	**-**
Interest income on assets	1,140	1,020	-	-
Remeasurement gains/(losses) on assets	(2,630)	10,500	-	-
Employer contributions	-	-	50	50
Contributions by scheme participants	170	70	-	-
Net benefits paid out	(1,410)	(350)	(50)	(50)
Settlements		(880)		
Closing balance at 31 March	**45,570**	**55,930**	**-**	**-**

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	2016/17	2017/18	2018/19	2019/20	2020/21
	£000	£000	£000	£000	£000
Fair value of LGPS assets	**45,050**	**45,980**	**48,300**	**45,570**	**55,930**
Present value of liabilities:					
- LGPS liabilities	(37,590)	(38,950)	(39,520)	(42,750)	(46,900)
- Impact of minimum funding	(7,460)	(7,030)	(8,780)	(2,820)	(9,030)
Deficit on funded defined benefit scheme	**-**	**-**	**-**	**-**	**-**
Discretionary benefits	(980)	(960)	(900)	(840)	(870)
Total (Deficit)	**(980)**	**(960)**	**(900)**	**(840)**	**(870)**

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 £54.920m has an impact on the net worth of the Authority recorded on the balance sheet, resulting in a negative pension balance of £0.870m. However, statutory arrangements for funding the deficit mean that the financial position of the Authority remains healthy:

- The deficit on the local government scheme will be made good by contributions over the remaining working life of employees (i.e. before payments fall due), as assessed by the scheme actuary.
- Finance is only required to be raised to cover discretionary benefits when the pensions are actually paid.

- The total contributions expected to be made to the Local Government Pension Scheme by the Authority in the year to 31 March 2022 is nil. In addition, Strain on the Fund contributions may be required. Expected payments direct to beneficiaries in the year to 31 March 2022 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 2019.

The weighted average duration of the defined benefit obligation for scheme members is 13.5 years.

The principal assumptions used by the actuary have been:

	Local Government Pension Scheme		Discretionary Benefits	
	2019/20	**2020/21**	**2019/20**	**2020/21**
Mortality assumptions:				
Longevity at 65 for current pensioners:				
- Men	21.8	21.9	21.8	21.9
- Women	25.0	25.1	25.0	25.1
Longevity at 65 for future pensioners:				
- Men	23.5	23.6	n/a	n/a
- Women	26.8	26.9	n/a	n/a
Principal financial assumptions (% per annum)				
Rate for discounting scheme liabilities	2.3%	2.1%	2.3%	2.1%
Rate of inflation - Consumer Price Index	2.1%	2.7%	2.1%	2.7%
Rate of increase in pensions	2.1%	2.7%	2.1%	2.7%
Pension accounts revaluation rate	2.1%	2.7%	n/a	n/a
Rate of increase in salaries	3.6%	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 2020	31 March 2021		
	% Total	**% Quoted**	**% Unquoted**	**% Total**
Equity investments	54.8%	48.4%	7.1%	55.5%
Property	9.0%	0.0%	7.9%	7.9%
Government bonds	4.1%	2.2%	0.0%	2.2%
Corporate bonds	15.3%	19.8%	0.0%	19.8%
Cash	2.3%	4.0%	0.0%	4.0%
Other*	14.5%	4.7%	5.9%	10.6%
Total	**100.0%**	**79.1%**	**20.9%**	**100.0%**

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

Actual Return on Assets

	Local Government Pension Scheme	
	2019/20	2020/21
	£000	£000
Interest Income on Assets	1,140	1,020
Remeasurement gain/(loss) on assets	(2,630)	8,620
Actual Return on Assets	**(1,490)**	**9,640**

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)	46.29	46.90	47.56
% change in present value of total obligation	-1.30%		1.40%
Projected service cost (£M)	0.41	0.42	0.43
Approximate % change in projected service cost	-2.70%		2.80%

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)	46.90	46.90	46.90
% change in present value of total obligation	0.00%		0.00%
Projected service cost (£M)	0.42	0.42	0.42
Approximate % change in projected service cost	0.00%		0.00%

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	47.51	46.90	46.29
% change in present value of total obligation	1.30%		-1.30%
Projected service cost (£M)	0.43	0.42	0.42
Approximate % change in projected service cost	2.80%		-2.70%

Post retirement mortality assumption	- 1 year	Base Figure	+ 1 year
Adjustment to mortality age rating assumption *			
Present value of total obligation (£M)	48.59	46.90	45.26
% change in present value of total obligation	3.60%		-3.50%
Projected service cost (£M)	0.44	0.42	0.40
Approximate % change in projected service cost	4.20%		-4.10%

* 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 Pension Fund actuaries have assessed the impact of the Covid 19 pandemic on pension liabilities. Mortality during March to May 2020 was around 30% higher than the fund average for equivalent periods in the previous 10 years. However, for the 12 months to 31 May 2020. mortality was only 10% higher. The impact of this increase in mortality was small in liability terms i.e. an estimated reduction in pensioner liabilities of 0.1%. A decision was made not to change the mortality assumption on the funding valuation.

McCloud Judgement

All public sector pension schemes were reviewed in 2011 and subsequently reformed to reduce the cost to the taxpayer. Transitional protections were provided to members who were closest to retirement. The transitional protections applied to all active members of public services schemes who were within 10 years of their normal pension age on 1 April 2012. In relation to the LGPS, all members were moved into the new 2014 Scheme, but members within 10 years of normal retirement were given an underpin (or 'better of both') promise, so their benefits would be at least as valuable in terms of amount and when they could be drawn than if they had remaining in the 2008 Scheme.

In December 2018 the Court of Appeal ruled against the Government in the 'McCloud/Sargeant' judgement which found that the transitional protection arrangements put in place when the firefighters' and judges' pensions schemes were reformed were age discriminatory. The ruling potentially has implications for all public sector schemes which were reformed around the same time and could lead to members who were discriminated against being compensated.

The Government applied to the Supreme Court for permission to appeal this judgement. On 27 June 2019, the Supreme Court denied this request for an appeal.

MHCLG published its McCloud consultation for the LGPS (in England and Wales) on 16 July 2020 setting out proposed changes aimed at removing the unlawful age discrimination in the LGPS. The consultation closed on 8 October 2020 but has not yet published its consultation response.

Although it is unknown what impact this will have on future employer pension contributions at this stage, the Pension Fund's Actuary had calculated a potential IAS 19 account liability of 2.75% of pensionable pay for 2019/20 which had been included in the current service cost for that year. Where an additional liability arises relating to past service this will result in increased employer contribution rates in the future. Employer contributions towards future service may also increase if the 'better of both' test is extended beyond members within 10 years of normal pension age at 1 April 2012. No further remeasurements have been carried out for 2020-21

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 between 6 April 2016 and 5 April 2021. The Government has also indicated that it is committed to continuing to compensate all members of public sector pension schemes reached SAP after 5 April 2021.

On 7 October 2020 MHCLG 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 expectation is that full indexation will extend until at least April 2024 with conversion to be brought in as a longer term option.

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, it is unknown if there will be a blanket exemption on the application of this ruling to public sector schemes. The Pension Actuaries have not made any allowance for a potential liability resulting from this ruling in the accounting figures for this financial year.

Note 20: Usable Reserves

	Note	31 March 2020 £000	31 March 2021 £000
General Fund Balance		(21,232)	(7,894)
Earmarked Reserves	21	(12,372)	(11,452)
Capital Receipts Reserve		(8,889)	-
Capital Grants Unapplied Reserve		(13,224)	(23,686)
Total		**(55,717)**	**(43,032)**

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 2019	Transfers Out 2019/20	Transfers In 2019/20	Balance at 31 March 2020	Transfer to NTCA 1 April 2020	Transfers Out 2020/21	Transfers In 2020/21	Balance at 31 March 2021
	£000	£000	£000	£000	£000	£000	£000	£000
Metro Reinvigoration Reserve	(5,108)	-	(42)	**(5,150)**	**-**	-	(14)	(5,164)
Metro Fleet Replacement Reserve	(3,730)	-	(1,895)	**(5,625)**	**-**	-	(16)	(5,641)
North East LEP Restricted Cashable Reserve - RGF Interest	(934)	232	(628)	**(1,330)**	**1,330**	-	-	-
North East LEP Restricted Cashable Reserve - GPF Loan Repayments	-	609	(876)	**(267)**	**267**	-	-	-
Transforming Cities Fund Support	(20)	20	-	**-**	**-**	-	-	-
Metro and Rail Studies	-	-	-	**-**	**-**	-	(389)	(389)
Nexus contribution to Bus Partnership Project	-	-	-	**-**	**-**	-	(258)	(258)
Total	**(9,792)**	**861**	**(3,441)**	**(12,372)**	**1,597**	**-**	**(677)**	**(11,452)**

Note 22: Unusable Reserves

Summary

	31 March 2020 £000	31 March 2021 £000
Capital Adjustment Account	(68,818)	(53,027)
Financial Instruments Adjustment Account	3,092	309
Revaluation Reserve	(4,538)	(4,436)
Pension Reserve	840	870
Total	**(69,424)**	**(56,284)**

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.

	2019/20 £000	2020/21 £000
Opening Balance 1 April	**(67,448)**	**(68,819)**
Transferred to the NTCA	**-**	**16,282**
Reversal of items relating to capital expenditure debited or credited to the CIES:		
Charges for depreciation and impairment of non current assets	2,317	2,402
Other income that cannot be credited to the General Fund	(2,837)	(2,824)
Revenue expenditure funded from capital under statute	37,538	10,391
Write down of long term debtors	5,560	841
Adjusting amounts written out of the Revaluation Reserve	**(81)**	**(102)**
Capital financing applied in the year:		
Capital grants and contributions credited to the CIES that have been applied to capital financing	(40,389)	(8,947)
Statutory provision for the financing of capital investment	(964)	(1,391)
Capital expenditure charged against the General Fund	(5)	(19)
Debt redeemed using capital receipts	(2,510)	(841)
Balance at 31 March	**(68,819)**	**(53,027)**

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.

	2019/20	2020/21
	£000	£000
Opening Balance 1 April	**3,681**	**3,092**
Transferred to the NTCA	**-**	(2,558)
Proportion of premiums incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements	(457)	(225)
finance costs chargeable in the year in accordance with statutory requirements	(132)	-
Balance at 31 March	**3,092**	**309**

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.

	2019/20	2020/21
	£000	£000
Opening Balance 1 April	**(4,619)**	**(4,538)**
Difference between fair value depreciation and historical cost depreciation written off to the CAA	81	102
Balance at 31 March	**(4,538)**	**(4,436)**

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.

	2019/20	2020/21
	£000	**£000**
Opening Balance 1 April	**900**	**840**
Remeasurements of the net defined benefit liability (asset)	(870)	360
Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the CIES	860	(280)
Employer's pension contributions and direct payments to pensioners payable in the year	(50)	(50)
Balance at 31 March	**840**	**870**

Note 23: Capital Expenditure and Capital Financing

	2019/20 £000	2020/21 £000
Opening Capital Financing Requirement 1 April	**107,602**	**102,866**
Capital Investment		
Property, Plant and Equipment	1,594	717
Revenue Expenditure Funded from Capital Under Statute	37,538	10,391
Sources of Finance		
Capital receipts - repayment of principal from long term debtors	(2,510)	(841)
Government Grants and other contributions	(40,389)	(8,947)
Sums set aside from revenue		
Direct revenue contributions	(5)	(19)
Minimum Revenue Provision	(964)	(975)
Additional Voluntary Provision	-	(416)
Closing Capital Financing Requirement 31 March	**102,866**	**102,776**
Decrease in underlying need to borrow (unsupported by government financial assistance)	**(4,736)**	**(90)**

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

	2019/20 £000	2020/21 £000
Surplus/(Deficit) on the provision of services	9,988	16,673
Adjustments to Surplus/(Deficit) on Provision of Services for Non-Cash Movements		
Depreciation and Impairment	2,317	2,402
(Increase)/Decrease in Creditors	(11,144)	(86)
Increase/(Decrease) in Debtors	3,677	17,067
Movement in Pension Liability	810	(330)
Other non-cash items charged to the net surplus or deficit on the provision of services	(2,853)	(3,053)
	(7,193)	**16,000**
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	(41,940)	(25,271)
Net cash flow from operating activities	**(39,145)**	**7,402**

The cash flows for operating activities include the following items:

	2019/20 £000	2020/21 £000
Interest received	2,224	963
Interest paid	(4,196)	(4,057)

Note 25: Cash Flow Statement - Investing Activities

	2019/20 £000	2020/21 £000
Purchase of property, plant and equipment, investment property and intangible assets	(1,596)	150
Purchase of short-term and long-term investments	(101,107)	(41,592)
Proceeds from short-term and long-term investments	101,107	65,445
Other receipts from investing activities	48,632	27,737
Net cash flows from investing activities	**47,036**	**51,740**

Note 26: Cash Flow Statement - Financing Activities

	2019/20 £000	2020/21 £000
Repayments of short and long-term borrowing	2,406	(838)
Net cash flows from financing activities	**2,406**	**(838)**

Note 26a: Reconciliation of liabilities arising from Financing Activities

	1 April 2020	Financing Cash Flows	Changes which are not financing cash flows		31 March 2021
			Acquisition	Other	
	£000	£000	£000	£000	£000
Long term borrowings	(95,071)	796			(94,275)
Short term borrowings	(1,298)			24	(1,274)
Total Liabilities from financing activities	**(96,369)**	**796**	**-**	**24**	**(95,549)**

	1 April 2019	Financing Cash Flows	Changes which are not financing cash flows		31 March 2020
			Acquisition	Other	
	£000	£000	£000	£000	£000
Long term borrowings	(92,685)	(2,386)	-	-	(95,071)
Short term borrowings	(1,288)	-	-	(10)	(1,298)
Total Liabilities from financing activities	**(93,973)**	**(2,386)**	**-**	**(10)**	**(96,369)**

Note 27: Accounting Standards Issued, Not Yet Adopted

Impact of the adoption of new accounting standards on the 2020/21 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 2022. Work to date has shown that NECA leases identified will not have a material effect on the 2021/22 statements.

IFRS 17 Insurance Contracts sets out the requirements for local authorities reporting information about insurance contracts it issues and reinsurance contracts it holds. The amendments are aimed at helping local authorities implement the Standard and making it easier for them to explain their financial performance. The amendments are effective from annual reporting periods beginning on or after 1 January 2023.

The following amendments have been made to the IFRS Standards and are effective from 1 January 2020.

Definition of a Business: Amendments to IFRS 3 Business Combinations determines whether an acquired set of activities and assets is a business or not. It clarifies the minimum requirements to be a business, remove the assessment of a market participant's ability to replace missing elements and narrow the definition of outputs.

Interest Rate Benchmark Reform: Amendments to IFRS9, IAS 39 and IFRS 7 enable users of financial statements to understand how the uncertainty arising from interest rate benchmark reform affects an entity's hedging relationships. These amendments provide temporary exceptions to specific hedge relationships solely due to the uncertainty arising from the reform.

Interest Rate Benchmark Reform - Phase 2: Amendments to IFRS9, IAS 39, IFRS 7 IFRS 4 and IFRS 16 do not supersede the Phase 1 amendments. The amendments are applied retrospectively and include the potential reinstatements of hedge relationships that were discontinued solely due to changes directly required by the reform.

Most of these standards will not apply to the Authority or the Group. For those that do apply, they are not anticipated to have a material impact on the financial statements.

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 2021 for which there is a risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the 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 2021 and the projected service cost for the year ending 31 March 2022 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 £46.29m, a variance of £0.61m, whereas a decrease of (0.1%) p.a. results in an increase to £47.56m, a variance of £0.66m. The percentage change in the present value of the total obligation would be (1.3%) and 1.4% 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 £0.61m to £47.51m, whereas a decrease of (0.1%) p.a. results in a decrease to £46.29m, a variance of £0.61m. The percentage change in the present value of the total obligation would be 1.3% and (1.3%) 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 £48.59m, an increase of £1.69m, whereas an adjustment of +1 year results in a reduction to £45.26m, a variance of £3.5m. The percentage change in the present value of the total obligation would be 3.6% and (3.5%) respectively.
Government Funding	There is no certainty about the amount of government funding for Local Authorities until the outcome of the Comprehensive Spending Review is known in 2021	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

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 2022/23	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
Brexit	The outcome of Brexit negotiations has implications for each local authority in the sense that any subsequent volatility in stock markets, exchange rates, interest rates and future availability of funding could potentially impact on amounts disclosed within the financial statements.	Areas impacted could include: - The availability of grant funding and impact on other funding streams. - The fair value of long-term borrowing (but not the principal sum or interest payable). - The liability related to defined benefit pension schemes, which is dependent on a large number of factors including investment performance, bond yields and inflation. - Unusable reserves - any movement in the liability related to defined benefit pension schemes will be offset within unusable reserves.

Covid-19	The exact consequences of the outbreak of the Covid-19 virus are currently unknown. Some possible areas of concern are:- - Possible reduction in Government Funding to Local Authorities - Possible reduction in income from the Tyne Tunnels due to changes in working practices and Government guidelines - Pension Scheme Assets	Possibility of Local Authorities reducing their spend on Transport related services / schemes as they prioritise services. This would lead to a reduction of levy income. Reduction of Tunnel use due to employers' new ways of working, which would, in turn, reduce the income from the Tunnels This would impact on the finances of the company who run the Tunnels on behalf of the authority. The Authority's net pensions liability includes a share of the overall Pension Fund investment assets. The Pension Fund has disclosed an uncertainty, due to Covid-19, in respect of mortality rates and the impact of longevity for the Fund's members which could be positive or negative.

Note 30: Accounting Policies

1. General Principles

The Statement of Accounts summarises the Authority's transactions for 2020/21 financial year and its position at the year-end of 31 March 2021. 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 2020/21, 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

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 eon 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
- Revalueation 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 2020/21

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:

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

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

- Current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the 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

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

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

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

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

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

The following useful economic lives are used for NECA's PPE assets: Tyne Tunnels 120 years, Tunnels Vehicles, Plant and Equipment 30 years.

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

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

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

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

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

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

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

De Minimis Levels

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

Impairment

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

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

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

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

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss 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 2020, 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. Public Private Partnership (PPP) Contracts

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

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

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

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

In most arrangments within the scope of the Application, the grantor will account for the arrangement's financing by recording and measuring a long term liability in 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.

15. Provisions

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

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

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

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

16. Contingent Liabilities

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

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

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts. There are no contingent liabilities disclosed in 2020/21.

17. Reserves

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

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

18. Revenue Expenditure Funded from Capital under Statute

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

19. VAT

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

20. Overheads

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

21. Tyne Tunnels Income

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

22. Group Accounts

NECA is required by the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 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 2019/20 accounts, NECA has fully complied with the requirements of the Code, providing Group figures for 2019/20 and comparators for 2018/19. 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.

23. 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.

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. No such events have taken place.

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 2019 carried forward		**(46,798)**	**(67,485)**	**(114,283)**	**(245,804)**	**(360,087)**
Total Comprehensive Income and Expenditure		(9,988)	(870)	**(10,858)**	(18,084)	(28,942)
Adjustments between accounting basis & funding basis under regulations		1,068	(1,068)	-	-	-
(Increase)/Decrease in 2019/20		**(8,920)**	**(1,938)**	**(10,858)**	**(18,084)**	**(28,942)**
Balance at 31 March 2020 carried forward		**(55,718)**	**(69,423)**	**(125,141)**	**(263,888)**	**(389,029)**
Transfer of Services to the NTCA at 1 April 2020		**28,415**	**13,724**	**42,138**	**-**	**42,138**
Total Comprehensive Income and Expenditure		(16,673)	360	**(16,313)**	(6,879)	(23,193)
Adjustments between accounting basis & funding basis under regulations		943	(943)	-	-	-
(Increase)/Decrease in 2020/21		**(15,730)**	**(583)**	**(16,313)**	**(6,879)**	**(23,193)**
Balance at 31 March 2021 carried forward		**(43,033)**	**(56,282)**	**(99,316)**	**(270,767)**	**(370,084)**

3.2 Group Comprehensive Income and Expenditure Statement

2019/20					2020/21		
Gross Expenditure	Gross Income	Net Expenditure		Note	Gross Expenditure	Gross Income	Net Expenditure
£000	£000	£000			£000	£000	£000
			Continuing NECA Services				
1,341	(597)	744	Corporate		574	(781)	(207)
290	(290)	-	Skills		-	-	-
143	-	143	Transport - Retained Levy Budget		73	-	73
15,552	-	15,552	Transport - Durham		15,456	-	15,456
95,268	(44,887)	50,381	Transport - Tyne and Wear		102,107	(47,022)	55,085
9,983	(13,609)	(3,626)	Transport - Other		7,576	(27,606)	(20,030)
14,250	(18,719)	(4,469)	Transport - Tyne Tunnels		13,267	(14,234)	(967)
-	-	-	Covid-19 Grants		3,878	(3,878)	-
136,827	**(78,102)**	**58,725**	**Cost of Services relating to continuing services excluding operations transferred to the NTCA**		**142,931**	**(93,520)**	**49,411**
375	(161)	214	Inward Investment		-	-	-
23,562	(26,053)	(2,491)	Local Growth Fund Programme		-	-	-
3,680	(3,752)	(72)	North East Local Enterprise Partnership		-	-	-
27,617	**(29,966)**	**(2,349)**	**Cost of Services relating to services transferred to the NTCA**		**-**	**-**	**-**
164,444	**(108,068)**	**56,376**	**Cost of Services**		**142,931**	**(93,520)**	**49,411**
			Financing and Investment Income and Expenditure	G03			
5,373	(1,058)	4,315	- From continuing services		9,039	(4,195)	4,844
-	(761)	(761)	- From services transferred to the NTCA		-	-	-
			Taxation and Non-Specific Grant Income	G04			
-	(74,763)	(74,763)	- From continuing services		-	(81,465)	(81,465)
-	(2,151)	(2,151)	- From services transferred to the NTCA		-	-	-
		116	**(Gain)/Loss on disposal or derecognition of non-current assets**				**-**
		(16,868)	**(Surplus)/Deficit on Provision of Services**				**(27,210)**
		(437)	**Taxation of Group Entities**				**(311)**
		(17,305)	**Group (Surplus)/Deficit**				**(27,521)**
		(10,648)	Re-measurement of the defined benefit liability	G12			4,331
		(988)	Gains on Revaluation of Property	G06			-
		(11,636)	**Other Comprehensive Income and Expenditure**				**4,331**
		(28,941)	**Total Comprehensive Income and Expenditure**				**(23,191)**

3.3 Group Balance Sheet

31 March 2020 £000		Note	31 March 2021 £000
479,019	Property, Plant and Equipment	G6	492,886
2,501	Intangible Assets	G7	2,974
12,321	Long Term Debtors	G8	-
1	Long Term Investments	G8	1
493,842	**Long Term Assets**		**495,860**
58,236	Short Term Investments	G8	34,383
17,008	Short Term Debtors	G9	14,806
38,685	Cash and Cash Equivalents	G10	52,493
2,007	Inventories		504
115,936	**Current Assets**		**102,185**
(1,298)	Short Term Borrowing	G8	(1,274)
(28,118)	Short Term Creditors	G11	(26,065)
(891)	Grants Receipts in Advance	G5	(3,356)
(2,837)	New Tyne Crossing Deferred Income		(2,824)
(33,144)	**Current Liabilities**		**(33,519)**
(48,224)	New Tyne Crossing Deferred Income		(45,184)
(95,072)	Long Term Borrowing	G8	(94,276)
(39,251)	Pension Liability	G12	(50,015)
(2,898)	Provisions		(3,152)
(2,161)	Deferred Taxation	G13	(1,816)
(187,606)	**Long Term Liabilities**		**(194,443)**
389,028	**Net Assets**		**370,083**
(76,530)	Usable Reserves	G14	(71,372)
(312,498)	Unusable Reserves	G15	(298,711)
(389,028)	**Total Reserves**		**(370,083)**

Chief Finance Officer Certificate

I certify that the accounts set out on pages 79 to 109 give a true and fair view of the financial position of the North East Combined Authority Group as at the 31 March 2021.

Signed: Paul Darby, Chief Finance Officer

3.4 Group Cash Flow Statement

2019/20 £000		Note	2020/21 £000
16,868	Surplus/(Deficit) on the provision of services	G16	27,211
23,586	Adjustments to net surplus or deficit on the provision of services for non-cash movements	G16	47,919
(69,297)	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	G16	(58,890)
(28,843)	**Net cash flows from Operating Activities**	G16	**16,240**
44,584	Investing Activities	G17	43,089
981	Financing Activities	G18	(3,383)
16,722	**Net (Decrease)/Increase in cash and cash equivalents**		**55,946**
21,964	Cash and cash equivalents at the beginning of the reporting period		38,685
-	Transfer to the NTCA		(42,138)
38,686	**Cash and cash equivalents at the end of the reporting period**	G10	52,493

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 2020/21, 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 on page 70 of the single entity accounts.

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

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

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

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 on page 8.

Note G02: Expenditure and Funding Analysis

	2020/21				
	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	93	-	(300)	-	(207)
Skills	-	-	-	-	-
Transport - Retained Levy Budget	361	(288)	-	-	73
Transport - Durham	15,456	-	-	-	15,456
Transport - Tyne and Wear	24,178	16,352	14,568	-	55,098
Transport - Other	(6,001)	(14,029)	-	-	(20,030)
Transport - Tyne Tunnels	736	(1,653)	(50)	-	(967)
Covid-19 Grants	-	-	-	-	-
Cost of services	**34,824**	**382**	**14,218**	**-**	**49,423**
Other Income and Expenditure	(41,443)	(34,952)	-	(225)	**(76,621)**
(Surplus)/Deficit on Provision of Services	**(6,620)**	**(34,571)**	**14,218**	**(225)**	**(27,198)**
Opening General Fund Balances	(54,418)				
Transfer of services to NTCA 1 April 2020	13,664				
Closing General Fund Balances	**(47,374)**				

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.

	2019/20				
	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	(96)	-	840	-	744
Inward Investment	214	-	-	-	214
Local Growth Fund Programme	(797)	(1,694)	-	-	(2,491)
North East Local Enterprise Partnership	(72)	-	-	-	(72)
Skills	-	-	-	-	-
Transport - Retained Levy Budget	438	(295)	-	-	143
Transport - Durham	15,552	-	-	-	15,552
Transport - Tyne and Wear	22,363	12,644	15,374	-	50,381
Transport - Other	(1,349)	(2,277)	-	-	(3,626)
Transport - Tyne Tunnels	(3,184)	(1,235)	(50)	-	(4,469)
Cost of services	**33,068**	**7,143**	**16,164**	**-**	**56,376**
Other Income and Expenditure	(46,755)	(28,339)	1,014	399	**(73,681)**
(Surplus)/Deficit on Provision of Services	**(13,687)**	**(21,196)**	**17,178**	**399**	**(17,305)**
Opening General Fund Balances	(44,067)				
Transfer from Capital Receipts Reserve	3,336				
Closing General Fund Balances	**(54,418)**				

Note G02a: Income and Expenditure Analysed by Nature

	2019/20 £000	2020/21 £000
Expenditure		
Employee benefit expenses	31,879	23,253
Other service expenses	77,150	94,071
Support Services Recharges	-	2,940
Depreciation, impairment and Revenue Expenditure Funded from Capital Under Statute (REFCUS)	55,531	23,263
Interest payments	5,372	5,238
Total expenditure	**169,932**	**148,765**
Income		
Fees, charges and other service income	(44,513)	(23,509)
Interest and investment income	(1,818)	(414)
Income from business rates on enterprise zones	(2,151)	-
Income from transport levy	(49,598)	(49,350)
Government grants and contributions	(85,333)	(99,972)
Other income	(3,388)	(2,732)
Total income	**(186,801)**	**(175,977)**
Surplus/Deficit on the provision of services	**(16,869)**	**(27,212)**

Note G03: Financing and Investment Income and Expenditure

	Note	2019/20		2020/21
		Continuing Services	Services transferred to NTCA	
			£000	£000
Interest Payable and Similar Charges		4,358	-	4,211
Interest Payable on defined benefit liability	G12	1,014	-	1,027
Interest Receivable and similar income		(1,058)	(761)	(394)
Total		**4,314**	**(761)**	**4,844**

Note G04: Taxation and Non-Specific Grant Income

	Note	2019/20		2020/21
		Continuing Services	Services transferred to NTCA	
			£000	£000
Transport Levy		(49,598)	-	(49,349)
Enterprise Zones Income		-	(2,151)	-
Non-Specific Capital Grants		(25,165)	-	(32,115)
Total		**(74,763)**	**(2,151)**	**(81,464)**

Note G05: Grant Income

		2019/20		2020/21
		Continuing Services	Services transferred to NTCA	
			£000	£000
LEP Core and Capacity Grant		-	(500)	-
Growth Hub		-	(442)	-
Local Authority Contributions to NECA		(352)	-	(161)
Local Authority Contribution to North East LEP		-	(253)	-
Local Growth Fund			(28,063)	(679)
Local Transport Plan		(7,770)		(7,736)
European Grants		-	(979)	(176)
North East Smart Ticketing Initiative		(202)		(113)
Transforming Cities Fund		(5,516)		(13,907)
LEP Local Industrial Strategy Grant		-	(224)	-
Office for Low Emission Vehicles		(302)		(70)
COVID-19		-	-	(23,371)
Other Grants		(1,527)	(1,082)	(6,449)
Metro Rail Grant		(14,534)	-	(14,746)
Heavy Rail Grant		(144)	-	(146)
Nexus Non-Specific Grants		(23,444)	-	(31,374)
Total		**(53,791)**	**(31,543)**	**(98,928)**

Note G06: Property, Plant and Equipment

	2020/21					
	Vehicles, Plant, Furniture & Equipment £000	Infrastructure Assets £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 2020	21,210	633,935	25,743	1,957	682,845	219,356
Additions	-	528	36,354	-	36,882	528
Transfers from Assets Under Construction	677	26,727	(27,404)	-	-	-
Transfers to Intangibles	-	-	-	-	-	-
Derecognition - Disposals	(1,679)	(2,702)	(25)	(193)	(4,599)	-
Revaluation Recognised in Revaluation Reserve	-	-	-	-	-	-
Impairment recognised in the Surplus/Deficit on the Provision of Services	-	(20)	-	-	(20)	(20)
Other Adjustments	-	(2,148)	-	-	(2,148)	(865)
At 31 March 2021	**20,209**	**656,320**	**34,668**	**1,764**	**712,961**	**218,999**

Accumulated Depreciation and Impairment						
At 1 April 2020	(14,075)	(189,337)	-	(415)	(203,828)	(28,658)
Depreciation charge	(858)	(17,948)	-	(23)	(18,829)	(2,222)
Derecognition - Disposals	675	1,775	-	130	2,580	-
At 31 March 2021	**(14,258)**	**(205,510)**	**-**	**(308)**	**(220,077)**	**(30,880)**

Net Book Value						
At 1 April 2020	**7,135**	**444,598**	**25,743**	**1,541**	**479,018**	**190,698**
At 31 March 2021	**5,950**	**450,810**	**34,668**	**1,455**	**492,884**	**188,119**

	2019/20					
	Vehicles, Plant, Furniture & Equipment £000	Infrastructure Assets £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 2019	20,852	608,268	23,725	969	653,814	209,163
Additions	-	-	31,126	-	31,126	-
Transfers from Assets Under Construction	420	27,516	(27,935)	-	-	10,193
Transfers between categories	-	145	-	(145)	-	-
Transfers to Intangibles	-	-	(824)	-	(824)	-
Derecognition - Disposals	(61)	(1,848)	(349)	-	(2,258)	-
Revaluation Recognised in Revaluation Reserve	-	-	-	988	988	-
At 31 March 2020	**21,210**	**634,081**	**25,743**	**1,812**	**682,846**	**219,356**
Accumulated Depreciation and Impairment						
At 1 April 2019	(13,065)	(173,640)	-	(393)	(187,098)	(26,434)
Depreciation charge	(1,071)	(16,736)	-	(22)	(17,829)	(2,224)
Derecognition - Disposals	61	1,039	-	-	1,101	-
At 31 March 2020	**(14,075)**	**(189,337)**	**-**	**(415)**	**(203,827)**	**(28,658)**
Net Book Value						
At 1 April 2019	**7,787**	**434,628**	**23,725**	**576**	**466,716**	**182,729**
At 31 March 2020	**7,135**	**444,744**	**25,743**	**1,396**	**479,020**	**190,698**

Note G07: Intangible Assets

Intangible assets in the Group Accounts relate wholly to Nexus.

	2019/20 £000	2020/21 £000
Cost or Valuation		
Opening Balance	4,780	5,962
Additions	397	767
Transfers from assets under construction	824	-
Derecognition - Disposals	(39)	(24)
Total	**5,962**	**6,705**
Amortisation		
Opening Balance	(3,297)	(3,461)
Amortisation provided during the period	(164)	(271)
Total	**(3,461)**	**(3,732)**
Net Book Value at 31 March	**2,501**	**2,973**

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 2020	31 March 2021	31 March 2020	31 March 2021	31 March 2020	31 March 2021	31 March 2020	31 March 2021
	£000	£000	£000	£000	£000	£000	£000	£000
Amortised cost	1	1	12,321	-	58,236	34,383	12,653	11,998
Total financial assets	1	1	12,321	-	58,236	34,383	12,653	11,998
Non-financial assets	-	-	-	-	-	-	4,354	2,808
Total	**1**	**1**	**12,321**	**-**	**58,236**	**34,383**	**17,007**	**14,806**

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 Authority.

	Non-current				Current			
	Borrowings		Creditors		Borrowings		Creditors	
	31 March 2020	31 March 2021	31 March 2020	31 March 2021	31 March 2020	31 March 2021	31 March 2020	31 March 2021
	£000	£000	£000	£000	£000	£000	£000	£000
Amortised cost	(95,072)	(94,276)	-	-	(1,298)	(1,274)	(18,458)	(20,094)
Total financial liabilities	(95,072)	(94,276)	-	-	(1,298)	(1,274)	(18,458)	(20,094)
Non-financial liabilities	-	-	-	-	-		(9,570)	(5,946)
Total	**(95,072)**	**(94,276)**	**-**	**-**	**(1,298)**	**(1,274)**	**(28,028)**	**(26,040)**

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 2020				31 March 2021		
£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**
4,358	-	4,358	Interest expense	4,211		4,211
4,358	**-**	**4,358**	**Total expense in Surplus on Provision of Services**	**4,211**	**-**	**4,211**
-	(1,686)	(1,686)	Investment income		(394)	(394)
-	(132)	(132)	Movement on soft loans	-	-	-
-	**(1,818)**	**(1,818)**	**Total income in Surplus on Provision of Services**	**-**	**(394)**	**(394)**
4,358	**(1,818)**	**2,540**	**Net (gain)/loss for the year**	**4,211**	**(394)**	**3,817**

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 2020, 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 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:

	Level	31 March 2020 Carrying amount £000	31 March 2020 Fair value £000	31 March 2021 Carrying amount £000	31 March 2021 Fair value £000
Financial liabilities held at amortised cost	2	(96,370)	(166,167)	(95,550)	(151,970)
Total		**(96,370)**	**(166,167)**	**(95,550)**	**(151,970)**
Financial Assets at amortised cost					
Held to maturity investments		58,236	58,236	34,383	34,383
Loan debtors [1]	3	14,510	14,510	-	-
Total		**72,746**	**72,746**	**34,383**	**34,383**

[1] For details of soft loans held by NECA, please see note 12 of the single entity accounts.

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 2020 £000	31 March 2021 £000
Central Government bodies	10,281	6,153
Other local authorities	6,419	6,221
NHS bodies	2	1
Other entities and individuals	305	2,431
Total	**17,007**	**14,806**

Note G10: Cash and Cash Equivalents

	31 March 2020 £000	31 March 2021 £000
Cash	21,716	34,747
Short-term deposits with financial institutions	16,969	17,746
Total	**38,685**	**52,493**

Note G11: Short Term Creditors

	31 March 2020 £000	31 March 2021 £000
Central government bodies	(1,439)	(3,262)
Other local authorities	(7,844)	(4,392)
Other entities and individuals	(18,835)	(18,387)
Total	**(28,118)**	**(26,041)**

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 pension liability of £57.541m (2020 £39.251m) is the sum of the NECA, Nexus and NEMOL pension liability. The details of the total NEMOL pension liability of £nil (2020 £13.702m) are set out within the NEMOL Annual Report and Accounts using the FRS 101 disclosure framework.

Following the TUPE of employees from Nexus to Stadler Rail Service UK Limited on 4 October 2020, the pension assets and liabilities in connection with active employees have transferred to Stadler. In addition, the remaining pension assets and liabilities associated with pensioners and deferred members in NEMOL have been subsumed by Nexus. In the Nexus Group accounts this has resulted in a one-off gain of £1.839m arising from differences in actuarial assumptions between NEMOL and Nexus. This is presented in the disclosures below as well as in the Comprehensive Income and Expenditure Statement as an exceptional item.

Transactions Relating to Post-employment Benefits

The following transactions relating to the 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	
	2019/20	2020/21	2019/20	2020/21
	£000	£000	£000	£000
Cost of Services:				
Current service cost [1]	8,222	9,535	-	-
Past service cost	65	-	-	-
Settlement cost	-	(620)		-
Exceptional loss on transfer of pension liability	1,693	(992)	-	-
Financing and Investment Income and Expenditure				
Interest cost	5,086	976	65	53
Expected Return on Scheme Assets	(4,137)	-	-	-
Total Post-Employment benefit charged to the Surplus or Deficit on the Provision of Services	**10,929**	**8,900**	**65**	**53**
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	(14,941)	30,432	-	-
Remeasurement of the net Defined Benefit Liability	10,789	(38,227)	(325)	127
Adjustment in respect of paragraph 58	(6,170)	4,330	-	-
Total amount recognised in Other Comprehensive Income and Expenditure	**(10,322)**	**(3,465)**	**(325)**	**127**
Total amount recognised in CIES	**607**	**5,435**	**(260)**	**180**

1. The Current Service cost includes an allowance for administration expenses of £0.01m for NECA and £0.170m for the Nexus Group (of which £0.094m attributable to NECA).

Reconciliation of the Present Value of Scheme Liabilities:

	LGPS		Discretionary Benefits	
	2019/20	2020/21	2019/20	2020/21
	£000	£000	£000	£000
Opening balance at 1 April	**(251,679)**	**(271,818)**	**(2,880)**	**(2,381)**
Current service cost	(8,206)	(9,537)	-	-
Interest cost	(6,016)	(5,725)	(65)	(53)
Contributions by participants	(1,680)	(1,678)	-	-
Remeasurement of the net Defined Benefit liability	(10,789)	(47,487)	325	(200)
Net benefits paid out	8,312	6,600	239	227
Past service costs	(67)	-	-	-
Net (increase)/decrease in liabilities from NEMOL/Stadler transfer	(1,693)	(30)	-	-
Closing balance at 31 March	**(271,818)**	**(329,645)**	**(2,381)**	**(2,407)**

Reconciliation of the Fair Value of the Scheme Assets:

	LGPS		Discretionary Benefits	
	2019/20	2020/21	2019/20	2020/21
	£000	£000	£000	£000
Opening balance at 1 April	**220,326**	**237,768**	**-**	**-**
Interest income on assets	5,279	4,819	-	-
Remeasurement gains/(losses) on assets	14,940	47,742	-	-
Employer contributions	3,855	2,118	239	227
Contributions by scheme participants	1,680	1,678	-	-
Net benefits paid out	(8,312)	(6,600)	(239)	(227)
Settlement costs	-	(880)	-	-
Net decrease in assets from Stadler transfer	-	(8,562)	-	-
Closing balance 31 March	**237,768**	**278,083**	**-**	**-**

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	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000
Fair value of LGPS assets	**271,850**	**335,520**	**220,327**	**237,767**	**278,083**
Present value of liabilities:					
- LGPS liabilities	(301,460)	(395,160)	(251,678)	(271,818)	(320,120)
- Impact of minimum funding	(7,460)	(7,030)	(8,780)	(2,820)	(5,650)
Deficit on funded defined benefit scheme	**(37,070)**	**(66,670)**	**(40,131)**	**(36,871)**	**(47,687)**
Discretionary benefits	(5,130)	(4,870)	(2,880)	(2,380)	(2,406)
Total (Deficit)	**(42,200)**	**(71,540)**	**(43,011)**	**(39,251)**	**(50,092)**

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

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

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

The liabilities show the underlying commitments that the Authority has in the long run to pay post employment (retirement) benefits. The total liability of £328.351m has an impact on the net worth of the Authority recorded on the balance sheet, resulting in a negative pension balance of £57.541m. 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 2021 is nil for NECA, £3.600m for Nexus (of which £1.996m is attributable to NECA) and nil for NEMOL. Additional contributions may also become due in respect of any employer discretions to enhance members' benefits in the Fund over the next accounting period.

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 2019.

The principal assumptions used by the actuary have been:

NECA and Nexus	**LGPS**		**Discretionary Benefits**	
	2019/20	**2020/21**	**2019/20**	**2020/21**
Mortality assumptions:				
Longevity at 65 for current pensioners:				
Men	21.8	21.9	21.8	21.9
Women	25.0	25.1	25.0	25.1
Longevity at 65 for future pensioners:				
Men	23.5	23.6	n/a	n/a
Women	26.8	26.9	n/a	n/a
Rate for discounting scheme liabilities	2.3%	2.1%	2.3%	2.1%
Rate of inflation - Retail Price Index	n/a	n/a	n/a	n/a
Rate of inflation - Consumer Price Index	2.0%	2.7%	2.0%	2.7%
Rate of increase in pensions	2.0%	2.7%	2.0%	2.7%
Pension accounts revaluation rate	2.0%	2.7%	n/a	n/a
Rate of increase in salaries	3.5%	4.2%	n/a	n/a

NEMOL	**LGPS**	
	2019/20	**2020/21**
Mortality assumptions:		
Longevity at 65 for current pensioners:		
Men	21.8	21.9
Women	25.0	25.1
Longevity at 65 for future pensioners:		
Men	23.5	23.6
Women	26.8	26.9
Rate for discounting scheme liabilities	2.3%	1.6%*
Rate of inflation - Retail Price Index	n/a	n/a
Rate of inflation - Consumer Price Index	1.9%	2.2%*
Rate of increase in pensions	1.9%	2.2%*
Pension accounts revaluation rate	1.9%	2.2%*
Rate of increase in salaries	3.4%	3.7%*

* At date of transfer (4 October 2020)

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

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

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

Actual Return on Assets

	Local Government Pension Scheme	
	2019/20	**2020/21**
	£000	**£000**
Interest Income on Assets	5,279	3,799
Remeasurement gain/(loss) on assets	14,940	32,520
Actual Return on Assets	**20,219**	**36,319**

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 2021 and the projected cost for the period ending 31 March 2022 is set out below. In each case, only the assumption mentioned is altered; all other assumptions remain the same and are summarised above. The NEMOL sensitivity analysis, data summary and pensioner numbers are set out within the NEMOL Annual Report.

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)	480.66	489.97	499.28
% change in present value of total obligation	-1.90%		1.90%
Projected service cost (£M)	18.25	18.89	19.55
Approximate % change in projected service cost	-3.40%		3.50%

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)	491.93	489.97	488.50
% change in present value of total obligation	1.40%		-0.30%
Projected service cost (£M)	18.89	18.89	18.89
Approximate % change in projected service cost	0.00%		0.00%

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	497.32	489.97	482.13
% change in present value of total obligation	1.60%		-1.60%
Projected service cost (£M)	19.55	18.89	18.25
Approximate % change in projected service cost	-3.40%		3.50%

Post retirement mortality assumption	**-1 year**	**Base Figure**	**+1 year**
Adjustment to mortality age rating assumption *			
Present value of total obligation (£M)	506.61	489.97	472.82
% change in present value of total obligation	3.60%		-3.50%
Projected service cost (£M)	19.68	18.89	18.12
Approximate % change in projected service cost	4.20%		-4.10%

* 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:

	2019/20 £000	2020/21 £000
Capital Allowances	(312)	153
Roll over relief on capital gains	-	-
Other timing differences	(105)	49
Tax effect of losses	-	(539)
Total	**(417)**	**(337)**

The balance at the year end comprises:

	31 March 2020 £000	31 March 2021 £000
Excess of capital allowances over depreciation	(1,580)	(1,580)
Roll over relief on capital gains	(687)	(687)
Other timing differences	105	115
Tax effect of losses	-	-
Total	**(2,162)**	**(2,152)**

Note G14: Usable Reserves

	31 March 2020 £000	31 March 2021 £000
General Fund Balance	(49,684)	(36,599)
Earmarked Reserves	(12,372)	(10,776)
Capital Receipts Reserve	(8,889)	-
Capital Grants Unapplied Reserve	(13,224)	(23,686)
Pensions (NEMOL)	7,638	-
Total	**(76,531)**	**(71,061)**

Note G15: Unusable Reserves

Summary

	31 March 2020 £000	31 March 2021 £000
Capital Adjustment Account	(341,308)	(343,375)
Financial Instruments Adjustment Account	3,093	309
Revaluation Reserve	(5,908)	(5,805)
Pension Reserve	31,625	50,161
Total	**(312,498)**	**(298,711)**

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
- 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 2019	**(5,000)**
Difference between fair value depreciation and historical cost depreciation written off to the CAA	81
Revaluation Gain recognised in Revaluation Reserve	(988)
Balance at 31 March 2020	**(5,907)**
Difference between fair value depreciation and historical cost depreciation written off to the CAA	102
Revaluation Gain recognised in Revaluation Reserve	-
Balance at 31 March 2021	**(5,805)**

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 2019	**25,095**
Remeasurements of the net defined benefit liability to 31 March 2020	(10,648)
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 2020	11,784
Employer's pension contributions and direct payments to pensioners to 31 March 2020	(2,724)
NEMOL pension transfer	8,118
Balance at 31 March 2020	**31,625**
Remeasurements of the net defined benefit liability to 31 March 2021	4,331
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 2020	16,435
Employer's pension contributions and direct payments to pensioners to 31 March 2020	(2,229)
NEMOL pension transfer	-
Balance at 31 March 2021	**50,160**

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 2019	**(325,619)**
Reversal of items relating to capital expenditure debited or credited to the CIES:	
Charges for depreciation and impairment of non current assets	17,019
Other income that cannot be credited to the General Fund	(2,837)
Revenue expenditure funded from capital under statute	37,538
Write down of long term debtors	5,560
Non Current Assets written off on disposal	988
Adjusting amounts written out of the Revaluation Reserve	**(81)**
Capital financing applied in the year:	
Capital grants and contributions credited to the CIES that have been applied to capital financing	(68,339)
Statutory provision for the financing of capital investment	(964)
Capital expenditure charged against the General Fund	(2,063)
Debt redeemed using capital receipts	(2,510)
Balance at 31 March 2020	**(341,308)**
Transfer to NTCA	**16,282**
Reversal of items relating to capital expenditure debited or credited to the CIES:	
Charges for depreciation and impairment of non current assets	18,300
Other income that cannot be credited to the General Fund	(2,824)
Revenue expenditure funded from capital under statute	10,391
Write down of long term debtors	841
Non Current Assets written off on disposal	2,028
Adjusting amounts written out of the Revaluation Reserve	**(102)**
Capital financing applied in the year:	
Capital grants and contributions credited to the CIES that have been applied to capital financing	(43,158)
Statutory provision for the financing of capital investment	(1,391)
Capital expenditure charged against the General Fund	(1,593)
Debt redeemed using capital receipts	(841)
Balance at 31 March 2020	**(343,375)**

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

	2019/20 £000	2020/21 £000
Surplus/(Deficit) on the provision of services	16,868	27,211
Adjustments to Surplus/(Deficit) on Provision of Services for Non-Cash Movements		
Depreciation, Impairment and Amortisation	17,596	19,119
Loss on disposal of non-current assets	1,185	2,043
(Increase)/Decrease in Creditors	(432)	19,973
Increase/(Decrease) in Debtors	1,044	170
Increase/(Decrease) in Inventories	(361)	1,495
Movement in Pension Liability	6,900	6,606
Other non-cash items charged to the net surplus or deficit on the provision of services	(2,346)	(1,487)
	23,586	**47,919**
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	(69,889)	(60,641)
Other adjustments for items that are financing or investing activities	592	1,751
Net cash flow from operating activities	**(28,843)**	**16,240**

The cash flows for operating activities include the following items:

	2019/20 £000	2020/21 £000
Interest received	2,224	963
Interest paid	(4,196)	(4,057)

Note G17: Cash Flow Statement - Investing Activities

	2019/20 £000	2020/21 £000
Purchase of property, plant and equipment, investment property and intangible assets	(31,207)	(36,794)
Purchase of short-term and long-term investments	(101,107)	(41,592)
Other payments for investing activities	-	-
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	11	-
Proceeds from short-term and long-term investments	101,139	61,973
Other receipts from investing activities	75,748	59,502
Net cash flows from investing activities	**44,584**	**43,089**

Note G18: Cash Flow Statement - Financing Activities

	2019/20 £000	2020/21 £000
Repayments of short and long-term borrowing	1,529	(1,679)
Other payments for financing activities	(548)	(1,704)
Net cash flows from financing activities	**981**	**(3,383)**

Note G18a: Reconciliation of liabilities arising from Financing Activities

	1 April 2020	Financing Cash Flows	Changes which are not financing cash flows Acquisition	Other	31 March 2021
	£000	£000	£000	£000	£000
Long term borrowings	(95,072)	796	-	-	(94,276)
Short term borrowings	(1,298)	-	-	24	(1,274)
Total Liabilities from financing activities	**(96,370)**	**796**	**-**	**24**	**(95,550)**

	1 April 2019	Financing Cash Flows	Changes which are not financing cash flows Acquisition	Other	31 March 2020
	£000	£000	£000	£000	£000
Long term borrowings	(92,508)	(2,564)	-	-	(95,072)
Short term borrowings	(1,288)	-	-	(10)	(1,298)
activities	**(93,796)**	**(2,564)**	**-**	**(10)**	**(96,370)**

Note G19: Capital Expenditure and Capital Financing

	£000
	£000
Opening Capital Financing Requirement 1 April 2019	**107,602**
Capital Investment	
Property, Plant and Equipment	31,204
Intangible Assets	397
Revenue Expenditure Funded from Capital Under Statute	37,538
Capital receipts - repayment of principal from long term debtors	(2,510)
Government Grants and other contributions	(68,338)
Sums set aside from revenue	
Direct revenue contributions	(2,063)
Minimum Revenue Provision	(964)
Additional Voluntary Provision	-
Closing Capital Financing Requirement 31 March 2020	**102,866**
assistance)	**(4,736)**

Opening Capital Financing Requirement 1 April 2020	**102,866**
Capital Investment	
Property, Plant and Equipment	36,882
Intangible Assets	779
Revenue Expenditure Funded from Capital Under Statute	10,391
Sources of Finance	
Capital receipts - repayment of principal from long term debtors	(841)
Government Grants and other contributions	(44,317)
Sums set aside from revenue	
Direct revenue contributions	(1,593)
Minimum Revenue Provision	(975)
Additional Voluntary Provision	(416)
Closing Capital Financing Requirement 31 March 2021	**102,776**
assistance)	**(90)**

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.

Appendix 3

ANNUAL GOVERNANCE STATEMENT 2020/21

In partnership with

Durham County Council | Gateshead Council | South Tyneside Council | Sunderland City Council | North East LEP | NEXUS

Annual Governance Statement 2020/21

Section 1: Introduction

This Annual Governance Statement provides an overview of how the North East Combined Authority's governance arrangements operate, including how they are reviewed annually to ensure they remain effective.

Section 2: Scope Of Responsibility

The North East Combined Authority (NECA) was established in April 2014 and brought together the seven councils which serve Durham, Gateshead, Newcastle, North Tyneside, Northumberland, South Tyneside and Sunderland.

Following the establishment of a North of Tyne Mayoral Combined Authority (NTCA), On 2 November 2018 the boundaries of NECA were changed. As a result of these governance changes the boundaries of NECA now cover the Local Authorities of Durham, Gateshead, South Tyneside and Sunderland.

NECA and the NTCA continue to work together on a number of areas to support the region, including transport. To oversee strategic transport functions a new North East Joint Transport Committee has been established with members from both Combined Authorities. All seven Local Authorities will remain members of the North East Local Enterprise Partnership to deliver the objectives of the regions Strategic Economic Plan, which is the North East's plan for growing and developing a more productive, inclusive and sustainable regional economy.

NECA is responsible for ensuring that its business is conducted in accordance with the law and proper standards. It is also responsible for ensuring that public money is safeguarded, properly accounted for and used economically, efficiently and effectively. The Authority also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised.

In discharging this overall responsibility, the Authority's Leadership Board and Statutory Officers are responsible for putting in place proper arrangements (known as a Governance Framework) for:

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

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

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

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

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

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

Section 3: Purpose Of The Governance Framework

In addition to the above the Authority's Governance Framework comprises the systems, processes, culture, values and activities through which we are directed and controlled and through which we account to, engage with, creating the conditions of economic growth and investment. It enables us to monitor the achievement of the Authority's objectives and to consider whether those objectives have led to the delivery of appropriate services which represent value for money.

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

This Annual Governance Statement meets the requirements of the Accounts and Audit Regulations 2015 (Amended 2020) (6) (1) to conduct a review of the effectiveness of the system of internal controls required by Regulation 3 and prepare an Annual Governance Statement.

Section 4: The Governance Framework

The core principles and outcomes of our Governance framework are set out below and through these we will aim to provide strong governance to achieve our objectives:

1. Ensuring openness and comprehensive stakeholder engagement

1.1 We ensure that we are clear on delivering the objectives of the Combined Authority and intended outcomes of our Strategic Economic Plan, January 2019, to create the best possible conditions for growing and developing a more productive, inclusive and sustainable regional economy.

1.2 We ensure we assess and review our vision and the implications for our governance arrangements through the budget and performance management framework.

1.3 Meetings, agendas and minutes are accessible via NECA's website. A Forward Plan is available which contains matters which are expected to be the subject of key decisions taken by the Leadership Board. All meetings are held in public (other than where consideration of confidential or exempt information)

1.4 During the COVID 19 pandemic meetings have been held remotely up until April 2021. The AGM for NECA was held in June 2021 in person in line with the change in Governments Policy.

1.5 We publish a register of key decisions to notify the public of the most significant decisions it is due to take. Details of each decision are included on the Forward Plan 28 days before the report is considered and any decision is taken. This allows an opportunity for people to find out about major decisions that the Combined Authority is planning to take.

1.6 Our Freedom of Information Scheme is published on our website.

1.7 The Authority maintains a list of significant partners which set out the purpose of the partnerships, link officers ad review dates.

1.8 Transport is of strategic importance to the North East and together with the North of Tyne Mayoral Combined Authority a North East Joint Transport Committee has been established bringing together members from both Combined Authorities, allowing effective decision making across the region to ensure that the local needs and transport priorities are delivered.

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

2.1 We have defined and documented in our Constitution the roles and responsibilities of the Board, Scrutiny and 'proper' officer functions (Head of Paid Service, Monitoring Officer, Chief Finance Officer), with clear delegation arrangements and protocols for effective communication. The collective and individual roles and responsibilities of the Leadership Board, Members and Officers have been agreed by the Combined Authority.

2.2 We identify and aim to address the development needs of members and officers in relation to their strategic roles, and support these with appropriate training.

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

3.1 We review and update our standing orders, standing financial instructions, scheme of delegation and supporting procedure notes/manuals – these clearly define how decisions are taken and the processes and controls required to manage risks. We ensure compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful. The Monitoring Officer advises on compliance with our policy framework, ensuring that decision making is lawful, fair and ethical. Our financial management arrangements conform to the CIPFA Statement on the Role of the Chief Finance Officer and are the responsibility of the Chief Finance Officer.

3.2 We develop, communicate and embed codes of conduct set out in the Constitution, defining standards of behaviour for Members and Officers working on behalf of the Authority. Audit and Standards Committee deals with issues of conduct and generally promotes high standards among officers and members, reporting annually to Leadership Board. The Constitution is available on the NECA website.

3.3 We ensure that there are effective arrangements for "Whistle-blowing" and for receiving and investigating complaints from the public. Administration of the Authority's policies on anti-fraud and corruption is undertaken by Internal Audit. Whistleblowing policy and procedure is at Part 6.5 of our Constitution

3.4 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.

3.5 A register of Members' interests (including gifts and hospitality) is also maintained.

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

4.1 Our scrutiny arrangements enhance accountability and transparency of decision making, The Overview and Scrutiny Call-in Sub Committee acts in accordance with the principles of decision making as set out in our Constitution (Part 13.3) and will call-in decisions where there is evidence which suggests that the decision was not taken in accordance with the principles.

4.2 The Authority's procurement procedures are carried out in line with financial regulations set out in Part 5 of the Constitution through Service Level Agreements.

4.3 The Accounts and Transparency page of our website contains the most recent accounts of the North East Combined Authority, and includes monthly spending reports, procurement procedures, lists and registers.

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

5.1 Our Risk Management Policy and Strategy outlines our arrangements for managing risk. Risk management is an integral part of our decision-making processes. To inform decision making all committee reports include a section which highlights the key risks to the decisions or proposed recommendations and how they are being addressed.

5.2 We have an information governance strategy and framework in place to ensure the effective safeguarding, collection, storage and sharing of the Authority's data. A Data Protection Officer has been appointed to oversee the data protection strategy and its implementation to ensure compliance with the General Data Protection Regulations.

5.3 We have arrangements in place to manage significant change evidenced by the establishments of the Combined Authorities Reconfiguration Programme to oversee the implementation of the governance arrangements for NECA following its split with the North of Tyne Authorities.

5.4 The control and financial management arrangements are reviewed by Internal and External Audit throughout the year. The outcome for 2020/21 are noted in Section 5 of this Statement - Annual Review of Effectiveness of Governance Framework.

5.5 The Authority has a robust internal control process in place which supports the achievement of its objectives while managing risks. The Audit and Standards Committee acts as principle advisory committee to NECA, providing independent assurance on the adequacy of the risk management framework and internal control environment.

5.6 An assessment of the overall adequacy and effectiveness of the framework of governance, risk management and control is provided by the Authority's internal auditors. The chief internal auditor will provide an annual opinion for 2020/21 to support this AGS.

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

6.1 The North East LEP works with its partners to produce and deliver the Strategic Economic Plan (SEP). The SEP was updated January 2019 at a time of significant change for the global and national economy. New opportunities in technology and areas such as ageing, and the management of climate risks provide potential for economic growth.

6.2 We incorporate good governance arrangements in our partnerships and reflect these in our overall governance arrangements.

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

7.1 Section 5 of this Annual Governance Statement provides the views of our internal and external auditors. Auditors report regularly to Audit and Standards Committee and provide their annual opinion on the adequacy and effectiveness of our governance, risk and control framework.

7.2 We publish details of [delegated decisions on our website.]

7.3 We ensure that our Audit and Standards Committee undertakes the core functions identified in CIPFA's Audit Committees – Practical Guidance for Local Authorities 2018.

Section 5: Annual Review Of Effectiveness Of Governance Framework

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

The review is informed by:

(a) The views of our internal auditors, reported to Audit and Standards Committee through regular progress reports, and the Annual Internal Audit Opinion. The Annual Internal Audit Opinion for 2020/21 is that the authority has good control arrangements in place. The internal Audit service complies with the CIPFA Statement on the Role of the Head of Internal Audit (2010) and the Public Sector Internal Audit Standards. The service receives a regular independent review against these standards, the last being in December 2018 which concluded:

'We conclude that the IA is compliant with the requirements of the PSIAS and the CIPFA Application Note.'

(b) An annual review of the effectiveness of internal audit (as required by Public Sector Internal Audit Standards).

(c) The views of our external auditors, reported to Audit and Standards Committee through regular progress reports, the Annual Audit Letter and Annual Completion Report.

(d) The activities and operations of the themes (economic development and regeneration, employability & inclusion, and transport & digital connectivity) and significant partnerships through written assurance statements.

(e) The views of the Authority's Monitoring Officer, Chief Finance Officer and Senior Information Risk Owner, through written statements (Appendix 2 of the Annual Governance Review 2020/21 Report).

(f) The views of Members through the ongoing activities of Audit and Standards Committee (providing independent assurance on the effectiveness of the governance and internal control environment). And an Overview and Scrutiny Committee who review and scrutinise Leadership Board decisions as well as other Transport committee's decisions.

(g) The Risk Management process, particularly the Strategic Risk Register.

(h) Performance information which is reported to Leadership Board and other meetings on a regular basis.

(i) The assurance framework that is in place to ensure Local Growth Fund monies are subject to appropriate levels of internal control and are focussed on the delivery of the Combined Authority's objectives and delivery of the Strategic Economic Plan.

(j) An Assurance Statement from Nexus has been obtained and is attached at Appendix 4 of the Annual Governance Statement 2020/21 Report. The opinion of the Nexus Chief Internal Auditor for 2020/21 is "*The opinion of the Chief Internal Auditor (Nexus), based on the internal audit work undertaken in year, is that there is an adequate and effective framework of governance, risk management and control.*"

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

The North East Combined Authority's decision not to proceed with a Mayoral Combined Authority in September 2016 and the withdrawal of the devolution deal has resulted in the seven local authorities that made up a single Combined Authority splitting and forming two combined authorities. This change happened on 2 November 2018. NECA now constitutes the four Local Authority areas south of the River Tyne. The North of Tyne Mayoral Combined Authority now constitutes the three Local Authority's north of the River Tyne, Newcastle, North Tyneside and Northumberland.

Regional transport remains to operate and be governed at the seven Local Authority geography through a newly formed North East Joint Transport Committee, bringing together the two Combined Authorities which allows effective decision-making across the region to ensure that the local needs and transport priorities are delivered.

NECA as accountable body for the Joint Transport Committee and the functions delegated to it, are responsible for overseeing the legal and financial management of all regional transport resources, recognising that the assets are, in many cases jointly owned by the two Combined Authorities. NECA will also host the Transport Strategic Unit (formerly named the Regional Transport Team), including the newly appointed Proper Officer for Transport.

Section 7: Significant Weaknesses In Governance and Internal Control

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

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

Section 8: Conclusion

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

Systems are in place to continually review and improve the governance and internal control environment. Mid-year checks are undertaken to provide assurance that improvements are being implemented and that the assessment is improving.

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

We have been advised on the implications of the review by the Audit and Standards Committee and propose over the coming year to continue to improve our governance and internal control arrangements.

Head of Paid Service	**Chair of the North East Combined Authority**
Full Name:	**Full Name:**
Signature:	**Signature:**
Date:	**Date:**

Appendix 4

North East Combined Authority

DURHAM • GATESHEAD • SOUTH TYNESIDE • SUNDERLAND

Narrative Report for the Year ended 31 March 2021

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 2020/21 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 2021 and its financial position at that date.
- A look ahead to 2021/22 and beyond.

The Statement of Accounts sets out the financial performance of the Authority for the year ending 31 March 2021 and its financial position at that date. They have been prepared in accordance with proper practices as set out in the Chartered Institute of Public Finance & 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 2021/22, 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.

Revenue Financial Summary 2020/21

Revenue expenditure covers the cost of the Authority’s day to day operations and contributions to and from reserves. A summary of NECA expenditure against the budget is set out in the Table 1 below. Expenditure totalling £125.049m was slightly higher than the revenue budget of £124.794m due to slightly higher than forecast payments made to constituent authorities for Covid 19 transport grants. Income received was £118.463m, which resulted in a net deficit to fund from reserves of £6.586m. This was in line with forecasts presented to the Leadership Board and the JTC during the year and included an advance to TT2 Ltd in connection with the Tyne Pass project, funded from Tyne Tunnels reserves.

Table 1: Summary of Revenue Expenditure

	2020/21 Revised Budget	2020/21 Actual	Variance
	£000	£000	£000
Expenditure			
Joint Transport Committee			
- Retained Levy Budget	1,991	1,907	(84)
- Grant to Durham	15,456	15,456	-
- Grant to Nexus	59,000	59,000	-
- Grant to Northumberland	6,224	6,224	-
Tyne Tunnels			
- Contract Payments	13,933	12,717	(1,216)
- TT2 Advance (Tyne Pass)	6,670	6,670	-
- JTC costs	263	457	194
- Financing Costs	6,507	7,428	921
Other Transport Activity			
- Transport Strategy Unit	1,273	1,062	(211)
- Covid Grants	13,211	13,868	657
Corporate/Central Budget	266	260	(6)
Total Expenditure	**124,974**	**125,049**	**255**
Income			
External Grant Funding	(14,114)	(14,655)	(541)
Transport Levies	(82,800)	(82,800)	-
Tolls Income	(20,650)	(20,544)	106
Interest/Investment Income	(80)	(107)	(27)
Contributions from Constituent Authorities	(161)	(161)	-
Other Income	(178)	(196)	(18)
Total Income	**(117,983)**	**(118,463)**	**(480)**
Net Revenue Expenditure to fund from Reserves	**6,811**	**6,586**	**(225)**

This statement provides a comparison of the outturn position with the NECA (including JTC) revised revenue budget for 2020/21, 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 6 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 5 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 a decrease in reserves from £125.141m at 31 March 2020 to £99.316m at 31 March 2021, mainly due to the transfer of reserves relating to the North East LEP to the North of Tyne Combined Authority on 1 April 2020.

The gross cost of services during the year including capital grants to third parties as well as revenue expenditure was £79.781m (£104.772m). 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 £30.325m (£41.510m in 2019/20). This was funded form sources including the Transport Levy, other contributions from Constituent Authorities and Government Grants. The net cost was lower than in 2019/20 because the previous year included income and expenditure relating to the North East LEP which is now accounted for by the NTCA.

The balance of usable reserves at the year-end was £43.032m, which is a £12.685m decrease on the previous year. This is made up of a number of different elements, most of which are held for specific purposes. The decrease is due to the transfer of usable reserves to the NTCA partially offset by an increase in capital grants received which have not yet been applied to fund expenditure (known as the Capital Grants Unapplied reserve) and the creation of new earmarked reserves to hold funds relating to the Bus Partnership and Metro Studies projects.

3. Capital Investment

Capital investment (including Nexus as part of the NECA Group) during the year totalled £83.449m. Expenditure consisted of capital expenditure on the Authority's own assets and capital expenditure via capital grants to third parties. An analysis of capital investment by programme are shown in the following table.

Table 2: Capital Expenditure by Programme

	2020/21 Revised Programme	2020/21 Actual	2020/21 Variance
	£000	£000	£000
Transforming Cities Fund Tranche 1	2,725	1,932	(793)
Transforming Cities Fund Tranche 2	1,517	726	(791)
Go Ultra Low	384	426	42
Ultra-Low Emission Vehicles - Taxi Project	497	419	(78)
Metro Asset Renewal Plan	24,635	20,990	(3,645)
Metro Fleet Replacement	48,605	43,689	(4,916)
Nexus Other Capital Projects	2,074	770	(1,304)
Metro Flow	1,702	1,142	(560)
Tyne Tunnels	1,007	952	(55)
Local Transport Plan *	11,309	11,246	(63)
Active Travel Fund (capital elements)	1,157	1,157	-
Total Capital Programme	**95,612**	**83,449**	**(12,163)**

***** Amounts shown in these lines are net of LTP funded expenditure included within the Metro Asset Renewal Plan to avoid double-counting.

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

Table 3: Capital Funding 2020/21

	2020/21 Actual	2020/21
	£000	%
Local Growth Fund Grant	1,057	1.3%
Local Transport Plan Grant	14,226	17.0%
Metro Capital Grant	23,605	28.3%
Metro Fleet Grant	35,800	42.9%
Transforming Cities Fund Grant	3,883	4.7%
Other Capital Grants	2,032	2.4%
Reserves	2,846	3.4%
Total Funding	**83,449**	**100.0%**

4. Treasury Management

The Balance Sheet on page 7 of the accounts shows external borrowing of £95.550m at the end of the year, which is split between short term borrowing (£1.274m) and long term borrowing (£94.276m), after the allocation of part of the transport borrowing to NTCA accounts. This is a small decrease compared to balance of £96.37m 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 £29.946m in the NECA accounts at the end of the year compared to £58.236m at the end of the previous year. The total of investments included £6.655m of investments held on behalf of Nexus. A further £22.182m cash equivalents were held, including £11.091m on behalf of Nexus. The decrease compared to the previous year is due to NECA no longer holding balances on behalf of the North East LEP since these were transferred to NTCA.

5. Debtors

The Balance Sheet on page 7 of the accounts shows a short-term debtors balance at 31 March 2021 of £5.050m (£8.899m at 31 March 2020). This relates mainly to interest and principal repayments due within 12 months on borrowing by Nexus and is analysed in more detail in Note 14.

6. Creditors

Short term creditors at 31 March 2021 were £39.879m (£39.984m at 31 March 2020). 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 (£54m total creditor of which £28.715m is shown in the NECA accounts).

7. 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 £9.03m at 31 March 2021, compared with £2.82m at 31 March 2020. The increase in year is due to market conditions at 31 March 2021 and the impact on asset values. For accounting purposes this surplus is restricted to nil on the NECA balance sheet. NECA gets a benefit from the surplus in the form of savings on employers' pension contributions for current employees, which has enabled significant savings on the revenue budget.

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 2020/21. At the end of the year there was an unfunded liability of £0.87m (£0.84m at 31 March 2020) and this is disclosed on the Balance Sheet.

The deficit as at 31 March 2021 takes into account the national judgements on McCloud and Guaranteed Minimum Pensions (GMP). The actuarial valuation is influenced by a number of economic factors. Note 19 to the accounts provides further analysis and disclosure of the Pension Fund liability.

8. Net Assets

Net assets in the NECA accounts have decreased from £125.141m at 31 March 2020 to £99.316m at 31 March 2021. The decrease in total net assets is due to the transfer of net assets relating to the North East LEP to NTCA on 1 April 2020.

9. 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 81.

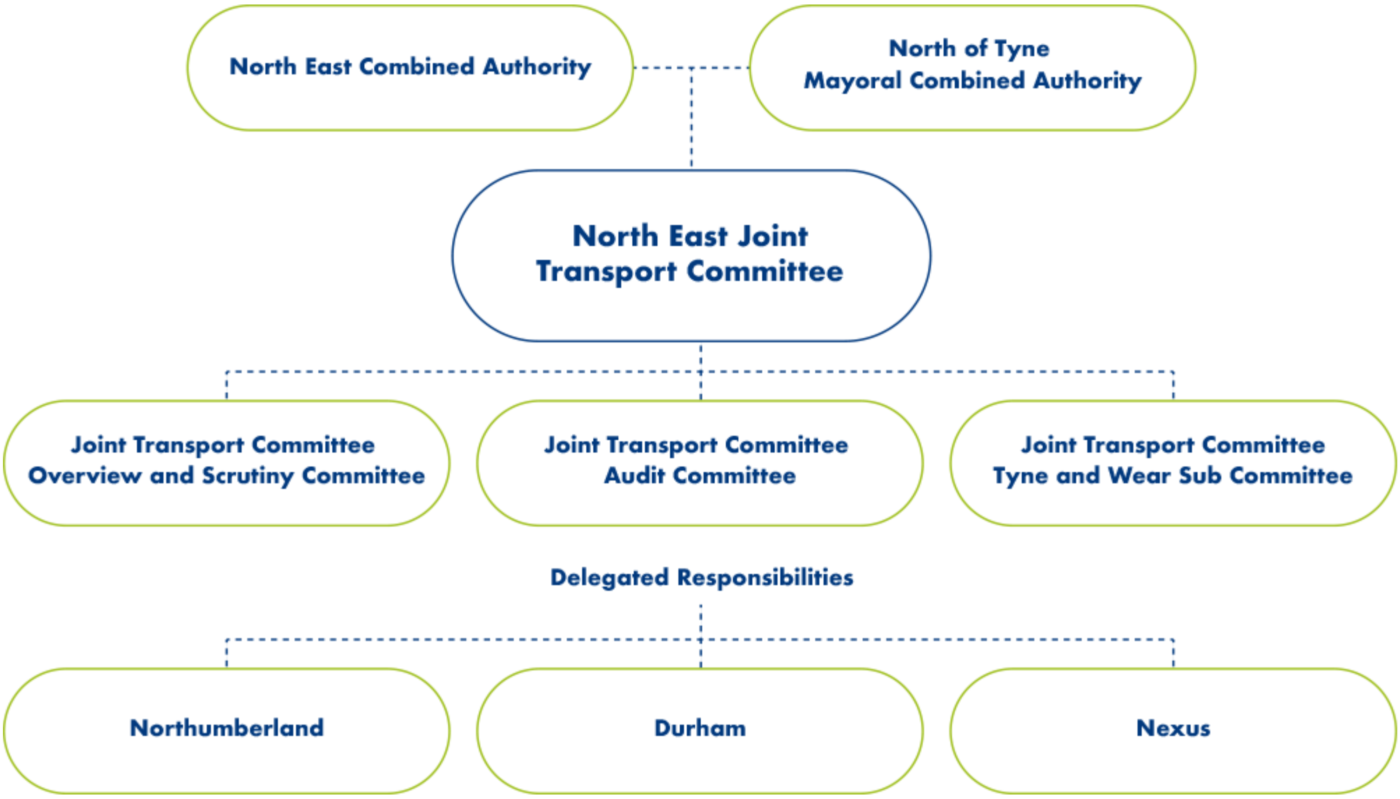
The Nexus accounts are apportioned between NTCA and NECA accounts (after elimination of intra-Group transactions), with the balance sheet information at 31 March 2021 allocated between the two Combined Authorities in proportion to their relative share of Tyne and Wear Population as set out in table 4. 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.

10. 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 2020/21 accounts the mid-year estimated population published by the Office of National Statistics as at June 2018 is used, which is the basis on which the Transport Levy payments for the year are required to be calculated. The calculation of the proportion used to allocate the figures in the accounts at 31 March 2021 is shown in Table 4 below.

Table 4 - Population used to allocate Transport Assets/Liabilities between NECA and NTCA

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

11. 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 5)

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 6)

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 7)

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 8)

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

Group Financial Statements and Notes (Statement of Accounts 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.

12. 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.

13. 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, with some examples picked out below:

Economic Development and Digital

- Inward Investment – 2020/21 was a challenging year for inward investment due to Covid-19, with a significant decrease in active inward investment project numbers and a very difficult environment in which to attract new investment. Provisional full-year success figures for the North East LEP area for 2020/21 are as follows: a total of 68 inward investment projects resulting in 2,935 jobs. Of these, 53 were foreign direct investment (FDI) projects leading to 2,713 jobs, the rest were new UK companies locating to the North East. The new jobs figure was helped significantly by Amazon's investment in County Durham which led to 1,500 new jobs.
- There has been excellent collaboration on Digital Connectivity across the NECA area through the Digital Durham programme to boost superfast broadband (30mbps) across the NECA area. Digital Durham allows subsidised (through Government and Local Authority funding) rollout to areas which would not have been commercially viable. Subsequently, over 87,000 premises in the NECA area can now access superfast broadband as a result:
    - Durham – Over 63,700 (with some delivery left to complete)
    - Gateshead – Over 14,100
    - South Tyneside – Over 4,600
    - Sunderland – Over 4,600

- Current broadband coverage in the NECA area is ahead of the national average for superfast and ultrafast, but behind on gigabit-capable connectivity.

Finance, Skills and Employability

- Central to the Skills and Employability agenda are the issues of financing particularly the reliance on external funding as we approach the final stages of the current European Structural Investment Fund (ESIF) programme with little detail as yet as to the operation of the UK Shared Prosperity fund after the current Community Renewal Fund pilot exercise, alongside the ongoing development of good partnership and inter authority working arrangements that have been developed.

Transport

In March 2021, the JTC approved the first region-wide Transport Plan for the North East. The approval of the Transport Plan represents a significant milestone for the JTC and sets out collective ambitions up to 2035 to create a modern transport network, with schemes totalling £6.8 billion included.

The Plan seven Delivery Plan categories for implementing the objectives of the Plan and achieving the vision of ‘moving to a green, healthy, dynamic and thriving north-east’.

- Helping people make the right travel choice
- Upgrading north east active travel infrastructure
- Bus, ferry and first and last mile
- Local rail and Metro
- Road infrastructure
- Maintaining and renewing our transport network
- National and international connectivity

NECA owns the Tyne Tunnels, which link the A19 under the River Tyne between Howdon and Jarrow. There are two tolled vehicle tunnels, and tunnels for both pedestrians and cyclists. The Tunnels are entirely self-financing from the tolls income raised, i.e. there is no call on the Authority’s budget or local taxpayers to support them, and assets and liabilities associated with the tunnels are ringfenced to the Tyne and Wear constituent councils within the Authority. The Tyne Pedestrian and Cyclist Tunnels reopened to the public in August 2019 and have been well received and well used, although work is still ongoing on the completion of the glass inclined lifts. This was delayed in 2020/21 due to the impact of the Covid-19 pandemic.

Traffic flows at the Tyne Tunnel have been significantly reduced since March 2020 when the impact of the Covid-19 pandemic took effect. The normal level of traffic pre-Covid was approximately 55,000 vehicles per day. As a result of Covid-19 lockdown measures, traffic levels dropped drastically during March and April 2020 to approximately 17,000 vehicles per day which is 30% of normal levels. This is the lowest level of traffic seen during the life of the TT2 contract.

During the summer months of 2020 traffic increased and by the end of August was almost 85% of normal levels. However, local Covid-19 restrictions put in place from mid-September onwards saw usage levels drop off again. Traffic during the November national lockdown was 73% of normal levels. During the early months of 2021 traffic dropped again to 65% under the January national lockdown restrictions and has remained around 70-75% of normal levels during March.

Table 5 – Tyne Tunnel Traffic Flow data

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

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

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

Tyne and Wear Passenger Transport Executive – Nexus

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

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

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.
- On 1 April 2020 the Accountable Body responsibility for the North East LEP transferred to NTCA and the TUPE transfer of LEP and Invest North East England staff to NTCA was also completed.
- On the same date, the TUPE transfer of 10 staff previously employed by Newcastle City Council and Nexus and seconded to NECA was completed. The majority of these staff work in the North East Transport Strategy Unit.

- Changes have been made to support arrangements during 2020/21, including the transfer of provision of financial systems support from Newcastle City Council to Durham County Council, and the provision of ICT support from Newcastle City Council to Gateshead Council.

Table 6 – Change in Staffing numbers since 2015/16

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

14. Impact of the Covid-19 pandemic

It is clear that the pandemic has had a profound economic impact with the NECA area hit hard given the high proportion of jobs across the area in at-risk sectors (particularly hospitality, retail, visitor economy and travel). Town and city centres were hit by the major drop in footfall and national retailer restructuring and store closures, while manufacturers, particularly automotive, experienced supply chain issues. Many firms exhausted reserves and cash flows, with real concerns about survival.

The impact on the labour market was also significant, with a rise in total unemployment since March 2020 (5.4% in North East compared to 4.8% nationally) and the unemployment claim count in the NECA area up from 4.7% in March 2020 to 7.5% in April 2021, particularly amongst 18-24s (up 4,000). The rate has flatlined since the Autumn with Furlough keeping this down; circa 60,000 workers (13% of workforce) were on Furlough at the end of March 2021.

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

The NECA Response

The four Local Authorities have supported businesses throughout the pandemic, including:

- Restart Grants
- Open, Closed & Sector Local Restriction Support Grant schemes
- Additional Restrictions Grants
- Christmas Support Payments for Wet-led Pubs
- Helping businesses to access Government loans
- Signposting to support (particularly on import/export re EU Exit)
- Coordinating Kickstart six-month placements
- Accessing Getting Building Funds to accelerate key projects

This is alongside monitoring the impact upon key sectors and trends (an anecdotal rise in start-up activity and industrial unit demand is being seen) and reporting feedback and concerns to BEIS and MHCLG, such as issues around those excluded from support.

In Transport, NECA acting through the JTC has provided support to TT2 Ltd which experienced significant reductions in traffic volumes using the tunnels. Bids have been coordinated by Transport North East to obtain much needed grant funding support for transport activity for the seven north east councils and Nexus.

Staff working through our delivery partners including Nexus and TT2 have continued working on the front line throughout the pandemic delivering excellent customer service, often in difficult circumstances, to enable essential journeys to continue.

Delays have been experienced on some areas of the capital programme in 2020/21 as a result of the pandemic, particularly on Transforming Cities Fund schemes. This presents a challenge for future years as funding is time-limited and significant works are required by local authority scheme promoters to complete delivery.

15. Looking Ahead

Transport

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

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

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

Publication of the Government's Integrated Rail Plan (IRP) is still awaited. This will give greater clarity on future priorities for investment in key connections such as the East Coast Main Line. A programme board has been established to develop the business case for re-opening of the Leamside Line. This will bring together the various projects and interests involved in this to develop a single focused approach to re-opening the full extent of the line between Pelaw and Ferryhill.

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

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

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

Economic Development and Digital

The inward investment outlook for 2021/22 is more promising, with a number of big projects opening or shortly to be announced.

Invest North East England continues working with partners on significant new projects in a variety of sectors which involve many thousands of new jobs. A particular focus this year will be on developing a Northshoring campaign; attracting energy sector projects; strengthening relationships with key overseas Department of International Trade posts, particularly in Europe, USA and India; contracting with Department for International Trade and programme managing the Northern Powerhouse Key Account Management programme in the North East and continuing to work on proactive lead generation.

Local Authorities are working on applications for the Levelling Up Fund, launched by Government in March 2021.

There has been excellent progress on broadband coverage following Digital Durham collaboration and the attraction of commercial rollout. There is now a need to collaborate further with the private sector and Government to drive gigabit-capable coverage.

Finance, Skills and Employability

Employment and Skills issues and opportunities for development remain under development through meetings of the Skills and Employment Working Group. In responding to the Further Education Reform White Paper, areas of interest and focus currently being examined by member authorities as part of the development of improved Employment and Skills working across the NECA area include:

- Strategic Development Funding to foster College-LA collaboration;
- Create a further Institute of Technology (based around digital or green growth) and/or widen sector focus of current North East IoT at New College Durham
- Pilot a sector-specific Skills Bootcamp linked to the National Retraining Strategy in a skills shortage area (i.e. manufacturing)
- Marketing push from Gov on Lifetime Skills Guarantee across LA7 (and potentially piloting something similar for higher level technical skills)
- Offer to be a pilot are for the new Skills and Productivity Board to look at employment projections and labour market needs analysis (with a real focus on reskilling and progression)
- Dedicated College Business Centres linked to key business sites
- Prioritise North East bids to FE Capital Transformation Fund

- AEB devolution across whole area LA7 so ensuring the whole of the North East can shape provision (with ability to tailor Skills Guarantee)
- DfE to work in partnership to ensure coherent place-based offer (by devolving Traineeship funds too)
- Raise 25% apprenticeship levy transfer threshold to 50% (and recycle levy underspend)
- Funding for more trained and qualified careers guidance specialists in schools and communities (pilot more locally based activity with the aim of reducing NEET levels)
- Creation of an Adult Education Maintenance Allowance to meet living costs (if UC changes allowing people to train full time covers training costs)
- Strengthened partnership with National Careers Service (beyond the new website being created) to realise their aim of an all-age careers system
- Further support for Furloughed employees who will need to change jobs/retraining

16. Further Information Available

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

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

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