North East Combined Authority

DURHAM • GATESHEAD • SOUTH TYNESIDE • SUNDERLAND

Audit and Standards Committee

Tuesday 22 November at 10.00am

Meeting to be held at: Reception Room, South Shields Town Hall, NE33 2RL

www.northeastca.gov.uk

AGENDA

Page No

1. **Apologies for Absence**

2. **Declarations of Interest**

   Please remember to declare any personal interest where appropriate both verbally and by recording it on the relevant form (to be submitted to the Democratic Services Officer). Please also remember to leave the meeting where any personal interest requires this.

3. **Minutes of the Meeting Held On 28 June 2022** **1-6**

4. **Minutes of the Meeting Held On 27 September 2022** **7-10**

   Items 3-4 for approval as a correct record.

5. **NECA Internal Audit Progress Report 2022/23** **11-16**

6. **Audit Completion Report 2021/22** **17-64**

7. **Statement of Accounts 2021/22** **19-200**

8. **Date and Time of Next Meeting:** 11 April 2022 at 10.00am.

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

North East Combined Authority
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Item 3

Audit and Standards Committee

DRAFT MINUTES TO BE APPROVED

28 June 2022

(10.02am – 10.45am)

Meeting held at: Whickham Room, Gateshead Civic Centre, NE8 1HH

Present:

Independent Members:	M Scrimshaw (Chair), S Green (Vice-Chair)
Councillors:	A Huntley (South Tyneside), L Kirton (Gateshead), L Mavin (Durham), K Dawes (attended as member of public)
Officers:	Ged Morton (representing the Monitoring Officer, NECA), Eleanor Goodman (Finance Manager, NECA), Adam Robson (Principal Auditor - Sunderland City Council), Tracy Davis (Senior Manager of Assurance, Sunderland City Council), Gavin Barker (Audit Director, Mazars), Toby Ord (Strategy and Democratic Services Assistant, NECA)

1 **APOLOGIES FOR ABSENCE (MEMBERS)**

Apologies for absence were received from Cllr Mullen and Gavin Armstrong

2 **DECLARATIONS OF INTEREST**

None.

3 **MINUTES OF THE PREVIOUS MEETING HELD ON 5 APRIL 2022**

The minutes of the meeting held on 5 April 2022 were approved as a correct record.

4 **EXTERNAL AUDIT PROGRESS REPORT**

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

The External Auditor delivered a brief update on the status of the external audit.

It was noted that there had been a lack of process regarding the external audit. Members were informed that the 20/21 accounts were finished however the auditors were awaiting the outcome of deliberations for infrastructure and further work was on hold due to consultation with the Chartered Institute of Public Finance and Accountability (CIPFA).

It was also noted that Jim Dafter would be making the value for money section of the 20/21 audit a priority once his engagement with the healthcare audit has been completed.

Members were assured that the 21/22 audit was underway with the commencement of the Nexus accounts, working with a strong team who will progress onto NECA, following this, NTCA.

Resources were said to be in place in order to make sure deadlines are achieved, aiming to sign off by the end of November. The Chair suggested that an extraordinary meeting, or the re-scheduling of an established meeting be made in order to accommodate for these deadlines.

RESOLVED that: -

i. the report be noted.
ii. an extraordinary / re-scheduled meeting be organised to accommodate for audit sign-off

5 **CONSIDERATION OF 'GOING CONCERN STATUS' FOR THE STATEMENT OF ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2022**

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

The Finance Manager delivered the report on behalf of the Chief Finance Officer which gave Members a brief explanation of the Going Concern Status regarding the Statement of Accounts.

It was noted that the Going Concern Status needs to be considered each year, and that there is a general presumption for Local Authorities that there will always be a going concern due to:

- Changes in Authority boundaries
- Transferral of services
- Devolution

Members were informed that NECA should still be able to prepare its accounts on a going concern basis. The financial position of the Authority was said to be healthy, with a general level of market reserves and net assets standing at £139m.

It was also stated that there remains some financial and operating risks, however none that could jeopardise NECA operations. The continuation of the going concern status stands.

The Vice-Chair questioned whether a possible negative return from the Value for Money evaluation would have any implications on the going concern, however the External Audit Director assured that a negative return is not anticipated.

Members queried whether the rise of financial reserves after the drop following the COVID-19 pandemic was anticipated to continue, however the Finance Manager clarified that this drop was due to a transfer of services to the LEP, and further transport investment is causing the current rise.

RESOLVED that: -

i. the report be noted.

6 **NORTH EAST COMBINED AUTHORITY STRATEGIC RISK REGISTER**

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

The Principal Auditor delivered the report on behalf of the Senior Assurance Manager which provided an insight on the status of the strategic risk register.

As things stand, 6 of the 7 key risks laid out in the register remain at red status due to high impact factors affecting these, however operational risks were said to be a lot better. It was noted that the register is very reliant on Government policy - the Government prefers the mayoral governance model, something which NECA does not exercise.

A brief overview of the intricacies of the Risk Register were covered to familiarise new Members. It was also noted that that public transport usage is struggling to reach pre-pandemic levels, however, there have been some positive denotations from Government, implying that big companies are being engaged to invest in order to combat the cost of living crisis.

More positives - society has begun to open up again post-pandemic, the Transport for the North are due to rollout their decarbonisation strategy, Local Transport funding and the Bus Service Plan has been improved. As well as this, there is positive activity around the Joint Transport Committee; much of the action around this has a large impact on risk scores.

Members stated their desire for a headline document to accompany the register which details the main focal points of the register so that the document can be easily absorbed. The Principal Auditor and Members agreed that such course of action was possible and will be considered moving forward.

RESOLVED that: -

i. the report be noted.

7 **DRAFT ANNUAL GOVERNANCE STATEMENT 2021/22**

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

The Senior Manager for Assurance delivered the report which provided an update on the Annual Governance Statement for 2021/22.

It was noted that in completion of the statement, the Assurance Team undertake an annual review of governance arrangements of the Combined Authority - details in the report laid out areas of information and assurance used to complete the statement.

Statutory Officers submitted assurance letters appended to the report, in addition to a letter received from Nexus. It was noted that the internal audit was completed along with risk management, returning no discernible issues or major weaknesses.

RESOLVED that: -

i. the report be noted.

8 **DRAFT STATEMENT OF ACCOUNTS 2021/22**

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

The Finance Manager delivered the report on behalf of the Chief Finance Officer which gave an update of the status of the Draft Statement of Accounts.

Apologies were made on the size of the report however Members were reminded that there are constraints over this issue due to accounting standards and the CIPFA Code of Practice. It was noted that the Government had extended deadlines for final accounts to ease pressures on Local Authorities and assist the External Audit Sector. The deadline for draft accounts is 31 July 2022, however it was proposed that these are published to the NECA website by 30 June - subject to public inspection period.

This period will run 1 July to 30 August 2022, allowing anyone to inspect the audits and raise issues with the external auditor should they see necessary.

It was also noted that capital grant income had been received to fund projects managed by the JTC, however there is a time delay in Local Authorities claiming said funding.

The Comprehensive Income and Expenditure Statement was said to show a surplus of £39m as a result of grant income as NECA hasn't yet had the expenditure to offset this. The Balance Sheet were also said to show a £139m increase, and the Cash Flow Statement classifies how NECA has and has not used cash equivalents. It was also stated that the Group Accounts consolidate the financial result of Nexus, JTC and the Annual Governance Statement.

Members were informed that NECA and NTCA produce their own set of accounts for JTC, further information is detailed within the report. Joint assets such as the Tyne Tunnel are split proportionate to the population of each Authority.

Members queried whether the rising interest rates will have a negative impact on the Combined Authority, however the Finance Manager clarified that rising rates will benefit NECA as lots of the Authority's borrowing is at a fixed term rate - rates on investment will only increase whereas borrowing will not.

RESOLVED that: -

i. the report be noted.

9 **DATE AND TIME OF NEXT MEETING:** 27 September 2022 at 10am.

North East Combined Authority

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Item 4

Audit and Standards Committee

DRAFT MINUTES TO BE APPROVED

27 September 2022

(10.15am – 10.50am)

Meeting held at: Committee Room A, South Shields Town Hall, NE33 2RL

Present:

Independent Members:	M Scrimshaw (Chair), S Green (Vice-Chair)
Councillors:	K Dawes (South Tyneside), J Doyle (Sunderland)
Officers:	Eleanor Goodman (Finance Manager, NECA), John Rumney (attending on behalf of Nicola Robason), Gavin Barker (Audit Director, Mazars), Toby Ord (Strategy and Democratic Services Assistant, NECA)

1 **APOLOGIES FOR ABSENCE (MEMBERS)**

Apologies for absence were received from Councillor Mullen, Councillor Mavin, Nicola Robason and Gavin Armstrong.

2 **DECLARATIONS OF INTEREST**

None.

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

The minutes of the meeting held on 28 June 2022 could not be approved as a correct record due to quorum, though an error was noted which referred to CIPFA as 'CITFA' and should be corrected accordingly.

4 **AUDIT STRATEGY MEMORANDUM**

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

The Audit Director of Mazars opened the report by giving a brief update on work previously completed in February.

It was noted that there stands an issue of infrastructure which effects the whole auditing sector, not just Mazars, which inhibits the ability of auditors to issue an opinion. This position was said to remain unchanged and hopes to be resolved by the end of November, while CIPFA continue to search for a resolution. It was noted that a possible outcome would be a qualification of all accounts containing material infrastructure, although this is not the favoured approach by the Department for Levelling Up, Housing and Communities (DLUHC). A statutory overwrite is also in consideration. It was said that these issues are inhibiting the finalisation of accounts for 2021. Members were informed that a likely solution may include an assumption and a disclosure of net position.

The Audit Director went on to cover the Audit Memorandum appendaged to the covering report, initially drawing Members attention to the summary before swiftly moving onto the planned timeline. It was noted that Mazars are considerably further ahead with their progress in comparison to the previous year and are currently in the field work stage, with plans to report further progress to the next meeting.

It was also mentioned that Mazars do not tend to rely upon their controls, but rather conduct substantive testing to make sure a correct understanding can be formed. Members were reminded that results will be produced in a group audit due to shared assets between NECA, Nexus, NoTCA, etc. The Nexus audit was said to be near completion – once completed, NECA's will begin.

The Audit Director continued to cover three significant risks – specific testing will be conducted to negate likelihood of an override of controls from management with regards to fraud and data manipulation. The Chair queried why such controls cannot be removed, to which it was clarified that journals used for data entry do have intended purposes therefore cannot be removed, but control measures such as the separation of powers and responsibility can negate an individual's ability to manipulate data. Other risks mentioned included revenue recognition in relation to Tyne Tunnel tolls and grant income, as well as defined benefit liability valuations around pension liabilities, which tend to concern Nexus more than NECA.

Members were made aware that the value for money for 20-21 is in its first draft, however it is difficult to properly disclose without issuing the audit – one of the many products of the aforementioned infrastructure problem, including the year 21-22, though work is still being done on the financial sustainability, governance, efficiency and effectiveness. Any significant weaknesses will be identified and recommendations will be made in regard.

Members were made aware that the Public Sector Audit Appointments (PSAA) had released a statutory fees list for the year 2021, to which Mazars have selected the minimum to reflect the Authority's patience.

The Audit Director also stated Mazars commitment to independence – employees who have the most insignificant of connections to the Authority cannot work on the audit. This is monitored on an ongoing basis. As for materiality, Mazars was said to apply industry standards to its evaluations, not solely driven by calculations but looking at the nature of each item within the Authority in an attempt to identify its significance.

In response to questions from the Vice-Chair, the Audit Director clarified that there has been no requirement to reassess anything within the field work phase, but there exists a possibility a delay due to reliance upon the Tyne and Wear Pension Fund, dependant upon whether pension fund auditor assurances are received in time, though Mazars continue to attempt communication on the matter. It was also stated that the narrative regarding the value for money may change off of the back of infrastructure issues, however it isn't expected to lead to any significant weaknesses or recommendations in light of this.

The Audit Director of Mazars closed by apologising for the lack of capability with regards to concluding past audits and thanked Members for their patience.

RESOLVED that: -

i. the report be noted.

5 **DATE AND TIME OF NEXT MEETING:** 22 November 2022 at 10.00am.

North East Combined Authority
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Item 5

Audit and Standards Committee

Date: **22 November 2022**

Subject: **NECA Internal Audit Progress Report 2022/23**

Report Of: **Senior Manager – Assurance, Sunderland City Council**

Executive Summary

This report provides an update in relation to the Internal Audit Plan for 2022/23 and the performance of Internal Audit against its agreed performance indicators.

Recommendations

The Audit and Standards Committee is invited to consider and, if appropriate, make comment on the Internal Audit Progress Report 2022/23 which includes the key performance measures for the provision of the service.

1 Background Information

1.1 In April 2022 the Audit and Standards Committee agreed the Internal Audit Plan for 2022/23, which included one audit for completion during the year, as follows:

- Coordination of the Audit Certificate for the Local Transport Grant Claim.

1.2 The audit set out above has been completed. In addition, an unplanned piece of audit work was also completed in relation to the Local Authority Major Project Grant - SSTC3. The assurance rating for both audits was Substantial.

2. Proposals

2.1 Appendix 1 provides a summary of the audits completed this year and in previous years. An overall opinion for each of the organisational risk areas is also included.

2.2 Appendix 2 shows Internal Audit's current performance against the performance indicators, activity directly relevant to NECA is shown where it can be.

3. Reason for the Proposals

3.1 The Audit and Standards Committee continues to fulfil an ongoing review and assurance role in relation to the governance, risk management and internal control issues of NECA.

4. Next Steps and Timetable for Implementation

4.1 The results of the Internal Audit work will be considered in drafting the Annual Governance Statement which will be included within the Statement of Accounts.

5. Potential Impact on Objectives

5.1 There will not be a direct impact on NECA's objectives, however the report supports NECA by providing assurance that the internal control arrangements in place to manage risks are effective or where assurance cannot be given highlighting opportunities for improvement.

6. Finance and Other Resources Implications

6.1 There are no financial implications arising from this report other than the agreed fee for the service to be delivered.

7. Legal Implications

7.1 There are no legal implications arising specifically from this report.

8. Key Risks

8.1 There are no risk management implications from this report.

9. Equalities and Diversity

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

10. Crime and Disorder

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

11. Consultation /Engagement

11.1 The Head of Paid Service, Monitoring Officer, and Chief Finance Officer have been consulted on the report.

12. Other Impact of the Proposals

12.1 The proposals comply with the principles of decision making. Relevant consultation processes have been held where applicable.

13. Appendices

Appendix 1 – Summary of Internal Audit work for 2022/23.

Appendix 2 – Performance of Internal Audit for 2022/23 where available.

14. Background Documents

14.1 NECA Standing Orders.

15. Contact Officers

Tracy Davis – Senior Manager – Assurance, Sunderland City Council.
Tracy.Davis@sunderland.gov.uk

16. Sign off

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

Appendix 1

Summary of Internal Audit Work

Organisational Risk Areas	Audits 2019/20	Opinion	Audits 2020/21	Opinion	Audits 2021/22	Opinion	Audits 2022/23	Opinion	Overall Opinion
Future Availability of Funding									
Funding Opportunities									
Use of Funding and Resources	Local Transport Grant Claim	S	Local Transport Grant Claim	S	Local Transport Grant Claim	S	Local Transport Grant Claim	S	
					Home to School Transport 2nd half spring term	S	Local Authority Major Project Grant - SSTC3	S	
					Demand Travel Management	S			
					Demand Travel Management Top up	S			
					Home to School Transport summer term	S			
					Home to School Transport 2020/21 Academic Year	S			
Governance Arrangements	Governance Arrangements	S	Information Governance/GDPR	M					
Operational Capacity and Resourcing	Financial Arrangements Assurance	M	Finance Service Relocation	S	Business Continuity Arrangements	M			
Delivery of Projects/Programmes							Note: Audit work is undertaken within the JTC in this regard		
Infrastructure Assets							Note: Audit work is undertaken within the JTC in this regard		

Assurance Level (Opinion) Key: F – Full S – Substantial M – Moderate L – Limited N – None

Appendix 2

Internal Audit - Overall Objectives, Key Performance Indicators (KPI's) and Targets for 2022/23			
Efficiency and Effectiveness			
Objectives	**KPI's**	**Targets**	**Progress**
1) To ensure the service provided is effective and efficient.	1) Complete sufficient audit work to provide an opinion on the key risk areas identified.	1) Complete sufficient audit work to provide an opinion on the organisational risk areas	Achieved
	2) Percentage of draft reports issued within 15 days of the end of fieldwork.	2) 90%	Ahead of Target – 100%
	3) Percentage of audits completed by the target date (from scoping meeting to issue of draft report).	3) 85%	Ahead of Target – 100%
Quality			
Objectives	**KPI's**	**Targets**	**Progress**
1) To maintain an effective system of Quality Assurance.	1) Opinion of External Auditor	1) Satisfactory opinion	Achieved
2) To ensure recommendations made by the service are agreed and implemented.	2) Percentage of agreed high, significant and medium risk internal audit recommendations which are implemented.	2) 100% for high and significant risk. 90% for medium risk	High and significant risk – N/A Medium risk – 100%
Client Satisfaction			
Objectives	**KPI's**	**Targets**	**Progress**
1) To ensure that clients are satisfied with the service and consider it to be good quality.	1) Results of Post Audit Questionnaires	1) Overall average score of better than 1.5 (where 1=Good and 4=Poor)	Achieved – score of 1
	2) Results of other Questionnaires	2) Results classed as 'Good'	N/A
	3) Number of Complaints / Compliments	3) No target – actual numbers will be reported	None in year

Item 6

Audit and Standards Committee

Date:	**22 November 2022**
Subject:	**Audit Completion Report 2021/22**
Report of:	**External Auditor**

Executive Summary

Attached to this report is the Audit Completion Report for 2021/22, as prepared by Mazars, External Auditors to the North East Combined Authority.

The audit is substantially completed in respect of the financial statements for the year ended 31 March 2022. At the time of preparing this report, matters remaining outstanding are as outlined in section 2 of the report at Appendix 1. An update will be provided in relation to the matters outstanding through issuance of a follow-up letter.

Subject to the satisfactory conclusion of the remaining audit work, Mazars have the following conclusions:

- Mazars anticipate issuing an unqualified opinion, without modification, on the financial statements. The most significant matter outstanding relates to a national issue on accounting for infrastructure.
- Mazars anticipate having no significant weaknesses to report in relation to the arrangements that NECA has in place to secure economy, efficiency and effectiveness in its use of resources.
- At the time of preparing this report, Mazars have not yet received group instructions from the National Audit Office in respect of their work on NECA's Whole of Government Accounts submission. Until this work is completed they are unable to issue their certificate.
- The Local Audit and Accountability Act 2014 requires Mazars to give an elector, or any representative of the elector, the opportunity to question the external auditor about the accounting records of NECA and to consider any objection made to the accounts. No questions or objections have been received.

Recommendations

The Audit and Standards Committee is recommended to review and comment on the Audit Completion Report for 2021/22 in advance of the Leadership Board and take this into account in the consideration of the Statement of Accounts.

1. Background Information

1.1 The Audit Completion Report for 2021/22 prepared by the External Auditors (Mazars) is attached as Appendix 1.

1.2 The report gives the External Auditor's view of whether the accounts of NECA give a true and fair view of the financial position and performance of the authority to 31 March 2022. Mazars will present their report.

1.3 Following the Audit and Standards Committee consideration of the report of the External Auditor, updated Statement of Accounts and any comments arising from this meeting will be presented to the Leadership Board meeting on 1 February 2022.

2 Proposals

2.1 The Audit and Standards Committee is asked to consider the content of the Audit Completion Report submitted by Mazars as external auditors to the Authority and take the findings into account in their consideration of the Statement of Accounts.

3. Reasons for the Proposals

3.1 The Audit Completion Report is presented to the Audit and Standards Committee for consideration. The NECA External Auditor will present their report and findings to the meeting.

4. Alternative Options Available

4.1 There are no alternative options arising from this report.

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 29 November 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.

6. Potential Impact on Objectives

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

7. Financial and Other Resources Implications

7.1 The costs of the external audit are set by Public Sector Audit Appointments and were included in the budget for 2021/22. There are no financial or other resources implications arising from this report.

8. Legal Implications

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

9. Key Risks

9.1 An assessment of the Authority against key accounting risks is set out in the External Auditor's report attached here as Appendix 1.

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 2022. 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 – Audit Completion Report

15. Background Papers

15.1 None

16. Contact Officers

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

Jim Dafter, Senior Manager – Mazars, jim.dafter@mazars.co.uk

17. Sign off

17.1

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

Audit Completion Report

North East Combined Authority (NECA)
Year ended 31 March 2022

November 2022

mazars

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07 Value for Money

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Appendix B: Draft audit report

Appendix C: Independence

Appendix D: Other communications

The Leadership Board
And Members of the Audit and Standards Committee
North East Combined Authority
c/o South Tyneside Council
Town Hall & Civic Officers
Westoe Road
South Shields
NE33 2RL

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

9 November 2022

Dear Members

Audit Completion Report – Year ended 31 March 2022

We are pleased to present our Audit Completion Report for the year ended 31 March 2022. The purpose of this document is to summarise our audit conclusions.

The scope of our work, including identified significant audit risks and other areas of management judgement, was outlined in our Audit Strategy Memorandum which we presented to the Audit Committee on 21 July 2022. We have reviewed our Audit Strategy Memorandum and concluded that the original significant audit risks and other areas of management judgement remain appropriate.

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

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

Yours faithfully

Gavin Barker

Gavin Barker
Director

Mazars LLP

01

Section 01:

Executive summary

1. Executive summary

Principal conclusions and significant findings

The detailed scope of our work as your appointed auditor for 2021/22 is set out in the National Audit Office's (NAO) Code of Audit Practice. Our responsibilities and powers are derived from the Local Audit and Accountability Act 2014 and, as outlined in our Audit Strategy Memorandum, our audit has been conducted in accordance with International Standards on Auditing (UK) and means we focus on audit risks that we have assessed as resulting in a higher risk of material misstatement.

In section 4 of this report we have set out our conclusions and significant findings from our audit. This section includes our conclusions on the audit risks and areas of management judgement in our Audit Strategy Memorandum, which include:

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

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

Status and audit opinion

We have substantially completed our audit in respect of the financial statements for the year ended 31 March 2022. At the time of preparing this report, significant matters remaining outstanding as outlined in section 2. We will provide an update to you in relation to the significant matters outstanding through issuance of a follow up letter.

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

Audit opinion

We anticipate issuing an unqualified opinion, without modification, on the financial statements. Our proposed audit opinion is included in the draft auditor's report in Appendix B. The most significant matter outstanding relates to a national issue on accounting for infrastructure, which is explained on page 7.

Value for Money

We are yet to complete our work in respect of NECA's arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2022. We anticipate having no significant weaknesses in arrangements to report. Further detail on our Value for Money work is provided in section 7 of this report.

Whole of Government Accounts (WGA)

At the time of preparing this report, we have not yet received group instructions from the National Audit Office in respect of our work on NECA's WGA submission. We are unable to commence our work in this area until such instructions have been received. We note that there is a significant delay in WGA work, and the current focus is on 2020/21 work, meaning there is likely to be a substantial delay before we will be able to address WGA for 2021/22.

Wider powers

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

02

Section 02:

Status of the audit

2. Status of the audit

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

Audit area	Status	Description of the outstanding matters
Pensions	Amber	Work is ongoing in this area. In addition, we are awaiting a response from the auditor of Tyne & Wear Pension Fund. The pension fund auditor has been unable to confirm a date for reporting to us, and we are concerned that this may be indicative of a potential delay beyond the end of November 2022.
Infrastructure	Amber	As NECA is aware, there is a national issue in relation to accounting for infrastructure which has impacted on every local authority related entity with material infrastructure balances. Although this does not impact on the resources available to NECA, and is technical in nature, it could have a significant impact on the financial statements, depending on how it is resolved. We will be unable to issue our audit opinion until a resolution is reached in relation to this. It is now envisaged that the likely solution to this issue will not be available until the end of December 2022 at the earliest. Resolution may involve the Authority undertaking some additional procedures and updating the draft accounts, and likewise require us to carry out some additional audit procedures, meaning that we are unlikely to conclude on the matter until later in January 2023 at the earliest.
Fraud	Green	Work is ongoing in relation to Fraud and Related Parties.
Laws and Regulations	Green	We are awaiting responses to our letters sent to Those Charged with Governance and also Management.

Red	Likely to result in material adjustment or significant change to disclosures within the financial statements.
Amber	Potential to result in material adjustment or significant change to disclosures within the financial statements.
Green	Not considered likely to result in material adjustment or change to disclosures within the financial statements.

2. Status of the audit

Our w ork is substantially complete and there are currently no matters of w hich w e are aw are that w ould require modification of our audit opinion, subject to the resolution of the outstanding matters detailed below .

Audit area	Status	Description of the outstanding matters
Investments		We are aw aiting a number of external confirmations.
Loans		We are aw aiting one external confirmation.
WGA		We are aw aiting group instructions from the National Audit Office. This w ill impact on the timing of issuing our audit certificate to formally conclude and close the audit.
Post balance sheet events		Our review is ongoing up until the date of signing the auditor’s report (the opinion).
Closing procedures		Including review s of completed w ork, checking the final version of the financial statements and final review processes.

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

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

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

03

Section 03:

Audit approach

3. Audit approach

Changes to our audit approach

We provided details of our intended audit approach in our Audit Strategy Memorandum in September 2022. We have not made any changes to our audit approach since we finalised our Audit Strategy Memorandum.

Materiality

Our provisional materiality at the planning stage of the audit was set at £11.961m for the Group and £5.740m for NECA using a benchmark of 2% of total assets. Our final assessment of materiality, based on the final financial statements is £13.519m and £6.752m for the Group and NECA respectively, using the same benchmark.

Group audit approach

The Group consists of Nexus and Tyneside Transport Services Limited. We are responsible for the direction, supervision and performance of the group audit.

04

Section 04:

Significant findings

4. Significant findings

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

- our audit conclusions regarding significant risks, any enhanced risk and any key areas of management judgement outlined in the Audit Strategy Memorandum;
- our comments in respect of the accounting policies and disclosures that you have adopted in the financial statements. On page 14 we have concluded whether the financial statements have been prepared in accordance with the financial reporting framework and commented on any significant accounting policy changes that have been made during the year;
- any further significant matters discussed with management; and
- any significant difficulties we experienced during the audit.

Significant risks

Management override of controls (single entity and group accounts)	**Description of the risk** This is a mandatory significant risk on all audits due to the unpredictable way in which such override could occur. Management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur there is a risk of material misstatement due to fraud on all audits.
	How we addressed this risk We addressed this risk through performing audit work over: • accounting estimates impacting amounts included in the financial statements; • consideration of identified significant transactions outside the normal course of business; and • review of journals recorded in the general ledger and other adjustments made in preparation of the financial statements.
	Audit conclusion There are no issues arising from our work that we are required to report to you.

4. Significant findings

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

Defined benefit liability valuation (relevant to group accounts only)	
	Description of the risk The financial statements contain material pension entries in respect of retirement benefits. The calculation of these pension figures, both assets and liabilities, can be subject to significant volatility and includes estimates based upon a complex interaction of actuarial assumptions. This results in an increased risk of material misstatement.
	How we addressed this risk We discussed with key contacts any significant changes to the pensions estimates prior to the preparation of the final accounts. In addition to our standard programme of work in this area, we also: • evaluated the management controls you had in place to assess the reasonableness of the figures provided by the actuary; and • considered the reasonableness of the actuary's outputs, referring to an expert's report on all actuaries nationally which is commissioned annually by the National Audit Office.
	Audit conclusion Work is ongoing in this area. The main issue to be aware of is that we are awaiting the assurance letter from the Pension Fund auditor and there is uncertainty on when this will be received as explained on page 7.

4. Significant findings

Qualitative aspects of NECA's accounting practices

We have reviewed NECA's accounting policies and disclosures and concluded they comply with the 2021/22 Code of Practice on Local Authority Accounting, appropriately tailored to NECA's circumstances.

Draft accounts were received from NECA on 30 June 2022 and were of good quality.

Significant matters discussed with management

There were no significant matters arising from the audit which required discussion with management.

Significant difficulties during the audit

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

Wider responsibilities

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

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

We have not exercised any of these powers as part of our 2021/22 audit.

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

05

Section 05:

Internal control recommendations

5. Internal control recommendations

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

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

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

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

5. Internal control recommendations

Other deficiencies in internal control – Level 2

Description of deficiency

Related Party Declarations

Related party declarations should be updated and obtained annually from senior officers and members.

We first identified this deficiency in 2017/18 which was rectified in recent years however our work has identified that in 2021/22 this has not been implemented and therefore the deficiency in internal control has been raised again.

Potential effects

Related parties may not be identified which may potentially lead to fraud and error.

Recommendation

Ensure that related party declarations are completed and received annually.

Management response

Despite issuing the request for these to be completed and submitted and chasing up those that did not return a full complement was not received. Management will raise this issue at the Leadership Board and at the Joint Transport Committee and ensure that leaders are aware of the need to ensure their group members complete and submit these returns in a timely manner.

5. Internal control recommendations

Other deficiencies in internal control – Level 2

Description of deficiency

Related Party Declarations Register

NECA does not have a centralised register which documents all current and historic declared member interests.

Potential effects

Related parties may not be identified which may potentially lead to fraud and error.

Recommendation

Ensure that there is a centralised register which documents all declared member interests.

Management response

A detailed centralised register of all declared interests will be established and kept up to date during the year.

5. Internal control recommendations

Other recommendations in internal control – Level 3

Description of deficiency

Accounts Payable Reconciliation

We note that whilst the AP reconciliation is reviewed there is no formal documentation / sign off to state that the review has been completed.

Potential effects

The accounts payable reconciliation should contain a formal sign off once it has been reviewed. A formal signoff evidences that a review has actually taken place, and also evidences to other members of the team who may use the reconciliation that this document has been appropriately reviewed. As such this reduces the risk of a material misstatement arising within the creditor and expenditure balances.

Recommendation

Finance team to ensure that the accounts payable reconciliation contains a formal signoff evidencing that a review has taken place.

Management response

The reconciliations are undertaken on a regular and routine basis and are reviewed by a separate officer. We will ensure that these are signed and dated in future.

5. Internal control recommendations

Follow up on previous internal control points

Description of deficiency

Bank reconciliations

The bank reconciliations were not reviewed and approved in a timely manner. We reviewed the bank reconciliation for 30 April 2020, which was prepared on 12 May 2020, but which was not signed off as reviewed and approved until 21 January 2021.

Potential effects

Risk of material misstatement if the cashbook and bank statement are not reconciled to each other on a regular basis.

Recommendation

All bank reconciliations should be reviewed and approved in a timely manner.

Management response

This recommendation was fully implemented following the audit of the 2020/21 accounts. Reconciliations are undertaken on a regular and routine basis. They are reviewed by a separate officer in a timely manner and are signed and dated to confirm this has taken place.

Group position - Nexus reporting issues

Pages 21 to 24 of this report document the internal control recommendations and management response in the audit of Nexus, a significant subsidiary in the NECA group.

5. Internal control recommendations

Nexus - Other deficiencies in internal control – Level 2

Description of deficiency

We have identified difficulties confirming the existence and condition of assets in the fixed asset register (FAR) due to:

- Asset descriptions used in FAR were sometimes being too vague for us to easily agree to a specific asset;
- In some cases, a single asset in the FAR covers capital works across many sites;
- In some cases, asset descriptions were not specific enough for us to be easily certain that the asset we look at is the one in the register; and
- Some of the headline assets appear to be too broad in scope to be effective.

Potential effects

The current situation in relation to the FAR does not easily allow identification of the Existence of individual assets, whether Nexus have Rights and Obligations of these assets nor identify signs of damage or obsolescence to individual assets.

Recommendation

Ensure all future additions to the FAR are appropriately componentised and identifiable against an agreed list of Nexus "headline" assets. Thereafter, work towards allocating all existing assets to the newly created "headline" assets and where necessary review and update the componentisation. We understand that work is already in progress to do this.

Management response

Nexus has an established process to ensure that all new additions are appropriately componentised when capitalised and can be easily identified.

It is accepted that descriptors and supporting detail for historic assets could be improved and Nexus has already began to address this. This will include the grouping of assets under "headline" categories, together with componentisation, where possible.

5. Internal control recommendations

Nexus - Other recommendations in internal control – Level 3

Description of deficiency

Related Party Disclosures

As part of our 2020/21 audit, It was identified that some officers who had left the organisation during the year had not completed a related party confirmation return as part of the exit process. (See Follow up on previous internal control points - Related Party Disclosures).

As part of the 2021/22 audit, It was noted that, whilst controls have since been implemented to obtain Related Party Transaction (RPT) returns from Officers who were leaving the organisation, there was one instance where an officer who left Nexus did not complete an RPT return as part of the exit process.

Potential effects

There is a risk that at year end any material related party transactions with officers who have left the organisation during the year may not be appropriately disclosed within the accounts.

Recommendation

Officers leaving the organisation should complete an RPT declaration form as part of the exit process. This will help ensure that appropriate related party transactions have been disclosed to Nexus and the relevant disclosures have been made in the accounts.

Management response

Recommendation addressed. New process in place which is compliant with the recommendation made. Relevant officers reminded of requirement to ensure that a RPT is completed as part of the exit process.

5. Internal control recommendations

Nexus - Follow up on previous internal control points

Description of deficiency

Related Party Disclosures

We identified the following as part of audit work:

It was noted that Nexus appointed five Non-Executive Directors during financial year 2020/21 and they were not initially included in requests to complete a Related Party confirmation return. During discussions regarding the returns, it was agreed to seek returns from the Non-Executive Directors. All five Non-Executive Directors subsequently submitted a return.

Potential effects

There is a risk that Non-Executive Directors may not update the register of interests in a timely manner. As such at year end if there has been any material related party transactions with Non-Executive Directors these may not be appropriately disclosed within the accounts.

Recommendation

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

Management response

Recommendation addressed. New process in place which is compliant with the recommendation made.

5. Internal control recommendations

Nexus - Follow up on previous internal control points

Description of deficiency

Asset Impairment process

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

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

Potential effects

Impaired assets may not be identified.

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

Recommendation

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

Management response

Recommendation addressed. New process in place which is compliant with the recommendation made.

06

Section 06:

Summary of misstatements

6. Summary of misstatements

This section outlines the misstatements identified during the course of the audit, above the trivial threshold for adjustment of £203k (NECA) and £406k (Group). The first table outlines the misstatements that were identified during the course of our audit which management has assessed as not being material either individually or in aggregate to the financial statements and does not currently plan to adjust.

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

Unadjusted misstatements

There are no unadjusted misstatements.

Adjusted misstatements

		Comprehensive Income and Expenditure Statement		Balance Sheet	
		Dr (£'000)	**Cr (£'000)**	**Dr (£'000)**	**Cr (£'000)**
1	Dr: COVID-19 Grants	10,188			
	Cr: Transport Other		10,188		
	Based on the Income audit work performed we note that the Active Travel Fund (ATF) grants have been incorrectly classified as a COVID-19 grant. As such this adjustment reclassifies the ATF grants from the "COVID-19 Grants" line on the CIES to the "Transport - Other" line within the CIES.				
2.	Dr: Transport Other	1,419			
	Cr: COVID-19 Grants		1,419		
	Based on the Income audit work performed we note that the COVID-19 Bus Service Support Grants and Additional Dedicated Home to School and College Transport Grants have been incorrectly classified within the "Transport Other" line on the CIES. As such this adjustment has been proposed to reclass the these grants from the "Transport - Other" line on the CIES to the "COVID-19 Grants" line within the CIES.				
	Total adjusted misstatements	**11,607**	**11,607**	**0**	**0**

6. Summary of misstatements

Disclosure amendments

Disclosure amendments made include the following:

- Various minor presentational points.
- **Note 2 (Expenditure & Funding Analysis)** – Note has been updated to ensure that Transport - Other (value of £38,512k) is consistent with the Comprehensive Income & Expenditure Statement (CIES).
- **Note 22 - Unusable Reserves** – The Capital Adjustment Account note did not agree to Note 3. The 2021/22 figure for Debt redeemed using capital receipts should have been £807k, rather than £Nil.
- **Annual Governance Statement** - Reference should have been to the Auditor's Annual Report not the Annual Audit Letter
- **Narrative Statement** - Page 4, paragraph 4 - the 2021/22 figure for the "gross cost of services during the year including capital grants to third parties as well as revenue expenditure" does not agree with the Statement of Accounts. Was noted £82.452m but is 80,578 in the statement of accounts
- **Narrative Statement** - Page 4, paragraph 6 - the figure for unusable reserves did not agree with the Statement of Accounts. The figure was noted as £80.862m at 31 March 2022 however in the statement of accounts the figure was £80.865.

Other issues

The financial statements for NECA include a share of the Joint Transport Committee assets and liabilities. Each year there is a difference in relation to cash balances between NECA and NTCA (the North of Tyne Combined Authority), and for 2021/22 the value of the difference is £260k. This is not reported as an unadjusted misstatement. The reason for not disclosing this as an error is that it is the result of a reasonable estimation process, but there is a relatively small and non-material variation when we carry out a comparison of this against the devolution percentages. No further action is required in relation to this issue.

07

Section 07:

Value for Money

7. Value for Money

Approach to Value for Money

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

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

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

We did not identify any risks of significant weaknesses in arrangements as part of our planning procedures or our work to date.

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

The primary output of our work on NECA's arrangements is the commentary on those arrangements that forms part of the Auditor's Annual Report. We intend to issue the Auditor's Annual Report no later than 3 months after we issue the audit opinion on the financial statements.

Status of our work

We are yet to complete our work in respect of NECA's arrangements for the year ended 31 March 2022. At the time of preparing this report, we have not identified any significant weaknesses in arrangements that require us to make a recommendation, however, we continue to undertake work on NECA's arrangements.

Our draft audit report at Appendix B outlines that we have not yet completed our work in relation to NECA's arrangements. As noted above, our commentary on NECA's arrangements will be provided in the Auditor's Annual Report at a future date.

Appendices

A: Draft management representation letter

B: Draft audit report

C: Independence

D: Other communications

Appendix A: Draft management representation letter

To: Mr Gavin Barker
Director
Mazars LLP

Date:

NECA and Group - audit for year ended 31 March 2022

This representation letter is provided in connection with your audit of the financial statements of NECA and Group for the year ended 31 March 2022 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 2021/22 (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

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.

Appendix A: Draft management representation letter

Accounting policies

I confirm that I have reviewed the accounting policies applied during the year in accordance with Code and International Accounting Standard 8 and consider these policies to faithfully represent the effects of transactions, other events or conditions on the 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.

Appendix A: Draft management representation letter

Fraud and error

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

I have disclosed to you:

- all the results of my assessment of the risk that the financial statements may be materially misstated as a result of fraud;
- all knowledge of fraud or suspected fraud affecting 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.

Appendix A: Draft management representation letter

Subsequent events

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

Going concern

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 **[only needed where there are unadjusted misstatements]**

I confirm that the effects of the uncorrected misstatements are immaterial, both individually and in aggregate, to the financial statements as a whole. *[Please ensure an appendix is attached to the letter setting out all unadjusted misstatements]*

Yours faithfully

Chief Finance Officer: ………………………

Date: ………………………

.

Appendix B: Draft audit report

Independent auditor’s report to the Members of the North East Combined Authority and the Group

Report on the audit of the financial statements

Opinion on the financial statements

We have audited the financial statements of North East Combined Authority and the Group for the year ended 31 March 2022, which comprise the North East Combined Authority and Group Comprehensive Income and Expenditure Statements, the North East Combined Authority and Group Balance Sheets, the North East Combined Authority and Group Movement in Reserves Statement, the North East Combined Authority and Group Cash Flow Statements and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the North East Combined Authority and the Group as at 31st March 2022 and of the North East Combined Authority and the Group’s expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22.

Basis for opinion

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

Conclusions relating to going concern

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

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

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

Appendix B: Draft audit report

Other information

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

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

We have nothing to report in this regard.

Responsibilities of the Chief Finance Officer for the financial statements

As explained more fully in the Statement of the Chief Finance Officer's Responsibilities, the Chief Finance Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22, and for being satisfied that they give a true and fair view. The Chief Finance Officer is also responsible for such internal control as the Chief Finance Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Chief Finance Officer is required to comply with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 and prepare the financial statements on a going concern basis, on the assumption that the functions of the North East Combined Authority and the Group will continue in operational existence for the foreseeable future. The Chief Finance Officer is responsible for assessing each year whether or not it is appropriate for the North East Combined Authority and the Group to prepare its accounts on the going concern basis and disclosing, as applicable, matters related to going concern.

Auditor's responsibilities for the audit of the financial statements

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Based on our understanding of the North East Combined Authority and the Group, we identified that the principal risks of non-compliance with laws and regulations related to the Local Government Act 2003 (and associated regulations made under section 21), the Local Government Finance Act 1988 (as amended), 1992 and 2012, the Local Audit and Accountability Act 2014 and the Accounts and Audit Regulations 2015, and we considered the extent to which non-compliance might have a material effect on the financial statements.

Appendix B: Draft audit report

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

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

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

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

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

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

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

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

Appendix B: Draft audit report

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

Matter on which we are required to report by exception

We are required to report to you if, in our opinion, we are not satisfied that the North East Combined Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2022.

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

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

Responsibilities of the North East Combined Authority

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

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

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

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

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

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

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

We have nothing to report in these respects.

Appendix B: Draft audit report

Use of the audit report

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

Delay in certification of completion of the audit

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

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

[*Signature*]

Gavin Barker – Director
For and on behalf of Mazars LLP

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

Date: *to be confirmed*

Appendix C: Independence

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

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

Appendix D: Other communications

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

Appendix D: Other communications

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

Gavin Barker, Director
gavin.barker@mazars.co.uk

Mazars

The Corner
Bank Chambers
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Newcastle upon Tyne
NE1 1DF

Mazars is an internationally integrated partnership, specialising in audit, accountancy, advisory, tax and legal services*. Operating in over 90 countries and territories around the world, we draw on the expertise of 40,400 professionals – 24,400 in Mazars' integrated partnership and 16,000 via the Mazars North America Alliance – to assist clients of all sizes at every stage in their development.

*where permitted under applicable country laws.

mazars

Item 7

Audit and Standards Committee

Date: 22 November 2022

Subject: Statement of Accounts 2021/22

Report of: Chief Finance Officer

Executive Summary

The purpose of this report is to present the updated and finalised 2021/22 Statement of Accounts for review by the Audit and Standards Committee. The draft Statement of Accounts for 2021/22 were published on 30 June 2022 and have been subject to review by the External Auditor from August 2022.

The 2021/22 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, and the resolution of a national issue relating to accounting for infrastructure assets, as set out in the Audit Completion Report also on this agenda.

The draft accounts published in June have been amended for misstatements identified during the audit process and minor presentational points.

The NECA Leadership Board is meeting on 29 November 2022 and will receive the 2021/22 Statement of Accounts for approval, taking into account 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 reported to this Committee on 28 June 2022. The report also includes explanations and key figures from the main financial statements to aid understanding.

No significant changes are required to the draft Annual Governance Statement which was considered by the Committee in June 2022 or the draft Narrative Report.

1. Background Information

1.1 The Accounts and Audit Regulations 2015 require that the Authority's Statement of Accounts should be approved by a committee. In NECA's governance framework, this is the Leadership Board. However, best practice guidance outlines that the Audit and Standards Committee should also review the financial statements and external auditor's opinion. Review by this Committee is an additional step in the process to comply with best practice.

1.2 The Accounts and Audit (Amendment) Regulations 2021 extended the statutory deadlines for the publication date for final, audited accounts from 31 July to 30 September. The Accounts and Audit (Amendment) Regulations 2022 further extended this deadline from 30 September to 30 November for 2021/22.

1.3 The annual audit of NECA's Statement of Accounts has now been substantially completed for 2021/22 and the external auditor, Mazars have issued their report, subject to the completion of outstanding work.

2 Proposals

2.1 The Statement of Accounts for the financial year 2021/22 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 2022 and the Code of Practice on Local Authority Accounting 2021/22 (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 small number of 'misstatements' were identified which have since been amended. These are listed in Section 6 of the Audit Completion Report and are as follows:

i) Reclassification within the Comprehensive Income and Expenditure Statement (CIES) of Active Travel Fund grants from 'Covid-19 grants' to 'Transport – Other';

ii) Reclassification within the CIES of Bus Service Support Grants and Additional Dedicated Home to School and College Transport Grants from 'Transport – Other' to 'Covid-19 grants';

iii) Note 2 Expenditure and Funding Analysis has been updated to ensure consistency with the CIES;

iv) Note 22 Unusable Reserves – the 2021/22 figure for Debt redeemed using capital receipts should have been £807k but was originally shown as nil.

v) Annual Governance Statement – reference should have been to the Auditor’s Annual Report not the Annual Audit Letter;

vi) Narrative Statement – figures for gross cost of services during the year and unusable reserves updated to match the statement of accounts.

2.4 Other 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. Comprehensive Income and Expenditure Statement (page 6);
iii. Balance Sheet (page 7);
iv. Cash Flow Statement (page 8).

2.6 NECA also produces Group Accounts which consolidate the financial accounts of Nexus (page 76 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 significant increase in total reserves held from £99.316m at 31 March 2021 to £139.182m at 31 March 2022, mainly due to receipt during the year of capital grants (namely Transforming Cities Fund and Active Travel Fund) which are committed to fund capital expenditure in future years but which have not yet been claimed by the local authorities delivering the projects and which are held in the Capital Grants Unapplied at the year end. This will be drawn on in 2022/23 as these projects are delivered and funding paid out to cover expenditure defrayed.

2.9 Usable reserves totalled £80.865m at 31 March 2022, which included £11.305m earmarked reserves and £60.986m capital grants unapplied, representing funds committed to meet expenditure requirements in future years. The corresponding balances held on these reserves at 1 April 2021 was £11.452m of earmarked reserves and £23.686m of capital grants unapplied.

2.10 Unusable reserves totalled £58.317m at 31 March 2022, 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. Unusable reserves totalled £56.284m at 1 April 2021.

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 paid to third parties as well as revenue expenditure incurred in year, was £80.578m (£79.781m in 2020/21). 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 £7.016m last year (£30.325m in 2020/21). The net cost was lower in 2021/22 mainly due to significant capital grants received in year 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 that 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 increased from £99.316m at 31 March 2021 to £139.179m at 31 March 2022 which, as described above, is due to the volume of capital grants received during the year which are held to fund capital expenditure committed for future years.

Cash Flow Statement

2.16 The Cash Flow Statement shows the change in cash and cash equivalents during the financial year. The statements 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 slightly from £38.182m at 31 March 2021 to £40.013m at 31 March 2022. The majority of the funds received as capital grants during the year but not yet defrayed and held to fund activity in future years were placed as fixed term investments and shown in the 'Short Term Investments' line on the Balance Sheet.

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 2022. 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 final Statement of Accounts will be two further documents which do not form part of the audited accounts but provide further context. The Narrative Report aims to offer interested parties a more understandable guide to the most significant matters reported in the accounts. The Annual Governance Statement gives assurance that appropriate mechanisms are in place for the maintenance of good governance across the activities of the Authority. There have been only minor corrections 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 28 June 2022 and it was noted at the time that it was subject to a final review taking into account external audit findings. Three internal control recommendations have been raised by the external auditors in the Audit Completion Report which will be reflected in the final Annual Governance Statement for NECA.

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 presented to the Committee on 28 June 2022 and published on 30 June 2022. 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 arising from 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 report 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 29 November 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 its objectives. The Accounts presented reflect a true and fair view of the financial position of NECA and Group during 2021/22 and as at 31 March 2022. 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 2021/22. The statement of accounts details the financial position of the authority as at 31 March 2022.

8. Legal Implications

8.1 Compliance with the Accounts and Audit Regulations 2015 and the CIPFA Code of Practice on Local Authority Accounting 2021/22 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 2022. 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 – Narrative Report 2021/22

Appendix 2 – Statement of Accounts 2021/22

15. Background Papers

15.1 Draft Statement of Accounts 2021/22 – Audit and Standards Committee 28 June 2022 https://northeastca.gov.uk/wp-content/uploads/2022/06/FINAL-Audit-and-Standards-Agenda-Pack-28-June-2022.pdf

Draft Annual Governance Statement 2021/22 – Audit and Standards Committee 28 June 2022 https://northeastca.gov.uk/wp-content/uploads/2022/06/FINAL-Audit-and-Standards-Agenda-Pack-28-June-2022.pdf

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: ✓

North East Combined Authority

DURHAM • GATESHEAD • SOUTH TYNESIDE • SUNDERLAND

Narrative Report for the Year ended 31 March 2022

North East Combined Authority Narrative Report 2021/22

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 2021/22 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 2022 and its financial position at that date.
- A look ahead to 2022/23 and beyond.

The Statement of Accounts sets out the financial performance of the Authority for the year ending 31 March 2022 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 2022/23, 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.

The Levelling Up White Paper was published in February 2022 and set out the Department for Levelling Up, Housing and Communities' ambition to spread opportunity more equally across the UK. The White Paper committed to extending devolution in England, including taking forward negotiations for an expanded Mayoral Combined Authority deal for the North East and reiterated the message of the Spending Review that the North East is eligible for a City Region Sustainable Transport Settlement (which could be valued between £600-650m) subject to the appropriate governance arrangements to agree and deliver funding. County Durham was named as one of nine areas selected to take forward proposals for devolved powers through a County Deal.

Revenue Financial Summary 2021/22

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 £117.289m was slightly lower than the revenue budget of £120.350m due to lower financing charges on the Tyne Tunnels and reprofiling of some Transport North East project based work, such as the Bus Service Improvement Plan/Enhanced Partnership and Active Travel Fund revenue work, into the 2022/23 financial year. Income received was £119.675m, which resulted in a net transfer to reserves of £2.386m which was used to fund capital expenditure charged to the revenue account, and carried forward to fund projects in 2022/23.

Table 1: Summary of Revenue Expenditure

	2021/22 Revised Budget	2021/22 Actual	Variance
	£000	£000	£000
Expenditure			
Joint Transport Committee			
- Retained Levy Budget	2,120	2,020	(100)
- Grant to Durham	15,457	15,457	-
- Grant to Nexus	57,813	57,813	-
- Grant to Northumberland	6,318	6,318	-
- Metro Futures Planning Studies	1,187	1,187	
- Tyne and Wear Levy Rebate	1,200	1,200	-
Tyne Tunnels			
- Contract Payments	20,411	20,011	(400)
- JTC costs	422	439	17
- Financing Costs	7,323	6,155	(1,168)
Other Transport Activity			-
- Transport North East	4,096	2,412	(1,684)
- Covid Grants	3,734	3,961	227
Corporate/Central Budget	269	316	47
Total Expenditure	**120,350**	**117,289**	**(3,061)**
Income			
External Grant Funding	(7,798)	(6,336)	1,462
Transport Levies	(84,095)	(84,095)	-
Tolls Income	(27,855)	(28,584)	(729)
Interest/Investment Income	(94)	(98)	(4)
Contributions from Constituent Authorities	(170)	(170)	-
Other Income	(395)	(392)	3
Total Income	**(120,407)**	**(119,675)**	**732**
Net Revenue Expenditure to fund from Reserves	**(57)**	**(2,386)**	**(2,329)**

This statement provides a comparison of the outturn position with the NECA (including JTC) revised revenue budget for 2021/22, 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 an increase in reserves from £99.316m at 31 March 2021 to £139.179m at 31 March 2022, mainly due to receipt during the year of capital grants (namely Transforming Cities Fund and Active Travel Fund) which are committed to fund capital expenditure in future years but which have not yet been claimed by the local authorities delivering the projects. There will be a corresponding decrease in the Capital Grant Unapplied reserve in 2022/23 as these projects are delivered and funding paid out.

The gross cost of services during the year including capital grants to third parties as well as revenue expenditure was £80.578m (£79.781m in 2020/21). 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 £7.016m (£30.325m in 2020/21). This was funded form sources including the Transport Levy, other contributions from Constituent Authorities and Government Grants. The net cost was lower in 2021/22 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.

Usable reserves totalled £80.862m at 31 March 2022, which included £11.305m earmarked reserves and £60.986m capital grants unapplied, representing funds committed to meet expenditure requirements in future years.

Capital Investment

Capital investment (including Nexus as part of the NECA Group) during the year totalled £113.112m. 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

	2021/22 Revised Programme	2021/22 Actual	Variance
	£000	£000	£000
Transforming Cities Fund Tranche 1	901	897	(4)
Transforming Cities Fund Tranche 2	12,939	7,460	(5,479)
Active Travel Fund Tranche 2	3,392	1,187	(2,205)
Electric Vehicle Charging	257	27	(230)
Ultra-Low Emission Vehicles – Taxi Project	49	1	(48)
Metro Asset Renewal Plan	23,684	17,015	(6,669)
Metro Fleet Replacement	64,215	59,206	(5,009)
Nexus Other Capital Projects	3,304	1,140	(2,164)
Metro Flow	20,632	14,131	(6,501)
Tyne Tunnels	1,200	791	(409)
Local Transport Plan	11,339	11,257	(82)
Total	**141,912**	**113,112**	**(28,800)**

* 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 2021/22

	2021/22 Actual	
	£000	%
Local Transport Plan Grant	11,257	9.9%
Metro Capital Grant	16,149	14.3%
Metro Fleet Grant	59,206	52.3%
Transforming Cities Fund Grant	22,488	19.9%
Other Capital Grants	2,355	2.1%
Reserves	1,657	1.5%
Total Funding	**113,112**	**100.0%**

3. Treasury Management

The Balance Sheet on page 7 of the accounts shows external borrowing of £94.834m at the end of the year, which is split between short term borrowing (£1.266m) and long term borrowing (£93.568m), after the allocation of part of the transport borrowing to NTCA accounts. This is a small decrease compared to balance of £95.550m 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 £89.792m in the NECA accounts at the end of the year compared to £34.383m at the end of the previous year. The total of investments included £34.535m of investments held on behalf of Nexus. A further £15.196m cash equivalents were held on behalf of Nexus. The increase compared to the previous year is due to NECA receiving a significant amount of transport capital grants during the year which have not yet been applied to fund capital expenditure on projects within the Transforming Cities Fund and Active Travel Fund programmes.

4. Debtors

The Balance Sheet on page 7 of the accounts shows a short-term debtors balance at 31 March 2022 of £1.890m (£5.050m at 31 March 2021). 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.

5. Creditors

Short term creditors at 31 March 2022 were £56.654m (£39.879m at 31 March 2021). 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 (£90.000m total creditor of which £49.731m is shown in the NECA accounts).

6. Pensions Costs

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

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

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

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

NECA has two types of pension liabilities – described as funded and unfunded. Funded pension liabilities are within the LGPS and are backed by assets attributable to the Authority. For the funded element of the scheme, the NECA pension fund is in a notional surplus position amounting to £11.910m at 31 March 2022, compared with £9.030m at 31 March 2021. The increase in year is due to market conditions at 31 March 2022 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 2021/22. At the end of the year there was an unfunded liability of £0.670m (£0.870m at 31 March 2021) and this is disclosed on the Balance Sheet.

The deficit as at 31 March 2022 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.

7. Net Assets

Net assets in the NECA accounts have increased from £99.316m at 31 March 2021 to £139.179m at 31 March 2022. The increase/decrease is due to mainly to a significant amount of transport capital grants being received during the year which have not yet been applied to fund capital expenditure.

8. Group Results

The Group Accounts included as part of the Statement of Accounts fully incorporate the results of Nexus (The Tyne and Wear Passenger Transport Executive). More details can be found in Group Note G01 on page 77.

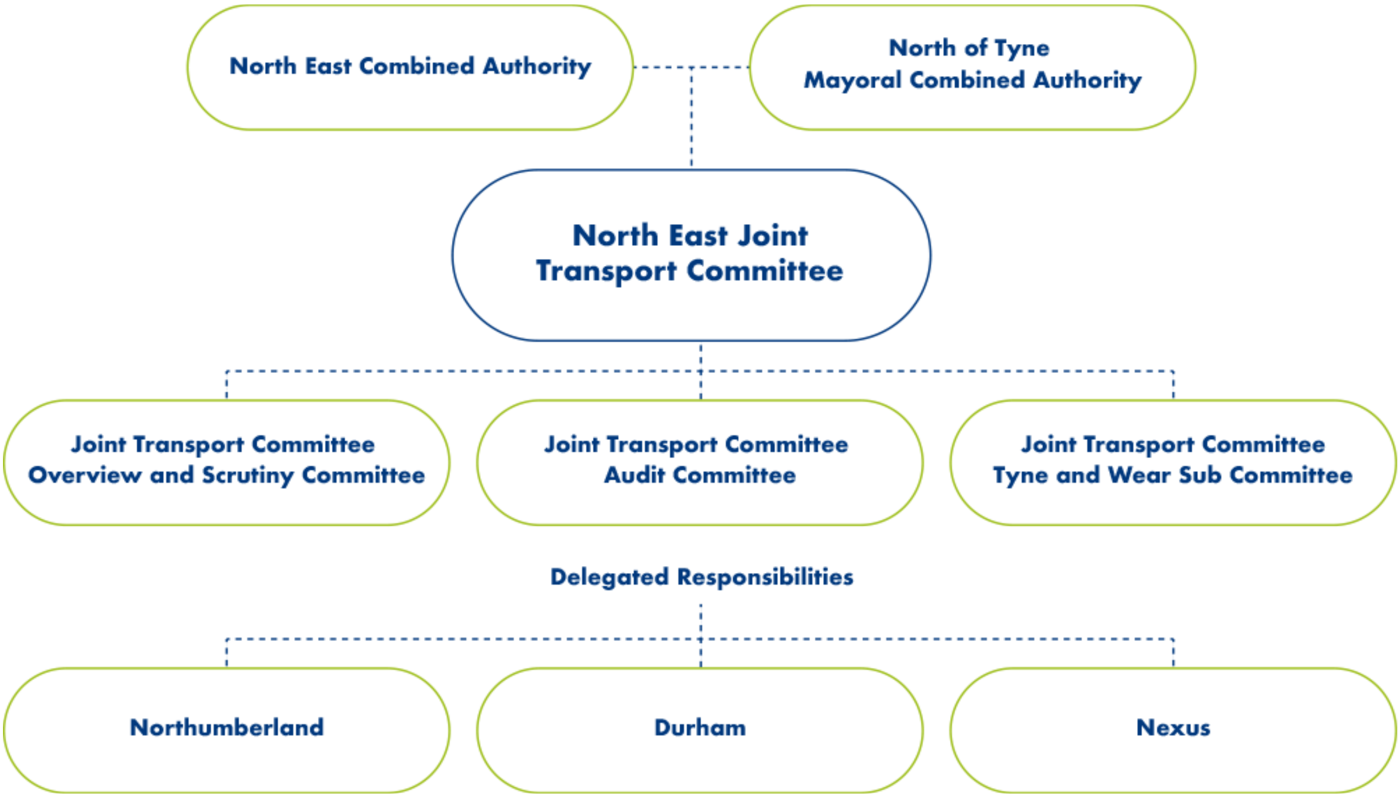
The Nexus accounts are apportioned between NTCA and NECA accounts (after elimination of intra-Group transactions), with the balance sheet information at 31 March 2022 allocated between the two Combined Authorities in proportion to their relative share of Tyne and Wear Population as set out in table 4. 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.

9. Accounting for the North East Joint Transport Committee

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

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

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



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

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

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

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

For the 2021/22 accounts the mid-year estimated population published by the Office of National Statistics as at June 2019 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 2022 is shown in Table 4 below.

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

	Mid-Year 2019 Population	Proportion
	People	Proportion
NECA		
- Gateshead	202,055	
- South Tyneside	150,976	
- Sunderland	277,705	
	630,736	0.55257
NTCA		
- Newcastle	302,820	
- North Tyneside	207,913	
	510,733	0.44743
Tyne and Wear Total	**1,141,469**	

10. The Statement of Accounts

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

Movement in Reserves Statement (Statement of Accounts page 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.

Expenditure and Funding Analysis (Statement of Accounts page 11)

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

Group Financial Statements and Notes (Statement of Accounts page 73 onwards)

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

11. Annual Governance Statement

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

12. Non-Financial Performance

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

Transport

Since the formation of the North East Joint Transport Committee, the LA7 Authorities have been working together on shared transport priorities. Through the JTC we have collectively:

- Agreed a transformational Transport Plan up to 2035, backed by a pipeline of major projects aimed at delivering economic growth and reducing inequalities, carbon reduction and better health outcomes;

- Secured £208m capital funding to begin delivering on those schemes through the Transforming Cities Fund (TCF);
- Secured £362m of funding for a new fleet of Metro trains which, along with a frequency uplift delivered by the "Metro Flow" TCF scheme and the continuation of the Metro Asset Renewal Programme, will transform the quality and frequency of the Metro; and
- Been indicatively awarded £164m capital and revenue combined towards delivering our Bus Service Improvement Plan (BSIP).

In November 2021 the 'Tyne Pass' scheme for barrierless open road tolling was launched at the Tyne Tunnels. The barrierless scheme has modernised the payment system, reduced journey times and provides other benefits for the area, including significantly reduced carbon emissions and the creation of new local jobs.

Towards the end of 2021/22, traffic at the Tyne Tunnels has seen a return to almost pre-pandemic levels. It is still unclear whether the ongoing effects of Covid-19 restrictions and the 'work from home' culture combined with the increase in fuel prices will affect journey numbers throughout 2022.

Table 5 – Tyne Tunnel Traffic Flow data

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

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

The tolls were increased in line with inflation on 1 May 2021 from £1.80 to £1.90 for Class 2 vehicles.

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 2021/22.

- The number of passenger journeys across all modes within Tyne and Wear in 2021/22 was estimated at 106.9 million, a 115.5% increase when compared to the 49.6 million in the previous year and a 30.8% decline when compared to 154.5 million in 2019/20.
  - Bus patronage was 81.4 million in 2021/22; a 104.5% increase when compared to 39.8 million in the previous year and a 31.8% decline when compared to 119.4 million in 2019/20.
  - Metro patronage was 24.2 million in 2021/22; a 157.4% increase when compared to 9.4 million in the previous year and a 26.9% decline when compared to 33.1 million in 2019/20.

  - Ferry patronage was 0.269 million passengers in 2021/22; a 74.7% increase when compared to 0.154 million journeys in the previous year and 23.8% decline when compared to 0.353 million journeys in 2019/20.
  - Rail patronage was 1.1 million journeys in 2021/22; a 340% increase when compared to 0.250 million journeys in the previous year and a 34.5% decline when compared to 1.680 million journeys in 2019/20.

- Metro reliability (operated mileage) was 95.3% during 2021/22, stable versus the figure of 95.8% achieved in the previous year.
- Metro reliability (Charter punctuality) was 82.8% during 2021/22, a decrease on the 87.4% achieved in the previous year.

NECA Staffing

- NECA continues to adapt and change to meet the requirements of the area, while keeping costs to a minimum. Many services are provided through Service Level Agreements with constituent local authorities.
- On 1 April 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 from Newcastle City Council and Nexus of staff working on regional Transport matters was completed.
- The majority of the NECA employees work on behalf of Transport North East with numbers growing in 2021/22 as the responsibilities of the team increase following successful bids for grant funding.

Table 6 – Change in Staffing numbers since 2015/16

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

13. Looking Ahead

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

Transport

During 2022/23 the North East Joint Transport Committee will put in place a formal Enhanced Partnership (EP) with bus operators. An EP is where local transport authorities and bus operators agree a detailed partnership plan (a Bus Service Improvement Plan) that is refined through consultation. A series of partnership schemes are built into the final agreed EP plan. The region's first BSIP unveiled a £804m bid to government which would dramatically transform bus services across the North East. In response, an indicative funding allocation of £73.758m capital and £89.763m revenue funding across 3 years (one of the highest allocations in the country) has been indicatively announced by government, pending the consideration of the draft EP scheme.

2022/23 is the planned final year of the Transforming Cities Fund Programme, which

Building on the initiatives and infrastructure improvements delivered in the first two rounds of the Active Travel Fund, in 2022/23 TNE will deliver improvements to the region's walking and cycling network totalling £17.9m awarded through Tranche 3 of the fund. Schemes in Newcastle, North Tyneside, Northumberland and Sunderland will be supported.

In 2022/23 the JTC will adopt its first North East Rail and Metro Strategy – a new blue print which outlines regional plans to upgrade the East Coast Main Line (ECML), reopen the Leamside Line and extend the Tyne and Wear Metro. Some of the main actions which the region will take forward include:

- Obtaining a Government commitment to increasing capacity of the ECML for passengers and freight;
- Extending the Tyne and Wear Metro, upgrading existing networks and adding new stations and routes – including the Leamside Line and Northumberland Line;
- Working with Great British Railways to form a new partnership which represents the North East, ensuring local needs are taken into account;
- Introducing new trains – including a more efficient electric fleet on Metro and electric/battery/hydrogen local rail trains;
- Improvements to several regional railway stations including Newcastle and Sunderland and new stations such as Gateshead East.

Work continues with government to agree revised governance structures, in the form of a new devolution deal, to enable the North East to access funding through the City Region Sustainable Transport Settlement.

Economic Development and Digital

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

Project Gigabit delivered by Building Digital UK (BDUK) was launched in March 2021 and will deliver gigabit-capable connectivity to at least 5% of premises across the UK in hard-to-reach areas by the end of 2025, supporting the government's target of at least 85% through a combination of commercial and subsidised build.

Finance, Skills and Employability

Activity continues to progress all aspects of the Finance, Skills and Employment needs and opportunities across NECA. The UK Shared Prosperity Fund (UKSPF) provides £2.6bn of funding for local investment by March 2025. Every place in the UK has been allocated a share of the UKSPF. In order to access UKSPF funding, lead local authorities are being asked to complete an investment plan, setting out how they intend to use and deliver the funding, in conjunction with local stakeholders. This work will take place during 2022/23 with an anticipated date for first investment plans to be approved of October 2022.

14. Further Information Available

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

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

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

North East Combined Authority

Statement of Accounts 2021/22

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3.0 Group Financial Statements and Explanatory Notes

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4.0 Supplemental Information

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

1.0 Statement of Responsibilities for the Statement of Accounts

1.1 The Authority's Responsibilities

The Authority is required:

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

The Chief Finance Officer's Responsibilities:

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

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

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

The Chief Finance Officer has also:

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

Certification of the Accounts

I hereby certify that the Statement of Accounts for the year ended 31 March 2022, required by the Accounts and Audit Regulations 2015, are set out in the following pages.

I certify that the Statement of Accounts gives a true and fair view of the financial position of the North East Combined Authority and Group at 31 March 2022 and its income and expenditure for the year ended 31 March 2022.

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

2.1 Movement in Reserves Statement

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

		Usable Reserves						
	Note	General Fund Balance	Earmarked General Fund Reserves	Capital Receipts Reserve	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Authority Reserves
		£000	£000	£000	£000	£000	£000	£000
Balance at 1 April 2020		**(9,166)**	**(10,777)**	**-**	**(7,363)**	**(27,304)**	**(55,699)**	**(83,003)**
Total Comprehensive Income and Expenditure		(16,672)	-	-	-	(16,672)	360	(16,312)
Adjustments between accounting basis & funding basis under regulations	3	17,268	-	-	(16,324)	944	(944)	-
Net (Increase)/Decrease before transfers to Earmarked Reserves		**596**	**-**	**-**	**(16,324)**	**(15,728)**	**(584)**	**(16,312)**
Transfers (To)/From Earmarked Reserves	21	677	(677)	-	-	**-**	-	-
(Increase)/Decrease in 2020/21		1,273	(677)	-	(16,324)	**(15,728)**	(584)	(16,312)
Balance at 31 March 2021 carried forward		**(7,893)**	**(11,454)**	**-**	**(23,687)**	**(43,032)**	**(56,284)**	**(99,316)**
Total Comprehensive Income and Expenditure		(39,383)	-	-	-	(39,383)	(480)	(39,863)
Adjustments between accounting basis & funding basis under regulations	3	38,853	-	-	(37,300)	1,553	(1,553)	-
Net (Increase)/Decrease before transfers to Earmarked Reserves		**(530)**	**-**	**-**	**(37,300)**	**(37,830)**	**(2,033)**	**(39,863)**
Transfers (To)/From Earmarked Reserves	21	(148)	148	-	-	**-**	-	-
(Increase)/Decrease in 2021/22		(678)	148	-	(37,300)	(37,830)	(2,033)	(39,863)
Balance at 31 March 2022 carried forward		**(8,571)**	**(11,306)**	**-**	**(60,987)**	**(80,865)**	**(58,317)**	**(139,182)**

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.

2020/21					2021/22		
Gross Expenditure	Gross Income	Net Expenditure		Note	Gross Expenditure	Gross Income	Net Expenditure
£000	£000	£000			£000	£000	£000
			Continuing NECA Services				
574	(781)	(207)	Corporate		941	(162)	779
73	-	73	Transport - Retained Levy Budget		338	-	338
15,456	-	15,456	Transport - Durham		15,457	-	15,457
32,719	-	32,719	Transport - Tyne and Wear		33,264	-	33,264
11,618	(28,367)	(16,749)	Transport - Other		16,012	(53,998)	(37,986)
13,267	(14,234)	(967)	Transport - Tyne Tunnels		13,673	(17,983)	(4,310)
6,074	(6,074)	-	Covid-19 Grants		893	(1,419)	(526)
79,781	**(49,456)**	**30,325**	**Cost of Services**		**80,578**	**(73,562)**	**7,016**
4,057	(963)	3,094	Financing and Investment Income and Expenditure	4	3,820	(950)	2,870
-	(50,091)	(50,091)	Taxation and Non-Specific Grant Income	5	-	(49,270)	(49,270)
		(16,672)	**(Surplus) on Provision of Services**				**(39,384)**
		360	Re-measurement of the defined benefit liability	19			(480)
		360	**Other Comprehensive Income and Expenditure**				**(480)**
		(16,312)	**Total Comprehensive Income and Expenditure**				**(39,864)**

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 2021 £000		Note	31 March 2022 £000
190,648	Property, Plant and Equipment	11	188,013
18,715	Long Term Debtors	15	17,870
209,363	**Long Term Assets**		**205,883**
34,383	Short Term Investments	12	89,792
5,050	Short Term Debtors	14	1,890
38,183	Cash and Cash Equivalents	16	40,013
77,616	**Current Assets**		**131,695**
(1,274)	Short Term Borrowing	12	(1,266)
(39,879)	Short Term Creditors	17	(56,654)
(3,356)	Grants Receipts in Advance	6	(1,220)
(2,824)	New Tyne Crossing Deferred Income	18	(2,814)
(47,333)	**Current Liabilities**		**(61,954)**
(45,184)	New Tyne Crossing Deferred Income	18	(42,207)
(94,276)	Long Term Borrowing	12	(93,568)
(870)	Pension Liability	19	(670)
(140,330)	**Long Term Liabilities**		**(136,445)**
99,316	**Net Assets**		**139,179**
(43,032)	Usable Reserves	20	(80,862)
(56,284)	Unusable Reserves	22	(58,317)
(99,316)	**Total Reserves**		**(139,179)**

Chief Finance Officer Certificate

I certify that the accounts set out on pages 5 to 74 give a true and fair view of the financial position of the North East Combined Authority as at the 31 March 2022.

Signed:

Paul Darby, Chief Finance Officer

2.4 Cash Flow Statement

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.

2020/21 £000		Note	2021/22 £000
16,672	Net Surplus on the provision of services		39,383
16,000	Adjustments to net surplus or deficit on the provision of services for non-cash movements	24	20,807
(25,271)	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	24	(49,259)
7,401	**Net cash flows from Operating Activities**		**10,931**
51,740	Investing Activities	25	(8,209)
(838)	Financing Activities	26	(893)
58,303	**Net (Decrease)/Increase in cash and cash equivalents**		**1,829**
22,017	Cash and cash equivalents at the beginning of the reporting period	16	38,183
(42,138)	Transfer to the NTCA		-
38,182	**Cash and cash equivalents at the end of the reporting period**		**40,012**

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.

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

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

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.

	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)**				

Note 02a: Income and Expenditure Analysed by Nature

	2020/21 £000	2021/22 £000
Expenditure		
Employee benefit expenses	511	541
Other service expenses	66,477	65,527
Depreciation, impairment and Revenue Expenditure Funded from Capital Under Statute (REFCUS)	12,793	14,510
Interest payments	4,057	3,820
Total expenditure	**83,838**	**84,398**
Income		
Fees, charges and other service income (Tyne Tunnels tolls)*	(11,393)	(15,948)
Interest and investment income	(963)	(950)
Income from transport levy	(49,349)	(49,271)
Government grants and contributions	(34,268)	(53,560)
Other income	(4,537)	(4,053)
Total income	**(100,510)**	**(123,782)**
Surplus/Deficit on the provision of services	**(16,672)**	**(39,384)**

* 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.

2020/21					2021/22			
General Fund	Capital Receipts Reserve	Capital Grants Unapplied	Unusable Reserves	Adjustments between Accounting Basis and Funding Basis Under Statute	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				
(2,402)	-	-	2,402	Charges for depreciation and impairment of non current assets	(2,385)	-	-	2,385
2,824	-	-	(2,824)	Other income that cannot be credited to the General Fund	2,814	-	-	(2,814)
7,052	-	-	(7,052)	Capital grants and contributions applied	6,584	-	-	(6,584)
(10,391)	-	-	10,391	Revenue expenditure funded from capital under statute	(12,125)	-	-	12,125
				Insertion of items not debited or credited to the CIES				
1,391	-	-	(1,391)	Statutory provision for the financing of capital investment	993	-	-	(993)
19	-	-	(19)	Capital expenditure charged against the General Fund	437	-	-	(437)
				Adjustments primarily involving the Capital Grants Unapplied Account				
18,219	-	(18,219)	-	Grants and contributions unapplied credited to the CIES	42,675	-	(42,675)	-
-	-	1,895	(1,895)	Application of grants to capital financing transferred to the CAA	-	-	5,375	(5,375)
				Adjustments involving the Capital Receipts Reserve				
-	(841)	-	841	Loan principal repayments	-	(807)	-	807
-	841	-	(841)	Application of Capital Receipts to repayment of debt	-	807	-	(807)
				Adjustments involving the Financial Instruments Adjustment Account				
225	-	-	(225)	Amount by which finance costs charged to the CIES are different from finance costs chargeable in the year in accordance with statutory requirements	140	-	-	(140)
				Adjustments involving the Pensions Reserve				
280	-	-	(280)	Reversal of items relating to retirement benefits debited or credited to the CIES	(330)	-	-	330
50	-	-	(50)	Employer's pension contributions and direct payments to pensioners payable in the year	50	-	-	(50)
17,268	**-**	**(16,324)**	**(943)**	**Total Adjustments**	**38,853**	**-**	**(37,300)**	**(1,553)**

Note 04: Financing and Investment Income and Expenditure

	Note	2020/21	2021/22
		£000	£000
Interest Payable and Similar Charges		4,037	3,990
Interest Payable on defined benefit liability	19	20	(170)
Interest Receivable and similar income		(963)	(950)
Total		**3,094**	**2,870**

Note 05: Taxation and Non Specific Grant Income

		2020/21	2021/22
		£000	£000
Transport Levy		(49,349)	(49,230)
Non-Specific Capital Grants		(741)	(41)
Total		**(50,090)**	**(49,271)**

Note 06: Grant Income

		2020/21	2021/22
		£000	£000
Local Authority Contributions to NECA		(161)	(276)
Local Growth Fund		(679)	(15)
Local Transport Plan		(7,736)	(7,755)
European Grants		(176)	-
North East Smart Ticketing Initiative		(113)	-
Transforming Cities Fund		(13,907)	(31,595)
Office for Low Emission Vehicles		(70)	(41)
COVID-19 Grants		(6,074)	(1,419)
Active Travel Fund		-	(10,188)
Bus Recovery Grant		-	(689)
Other Grants		(5,352)	(1,582)
Total		**(34,268)**	**(53,560)**

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 2021 £000	31 March 2022 £000
Office for Low Emission Vehicles	(127)	(29)
Other Grants	(3,229)	(1,192)
Total	**(3,356)**	**(1,221)**

Shown as Short-Term Liability on the Balance Sheet	(3,356)	(1,221)
Short as Long-Term Liability on the Balance Sheet	-	
Total	**(3,356)**	**(1,221)**

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.

	2020/21 £000	2021/22 £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	2021/22	133	-	**133**
	2020/21	131	-	**131**

All three of the Authority's statutory officers in 2021/22 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:

	2020/21 £000	2021/22 £000
£50,000-£54,999	0	1
£55,000-£59,999	1	2
£60,000-£64,999	0	0
£65,000-£69,999	0	0
£70,000-£74,999	0	1
£75,000-£79,999	0	0
£80,000-£84,999	0	0
£85,000-£89,999	0	0
£90,000-£94,999	0	0
£95,000-£99,999	1	1
Total	**2**	**5**

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.

	2020/21 £000	2021/22 £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)	8	-
Total	**27**	**19**

Note 10: Related Parties

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

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

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

Elected Members of the Authority
Members of the Authority have a direct control over the Authority's financial and operating policies. No members allowances are payable to elected members of the Authority. During 2021/22 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.

	2020/21				2021/22			
	Receivables	Income	Expenditure	Payables	Receivables	Income	Expenditure	Payables
	£000	£000	£000	£000	£000	£000	£000	£000
NECA Constituent Authorities								
Durham	-	(15,499)	18,960	1,187	(12)	(15,508)	19,598	701
Gateshead	-	(10,291)	1,136	137	-	(10,847)	1,139	106
South Tyneside	-	(8,112)	926	206	-	(8,111)	576	6
Sunderland	-	(14,949)	1,327	131	-	(14,903)	2,101	24
Remaining JTC Constituent Authorities								
Newcastle	-	(10)	2,879	691	-	(10)	2,600	1,005
North Tyneside	-	(10)	1,061	130	-	(10)	1,895	1,157
Northumberland	-	(10)	2,014	315	-	(10)	1,173	90
Other Public Bodies								
North of Tyne Combined Authority	-	-	-	-	-	-	-	-
Nexus	(695)	(761)	37,234	33,671	(101)	(834)	34,208	54,268

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

	2021/22				
	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 2021	2,881	219,001	561	**222,443**	219,001
Additions	-	260	177	**437**	260
Reclassification from Assets Under Construction	76	-	(76)	**-**	-
Impairment recognised in the Surplus on the Provision of Services	-	-	-	**-**	-
Other Adjustments	-	(688)	-	**(688)**	-
At 31 March 2022	**2,957**	**218,573**	**662**	**222,192**	**219,261**

Accumulated Depreciation and Impairment					
At 1 April 2021	(914)	(30,879)	-	**(31,793)**	(30,879)
Depreciation charge for the Year	(167)	(2,218)	-	**(2,385)**	(2,218)
At 31 March 2022	**(1,081)**	**(33,097)**	**-**	**(34,178)**	**(33,097)**

Net Book Value					
At 1 April 2021	**1,967**	**188,122**	**561**	**190,650**	**188,122**
At 31 March 2022	**1,876**	**185,476**	**662**	**188,014**	**186,164**

	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 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**

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 2021 £000	31 March 2022 £000	31 March 2021 £000	31 March 2022 £000	31 March 2021 £000	31 March 2022 £000	31 March 2021 £000	31 March 2022 £000
Amortised cost	-	-	18,715	17,870	34,383	89,792	2,242	658
Total financial assets	**-**	**-**	**18,715**	**17,870**	**34,383**	**89,792**	**2,242**	**658**
Non-financial assets	-	-	-		-	-	2,808	1,232
Total	**-**	**-**	**18,715**	**17,870**	**34,383**	**89,792**	**5,050**	**1,890**

Financial assets at amortised cost

Financial assets are classifed 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 2021 £000	31 March 2022 £000	31 March 2021 £000	31 March 2022 £000	31 March 2021 £000	31 March 2022 £000	31 March 2021 £000	31 March 2022 £000
Amortised cost	(94,276)	(93,568)	-	-	(1,274)	(1,266)	(33,933)	(21,788)
Total financial liabilities	**(94,276)**	**(93,568)**	**-**	**-**	**(1,274)**	**(1,266)**	**(33,933)**	**(21,788)**
liabilities	-				-		(5,946)	(34,866)
Total	**(94,276)**	**(93,568)**	**-**	**-**	**(1,274)**	**(1,266)**	**(39,879)**	**(56,654)**

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 classifed 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 2021				31 March 2022		
£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
4,037	-	**4,037**	Interest expense	3,990	-	**3,990**
4,037	**-**	**4,037**	**Total expense in Surplus on Provision of Services**	**3,990**	-	**3,990**
-	(963)	**(963)**	Investment income	-	(950)	**(950)**
-	**(963)**	**(963)**	**Total income in Surplus on Provision of Services**	**-**	**(950)**	**(950)**
4,037	**(963)**	**3,074**	**Net (gain)/loss for the year**	**3,990**	**(950)**	**3,040**

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 2022 using the following methods and assumptions:

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

For 2021/22 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 2021		31 March 2022	
	Level	**Carrying amount £000**	**Fair value £000**	**Carrying amount £000**	**Fair value £000**
Financial liabilities held at amortised cost	2	(95,550)	(151,970)	(94,834)	(136,768)
Total		**(95,550)**	**(151,970)**	**(94,834)**	**(136,768)**
Financial Assets at amortised cost					
Held to maturity investments		34,383	34,383	89,792	89,792
Nexus loan debtor	2	18,715	30,051	17,870	26,018
Total		**53,098**	**64,434**	**107,662**	**115,810**

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

Note 13: Nature and Extent of risks arising from Financial Instruments

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

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

Credit risk

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

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

Rating	2020/21 £000	2021/22 £000
n/a - investments with UK local authorities	27,617	34,535
n/a - investments with banks		38,679
n/a - investments with unrated building societies [1]	-	16,577
Total Short-Term Investments	**27,617**	**89,791**
AAA	14,254	
A-1	-	15,196
Total Cash Equivalents	**14,254**	**15,196**

[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 2022 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 2021 £000	31 March 2022 £000
Between 1-2 years	(370)	(368)
Between 2-5 years	(1,109)	(921)
Between 5-10 years	(185)	-
More than 10 years	(92,612)	(92,278)
	(94,276)	**(93,568)**
Less than 1 year	(1,274)	(1,266)
Total borrowing	**(95,550)**	**(94,833)**

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 2021 £000	31 March 2022 £000
Increase in interest payable on variable rate borrowing	-	
Increase in interest receivable on variable rate investments	(95)	(458)
Impact on the (Surplus)/Deficit on Provision of Services	**(95)**	**(458)**

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 £26.205m 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 2021 £000	31 March 2022 £000
Central Government bodies	610	1,232
Other local authorities	2,303	374
Other entities and individuals	2,137	284
Total	**5,050**	**1,890**

Note 15: Long Term Debtors

	31 March 2021 £000	31 March 2022 £000
Nexus borrowing	18,715	17,870
Total	**18,715**	**17,870**

Note 16: Cash and Cash Equivalents

	31 March 2021 £000	31 March 2022 £000
Cash held in Authority's bank account	20,437	24,817
Cash equivalents	17,746	15,196
Total	**38,183**	**40,013**

Note 17: Short Term Creditors

	31 March 2021 £000	31 March 2022 £000
Central government bodies	(33)	(43)
Other local authorities	(2,188)	(4,984)
Other entities and individuals		
- Nexus	(33,672)	(49,731)
- TT2	(1,212)	-
- Other	(2,774)	(1,896)
Total	**(39,879)**	**(56,654)**

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 2021/22 the total payment under the contract was £20.012m (2020/21 £12.717m) of which £11.058m is shown in the account of NECA and £8.954m shown in the accounts of NTCA. The increase 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 2021/22 value of £81.476m (2020/21 £86.568m), of which £45.021m is shown on the NECA balance sheet and £36.455m shown on the NTCA balance sheet

	Deferred Income Release	
	2020/21 £000	2021/22 £000
Payable in 2021/22	(2,824)	(2,814)
Payable within 2 to 5 years	(11,296)	(11,255)
Payable within 6 to 10 years	(14,120)	(14,069)
Payable within 11 to 15 years	(14,120)	(14,069)
Payable within 16 to 20 years	(5,648)	(2,814)
Total	**(48,008)**	**(45,021)**

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	
	2020/21	2021/22	2020/21	2021/22
	£000	£000	£000	£000
Comprehensive Income and Expenditure Statement				
Cost of Services:				
Current service cost	320	500	-	-
Settlement cost	(620)	-	-	-
Financing and Investment Income and Expenditure		-		-
Interest on net defined benefit liability (asset)	-	(190)	20	20
Pension expense recognised in profit and loss	**(300)**	**310**	**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	(10,570)	(940)	-	-
Actuarial (gains)/losses due to changes in financial assumptions	4,310	(1,990)	70	(20)
Actuarial (gains)/losses due to changes in demographic assumptions	-	(460)	-	(10)
Actuarial (gains)/losses due to changes in liability assumptions	320	200	(10)	(140)
Adjustment in respect of paragraph 64	6,210	-	-	-
Income	**270**	**(3,190)**	**60**	**(170)**
Total amount recognised	**(30)**	**(2,880)**	**80**	**(150)**

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

Assets and Liabilities in Relation to Post-employment Benefits

Reconciliation of present value of the scheme liabilities (defined benefit

	Local Government Pension Scheme		Discretionary Benefits	
	2020/21	2021/22	2020/21	2021/22
	£000	£000	£000	£000
Opening balance at 1 April	**(42,750)**	**(46,900)**	**(840)**	**(870)**
Current service cost	(320)	(500)	-	-
Interest cost	(950)	(980)	(20)	(20)
Contributions by participants	(70)	(80)	-	-
assumptions	(4,310)	1,990	(70)	20
assumptions	-	460	-	10
Actuarial gains/(losses) on liabilities - experience	(320)	(200)	10	140
Net benefits paid out	350	600	50	50
Past service costs	-	-	-	-
Net increase in liabilities from disposals/acquisitions	(30)	-	-	-
Settlements	1,500	-	-	-

Closing balance at 31 March	**(46,900)**	**(45,610)**	**(870)**	**(670)**

Reconciliation of the fair value of the scheme assets:

	Local Government Pension Scheme		**Discretionary Benefits**	
	2020/21	**2021/22**	**2020/21**	**2021/22**
	£000	**£000**	**£000**	**£000**
Opening balance at 1 April	**45,570**	**55,930**	**-**	**-**
Interest income on assets	1,020	1,170	-	-
Remeasurement gains/(losses) on assets	10,500	940	-	-
Employer contributions	-	-	50	50
Contributions by scheme participants	70	80	-	-
Net benefits paid out	(350)	(600)	(50)	(50)
Settlements	(880)	-	-	-
Closing balance at 31 March	**55,930**	**57,520**	**-**	**-**

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	**2017/18**	**2018/19**	**2019/20**	**2020/21**	**2021/22**
	£000	**£000**	**£000**	**£000**	**£000**
Fair value of LGPS assets	**45,980**	**48,300**	**45,570**	**55,930**	**57,520**
Present value of liabilities:					
- LGPS liabilities	(38,950)	(39,520)	(42,750)	(46,900)	(45,610)
- Impact of minimum funding	(7,030)	(8,780)	(2,820)	(9,030)	(11,910)
Deficit on funded defined benefit scheme	**-**	**-**	**-**	**-**	**-**
Discretionary benefits	(960)	(900)	(840)	(870)	(670)
Total (Deficit)	**(960)**	**(900)**	**(840)**	**(870)**	**(670)**

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 £46.280m has an impact on the net worth of the Authority recorded on the balance sheet, resulting in a negative pension balance of £0.670m. 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 2023 is nil. In addition, Strain on the Fund contributions may be required. Expected payments direct to beneficiaries in the year to 31 March 2023 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**	
	2020/21	**2021/22**	**2020/21**	**2021/22**
Mortality assumptions:				
Longevity at 65 for current pensioners:				
- Men	21.9	21.8	21.9	21.8
- Women	25.1	25.0	25.1	25.0
Longevity at 65 for future pensioners:				
- Men	23.6	23.5	n/a	n/a
- Women	26.9	26.7	n/a	n/a
Principal financial assumptions (% per annum)				
Rate for discounting scheme liabilities	2.1%	2.8%	2.1%	2.8%
Rate of inflation - Consumer Price Index	2.7%	3.1%	2.7%	3.1%
Rate of increase in pensions	2.7%	3.1%	2.7%	3.1%
Pension accounts revaluation rate	2.7%	3.1%	n/a	n/a
Rate of increase in salaries	4.2%	4.6%	n/a	n/a

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

	31 March 2021	**31 March 2022**		
	% Total	**% Quoted**	**% Unquoted**	**% Total**
Equity investments	55.5%	47.8%	9.2%	57.0%
Property	7.9%	0.0%	8.4%	8.4%
Government bonds	2.2%	2.0%	0.0%	2.0%
Corporate bonds	19.8%	18.8%	0.0%	18.8%
Cash	4.0%	1.8%	0.0%	1.8%
Other*	10.6%	4.8%	7.2%	12.0%
Total	**100.0%**	**75.2%**	**24.8%**	**100.0%**

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

Actual Return on Assets

	Local Government Pension Scheme	
	2020/21	2021/22
	£000	£000
Interest Income on Assets	1,020	1,170
Remeasurement gain/(loss) on assets	10,500	940
Actual Return on Assets	**11,520**	**2,110**

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)	45.02	45.61	46.25
% change in present value of total obligation	-1.3%	0	1.4%
Projected service cost (£M)	0.47	0.48	0.49
Approximate % change in projected service cost	-2.8%	0	2.8%

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)	45.61	45.61	45.61
% change in present value of total obligation	0.0%	0	0.0%
Projected service cost (£M)	0.48	0.48	0.48
Approximate % change in projected service cost	0.0%	0	0.0%

Rate of increase to pensions in payment and deferred pensions assumption, and rate of revaluation of pension accounts assumption	+0.1% per annum	Base Figure	-0.1% per annum
Adjustment to pension increase rate			
Present value of total obligation	46.20	45.61	45.02
% change in present value of total obligation	1.3%	0	-1.3%
Projected service cost (£M)	0.49	0.48	0.47
Approximate % change in projected service cost	2.8%	0	-2.8%

Post retirement mortality assumption	- 1 year	Base Figure	+ 1 year
Adjustment to mortality age rating assumption *			
Present value of total obligation (£M)	47.21	45.61	44.06
% change in present value of total obligation	3.5%	0	3.4%
Projected service cost (£M)	0.50	0.48	0.46
Approximate % change in projected service cost	4.1%	0	4.0%

* 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. The assumed rates of future mortality have been increased to reflect a slightly more negative outlook, however, uncertainty still remains.

McCloud Judgement

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

Figures produced by Aon last year included a McCloud "underpin" liability within the current service cost, together with an allowance within the balance sheet reflecting service since the scheme reforms (2014 in England and Wales, and 2015 in Northern Ireland). For accounting periods ending in 2022 the same approach as last year has been adopted, using a roll-forward method based on last year's results.

In summary it was assumed the remedy applies to all members in service on 1 April 2012 for service after the scheme reform date, on retirement or prior withdrawal, and with extension to benefits payable to the dependents of those members. Figures are calculated using an average cost factor for each individual active member based on their age, sex, and pensionable pay in the latest valuation data. On grounds of practicality and pragmatism only the active membership data in the latest valuation is considered (any potential liabilities for members who have left employment between the date of the scheme reforms and the latest valuation data are unlikely to be significant for most employers).

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

Guaranteed Minimum Pension (GMP) Equalisation and Indexation

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

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

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

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

The rate of which GMP was accrued, and the date it is payable, is different for men and women. On 26 October 2018 the High Court ruled in the Lloyds Bank case that equalisation for the effect of unequal GMPs is required. On 20 November 2020 the High Court ruled on the equalisation for GMPs of historic transfers out of the three largest Lloyds Banking Group pension schemes. The judgement requires all transfers between 17 May 1990 and 5 April 1997 with GMPs to be equalised. Schemes will be expected to pay a top-up to the receiving scheme with interest at Bank base rate +1%. At this point in time, the Government has not indicated an approach to rectifying this 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 2021 £000	31 March 2022 £000
General Fund Balance		(7,894)	(8,572)
Earmarked Reserves	21	(11,452)	(11,305)
Capital Receipts Reserve		-	-
Capital Grants Unapplied Reserve		(23,686)	(60,986)
Total		**(43,032)**	**(80,863)**

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 2020	Transfers Out 2020/21	Transfers In 2020/21	Balance at 31 March 2021	Transfers Out 2021/22	Transfers In 2021/22	Balance at 31 March 2022
	£000	£000	£000	£000	£000	£000	£000
Metro Reinvigoration Reserve	(5,150)	-	(14)	**(5,164)**	891	-	(4,273)
Metro Fleet Replacement Reserve	(5,625)	-	(16)	**(5,641)**	-	(31)	(5,672)
Metro and Rail Studies	-	-	(389)	**(389)**	-	(712)	(1,101)
Nexus contribution to Bus Partnership Project	-	-	(258)	**(258)**	-	-	(258)
Total	**(10,775)**	**-**	**(677)**	**(11,452)**	**891**	**(743)**	**(11,304)**

Note 22: Unusable Reserves

Summary

	31 March 2021 £000	31 March 2022 £000
Capital Adjustment Account	(53,027)	(54,816)
Financial Instruments Adjustment Account	309	170
Revaluation Reserve	(4,436)	(4,340)
Pension Reserve	870	670
Total	**(56,284)**	**(58,315)**

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.

	2020/21 £000	2021/22 £000
Opening Balance 1 April	**(68,819)**	**(53,027)**
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	2,402	2,385
Other income that cannot be credited to the General Fund	(2,824)	(2,814)
Revenue expenditure funded from capital under statute	10,391	12,125
Write down of long term debtors	841	807
Adjusting amounts written out of the Revaluation Reserve	**(102)**	**(96)**
Capital financing applied in the year:		
Capital grants and contributions credited to the CIES that have been applied to capital financing	(8,947)	(11,959)
Statutory provision for the financing of capital investment	(1,391)	(993)
Capital expenditure charged against the General Fund	(19)	(437)
Debt redeemed using capital receipts	(841)	(807)
Balance at 31 March	**(53,027)**	**(54,816)**

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.

	2020/21	2021/22
	£000	£000
Opening Balance 1 April	**3,092**	**309**
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	(225)	(140)
Balance at 31 March	**309**	**170**

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.

	2020/21	2021/22
	£000	£000
Opening Balance 1 April	**(4,538)**	**(4,436)**
Difference between fair value depreciation and historical cost depreciation written off to the CAA	102	96
Balance at 31 March	**(4,436)**	**(4,340)**

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.

	2020/21	2021/22
	£000	£000
Opening Balance 1 April	**840**	**870**
Remeasurements of the net defined benefit liability (asset)	360	(480)
Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the CIES	(280)	330
Employer's pension contributions and direct payments to pensioners payable in the year	(50)	(50)
Balance at 31 March	**870**	**670**

Note 23: Capital Expenditure and Capital Financing

	2020/21 £000	2021/22 £000
Opening Capital Financing Requirement 1 April	**102,866**	**102,776**
Capital Investment		
Property, Plant and Equipment	717	437
Revenue Expenditure Funded from Capital Under Statute	10,391	12,125
Sources of Finance		
Capital receipts - repayment of principal from long term debtors	(841)	(807)
Government Grants and other contributions	(8,947)	(11,959)
Sums set aside from revenue		
Direct revenue contributions	(19)	(437)
Minimum Revenue Provision	(975)	(993)
Additional Voluntary Provision	(416)	-
Closing Capital Financing Requirement 31 March	**102,776**	**101,142**
Decrease in underlying need to borrow (unsupported by government financial assistance)	**(90)**	**(1,634)**

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

	2020/21 £000	2021/22 £000
Surplus on the provision of services	16,673	39,383
Adjustments to Surplus on Provision of Services for Non-Cash Movements		
Depreciation and Impairment	2,402	2,385
Increase/(Decrease) in Creditors	(86)	16,778
(Increase)/Decrease in Debtors	17,067	4,178
Movement in Pension Liability	(330)	280
Other non-cash items charged to the net surplus on the provision of services	(3,053)	(2,814)
	16,000	**20,807**
Adjustments for items included in the net surplus on the provision of services that are investing and financing activities		
Capital grants credited to surplus on provision of services	(25,271)	(49,259)
Net cash flow from operating activities	**7,402**	**10,931**

The cash flows for operating activities include the following items:

	2020/21 £000	2021/22 £000
Interest received	963	950
Interest paid	(4,057)	(3,820)

Note 25: Cash Flow Statement - Investing Activities

	2020/21 £000	2021/22 £000
Purchase of property, plant and equipment, investment property and intangible assets	150	250
Purchase of short-term and long-term investments	(41,592)	(159,968)
Proceeds from short-term and long-term investments	65,445	104,559
Other receipts from investing activities	27,737	46,950
Net cash flows from investing activities	**51,740**	**(8,209)**

Note 26: Cash Flow Statement - Financing Activities

	2020/21 £000	2021/22 £000
Repayments of short and long-term borrowing	(838)	(893)
Net cash flows from financing activities	**(838)**	**(893)**

Note 26a: Reconciliation of liabilities arising from Financing Activities

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

	1 April 2020	Financing Cash	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)**

Note 27: Accounting Standards Issued, Not Yet Adopted

Impact of the adoption of new accounting standards on the 2021/22 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.

Property Plant and Equipment: Amendment to IAS 16 'regarding proceeds from selling items produced while bringing an asset into the location and condition necessary for it to be capable of operating in the manner intended by management'.

The above changes in accounting requirements for 2021/22 are minor amendments and are not anticipated to have a material impact on the Authority or the Group's financial performance or financial position.

Note 28: Critical Judgements in Applying Accounting Policies

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

Service Concession Arrangements

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

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

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

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

Accounting for the North East Joint Transport Committee

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

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

Accounting for the Transfer of the North East Local Enterprise Partnership

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

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

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

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

The items in the Authority's Balance Sheet at 31 March 2022 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 2022 and the projected service cost for the year ending 31 March 2023 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 £45.02m, a variance of £0.59m, whereas a decrease of (0.1%) p.a. results in an increase to £46.25m, a variance of £0.64m. 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 £0.59m to £46.2m, whereas a decrease of (0.1%) p.a. results in a decrease to £45.02m, a variance of £0.59m. The percentage change in the present value of the total obligation would be 1.3% and
		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 £47.21m, an increase of £1.6m, whereas an adjustment of +1 year results in a reduction to £44.06m, a variance of £1.55m. The percentage change in the present value of the total obligation would be 2.5% and (3.4%) respectively.
Property, plant and equipment	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets.	The impact of a change in valuation or useful life would be to affect the carrying value of the asset in the balance sheet and the charge for depreciation or impairment in the CIES. These changes do not have an impact on the Authority's General Fund position as funding for such non-cash charges does not come from local authority contributions and grants. Accumulated depreciation totalled £32m as at 31 March 2022 and a change in methodology resulting in a 1% movement would only change the Balance Sheet by £0.32m

Government Funding	The outcome of the Fair Funding Review which aims to distribute government funding in a fairer way to Local Authorities - expected to be implemented in 2024/25	Possible impact could be reductions in; - funding for the North East region's transport infrastructure and initiatives - contributions from Local Authorities - grant funding from government
Covid-19	The exact consequences of the outbreak of the Covid-19 virus are still unknown. Some areas of concern are:- - Reduction in Government Funding to Local Authorities - Possible reduction in income from the Tyne Tunnels due to changes in working practices '- Reduction to passenger numbers on Bus and Rail services due to changes in working practices - Pension Scheme Assets	Possiblity 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. Reduction in passenger numbers would impact on the finances of NEXUS the provider of passenger transport for 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 2021/22 financial year and its position at the year-end of 31 March 2022. 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 2021/22, supported by International Financial Reporting Standards (IFRS).

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

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

2. Accruals of Income and Expenditure

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

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

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

3. Cash and Cash Equivalents

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

4. Exceptional Items

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

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

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

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

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

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

6. Charges to Revenue for Non-Current Assets

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

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

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

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

7. Employee Benefits

Benefits Payable during Employment

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

Termination Benefits

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

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

No such amounts are payable in 2021/22

8. Post-Employment Benefits

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

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

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

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

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

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

- Current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the NECA Corporate line.
- Past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of the NECA Corporate line.

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

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

• Remeasurements comprising:

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

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

o Contributions paid to the pension fund – cash paid as employer’s contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

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

Further details are provided in Note 19 to the accounts.

9. Events after the Balance Sheet Date

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

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

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

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

10. Fair Value Measurement

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

a) in the principal market for the asset or liability, or

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

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

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

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

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

• Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the Authority can access at the measurement date;

- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly;
- Level 3 – unobservable inputs for the asset or liability.

11. Financial Instruments

Financial Liabilities

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

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

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

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

Financial Assets

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

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

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

- An equity instrument can be elected into FVOCI rather than FVPL if it is not held for trading.

- Any financial asset can be designated as measured as FVPL if this removes any deemed inconsistency in measurement by treating assets based upon the above classification.

Amortised Cost

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

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

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

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

Expected Credit Loss Model

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

Fair Value Through Other Comprehensive Income (FVOCI)

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

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

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

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

Fair Value through Profit and Loss (FVPL)

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

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

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

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

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

12. Government Grants & Contributions

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

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

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

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

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

13. Property, Plant & Equipment

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. These revaluations are detailed within the Notes to the Core Financial Statements. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.

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

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

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

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

De Minimis Levels

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

Impairment

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

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

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

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

Depreciation

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

Depreciation on all Property, Plant and Equipment assets (except vehicles) is calculated by taking the asset value at 31 March 2022, divided by remaining life expectancy. Depreciation is charged in the year of acquisition, but not the year of disposal. Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation that would have been 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 arrangements within the scope of the Application, the grantor will account for the arrangement's financing by recording and measuring a long term liability in accordance with IAS 17. This treatment reflects an obligation to pay the operator for the full value of the asset along with the operator's cost of finance. However, in the New Tyne Crossing project, TT2 Ltd. (the Operator) receives a defined proportion of the total toll revenue and uses this to meet its cost of constructing and operating both vehicle tunnels. NECA may therefore have no long term obligation to transfer economic resources to TT2, and hence should not recognise a liability.

The provisions within the Payment Mechanism for payment of toll revenue to the operator are as follows:

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

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

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

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

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 2021/22.

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 2021/22 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 2021/22 accounts, NECA has fully complied with the requirements of the Code, providing Group figures for 2021/22 and comparators for 2020/21. From 2010/11, Passenger Transport Executives have been required to produce their accounts under International Financial Reporting Standards, and as if the proper practices in relation to accounts applicable to a local authority were, so far as appropriate, applicable to an Executive. The group financial statements are prepared in accordance with the policies set out in the Statement of Accounting Policies above.

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.

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

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 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	G14	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)**	**(56,283)**	**(99,316)**	**(270,767)**	**(370,084)**
Total Comprehensive Income and Expenditure		(39,383)	(480)	**(39,863)**	(51,190)	(91,053)
Adjustments between accounting basis & funding basis under regulations	G14	1,553	(1,553)	**-**	-	-
(Increase)/Decrease in 2021/22		**(37,830)**	**(2,033)**	**(39,863)**	**(51,190)**	**(91,053)**
Balance at 31 March 2022 carried forward		**(80,863)**	**(58,316)**	**(139,179)**	**(321,957)**	**(461,137)**

3.2 Group Comprehensive Income and Expenditure Statement

2020/21					2021/22		
Gross Expenditure	Gross Income	Net Expenditure		Note	Gross Expenditure	Gross Income	Net Expenditure
£000	£000	£000			£000	£000	£000
			Continuing NECA Services				
574	(781)	(207)	Corporate		941	(162)	779
73	-	73	Transport - Retained Levy Budget		338	-	338
15,456	-	15,456	Transport - Durham		15,457	-	15,457
102,107	(47,022)	55,085	Transport - Tyne and Wear		106,199	(50,863)	55,336
7,576	(27,606)	(20,030)	Transport - Other		13,736	(45,051)	(31,314)
13,267	(14,234)	(967)	Transport - Tyne Tunnels		13,673	(17,983)	(4,310)
3,878	(3,878)	-	Covid-19 Grants		893	(10,188)	(9,295)
142,931	**(93,521)**	**49,410**	**Cost of Services**		**151,238**	**(124,247)**	**26,991**
9,039	(4,195)	4,844	**Financing and Investment Income and Expenditure**	G03	9,650	(4,989)	**4,662**
-	(81,465)	(81,465)	**Taxation and Non-Specific Grant Income**	G04	-	(97,089)	**(97,089)**
		-	**(Gain)/Loss on disposal or derecognition of non-current assets**		17	(697)	**(680)**
		(27,211)	**Surplus on the Provision of Services**				**(66,117)**
		(311)	**Taxation of Group Entities**				**-**
		(27,522)	**Group Surplus**				**(66,117)**
		4,331	Re-measurement of the defined benefit liability	G12			(24,937)
		4,331	**Other Comprehensive Income and Expenditure**				**(24,937)**
		(23,192)	**Total Comprehensive Income and Expenditure**				**(91,053)**

3.3 Group Balance Sheet

31 March 2021 £000		Note	31 March 2022 £000
492,886	Property, Plant and Equipment	G6	521,676
2,974	Intangible Assets	G7	3,263
-	Long Term Debtors	G8	-
1	Long Term Investments	G8	1
495,860	**Long Term Assets**		**524,939**
34,383	Short Term Investments	G8	89,792
14,806	Short Term Debtors	G9	12,784
52,493	Cash and Cash Equivalents	G10	47,913
504	Inventories		503
102,185	**Current Assets**		**150,993**
(1,274)	Short Term Borrowing	G8	(1,266)
(26,065)	Short Term Creditors	G11	(35,566)
(3,356)	Grants Receipts in Advance	G5	(1,220)
(2,824)	New Tyne Crossing Deferred Income		(2,814)
(33,519)	**Current Liabilities**		**(40,866)**
(45,184)	New Tyne Crossing Deferred Income		(42,207)
(94,276)	Long Term Borrowing	G8	(93,568)
(50,015)	Pension Liability	G12	(34,349)
(3,152)	Provisions		(1,998)
(1,816)	Deferred Taxation	G13	(1,809)
(194,443)	**Long Term Liabilities**		**(173,930)**
370,083	**Net Assets**		**461,136**
(71,372)	Usable Reserves	G14	(112,332)
(298,711)	Unusable Reserves	G15	(348,804)
(370,083)	**Total Reserves**		**(461,136)**

Chief Finance Officer Certificate

I certify that the accounts set out on pages 76 to 106 give a true and fair view of the financial position of the North East Combined Authority Group as at the 31 March 2022.

Signed: Paul Darby, Chief Finance Officer

3.4 Group Cash Flow Statement

2020/21 £000		Note	2021/22 £000
27,211	Surplus on the provision of services	G16	66,117
47,919	Adjustments to net surplus or deficit on the provision of services for non-cash movements	G16	54,713
(58,890)	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	G16	(97,545)
16,240	**Net cash flows from Operating Activities**	G16	**23,286**
43,089	Investing Activities	G17	(24,389)
(3,383)	Financing Activities	G18	(3,476)
55,946	**Net (Decrease)/Increase in cash and cash equivalents**		**(4,580)**
38,685	Cash and cash equivalents at the beginning of the reporting period		52,493
(42,138)	Transfer to the NTCA		-
52,493	**Cash and cash equivalents at the end of the reporting period**	G10	**47,913**

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 2021/22, authorities with interests in subsidiaries, associates and/or joint ventures shall prepare Group Accounts in addition to their single entity financial statements, unless their interest is considered to be not material.

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

Deferred Taxation

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

Property, Plant and Equipment and Intangible Assets

Nexus uses the following estimated useful lives for each class of asset:

- Freehold buildings - 40 years
- Short leasehold buildings - over the lease term
- Infrastructure assets - 20 to 50 years
- Plant and Equipment - 5 to 30 years
- Vehicles - 5 to 10 years
- Marine Vessels - 30 years
- Intangibles - 5 to 10 years

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

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

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

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

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

For more details see Note 1.

Note G02: Expenditure and Funding Analysis

	2021/22				
	Net Expenditure Chargeable to the General Fund	Adjustments for Capital Purposes	Pension Adjustments	Other Differences	Net Expenditure in the CIES
	£000	£000	£000	£000	£000
Corporate	279	-	500	-	779
Transport - Retained Levy Budget	625	(287)	-	-	338
Transport - Durham	15,457	-	-	-	15,457
Transport - Tyne and Wear	30,412	16,434	8,490	-	55,336
Transport - Other	6,283	(36,700)	-	-	(30,417)
Transport - Tyne Tunnels	(2,487)	(1,773)	(50)	-	(4,310)
Covid-19 Grants	(10,192)	-	-	-	(10,192)
Cost of services	**40,377**	**(22,326)**	**8,940**	**-**	**26,991**
Other Income and Expenditure	(43,347)	(34,807)	-	86	**(93,107)**
(Surplus)/Deficit on Provision of Services	**(2,970)**	**(57,133)**	**8,940**	**86**	**(66,116)**
Opening General Fund Balances	(47,685)				
Closing General Fund Balances	**(50,655)**				

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.

	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	24,323	16,352	14,410	-	55,098
Transport - Other	(6,001)	(14,029)	-	-	(20,030)
Transport - Tyne Tunnels	736	(1,653)	(50)	-	(967)
Covid-19 Grants	-	-	-	-	-
Cost of services	**34,968**	**382**	**14,060**	**-**	**49,423**
Other Income and Expenditure	(41,899)	(34,807)	-	86	**(76,621)**
(Surplus)/Deficit on Provision of Services	**(6,931)**	**(34,426)**	**14,060**	**86**	**(27,198)**
Opening General Fund Balances	(54,418)				
Transfer of services to NTCA 1 April 2020	13,664				
Closing General Fund Balances	**(47,685)**				

Note G02a: Income and Expenditure Analysed by Nature

	2020/21 £000	2021/22 £000
Expenditure		
Employee benefit expenses	23,546	23,208
Other service expenses	90,931	92,901
Support Services Recharges	2,940	3,352
Depreciation, impairment and Revenue Expenditure Funded from Capital Under Statute (REFCUS)	25,514	31,623
Interest payments	9,039	9,820
Total expenditure	**151,970**	**160,905**
Income		
Fees, charges and other service income	(24,500)	(38,369)
Interest and investment income	(4,195)	(5,159)
Income from transport levy	(49,349)	(48,567)
Government grants and contributions	(97,361)	(130,536)
Other income	(3,776)	(4,391)
Total income	**(179,181)**	**(227,022)**
Surplus on the provision of services	**(27,211)**	**(66,116)**

Note G03: Financing and Investment Income and Expenditure

	Note	2020/21	2021/22
		£000	£000
Interest Payable and Similar Charges		4,211	4,157
Interest Payable on defined benefit liability	G12	1,027	1,006
Interest Receivable and similar income		(394)	(501)
Total		**4,844**	**4,662**

Note G04: Taxation and Non-Specific Grant Income

	Note	2020/21	2021/22
		£000	£000
Transport Levy		(49,349)	(49,230)
Non-Specific Capital Grants		(32,115)	(47,860)
Total		**(81,464)**	**(97,090)**

Note G05: Grant Income

		2020/21	2021/22
		£000	£000
Local Authority Contributions to NECA		(161)	(276)
Local Growth Fund		(679)	(15)
Local Transport Plan		(7,736)	(7,755)
European Grants		(176)	-
North East Smart Ticketing Initiative		(113)	-
Transforming Cities Fund		(13,907)	(31,595)
Office for Low Emission Vehicles		(70)	(41)
COVID-19 Grants		(23,371)	(10,520)
Other Grants		(6,449)	-
Active Travel Fund		-	-
Bus Recovery Grant		-	(1,469)
Metro Rail Grant		(14,746)	(16,792)
Heavy Rail Grant		(146)	-
Nexus Non-Specific Grants		(31,374)	(1,006)
Total		**(98,928)**	**(69,469)**

Note G06: Property, Plant and Equipment

	2021/22					
	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 2021	19,618	656,385	34,748	2,209	712,960	219,001
Additions	-	260	50,156	-	50,416	260
Transfers from Assets Under Construction	76	11,522	(11,598)	-	-	-
Transfers to Intangibles	-	-	(32)	-	(32)	-
Derecognition - Disposals	(22)	(1,106)	(24)	(148)	(1,299)	-
Revaluation Recognised in Revaluation Reserve	-	-	-	-	-	-
Impairment recognised in the Surplus/Deficit on the Provision of Services	-	-	-	-	-	-
Other Adjustments	-	(1,776)	-	-	(1,776)	-
At 31 March 2022	**19,672**	**665,285**	**73,250**	**2,061**	**760,269**	**219,261**
Accumulated Depreciation and Impairment						
At 1 April 2021	(14,258)	(205,509)	-	(308)	(220,075)	(30,879)
Depreciation charge	(645)	(18,532)	-	(14)	(19,191)	(2,218)
Derecognition - Disposals	22	511	-	141	673	-
At 31 March 2022	**(14,881)**	**(223,531)**	**-**	**(181)**	**(238,593)**	**(33,097)**
Net Book Value						
At 1 April 2021	**5,360**	**450,876**	**34,748**	**1,901**	**492,885**	**188,122**
At 31 March 2022	**4,791**	**441,754**	**73,250**	**1,881**	**521,676**	**186,164**

	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	634,079	25,823	1,812	682,924	219,358
Additions	-	528	36,354	-	36,882	528
Transfers from Assets Under Construction	677	26,727	(27,404)	-	-	-
Transfers between categories	(590)	-	-	590	-	-
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	-	(2,227)	-	-	(2,227)	(865)
At 31 March 2021	**19,618**	**656,385**	**34,748**	**2,209**	**712,960**	**219,001**

Accumulated Depreciation and Impairment						
At 1 April 2020	(14,075)	(189,336)	-	(415)	(203,826)	(28,657)
Depreciation charge	(858)	(17,948)	-	(23)	(18,829)	(2,222)
Derecognition - Disposals	675	1,775	-	130	2,580	-
At 31 March 2021	**(14,258)**	**(205,509)**	**-**	**(308)**	**(220,075)**	**(30,879)**

Net Book Value						
At 1 April 2020	**7,135**	**444,743**	**25,823**	**1,397**	**479,098**	**190,701**
At 31 March 2021	**5,360**	**450,876**	**34,748**	**1,901**	**492,885**	**188,122**

Note G07: Intangible Assets

Intangible assets in the Group Accounts relate wholly to Nexus.

	2020/21 £000	2021/22 £000
Cost or Valuation		
Opening Balance	5,962	6,705
Additions	767	566
Transfers from assets under construction	-	32
Derecognition - Disposals	(24)	(1)
Total	**6,705**	**7,302**
Amortisation		
Opening Balance	(3,461)	(3,732)
Amortisation provided during the period	(271)	(307)
Total	**(3,732)**	**(4,039)**
Net Book Value at 31 March	**2,973**	**3,263**

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 2021	31 March 2022	31 March 2021	31 March 2022	31 March 2021	31 March 2022	31 March 2021	31 March 2022
	£000	£000	£000	£000	£000	£000	£000	£000
Amortised cost	1	1	-	-	34,383	89,792	14,108	11,552
Total financial assets	1	1	-	-	34,383	89,792	14,108	11,552
Non-financial	-	-	-	-	-	-	698	1,232
Total	**1**	**1**	**-**	**-**	**34,383**	**89,792**	**14,806**	**12,784**

Financial assets at amortised cost

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

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

Trade receivables

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

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

Financial Liabilities held at amortised cost

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

	Non-current				Current			
	Borrowings		Creditors		Borrowings		Creditors	
	31 March 2021	31 March 2022	31 March 2021	31 March 2022	31 March 2021	31 March 2022	31 March 2021	31 March 2022
	£000	£000	£000	£000	£000	£000	£000	£000
Amortised cost	(94,276)	(93,568)	-	-	(1,274)	(1,266)	(18,138)	(700)
Total financial liabilities	(94,276)	(93,568)	-	-	(1,274)	(1,266)	(18,138)	(700)
Non-financial	-	-	-	-	-	-	(7,927)	(34,866)
Total	**(94,276)**	**(93,568)**	**-**	**-**	**(1,274)**	**(1,266)**	**(26,065)**	**(35,566)**

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 2021				31 March 2022		
£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**
4,211	-	4,211	Interest expense	4,157	-	4,157
4,211	**-**	**4,211**	**Total expense in Surplus on Provision of Services**	**4,157**	**-**	**4,157**
-	(394)	(394)	Investment income	-	(501)	(501)
-	**(394)**	**(394)**	**Total income in Surplus on Provision of Services**	**-**	**(501)**	**(501)**
4,211	**(394)**	**3,817**	**Net (gain)/loss for the year**	**4,157**	**(501)**	**3,656**

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

- 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 2021 Carrying amount £000	31 March 2021 Fair value £000	31 March 2021 Carrying amount £000	31 March 2021 Fair value £000
Financial liabilities held at amortised cost	2	(95,550)	(151,970)	(94,834)	(136,768)
Total		**(95,550)**	**(151,970)**	**(94,834)**	**(136,768)**
Financial Assets at amortised cost					
Held to maturity investments		34,843	34,843	89,792	89,792
Total		**34,843**	**34,843**	**89,792**	**89,792**

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 2021 £000	31 March 2022 £000
Central Government bodies	6,153	11,303
Other local authorities	6,221	1,282
NHS bodies	1	1
Other entities and individuals	2,431	1,932
Total	**14,806**	**14,517**

Note G10: Cash and Cash Equivalents

	31 March 2021 £000	31 March 2022 £000
Cash	34,747	32,717
Short-term deposits with financial institutions	17,746	15,196
Total	**52,493**	**47,913**

Note G11: Short Term Creditors

	31 March 2021 £000	31 March 2022 £000
Central government bodies	(3,287)	(10,951)
Other local authorities	(4,392)	(5,494)
Other entities and individuals	(18,386)	(19,121)
Total	**(26,065)**	**(35,566)**

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 £34.349m (2021 £50.015m) is the sum of the NECA, Nexus and NEMOL pension liability.

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	
	2020/21	2021/22	2020/21	2021/22
	£000	£000	£000	£000
Cost of Services:				
Current service cost [1]	9,535	10,767	-	-
Past service cost	-	22	-	-
Settlement cost	(620)	-		-
Exceptional loss on transfer of pension liability	(992)	-	-	-
Financing and Investment Income and Expenditure				
Interest cost	4,774	5,446	53	48
Expected Return on Scheme Assets	(3,800)	(4,658)	-	-
Total Post-Employment benefit charged to the Surplus or Deficit on the Provision of Services	**8,898**	**11,577**	**53**	**48**
Other Post Employment Benefits charged to the Comprehensive Income and Expenditure Statement:				
Return on plan assets (in excess of)/below that recognised in net interest	(50,604)	(940)	-	(170)
Remeasurement of the net Defined Benefit Liability	48,568	(26,491)	127	(216)
Adjustment in respect of paragraph 58	6,210	2,880	-	-
Total amount recognised in Other Comprehensive Income and Expenditure	**4,174**	**(24,551)**	**127**	**(386)**
Total amount recognised in CIES	**13,072**	**(12,974)**	**180**	**(338)**

1. The Current Service cost includes an allowance for administration expenses of £0.01m for NECA and £0.110m for the Nexus Group (of which £0.061m attributable to NECA).

Reconciliation of the Present Value of Scheme Liabilities:

	LGPS		Discretionary Benefits	
	2020/21	2021/22	2020/21	2021/22
	£000	£000	£000	£000
Opening balance at 1 April	**(271,818)**	**(318,620)**	**(2,381)**	**(2,329)**
Current service cost	(9,537)	(10,767)	-	-
Interest cost	(5,725)	(6,616)	(53)	(48)
Contributions by participants	(1,678)	(1,566)	-	-
Remeasurement of the net Defined Benefit liability	(47,487)	21,677	(122)	391
Net benefits paid out	6,600	6,717	227	216
Past service costs	-	(22)	-	-
Net increase in liabilities from disposals/acquisitions	(30)	-	-	-
Settlements	1,500	-	-	-
Net (increase)/decrease in liabilities from NEMOL/Stadler transfer	9,555	-	-	-
Closing balance at 31 March	**(318,620)**	**(309,197)**	**(2,329)**	**(1,770)**

Reconciliation of the Fair Value of the Scheme Assets:

	LGPS		Discretionary Benefits	
	2020/21	2021/22	2020/21	2021/22
	£000	£000	£000	£000
Opening balance at 1 April	**237,768**	**279,963**	**-**	**-**
Interest income on assets	4,819	5,828	-	-
Remeasurement gains/(losses) on assets	49,622	5,925	-	-
Employer contributions	2,118	1,962	68	227
Contributions by scheme participants	1,678	1,566	-	-
Net benefits paid out	(6,600)	(6,717)	(68)	(227)
Settlement costs	(880)	-	-	-
Net decrease in assets from Stadler transfer	(8,562)	-	-	-
Closing balance 31 March	**279,963**	**288,527**	**-**	**-**

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	2017/18	2018/19	2019/20	2020/21	2021/22
	£000	£000	£000	£000	£000
Fair value of LGPS assets	**335,520**	**220,327**	**237,767**	**279,963**	**288,527**
Present value of liabilities:					
- LGPS liabilities	(395,160)	(251,678)	(271,818)	(318,620)	(309,197)
- Impact of minimum funding	(7,030)	(8,780)	(2,820)	(9,030)	(11,910)
Deficit on funded defined benefit scheme	**(66,670)**	**(40,131)**	**(36,871)**	**(47,687)**	**(32,580)**
Discretionary benefits	(4,870)	(2,880)	(2,380)	(2,329)	(1,770)
Total (Deficit)	**(71,540)**	**(43,011)**	**(39,251)**	**(50,016)**	**(34,349)**

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

	NECA	Nexus
Active members	9%	37%
Deferred pensioners	13%	13%
Pensioners	78%	50%

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

The liabilities show the underlying commitments that the Authority has in the long run to pay post employment (retirement) benefits. The total liability of £310.967m has an impact on the net worth of the Authority recorded on the balance sheet, resulting in a negative pension balance of £34.349m. 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 and £3.680m for Nexus (of which £2.02m is attributable to NECA).

Basis for Estimating Assets and Liabilities

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

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

	31 March 2021	31 March 2022		
	% Total	% Quoted	% Unquoted	% Total
Equity investments	55.5%	47.8%	9.2%	57.0%
Property	7.9%	0.0%	8.4%	8.4%
Government bonds	2.2%	2.0%	0.0%	2.0%
Corporate bonds	19.8%	18.8%	0.0%	18.8%
Cash	4.0%	1.8%	0.0%	1.8%
Other*	10.6%	4.8%	7.2%	12.0%
Total	**100.0%**	**75.2%**	**24.8%**	**100.0%**

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

Actual Return on Assets

	Local Government	
	2020/21	2021/22
	£000	£000
Interest Income on Assets	4,819	5,828
Remeasurement gain/(loss) on assets	49,622	6,731
Actual Return on Assets	**54,441**	**12,559**

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 2022 and the projected cost for the period ending 31 March 2023 is set out below. In each case, only the assumption mentioned is altered; all other assumptions remain the same and are summarised above.

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

Discount rate assumption	**+0.1% per annum**	**Base Figure**	**-0.1% per annum**
Adjustment to discount rate			
Present value of total obligation (£M)	467.96	477.02	486.08
% change in present value of total obligation	-1.90%		1.90%
Projected service cost (£M)	16.73	17.34	17.96
Approximate % change in projected service cost	-3.50%		360.00%

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)	478.45	477.02	486.08
% change in present value of total obligation	0.30%		-0.36%
Projected service cost (£M)	17.34	17.34	17.34
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	484.65	477.02	469.39
% change in present value of total obligation	1.60%		-1.60%
Projected service cost (£M)	17.96	17.34	16.73
Approximate % change in projected service cost	3.60%		3.50%

Post retirement mortality assumption	**-1 year**	**Base Figure**	**+1 year**
Adjustment to mortality age rating assumption *			
Present value of total obligation (£M)	493.72	477.02	460.80
% change in present value of total obligation	3.50%		-3.40%
Projected service cost (£M)	18.03	17.34	16.65
Approximate % change in projected service cost	4.00%		-4.00%

* 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:

	2020/21 £000	2021/22 £000
Capital Allowances	153	465
Roll over relief on capital gains	-	-
Other timing differences	49	(3)
Tax effect of losses	(539)	311
Total	**(337)**	**773**

The balance at the year end comprises:

	31 March 2021 £000	31 March 2022 £000
Excess of capital allowances over depreciation	(1,725)	2,184
Roll over relief on capital gains	(683)	681
Other timing differences	54	(226)
Tax effect of losses	539	(57)
Total	**(1,815)**	**2,582**

Note G14: Usable Reserves

	31 March 2021 £000	31 March 2022 £000
General Fund Balance	(36,234)	(31,564)
Earmarked Reserves	(11,452)	(19,091)
Capital Receipts Reserve	-	(691)
Capital Grants Unapplied Reserve	(23,686)	(60,986)
Total	**(71,372)**	**(112,332)**

Note G15: Unusable Reserves

Summary

	31 March 2021 £000	31 March 2022 £000
Capital Adjustment Account	(343,230)	(377,614)
Financial Instruments Adjustment Account	309	169
Revaluation Reserve	(5,805)	(5,709)
Pension Reserve	50,016	34,349
Total	**(298,710)**	**(348,805)**

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

Revaluation Reserve

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

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

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

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

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 2020	**31,625**
Remeasurements of the net defined benefit liability to 31 March 2020	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	16,290
Employer's pension contributions and direct payments to pensioners to 31 March 2020	(2,229)
Balance at 31 March 2021	**50,017**
Remeasurements of the net defined benefit liability to 31 March 2021	(24,937)
Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the CIES to 31 March 2020	12,995
Employer's pension contributions and direct payments to pensioners to 31 March 2020	(3,725)
Balance at 31 March 2021	**34,349**

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 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	(43,013)
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 2021	**(343,230)**
Reversal of items relating to capital expenditure debited or credited to the CIES:	
Charges for depreciation and impairment of non current assets	18,686
Other income that cannot be credited to the General Fund	(2,814)
Revenue expenditure funded from capital under statute	12,125
Write down of long term debtors	1,498
Non Current Assets written off on disposal	611
Adjusting amounts written out of the Revaluation Reserve	**(96)**
Capital financing applied in the year:	
Capital grants and contributions credited to the CIES that have been applied to capital financing	(61,678)
Statutory provision for the financing of capital investment	(993)
Capital expenditure charged against the General Fund	(915)
Debt redeemed using capital receipts	(807)
Balance at 31 March 2020	**(377,614)**

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

	2020/21 £000	2021/22 £000
Surplus/(Deficit) on the provision of services	27,211	66,117
Adjustments to Surplus/(Deficit) on Provision of Services for Non-Cash Movements		
Depreciation, Impairment and Amortisation	19,119	19,498
Loss on disposal of non-current assets	2,043	(69)
(Increase)/Decrease in Creditors	19,973	43,681
Increase/(Decrease) in Debtors	170	(15,028)
Increase/(Decrease) in Inventories	1,495	(2)
Movement in Pension Liability	6,606	9,447
Other non-cash items charged to the net surplus or deficit on the provision of services	(1,487)	(2,814)
	47,919	**54,713**
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	(60,641)	(99,336)
Other adjustments for items that are financing or investing activities	1,751	1,791
Net cash flow from operating activities	**16,240**	**23,286**

The cash flows for operating activities include the following items:

	2020/21 £000	2021/22 £000
Interest received	963	950
Interest paid	(4,057)	(3,820)

Note G17: Cash Flow Statement - Investing Activities

	2020/21 £000	2021/22 £000
Purchase of property, plant and equipment, investment property and intangible assets	(36,794)	(50,305)
Purchase of short-term and long-term investments	(41,592)	(159,968)
Other payments for investing activities	-	-
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	-	697
Proceeds from short-term and long-term investments	61,973	84,615
Other receipts from investing activities	59,502	100,572
Net cash flows from investing activities	**43,089**	**(24,389)**

Note G18: Cash Flow Statement - Financing Activities

	2020/21 £000	2021/22 £000
Repayments of short and long-term borrowing	(1,679)	(1,671)
Other payments for financing activities	(1,704)	(1,805)
Net cash flows from financing activities	**(3,383)**	**(3,476)**

Note G18a: Reconciliation of liabilities arising from Financing Activities

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

	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	(95,072)	796	-	-	(94,276)
Short term borrowings	(1,298)	-	-	24	(1,274)
activities	**(96,370)**	**796**	**-**	**24**	**(95,550)**

Note G19: Capital Expenditure and Capital Financing

	£000
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 2020	**102,776**
assistance)	**(90)**

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

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.