North East Combined Authority

DURHAM • GATESHEAD • SOUTH TYNESIDE • SUNDERLAND

Audit and Standards Committee

Tuesday 7 September 2021 at 10.00am

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

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 22 July 2021	**1-6**
For approval as a correct record	
4. Draft Statement of Accounts 2020/21	**7-158**
5. NECA Internal Audit Progress Report 2021/22	**159-164**
6. NECA Strategic Risk Register	**165-227**
7. Date and Time of Next Meeting: Tuesday 7 December at 10.00am	

Contact Officer: Jonathan Lunness
Tel: 0191 4247536
Email: jonathan.lunness@northeastca.gov.uk

North East Combined Authority
DURHAM • GATESHEAD • SOUTH TYNESIDE • SUNDERLAND

Agenda Item 3

Audit and Standards Committee

DRAFT MINUTES TO BE APPROVED

22 June 2021

(10.00am – 10.55am)

Meeting held in the Bridges Room, Gateshead Civic Centre, NE8 1HH

Present:

Independent Members:	G Clark (Chair)
Councillors	J Wallace (Gateshead), P Stewart (Sunderland), S Duncan (South Tyneside), A Huntley (South Tyneside),
Officers:	Ged Morton (representing the Monitoring Officer - Core NECA), Tracy Davis (Senior Manager – Assurance - Sunderland City Council), Gavin Barker (Mazars), Eleanor Goodman (NECA – Finance Manager), Adam Robson (Risk and Assurance Specialist – Sunderland City Council), Gavin Armstrong (Policy and Scrutiny Officer, NECA) and Karen Mould (Principal Governance Services Officer)

1 **APOLOGIES FOR ABSENCE (MEMBERS)**

Apologies for absence were received from M Scrimshaw, Councillor R Beadle,

2 **DECLARATIONS OF INTEREST**

G Clark (Chair) declared an interest as a Non-Executive Director of Nexus and Chair of the Nexus Audit Committee.

3 **MINUTES OF THE PREVIOUS MEETING HELD ON 9 March 2021**

The minutes of the previous meeting held on 09 March 2021 were approved as a correct record.

The Chair noted that Officers from Nexus and Transport North East had declined to attend the Committee to present information on the levelling up and the recovery plan for transport in the region.

4 **Audit Strategy Memorandum**

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

The External Auditor presented the Audit Strategy Memorandum of the External Auditors which set out the strategy for the audit of the financial statements for the year ending 31 March 2021. Members' attention was drawn to Section 3, audit scope, approach and timeline and noted that the interim work would go beyond August 2021.

The changes to the Code of Audit Practice were noted with the reporting by exception where significant weaknesses had been identified being a significant change. Under the new Code the key output of the External Auditors work on VFM would be a commentary on arrangements which formed part of the Auditor's Annual Report.

RESOLVED that: -

i. the report be noted.

5 **Audit Progress Report**

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

Gavin Barker, on behalf of the External Auditor, introduced the progress report. The report updated Members on progress in delivering the audit for 2020/21 and included a summary of recent national reports and publications.

Members were advised that management had been advised for External Auditor's inability to meet the end of September timetable due to a backlog of work, resource difficulties, the departure of staff and difficulties with recruitment and retention. It was planned to carry out the audit from September 2021 to November 2021, subject to receipt of Pension Fund assurances from the auditor of the Tyne and Wear Pension Fund. Initial work would be undertaken over the summer to gather supporting information in relation to sample selection. The difficulties faced reflected the significant challenges in the local audit sector and nationally by all audit firms working within the local audit regime.

The External Auditor assured Members of the commitment to deliver a high quality audit which would result in completion beyond the timetable.

The Chair thanked Gavin Barker for the open and honest report on behalf of the Committee and asked if there were any implications for NECA. It was noted that the delay would bring compromise and challenge to management in view of preparation of documents for audit and capacity within the team to respond to any queries. This had been included on the Risk Register. Members were supportive however acknowledged the need for additional resources. They were assured that officers would not be penalised for a delay in responding to audit queries. Gavin reiterated it was a worse case scenario explaining that additional staff had been recruited.

Members asked how government would react should the timetables not be met. Gavin explained it was a national issue and only 45% of auditors had delivered on time.

In response to a query from Members, Gavin reported that he would be disappointed if in the same situation the following year. He went on to explain that the staff shortage was due to experienced members of staff taking up employment with the National Audit Office with others choosing alternative career paths. It was acknowledged that there would be no implication on grant payments subject to external audits.

RESOLVED that: -

i. the report be noted.

6 **Draft Statement of Accounts 2020/21 – Progress Update and Narrative Report** 69-88

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

Eleanor Goodman presented the progress update on behalf of the Chief Finance Officer. The report included the Draft Statement of Accounts for 2020/21 which were largely completed and which were planned to be published on the NECA website by 30 June 2021.

Following the revision of the statutory deadlines in the Accounts and Audit Regulations for 2020/21, the opportunity had been taken to add extra time to the timetable for the preparation of the draft accounts. This would allow for additional review and quality assurance and to allow Nexus additional time for the completion of their draft statements.

Members noted that a report elsewhere on the agenda set out changes to the proposed timescales for the audit of the draft accounts which was now intended to commence in late September and would not be concluded until November.

Members' attention was drawn to the draft Narrative Report to accompany the Statement of Accounts for members' information and consideration which was appended to the report.

Members' views were sought on submission of the Statement of Accounts and agreed that they would be submitted to the meeting in September. Eleanor agreed to circulate the link to the published accounts.

Resolved that: -

i. Consideration of the draft statements be deferred until the next scheduled meeting in September 2021.

7 **Consideration of 'Going Concern Status' for the Statement of Accounts for the year ended 31 March 2021** 89-98

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

Eleanor Goodman presented the report which considered NECA's status as a going concern and recommended that members approve it.

The annual statement of accounts complied with the Code of Practice on Local Authority Accounting 2020/21 (the Code) as published by the Chartered Institute of Public Finance and Accountancy (CIPFA). The Code required the accounts to be prepared on a going concern basis. The report detailed the reasons why it was recommended that NECA be considered as a going concern and it was appropriate for the statement of accounts to be prepared on that basis. In summary those reasons were:

a) the financial position of the authority remained healthy;
b) as at 31 March 2021 NECA held general reserves of £7.166 million (provisional) and reserves earmarked for specific future purposes, including those held on behalf of Nexus, of £11.452 million (provisional);
c) net assets at 31 March 2020 amounted to £98.589 million (provisional);
d) the authority had been able to set a balanced budget for 2021/22 and had a clear plan in place to continue to deliver transport services up to (at least) 2023/24;
e) the authority had a history of stable finance and ready access to financial resources in the future; and
f) there were no significant financial, operating or other risks that would jeopardise the authority's continuing operation.

Responding to a query from the Chair, Eleanor reported that Nexus would continue to be kept under review.

RESOLVED that: -

i. the opinion of the Chief Finance Officer be noted; and
ii. NECA be considered as a going concern and the statement of accounts be prepared on that basis.

8 **Draft Annual Governance Statement 2020/21**

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

Tracy Davis presented the report which presented the outcome of the annual review of the Authority’s governance and internal control arrangements. The review highlighted no areas requiring improvement. Actions planned during 2020 to address two areas requiring improvement regarding the arrangements for preparing the Statement of Accounts and supporting the audit of them and related party declarations had been undertaken. A copy of the draft Annual Governance Statement was provided at Appendix 1.

Members acknowledged it was the first draft and agreed that any changes made subject to external audit would be submitted to the Committee. Tracy reported that meetings had taken place during the pandemic and no significant weaknesses had been identified.

RESOLVED that: -

i. the draft 2020/21 Annual Governance Statement narrative be agreed; and
ii. it be acknowledged that the Statement would be subject to further review following the completion of the external audit of the accounts and before it was signed by the Head of Paid Service and Chair of the Combined Authority.

9 **NECA Strategic Risk Register**

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

Tracy Davis presented the report which provided an up to date assessment of the strategic risks for NECA.

It was noted that there were no changes to the risk register and the register currently contained 13 risks. Any recent changes, developments or activities considered relevant to the assessment of NECA’s strategic risks were highlighted in green text in Appendix 1 and 2 attached to the report.

Tracy reported that an additional clause had been included in JTC Organisation Risk 1, which related to limited funding opportunities to non-mayoral Combined Authorities and the strategic risk score had been updated to 2.

Responding to a query from the Chair, Tracy reported on the process to seek funding.

RESOLVED that: -

i. the NECA Strategic Risk Register (noting the Strategic Risk Register of the JTC) be noted.

10 DATE AND TIME OF NEXT MEETING

Tuesday 7 September at 10.00am

North East Combined Authority

DURHAM • GATESHEAD • SOUTH TYNESIDE • SUNDERLAND

Audit and Standards Committee

Agenda Item 4

Date: **7 September 2021**

Subject: **Draft Statement of Accounts 2020/21**

Report of: **Chief Finance Officer**

This report presents the draft unaudited NECA Statement of Accounts for the 2020/21 financial year to the Audit and Standards Committee for consideration. Attached to the report are the unaudited Statements of Accounts; a Narrative Report and the Annual Governance Statement.

There are four core statements produced to provide fundamental information on the financial activities and position of the Authority to 31 March 2021:

a) Movement in Reserves Statement;

b) Comprehensive Income and Expenditure Statement;

c) Balance Sheet; and

d) Cash Flow Statement.

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

The unaudited Statement of Accounts was authorised by the Chief Finance Officer and published on the NECA website on 30 June 2021, in accordance with the revised statutory deadlines.

The Statement of Accounts was subject to a period of public inspection from 1 July 2021 to 11 August 2021.

As reported to the last meeting of the Committee, the external audit of the accounts will take place from late September 2021, with completion expected by the end of November 2021, subject to receipt of Pension Fund assurances from the auditor of the Tyne and Wear Pension Fund.

Following the external audit, it is expected that the final statement of accounts will be presented to the Audit and Standards Committee at its meeting in December for recommendation to the NECA Leadership Board for approval.

Recommendations

The Audit and Standards Committee is recommended to note the contents of this report and the draft statutory statements that are attached.

1. Background Information

1.1 The Accounts and Audit (Amendment) Regulations 2021, which stipulate a two stage approval process for the statement of accounts, extended the statutory audit deadlines for 2020/21 and 2021/22 for local authorities.

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

a) the financial position of the council for the year to 31 March previous, and

b) its income and expenditure for the year to 31 March previous, subject to the views of the external auditor.

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

1.4 There is a requirement for the authority to hold a thirty working day inspection period which can commence at any time, but no later than 1 August 2021. This allows local authorities to produce draft accounts and commence inspection periods as soon as practicable for them.

1.5 The unaudited statement of accounts for the financial year ended 31 March 2021 was authorised by the responsible financial officer (the Chief Finance Officer) and published on the NECA website on 30 June 2021, within the revised statutory deadline.

1.6 The statement of accounts is now subject to external audit by its appointed auditors, Mazars LLP. The audit of the accounts will commence in late September 2021 and upon completion the Auditor's report will be incorporated into the published version of the document.

1.7 Subject to completion of the external audit, the final statement of accounts for 2020/21 will be presented for consideration at the Audit Committee meeting in December 2021 and at the Leadership Board in December for approval.

1.8 The attached draft statement of accounts, having been published on the NECA website, was made available for inspection by the public from 1 July 2021 to 11 August 2021, in line with current regulations.

2 Proposals

Statement of Accounts

2.1 The statement of accounts for the financial year ended 31 March 2021 has been prepared in accordance with the 'Accounts and Audit Regulations 2003', as amended by the Accounts and Audit (Amendment) (England) Regulations 2006 and 2009, the 'Accounts and Audit (England) Regulations 2015' the 'Accounts and Audit (Amendment) Regulations 2021’ and the ‘Code of Practice on Local Authority Accounting 2020/21’ (the Code) as published by the Chartered Institute of Public Finance and Accountancy (CIPFA).

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

Key information from the Statement of Accounts

2.3 Page numbers used in this report refer to the page numbers on the statement of accounts document, 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.

2.4 There are four core statements to provide fundamental information on the financial activities and position of the authority:

a) Movement in Reserves Statement (page 5);

b) Comprehensive Income and Expenditure Statement (page 6);

c) Balance Sheet (page 7); and

d) Cash Flow Statement (page 8).

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

Movement in Reserves Statement

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

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

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

2.8 Unusable reserves totalling £56.284m at 31 March 2021, which includes reserves absorbing timing differences arising from the different arrangements for accounting for and financing non-current assets, financial instruments and pension liabilities in accordance with statutory provisions, and for containing gains made by the Authority arising from increases in the value of Property, Plant and Equipment.

Comprehensive Income and Expenditure Statement (CIES)

2.9 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.

2.10 The gross cost of services during the year including capital grants to third parties as well as revenue expenditure was £79.781m (£104.772m in 2019/20 – which included expenditure relating to the North East LEP). This includes a significant amount of 'Revenue Expenditure Funded by Capital Under Statute' (REFCUS) – representing investment in capital assets owned by third parties, not by the Authority itself.

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

Balance Sheet

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

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

Cash Flow Statement

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

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

Notes to the Core Financial Statements

2.16 The notes are important in the presentation of a true and fair view of the financial performance and position of NECA to 31 March 2021. They aim to assist understanding by presenting information about the basis of preparation of the core financial statements, by disclosing information required by the Code that is not presented elsewhere and by providing information that is not provided elsewhere but is relevant to the understanding of the accounts. They also include the Accounting Policies adopted in preparing the accounts.

Group Accounts

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

Other Documents

2.18 Published alongside the draft Statement of Accounts are two further documents which do not form part of the audited accounts but provide further context. The Narrative Report (attached here as Appendix 2) aims to offer interested parties a more understandable guide to the most significant matters reported in the accounts. The Annual Governance Statement (Appendix 3) gives assurance that appropriate mechanisms are in place for the maintenance of good governance across the activities of the Authority. These two documents were discussed at the last meeting of the Committee.

Accounting for the North East Joint Transport Committee

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

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

1. Split the revenues between that which relates to NECA and NTCA. In this case, the constitution of the JTC and its funding arrangements suggests that, in the first instance, the revenues should be divisible into that which relates to 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 activities now wholly attributable under the preceding two points which requires apportionment.

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

2.22 For the 2020/21 accounts, the mid-year estimated population published by the Office of National Statistics as at June 2018 is used, which is the basis on which the Transport Levy payments for the year are required to be calculated.

Transfer of the North East LEP

2.23 On 1 April 2020, the Accountable Body role for the North East LEP transferred to NTCA. This included 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.

2.24 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 CIES shows services transferred to the 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 where relevant.

Audit of the Accounts

2.25 As reported at the last meeting of the Committee, Mazars will be unable to meet the statutory end of September timetable due to a backlog of work, resource difficulties, the departure of staff and difficulties with recruitment and retention. They plan to undertake the audit from late September 2021 at the earliest, with completion expected by the end of November 2021, subject to receipt of Pension Fund assurances from the auditor of the Tyne and Wear Pension Fund.

2.26 NECA will be required to publish a statement on its website on 30 September 2021, stating the reasons why it is unable to publish an audited statement of accounts by the 30 September deadline.

2.27 Following completion of the audit, the final Statement of Accounts will be presented to the Audit and Standards Committee for recommendation to the Leadership Board for approval in December 2021.

3. Reasons for the Proposals

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

4. Alternative Options Available

4.1 This report is provided for information and for consideration as part of the audit process to comply with the ‘Accounts and Audit Regulations 2003’, as amended by the Accounts and Audit (Amendment) (England) Regulations 2006 and 2009, the ‘Accounts and Audit (England) Regulations 2015’ the ‘Accounts and Audit (Amendment) Regulations 2021’ and the ‘Code of Practice on Local Authority Accounting 2020/21’ (the Code) as published by the Chartered Institute of Public Finance and Accountancy (CIPFA).

5. Next Steps and Timetable for Implementation

5.1 The main audit of the NECA accounts will take place during September to November 2021, after which the final audited accounts, along with the report of the external auditor, will be reported to the Audit and Standards Committee and presented to the NECA Leadership Board for approval.

6. Potential Impact on Objectives

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

7. Financial and Other Resources Implications

7.1 The report and the draft statements that are appended to this report detail the financial position of the Authority as at 31 March 2021.

8. Legal Implications

8.1 NECA is required to comply with the Accounts and Audit Regulations 2015 and prepare accounts compliant with the CIPFA Code of Practice on Local Authority Accounting 2020/21 which is based upon approved accounting standards in England and Wales and constitutes proper accounting practice under the terms of section 21(2) of the Local Government Act 2003.

9. Key Risks

9.1 There are no risk management implications arising from this report.

10. Equality and Diversity

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

11. Crime and Disorder

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

12. Consultation/Engagement

12.1 The statement of accounts was subject to a period of public inspection from 1 July 2021 to 11 August 2021. Consultation on this report has taken place with NECA statutory officers.

13. Other Impact of the Proposals

13.1 There are no other impacts arising from these proposals.

14. Appendices

14.1 Appendix 1 – NECA Statement of Accounts 2020/21 (Draft – Subject to Audit)

Appendix 2 – Narrative Report 2020/21

Appendix 3 – Annual Governance Statement 2020/21

15. Background Papers

15.1 None

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

Statement of Accounts 2020/21

Draft - Subject to Audit

Contents **Page**

1.0 Statement of Responsibilities for the Statement of Accounts

1.1 The Authority's Responsibilities

The Authority is required:

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

The Chief Finance Officer's Responsibilities:

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

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

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

The Chief Finance Officer has also:

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

Certification of the Accounts

I hereby certify that the Statement of Accounts for the year ended 31 March 2021, required by the Accounts and Audit Regulations 2015, are set out in the following pages.

I certify that the Statement of Accounts gives a true and fair view of the financial position of the North East Combined Authority at 31 March 2021 and its income and expenditure for the year ended 31 March 2021.

Signed:

Paul Darby
Chief Finance Officer

2.1 Movement in Reserves Statement

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

		Usable Reserves						
	Note	General Fund Balance	Earmarked General Fund Reserves	Capital Receipts Reserve	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Authority Reserves
		£000	£000	£000	£000	£000	£000	£000
Balance at 1 April 2019		**(22,831)**	**(9,792)**	**(2,503)**	**(11,672)**	**(46,796)**	**(67,485)**	**(114,281)**
Total Comprehensive Income and Expenditure	1	(9,988)	-	-	-	(9,988)	(870)	(10,858)
Adjustments between accounting basis & funding basis under regulations	3	9,005	-	(6,386)	(1,551)	1,068	(1,068)	-
Net (Increase)/Decrease before transfers to Earmarked Reserves		**(983)**	**-**	**(6,386)**	**(1,551)**	**(8,920)**	**(1,938)**	**(10,858)**
Transfers (To)/From Earmarked Reserves		2,581	(2,581)	-	-	**-**	-	-
(Increase)/Decrease in 2019/20		1,598	(2,581)	(6,386)	(1,551)	**(8,920)**	(1,938)	(10,858)
Balance at 31 March 2020 carried forward		**(21,233)**	**(12,373)**	**(8,889)**	**(13,223)**	**(55,716)**	**(69,423)**	**(125,139)**
Transfer to NTCA 1 April 2020		12,067	1,596	8,889	5,860	**28,412**	13,724	42,136
Opening Balance at 1 April		**(9,166)**	**(10,777)**	-	**(7,363)**	**(27,304)**	**(55,699)**	**(83,003)**
Total Comprehensive Income and Expenditure	1	(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		677	(677)	-	-	**0**	-	-
(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)**

2.2 Comprehensive Income and Expenditure Statement

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

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

2.3 Balance Sheet

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

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

Chief Finance Officer Certificate

I certify that the accounts set out on pages 5 to 75 give a true and fair view of the financial position of the North East Combined Authority as at the 31 March 2021.

Signed:

Paul Darby, Chief Finance Officer

2.4 Cash Flow Statement

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

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

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

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

At this date:

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

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

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

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

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

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

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

Note 02: Expenditure and Funding Analysis

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

	2020/21				
	Net Expenditure Chargeable to the General Fund	Adjustments for Capital Purposes	Pension Adjustments	Other Differences	Net Expenditure in the CIES
	£000	£000	£000	£000	£000
Corporate	93	-	(300)	-	(207)
Skills	-	-	-	-	-
Transport - Retained Levy Budget	361	(288)	-	-	73
Transport - Durham	15,456	-	-	-	15,456
Transport - Tyne and Wear	32,719	-	-	-	32,719
Transport - Other	(2,720)	(14,029)	-	-	(16,749)
Transport - Tyne Tunnels	736	(1,653)	(50)	-	(967)
Cost of services	**46,645**	**(15,971)**	**(350)**	**-**	**30,325**
Other Income and Expenditure	**(46,050)**	(741)	20	(225)	**(46,997)**
(Surplus)/Deficit on Provision of Services	**595**	**(16,712)**	**(330)**	**(225)**	**(16,672)**
Opening General Fund Balances	(33,607)				
Transfer to NTCA 1 April 2020	13,664				
Closing General Fund Balances	**(19,348)**				

Adjustments for Capital Purposes

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

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

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

Net Change for the Pension Adjustments

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

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

Other Differences

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

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

	2019/20				
	Net Expenditure Chargeable to the General Fund	Adjustments for Capital Purposes	Pension Adjustments	Other Differences	Net Expenditure in the CIES
	£000	£000	£000	£000	£000
Corporate	(177)	-	840	-	663
Inward Investment	214	-	-	-	214
Local Growth Fund Programme	2,031	(1,694)	-	-	337
North East Local Enterprise Partnership	(72)	-	-	-	(72)
Skills	-	-	-	-	-
Transport - Retained Levy Budget	438	(295)	-	-	143
Transport - Durham	15,552	-	-	-	15,552
Transport - Tyne and Wear	31,010	-	-	-	31,010
Transport - Other	409	(2,277)	-	-	(1,868)
Transport - Tyne Tunnels	(3,184)	(1,235)	(50)	-	(4,469)
Cost of services	**46,221**	**(5,501)**	**790**	**-**	**41,510**
Other Income and Expenditure	**(50,540)**	(389)	20	(589)	**(51,498)**
(Surplus)/Deficit on Provision of Services	**(4,319)**	**(5,890)**	**810**	**(589)**	**(9,988)**
Opening General Fund Balances	(32,624)				
Transfer from Capital Receipts Reserve	3,336				
Closing General Fund Balances	**(33,607)**				

Note 02a: Income and Expenditure Analysed by Nature

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

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

Note 3: Adjustments between Accounting Basis and Funding Basis Under Regulations

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

2019/20				Adjustments between Accounting Basis and Funding Basis Under Statute	2020/21			
General Fund	Capital Receipts Reserve	Capital Grants Unapplied	Unusable Reserves		General Fund	Capital Receipts Reserve	Capital Grants Unapplied	Unusable Reserves
£000	£000	£000	£000		£000	£000	£000	£000
				Adjustments primarily involving the Capital Adjustment Account (CAA)				
				Reversal of items debited or credited to the CIES				
(2,317)	-	-	2,317	Charges for depreciation and impairment of non current assets	(2,402)	-	-	2,402
2,837	-	-	(2,837)	Other income that cannot be credited to the General Fund	2,824	-	-	(2,824)
35,904	-	-	(35,904)	Capital grants and contributions applied	7,052	-	-	(7,052)
(37,538)	-	-	37,538	Revenue expenditure funded from capital under statute	(10,391)	-	-	10,391
				Insertion of items not debited or credited to the CIES				
964	-	-	(964)	Statutory provision for the financing of capital investment	1,391	-	-	(1,391)
5	-	-	(5)	Capital expenditure charged against the General Fund	19	-	-	(19)
				Adjustments primarily involving the Capital Grants Unapplied Account				
6,036	-	(6,036)	-	Grants and contributions unapplied credited to the CIES	18,219	-	(18,219)	-
-	-	4,485	(4,485)	Application of grants to capital financing transferred to the CAA	-	-	1,895	(1,895)
				Adjustments involving the Capital Receipts Reserve				
2,481	(8,042)	-	5,561	Loan principal repayments	-	(841)	-	841
855	778	-	(1,633)	Use of Capital Receipts Reserve to finance new capital expenditure	-	-	-	-
-	878	-	(878)	Application of Capital Receipts to repayment of debt	-	841	-	(841)
				Adjustments involving the Financial Instruments Adjustment Account				
589	-	-	(589)	Amount by which finance costs charged to the CIES are different from finance costs chargeable in the year in accordance with statutory requirements	225	-	-	(225)
				Adjustments involving the Pensions Reserve				
(860)	-	-	860	Reversal of items relating to retirement benefits debited or credited to the CIES	280	-	-	(280)
50	-	-	(50)	Employer's pension contributions and direct payments to pensioners payable in the year	50	-	-	(50)
9,006	**(6,386)**	**(1,551)**	**(1,069)**	**Total Adjustments**	**17,268**	**-**	**(16,324)**	**(943)**

Note 04: Financing and Investment Income and Expenditure

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

Note 05: Taxation and Non Specific Grant Income

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

Note 06: Grant Income

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

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

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

Grants Receipts in Advance	31 March 2020 £000	31 March 2021 £000
North East Smart Ticketing Initiative	(114)	-
Office for Low Emission Vehicles	(141)	(127)
Other Grants	(636)	(3,229)
Total	**(891)**	**(3,356)**
Shown as Short-Term Liability on the Balance Sheet	(891)	(3,356)
Short as Long-Term Liability on the Balance Sheet	-	-
Total	**(891)**	**(3,356)**

Note 7: Members' Allowances

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

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

Note 08: Officers' Remuneration

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

		Salary, Fees and Allowances £000	Pension Contributions £000	Total £000
Managing Director of Transport Operations	2020/21	131	-	**131**
	2019/20	127	-	**127**

All three of the Authority's statutory officers in 2020/21 were not formal employees of the authority (and are not therefore included in the statutory disclosure above). Their services are provided by Service Level Agreements between the authority and their Local Authority employers. The individuals involved received no additional remuneration for these roles.

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

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

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

Note 9: External Audit Costs

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

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

Note 10: Related Parties

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

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

Central Government

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

Elected Members of the Authority

Members of the Authority have a direct control over the Authority's financial and operating policies. No members allowances are payable to elected members of the Authority. During 2020/21 no works or services were commissioned from companies in which any members had an interest.

Officers

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

NECA Constituent Authorities

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

Joint Transport Committee Constituent Authorities

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

Other Public Bodies

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

Other Entities

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

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

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

Note 11: Property, Plant and Equipment

	2020/21				
	Vehicles, Plant, Furniture & Equipment	Infrastructure Assets	Assets Under Construction	Total Property, Plant & Equipment	Service Concession Assets included in Property, Plant and Equipment
	£000	£000	£000	£000	£000
Cost or Valuation					
At 1 April 2020	2,204	219,358	1,049	**222,611**	219,358
Additions	-	528	189	**717**	528
Reclassification from Assets Under Construction	677	-	(677)	**-**	-
Impairment recognised in the Surplus/Deficit on the Provision of Services	-	(20)	-	**(20)**	(20)
Other Adjustments	-	(865)	-	**(865)**	(865)
At 31 March 2021	**2,881**	**219,001**	**561**	**222,443**	**219,001**
Accumulated Depreciation and Impairment					
At 1 April 2020	(754)	(28,657)	-	**(29,411)**	(28,657)
Depreciation charge for the Year	(160)	(2,222)	-	**(2,382)**	(2,222)
At 31 March 2021	**(914)**	**(30,879)**	**-**	**(31,793)**	**(30,879)**
Net Book Value					
At 1 April 2020	**1,450**	**190,701**	**1,049**	**193,200**	**190,701**
At 31 March 2021	**1,967**	**188,122**	**561**	**190,650**	**188,122**

	2019/20				
	Vehicles, Plant, Furniture & Equipment	Infrastructure Assets	Assets Under Construction	Total Property, Plant & Equipment	Service Concession Assets included in Property, Plant and Equipment
	£000	£000	£000	£000	£000
Cost or Valuation					
At 1 April 2019	1,785	209,165	10,067	**221,017**	209,165
Additions	-	-	1,594	**1,594**	-
Reclassification from Assets Under Construction	419	10,193	(10,612)	**-**	10,193
At 31 March 2020	**2,204**	**219,358**	**1,049**	**222,611**	**219,358**

Accumulated Depreciation and Impairment					
At 1 April 2019	(661)	(26,433)	-	**(27,094)**	**(26,433)**
Depreciation charge for the Year	(93)	(2,224)	-	**(2,317)**	(2,224)
At 31 March 2020	**(754)**	**(28,657)**	**-**	**(29,411)**	**(28,657)**

Net Book Value					
At 1 April 2019	**1,124**	**182,732**	**10,067**	**193,923**	**182,732**
At 31 March 2020	**1,450**	**190,701**	**1,049**	**193,200**	**190,701**

Note 12: Financial Instruments

Financial Assets

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

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

Financial assets at amortised cost

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

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

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

Trade receivables

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

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

Financial Liabilities held at amortised cost

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

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

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

Income, Expense, Gains and Losses

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

31 March 2020				31 March 2021		
£000	£000	£000		£000	£000	£000
Financial Liabilities at amortised cost	Financial assets: measured at amortised cost	Total		Financial Liabilities at amortised cost	Financial assets: measured at amortised cost	Total
4,176	-	4,176	Interest expense	4,037	-	**4,037**
4,176	**-**	**4,176**	**Total expense in Surplus on Provision of Services**	**4,037**	-	**4,037**
-	(2,092)	(2,092)	Investment income	-	(963)	**(963)**
-	(132)	(132)	Movement on soft loans adjustment	**-**	-	**-**
-	**(2,224)**	**(2,224)**	**Total income in Surplus on Provision of Services**	**-**	**(963)**	**(963)**
4,176	**(2,224)**	**1,952**	**Net (gain)/loss for the year**	**4,037**	**(963)**	**3,074**

Fair Value of Assets & Liabilities carried at Amortised Cost

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

- Loans borrowed by the Authority have been valued by discounting the contractual cash flows over the whole life of the instrument at the appropriate market rate for local authority
- The value of "Lender's Option Borrower's Option" (LOBO) loans have been increased by the value of the embedded options. Lender's options to propose an increase to the interest rate of the loan have been valued according to a proprietary model for Bermudan cancellable swaps. Borrower's contingent options to accept the increased rate or repay the loan have been valued at zero, on the assumption that lenders will only exercise their options when market rates have risen above the contractual loan rate.

- The fair values of other long-term loans and investments have been discounted at the market rates for similar instruments with similar remaining terms to maturity on 31st March.
- No early repayment or impairment is recognised for any financial instrument.
- The fair value of short-term instruments, including trade payables and receivables, is assumed to approximate to the carrying amount.

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

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

The fair values calculated are as follows:

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

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

Soft Loans

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

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

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

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

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

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

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

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

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

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

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

Credit risk

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

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

Rating	2019/20 £000	2020/21 £000
n/a - investments with UK local authorities	52,446	27,617
n/a - investments with unrated building societies [1]	5,790	-
Total Short-Term Investments	**58,236**	**27,617**
AAA	13,348	14,254
AA2	3,621	-
Total Cash Equivalents	**16,969**	**14,254**

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

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

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

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

Liquidity Risk

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

	31 March 2020 £000	31 March 2021 £000
Between 1-2 years	(371)	(370)
Between 2-5 years	(1,114)	(1,109)
Between 5-10 years	(557)	(185)
More than 10 years	(93,029)	(92,612)
	(95,071)	**(94,276)**
Less than 1 year	(1,298)	(1,274)
Total borrowing	**(96,369)**	**(95,550)**

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

Market Risk

Interest Rate Risk

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

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

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

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

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

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

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

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

If interest rates had been 1% higher with all other variables held constant, the financial effect would be a decrease of £30.616m in the fair value of fixed rate borrowings, although this would not impact on the Surplus/Deficit on the Provision of Services or Other Comprehensive Income and Expenditure.

Note 14: Short Term Debtors

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

Note 15: Long Term Debtors

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

Note 16: Cash and Cash Equivalents

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

Note 17: Short Term Creditors

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

Note 18: Private Finance Initiatives and Similar Contracts

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

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

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

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

Payments

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

Note 19: Defined Benefit Pension Schemes

The Authority participates in two post-employment schemes:

(i) The largest of the two, the Tyne and Wear Pension Fund is administered locally by South Tyneside Council - this is a funded, defined benefit scheme, meaning that the Authority and employees pay contributions into a fund, calculated at a level intended to balance the pension liabilities with investments.

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

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

Transactions Relating to Post-employment Benefits

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

Amounts recognised in profit and loss and other comprehensive income

	Local Government Pension Scheme		Discretionary Benefits	
	2019/20	2020/21	2019/20	2020/21
	£000	£000	£000	£000
Comprehensive Income and Expenditure Statement				
Cost of Services:				
Current service cost	840	320	-	-
Settlement cost	-	(620)	-	-
Financing and Investment Income and Expenditure				
Interest on net defined benefit liability (asset)	-	-	20	20
Pension expense recognised in profit and loss	**840**	**(300)**	**20**	**20**
Other Post Employment Benefits charged to the Comprehensive Income and Expenditure Statement:				
Return on plan assets (in excess of)/below that recognised in net interest	2,630	(8,690)	-	
Actuarial (gains)/losses due to changes in financial assumptions	-	4,310	-	70
Actuarial (gains)/losses due to changes in demographic assumptions	(390)	-	(20)	
Actuarial (gains)/losses due to changes in liability assumptions	3,090	320	(10)	(10)
Adjustment in respect of paragraph 58	(6,170)	4,330	-	
Total amount recognised in OCI	**(840)**	**270**	**(30)**	**60**
Total amount recognised	**-**	**(30)**	**(10)**	**80**

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

Assets and Liabilities in Relation to Post-employment Benefits

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

	Local Government Pension Scheme		Discretionary Benefits	
	2019/20	2020/21	2019/20	2020/21
	£000	£000	£000	£000
Opening balance at 1 April	**(39,520)**	**(42,750)**	**(900)**	**(840)**
Current service cost	(840)	(320)	-	-
Interest cost	(930)	(950)	(20)	(20)
Contributions by participants	(170)	(70)	-	-
Actuarial gains/(losses) on liabilities - financial assumptions	-	(4,310)	-	(70)
Actuarial gains/(losses) on liabilities - demographic assumptions	390	-	20	-
Actuarial gains/(losses) on liabilities - experience	(3,090)	(320)	10	10
Net benefits paid out	1,410	350	50	50
Past service costs	-	-	-	
Settlements		(30)		
Closing balance at 31 March	**(42,750)**	**(48,400)**	**(840)**	**(870)**

Reconciliation of the fair value of the scheme assets:

	Local Government Pension Scheme		Discretionary Benefits	
	2019/20	2020/21	2019/20	2020/21
	£000	£000	£000	£000
Opening balance at 1 April	**48,300**	**45,570**	**-**	**-**
Interest income on assets	1,140	1,020	-	-
Remeasurement gains/(losses) on assets	(2,630)	8,620	-	-
Employer contributions	-	-	50	50
Contributions by scheme participants	170	70	-	-
Net benefits paid out	(1,410)	(350)	(50)	(50)
Settlements		(880)		
Closing balance at 31 March	**45,570**	**54,050**	**-**	**-**

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

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

Scheme History	2016/17	2017/18	2018/19	2019/20	2020/21
	£000	£000	£000	£000	£000
Fair value of LGPS assets	**45,050**	**45,980**	**48,300**	**45,570**	**54,050**
Present value of liabilities:					
- LGPS liabilities	(37,590)	(38,950)	(39,520)	(42,750)	(46,900)
- Impact of minimum funding	(7,460)	(7,030)	(8,780)	(2,820)	(7,150)
Deficit on funded defined benefit scheme	**-**	**-**	**-**	**-**	**-**
Discretionary benefits	(980)	(960)	(900)	(840)	(870)
Total (Deficit)	**(980)**	**(960)**	**(900)**	**(840)**	**(870)**

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

The liabilities show the underlying commitments that the Authority has in the long run to pay post employment (retirement) benefits. The total liability of £54.920m has an impact on the net worth of the Authority recorded on the balance sheet, resulting in a negative pension balance of £0.870m. However, statutory arrangements for funding the deficit mean that the financial position of the Authority remains healthy:

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

- The total contributions expected to be made to the Local Government Pension Scheme by the Authority in the year to 31 March 2022 is nil. In addition, Strain on the Fund contributions may be required. Expected payments direct to beneficiaries in the year to 31 March 2022 are £0.05m in relation to unfunded benefits.

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels etc. Both the Local Government Pension Scheme and Discretionary Benefits liabilities have been assessed by Aon, an independent firm of actuaries. Due to the current and unprecedented market conditions, estimates for the pension fund are based on the latest full valuation of the scheme as at 31 March 2019.

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

The principal assumptions used by the actuary have been:

	Local Government Pension Scheme		Discretionary Benefits	
	2019/20	**2020/21**	**2019/20**	**2020/21**
Mortality assumptions:				
Longevity at 65 for current pensioners:				
- Men	21.8	21.9	21.8	21.9
- Women	25.0	25.1	25.0	25.1
Longevity at 65 for future pensioners:				
- Men	23.5	23.6	n/a	n/a
- Women	26.8	26.9	n/a	n/a
Principal financial assumptions (% per annum)				
Rate for discounting scheme liabilities	2.3%	2.1%	2.3%	2.1%
Rate of inflation - Consumer Price Index	2.1%	2.7%	2.1%	2.7%
Rate of increase in pensions	2.1%	2.7%	2.1%	2.7%
Pension accounts revaluation rate	2.1%	2.7%	n/a	n/a
Rate of increase in salaries	3.6%	4.2%	n/a	n/a

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

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

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

Actual Return on Assets

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

Sensitivity Analysis

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

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

Discount rate assumption	**+0.1% per annum**	**Base Figure**	**-0.1% per annum**
Adjustment to discount rate			
Present value of total obligation (£M)	46.29	46.90	47.56
% change in present value of total obligation	-1.30%		1.40%
Projected service cost (£M)	0.41	0.42	0.43
Approximate % change in projected service cost	-2.70%		2.80%

Rate of general increase in salaries	**+0.1% per annum**	**Base Figure**	**-0.1% per annum**
Adjustment to salary increase rate			
Present value of total obligation (£M)	46.90	46.90	46.90
% change in present value of total obligation	0.00%		0.00%
Projected service cost (£M)	0.42	0.42	0.42
Approximate % change in projected service cost	0.00%		0.00%

Rate of increase to pensions in payment and deferred pensions assumption, and rate of revaluation of pension accounts assumption	+0.1% per annum	Base Figure	-0.1% per annum
Adjustment to pension increase rate			
Present value of total obligation	47.51	46.90	46.29
% change in present value of total obligation	1.30%		-1.30%
Projected service cost (£M)	0.43	0.42	0.42
Approximate % change in projected service cost	2.80%		-2.70%

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

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

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

McCloud Judgement

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

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

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

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

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

Guaranteed Minimum Pension (GMP) Equalisation and Indexation

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

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

The government has since introduced 'interim solutions' for public sector schemes to pay full inflationary increases on GMPS for those reaching the State Pension Age (SPA) to ensure that members continue to receive full inflationary increases on the combined public sector scheme and State pensions. This applied to those reaching SPA between 6 April 2016 and 5 April 2021. The Government has also indicated that it is committed to continuing to compensate all members of public sector pension schemes reached SAP after 5 April 2021.

On 7 October 2020 MHCLG consulted on proposed solutions to compensate members reaching SPA after 5 April 2021 which focused on making further extensions to GMP indexation followed by ultimate conversion or indefinite indexation as a permanent solutions for public sector pension schemes. The expectation is that full indexation will extend until at least April 2024 with conversion to be brought in as a longer term option.

The rate of which GMP was accrued, and the date it is payable, is different for men and women. On 26 October 2018 the High Court ruled in the Lloyds Bank case that equalisation for the effect of unequal GMPs is required. On 20 November 2020 the High Court ruled on the equalisation for GMPs of historic transfers out of the three largest Lloyds Banking Group pension schemes. The judgement requires all transfers between 17 May 1990 and 5 April 1997 with GMPs to be equalised. Schemes will be expected to pay a top-up to the receiving scheme with interest at Bank base rate +1%. At this point in time, it is unknown if there will be a blanket exemption on the application of this ruling to public sector schemes. The Pension Actuaries have not made any allowance for a potential liability resulting from this ruling in the accounting figures for this financial year.

Note 20: Usable Reserves

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

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

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

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

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

Note 21: Transfers (to)/From Earmarked Reserves

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

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

Note 22: Unusable Reserves

Summary

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

Capital Adjustment Account

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

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

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

Financial Instruments Adjustment Account

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

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

Revaluation Reserve

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

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

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

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

Pensions Reserve

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

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

Note 23: Capital Expenditure and Capital Financing

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

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

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

The cash flows for operating activities include the following items:

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

Note 25: Cash Flow Statement - Investing Activities

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

Note 26: Cash Flow Statement - Financing Activities

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

Note 26a: Reconciliation of liabilities arising from Financing Activities

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

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

Note 27: Accounting Standards Issued, Not Yet Adopted

Impact of the adoption of new accounting standards on the 2020/21 Financial Statements

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

IFRS 16 Leases will require local authorities that are lessees to recognise most leases on their balance sheets as right-of-use assets with corresponding lease liabilities (there is a recognition exemption for low-value and short-term leases). CIPFA/LASAAC have deferred implementation of IFRS 16 for local government to 1 April 2022. Work to date has shown that NECA leases identified will not have a material effect on the 2021/22 statements.

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

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

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

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

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

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

Note 28: Critical Judgements in Applying Accounting Policies

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

Service Concession Arrangements

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

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

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

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

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

Accounting for the North East Joint Transport Committee

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

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

Accounting for the Transfer of the North East Local Enterprise Partnership

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

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

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

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

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

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Authority with expert advice about the assumptions to be applied.	The approximate impact of changing the key assumptions on the present value of the funded defined benefit obligation as at 31 March 2021 and the projected service cost for the year ending 31 March 2022 are set out below. Discount rate assumption, an adjustment to the discount rate of +0.1% p.a. would decrease the present value of the total obligation to £46.29m, a variance of £0.61m, whereas a decrease of (0.1%) p.a. results in an increase to £47.56m, a variance of £0.66m. The percentage change in the present value of the total obligation would be (1.3%) and 1.4% respectively.

		Rate of increase to pensions in payment and deferred pensions assumption, and rate of revaluation of pension accounts assumption: an adjustment to the pension increase rate of +0.1% p.a. would increase the present value of the total obligation by £0.61m to £47.51m, whereas a decrease of (0.1%) p.a. results in a decrease to £46.29m, a variance of £0.61m. The percentage change in the present value of the total obligation would be 1.3% and (1.3%) respectively.
		Post retirement mortality assumption: an adjustment to the mortality age rating assumption of -1 year would change the present value of the total obligation to £48.59m, an increase of £1.69m, whereas an adjustment of +1 year results in a reduction to £45.26m, a variance of £3.5m. The percentage change in the present value of the total obligation would be 3.6% and (3.5%) respectively.
Government Funding	There is no certainty about the amount of government funding for Local Authorities until the outcome of the Comprehensive Spending Review is known in 2021	Possible impact could be reductions in; - funding for the North East region's transport infrastructure and initiatives - contributions from Local Authorities - grant funding from government

Government Funding	The outcome of the Fair Funding Review which aims to distribute government funding in a fairer way to Local Authorities - expected to be implemented in 2022/23	Possible impact could be reductions in; - funding for the North East region's transport infrastructure and initiatives - contributions from Local Authorities - grant funding from government
Brexit	The outcome of Brexit negotiations has implications for each local authority in the sense that any subsequent volatility in stock markets, exchange rates, interest rates and future availability of funding could potentially impact on amounts disclosed within the financial statements.	Areas impacted could include: - The availability of grant funding and impact on other funding streams. - The fair value of long-term borrowing (but not the principal sum or interest payable). - The liability related to defined benefit pension schemes, which is dependent on a large number of factors including investment performance, bond yields and inflation. - Unusable reserves - any movement in the liability related to defined benefit pension schemes will be offset within unusable reserves.

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

Note 30: Accounting Policies

1. General Principles

The Statement of Accounts summarises the Authority's transactions for 2020/21 financial year and its position at the year-end of 31 March 2021. The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015, which those Regulations require to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2020/21, supported by International Financial Reporting Standards (IFRS).

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

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

2. Accruals of Income and Expenditure

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

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

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

3. Cash and Cash Equivalents

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

4. Exceptional Items

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

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

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

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

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

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

6. Charges to Revenue for Non-Current Assets

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

- Depreciation attributable to the assets used by the relevant service
- 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 2020/21

8. Post-Employment Benefits

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

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

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

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

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

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

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

10. Fair Value Measurement

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

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

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

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

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

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

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

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

11. Financial Instruments

Financial Liabilities

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

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

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

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

Financial Assets

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

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

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

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

Amortised Cost

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

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

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

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

Expected Credit Loss Model

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

Fair Value Through Other Comprehensive Income (FVOCI)

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

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

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

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

Fair Value through Profit and Loss (FVPL)

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

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

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

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

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

12. Government Grants & Contributions

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

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

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

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

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

13. Property, Plant & Equipment

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

Recognition

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

Measurement

Assets are initially measured at cost, comprising:

- The purchase price.
- Any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.
- The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

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

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

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

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

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

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

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

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

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

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

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

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

De Minimis Levels

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

Impairment

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

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

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

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

Depreciation

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

Depreciation on all Property, Plant and Equipment assets (except vehicles) is calculated by taking the asset value at 31 March 2021, divided by remaining life expectancy. Depreciation is charged in the year of acquisition, but not the year of disposal. Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation that would have been chargeable based on their historic cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

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

Disposals

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

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

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

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

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

14. Public Private Partnership (PPP) Contracts

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

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

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

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

In most arrangments within the scope of the Application, the grantor will account for the arrangement's financing by recording and measuring a long term liability in accordance with IAS 17. This treatment reflects an obligation to pay the operator for the full value of the asset along with the operator's cost of finance. However, in the New Tyne Crossing project, TT2 Ltd. (the Operator) receives a defined proportion of the total toll revenue and uses this to meet its cost of constructing and operating both vehicle tunnels. NECA may therefore have no long term obligation to transfer economic resources to TT2, and hence should not recognise a liability.

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

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

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

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

15. Provisions

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

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

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

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

16. Contingent Liabilities

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

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

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

17. Reserves

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

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

18. Revenue Expenditure Funded from Capital under Statute

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

19. VAT

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

20. Overheads

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

21. Tyne Tunnels Income

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

22. Group Accounts

NECA is required by the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 to produce Group Accounts to include services provided to Council Tax payers in the North East by organisations other than the Authority itself in which the Authority has an interest.

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

For the 2020/21 accounts, NECA has fully complied with the requirements of the Code, providing Group figures for 2020/21 and comparators for 2019/20. From 2010/11, Passenger Transport Executives have been required to produce their accounts under International Financial Reporting Standards, and as if the proper practices in relation to accounts applicable to a local authority were, so far as appropriate, applicable to an Executive. The group financial statements are prepared in accordance with the policies set out in the Statement of Accounting Policies above.

23. Joint Transport Committee

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

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

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

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

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

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

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

Note 31: Events After the Balance Sheet Date

Adjusting events after the Balance Sheet date

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

Non-adjusting Events after the Balance Sheet date

Where events take place after 31 March which do not relate to conditions at 31 March but which provide information that is relevant to an understanding of the Authority's financial position, the financial statements and notes are not adjusted but the relevant information is disclosed. No such events have taken place.

3.1 Group Movement in Reserves Statement

	Note	NECA Usable Reserves	NECA Unusable Reserves	Total NECA Reserves	Authority Share of Nexus	Total Group Reserves
		£000	£000	£000	£000	£000
Balance at 1 April 2019 carried forward		**(46,798)**	**(67,485)**	**(114,283)**	**(245,804)**	**(360,087)**
Total Comprehensive Income and Expenditure		(9,988)	(870)	**(10,858)**	(18,084)	(28,942)
Adjustments between accounting basis & funding basis under regulations		1,068	(1,068)	-	-	-
(Increase)/Decrease in 2019/20		**(8,920)**	**(1,938)**	**(10,858)**	**(18,084)**	**(28,942)**
Balance at 31 March 2020 carried forward		**(55,718)**	**(69,423)**	**(125,141)**	**(263,888)**	**(389,029)**
Transfer of Services to the NTCA at 1 April 2020		**28,415**	**13,724**	**42,138**	**-**	**42,138**
Total Comprehensive Income and Expenditure		(16,673)	360	**(16,313)**	958	(15,355)
Adjustments between accounting basis & funding basis under regulations		943	(943)	-	-	-
(Increase)/Decrease in 2020/21		**(15,730)**	**(583)**	**(16,313)**	**958**	**(15,355)**
Balance at 31 March 2021 carried forward		**(43,033)**	**(56,282)**	**(99,316)**	**(262,930)**	**(362,246)**

3.2 Group Comprehensive Income and Expenditure Statement

2019/20					2020/21		
Gross Expenditure	Gross Income	Net Expenditure		Note	Gross Expenditure	Gross Income	Net Expenditure
£000	£000	£000			£000	£000	£000
			Continuing NECA Services				
1,341	(597)	744	Corporate		574	(781)	(207)
290	(290)	-	Skills		-	-	-
143	-	143	Transport - Retained Levy Budget		73	-	73
15,552	-	15,552	Transport - Durham		15,456	-	15,456
95,268	(44,887)	50,381	Transport - Tyne and Wear		102,696	(47,597)	55,098
9,983	(13,609)	(3,626)	Transport - Other		7,576	(27,606)	(20,030)
14,250	(18,719)	(4,469)	Transport - Tyne Tunnels		13,267	(14,234)	(967)
-	-	-	Covid-19 Grants		3,878	(3,878)	-
136,827	**(78,102)**	**58,725**	**Cost of Services relating to continuing services excluding operations transferred to the NTCA**		**143,520**	**(94,096)**	**49,424**
375	(161)	214	Inward Investment		-	-	-
23,562	(26,053)	(2,491)	Local Growth Fund Programme		-	-	-
3,680	(3,752)	(72)	North East Local Enterprise Partnership		-	-	-
27,617	**(29,966)**	**(2,349)**	**Cost of Services relating to services transferred to the NTCA**		**-**	**-**	**-**
164,444	**(108,068)**	**56,376**	**Cost of Services**		**143,520**	**(94,096)**	**49,424**
			Financing and Investment Income and Expenditure	G03			
5,373	(1,058)	4,315	- From continuing services		9,039	(4,195)	4,844
-	(761)	(761)	- From services transferred to the NTCA		-	-	-
			Taxation and Non-Specific Grant Income	G04			
-	(74,763)	(74,763)	- From continuing services		-	(81,465)	(81,465)
-	(2,151)	(2,151)	- From services transferred to the NTCA		-	-	-
		116	**(Gain)/Loss on disposal or derecognition of non-current assets**				**-**
		(16,868)	**(Surplus)/Deficit on Provision of Services**				**(27,197)**
		(437)	**Taxation of Group Entities**				**-**
		(17,305)	**Group (Surplus)/Deficit**				**(27,197)**
		(10,648)	Re-measurement of the defined benefit liability	G12			11,843
		(988)	Gains on Revaluation of Property	G06			-
		(11,636)	**Other Comprehensive Income and Expenditure**				**11,843**
		(28,941)	**Total Comprehensive Income and Expenditure**				**(15,354)**

3.3 Group Balance Sheet

31 March 2020 £000		Note	31 March 2021 £000
479,019	Property, Plant and Equipment	G6	492,886
2,501	Intangible Assets	G7	2,973
12,321	Long Term Debtors	G8	-
1	Long Term Investments	G8	1
493,842	**Long Term Assets**		**495,860**
58,236	Short Term Investments	G8	34,383
17,008	Short Term Debtors	G9	14,806
38,685	Cash and Cash Equivalents	G10	52,493
2,007	Inventories		504
115,936	**Current Assets**		**102,186**
(1,298)	Short Term Borrowing	G8	(1,274)
(28,118)	Short Term Creditors	G11	(26,040)
(891)	Grants Receipts in Advance	G5	(3,356)
(2,837)	New Tyne Crossing Deferred Income		(2,824)
(33,144)	**Current Liabilities**		**(33,494)**
(48,224)	New Tyne Crossing Deferred Income		(45,184)
(95,072)	Long Term Borrowing	G8	(94,276)
(39,251)	Pension Liability	G12	(57,541)
(2,898)	Provisions		(3,152)
(2,161)	Deferred Taxation	G13	(2,153)
(187,606)	**Long Term Liabilities**		**(202,306)**
389,028	**Net Assets**		**362,246**
(76,530)	Usable Reserves	G14	(71,060)
(312,498)	Unusable Reserves	G15	(291,185)
(389,028)	**Total Reserves**		**(362,246)**

Chief Finance Officer Certificate

I certify that the accounts set out on pages 77 to 113 give a true and fair view of the financial position of the North East Combined Authority Group as at the 31 March 2021.

Signed: Paul Darby, Chief Finance Officer

3.4 Group Cash Flow Statement

2019/20 £000		Note	2020/21 £000
16,868	Surplus/(Deficit) on the provision of services	G16	27,198
23,586	Adjustments to net surplus or deficit on the provision of services for non-cash movements	G16	47,933
(69,297)	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	G16	(58,891)
(28,843)	**Net cash flows from Operating Activities**	G16	**16,240**
44,584	Investing Activities	G17	43,089
981	Financing Activities	G18	(3,383)
16,722	**Net (Decrease)/Increase in cash and cash equivalents**		**55,946**
21,964	Cash and cash equivalents at the beginning of the reporting period		38,685
-	Transfer to the NTCA		(42,138)
38,686	**Cash and cash equivalents at the end of the reporting period**	G10	52,493

3.5 Explanatory Notes to the Group Financial Statements

Note G1: Group Accounts

Under 9.1.17 of the Code of Practice for Local Authority Accounting 2020/21, authorities with interests in subsidiaries, associates and/or joint ventures shall prepare Group Accounts in addition to their single entity financial statements, unless their interest is considered to be not material.

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

Deferred Taxation

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

Property, Plant and Equipment and Intangible Assets

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

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

Details of NECA depreciation policy can be found on page 68 of the single entity accounts.

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

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

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

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

For more details see Note 1 of the Single Entity accounts.

Note G02: Expenditure and Funding Analysis

	2020/21				
	Net Expenditure Chargeable to the General Fund	Adjustments for Capital Purposes	Pension Adjustments	Other Differences	Net Expenditure in the CIES
	£000	£000	£000	£000	£000
Corporate	93	-	(300)	-	(207)
Skills	-	-	-	-	-
Transport - Retained Levy Budget	361	(288)	-	-	73
Transport - Durham	15,456	-	-	-	15,456
Transport - Tyne and Wear	24,178	16,352	14,568	-	55,098
Transport - Other	(6,001)	(14,029)	-	-	(20,030)
Transport - Tyne Tunnels	736	(1,653)	(50)	-	(967)
Covid-19 Grants	-	-	-	-	-
Cost of services	**34,824**	**382**	**14,218**	**-**	**49,423**
Other Income and Expenditure	(41,443)	(34,952)	-	(225)	**(76,621)**
(Surplus)/Deficit on Provision of Services	**(6,620)**	**(34,571)**	**14,218**	**(225)**	**(27,198)**
Opening General Fund Balances	(54,418)				
Transfer of services to NTCA 1 April 2020	13,664				
Closing General Fund Balances	**(47,374)**				

Adjustments for Capital Purposes

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

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

Net Change for the Pension Adjustments

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

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

Other Differences

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

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

	2019/20				
	Net Expenditure Chargeable to the General Fund	Adjustments for Capital Purposes	Pension Adjustments	Other Differences	Net Expenditure in the CIES
	£000	£000	£000	£000	£000
Corporate	(96)	-	840	-	744
Inward Investment	214	-	-	-	214
Local Growth Fund Programme	(797)	(1,694)	-	-	(2,491)
North East Local Enterprise Partnership	(72)	-	-	-	(72)
Skills	-	-	-	-	-
Transport - Retained Levy Budget	438	(295)	-	-	143
Transport - Durham	15,552	-	-	-	15,552
Transport - Tyne and Wear	22,363	12,644	15,374	-	50,381
Transport - Other	(1,349)	(2,277)	-	-	(3,626)
Transport - Tyne Tunnels	(3,184)	(1,235)	(50)	-	(4,469)
Cost of services	**33,068**	**7,143**	**16,164**	**-**	**56,376**
Other Income and Expenditure	(46,755)	(28,339)	1,014	399	**(73,681)**
(Surplus)/Deficit on Provision of Services	**(13,687)**	**(21,196)**	**17,178**	**399**	**(17,305)**
Opening General Fund Balances	(44,067)				
Transfer from Capital Receipts Reserve	3,336				
Closing General Fund Balances	**(54,418)**				

Note G02a: Income and Expenditure Analysed by Nature

	2019/20 £000	2020/21 £000
Expenditure		
Employee benefit expenses	31,879	23,253
Other service expenses	77,150	94,085
Support Services Recharges	-	2,940
Depreciation, impairment and Revenue Expenditure Funded from Capital Under Statute (REFCUS)	55,531	23,263
Interest payments	5,372	5,238
Total expenditure	**169,932**	**148,779**
Income		
Fees, charges and other service income	(44,513)	(23,509)
Interest and investment income	(1,818)	(414)
Income from business rates on enterprise zones	(2,151)	-
Income from transport levy	(49,598)	(49,350)
Government grants and contributions	(85,333)	(99,972)
Other income	(3,388)	(2,732)
Total income	**(186,801)**	**(175,977)**
Surplus/Deficit on the provision of services	**(16,869)**	**(27,198)**

Note G03: Financing and Investment Income and Expenditure

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

Note G04: Taxation and Non-Specific Grant Income

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

Note G05: Grant Income

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

Note G06: Property, Plant and Equipment

	2020/21					
	Vehicles, Plant, Furniture & Equipment £000	Infrastructure Assets £000	Assets Under Construction £000	Land and Buildings £000	Total Property, Plant & Equipment £000	Service Concession Assets included in PPE £000
Cost or Valuation						
At 1 April 2020	21,210	633,935	25,743	1,957	682,845	219,356
Additions	-	528	36,354	-	36,882	528
Transfers from Assets Under Construction	677	26,727	(27,404)	-	-	-
Transfers to Intangibles	-	-	-	-	-	-
Derecognition - Disposals	(1,679)	(2,702)	(25)	(193)	(4,599)	-
Revaluation Recognised in Revaluation Reserve	-	-	-	-	-	-
Impairment recognised in the Surplus/Deficit on the Provision of Services	-	(20)	-	-	(20)	(20)
Other Adjustments	-	(2,148)	-	-	(2,148)	(865)
At 31 March 2021	**20,209**	**656,320**	**34,668**	**1,764**	**712,961**	**218,999**
Accumulated Depreciation and Impairment						
At 1 April 2020	(14,075)	(189,337)	-	(415)	(203,828)	(28,658)
Depreciation charge	(858)	(17,948)	-	(23)	(18,829)	(2,222)
Derecognition - Disposals	675	1,775	-	130	2,580	-
At 31 March 2021	**(14,258)**	**(205,510)**	**-**	**(308)**	**(220,077)**	**(30,880)**
Net Book Value						
At 1 April 2020	**7,135**	**444,598**	**25,743**	**1,541**	**479,018**	**190,698**
At 31 March 2021	**5,950**	**450,810**	**34,668**	**1,455**	**492,884**	**188,119**

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

Note G07: Intangible Assets

Intangible assets in the Group Accounts relate wholly to Nexus.

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

Note G08: Financial Instruments

Financial Assets

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

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

Financial assets at amortised cost

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

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

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

Trade receivables

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

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

Financial Liabilities held at amortised cost

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

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

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

Income, Expense, Gains and Losses

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

31 March 2020				31 March 2021		
£000	£000	£000		£000	£000	£000
Financial Liabilities at amortised cost	**Financial assets: measured at amortised cost**	**Total**		**Financial Liabilities at amortised cost**	**Financial assets: measured at amortised cost**	**Total**
4,358	-	4,358	Interest expense	4,211		4,211
4,358	**-**	**4,358**	**Total expense in Surplus on Provision of Services**	**4,211**	**-**	**4,211**
-	(1,686)	(1,686)	Investment income		(394)	(394)
-	(132)	(132)	Movement on soft loans	-	-	-
-	**(1,818)**	**(1,818)**	**Total income in Surplus on Provision of Services**	**-**	**(394)**	**(394)**
4,358	**(1,818)**	**2,540**	**Net (gain)/loss for the year**	**4,211**	**(394)**	**3,817**

Fair Value of Assets & Liabilities carried at Amortised Cost

Financial assets classified as loans and receivables and all non-derivative financial liabilities are carried in the Balance Sheet at amortised cost. Their fair values have been estimated by calculating the net present value of the remaining contractual cash flows at 31st March 2020, using the following methods and assumptions:

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

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

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

The fair values calculated are as follows:

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

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

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

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

Note G09: Short Term Debtors

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

Note G10: Cash and Cash Equivalents

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

Note G11: Short Term Creditors

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

Note G12: Defined Benefit Pension Schemes

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

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

Consolidated Pension Liability

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

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

Transactions Relating to Post-employment Benefits

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

Comprehensive Income and Expenditure Statement

	LGPS		Discretionary Benefits	
	2019/20	2020/21	2019/20	2020/21
	£000	£000	£000	£000
Cost of Services:				
Current service cost [1]	8,222	9,570	-	-
Past service cost	65	-	-	-
Settlement cost	-	(620)		-
Exceptional loss on transfer of pension liability	1,693	(1,020)	-	-
Financing and Investment Income and Expenditure				
Interest cost	5,086	976	65	53
Expected Return on Scheme Assets	(4,137)	-	-	-
Total Post-Employment benefit charged to the Surplus or Deficit on the Provision of Services	**10,929**	**8,906**	**65**	**53**
Other Post Employment Benefits charged to the Comprehensive Income and Expenditure Statement:				
Return on plan assets (in excess of)/below that recognised in net interest	(14,941)	(41,210)	-	-
Remeasurement of the net Defined Benefit Liability	10,789	48,635	(325)	127
Adjustment in respect of paragraph 58	(6,170)	4,330	-	-
Total amount recognised in Other Comprehensive Income and Expenditure	**(10,322)**	**11,755**	**(325)**	**127**
Total amount recognised in CIES	**607**	**20,661**	**(260)**	**180**

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

Reconciliation of the Present Value of Scheme Liabilities:

	LGPS		Discretionary Benefits	
	2019/20	2020/21	2019/20	2020/21
	£000	£000	£000	£000
Opening balance at 1 April	**(251,679)**	**(271,818)**	**(2,880)**	**(2,381)**
Current service cost	(8,206)	(9,570)	-	-
Interest cost	(6,016)	(5,725)	(65)	(53)
Contributions by participants	(1,680)	(1,678)	-	-
Remeasurement of the net Defined Benefit liability	(10,789)	(48,568)	325	(127)
Net benefits paid out	8,312	6,600	239	227
Past service costs	(67)	-	-	-
Net (increase)/decrease in liabilities from NEMOL/Stadler transfer	(1,693)	(30)	-	-
Closing balance at 31 March	**(271,818)**	**(330,759)**	**(2,381)**	**(2,334)**

Reconciliation of the Fair Value of the Scheme Assets:

	LGPS		Discretionary Benefits	
	2019/20	2020/21	2019/20	2020/21
	£000	£000	£000	£000
Opening balance at 1 April	**220,326**	**237,768**	**-**	**-**
Interest income on assets	5,279	4,819	-	-
Remeasurement gains/(losses) on assets	14,940	41,140	-	-
Employer contributions	3,855	2,113	239	227
Contributions by scheme participants	1,680	1,678	-	-
Net benefits paid out	(8,312)	(6,600)	(239)	(227)
Settlement costs	-	(880)	-	-
Net decrease in assets from Stadler transfer	-	(8,568)	-	-
Closing balance 31 March	**237,768**	**271,470**	**-**	**-**

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

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

Scheme History	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000
Fair value of LGPS assets	**271,850**	**335,520**	**220,327**	**237,767**	**271,470**
Present value of liabilities:					
- LGPS liabilities	(301,460)	(395,160)	(251,678)	(271,818)	(321,201)
- Impact of minimum funding	(7,460)	(7,030)	(8,780)	(2,820)	(7,150)
Deficit on funded defined benefit scheme	**(37,070)**	**(66,670)**	**(40,131)**	**(36,871)**	**(56,881)**
Discretionary benefits	(5,130)	(4,870)	(2,880)	(2,380)	(2,333)
Total (Deficit)	**(42,200)**	**(71,540)**	**(43,011)**	**(39,251)**	**(59,214)**

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

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

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

The liabilities show the underlying commitments that the Authority has in the long run to pay post employment (retirement) benefits. The total liability of £328.351m has an impact on the net worth of the Authority recorded on the balance sheet, resulting in a negative pension balance of £57.541m. However, statutory arrangements for funding the deficit mean that the financial position of the Authority remains healthy:

- The deficit on the local government scheme will be made good by contributions over the remaining working life of employees (i.e. before payments fall due), as assessed by the scheme actuary.
- Finance is only required to be raised to cover discretionary benefits when the pensions are actually paid.
- The total contributions expected to be made to the Local Government Pension Scheme by the Authority in the year to 31 March 2021 is nil for NECA, £3.600m for Nexus (of which £1.996m is attributable to NECA) and nil for NEMOL. Additional contributions may also become due in respect of any employer discretions to enhance members' benefits in the Fund over the next accounting period.

Basis for Estimating Assets and Liabilities

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

The principal assumptions used by the actuary have been:

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

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

* At date of transfer (4 October 2020)

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

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

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

Actual Return on Assets

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

Sensitivity Analysis

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

The approximate impact of changing the key assumptions on the present value of the funded defined benefit obligation for Nexus as at 31 March 2021 and the projected cost for the period ending 31 March 2022 is set out below. In each case, only the assumption mentioned is altered; all other assumptions remain the same and are summarised above. The NEMOL sensitivity analysis, data summary and pensioner numbers are set out within the NEMOL Annual Report.

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

Discount rate assumption	+0.1% per annum	Base Figure	-0.1% per annum
Adjustment to discount rate			
Present value of total obligation (£M)	480.66	489.97	499.28
% change in present value of total obligation	-1.90%		1.90%
Projected service cost (£M)	18.25	18.89	19.55
Approximate % change in projected service cost	-3.40%		3.50%

Rate of general increase in salaries	+0.1% per annum	Base Figure	-0.1% per annum
Adjustment to salary increase rate			
Present value of total obligation (£M)	491.93	489.97	488.50
% change in present value of total obligation	1.40%		-0.30%
Projected service cost (£M)	18.89	18.89	18.89
Approximate % change in projected service cost	0.00%		0.00%

Rate of increase to pensions in payment and deferred pensions assumption, and rate of revaluation of pension accounts	+0.1% per annum	Base Figure	-0.1% per annum
Adjustment to pension increase rate			
Present value of total obligation	497.32	489.97	482.13
% change in present value of total obligation	1.60%		-1.60%
Projected service cost (£M)	19.55	18.89	18.25
Approximate % change in projected service cost	-3.40%		3.50%

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

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

Note G13: Deferred Taxation

The movement for the year comprises:

	2019/20 £000	2020/21 £000
Capital Allowances	(312)	-
Roll over relief on capital gains	-	-
Other timing differences	(105)	10
Total	**(417)**	**10**

The balance at the year end comprises:

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

Note G14: Usable Reserves

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

Note G15: Unusable Reserves

Summary

	31 March 2020 £000	31 March 2021 £000
Capital Adjustment Account	(341,308)	(343,375)
Financial Instruments Adjustment Account	3,093	309
Revaluation Reserve	(5,908)	(5,805)
Pension Reserve	31,625	57,686
Total	**(312,498)**	**(291,185)**

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

Revaluation Reserve

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

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

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

	£000
Opening Balance 1 April 2019	**(5,000)**
Difference between fair value depreciation and historical cost depreciation written off to the CAA	81
Revaluation Gain recognised in Revaluation Reserve	(988)
Balance at 31 March 2020	**(5,907)**
Difference between fair value depreciation and historical cost depreciation written off to the CAA	102
Revaluation Gain recognised in Revaluation Reserve	-
Balance at 31 March 2021	**(5,805)**

Pensions Reserve

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

	£000
Balance at 1 April 2019	**25,095**
Remeasurements of the net defined benefit liability to 31 March 2020	(10,648)
Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the CIES to 31 March 2020	11,784
Employer's pension contributions and direct payments to pensioners to 31 March 2020	(2,724)
NEMOL pension transfer	8,118
Balance at 31 March 2020	**31,625**
Remeasurements of the net defined benefit liability to 31 March 2021	11,843
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	16,469
Employer's pension contributions and direct payments to pensioners to 31 March 2020	(2,252)
NEMOL pension transfer	-
Balance at 31 March 2021	**57,685**

Capital Adjustment Account

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

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

	£000
Balance at 1 April 2019	**(325,619)**
Reversal of items relating to capital expenditure debited or credited to the CIES:	
Charges for depreciation and impairment of non current assets	17,019
Other income that cannot be credited to the General Fund	(2,837)
Revenue expenditure funded from capital under statute	37,538
Write down of long term debtors	5,560
Non Current Assets written off on disposal	988
Adjusting amounts written out of the Revaluation Reserve	**(81)**
Capital financing applied in the year:	
Capital grants and contributions credited to the CIES that have been applied to capital financing	(68,339)
Statutory provision for the financing of capital investment	(964)
Capital expenditure charged against the General Fund	(2,063)
Debt redeemed using capital receipts	(2,510)
Balance at 31 March 2020	**(341,308)**
Transfer to NTCA	**16,282**
Reversal of items relating to capital expenditure debited or credited to the CIES:	
Charges for depreciation and impairment of non current assets	18,300
Other income that cannot be credited to the General Fund	(2,824)
Revenue expenditure funded from capital under statute	10,391
Write down of long term debtors	841
Non Current Assets written off on disposal	2,028
Adjusting amounts written out of the Revaluation Reserve	**(102)**
Capital financing applied in the year:	
Capital grants and contributions credited to the CIES that have been applied to capital financing	(43,158)
Statutory provision for the financing of capital investment	(1,391)
Capital expenditure charged against the General Fund	(1,593)
Debt redeemed using capital receipts	(841)
Balance at 31 March 2020	**(343,375)**

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

	2019/20 £000	2020/21 £000
Surplus/(Deficit) on the provision of services	16,868	27,198
Adjustments to Surplus/(Deficit) on Provision of Services for Non-Cash Movements		
Depreciation, Impairment and Amortisation	17,596	19,119
Loss on disposal of non-current assets	1,185	2,043
(Increase)/Decrease in Creditors	(432)	20,285
Increase/(Decrease) in Debtors	1,044	170
Increase/(Decrease) in Inventories	(361)	1,495
Movement in Pension Liability	6,900	6,619
Other non-cash items charged to the net surplus or deficit on the provision of services	(2,346)	(1,798)
	23,586	**47,933**
Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities		
Capital grants credited to surplus/(deficit) on provision of services	(69,889)	(60,641)
Other adjustments for items that are financing or investing activities	592	1,750
Net cash flow from operating activities	**(28,843)**	**16,240**

The cash flows for operating activities include the following items:

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

Note G17: Cash Flow Statement - Investing Activities

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

Note G18: Cash Flow Statement - Financing Activities

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

Note G18a: Reconciliation of liabilities arising from Financing Activities

	1 April 2020	Financing Cash Flows	Changes which are not financing cash flows		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)
Total Liabilities from financing activities	**(96,370)**	**796**	**-**	**24**	**(95,550)**

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

Note G19: Capital Expenditure and Capital Financing

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

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

4.0 Supplemental Information

4.1 Glossary of Terms

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

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

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

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

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

Unusable Reserves	The Authority cannot use this category of reserves to provide services. Includes reserves that hold unrealised gains and losses (e.g. revaluation reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'adjustments between accounting basis and funding basis under regulation'.
Usable Reserves	Those reserves that the Authority may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use.
Useful Life	The period over which the Authority will derive benefits from the use of a fixed asset.

Narrative Report for the Year ended 31 March 2021 - Draft

1. Introduction

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

This report provides the reader with:

- A guide to the different financial statements within the Statement of Accounts.
- An overview of the activities and significant matters which occurred during the year.
- A summary of the Authority's financial performance during the year ending 31 March 2021 and its financial position at that date.
- A look ahead to 2021/22 and beyond.

The Statement of Accounts sets out the financial performance of the Authority for the year ending 31 March 2021 and its financial position at that date. They have been prepared in accordance with proper practices as set out in the Chartered Institute of Public Finance & Accountancy (CIPFA) Code of Practice on Local Authority Accounting in the United Kingdom (the Code). The Code requires that the accounts give a true and fair view of the financial position of the Authority. In line with the Code, suitable accounting policies have been applied and where necessary prudent judgements and estimates have been made.

The accounts feature four main financial statements:

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

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

The main statements are supplemented by a further section which presents the Group Accounts, consolidating the figures of Nexus with those of the Authority.

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

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

2. What is the North East Combined Authority?

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

The North of Tyne authorities secured a devolution deal with devolution funding for the North of Tyne area, which required the establishment of a separate North of Tyne Mayoral Combined Authority during 2018/19. On the 2 November 2018, the Newcastle upon Tyne, North Tyneside and Northumberland Combined Authority (Establishment and Functions) Order 2018 changed the boundaries of NECA.

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

A Deed of Cooperation was made on the 4 July 2018 between the seven Constituent Authorities in the area that outlines a framework for collaborative working across the region, the Deed of Co-operation was updated in March 2020. On 20 November 2018 NECA was formally confirmed as retaining the Accountable Body role for Transport on behalf of the North East Joint Transport Committee.

NECA continued to be the accountable body for the North East Local Enterprise Partnership (North East LEP) until the North of Tyne Mayoral Combined Authority (NTCA) was fully established. The role of accountable body for the North East LEP transferred on 1 April 2020.

NECA continues to work closely with other bodies in the region to secure external funding, including funding for transport; infrastructure; economic development; skills and employment activities.

NECA works closely with the North East LEP and the wider business community to deliver the Strategic Economic Plan for the North East and capitalise on these opportunities.

Revenue Financial Summary 2020/21

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

Table 1: Summary of Revenue Expenditure

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

This statement provides a comparison of the outturn position with the NECA (including JTC) revised revenue budget for 2020/21, before any allocation of costs and income between the accounts of NECA and NTCA. The purpose of this statement is to give the reader an understanding of overall spending and income for the whole year, in comparison with the revised budget.

Within the accompanying Statement of Accounts document the **Comprehensive Income & Expenditure Statement** (CIES, page 6 of the Statement of Accounts) sets out the Authority's financial position for the year before taking account of statutory adjustments required to be made to the accounts. The figures presented in the accounts can appear different from the budgeted revenue income and expenditure as they include accounting adjustments for costs such as Depreciation, Revenue Expenditure Funded by Capital Under Statute and certain pensions account adjustments not included in the revenue budget.

The **Movement in Reserves Statement** (MIRS, page 5 of the Statement of Accounts) reflects these statutory adjustments and shows how the financial performance for the year has impacted on the Authority's reserves. There has been a decrease in reserves from £125.141m at 31 March 2020 to £99.316m at 31 March 2021, mainly due to the transfer of reserves relating to the North East LEP to the North of Tyne Combined Authority on 1 April 2020.

The gross cost of services during the year including capital grants to third parties as well as revenue expenditure was £79.781m (£104.772m). This includes a significant amount of 'Revenue Expenditure Funded by Capital Under Statute' – representing investment in capital assets owned by third parties, not by the Authority itself.

After deducting specific grants and income from fees and charges, the net cost of services was £30.325m (£41.510m in 2019/20). This was funded form sources including the Transport Levy, other contributions from Constituent Authorities and Government Grants. The net cost was lower than in 2019/20 because the previous year included income and expenditure relating to the North East LEP which is now accounted for by the NTCA.

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

3. Capital Investment

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

Table 2: Capital Expenditure by Programme

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

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

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

Table 3: Capital Funding 2020/21

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

4. Treasury Management

The Balance Sheet on page 7 of the accounts shows external borrowing of £95.550m at the end of the year, which is split between short term borrowing (£1.274m) and long term borrowing (£94.276m), after the allocation of part of the transport borrowing to NTCA accounts. This is a small decrease compared to balance of £96.37m the previous year due to repayments made on Equal

Instalment of Principal (EIP) loans during the year. The average rate of interest on external borrowing for the year was 4.3%, which is comparable with the previous year.

The Balance Sheet also shows short term external investments of £29.946m in the NECA accounts at the end of the year compared to £58.236m at the end of the previous year. The total of investments included £6.655m of investments held on behalf of Nexus. A further £22.182m cash equivalents were held, including £11.091m on behalf of Nexus. The decrease compared to the previous year is due to NECA no longer holding balances on behalf of the North East LEP since these were transferred to NTCA.

5. Debtors

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

6. Creditors

Short term creditors at 31 March 2021 were £39.879m (£39.984m at 31 March 2020). These balances are analysed in more detail in Note 17. This includes a creditor for balances owed to Nexus for short term investments and cash equivalents placed on their behalf (£54m total creditor of which £28.715m is shown in the NECA accounts).

7. Pensions Costs

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

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

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

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

NECA has two types of pension liabilities – described as funded and unfunded. Funded pension liabilities are within the LGPS and are backed by assets attributable to the Authority. For the funded element of the scheme, the NECA pension fund is in a notional surplus position amounting to £7.15m at 31 March 2021, compared with £2.82m at 31 March 2020. The increase in year is due to market conditions at 31 March 2021 and the impact on asset values. For accounting purposes this surplus is restricted to nil on the NECA balance sheet. NECA gets a benefit from the surplus in the form of savings on employers' pension contributions for current employees, which has enabled significant savings on the revenue budget.

Unfunded or discretionary benefits (such as early retirement awards) sit outside the Authority's funded part of the scheme and are therefore not backed by assets and must be paid as incurred on a monthly basis. These costs relate to former Tyne Tunnels employees and are paid from the Tyne Tunnels revenue account, at a cost of approximately £50,000 in 2020/21. At the end of the year there was an unfunded liability of £0.87m (£0.84m at 31 March 2020) and this is disclosed on the Balance Sheet.

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

8. Net Assets

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

9. Group Results

The Group Accounts included as part of the Statement of Accounts fully incorporate the results of Nexus (The Tyne and Wear Passenger Transport Executive). More details can be found in Group Note G01 on page 81.

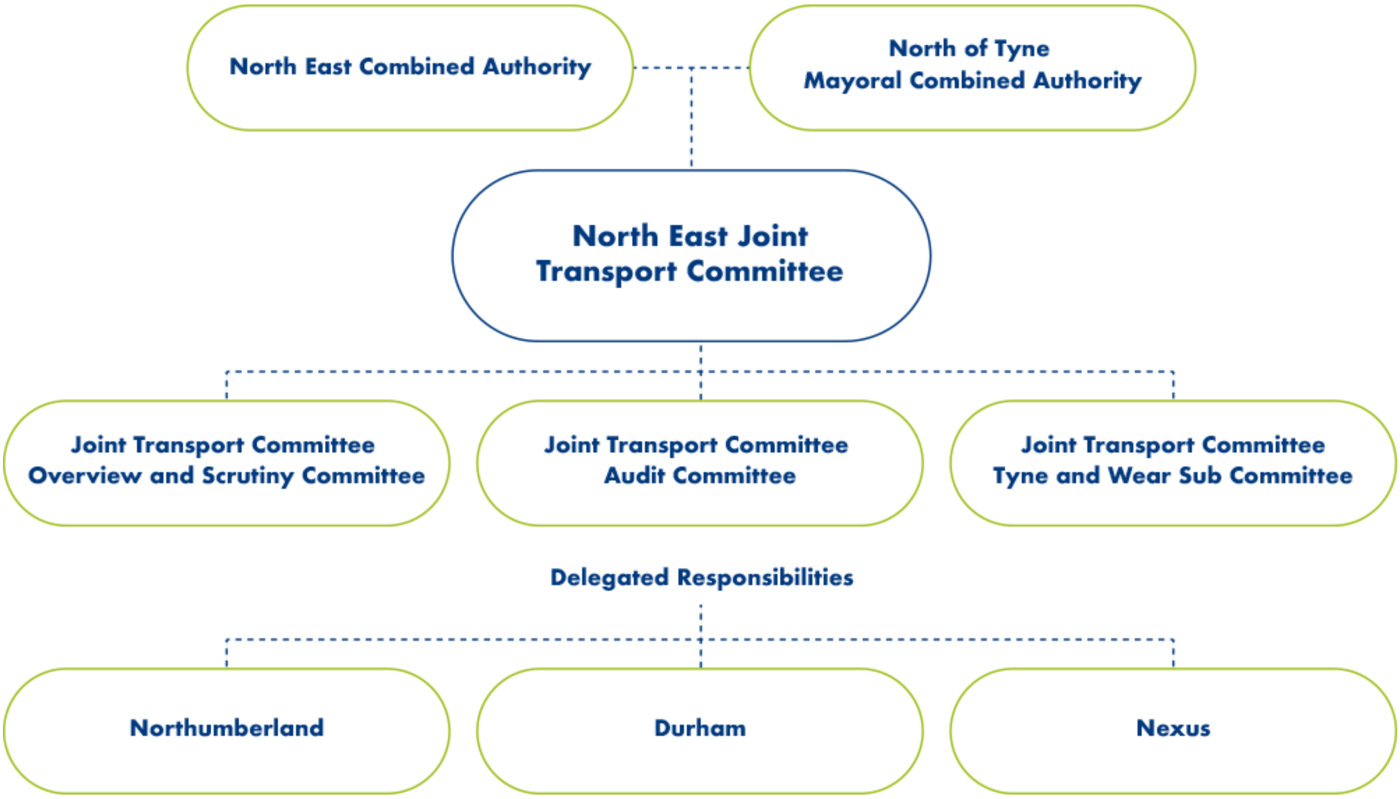
The Nexus accounts are apportioned between NTCA and NECA accounts (after elimination of intra-Group transactions), with the balance sheet information at 31 March 2021 allocated between the two Combined Authorities in proportion to their relative share of Tyne and Wear Population as set out in table 4. The full accounts for the Nexus Group and more information about their activity and performance can be obtained from the Nexus website at https://www.nexus.org.uk.

10. Accounting for the North East Joint Transport Committee

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

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

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



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

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

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

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

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

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

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

11. The Statement of Accounts

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

Movement in Reserves Statement (Statement of Accounts page 5)

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

Comprehensive Income and Expenditure Statement (Statement of Accounts page 6)

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

Balance Sheet (Statement of Accounts page 7)

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

Cash Flow Statement (Statement of Accounts page 8)

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

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

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

12. Annual Governance Statement

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

13. Non-Financial Performance

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

Economic Development and Digital

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

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

Finance, Skills and Employability

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

Transport

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

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

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

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

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

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

Table 5 – Tyne Tunnel Traffic Flow data

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

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

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

Tyne and Wear Passenger Transport Executive – Nexus

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

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

NECA Staffing

- NECA continues to adapt and change to meet the requirements of the area, while keeping costs to a minimum. Many services are provided through Service Level Agreements with constituent local authorities.
- On 1 April 2020 the Accountable Body responsibility for the North East LEP transferred to NTCA and the TUPE transfer of LEP and Invest North East England staff to NTCA was also completed.
- On the same date, the TUPE transfer of 10 staff previously employed by Newcastle City Council and Nexus and seconded to NECA was completed. The majority of these staff work in the North East Transport Strategy Unit.

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

Table 6 – Change in Staffing numbers since 2015/16

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

14. Impact of the Covid-19 pandemic

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

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

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

The NECA Response

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

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

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

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

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

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

15. Looking Ahead

Transport

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

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

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

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

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

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

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

Economic Development and Digital

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

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

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

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

Finance, Skills and Employability

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

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

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

16. Further Information Available

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

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

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

north east combined authority

ANNUAL GOVERNANCE STATEMENT 2020/21

In partnership with

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

Annual Governance Statement 2020/21

Section 1: Introduction

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

Section 2: Scope Of Responsibility

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

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

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

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

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

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

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

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

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

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

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

Section 3: Purpose Of The Governance Framework

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

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

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

Section 4: The Governance Framework

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

1. Ensuring openness and comprehensive stakeholder engagement

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Section 5: Annual Review Of Effectiveness Of Governance Framework

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

The review is informed by:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Section 7: Significant Weaknesses In Governance and Internal Control

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

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

Section 8: Conclusion

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

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

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

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

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

North East Combined Authority
DURHAM • GATESHEAD • SOUTH TYNESIDE • SUNDERLAND

Audit and Standards Committee

Agenda Item 5

Date: **7 September 2021**

Subject: **NECA Internal Audit Progress Report 2021/22**

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

Executive Summary

This report provides an update in relation to the Internal Audit Plan for 2021/22 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 2021/22 which includes the key performance measures for the provision of the service.

1 Background Information

1.1 In March 2021 the Audit and Standards Committee agreed the Internal Audit Plan for 2021/22, which included two audits for completion during the year. The audits were:

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

1.2 The audits set out above have not yet started however it is anticipated that they will be completed by the end of March 2022. In the meantime, a number of unplanned pieces of work have been required in relation to coordinate the verification of grant funding received regarding the Covid 19 pandemic and provide audit certificates to funding government department, as follows:

- Home to School Transport 2nd half spring term – completed April 2021.
- Travel Demand Management – completed May 2021.
- Travel Demand Management top up – completed May 2021.
- Home to School Transport summer term – currently ongoing.

2. Proposals

2.1 Appendix 1 provides a summary of the audits completed so far 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 2021/22.

Appendix 2 – Performance of Internal Audit for 2021/22 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	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		
					Home to School Transport 2nd half spring term	S	
					Demand Travel Management	S	
					Demand Travel Management Top up	S	
					Home to School Transport summer term	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		
Delivery of Projects/Programmes							
Infrastructure Assets							

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 2021/22			
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

Audit and Standards Committee

Agenda Item 6

Date: **7 September 2021**

Subject: **North East Combined Authority Strategic Risk Register**

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

Executive Summary

This report provides members with an up to date assessment of the strategic risks the North East Combined Authority (NECA) faces as it seeks to achieve its objectives.

No new risks have been added to the NECA Strategic Risk Register, which was previously reported to the Committee in June 2021. Consequently, the Strategic Risk Register still contains 13 risks.

Any recent changes, developments or activities considered relevant to the assessment of NECA's strategic risks have been highlighted in green italics in Appendix 1 and 2 attached to this report.

The level of risk associated with NECA's risks regarding the achievement of its strategic objectives previously reported remain the same. Of these six risks, five are still assessed as having a 'high' risk level due to a combination of one or more of the following matters:

a) the fact that the government's ability to invest in economic development infrastructure may be reduced due to the need to potentially reduce public sector expenditure to redress the public sector finances and a potential financial recession caused by the ongoing Covid-19 pandemic;
b) the direct negative impact of the ongoing Covid pandemic on business activity; and
c) the need to change behaviour in society to achieve some of the objectives.

The level of risk associated with the remaining seven 'organisational' risks previously reported relating to NECA has remained stable with no changes reported since the previous update to the Committee in June 2021. This includes the risk level of 'high' regarding the level of funding available to NECA.

While the UK government has the ambition to 'level up' the economy, the government's ability and willingness to invest in infrastructure, skills and growth may be reduced due to the financial consequences of the Covid-19 pandemic. There is also some continued uncertainty over future UK development funding although information is now available on the Shared Prosperity Fund, in the form of the Prospectus for its forerunner the UK Community Renewal Fund and the Prospectus for the Levelling up Fund with lead Authorities having made bids to these funds and are awaiting the outcome.

The North East Joint Transport Committee (JTC) Strategic Risk Register was updated and last considered by the JTC Audit Committee in June 2021. The JTC Strategic Risk Register is currently under review and the updated version will be presented to the next meeting of the Audit and Standards Committee.

Recommendations

The Audit and Standards Committee is asked to consider the NECA Strategic Risk Register and comment on its content.

1. Background Information

1.1 As a result of the Newcastle upon Tyne, North Tyneside and Northumberland Combined Authority (Establishment and Functions) Order 2018 ('the Order') the North of Tyne Combined Authority (NoTCA) was created, and the boundaries of NECA changed on the 2 November 2018. NECA now covers the local authorities of Durham; Gateshead, South Tyneside and Sunderland; and NoTCA covers Newcastle, North Tyneside and Northumberland.

1.2 The two Combined Authorities have responsibility for transport; however, as the former Tyne & Wear passenger transport authority area (and its passenger transport executive, Nexus) straddles the two combined authorities, the Order also provided that they must establish a Joint Transport Committee (JTC) to exercise all transport functions. Hence the JTC was created. NECA also acts as the 'host authority' for the JTC. For these reasons NECA's Strategic Risk Register reflects risks around transport as they affect the achievement of NECA's draft objectives. However, it should be noted that organisational risks for NECA do not relate to the JTC. The JTC has its own strategic risk register which assesses its organisational risks separately.

1.3 While NECA no longer acts as the 'host authority' to the North East Local Enterprise Partnership (North East LEP), NECA's Strategic Risk Register reflects risks around economic development where there may be an impact on the achievement of NECA's objectives.

1.4 NECA defines its strategic risks as those matters which, if they were to occur, could have a material adverse impact upon the achievement of its ambition to create the best possible conditions for growth in jobs, investment and living standards, making the North East an excellent place to live and work.

1.5 In order to aid NECA to achieve its overall ambitions, NECA has drafted a Strategic Economic Plan. Six objectives have been identified that the plan will seek to achieve. These are:

i. Decarbonise the growing economy
ii. Further develop our international trade and investment
iii. Better skills and more quality jobs
iv. Draw many more of our residents into the economic mainstream
v. Become a sustainable well-connected region
vi. Shaping the Great North East

1.6 This report offers the NECA Audit and Standards Committee the opportunity to consider the nature and level of risk NECA faces in seeking to achieve its overall vision and objectives based on the draft Strategic Economic Plan.

1.7 It should be noted for each of these six risks the possible causes of each of the risks and the factors affecting the likelihood of each of risk occurring originate from sources/actions both within and outside the control of NECA. Consequently, the management of the risk is not totally within the sole control of NECA itself. The further mitigating actions to manage the risks recorded in the NECA Strategic Risk Register reflect only what NECA itself can do to manage the risks.

2. Proposals

2.1 The Register identifies 13 strategic risks. These are split into two categories:

a) six risks relating to the achievement of NECA's strategic objectives included in NECA's draft Strategic Economic Plan, and

b) seven risks relating to the NECA organisation itself.

2.2 The risks relating to the objectives of NECA expressed in the draft Strategic Economic Plan are:

a) Failure to achieve the planned outcomes to realise the decarbonisation of economic activity, infrastructure and housing within the NECA area.

b) Failure to achieve the planned outcomes to realise the diversification of the region's industrial base, and to maintain its high levels of exporting and direct inward investment

c) Failure to achieve the planned outcomes to allow the labour market to work much more effectively to meet future employer demand, to grow the economy and secure good jobs by developing major investment sites and to extend the range of opportunities for individuals

d) Failure to achieve the planned outcomes to ensure that people of all ages can access timely and personalised support to overcome their educational, situational and motivational barriers to work and to equip them with the capabilities the economy needs so that they can find employment

e) Failure to achieve the planned outcomes to strengthen and extend transport networks in the NECA area while reducing pressure and encouraging green travel, to improve digital connectivity, and to achieve a high level of digital skill within the workforce.

f) Failure to achieve the planned outcomes to ensure the NECA region is attractive to residents, businesses, visitors and new settlers by having a thriving economy, and being a green and prosperous place that offers an exceptional quality of life and improved opportunities for all

2.3 The strategic risks relating to the NECA organisation itself (excluding JTC) are:

a) Sources and levels of funding available to NECA may not be aligned to the Strategic Economic objectives of NECA.

b) Failure of NECA to secure the maximum amount of funding available to progress projects which support the delivery of the Strategic Economic objectives of NECA.

c) Funding secured for initiatives within the North-East region by NECA and its partners may not be able to be used on a timely basis, not be sufficient to complete intended projects or may be used inappropriately.

d) The governance arrangements of NECA are not appropriate to allow effective and timely decision making and the achievement of its objectives.

e) NECA does not have the necessary operational capacity, skills and budget, to successfully deliver its objectives, plans and responsibilities.

f) Projects which are funded through NECA are delayed, are significantly overspent or do not deliver the intended product to meet the identified transport need.

g) Infrastructure assets which are owned by NECA are inadequately managed and maintained.

2.4 The Strategic Risk Register has been updated in light of the content of recent reports considered by the NECA Leadership Board and its sub-committees, information from other relevant bodies e.g., North East LEP, Joint Transport Committee etc, and discussions with NECA, JTC and NECA Member officers. Updates for this report have included discussions with the Head of Paid Service and the NECA Policy and Scrutiny Officer to ensure that the Strategic Risk Register still reflects the objectives and purpose of NECA. Both pointed to the importance of maintaining the Regional/LA7 co-ordination of activity relating to:

- Covid-19 Response;
- Covid-19 Recovery;
- Economic Recovery and Development;
- Interaction with Central Government.

Any recent changes, developments or activities considered relevant to the assessment of NECA's strategic risks have been highlighted in ***green*** in Appendix 1 and 2 attached to this report. It should be noted:

a) No changes have been made to the number of risks, description of risk or the level of assessed risk.

b) The majority of changes relate to recent developments relevant to the achievement of NECA's strategic objectives and the availability of future funding. These changes are recorded in the 'likelihood' section of each risk in Appendix 2. Notable factors include:

   - Nissan's commitment to remaining at its Washington site and the related £1 billion investment to develop an Electric Vehicle Hub in the North East. As well as the actual impact in terms of jobs and infrastructure this confirms the North East as a centre of excellence for renewables and raises local public awareness on the need for new skills and carbon neutrality.

   - The LA7's successes in supporting local businesses with responding to and recovering from the economic impact of the pandemic through the allocation and support on accessing the various Government funds that have been made available. Over £500 million has been distributed to businesses across the North East region. Also supported by the impact of the Coronavirus Job Retention Scheme/"Furlough" which has been extended up to September 2021.

   - Further clarity on government funding for the UK Shared Prosperity Fund, UK Community Renewal Fund and the Levelling Up Fund, with Local Authorities having to put in bids and now awaiting notification of their success.

   - Although these are all significant areas of progress the ratings of the risks they relate to remain high and medium due to the ongoing impact on the economy, employment and public transport of Covid-19.

c) As a reminder for each strategic risk, factors affecting the ‘likelihood’ of the risk occurring have been categorised between i) those which are beyond the control of NECA and ii) those which are considered within the control of NECA, its members and its partners e.g. NELEP, with a specific split between factors affecting the likelihood of risks occurring and the actual, current controls that are in place to address them. Also causes, likelihoods and mitigating actions are grouped under common themes where this appears relevant. Together this has been done to identify clear links between, causes, likelihood factors and the activity which is within the control of the NECA and its partners to address them in the form of current controls and mitigating actions.

2.5 The ‘NECA Strategic Risks - Summary’ at Appendix 1 identifies the NECA strategic risk areas and for each risk provides a current RAG rating to provide a guide as to the level of risk NECA current faces for that risk and the direction of travel.

Appendix 2 ‘NECA Strategic Risk - Details’ provides a detailed description of the nature of each risk together with the relevant controls in place and further proposed mitigating actions.

Appendix 3 ‘Risk Analysis Toolkit’ shows the risk scoring matrix that has been applied to assess the level of risk for each of NECA strategic risks.

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 NECA Strategic Risk Register will continue to be reviewed to record, monitor and report the strategic risks to the Audit and Standards Committee at 3 monthly intervals, with support from officers.

5. Potential Impact on Objectives

5.1 The development of the Strategic Risk Register will not impact directly on NECA’s objectives, however the approach to strategic risk management will support NECA by acknowledging the most significant threats to the achievement of its objectives and putting plans in place to manage them.

6. Finance and Other Resources Implications

6.1 There are no financial implications arising from this report. The internal audit service is commissioned under a Service Level Agreement between NECA and Sunderland City Council. The service includes co-ordinating the strategic risk management process. The Internal Audit Service from Sunderland City Council will make available the relevant professionally qualified and experienced auditors to fulfil the requirements of the Audit Plan 2021/22 and strategic risk management.

7. Legal Implications

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

8. Key Risks

8.1 The report identifies what are considered to be the key strategic risks to the achievement of NECA's overall objectives.

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 arising from this report.

11. Consultation /Engagement

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

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 - 'NECA Strategic Risks - Summary' shows NECA's strategic risks and the level of risk associated with each.

Appendix 2 - 'NECA Strategic Risks – Details' provides a detailed assessment of NECA's and actions identified to reduce the overall risk exposure.

Appendix 3 - Risk Analysis Toolkit determines the level of risk attached to each risk.

14. Background Documents

14.1 None

15. Contact Officers

Tracy Davis – Senior Manager – Assurance, Sunderland City Council.
tracy.davis@sunderland.gov.uk
Telephone - 07342704254

16. Sign off

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

NECA Strategic Risks - Summary			
Risk Title & Description	**Risk Level (RAG Rating)**	**Direction of Travel**	**Notes**
Risks to Achievement of NECA Strategic Objectives			
<u>1 Decarbonise the growing economy in NECA area.</u> Failure to achieve the planned outcomes to realise the decarbonisation of economic activity, infrastructure and housing within the NECA area.	**Red 12**	**Static**	**Due to possible negative impact of Covid-19 on future funding and need for behavioural change**
<u>2 Further development of international trade and investment in the NECA area</u> Failure to achieve the planned outcomes to realise the diversification of the region's industrial base, and to maintain its high levels of exporting and direct inward investment.	**Red 12**	**Static**	**Due to possible negative impact of Covid 19 on future funding/ investment downturn in world economy and impacts of EU Exit**
<u>3 Better Skills and More Quality Jobs</u> Failure to achieve the planned outcomes to allow the labour market to work much more effectively to meet future employer demand, to grow the economy and secure good jobs by developing major investment sites and to extend the range of opportunities for individuals	**Red12**	**Static**	**Due to possible negative impact of Covid-19 on future funding and economic activity and need for behavioural change**
4 <u>Draw many more NECA residents into the economic mainstream</u> Failure to achieve the planned outcomes to ensure that people of all ages can access timely and personalised support to overcome their educational, situational and motivational barriers to work and to equip them with the capabilities the economy needs so that they can find employment.	**Amber 9**	**Static**	**Due to possible negative impact of Covid-19 on future employment opportunities and on future funding**
5 <u>Become a sustainable well-connected region</u> Failure to achieve the planned outcomes to strengthen and extend transport networks in the NECA area while reducing pressure and	**Red 12**	**Static**	**Due to possible negative impact of Covid 19 on public transport and future funding**

encouraging green travel, to improve digital connectivity, and to achieve a high level of digital skill within the workforce.			
<u>6 Shaping the Great North East</u> Failure to achieve the planned outcomes to ensure the NECA region is attractive to residents, businesses, visitors and new settlers by having a thriving economy, and being a green and prosperous place that offers an exceptional quality of life and improved opportunities for all.	**Red 12**	**Static**	**Due to possible negative impact of Covid-19 on funding and economic activity**

NECA Strategic Risks - Summary			
Risk Title & Description	**Risk Level (RAG Rating)**	**Direction of Travel**	**Notes**
NECA Organisation Risks			
1 Future Availability of Funding Sources and levels of funding available to NECA may not be aligned to the Strategic Economic objectives of NECA.	**Red 12**	**Static**	**Uncertainty over future UK development funding due to EU Exit and the possible negative impact of Covid-19**
2 Funding Opportunities Failure of NECA to secure the maximum amount of funding available to progress projects which support the delivery of the Strategic Economic objectives of NECA.	**Amber 8**	**Static**	N/a
3 Use of Funding and Resources Funding secured for initiatives within the North-East region by NECA and its partners may not be able to be used on a timely basis, not be sufficient to complete intended projects or may be used inappropriately.	**Amber 8**	**Static**	N/a
4 Governance Arrangements The governance arrangements of NECA are not appropriate to allow effective and timely decision making and the achievement of its objectives	**Amber 8**	**Static**	N/a
5 Operational Capacity and Resourcing NECA does not have the necessary operational capacity, skills and budget, to successfully deliver its, objectives, plans and responsibilities.	**Amber 8**	**Static**	N/a
6 Delivery of Projects/Programmes Projects which are funded through NECA are delayed, are significantly overspent or do not deliver the intended product to meet the identified transport need.	**Green 6**	**Static**	N/a

7 Infrastructure Assets Infrastructure assets which are owned by NECA are inadequately managed and maintained.	**Green 6**	**Static**	N/a

Strategic Risks - Details

Risks to the Achievement of NECA Strategic Risks	
1 **<u>Decarbonise the growing economy in NECA area</u>** Failure to achieve the planned outcomes to realise the decarbonisation of economic activity, infrastructure and housing within the NECA area.	**<u>Risk Owner</u>** Head of Paid Service **<u>Risk Score</u>** Red 12 Likelihood – Medium 3 Impact – Critical 4

Possible Cause(s):

Central and Local Government Policies

- Lack of effective carbon offset schemes.
- Lack of prioritisation of carbon neutral agenda by policy decision makers e.g. UK government resulting in the:
  - lack of ambitious targets being set for renewable/clean energy use and energy efficiency goals e.g. timescales not ambitious.
  - decisions relating to carbon reduction being made for short term expediency e.g. elections rather than for long term benefits.
  - lack of regulation to encourage decarbonisation e.g. imposition of emission standards for products, processes, vehicles etc; imposition of energy efficiency standards for vehicles, appliances, buildings/houses etc; lack of carbon pricing and taxation etc
  - lack of procurement which favours low/no carbon emission products so supporting new emerging clean industries and leading by example.
  - lack of effective funding arrangements to facilitate the move to cleaner energy e.g. lack of investment in research and development into clean energy technologies where it is not commercially attractive to do so; not eliminating/reducing subsidies related to for fossil fuels; lack of funding to subsidise the price of energy efficient appliances/measures to those on low incomes and to help them not be disadvantaged by decarbonisation; lack of funding to subsidise the cost of deploying low/no emission technology where it is not currently cost effective as high carbon alternatives; lack of tax reliefs to encourage business to develop and introduce new cleaner technologies.
  - lack of 'structural' assistance finance packages to support communities where decarbonisation has a negative economic impact to enable for example, workers in declining industries to retrain.
  - the 'propping up' of industries which are being displaced by the move to cleaner energy.
  - lack of incentives to encourage business investment in new cleaner technologies.
  - lack of arrangements to facilitate the transition away from fossil fuels e.g. lack of agencies to help kickstart investment in and set up of new 'green' industries.
  - lack of provision of information to the public and business to inform them of ways to save energy or move to other alternative cleaner energy sources.
- Lack of committed well targeted long-term funding at local, regional or national government level for the activity to transition to a decarbonised economy.
- Council/other public and private sector delivery partners' policies and priorities are not aligned to NECA aims/plans re carbon neutrality for the economy

Regional Planning

- The potential effect of the activities planned by NECA, North East Joint Transport Committee and its delivery partners to achieve carbon neutrality are over-stated.
- Lack of a coordinated realistic regional plan and vision to achieve the decarbonisation objectives in the NECA region and/or lack of will/'buy in' or resources to deliver plan by all or some stakeholders.
- As 80% of world energy sources is currently fossil fuel, the sheer scale of change to decarbonise an economy may mean the rate of change is slow and the planned timescales to achieve this are overoptimistic.
- Lack of planning to achieve decarbonisation goals in the north east area.

Public Acceptance

- The cost of alternative clean energy e.g. solar, wind etc remains high relative to the cost of fossil fuels making it unattractive to energy users, both business and domestic.
- The relatively large up-front cost of renewable energy infrastructure, equipment means it may be unattractive to users, both business and domestic, to switch from fossil fuel technology e.g. installation of solar panels, cost of electric vehicle
- Lack of availability of transformative clean energy technologies to enable all users, both business and domestic, to move to clean energy
  - for use in all activity where fossil fuels are currently used e.g. fuel for aeroplanes, other industrial applications, and
  - which is lower priced, as convenient, as reliable and as safe as fossil fuels.
- The impact of alternative energy sources e.g. renewable electricity on the environment e.g. wind turbines, land needed for solar panels etc may cause opposition leading to the cessation of development of, or delays in the delivery of, decarbonising arrangements.
- The potential negative economic impact of communities hit by the removal of carbon producing industries as part of the decarbonisation process may lead to opposition to stop or slow down the transition process e.g. politicians protecting interests of the people they represent.
- Business and energy users' unwillingness (e.g. due to fear, lack of knowledge/information about alternative energy sources and impact of carbon emissions on the environment, scepticism etc) or inability (e.g. due to lack of finance, infrastructure, etc) to change behaviours to take action to reduce their use of fossil fuel energy further or their activity indirectly causing carbon emission (e.g. diet, recycling etc) or to switch to new clean energy.

Covid-19

- Due to a financial recession, e.g. caused by Covid 19 pandemic, organisations, both energy users and producers, may cut back on, or do not have, the resources, e.g. finance, hr, skills etc to:
  - invest in research and innovation to develop new clean energy sources or new processes, infrastructure or equipment to distribute new clean energy, or
  - adapt to and embrace the use and application of new clean energy technologies in all aspects of production, movement and supply, or
  - make processes, using energy sourced from fossil fuels, more energy efficient, or
  - manufacture, market and install new renewable or alternative energy technologies.

Infrastructure Change

- Lack of available funding to develop or maintain infrastructure for new clean energy technologies and to allow a transition of the economy as a whole from reliance on fossil fuels to new cleaner energy.
- Lack of skills and personnel required to carry out the work necessary to achieve decarbonisation within the private sector (e.g. industrial, energy, housing, agricultural,

transport sectors etc) and public sector (e.g. public transport).

- Lack of fully developed technologies e.g. carbon capture and storage.
- Lack of infrastructure to support adoption of new energy technologies e.g. electric car charging points.

(* 'Decarbonising the economy' is defined as the activity to reduce and eliminate carbon emissions into the environment to improve its quality.

Potential Impact/Consequence

Without the reduction and/or elimination of carbon emissions into the atmosphere, the levels of carbon dioxide, nitrogen dioxide, other greenhouse gases and air particulates will remain high so:

- contributing to climate change with potential for extreme weather events.
- continuing to effect adversely the health of the population by increasing symptoms of respiratory (e.g. asthma) and cardiovascular disease (e.g. lung cancer, strokes, heart disease) in some cases leading to death. Air pollution can also an impact of child development and development of dementia. This increases pressure on NHS resources e.g. increase hospital admissions.
- contributing to lower productivity in the region due to work absence for health reasons
- exacerbating health inequalities as certain groups in society are more susceptible to high levels of air pollution e.g. elderly, children, those with disabilities, lower income groups who tend to live in housing in urban areas near roads

Likelihood:

Factors outside of NECA Control

Central Government Policy

- As part of climate change legislation, Climate Change Act 2008, the UK government has committed to a goal that the country achieves carbon neutrality by 2050.
- The UK has reduced its carbon emission by 42% from 1990 to 2017, with progress particularly within the power and waste sectors. In April 2021 the government announced they plan to reduce emissions by 78% by 2035.
- As part of the government's carbon neutrality commitment and to drive a significant acceleration in the pace of decarbonisation, as part of the UK Industrial Strategy, a 'Clean Growth' strategy has been adopted which sets out the action the UK government will take to cut emissions, increase efficiency, help lower the amount consumers and businesses spend on energy across the country and put cleaner growth at the centre of its industrial strategy. The strategy includes action across all sectors i.e. business/industry, transport, power, natural resources, homes, and public sector. However, progress in some areas, e.g. home energy efficiency, is based on the condition 'where practical, cost-effective and affordable'.
- In December 2020, UK government launched its ten-point plan for a 'Green Industrial Revolution' to build back better, support green jobs, and accelerate the UK's path to net zero carbon emissions mobilising £12 billion of government investment as well as private sector investment. Areas include energy sources, transport, buildings, carbon capture.
- UK government has adopted measure to reduce carbon emissions. These include:
  - Committing funds into research re low carbon technologies across all sectors.
  - Energy Entrepreneurs Fund offers funding to businesses for the development and demonstration of state-of-the-art technologies, products and processes in the areas of energy efficiency, power generation and electricity storage.
  - Energy Innovation Programme which aims to accelerate the commercialisation of

innovative clean energy technologies and processes through the 2020s and 2030s e.g. Clean Growth Fund offers funding for start-up for new businesses seeking to commercialise promising technologies
- intention to ban sale of new petrol and diesel cars by 2030.
- investment in technological innovation re road vehicles e.g. batteries.
- introduction of an 'Air Quality Plan' to reduce air pollution. As part of this plan funding schemes have been made available for extending the charging infrastructure for ultra-low emission vehicles (ULEV) including fast charging, putting low emission buses and taxis on the road, and improving cycling and walking infrastructure.
- Levies and tax reliefs to encourage business to move to technologies that do not use fossil fuels e.g. Climate Change Levy, CRC Energy Efficiency Scheme, Landfill Tax, capital allowances on energy efficient items.
- Climate Change Agreements i.e. voluntary agreements between high carbon emission business sectors and UK government to reduce carbon dioxide emission and energy use in return for reduction in Climate Change Levy on energy bills.
- Building regulations have been put in place to ensure homes are more energy efficient e.g. from 2016 all newly built homes must be net carbon zero, from 2020 all privately rented properties must have a minimum energy efficiency rating. (However, there are still approximately 62% of homes in England not meeting the long-term target for minimum energy efficiency standards)

- The Home Energy Conservation Act 1995 recognises a local authority's ability to improve energy efficiency in all residential accommodation in its area e.g. by area-based initiatives to improve energy efficiency or promoting awareness of partner schemes.

Covid 19

- The Covid -19 pandemic has caused:
  - A switch to the use of cars (high greenhouse gas emitters), a growth in cycling and walking and a decline in public transport patronage. This is possibly due to the need for social distancing, increased home working reducing the need to travel and a fear of catching the virus
  - There has been a huge reduction in the use of public transport including bus services and the Metro causing a severe loss in income. Without appropriate funding this may result in a future reduction in service level provision in low carbon emitting public transport services.
  - Air quality improved during the lockdown due in part to less transport activity.
  - Increased rates in recycling of waste.
  - Severe drop in economic activity.
- The effect and cost of the Covid-19 pandemic on the UK economy may cause the UK government to reduce the level of funding available to the region to enable it to achieve its' decarbonisation objectives.
- To help the UK economy recover from the effects of the Covid pandemic the UK government introduced the £2billion Clean Homes Grant Scheme to aid domestic users make energy efficiency home improvements to their homes. Of this £500 million made available to Local Authorities to help low income households to improve energy efficiency in their homes. However, the scheme is due to end in 2021.
- The government's Energy Company Obligation Scheme (ECO) obligates energy suppliers to promote measures which improve the ability of low income, fuel poor and vulnerable households to heat their homes.

Energy Industry

- Promotion of smart meter scheme for domestic and business users.
- Ofgem, the government energy market regulator working on behalf of domestic and business customers, promotes environmental programmes to help users move towards

low carbon emission technologies e.g. Renewable Heating Initiative

Infrastructure

- The costs of many low carbon technologies: renewable power sources like solar and wind are becoming more comparable in cost to coal and gas.

Other Initiatives

- Introduction of schemes to reduce one-off use of plastics e.g. plastic bags

Factors within control of NECA, its members and its partners e.g. NELEP, and Current Controls

Current Controls:

Central and Local Government Policies

- NECA and all four Local Authorities in the region have declared a 'climate emergency' undertaking to
  - make each Council almost/totally carbon neutral by 2030
  - develop and deliver carbon reduction action plans to reduce the use of fossil fuels both by themselves e.g. LED street lighting, new/refitted energy efficient buildings, and, working with partners, residents and business, the council area each serves e.g. heat network development, awareness re recycling/reusing, measures to reduce energy consumption, development of enterprise zones supporting low carbon innovation e.g. the A19 Ultra Low Carbon Vehicles Corridor
  - make environmental considerations as part of decision making and working to reduce carbon emissions.
- NECA, its constituent Councils and its partners in the North East region e.g. North of Tyne Combined Authority, North East LEP continue to lobby and engage with the UK government to:
  - ensure policy makers and decision makers are aware of the decarbonisation vision, plan and policies and needs for the NECA and North East region e.g. submission of Covid North East Recovery and Renewal Deal.
  - provide the necessary powers, resources and funding to achieve NECA's decarbonisation agenda.

Joint Transport Committee

- One of the North East Joint Transport Committee (JTC) objectives for the JTC area is to reduce the level of carbon emissions from transport. The JTC is currently developing plans to achieve this goal e.g. greater usage of public transport and reduction in use of vehicles.
- NECA members via their membership of the North East Joint Transport Committee (JTC) continues to receive funding for transport initiatives which help to reduce carbon emissions e.g. part of Transforming Cities Funding funded schemes to encourage more travel by bus, cycling and walking improve the frequency and reliability of the Metro, speed up urban buses, make rail services more reliable, extend the cycling network and improve Park and Ride facilities; funding has been received for expanding the electric charging infrastructure in the north east; the Active Travel fund is enabling measures to support and encourage the increase in cycling and walking in the north east.

Local Powers

- Local councils have the powers to tackle air pollution and emission requirements.
- In accordance with provisions of planning legislation and national planning guidance, Local Planning Authorities have a duty to ensure approved Local Plans and planning

proposals should contribute to the mitigation of, and adaptation to, climate change. ***Electric Vehicle Hub*** • *Following Brexit concerns, Nissan have committed to remaining at their Washington site, supported by Sunderland and South Tyneside Councils' International Advanced Manufacturing Park, to manufacture electric vehicles.* • *This £1 Billion investment from private sector and Government funds supports:* - *the development of an Electric Vehicle Hub in the NECA region with supporting infrastructure;* - *a trailblazing Microgrid that aims to 100% renewable electricity as a power source saving 55,000 tonnes of carbon annually.*	
Further Mitigating Actions	
Central and Local Government Policies	
NECA and other local partners e.g. NELEP continue to work with and lobby Government and influence emerging policy thinking.	Chair – NECA Leadership Board

2 **Further development of international trade and investment in the NECA area** Failure to achieve the planned outcomes to realise the diversification of the region's industrial base, and to maintain its high levels of exporting and direct inward investment.	**Risk Owner** Head of Paid Service **Risk Score** Red 12 Likelihood – Medium 3 Impact – Critical 4

Possible Causes

Maintaining Level of Exports

Brexit

- A trade deal with the EU is secured, but the increased bureaucracy around trading (export licences, border controls) may result in delays that impact upon just-in-time supply chains (again hitting the manufacturing and automotive sectors in particular) and increase costs making exporting less attractive.
- Foreign business based in the UK/north east using the UK as a base to export to the EU may transfer some or all of their activity to the EU region after the end of the transition period.
- Foreign direct investors may reconsider investing in the UK or choose to locate operations in EU countries in order to be closer to EU markets.
- The UK government fails to secure new trade deals with non-EU countries after the end of the 'transition' period, including those replacing EU negotiated trade deals, resulting in less favourable trading terms e.g. imposition of tariffs making the price of good and services less competitive.
- Lack of preparation by business and UK government to meet the new exporting requirements after the UK left the EU at the end of 2020.

Business Awareness and Skills

- Lack of knowledge, expertise and capacity within businesses (particularly SMEs) regarding exporting e.g. processes, regulations etc.
- Lack of awareness of businesses regarding export opportunities in foreign countries.
- Lack of advice support (e.g. from government) for businesses who wish to begin exporting and expand exporting activity.
- Lack of finance by business to meet the costs of setting up to export.
- Lack of understanding by business of the differences in a foreign country when transacting business e.g. language, social and cultural norms, laws and regulations etc.

Exchange Rates and Foreign Trading Policies

- Adverse exchange rates make the price of exported goods and services more expensive and less competitive.
- Policy of the foreign countries with regard to importing foreign goods and services e.g. protectionism may mean exporters face exporting barriers making it less attractive to export e.g. quotas, embargos on goods/services, subsidies provided to locally produced goods/services, licensing requirements, procurement favouring locally produced goods/services.

Economic Slowdown

- Global economic slowdown resulting in lower demand for exported goods and services in foreign markets.

- A severe economic slowdown in the UK may result in the failure of businesses regularly exporting.

Attracting Direct Inward Investment
- Lack of entrepreneurial culture in the region.
- Lack of appropriately skilled and committed labour force.
- Lack of infrastructure to meet needs of potential investor e.g. accommodation for operations, transport, digital infrastructure/communication, support services, supply chains.
- Lack of attractiveness of financial incentive package to expand into the area.
- The level of bureaucracy and the potential for delays when moving to the area.
- Lack of quality of life for new personnel moving to the area e.g. housing, environment.
- The future economic prospects for the region are not promising.
- The UK leaving the EU may make the UK/NECA area less attractive than other countries within the EU for businesses seeking to trade with EU countries as well as the UK.
- Lack, or poor promotion, of the north east/NECA area. Lack of clarity as to how a potential investor may explore opportunities in the NECA area.
- The ‘offer’ provided by other UK regions/countries may be more attractive to a potential investor than the NECA area.
- Government policy makes its less attractive to potential foreign investors e.g. regulations limiting market access to certain business sectors/markets or favouring local business, lack of well-defined laws and arbitration processes, foreign ownership limits.

Diversifying Industrial Base
- Diversification can be achieved in 2 ways by:
  - attracting new direct investment into the region or;
  - developing and growing businesses within the NECA area;

Direct Inward Investment
- Re direct inward investment, see possible causes above.

Growth of Local Businesses
- Lack of aspiration and ambition from businesses and potential entrepreneurs.
- For persons considering starting their own business, a lack of confidence, finance and knowledge.
- Lack of support, advice, funding, facilities and mentoring for new business start-ups and those SME seeking to expand.
- Lack of clear pathway for SMEs and person starting a new business to find support.
- Policy makers make it difficult for diversifying the industrial base in the region
- An economic downturn may mean individuals seeking to start a business or SMEs seeking to grow may not have the financial resources to grow, may find it difficult to obtain finance or in the case of existing businesses, some may fail
- Lack of ability of businesses to access funding to grow given the hit to cash reserves and stockpiles from the Covid-19 pandemic

Potential Impact/Consequence

Without the maintenance of inward investment and export levels and the diversification of the industrial base in the NECA region:
- the NECA economy will be more susceptible than other regions to economic downturn resulting in greater loss of employment
- the NECA economy will not be able to take full advantage of upswings in the economy

- the region will not be able to increase the number of persons in employment and consequently the wealth of the region
- there will be less of an opportunity of good quality jobs in the areas for its citizens which may in turn cause person seeking employment to move away from the area.

Likelihood:

Factors outside of NECA Control

Exporting

- The area has a proven track record for exporting. Businesses in the NECA region export over £7billion of their output, approximately 30% of its output.
- A trade deal with the EU, accounting for 49% of UK exports and 60% of all North East exports, has been achieved. With no tariffs/quotas this is positive for international trading, however there are still significant non-tariff barriers to imports/exports including border/custom checks, import/export licences and duties, VAT leading to increased costs/reduced profitability which may make exporting less attractive. It is uncertain what the effect of the UK leaving the EU will be in the longer term regarding north-east exporting activity.
- In addition to the EU trade deal, the UK government is currently negotiating free trade deals with countries around the world. At the end of 2020 a further 63 deals covering approximately 10% of its export trade have been completed to date (source: https://www.bbc.co.uk/news/uk-47213842.) Without free trade deals, the UK will trade on World Trade Organisation terms resulting in tariffs on UK exported goods, increased bureaucracy and possible delays in transport.
- On 31 January, the government announced it would apply to join a free trade area with 11 Asia and Pacific nations called the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). Current members include Australia, Canada, Japan and New Zealand. The government is also holding trade talks with the US, Australia and New Zealand. (source: https://www.bbc.co.uk/news/uk-47213842)
- In preparation for leaving the EU, the UK government ran a 'check, change, go' campaign to make businesses aware of what they need to do to continue to export smoothly (with HMRC writing to exporters and a series of EU Exit webinars held and advice by sector published). There are concerns about how effective the campaign was and consequently how ready businesses, e.g. SMEs, are. (concerns flagged in reports published in Oct/Nov by the Institute for Government and the National Audit Office).
- The Dept for International Trade (DiT) has a team based in the NECA region working with local partners to support all businesses, whether first time or experienced exporters, in the North East to develop their international sales and enter new markets. The UK government can provide financing via the Export Credit Agency.
- The UK Government has introduced in Oct 2020 its Export Growth Plan which aims to support businesses to grow their overseas trade. Measures include additional financial support (i.e. £38 million Internationalisation Fund for small business) and expertise (e.g. new international trade advisors, pilot 'export academies' to build the capabilities of smaller businesses) some of which is targeted towards specific regions that are most in need e.g. Northern Powerhouse region.
- Since Brexit the exchange rate with both the euro and dollar has been consistently low.
- The Office National Statistics has reported that UK exports of goods (other than precious metals) has dropped by 8.7% (£7 billion) on Quarter 1 of 2021 (Jan- March)

Direct Inward Investment

- The UK as a whole has a long history of international trade, has a widespread network of other partners, has mature industries in many sectors such as finance, and the workforce speaks an international language.

- The UK operates an ‘open’ economy which allows access to markets by foreign and UK business alike. Its laws and regulations are clear and applicable to all.
- In terms of support for business, the NECA region offers transport connectivity e.g. 3 globally connected ports, access to international airports, as well as access to 2 cities and 2 universities, a well-qualified pool of labour, well connected supply chains and a well-developed business support sector.
- The NECA region offers a high-quality living environment.
- The region, comparative to others, has a lower productivity performance.
- The new EU/UK trade deal, through complex rules regarding the origin of parts, provides an opportunity a) to bring supply chains to the UK (e.g. in Jan 2021 Nissan announced it was moving more of its electric vehicle battery production to Sunderland.) and b) for UK ports away from the south east to grow container traffic.
- Eight new English Freeports were confirmed in the 2021 Budget with the closest one to the NECA region being Teesside. Freeports establish a Free Zone that reduces customs fees and tax for occupiers (incentivising exports).

Diversification

- The NECA region is reliant on small number of large employers, and the SME sector is not as strong as other parts of the UK.
- The number of new start-ups and businesses ‘scaling up’ in the North East is below the national average.
- Historically the North East mindset has been that of a ‘worker’ with a dearth of resilient start-ups.
- The UK government provide support for business start-ups and scaling up by a) providing information as to where support can found in a geographic region (Department for Business, Energy and Industrial Strategy) and b) providing financial support e.g. tax reliefs e.g. investing in start-up or scale up ‘Enterprise Investment Scheme’, research; loans e.g. business start-up loans; and grants e.g. Innovate UK provides grants to start up/scale up in the technology/science sector.
- There are currently 47 support schemes for business start-up/scale ups in the North East region published by the government. Funding to allow businesses to develop/expand are available from government schemes e.g. Start Up Loan Scheme.
- The £3.9 million Intensive Industrial Innovation Programme (IIIP) allows North East universities to work directly with small and medium sized enterprises (SMEs) to encourage growth by developing new services and products for the market.
- Within the NECA area are significant research and innovation centres and adaptable public infrastructure that provide business with access to cutting edge knowledge and test beds that facilitate commercialisation and innovation. These included national catapult centres e.g. high value manufacturing, and a range of national innovation centres e.g. NETPark in Durham.

Covid-19 Impact

- The effect and cost of the Covid-19 pandemic on the UK economy may cause the UK government to reduce the level of funding available to the region to enable it to achieve its objective of developing its ‘offer’ to attract new inward investment and to diversify its economy has caused a contraction in the economy, and may cause the failure of businesses or cause businesses to be unable to expand due to lack of resources or lack of market demand. In 20/21 so far, inward investment activity is lower than in previous years.

- The negative impact of Covid-19 pandemic on the world economy has caused a significant contraction in economic activity causing a fall in market demand, contraction of businesses or businesses putting investment plans on hold.
- The Office National Statistics has reported that UK exports of goods (other than precious metals) has dropped by 8.7% (£7 billion) on Quarter 1 of 2021 (Jan- March)

Covid-19 Recovery

- *LA's have supported business through:*
  - *Restart Grants;*
  - *Open, Closed & Sector Local Restriction Support Grant schemes;*
  - *Additional Restrictions Grants;*
  - *Christmas Support Payments for Wet-led Pubs;*
  - *Helping businesses to access Government loans;*
  - *Signposting to support (particularly on import/export re EU Exit);*
  - *Coordinating Kickstart six-month placements;*
  - *Accessing Getting Building Funds to accelerate key projects.*
- *Over £500m of funding distributed to businesses across North East.*

Factors within control of NECA, its members and its partners e.g. NELEP, and Current Controls

Direct Inward Investment

- The NECA region has an excellent track record of attracting and growing businesses with a global presence e.g. Hitachi, Nissan.

Current Controls:

Exporting

- Councils with its partners within the NECA area have teams which provide support to businesses from all sectors to start exporting or increase their activity and such teams are signposting businesses to Government, Growth Hub and North East Chamber of Commerce advice and dedicated EU Exit toolkits.
- The region's North East Growth Hub provides information and support to businesses seeking to export.
- NELEP, together with the NE Chamber of Commerce, is currently developing a North East Trade and Export Strategy. NELEP are working on an Internationalisation Strategy.
- Eight new English Freeports were confirmed in the 2021 Budget with the closest one to the NECA region being Teesside. Freeports establish a Free Zone that reduces customs fees and tax for occupiers (incentivising exports)

Direct Inward Investment

- Within the North East, the Invest North East England service operates as a first point of contact for businesses looking to locate and invest in the region including NECA. Working alongside the region's seven local authorities, its aim is to support new inward investment, e.g. connections, access to services, advice, skills, navigation of funding channels, provision of information about local economy and potential locations et) and promote the region as prime location for businesses to locate, grow and prosper.
- Each Council in the NECA area operates Business Investment Teams which in part support businesses to invest in or relocate to Sunderland.
- In terms of the NECA region economic 'offer' in terms of facilities the area is part of the North East Enterprise Zone which is made up of 21 sites of which 7 are located in the NECA region e.g. IAMP etc. These offer financial incentives and other support to enable

business expansion. This is in addition to other office space and industrial sites which have been developed in the NECA region which are competitively priced.

Diversification

- Several agencies within the NECA region provide advice, support, training, mentoring and signposting funding both to businesses seeking to expand or individuals to start up new business e.g. local Councils, North East Growth Hub, Scale Up North East, as well as private sector organisations e.g. Federation of Small Businesses, CDC Enterprise Agency.
- The role of NELEP is to promote and develop economic growth in the North East region. To this end it has established a Business Growth Board which seeks to progress the strategic implementation of NELEP's Business Growth ambitions expressed in its Strategic Economic Plan.
- NELEP has set up:
  - a £2 million Incubator Support Fund to support the development of the innovation incubation facilities in the North East LEP area to enable the start-up, expansion and preparation for growth and sale up of innovative businesses.
  - a £27 million Innovation Fund to provide funding at an early stage of development for innovative ideas and businesses at an early stage of development e.g. Centre for Sustainable Advanced Manufacturing:
  - a 'High Growth Potential Business' campaign will seek to reach, engage and identify start- up businesses to sign up to a High Potential Start-up six-month Accelerator programme
- Councils in the NECA region continue to manage their own property portfolio which business enterprise centres suitable for start-up and scaling up businesses. The private sector also provides similar opportunities for start-ups and scale up. An example is the development of the Netpark Incubator in Durham.
- Funding to allow businesses to develop/expand are available from local sources e.g. Business Enterprise Fund, North East Fund, North East Investment Fund, NE Business Support Funds, Rural Growth Network.

Other

- NELEP's Strategic Economic Plan for the region is aligned to NECA improving diversification, increasing inward investment and exports.
- NECA, its constituent Councils and its partners in the North East region e.g. North of Tyne Combined Authority, North East LEP continue to lobby and engage with the UK government to:
- ensure policy makers and decision makers are aware of the ambition of both NECA and North East region to develop trade, diversify and increase investment in the economy e.g. submission of Covid North East Recovery and Renewal Deal and
- provide the necessary powers, resources and funding to achieve NECA's objectives.

Electric Vehicle Hub

- *Following Brexit concerns, Nissan have committed to remaining at their Washington site, supported by Sunderland and South Tyneside Councils' International Advanced Manufacturing Park, to manufacture electric vehicles.*
- *This £1 Billion investment from private sector and Government funds supports:*
- *the development of an Electric Vehicle Hub in the NECA region with supporting infrastructure;*
- *a trailblazing Microgrid that aims to 100% renewable electricity as a power source saving 55,000 tonnes of carbon annually.*

Further Mitigating Actions	
Central and Local Government Policies	
NECA and other local partners e.g. NELEP continue to work with and lobby Government and influence emerging policy thinking.	Chair – NECA Leadership Board
NECA and other local partners continue to lobby Government on successor funds to ESIF (the UKSPF) that can help to support diversification, inward investment and exporting	Chair – NECA Leadership Board

3 **Better Skills and More Quality Jobs** Failure to achieve the planned outcomes to allow the labour market to work much more effectively to meet future employer demand, to grow the economy and secure good jobs by developing major investment sites and to extend the range of opportunities for individuals	**Risk Owner** Head of Paid Service **Risk Score** Red 12 Likelihood – Medium 3 Impact – Critical 4

Possible Causes

Better Skilled Labour Market to meet Future Employer Demand

Education and Advice Provision

- Poor communication leading to a lack of understanding within education of skills needed for, and future job/career opportunities provided by business
- Education and skills provision provided by education institutions do not meet the future needs of business
- Poor or incorrect/out of date careers advice is provided to students so they are not fully informed of future career opportunities to be provided by business and the level and type of skills/education needed
- Lack of capacity within education to teach/provide up to date skills and qualifications needed by business in the future e.g. schools unable to keep pace with progress in digital changes to ensure curriculum continue provide IT skills to meet future needs of digital businesses.

Public Engagement

- Lack of ambition/motivation by young people or adults to attain academically and/or gain skills/qualifications needed for the future employment market
- Lack of will by employers to invest in their employees to gain the skills/qualifications needed to move their businesses forward.
- Lack of awareness by individuals of the available pathways to gain further employment skills and qualifications relevant to the workplace
- Lack of opportunity for people to gain practical experience in the workplace and gain further work skills.

Funding

- Lack of resources by some young people/adults to access equipment to aid development of employment skills e.g. IT to develop digital skills.
- Lack of education and skills funding, whether for young people or adults, provided by government to allow an individual to gain better or different employment skills/qualifications
- Education and skills funding is channelled into activity which does not equip individuals to be able to take up future opportunities of ‘good quality’ jobs provided by employers in the future.
- Lack of funding by employers to invest in their employees to gain the skills/qualifications needed to move their businesses forward.

Other

- Sudden changes in the structure of the economy mean some of the skills of current labour market may in part become redundant leaving them without the skills to take up new employment opportunities provided by business.

- Highly educated and skilled graduates developed within the area do not remain thus lowering the level of educational attainment and employment skills within the local labour market.

Grow Economy by Development of Major Investment Sites

- Council priorities are not aligned to those of NECA.
- Sufficient appropriate sites are unable to be located or acquired.
- The need for planning permission may not allow sites to be developed as required or delays in development of sites.
- Lack of sufficient public funding to develop the initial infrastructure of sites to allow private sector investment and occupation.
- Policy makers do not develop or promote sites in a way to attract sufficient employers or employers in business sectors which will provide the expected a) increase in employment and/or b) number of 'good' and secure employment opportunities.
- An economic downturn may cause businesses to be unwilling or unable to take up opportunities offered by the development of these sites.
- The overall 'offer' to potential private sector investors in these major sites provided by councils in the NECA region may not be sufficient to attract the investors.
- The overall 'offer' provided other UK or foreign locations may cause businesses to invest/locate elsewhere.

Extend Opportunities i.e. more business start ups

For causes see Strategic Risk 2 under 'Growth of Local Businesses'

Regional Planning

- Lack of a coordinated realistic NECA regional economic plan to support the upskilling of labour market in the NECA area, to grow the economy by developing major investment sites and to extend the range of opportunities for individuals and/or lack of will or resources to deliver plan by all or any stakeholders.

Potential Impact/Consequences

Without the upskilling of the labour market in the NECA area, the development of major investment sites and the extending of the range of opportunities for individuals then:

- there will be less of an opportunity of good quality jobs in the areas for its citizens which may in turn cause person seeking employment to move away from the area.
- insufficient good quality and secure jobs may be created in the area leading to higher level of unemployment and less wealth and income being generated in the region
- individuals will be unable to take up opportunities of good quality jobs leading to them gaining less wealth, thus having less spending power for the region to benefit from.
- businesses may invest in other regions instead of the NECA area.
- productivity rates in the NECA area will not increase making it relatively unattractive to investors and not allowing individuals to gain increases in income due to greater productivity.
- there will be less opportunity for social mobility.

Likelihood:

Factors Outside NECA control

Better Skilled Labour Market to meet Future Employer Demand

- Although skill levels are increasing there is a relatively low skills base in the North East.
- Within the North East, while educational attainment is increasing, there are relatively poor

outcomes re secondary school in respect of qualifications and post school destinations.

- Graduate qualifications within the North East are below the national average.
- Historically employers in the North East have under invested in training and workforce development.
- The Covid-19 pandemic has impacted a) the provision of apprenticeship and training schemes, b) the provision of education in schools. It has also accentuated educational inequalities.
- The UK government, via the Education and Skills Funding Agency, currently provides funding for several initiatives to improve skills, e.g. i.e. adult education budget, traineeship scheme for 19-24 year olds, apprenticeship levy scheme which requires the funding to be used on 'apprenticeship training at whatever level in an organisation. However, it should be noted the adult education budget is managed nationally rather than by policy makers in the NECA areas so it may not address fully local needs. Similarly, the apprenticeship levy scheme support training costs only but not wage costs of the apprentice which may be a barrier to take up.
- To help combat the impact of Covid, the UK government have launched a national jobs recovery programme which includes £2 billion to provide 6 month work placements for 16 – 24 year olds, £1.6 billion for the scaling up of employment support scheme, training and apprenticeships and further investment in traineeships, the national careers service, and sector based work academies
- In September 2020 The UK government introduced 'T' Levels as an alternative to A levels, apprenticeships and other 16 to 19 courses. Equivalent to 3 A levels, a 'T' Level focuses on vocational skills and can help students into skilled employment, higher study or apprenticeships. They involve both academic study and work placements. Three FE colleges in the NECA area will be among the first in the UK to provide 'T' Levels during 20/21.
- A White Paper, Skills for Jobs: Lifelong Learning for Opportunity and Growth has resulted from the government's review of the Further Education sector to ensure training reflects more the needs of employers. Proposed changes support the Prime Minister's Lifetime Skills Guarantee, and include:
  - Develop higher-level technical qualifications that provide a valuable alternative to a university degree.
  - Implement the flexible Lifelong Loan Entitlement to the equivalent of four years of post-18 education from 2025.

  This will be funded in part by a new government funded £2.5 million National Skills Fund programme, with £95 million available 2021/22.
- Over recent years, central to the skills and employment agenda has been the reliance of EU funding via the ESIF programme which is coming to an end with the exit from the EU. The government have stated that the UK Shared Prosperity Fund will replace Investment form EU Structural Funds with one of priority areas for the UKSPF being investment in people and skills tailored to local needs. The Fund will be launched in 2022.

Grow Economy by Development of Major Investment Sites

- In June 2020, the UK government allocated £47 million to the North East from the Getting Building Fund, a fund set up to deliver shovel ready capital projects by the end of 2021. Part of these funds will be used to move forward some major investment pipeline projects which NECA has identified e.g. Aykley Heads site, Durham.

Extend Opportunities i.e. more business start ups

For likelihood see Strategic Risk 2 under 'Growth of Local Businesses'

Covid-19

- In spite the government aspiration of levelling up the UK economy, the effect and cost of the Covid-19 pandemic on the UK economy may cause the UK government to reduce the level of funding available to the NECA region to enable it to achieve its objectives re skills, investment in key sites and extending opportunity e.g. if public funds are not available to complete infrastructure enabling works on major investment sites then private investment in the site will not be forthcoming.

- The impact of the Covid pandemic on business in the UK and elsewhere may cause the failure of businesses or cause businesses to be unable to expand and invest in skills and infrastructure due to lack of resources, lack of market demand or lack of access to external funding e.g. banks reluctant to lend. It may cause businesses to put investment plans on hold. Confidence to start up new businesses in an economic recession may be reduced. The government are concerned that the downturn in economic activity and increase in unemployment due to Covid may be long term.
- *In June the Leadership Board noted that young people may need support to catch-up due to the impact of Covid-19 on Education over the past two years.*
- *The extent of the impact of Covid-19 on your people's education and employability may not be immediately realised.*

Central Government Policy – Levelling Up Fund

- In November 2020 the government announced a £4billion 'Levelling Up' Fund programme in England to be delivered by 2025 with £600million available in 2021/22. It will aim to invest in local infrastructure to support economic recovery and drive growth.
- The Prospectus for the for the Levelling Up Fund notes the focus for 2021-22 is:
  - smaller transport projects that make a genuine difference to local areas;
  - town centre and high street regeneration;
  - and support for maintaining and expanding the UK's world-leading portfolio of cultural and heritage assets.
- *£600 million on total was available from the first round of the Levelling Up Fund.*
- *In June 2021 the Leadership Board noted that all four NECA local authorities had been placed in priority category 1 as places with the highest level of identified need.*
- *Bids must gain the support of the local MP, who can only support one project, and areas are allowed to submit one bid per MP constituency.*
- *LAs have submitted applications for the Fund under the first round but not for all constituencies.*

Factors within control of NECA, its members and its partners e.g. NELEP, and Current Controls

Current Controls:

Better Skilled Labour Market to meet Future Employer Demand

- The North East Local Enterprise Partnership promotes skills and education through its:
- 'North East Ambition' programme which aims to support every school and college in the North East to be achieving the Good Career Guidance Benchmarks by 2024. By doing this, every young person should be able to identify routes to a successful working life, make more informed decisions about their future and be better prepared for the workplace.
- 'Education Challenge' programme to support schools to integrate understanding of the world of work and career opportunities into their curriculum to ensure those entering the workforce have the skills, both academics and employability, to support our diverse economy and are fully aware of the progression routes available to make this happen.
- Operation of an Employment and Skills Board/Skills Advisory Panel to provide a single point of coordination in the North East region to bring together local employers and skills providers to pool knowledge on skills and labour market needs, both current and future,

and to work together to understand and address key local challenges.

- Initiatives in higher education to retain graduate talent locally, to encourage businesses to provide work experience to university students, to work with business to understand their future graduate skill level needs and with universities to consider their future 'offer' and provision.
- Investment in capital projects to support education, skills and training provision e.g. specialist equipment to enable delivery of essential technology skills at FE Institute of Technology in NECA area, World of Work, Metro Skills Centre.
- The North East Growth Hub has developed an apprenticeship toolkit which is promoted to business in the north east with a particular focus on degree level apprenticeships

Further Education Reform

- *Areas for development currently under consideration by LAs:*
  - *Strategic Development Funding to foster College-LA collaboration.*
  - *Create a further Institute of Technology (based around digital or green growth) and/or widen sector focus of current North East IoT at New College Durham.*
  - *Pilot a sector-specific Skills Bootcamp linked to the National Retraining Strategy in a skills shortage area (i.e. manufacturing).*
  - *Marketing push from Gov on Lifetime Skills Guarantee across LA7 (and potentially piloting something similar for higher level technical skills).*
  - *Offer to be a pilot are for the new Skills and Productivity Board to look at employment projections and labour market needs analysis (with a real focus on reskilling and progression).*
  - *Dedicated College Business Centres linked to key business sites.*
  - *Prioritise North East bids to FE Capital Transformation Fund.*
  - *AEB devolution across whole area LA7 so ensuring the whole of the North East can shape provision (with ability to tailor Skills Guarantee).*
  - *DfE to work in partnership to ensure coherent place-based offer (by devolving Traineeship funds too).*
  - *Raise 25% apprenticeship levy transfer threshold to 50% (and recycle levy underspend).*
  - *Funding for more trained and qualified careers guidance specialists in schools and communities (pilot more locally-based activity with the aim of reducing NEET levels)*
  - *Creation of an Adult Education Maintenance Allowance to meet living costs (if UC changes allowing people to train full time covers training costs).*
  - *Strengthened partnership with National Careers Service (beyond the new website being created) to realise their aim of an all-age careers system.*
  - *Further support for Furloughed employees who will need to change jobs/retraining.*

Grow Economy by Development of Major Investment Sites

- Since 2012, 7 enterprise zones e.g. IAMP, Jade Business Park in the NECA region have been identified and the delivery of the Enterprise Zone sites' infrastructure programme is in progress. However, anticipated future surpluses arising from income from these zones to be recycled to reinvest in future economic infrastructure is dependent on successful site occupation of these zones which, due to the current Covid-affected economy, is more uncertain.
- In addition, NELEP and councils in the NECA region have contributed funding for other major investment sites e.g. NetPark, Gateshead Quays, Integra 61.
- Councils in the NECA region have identified approximately 27 major investment pipeline projects to develop to contribute to the growth of the economy by attracting 31,000 new jobs to the region. The anticipated investment required is £3.4 billion, of which public funding requires if £1 billion. Some are being delivered by private investors e.g. Riverwalk Durham, some by public funds e.g. National Innovation Centre, Gateshead but

most are being funded partly by public funds and partly private investors e.g. Riverside Sunderland. The sites are at various stages of development.

- Councils within their local plan have incorporated development of investment sites to complement NECA's strategic economic plans.
- Councils in the NECA region continue to liaise to identify and develop major investment sites.

Extend Opportunities i.e. more business start ups

For likelihood see Strategic Risk 2 under 'Growth of Local Businesses'

Regional Planning

- NELEP's Strategic Economic Plan for the North East region is aligned to NECA's objective re skills, business growth and greater opportunity. NELEP works with partners e.g. NECA, councils, education, business and voluntary sectors to develop a more competitive and growing economy for the North East.

Central and Local Government Policies

- NECA, its constituent Councils and its partners in the North East region e.g. North of Tyne Combined Authority, North East LEP continue to lobby and engage with the UK government to ensure policy makers and decision makers are aware of the ambition of both NECA and North East region to develop the skills of its labour pool, grow the economy by developing major investment sites and encouraging more business start-ups e.g. submission of Covid North East Recovery and Renewal Deal requesting funding and the provision of the necessary powers, resources and funding to achieve NECA's objectives.

Electric Vehicle Hub

- *Following Brexit concerns, Nissan have committed to remaining at their Washington site, supported by Sunderland and South Tyneside Councils' International Advanced Manufacturing Park, to manufacture electric vehicles.*
- *This £1 Billion investment from private sector and Government funds supports:*
- *the development of an Electric Vehicle Hub in the NECA region with supporting infrastructure;*
- *a trailblazing Microgrid that aims to 100% renewable electricity as a power source saving 55,000 tonnes of carbon annually.*

Further Mitigating Actions	
Central and Local Government Policies	
NECA and other local partners e.g. NELEP continue to work with and lobby Government for funding etc and influence emerging policy thinking.	Chair – NECA Leadership Board
Round 1 bids to the Levelling Up Fund	Local Authorities
Support LAs evaluation and implementation, as appropriate, of areas under consideration to address Further Education Reform	Leadership Board
Submission of Levelling UP Fund bids to future rounds for constituencies not applied fr or unsuccessful in Round 1	Local Authorities

4 **<u>Draw many more NECA residents into the economic mainstream</u>** Failure to achieve the planned outcomes to ensure that people of all ages can access timely and personalised support to overcome their educational, situational and motivational barriers to work and to equip them with the capabilities the economy needs so that they can find employment.	**<u>Risk Owner</u>** Head of Paid Service **<u>Risk Score</u>** Amber - 9 Likelihood – Medium 3 Impact – Significant 3

Possible Cause(s):

Potential Employees with Barriers

- Individuals with barriers to employment lack confidence to enter the labour market or gain skills.
- Individuals have a dependency on benefits or fear losing income by being employed.
- A lack of coordination between health and employability services in supporting individuals back to work.
- Individuals are unaware of the employment opportunities available.
- An economic downturn causing unemployment causes increased competition from others when an individual who has barriers to overcome applies for a job.

Employers

- Employers have an unwillingness to offer employment to people who have barriers to overcome to enter the workplace e.g. people with disabilities, mental health problems etc.

Support and Training

- A lack of availability of appropriate support and training.
- Individual with barriers to work are unaware of the employment, support and training opportunities available.
- Lack of understanding as to the need of a specific individual who has barriers to overcome to enter the workplace.
- The support and training provided is of poor quality.

Funding

- Individuals with barriers to work lack financial resources to access employment or support/training.
- Lack of funding to incentivise employers to offer employment and/or individuals to take up employment or training and/or to fund appropriate support and training.

Potential Impact/Consequence

If people of all ages cannot access timely and personalised support to overcome their educational, situational and motivational barriers to work and to equip them with the capabilities the economy needs so that they can find employment then:

- Improved and more secure incomes for those individual's households will not be achieved.
- Increased levels of spending/disposable income in the North East will not be realised.
- A reduction in benefit dependency will not be achieved.
- Levels of economic inactivity and long-term unemployment will not be reduced, and the levels will continue to be higher than the national average.

- The opportunity for everyone to fulfil their potential and participate fully in society will be lost.
- Businesses will be denied access to a larger and better workforce.

Likelihood:

Factors Outside NECA control

Unemployment

- Despite significant improvements in recent years, the levels of unemployment and economic inactivity rates for people of working age, young and older people (50 – 66) in the North East are above the national rate (excluding London).
- According to the Office of National Statistics the Employment rate has risen by 1.1% to 72.2% for the period January to March 2021, with the unemployment rate falling by 1% to 5.4%, and the inactivity rate falling by 005% to 23.5% for the same period. The unemployment rate is still above the national average of 4.8%.
- *In June the Leadership Board identified that:*
  - *The North East unemployment rate and NECA claimant count is slowly falling and the vacancy rate is reaching close to pre-Pandemic levels;*
  - *Youth unemployment is high and there is a rising number of long term unemployed.*

Central Government Policy - Potential Employees with Barriers, including Funding

- In 2017, the government set a goal to see 1 million more disabled people in work in the 10 years to 2027.
- The government benefits system is set up so any person moving from benefits into employment should not be financially worse off.
- The government have several initiatives specifically aimed to help people access timely and personalised support to overcome their barriers to work and to equip them with the capabilities so that they can find employment, including:
  - Employment and Support Allowance which is aimed in part to support people back to work if they are able.
  - Access to Work Grants support disabled people to remain employed or start employment by funding adjustments for the workplace e.g. equipment, health support, work related support.
  - All employment benefit related claimants are supported by ‘work coaches’ to give support and identify pathways into employment.
  - Flexible Support Fund which allows local support to claimants by removing barriers to employment e.g. interview travel costs.
  - Work and Health Programme which is aimed at helping people with barriers to work to gain skills and employment. It is aimed at people close to readiness for work.
  - £40 million Intensive Personalised Employment Support (IPES) which is aimed at helping people with complex needs at least 12 months away from work readiness to gain skills and employment.
  - Disability Confident Scheme is a voluntary scheme aimed at employers to help them make the most of the opportunities provided by employing disabled people.
  - The Fuller Working Lives initiative in which government is committed to giving more support to people with long-term health conditions and disabilities, carers, and older claimants.
- As part its ‘Plan for Jobs’ in response to the Covid19 pandemic, in July 2020 the government announced a £2 billion ‘Kickstart’ Scheme to pay for new six-month work placements for 16 to 24-year-olds at risk of long-term unemployment. £1.6 billion to boost work search, skills and apprenticeships comprising among other things extra payments to

employers to hire apprentices, including those aged under 25 with an Education, Health and Care Plan, extra funding for National Careers Service, an expanded youth offer to support young job seekers into work, and an expansion to the Work and Health Programme, the Flexible Support Fund and sector based work academies (SWAP).

- *Under Kickstart employers apply for funding which covers:*
  - *100% of the National Minimum Wage (or the National Living Wage depending on the age of the participant) for 25 hours per week for a total of 6 months;*
  - *associated employer National Insurance contributions;*
  - *employer minimum automatic enrolment contributions.*
- *In July Leadership Board reported that government figures shoed that 400 people a day started work in May, with 2000,000 new high-quality jobs created via the scheme.*
- In the Nov 2020 Spending Review, further funding of £3.7 million was added to fund the Plan for Jobs *including £2.9 billion for the Restart programme to support over 1 million unemployed people across England and Wales who have been out of work between 12 and 18 months. Up to 12 months support will be provided in a partnership between Job Centre Plus and Reed across the North East and Humberside, with referrals to the programme planned to commence in July.*
- The £185 million Building Better Opportunities Fund, funded from National Lottery and EU sources, is a programme which helps individuals to overcome multiple complex needs who are furthest away from the labour market. This is due to cease in 2021.

Covid-19

- In spite the government aspiration of levelling up the UK economy, the effect and cost of the Covid-19 pandemic on the UK economy may cause the UK government to reduce the level of long term funding available to the NECA region to enable it to achieve its objectives re drawing NECA residents into the mainstream.
- The impact of the Covid pandemic on the economy and business in the UK and elsewhere may cause the failure of businesses or cause businesses to reduce their workforce resulting in increased unemployment. The Covid 19 pandemic has had a significant impact on employment among the young people. The impact of the pandemic on business has tried to be mitigated by funding provided to businesses e.g. job retention scheme, business grants, rates relief.
- *The Coronavirus Job Retention Scheme (Furlough) has been in place since March 2020, running until 30 September 2021. In July Leadership Board reported HMRC figures of 1,058,600 employments eligible for Furlough in the North East, with 166,100 furloughed in July 2020 and 414,200 in May 2021.*
- *The Job Entry Target Support Scheme (JETS) aims to support Universal Credit claimants who have been out of work over 13 weeks or longer as a result of Covid-19. In July the Leadership Board reported that the DWP estimate that nearly 500 jobseekers a day started on the scheme since its launch in October. The DWP is on its way to it's target of supporting 250,000 by September. Support includes advice on using existing or new skills to move into growing sectors.*
- *The pandemic has impacted heavily on the economy and specifically hospitality, leisure and non-supermarket retail. There is little sign that those who have lost jobs in these sectors are reallocating to less-affected sectors. It is most likely that they are looking for employment in the same sectors or administrative positions. Self-employed workers have continued to face a significant loss of income and the impact has been across a much broader sectors than that of employees.*
- *There are skills shortages in several areas with the UK and a large percentage of the working population will lack the skills required by 2030, including the digital sector.*

End of European Funding

- The exit of the UK from the EU means a significant funding source is lost to support NECA's objectives. There is currently still some uncertainty over the long-term capital and revenue UK funding streams which will replace the EU funding sources.
- Any underspend on remaining European Social Fund monies will be used to mitigate the impact of Covid prioritising young people, older workers, the self-employed, job creation and skills.
- The government have stated that the UK Shared Prosperity Fund will replace Investment from EU Structural Funds with one of priority areas for the UKSPF being investment in people and skills tailored to local needs. The Fund will be launched in 2022 and will have an estimated value of £1.5 billion per annum.
- For 2021 the government have made available the UK Community Renewal Fund which totals £220 million *to help areas prepare for the launch of the UK Shared Prosperity Fund targeted at places in need, such as:*
  - *ex-industrial communities;*
  - *coastal communities;*
  - *rural areas and deprived towns.*
- *The UK Community Renewal Fund focuses on the following investment priorities:*
  - *Investment in skills;*
  - *Investment for local business;*
  - *Investment in communities and place;*
  - *Supporting people into employment.*
- *A shortlist of projects has been submitted by lead Authorities to the Government and will be selected from late July onwards.*
- The Prospectus for UK Community Renewal Fund fund noted that lead authority role for inviting bids to the fund is allocated to Mayoral Combined Authorities, where they exist in England, The Greater London Authority, County Councils, Unitary authorities elsewhere in England and in Scotland and Wales, so this does not include NECA but rather each Local Authority member. This may be an indicator for how the government intends to allocate future funding.

Factors within control of NECA, its members and its partners e.g. NELEP, and Current Controls

Current Controls:

NELEP Strategic Economic Plan - Support and Training for Potential Employees with Barriers

- The North East LEP, as part of the region's Strategic Economic Plan, has as part of its aims, the aspiration to reduce the level of unemployment and economic inactivity, recognises that some groups are more likely to be out of work than others and as part of its' 'skills, employment, inclusion and progression' agenda includes activity to increase youth employment, improve labour market activation, and help deliver Fuller Working Lives. Activities include:
  - Delivery of 'Generation North East' (GENE) which provides employability and job search support to unemployed or inactive young people aged 18-29 years, helping them to progress towards and into employment. It operates within part of the NECA region.
  - Provision of specialist intensive support for those most distant from the labour market because of disadvantage, poverty and poor physical and mental health.
  - Development of packages of support for people facing barrier to employment due to health problems building on Mental Health Trailblazer and Working Lives project.
  - North East Growth Hub is promoting the Fuller Working Lives Strategy to encourage and help employers retain, retrain and recruit people aged 50 and over.

Central and Local Government Policies

- Councils within the NECA region have objectives and activities to support people with barriers to employment e.g. 'Durham Works' is a partnership supported in part by Durham County Council to help young people aged 18 -24 from County Durham progress into work, training, education or volunteering. This is funded until 2021 with part funding from the EU; Gateshead have provided community grants to help third sector organisations to help people into employment.
- NECA, its constituent Councils and its partners in the North East region e.g. North of Tyne Combined Authority, North East LEP continue to lobby and engage with the UK government to ensure policy makers and decision makers are aware of the ambition of both NECA and North East region to draw its residents into the mainstream e.g. submission of Covid North East Recovery and Renewal Deal requesting funding and the provision of the necessary powers, resources and funding to achieve NECA's objectives.

End of European Funding

- *As the European Social Fund programme draws to an end the DWP are managing the reserve funds which are being allocated by September 2021. Proposals have been submitted from the North East region to support new and existing initiatives relating to:*
  - *Young People;*
  - *Older Workers (50 plus);*
  - *Self Employed;*
  - *Job Creation Projects (for people excluded from national programmes such as Kickstart);*
  - *Skills and Digital Skills Training.*

Further Mitigating Actions	
Central and Local Government Policies	
NECA and other local partners e.g. NELEP continue to work with and lobby Government and influence emerging policy thinking.	Chair – NECA Leadership Board

5 **Become a sustainable well-connected region** Failure to achieve the planned outcomes to strengthen and extend transport networks in the NECA area while reducing pressure and encouraging green travel, to improve digital connectivity, and to achieve a high level of digital skill within the workforce.	**Risk Owner** Head of Paid Service **Risk Score** Red 12 Likelihood – Medium 3 Impact – Critical 4

Possible Cause(s):

Transport
Refer to Appendix 2 North East Joint Transport Committee (JTC) Strategic Risk Register Report, Risks to Achievement of JTC Strategic Objectives, risks 1 - 4.

Improve Digital Connectivity/Digital Skills

Awareness

- Lack of understanding of the importance and value of digital connectivity by policy makers, business and education so it is not considered a priority.
- Lack of motivation or understanding as to the importance and value of digital skills by individuals and the potential opportunities e.g. employment, removal of social exclusion those skills could bring.

Funding

- Lack of funding, both from public and private sector, for investment in digital infrastructure, IT equipment and skills.

Digital Infrastructure

- Lack of economic viability may mean the private sector may not be willing to invest in new digital infrastructure.
- The digital infrastructure does not meet individual or business needs e.g. accessibility, reliability, data transfer speeds.
- Lack of access by individuals or organisations (e.g. schools) to appropriate IT equipment e.g. individuals on low incomes may be unable to purchase IT equipment.

Support and Training

- Lack of available teaching resources re digital skills or the teaching capacity available is insufficient to meet demand.
- Lack of awareness by individuals/businesses of digital skills teaching resources available.
- Appropriate digital skills are not taught by learning providers. Consequently, digital skills/teaching resources do not provide the appropriate skills business require or the digital skills taught do not keep pace with employer/business requirements.

Potential Impact/Consequence

If transport networks cannot be strengthened and extended in the NECA area while encouraging green travel, digital connectivity not improved and digital skill within the workforce is not improved then:

- Residents, particularly low-income earners, in the NECA region will not be able to access work or move into education and training that could improve their prospects e.g. economic, health. Progress on social mobility in the region will be limited.

- Residents in some areas of the NECA region will not be able to access health care and other essential services as a result of a poor connectivity or lack of digital skills.
- Without appropriate connectivity infrastructure and digital skills within the workforce business may choose to locate, or start up, or expand business in locations other than the north east resulting in loss of new employment opportunities for its residents, and loss of investment and income to the region.
- Levels of transport inequality and/or social exclusion may not be reduced.
- Improved resilience to the effects of the Covid pandemic may not be achieved.
- The enhancement of productivity levels in the NECA area and the quality of public and private services may not be achieved.
- An opportunity to contribute towards the decarbonisation of the NECA area may be lost.

Likelihood:

Factors Outside NECA control

Transport
Refer to Appendix 2 North East Joint Transport Committee (JTC) Strategic Risk Register Report, Risks to Achievement of JTC Strategic Objectives, risks 1 - 4.

Improve Digital Connectivity/Digital Skills

Digital Infrastructure

- In the North East region, overall 97.8% of properties have access to ‘superfast’ (>=30mbps) broadband. However, generally in rural areas, the level of access is lower – for the UK as a whole only 80% of rural properties have access to superfast broadband.
- In the North East region 61% of properties have access to ultrafast broadband (>100mbps) only 7% of properties have access to ‘gigabit’ (>1000mbps) broadband, the lowest rate in the UK
- To meet future demand for gigabit broadband internet connectivity, ‘full fibre’ connections (i.e. fibre cables into properties) are needed. Currently the internet infrastructure in the North East only has 7% full fibre connectivity.
- Only 57% of UK premises that have access to superfast broadband are signed up to superfast packages.

Support and Training

- In the North East nearly one in six people (approximately 15%) do not have/are not achieving all expected digital foundation skill levels.

Usage

- Internet usage in the North East is comparatively low, the region currently ranking eighth out of nine English regions.

Central Government Policy, including Infrastructure, Funding and Support and Training

- The UK government in 2017 adopted a UK Digital Strategy which among other things includes:
  - a requirement for the UK’s telecoms industry to provide gigabit-capable infrastructure to 100% of premises by 2025 (subsequently reduced to 85%). This is challenging for areas with rural populations and will require a four-fold increase in building rates by the telecoms industry from previous levels.
  - an allocation of £5 billion for its UK Gigabit programme (the Future Programme) to subsidise roll-out of gigabit infrastructure to the most difficult to reach 20% of premises e.g. rural, remote areas.

- the complete roll out of 4G technology by 2020.
- £1billion to accelerate the development and uptake of next generation digital infrastructure - including full fibre and 5G wireless mobile phone technology although it is acknowledged that the vast majority of the capital investment required for full fibre and 5G rollout will need to come from the private sector where there is an economic case for the telecoms industry to do so, e.g. £62 million investment in Sunderland by ‘City Fibre’. Action to accelerate development includes the introduction of 100% business rate relief for full fibre infrastructure, the set-up of a National Digital Infrastructure Fund, the introduction of planning policies to consider digital infrastructure, an appropriate regulatory framework, and a national programme of 5G testbeds and trials to help create demand for a demand for 5G capacity as uses for 5G technology are developed e.g. AI, automated logistics.
- the roll out of free wifi on trains and more public spaces.
- the policy that adults who lack core digital skills do not have to pay to access basic digital skills training. From 2020 there is a legal entitlement for adults with no or low digital skills to undertake new digital qualifications. Funding is provided from within the Adult Education Budget.
- the setting up of new Digital Skills Partnership where the government will work with partners to tackle the digital skills gap. The Partnership will play a crucial role in helping people access digitally focused jobs at a local level, bringing together technology companies, local businesses, local government and other organisations to identify digital job vacancies and take action to help people move into these jobs.
- the introduction of coding in the National Curriculum from Key Stage One onwards.
- changes to computer science degree courses to ensure computer science students have the real-world, up to date skills needed in the digital economy and work environment to meet the needs of employers.
- extra funding for the Computing at School Network of Teaching Excellence in Computer Science, whose network of over 350 Master Teachers can provide continuing professional development to teachers needing to further develop their computing expertise.
- extra funding for the National Careers Service (NCS) to help more young people from a wider range of backgrounds to consider a career in technology by piloting new ways to include digital skills and careers in NCS programmes.
- making it mandatory to have full fibre connections for new homes.

- The Digital Strategy is due to be revised in 2020 to adapt to the impact of the Covid 19 pandemic and to accelerate Britain’s economic recovery by aiding the development of a skilled digital workforce.
- The Dept for Education operate the ‘Future Digital Inclusion programme’. It is aimed at supporting those who are hardest to reach in the community to gain digital skills with a focus on unemployed people, people on a low income and people with a disability. The programme is delivered by Good Things Foundation who have numerous centres in the NECA area.
- From March 2020, the government introduced the Universal Service Order (USO) for broadband. This measure provides a legal right for a property to request a decent broadband connection to those premises that do not have access to a decent and affordable connection. There is funding available up to a cost threshold of £3,400 per property.
- The UK government has set up a ‘Building Digital UK’ team. Its’ aim is to deliver broadband networks to the UK. Programmes it runs includes:
  - Gigabit Broadband Voucher Scheme. This scheme is available to homes and businesses in rural areas of the UK when part of a group scheme and provides funding (£1500 per home, £3500 per SME) to support the cost of installing gigabit-capable broadband.

- Shared Rural Mobile Network where the government and mobile providers are providing 4G coverage in areas (e.g. rural where it is not commercially viable to do so.)

- In April the government released Project Gigabit: Phase One Delivery Plan policy paper. Following Ofcom's publication of the Wholesale Fixed Telecoms Market Review 2021-26 in March, setting the regulatory environment for commercial delivery, the plan sets out proposals to subsidise gigabit network build to get as close to 100% as possible:
- gigabit procurements starting for telecoms providers to compete for subsidies to deliver gigabit capable networks to specific areas across the UK.
- Phase 1a to include Durham, South Tyneside & Tees Valley areas extending into Northumberland , covering the local authority areas of Durham, Darlington, Stockton, Hartlepool, Middlesbrough, Redcar and Cleveland, Sunderland, Gateshead, South Tyneside and part of Northumberland.
- In Oct 20 the Government announced a new scheme called JETS (Job Entry Targeted Support) which is aimed at people who are unemployed due to the effects of COVID-19. It will offer the training needed to pivot into new roles through the Sector Based Work Academy Programme and will include digital skill support.
- Higher level digital apprenticeships are available which are being promoted.
- *In July the Leadership Board noted concerns risk and uncertainty for medium term financial planning across the Public Sector relating to:*
  - *delay in publication of the governments Comprehensive Spending Review to at least December 2021;*
  - *delay in the implementation of the Fair Funding Review;*
  - *uncertainties over the Shared Prosperity Fund;*
  - *unknowns with regards to the Governments strategy to redress the public finances.*

Covid-19 Impact

- In spite of the government aspiration of levelling up the UK economy, the effect and cost of the Covid-19 pandemic on the UK economy may cause the UK government to reduce the level of long-term funding available to the NECA region to enable it to achieve its objectives re connectivity.
- The impact of the Covid pandemic has resulted in significant, possibly long term, reductions in the use of public transport e.g. Metro, train and bus in the NECA region with a consequence loss of income. There is uncertainty as to the future levels of public transport use which may result in reduction in services. However, the Covid pandemic has increased the use of digital technology due to homeworking which may cause an acceleration in digital infrastructure to meet demand.
- *The Pandemic has impacted heavily on the economy and specifically hospitality, leisure and non-supermarket retail. There is little sign that those who have lost jobs in these sectors are reallocating to less-affected sectors. It is most likely that they are looking for employment in the same sectors or administrative positions. Self-employed workers have continued to face a significant loss of income and the impact has been across a much broader sectors than that of employees.*
- *There are skills shortages in several areas with the UK and a large percentage of the working population will lack the skills required by 2030, including the digital sector.*

Covid-19 Recovery

- *The Job Entry Target Support Scheme (JETS) aims to support Universal Credit claimants who have been out of work over 13 weeks or longer as a result of Covid-19. In July the Leadership Board reported that the DWP estimate that nearly 500 jobseekers a day started on the scheme since its launch in October. The DWP is on its way to its target of supporting 250,000 by September. Support includes advice on using existing or new skills to move into growing sectors.*

Factors within control of NECA, its members and its partners e.g. NELEP, and Current Controls

Current Controls:

Transport
Refer to Appendix 2 North East Joint Transport Committee (JTC) Strategic Risk Register Report, Risks to Achievement of JTC Strategic Objectives, risks 1 - 4.

Improve Digital Connectivity/Digital Skills

NELEP Strategic Economic Plan – Development of Support and Training and Infrastructure

- The North East LEP's Strategic Economic Plan for the North East region sets out all of the activities that need to take place to improve the North East economy. This includes the development of digital skills provision and local digital infrastructure. The LEP has also developed a Digital Strategy.

Local Authorities Digital Strategies - Infrastructure

- Each of the councils within the NECA region have developed a digital strategy and are delivering a programme to improve digital connectivity and skills for businesses and residents within their area as well as for the council itself. Activities undertaken have included, among others:
- Digital Durham – a £35 million initiative in Durham, Gateshead and South Tyneside to introduce fibre-based connectivity to properties where it would not otherwise be commercially viable. Further phases are planned.
- Upgrades to digital infrastructure within Sunderland city centre to allow access to free ultrafast public 5G wifi, and ultra-fast connectivity to social housing tower blocks and a school. Sunderland also has gained funding as part of government's Getting Building Fund for the development of next generation digital connectivity and infrastructure to accelerate regeneration within the City Centre and Riverside. It further plans to be the first local authority in the country to become a 'neutral host' for 5G and fibre connectivity aiming to enable telecoms operators to buy space from its infrastructure to offer their own 5G services.
- Durham Council operate a) 'Digital Drive' a £4million initiative to support SMEs in Co Durham to maximise their potential through digital technology including the provision of 40% grant funding for digital projects and b) 'Reboot', a partnership scheme that offers low-cost computer equipment to County Durham based registered charities and social enterprises
- Gateshead Council has secured funding from BDUK to ensure that as many premises as possible will be able to obtain a high-speed broadband service. In the long term, Gateshead Council are aiming to roll out fibre-based broadband to 100% of premises.
- *In June the Leadership Board noted that:*
  - *87,000 premises in the NECA area can now access superfast broadband;*
  - *Coverage for superfast and ultrafast broadband is ahead of the national average but behind on Gigabit-capable connectivity.*

Central and Local Government Policies

- NECA, its constituent Councils and its partners in the North East region e.g. North of Tyne Combined Authority, North East LEP, continue to lobby and engage with the UK government to ensure policy makers and decision makers are aware of the ambition of both NECA and North East region to improve connectivity e.g. submission of Covid North

East Recovery and Renewal Deal requesting the provision of the necessary powers, resources and funding to achieve NECA's objectives. ***End of European Funding*** • *As the European Social Fund programme draws to an end the DWP are managing the reserve funds which are being allocated by September 2021. Proposals have been submitted from the North East region to support new and existing initiatives relating to:* - *Young People;* - *Older Workers (50 plus);* - *Self Employed;* - *Job Creation Projects (for people excluded from national programmes such as Kickstart)* - *Skills and Digital Skills Training.*	
Further Mitigating Actions	
Central and Local Government Policies	
NECA and other local partners e.g. NELEP continue to work with and lobby Government and influence emerging policy thinking.	Chair – NECA Leadership Board

6 **Shaping the Great North East** Failure to achieve the planned outcomes to ensure the NECA region is attractive to residents, businesses, visitors and new settlers by having a thriving economy, and being a green and prosperous place that offers an exceptional quality of life and improved opportunities for all.	**Risk Owner** Head of Paid Service **Risk Score** Red 12 Likelihood – Medium 3 Impact – Critical 4

Possible Cause(s):

Regional Planning

- Policy makers in the area do not have a clear vision or plan as to the 'offer' they wish the NECA area to make to business, potential investors, residents and visitors
- There is a poor understanding of the current NECA area 'offer' and where improvements are needed.
- There is a lack of a comprehensive coordinated plan for the NECA region to deliver improvements in the region's 'offer' which does not address issues which are critical to a thriving economy (e.g. education and skills, employment opportunities, business infrastructure etc) and being a place which offers an exceptional quality of life (housing, culture, leisure etc)

Central and Local Government Policies

- The priorities of central government and other partners e.g. local authorities within NECA are not aligned with those of NECA.

Funding

- Lack of funding, either private or public, to deliver the changes necessary to improve the 'offer'

Potential Impact/Consequence

Without a thriving economy, and a green and prosperous place that offers an exceptional quality of life and improved opportunities for all:

- there will be less of an opportunity of good quality jobs in the areas for its citizens which may in turn cause residents seeking employment to move away from the area and people considering moving to the NECA area to live somewhere else. Thus, there would be less spending power for the region to benefit from
- the lack of opportunity to experience an excellent quality of life in the region may mean talent for commerce and academia to strengthen and grow key activity sectors in the NECA area may not be attracted and/or talent living in the area currently may leave.
- businesses may find the region relatively unattractive for its business and employees and invest in other regions instead of the NECA area.
- The area may be less attractive to tourists, with the area missing out on the associated income generation

Likelihood:

Factors Outside NECA control

Attractiveness

- The NECA area is currently an attractive place to live, learn, build a career, and to carry out business, business and invest. It has a competitively priced and diverse housing, good transport connectivity, a rich culture and leisure offer and a varied and beautiful natural environment. The NECA area is home to three universities, two cities, three world-class ports. It has a thriving economy and home to home to the region's world-leading advanced manufacturing and technology sectors and a thriving hub of business services and innovative creative and cultural firms. These factors together with globally connected supply chains, diverse talent pool, development sites, Enterprise Zones, strength in global growth markets, digital connectivity, and cost competitiveness makes the region an attractive place to operate.

Unemployment and Productivity

- The NECA economy faces two ongoing challenges which are too few employment opportunities including too few jobs in high skilled occupations and lower levels of productivity. These factors continue to limit opportunities for residents and businesses and reduce attractiveness to investors.

High Street

- The impact of changes in patterns of consumer retail behaviour has had a negative impact on 'high street' retailers and the vibrancy and attractiveness of town centres e.g. empty shop units

Housing

- There is under provision in the housing stock to meet demand including affordable homes and to respond to demographic change. Changes in housing since Covid

Other Local Business Factors

- NECA area faces other place shaping challenges, including
  - the restructuring of entire sectors such as retail and contact centres – both undergoing rapid change as a result of digital technologies.
  - older industrial estates in the NECA area are frequently in fragmented ownership, which means that market solutions can take too long to take effect and dereliction threatens.

North East Cultural Partnership

- The North East Culture Partnership has developed and delivered a plan to develop the culture and arts offer in the North East. In response to the Covid pandemic it has developed a Recovery and Resilience Plan.

Covid-19

- In spite the government aspiration of levelling up the UK economy, the effect and cost of the Covid-19 pandemic on the UK economy may cause the UK government to reduce the level of long term funding available to the NECA region to enable it to achieve its objectives re its 'place offer' and to maintain its current 'offer' e.g. public services.
- The impact of the Covid pandemic in the NECA area has resulted in significant reductions in a) employment levels and opportunities and b) the level in economic activity especially in the retail sector (with people moving 'on-line') resulting in shop closures, tourism, hospitality, and in culture and arts. In the long term it is uncertain if organisations will survive and if so, how long they will take to recover. It is also uncertain if they will have reserves or access to finance to make investments to expand or change their business models. There may also be a long-term impact on new housing development and an increased demand for affordable housing.
- As part of UK government's package of support to the economy during the Covid pandemic e.g. business rate support, business grants, job furlough scheme etc, is:
  - a £1.57 billion Culture Recovery Fund has been set up to safeguard cultural and

heritage organisations. To date, approximately £4.5 million has been provided to organisations in the NECA area e.g. Beamish Museum, Customs House etc.
  - A £900 million Getting Building Fund has been set up to support housebuilding and improve high streets. Of this £47 million has been awarded to accelerate the regeneration of sites in the North East LEP area including Sunderland South Riverside and town centre, Gateshead Quays, Tyne Dock Enterprise Park and Aykley Heads Business Park Durham.
- The National Lottery Heritage Fund provide financial grants to heritage organisations and are providing Covid Recovery support funding

Central Government Policy
High Street
- As part of the levelling up' agenda, the government have set up a programme, 'Our Plan for the High Street' to support the regeneration and repurposing of city and town centres. These include:
  - £3.6 billion Towns Fund to support towns to build prosperous futures. *Funding has been awarded to support the regeneration of Bishop Auckland town centre*.
  - £1billion for Future High Street Fund to support the transformation of the high street including £55 million to regenerate heritage high streets.
  - a cut in business rates by up to a third for a wide range of retail properties for two years.
  - a consultation on planning reform to make it simpler to create more homes, jobs and choice in our town centres.
  - the setting up a High Streets Task Force which will support local leadership with expert advice on helping local high streets to adapt and thrive.

Housing
- As part of the Government's policy to increase new home building it
  - has provided a £5 billion Housing Infrastructure scheme to allow infrastructure to be built to unlock new home building. As part of this programme, £32 million has been awarded to support house building in the Sunderland South Growth Area and Newton Aycliffe Growth Area;
  - through Homes England, provides funding for building of new homes for social housing is available;
  - operates a New Homes Bonus programme to encourage local authorities to grant planning permission of new homes in return for extra revenue, though this scheme is being withdrawn over the next four years.

Planning Guidelines
- UK national planning guidelines require that planning policies and decisions should contribute to and enhance the natural and local environment.

Funding
- In November 2020 the government announced:
  - a £4billion 'Levelling Up' Fund programme to be delivered by 2025 with £600million available in 2021/22. It will take a place-based approach funding projects improving the 'infrastructure of everyday life' e.g. a new bypass, upgraded railway stations, less traffic, more libraries, museums, and galleries, better high streets and town centres etc.
  - the introduction of the UKSPF from 2022 with an estimated £1.5 billion available per annum. Although little detail is currently available one of the priority areas is investment in communities and place including cultural and sporting facilities, civic, green and rural infrastructure, community-owned assets, neighbourhood and housing improvements, town centre and transport improvements and digital connectivity.
- *All four NECA local authorities had been placed in priority category 1 as places with the highest level of identified need.*

- *Each eligible LA can bid up to a maximum of £3million.*
- *LA's have made bids to the fund and expect announcement on successful bids early by early August, with finds to be spent by March 2022.*
- For 2021 the government have made available the UK Community Renewal Fund which totals £220 million *to help areas prepare for the launch of the UK Shared Prosperity Fund targeted at places in need, such as:*
  - *ex-industrial communities;*
  - *coastal communities;*
  - *rural areas and deprived towns.*
- *The UK Community Renewal Fund focuses on the following investment priorities:*
  - *Investment in skills;*
  - *Investment for local business;*
  - *Investment in communities and place;*
  - *Supporting people into employment.*
- *A shortlist of projects has been submitted by lead Authorities to the Government and will be selected from late July onwards.*
- The Prospectus the UK Community Renewal Fund noted that lead authority role for inviting bids to the fund is allocated to Mayoral Combined Authorities, where they exist in England, The Greater London Authority, County Councils, Unitary authorities elsewhere in England and in Scotland and Wales, so this does not include NECA but rather each Local Authority member. This may be an indicator for how the government intends to allocate future funding.
- In December 2020 as part of its Green Industrial Revolution, the government announced it sees the natural environment as a key part to carbon emission reduction. It aims to create further National Parks and extend the Green Recovery Challenge Fund for conservation and restoration projects

Factors within control of NECA, its members and its partners e.g. NELEP, and Current Controls

Current Controls:

NELEP – Strategic Economic Plan and Local Industrial Strategy

- The North East LEP's Strategic Economic Plan and Local Industrial Strategy seeks to make the North East an even better place to live, learn and to do business by supporting economic growth. This includes investing in economic assets and infrastructure like sites for investment to encourage economic growth and housing and as such is aligned to NECA's objectives. As part of these plans strategic investment sites within the NECA area have been identified and are being developed to attract business investment to further economic development e.g. enterprise zones including IAMP, Follingsby, Holborn, Jade, and increase housing provision e.g. Sunderland South Strategic Growth Area.

Local Authority Plans

- Local councils within the NECA region have or are developing delivering plans e.g. Local Plans, City Plans etc which seek to improve the area both to help its local economy and to make their areas more attractive to live addressing matters such as the environment, housing, transport, recreation and leisure, tourism etc. As part of these plans urban centres are being regenerated e.g. Riverside Sunderland, South Shields 365 and Riverside.

Local Planning Authorities

- The seven local planning authorities in the North East are adopting a collaborative approach to spatial planning to ensure the planning and delivery of both commercial and

housing development across the North East including the NECA region is coordinated to promote economic growth alongside the enhancement of the natural environment. • Gateshead Council have taken part in the RIBA Future Place Programme, a place making initiative, to help plan the future of Gateshead town centre. ***North East Property Fund*** • A £10 million North East Property Fund is available to supporting smaller scale North East housing and commercial property development projects. The purpose of the fund is to support house building in the north east. ***Local Authority Policies*** • Each of the councils in the NECA area: - operate programmes to support the reduction of empty homes - have declared a climate emergency to ensure environmental considerations are taken into account when making decisions. • To support the NECA economy and business tourism a conference centre is being constructed on the Gateshead Quays site. ***Central Government Policy*** • NECA, its constituent Councils and its partners in the North East region e.g. North of Tyne Combined Authority, North East LEP, continue to lobby and engage with the UK government to ensure policy makers and decision makers are aware of the ambition of both NECA and North East region to improve the economy and improve the NECA 'place offer' e.g. submission of Covid North East Recovery and Renewal Deal requesting the provision of the necessary powers, resources and funding to achieve NECA's objectives. ***Covid-19 Recovery*** • *LAs have supported business through:* - *Restart Grants;* - *Open, Closed & Sector Local Restriction Support Grant schemes;* - *Additional Restrictions Grants;* - *Christmas Support Payments for Wet-led Pubs;* - *Helping businesses to access Government loans;* - *Signposting to support (particularly on import/export re EU Exit);* - *Coordinating Kickstart six-month placements;* - *Accessing Getting Building Funds to accelerate key projects.* • *Over £500m of funding distributed to businesses across North East region.* • *LAs focusing on impact of reduced footfall in town and city centres us Government Welcome Back Fund:* - *Durham £569k* - *Gateshead £178k* - *South Tyneside £198k* - *Sunderland £309k*

Further Mitigating Actions	
Central and Local Government Policies	
NECA and other local partners e.g. NELEP continue to work with and lobby Government and influence emerging policy thinking.	Chair – NECA Leadership Board

NECA Organisation Risks	
1 **Future Availability of Funding** Sources and levels of funding available to NECA may not be aligned to the Strategic Economic objectives of NECA.	**Risk Owner** Head of Paid Service **Risk Score** Red 12 Likelihood – Medium 3 Impact – Critical 4

Possible Cause(s):

Central Government Policy

- A downturn in the UK economy for whatever reason, e.g. Covid, may cause the UK government to reduce funds available for investment as part of expenditure cutting exercises nationally as a means of redressing public finances.
- Uncertainty in relation to the UK political environment. A change in future UK government policy may mean Government policy may not be aligned to support the economic and transport developments and needs of the North-East region. This may have an adverse effect on the achievement of goals in the North East e.g. investment and infrastructure funding to be concentrated in only certain geographic areas excluding the North East or certain types of schemes which may not be in line with NECA plans e.g. Strategic Economic Plan (SEP).
- There is uncertainty around the current UK government regarding the future design, function and level of future regional/local strategic capital funding sources from Government. The UK Shared Prosperity Fund which is due to fill the gap after the UK government's 'Local Growth Fund' capital funding scheme is proposed to come into effect in April 2022, but the Government consultation has been delayed.
- There is a possibility that the range of funding opportunities and/or flexibilities available to non-mayoral Combined Authorities, e.g. NECA, may be limited in the future by the UK government making funding being conditional on Combined Authorities having a specific governance model.

End of European Funding

- The exit of the UK from the EU may have a negative impact on the availability of funding previously provided from EU sources. Currently funds from the EU funding programmes, e.g. European Structural and Investment Funding (ESIF) Programme, allocated to the UK up to end of 2020 which have not yet been committed to specific projects are available for use.

Potential Impact/Consequence:

A reduction in funding sources and levels would damage the delivery of local regeneration plans and stall infrastructure projects, business growth, employment and skills schemes and local growth projects. This could result in the success of the Strategic Economic Plan being adversely affected and outcomes delayed or not achieved. Funding levels may not be sufficient to meet NECA's plans.

Likelihood:

Factors Outside NECA control

Covid-19

- In spite the government aspiration of levelling up the UK economy, the huge negative effect and cost of the Covid-19 pandemic on the UK economy may cause the UK government to reduce the level of medium/long term funding available to the NECA region to enable it to achieve its objectives and to minimise the effect of the Covid pandemic.

Central Government Policy

- In late 2020 the government announced that the UKSPF will, from April 2022, provide funding for development programmes and is intended to replace the European Structural and Investment Fund (no longer available to the UK) and the Local Growth Fund. Government has stated that funding for the UKSPF will ramp up so that total domestic UK-wide funding will at least match receipts from EU structural funds and could provide funding up to £1.5 billion annually however details have yet been provided e.g. total amount, amounts to be devolved to regions, competitive bidding, outputs, eligibility criteria, or clarity around match funding. Under ESIF funding the North East area attracted a high level of funding relative other UK areas, however it is uncertain under UKSPF if the area will attract similar funding levels moving forward.
- The government have stated that the UK Shared Prosperity Fund will replace Investment from EU Structural Funds with one of priority areas for the UKSPF being investment in people and skills tailored to local needs. The Fund will be launched in 2022 and will have an estimated value of £1.5 billion per annum.
- For 2021 the government have made available the UK Community Renewal Fund which totals £220 million *to help areas prepare for the launch of the UK Shared Prosperity Fund targeted at places in need, such as:*
  - *ex-industrial communities;*
  - *coastal communities;*
  - *rural areas and deprived towns.*
- *The UK Community Renewal Fund focuses on the following investment priorities:*
  - *Investment in skills;*
  - *Investment for local business;*
  - *Investment in communities and place;*
  - *Supporting people into employment.*
- *A shortlist of projects has been submitted by lead Authorities to the Government and will be selected from late July onwards.*
- The Prospectus for the UK Community Renewal Fund noted that lead authority role for inviting bids to the fund is allocated to Mayoral Combined Authorities, where they exist in England, The Greater London Authority, County Councils, Unitary authorities elsewhere in England and in Scotland and Wales, so this does not include NECA but rather each Local Authority member. This may be an indicator for how the government intends to allocate future funding.
- *Each eligible LA can bid up to a maximum of £3million.*
- *LA's have made bids to the fund and expect announcement on successful bids early by early August, with finds to be spent by March 2022.*
- A £4 billion 'Levelling Up' Fund for England has been announced by the government which will be used to invest in local infrastructure to drive economic growth and regeneration. It will allocate fund on a competitive bid basis. £600 million is available during 2021/22. Projects need to be delivered within the current Parliament.
- The Prospectus for the for the Levelling Up Fund notes the focus for 2021-22 is:
  - smaller transport projects that make a genuine difference to local areas;
  - town centre and high street regeneration;
  - and support for maintaining and expanding the UK's world-leading portfolio of cultural

and heritage assets.

- *All four NECA local authorities had been placed in priority category 1 as places with the highest level of identified need.*
- *Each eligible LA can bid up to a maximum of £3million.*
- *LA's have made bids to the fund and expect announcement on successful bids early by early August, with finds to be spent by March 2022.*
- The government has also published the outcome of a review of its investment decision making approach, i.e. its' 'Green Book', which is designed to ensure that government funding/investment decisions are made in a way that spreads opportunity across the UK and supports the levelling up agenda.
- The 2020 government budget also included a range of funding opportunities for 'Mayoral Combined Authority' areas subject to putting in place appropriate governance to agree and deliver funding, including an elected Mayor for their city regions. This insight is supported by the approach included in the UK Community Renewal Fund's prospectus.

Factors within control of NECA, its members and its partners e.g. NELEP, and Current Controls

Current Controls:

Government Funding

- Following the UK's exit from the EU, ESIF funding stopped from 1 January 2021. However, there are still many ESIF Funded projects in delivery or development across the region. The UK government has guaranteed to provide funding for ESIF projects which are contracted for by the end of 2020 and will be completed by 2023.
- Allocations to the NELEP area up to end of 2020 amounted to £487 million. The vast majority of these funds have already been committed to approved or pipeline projects within the NELEP area. Any remaining EU funds not already allocated to approved or pipeline projects within the NELEP area will revert to, and be administered by, the Government through the ERDF or ESF National Reserve Funds.
- One off' funding has become available during 2020 to NECA or its partners to support the objectives of NECA. This has included:
  - £25 million from the government's Housing Infrastructure Fund to support infrastructure work to further house building in a strategic site in the NECA area i.e. South Sunderland Strategic Growth Area.
  - As part of the £47 million from the government's Getting Building Fund was awarded to the North East LEP. Part of this funding has been allocated to fund the development of key economic growth sites in the NECA area.

Strategic Economic Plan

- The SEP has been updated and relaunched in 2019 to acknowledge the significant changes in the global and national economy.

Support to Local Industry

- The North East LEP is leading the regional development of the Local Industrial Strategy which will also set out future funding requirements to increase productivity in the North East.
- NECA secured £58.5m of JEREMIE 2 grant funding (part of the European Regional Development Fund) and a Special Purpose Vehicle has been established to deliver funding for small and medium sized enterprises.

Central and Local Government Policies

- NECA members and officers and partners of NECA, e.g. local councils, North East LEP

etc continue to lobby and engage with the UK government to: - ensure policy makers and decision makers are aware of the economic and transport vision, plan and policies and needs for the North East are known and to influence policy thinking; - persuade government to make economic development and transport funding a priority; - track and discuss the progress of the development of the UKSPF. • In Autumn 2020 the submission of the 'Covid North East Recovery and Renewal Deal' document was submitted to government, as part of its Comprehensive Spending Review, requesting the provision of the necessary powers, resources and funding to achieve NECA's objectives and to respond to the impact of the Covid pandemic on the North East economy. • NECA work with other potential partners to identify new non-government funding sources which may help to progress the delivery of the SEP.

Further Mitigating Actions	Lead Officer(s)
Central and Local Government Policies	
NECA and other local partners will continue to work with the Managing Authorities (MHCLG, DWP and DEFRA) to ensure that the maximum unallocated EU funding will be allocated to the North East.	Head of Paid Service
NECA and other local partners e.g. NELEP, local councils continue to work with and lobby Government and influence emerging policy thinking.	Chair – NECA Leadership Board

2 **Funding Opportunities** Failure of NECA to secure the maximum amount of funding available to progress projects which support the delivery of the Strategic Economic Plan for the North-East regions.	**Risk Owner** Head of Paid Service **Risk Score** Amber 8 Likelihood – Low 2 Impact – Critical 4

Possible Cause(s):

- Funding opportunities are missed due to lack of awareness or missing relevant deadlines or lack of development of appropriate projects.
- Poor quality of funding applications made by NECA and/or North East Joint Transport Committee (JTC).
- Funding may be made available through a competitive process e.g. there is also a significant risk that funding for 'Innovation' capital projects will be allocated via national competitions. Strong applications from funding competitors may result in any funding application not being successful at all or only a proportion of the funds applied for being awarded.
- Failure by NECA to build and develop relationships with key partners to maximise funding opportunities.

Potential Impact/Consequence:

If opportunities are missed or not maximised by NECA then progression of plans to deliver the economic improvements required by the region will be significantly delayed. Consequently, the benefits associated with the transport will not be fully realised or delayed e.g. supporting economic growth.

Current Controls:

- NECA and JTC officer's horizon scan to identify upcoming funding opportunities.
- NECA and JTC are in regular contact with the UK government and other funding bodies to identify funding opportunities early.
- NECA and JTC have established relationships with other bodies e.g. councils, universities etc to allow NECA to work in partnership, where applicable, to exploit funding opportunities by submitting bids for funding to benefit the region.
- NECA and JTC and its partners lobby relevant government bodies to promote schemes required for the North East to be included in key government schemes.
- The officers of NECA and JTC have the experience, skills and knowledge to submit strong bids for funding. It is familiar with the requirements needed for submitting bid and the process to go through.
- All projects included in a bid are subject to scrutiny to ensure the proposed projects is in line with NECA objectives and plans and meets the bid criteria.
- During any application process NECA and JTC liaise with the funding provider to understand clearly what it is looking for.
- Local councils and JTC have set up a number of partnership working groups to develop a portfolio of pipeline projects to work up a prioritised set of worked-up projects ready to feed into project calls. These projects focus on addressing local needs.

Further Mitigating Actions	**Lead Officer(s)**

Pipeline Projects	
NECA are working with key stakeholders to develop and prepare pipeline projects ready for Government releasing further ‘calls’ for applications for funding.	NECA Economic Directors/Heads of Transport Officer Group

3 **Use of Funding and Resources** Funding secured for initiatives within the North-East region by NECA and its partners may not be able to be used on a timely basis, not be sufficient to complete intended projects or may be used inappropriately.	**Risk Owner** Head of Paid Service **Risk Score** Amber 8 Likelihood – Low 2 Impact – Critical 4

Possible Cause(s):

- Poor project management.
- Inaccurate assessment of projects costs when submitting funding bids.
- Delays and costs for a project due to unforeseen events.
- Lack of understanding of funding conditions including timescales.
- Insufficient capacity and skills to manage projects/programmes.
- Fraud and corruption.
- Failure by NECA to secure agreement on the priority of projects within the region it serves.

Potential Impact/Consequence:

- Programmes/projects may not be completed or have to be delayed or the size of project reduced e.g. quality, quantity which may results intended benefits not being realised and damage to the reputation of NECA and its partners e.g. JTC/North East LEP.
- If the funding is not used by a deadline then funding may be lost.
- Financial resources earmarked for other future purposes may need to be used to complete current projects causing postponement or delays in other NECA plans.

Current Controls:

- NECA officers and its partner's e.g. JTC/North East LEP have experience, skills and knowledge to submit strong bids for funding. It is familiar with the requirements needed for submitting bid and the process to go through.
- All projects included in a bid are subject to scrutiny to ensure the proposed projects are in line with NECA objectives and plans and meets the bid criteria.
- Projects delivered by NECA and its partners directly are managed using recognised project management principles. NECA and its partners have the experience and skills to manage projects.
- Where projects to be delivered involves a procurement exercise then this must be carried out on a competitive basis.
- Where funding is provided through NECA to third parties to deliver a project all third parties must provide details as to progress regarding costs and progress of the project. NECA monitor progress on an ongoing basis together with the legitimacy of spend.
- Funding providers provide clear conditions as to the use of funds which is published to all relevant stakeholders.
- NECA officers are subject to relevant codes of conduct.
- Internal Audit and External Audit arrangements are in place.
- Appropriate controls are in place in delivery of funded programmes.
- Internal Audit have carried out a review of the project management arrangements within the JTC.

Further Mitigating Actions	Lead Officer(s)
Plans and Programme Review	
Delivery plans and programmes are to be kept under review in light of any issues which may affect funding secured to be used on a timely basis or may mean secured funding may not be sufficient to deliver the intended programmes. Appropriate prompt action is taken to address issues which may arise.	Head of Paid Service Chief Finance Officer

4 **<u>Governance Arrangements</u>** The governance arrangements of NECA are not appropriate to allow effective and timely decision making and the achievement of its objectives	**<u>Risk Owner</u>** Deputy Monitoring Officer **<u>Risk Score</u>** Amber 8 Likelihood – Low 2 Impact – Critical 4

Possible Cause(s):

- Changes in the environment in which NECA work render the current governance arrangements out of date e.g. membership, structures, geographical spread. The North East Combined Authority's decision not to proceed with a Mayoral Combined Authority in September 2016 and the withdrawal of the devolution deal has resulted in the seven local authorities (LAs) that made up a single Combined Authority splitting and forming two combined authorities (CAs). NECA now constitutes the four Local Authorities, south of the River Tyne. The North of Tyne Mayoral Combined Authority (NoTCA) was established and constitutes the three LAs north of the River Tyne. The change happened on 2 November 2018. Regional transport continues to operate and be governed at the seven LA geography through the newly formed Joint Transport Committee.
- Lack of understanding of nature and objectives and roles of NECA or importance of governance arrangements.
- Lack of commitment and/or or organisation or resource to support the set-up of governance arrangements or changes to it.

Potential Impact/Consequence:

- Poor decisions may be made which are not in the interest of NECA region.
- Decisions may be delayed, not taken by the most appropriate body or not based on the correct information.
- Lack of clarity of roles and responsibilities may lead to NECA not adequately fulfilling its statutory functions, not monitoring it finances, having a lack of clarity over its objectives, not ensuring adequate transport services delivered to the public and improvements in economic and infrastructure not being delivered. This may lead to having a poor reputation, losing out on funds, poor value for money being achieved and the economic benefits of infrastructure projects not being achieved.

Current Controls:

- The seven Local Authorities have approved a Deed of Cooperation which sets out operational working between the 7 Local Authorities and the two Combined Authorities. This will be revised completely later in March 2020.
- The Statutory Orders provides for the existence of NECA and specifies its current membership, functions and procedures.
- Formal decision-making committees including NECA Leadership Board, NECA Overview and Scrutiny Committee, NECA Economic Development and Regeneration Advisory Board etc and Joint Transport Committee and sub-committees are operational.
- The 7 Local Authorities continue to work together using agreed joint working arrangements i.e. regular officer meetings of Chief Executives, Finance Directors, Monitoring Officers and Heads of Transport, plus formal Transport and Governance Committees

• The Strategic Economic Plan (SEP) has been refreshed in 2019 by the North East LEP to ensure the economic priorities remain current, reflecting the region's economic position • All 7 LAs continue to support the North East LEP and the SEP and are working together to develop the regional Local Industrial Strategy (LIS). • A Strategic Partnership Register has been agreed which identifies all partnerships that are entirely or substantially responsible for delivering or managing an outcome for NECA • A revised Constitution has been adopted by NECA Leadership Board. • Responsibilities for the delivery of support services to NECA by local authorities e.g. finance, legal etc to enable NECA's governance arrangements to function effectively have been agreed. • NECA maintains an internal audit function which, as part of its remit provides assurance, as to the governance arrangements within NECA.

Further Mitigating Actions	**Lead Officer(s)**
Relationship with NoTCA	
NECA Leadership Board will develop and communicate a clear statement of the role, differentiating facts and working arrangements with NoTCA.	Head of Paid Service

5. <u>Operational Capacity and Resourcing</u> NECA does not have the necessary operational capacity, skills and budget, to successfully deliver the objectives and plans.	**<u>Risk Owner</u>** Head of Paid Service **<u>Risk Score</u>** **Amber 8** Likelihood – Low 2 Impact – Critical 4

Possible Cause(s):

- Lack of full appreciation of resources needed for NECA to:
  - Develop and deliver its objectives and plans. especially in light of the recent change to two Combined Authorities operating within the North-East region rather than one.
  - Act as the accountable body to North East Joint Transport Committee (JTC). NECA is the accountable body for the JTC and has extra responsibility for implementing the decisions of the JTC, providing support to the JTC committees and managing the JTC's finances. It is uncertain how much resource will be needed by NECA officers and committee members moving forward therefore the current budget may be insufficient.
- Statutory officers to NECA, the accountable body for the JTC, need to carry out duties for their main employer in addition to their roles in NECA which may result in capacity issues.
- Insufficient financial resources are allocated for the operation of NECA.
- Lack of commitment by local councils providing support services to NECA.
- Key senior officers of NECA and JTC leave their posts.
- Severe epidemic widely affecting population including NECA officers.
- Lack of effective business continuity arrangements.

Potential Impact/Consequence:

- Decisions may be delayed, or incomplete information provided as part of the decision-making process. Functions may not be carried out as quickly or as fully as they should be leading to loss of money, incorrect decisions, complaints and loss of credibility of NECA.
- The JTC operations may be interrupted by a failure of NECA to provide essential support services.

Current Controls:

- All statutory officers in NECA have been appointed and are in post. Deputy statutory officers are also in place.
- Representatives from the 4 councils in NECA region have been appointed to NECA and its sub committees. Deputies have also been appointed.
- NECA have adopted a budget for 2020/21 and 2021/22 to meet the costs of the capacity, skills and expertise need to deliver JTC activities.
- A further finance officer has been employed by NECA to help meet the extra demands of NECA's role place as the Accountable Body for the JTC.
- Partners continue to engage through the formal meetings of the Combined Authority and LA7, including at Leader, Chief Executive, Economic Director, Chief Legal Officer and Finance Director levels.
- Economic Directors' Group have put in place a programme of work looking at the impact of the Covid pandemic, Brexit on the economy, Local Authority finances, developing a

NECA strategic plan as well as looking at the and the region more widely. • NECA Leadership Board has agreed a budget for its capital programme for 2020/21. • As part of the budget process Chief Executive's and the Head of Paid Service identified the risks relating to capacity and political commitment. The four local authority Chief Executives are reviewing the capacity required for the future. • Each officer working for NECA is based within a local authority and is subject to its business continuity arrangements e.g. working from home. Officers are also receiving public health guidance. • All 4 member Local Authorities continue to support NECA and its activities. Service Level Agreements are in place between NECA and the 4 member Local Authorities for support services e.g. legal, finance etc provided by the latter.	
Further Mitigating Actions	**Lead Officer(s)**
Accountable Body Arrangements	
Accountable Body Arrangements – NECA continue to be the accountable body for the Joint Transport Committee and the functions delegated to it. NECA will host the Transport Strategic Unit including the Proper Officer for Transport.	Head of Paid Service
Review of Resource Requirements	
A review of resource requirements for the new combined authority is underway.	Chief Finance Officer

North East Combined Authority
Audit and Standards Committee

6 **Delivery of Projects/Programmes**	**Risk Owner** Head of Paid Service
Projects which are funded through NECA are delayed, are significantly overspent or do not deliver the intended product to meet the identified transport need.	**Risk Score** Green 6 Likelihood – Low 2 Impact – Significant 3

Possible Causes(s):

- Poor project management.
- Inaccurate assessment of projects costs when submitting funding bids.
- Delays and costs for a project due to unforeseen events.
- Insufficient capacity and skills to manage projects.
- Fraud and corruption.

Potential Impact/Consequence:

- Projects may not be completed or have to be delayed or the size of project reduced e.g. quality, quantity which may results intended benefits not being realised and damage to the reputation of NECA.
- If the funding is not used by a deadline then funding may be lost.
- Financial resources earmarked for other future purposes may need to be used to complete current projects causing postponement or delays in other NECA plans.

Current Controls:

- NECA officer and its partner's e.g. North East LEP have experience, skills and knowledge to submit strong bids for funding. It is familiar with the requirements needed for submitting bid and the process to go through.
- All projects included in a bid are subject to scrutiny to ensure the proposed projects is in line with NECA objectives and plans and meets the bid criteria.
- Projects delivered by NECA and its partners directly are managed using recognised project management principles. NECA and its partners have the experience and skills to manage projects
- Where projects to be delivered involves a procurement exercise then this must be carried out on a competitive basis.
- Where funding is provided through NECA to third parties to deliver a project all third parties must provide details as to progress regarding costs and progress of the project.
- Funding providers provide clear conditions as to the use of funds which are published to all relevant stakeholders.

Further Mitigating Actions	**Lead Officer(s)**
Monitoring Delivery	
Monitoring of the delivery of the overall programme of projects should be carried out on a regular basis.	Head of Paid Service

7 **Infrastructure Assets** Infrastructure assets which are owned by NECA are inadequately managed and maintained.	**Risk Owner** Head of Paid Service **Risk Score** Green 6 Likelihood – Low 2 Impact – Significant 3

Possible Cause(s):

- Lack of awareness of the existence of the asset.
- Lack of clarity as who has responsibility for the management and maintenance of the assets.
- Lack of clarity as to maintenance standards required.
- Lack of resources to maintain the assets.

Potential Impact/Consequence:

- Greater financial resources may be needed to rectify faults arising from poor maintenance.
- Failures in infrastructure assets may affect services delivered to users leading to disruption and complaints and a drop-in usage. If the funding is not used by a deadline then funding may be lost
- Financial resources earmarked for other future purposes may need to be used to complete current projects causing postponement or delays in other JTC plans.

Current Controls:

- The Orders relating to NECA and its Constitution makes it clear who has overall responsibility and oversight for infrastructure assets it owns.
- NECA holds a record of assets it is responsible for.
- Responsibility for the maintenance of assets and the standards required are included in the relevant agreements with third party providers e.g. TT2 Ltd. As part of the agreements' reports need to be submitted to NECA to enable to gain assurance the relevant maintenance is being carried out.

Further Mitigating Actions	**Lead Officer(s)**
Asset Management	
Asset management arrangement continue to provide assurance over the maintenance of NECA's assets.	Head of Paid Service

north east combined authority

Audit and Standards Committee

Appendix 3

Risk Analysis Toolkit

Determine the risk priority

Likelihood		Impact: Insignificant	Impact: Minor	Impact: Significant	Impact: Critical
	High	4	8	12	16
	Medium	3	6	9	12
	Low	2	4	6	8
	Negligible	1	2	3	4

Assess the likelihood of the risk event occurring

High	Risk will almost certainly occur
Medium	Risk is likely to occur in most circumstances
Low	Risk may occur
Negligible	Risk is unlikely to occur

Assess the impact should the risk occur

	Objective	Service Delivery	Financial	Reputational
Critical/Showstopper	• Over half the objectives/programmes affected • More than one critical objective affected • Partners do not commit to the Shared vision	• Significant change in partner services • Relationship breakdown between major partners and stakeholders • Serious impact on delivery of key transport related investment plans • Unplanned major re-prioritisation of resources and/or services in partner organisations • Failure of a delivery programme/major project • Serious impact on services provided to users	• Inability to secure or loss of significant funding opportunity(£5m) • Significant financial loss in one or more partners (£2m) • Significant adverse impact on budgets (£3m))	• Adverse national media attention • External criticism (press) • Significant change in confidence or satisfaction of stakeholders • Significant loss of community confidence

north east combined authority

Audit and Standards Committee

Significant	• One or more objectives/programmes affected • One or more partners do not committee to shared vision • Significant environmental impact	• Partner unable to commit to joint arrangements • Recoverable impact on delivery of key transport related investment plans • Major project failure • Impact on services provided to users	• Prosecution • Change in notable funding or loss of major funding opportunity (£2m) • Notable change in a Partners contribution • Notable adverse impact on budget (£0.5m-£1.5m)	• Notable external criticism • Notable change in confidence or satisfaction • Internal dispute between partners • Adverse national/regional media attention • Lack of partner consultation • Significant change in community confidence
Minor	• Less than 2 priority outcomes adversely affected • Isolated serious injury/ill health • Minor environmental impact	• Threatened loss of partner's commitment • Minor impact on services provided to users	• Minor financial loss in more than one partner • Some/loss of funding or funding opportunity threatened	• Failure to reach agreement with individual partner • Change in confidence or satisfaction • Minor change in community confidence
Insignif.	• Minor effect on priorities/service objectives • Isolated minor injury/ill health • No environmental impact		• Isolated/minor financial impact in a partner organisation	

Glossary of Terms

RAG – Red/Amber/Green (denoting an assigned performance status)

Audit and Standards Committee

Strategic Risk - relates to those factors that might have a significant effect on the successful delivery of the JTC's objectives, plans, policies and priorities.

Risk - A probability or threat of damage, injury, liability, loss, or any other negative occurrence that is caused by external or internal vulnerabilities.

Risk Appetite - The level of risk that an organisation is prepared to accept in pursuit of its objectives, and before action is deemed necessary to reduce the risk.

Risk Controls or Control Processes - are those actions and arrangements which are specifically identified to be taken to lower the impact of the risk or reduce the likelihood of the risk materialising, or both of these.

Risk Matrix - a graphical representation of the Risk Severity and the extent to which the Controls mitigate it.

Risk Owner - has overall responsibility for the management and reporting of the risk.

Lead Officer(s) – given delegated responsibility from the Risk Owner to take action and manage the risk through application of the appropriate risk controls and processes.

Risk Impact - indicates the potential seriousness should the risk materialise.

Risk Likelihood - indicates the chance of a risk materialising in the time period under consideration.

Risk Score - the product of the Impact score multiplied by the Likelihood score.