North East Combined Authority

DURHAM • GATESHEAD • SOUTH TYNESIDE • SUNDERLAND

Audit and Standards Committee

Monday 27 July 2020 at 10.00am

Meeting to be held virtually via Microsoft Teams

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 10 December 2019** **1-8**

   For approval as a correct record

4. **Audit Strategy Memorandum** **9-30**

5. **Draft Statement of Accounts 2019/20** **31-162**

6. **Draft Annual Governance Statement 2019/20** **163-182**

7. **NECA Internal Audit Annual Report 2019/20** **183-190**

8. **NECA Internal Audit Plan 2020/21** **191-199**

9. Date and Time of Next Meeting: Tuesday 8 September 2020 at 10.00am

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

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

Audit and Standards Committee Agenda Item 3

10 December 2019

10.00am – 10.40am

Meeting held at Town Hall and Civic Offices, Westoe Road, South Shields NE33 2RL

Present:

Independent Members:	M Scrimshaw (Chair), G Clark (Vice Chair)
Councillors	B Kellett (Durham), E Bell (Durham), J McClurey (Gateshead), P Stewart (Sunderland) and G Hobson (South Tyneside).
Officers:	Eleanor Goodman (NECA – Principal Accountant), Tracey Davis (Senior Manager – Assurance - Sunderland City Council), Angus Graham (Risk and Assurance Specialist – Sunderland City Council), John Rumney (South Tyneside), Jim Dafter (Mazars), Gavin Armstrong (NECA Policy and Scrutiny Officer) and Jonathan Lunness (NECA Strategy and Democratic Services Assistant)

1. APOLOGIES FOR ABSENCE

Apologies for absence were received from Nicola Robason.

2. DECLARATIONS OF INTEREST

M Scrimshaw, the Chair, declared an interest in Item 6 as a Member of the Nexus Audit Committee.

G Clark, the Vice Chair, declared an interest in Item 6 as a Member of the Nexus Audit Committee.

Cllr G Hobson declared an interest in Item 6 as Chair of the JTC Tyne and Wear Sub Committee.

3. MINUTES OF THE MEETING HELD ON 10 SEPTEMBER 2019

The minutes of the previous meeting held 10 September 2019 were approved as a correct record.

4. EXTERNAL AUDIT PROGRESS REPORT

Submitted: Report by the External Auditor, Mazars (previously circulated and a copy attached to official minutes).

Jim Dafter on behalf of the External Auditor introduced the progress report. The report updated Members on progress in delivering the Audit for 2019/20.

Officers from across the North East Combined Authority (NECA), North of Tyne Combined Authority (NoTCA), Nexus and North East Metro Operations Limited (NEMOL) have met as a group to start planning for the delivery of the 2019/20 Audit. Officers are agreeing an efficient approach to deliver the Audits ensuring that deadlines and requirements are met. Drawing on the experience and lessons learned from previous Audits, Officers can plan ahead and know the challenges. Internal planning meetings will be held in the coming weeks.

For the next Audit, the external auditor noted that Members had requested to receive draft Accounts and Audit information earlier than in previous years so that they can scrutinise effectively and provide feedback.

Members noted that the Audit Strategy Memorandum will be presented to the Committee in early 2020. It was also noted that the consultation period on the New Audit Code of Practice has ended and the new Code will apply from 2020/21 onwards.

It was noted that the PSAA had issued a press release highlighting the increase of audit opinions for 2018/19 that were unavailable by the deadline of 31 July 2019. Members noted, however, that NECA did meet this deadline.

Members requested that the external auditor provide any updates to the Chair and the Committee as necessary, and that the Chair be kept informed of any issues that may arise in regards the delivery of the Audit by the deadline.

Members noted that in the past there has been some delay in receiving audit reports and evidence from third parties, for example pension figures from

Local Authorities. This delay can have an impact on the NECA Audit. Whilst in the past, the deadline has been met, it remains a cause for concern in the future.
The Chair thanked Jim Dafter for the report on behalf of the Committee.

RESOLVED That:

i. the report be noted.

5. CLOSURE OF ACCOUNTS 2019/20 – TIMETABLE AND PROGRESS UPDATE

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

Eleanor Goodman presented the progress update on behalf of the Chief Finance Officer. The report updated Members on planning for the 2019/20 Closure of Accounts, taking into account lessons learned from the 2018/19 closure process.

The progress update report covered resources, quality assurance and review, timetable, audit planning and information sharing.

It was noted that additional dedicated resources have been secured in the form of a NECA Principal Accountant to support both the completion of accounts and responding to audit queries. Resources had previously been raised as an issue by the External Auditor. Training and knowledge sharing sessions have been completed and meetings between the NECA Finance Manager and Principal Accountant and the NTCA Strategic Finance Manager and Principal Accountant have taken place, with more scheduled in the coming months.

Members noted that the work is to be divided up between the NECA Finance Manager and the Principal Accountant, with a checklist and a system of review in place to provide quality assurance. This should reduce the number of errors in draft accounts, preventing the need for corrections. It was also noted that this stopped excess reliance on any one individual which will help with business continuity.

Initial meetings have been held between key stakeholders, including NTCA, Nexus and Mazars and a high-level timetable has been agreed (Appendix 1). This includes details of when reports will be presented to the Committee. Key dates include:

- 14 April 2020 – report on Accounting Policies and Closedown Update to the Committee;
- 29 May 2020 – Draft Accounts to be circulated to Members;
- June 2020 – Committee meeting to be held to review the Draft Accounts
- July 2020 – final audited accounts to be presented to the Committee

This timetable should allow more time for Members to scrutinise the accounts and audit. It was noted that if any key deadlines are missed, it will be communicated to the NECA Chief of Finance Officer. The Committee requested that this information also be communicated to the Chair. Members noted that the timetable remains challenging, with lots of work to be signed off.

The report outlined the Audit Planning so far. Initial meetings have been held, with system walkthroughs scheduled for January 2020 and further planning work taking place in January and February 2020. This will include early sampling and testing to reduce pressure on the main audit visit.

Members noted that the Chief Finance Officers of NECA, NTCA, Nexus and NEMOL have agreed that information relating to audits be shared between them to assist with the completion of audits and avoid potential duplication of work.

During discussion, Members raised the following points:

- the next scheduled meeting in April 2020 is a long time from the previous meeting. If any issues or concerns arise, these should be communicated to the Chair and additional meetings should be organised;
- the Chair should be kept informed of the outcomes from the January and February 2020 planning sessions;

It was noted that the External Auditor and the NECA Finance Manager will be providing a joint monthly email update, which was welcomed by Members.

The Chair thanked Eleanor Goodman for the report on behalf of the Committee.

RESOLVED That:

i. the report be noted;
ii. the Chair be kept informed if any deadlines are missed;
iii. the Chair be kept updated with the outcome of planning sessions in January and February 2020;

iv. that the joint monthly email updates from the External Auditor and the NECA Finance Manager be distributed in the coming months.

6. NECA BUDGET PROPOSALS

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

Eleanor Goodman presented the progress update on behalf of the Chief Finance Officer. The report updated Members on the NECA Budget Proposals for 2020/21 and future years as part of the budget consultation process.

The key proposals, which were presented to the NECA Leadership Board on 5 November 2019, included:

- £250,000 contribution to the North East Local Enterprise Project (NELEP), based on £35,714.29 per local authority in the NELEP area;
- £140,000 contribution to Invest North East England, based on £20,000 per local authority in the NELEP area;
- £22,857 per NECA constituent authority towards NECA corporate costs;
- £70,000 contribution towards the costs of the Joint Transport Committee Accountable Body Role;
- £70,000 contribution towards the costs of the NELEP Accountable Body Role.

Members noted that it remains the intention for NECA to hand over the Accountable Body Role for the NELEP to NTCA in the future.

Tyne Tunnel tolls for Class 3 vehicles are proposed to be increased by £0.10p to keep pace with inflation. The decision to raise toll prices will be taken by the Tyne and Wear Sub-Committee in January 2020.

During discussion, Members discussed the following points:

- toll increases at the Tyne Tunnel are restricted and the threshold to raise tolls for other vehicles, such as cars, has not yet been met. However, Members noted that tolls for cars were raised last year;
- the proposals for a Clean Air Zone in Newcastle and the Tyne Bridge could have a detrimental effect on the Tyne Tunnel;
- Automatic Number Plate Recognition (ANPR) has started on the Tyne Tunnel, which should improve free-flow around the Tyne Tunnel;
- the reduction in expenditure in the budget for Employees in the NELEP Budget (Appendix 1, p. 50) was explained as a worst-case

scenario as Fixed Term Contracts are ending due to short term funding streams finishing;

- hope was expressed that replacement funding or continuation of current funding streams could be guaranteed to renew the Fixed Term Contracts coming to an end;
- it would be helpful to have a break down of employee contracts for the NELEP, including full time staff and Fixed Term Contracts;
- it was queried how many years' service on a Fixed Term Contract was required before a full time position would be offered, or implied to exist by law.
- the budget strategy which assumes a levy for 2020/21 in Tyne and Wear in line with the current year, which represents a cash freeze, will have an impact on Nexus' ability to deliver services;
- there is not sufficient recompense from central government for transport services in the region;
- if the NELEP's Accountable Body is transferred from NECA to NTCA, then the staff would become NTCA staff;
- the difference between the 2.5% assumed uplift for NECA for employee costs and the 2% pay award for the LEP is due to the timing difference between budgets. The LEP budget is agreed later and will be brought in line with the NECA uplift.

The Chair thanked Eleanor Goodman and the finance team for their work and the report on behalf of the Committee.

RESOLVED That:

i. the report be noted;
ii. information regarding the necessary years of service for Fixed Term Contract staff to be offered full time positions be made available.

7. NECA STRATEGIC RISK REGISTER

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

Tracy Davis presented the report. The report provided Members with an up to date assessment of the strategic risks facing NECA as it seeks to achieve its objectives.

It was noted that all the registers, including those for NECA, NELEP and the JTC had been reviewed.

The NECA Strategic Risk Register contains seven risks, six of which are stable with no change from the previous update to the Committee in

September 2019. However, one risk, the Future Availability of Funding, has been raised from ‘amber’ to ‘red’. This is in relation to uncertainty in UK government policies which may impact the level and distribution of future funding streams. Whilst NECA is taking action to mitigate this risk, the source is external and as such beyond its control.

The NELEP Strategic Risk Register has five risks, four of which are stable with no change from the previous update to the Committee in September 2019. However, one risk, the Operational Capacity and Resourcing has increased from ‘amber’ to ‘red’. This is in relation to uncertainty over future funding streams. Members noted that as the NELEP funding sources for staff resourcing, the core operational budget and project delivery are time limited, the uncertainty of future replacement funding makes the risk high and difficult to plan for the long term.

During discussion, Members made the following points;

- NECA is well positioned to take advantage of opportunities when they arise, but risks remain regarding the uncertainty surrounding future funding streams;
- loss of EU funding streams contributes to these strategic risks;
- owing to the nature of the LEP and its funding streams, there is greater risk involved;
- the LEP Strategic Risk Register reflects the own views of the LEP following discussions with Helen Golightly at the NELEP;
- monthly updates will be useful in the coming months because of the uncertainty regarding central government policy and the forthcoming General Election.

RESOLVED That:

i. the report be noted.

8. DATE AND TIME OF NEXT MEETING

14 April 2020 – Sunderland Civic Centre

North East Combined Authority

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Audit and Standards Committee

Agenda Item 4

Date: **27 July 2020**

Subject: **Audit Strategy Memorandum**

Report of: **External Auditor**

Executive Summary

This report presents the Audit Strategy Memorandum of the External Auditors to NECA, Mazars.

This sets out the strategy for the audit of the financial statements for the year ending 31 March 2020.

Recommendations

The Audit and Standards Committee is recommended to note the contents of this report.

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1. Background Information

1.1 This report presents the Audit Strategy Memorandum report of the External Auditor, Mazars, which is attached as Appendix 1.

2 Proposals

2.1 The Audit Strategy Memorandum report attached at Appendix 1 sets out the audit plan in respect of the audit of NECA for the year ending 31 March 2020 and forms the basis for discussion at the Audit and Standards Committee.

3. Reasons for the Proposals

3.1 The Audit Strategy Memorandum is provided in line with point 7 of the Audit and Standards Committee Terms of Reference as set out in the NECA Constitution: "The Audit and Standards Committee will receive external audit reports, including the Annual Audit Letter, Fee Letter, Annual Governance Report, and other external audit reports as appropriate".

4. Alternative Options Available

4.1 The report is presented for information.

5. Next Steps and Timetable for Implementation

5.1 The main audit of the NECA accounts will take place during July to September 2020, after which the external auditor will report their findings to the Audit and Standards Committee.

6. Potential Impact on Objectives

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

7. Financial and Other Resources Implications

7.1 There are no new financial commitments arising from this report which is for information. The fees set out within the report for information are included within the approved budget for 2019/20.

There are no Human Resources or ICT implications arising from this report.

8. Legal Implications

8.1 There are no legal implications arising from this report.

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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 Consultation 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 – Audit Strategy Memorandum

15. Background Papers

15.1 None

16. Contact Officers

16.1 Jim Dafter, Senior Manager, Mazars, jim.dafter@mazars.co.uk, 07815 876 042

17. Sign off

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

Audit Strategy Memorandum
North East Combined Authority
Year ending 31 March 2020

north east combined authority

MAZARS

CONTENTS

Mazars LLP
Salvus House
Aykley Heads
Durham
DH1 5TS

The Leadership Board
North East Combined Authority
Civic Centre
Regent Street
Gateshead
NE8 1HH

April 2019

Dear Members

Audit Strategy Memorandum – Year ending 31 March 2020

We are pleased to present our Audit Strategy Memorandum for North East Combined Authority ("NECA") and the Group for the year ending 31 March 2020.

The purpose of this document is to summarise our audit approach, highlight significant audit risks and areas of key judgements and provide you with the details of our audit team. As it is a fundamental requirement that an auditor is, and is seen to be, independent of its clients, Section 7 of this document also summarises our considerations and conclusions on our independence as auditors.

We consider two-way communication with you to be key to a successful audit and important in:

- reaching a mutual understanding of the scope of the audit and the responsibilities of each of us;
- sharing information to assist each of us to fulfil our respective responsibilities;
- providing you with constructive observations arising from the audit process; and
- ensuring that we, as external auditors, gain an understanding of your attitude and views in respect of the internal and external operational, financial, compliance and other risks facing NECA and the Group which may affect the audit, including the likelihood of those risks materialising and how they are monitored and managed.

This document, which has been prepared following our initial planning discussions with management, is the basis for discussion of our audit approach, and any questions or input you may have on our approach or role as auditor.

This document also contains specific appendices that outline our key communications with you during the course of the audit, and forthcoming accounting issues and other issues that may be of interest.

Client service is extremely important to us and we strive to continuously provide technical excellence with the highest level of service quality, together with continuous improvement to exceed your expectations so, if you have any concerns or comments about this document or audit approach, please contact me on 0781 375 2053.

Yours faithfully

Signed: {{_es_:signer1:signature }}

Cameron Waddell, Partner

For and on behalf of Mazars LLP

1. ENGAGEMENT AND RESPONSIBILITIES SUMMARY

Overview of engagement

We are appointed to perform the external audit of North East Combined Authority ("NECA") and the Group for the year to 31 March 2020. The scope of our engagement is set out in the Statement of Responsibilities of Auditors and Audited Bodies, issued by Public Sector Audit Appointments Ltd (PSAA) available from the PSAA website: https://www.psaa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/

Our responsibilities

Our responsibilities are principally derived from the Local Audit and Accountability Act 2014 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (NAO), as outlined below:

Audit opinion

We are responsible for forming and expressing an opinion on the financial statements.

Our audit is planned and performed so to provide reasonable assurance that the financial statements are free from material error and give a true and fair view of the financial performance and position of NECA and the Group for the year.

Value for Money

We are required to conclude whether of NECA and the Group has proper arrangements in place to secure economy, efficiency and effectiveness in it its use of resources. We discuss our approach to Value for Money work further in section 5 of this report.

Reporting to the NAO

We report to the NAO on the consistency of NECA and the Group financial statements with its Whole of Government Accounts (WGA) submission.

Electors' rights

The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of NECA and the Group and consider any objection made to the accounts. We also have a broad range of reporting responsibilities and powers that are unique to the audit of local authorities in the United Kingdom.

Our audit does not relieve management or those charged with governance, of their responsibilities. The responsibility for safeguarding assets and for the prevention and detection of fraud, error and non-compliance with law or regulations rests with both those charged with governance and management. In accordance with International Standards on Auditing (UK), we plan and perform our audit so as to obtain reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. However our audit should not be relied upon to identify all such misstatements.

As part of our audit procedures in relation to fraud we are required to enquire of those charged with governance as to their knowledge of instances of fraud, the risk of fraud and their views on management controls that mitigate the fraud risks.

NECA and the Group is required to prepare its financial statements on a going concern basis by the Code of Practice on Local Authority Accounting. As auditors, we are required to consider the appropriateness of the use of the going concern assumption in the preparation of the financial statements and the adequacy of disclosures made.

For the purpose of our audit, we have identified the NECA Leadership Board as those charged with governance.

2. YOUR AUDIT ENGAGEMENT TEAM

- Cameron Waddell, Partner
- Cameron.Waddell@mazars.co.uk
- 0781 375 2053

- Jim Dafter, Senior Manager
- Jim.Dafter@mazars.co.uk
- 07815 876 042

- Holly Madin
- Holly.Madin@mazars.co.uk
- 07881 283 718

3. AUDIT SCOPE, APPROACH AND TIMELINE

Audit scope

Our audit approach is designed to provide an audit that complies with all professional requirements.

Our audit of the financial statements will be conducted in accordance with International Standards on Auditing (UK), relevant ethical and professional standards, our own audit approach and in accordance with the terms of our engagement. Our work is focused on those aspects of your business which we consider to have a higher risk of material misstatement, such as those affected by management judgement and estimation, application of new accounting standards, changes of accounting policy, changes to operations or areas which have been found to contain material errors in the past.

Audit approach

Our audit approach is a risk-based approach primarily driven by the risks we consider to result in a higher risk of material misstatement of the financial statements. Once we have completed our risk assessment, we develop our audit strategy and design audit procedures in response to this assessment.

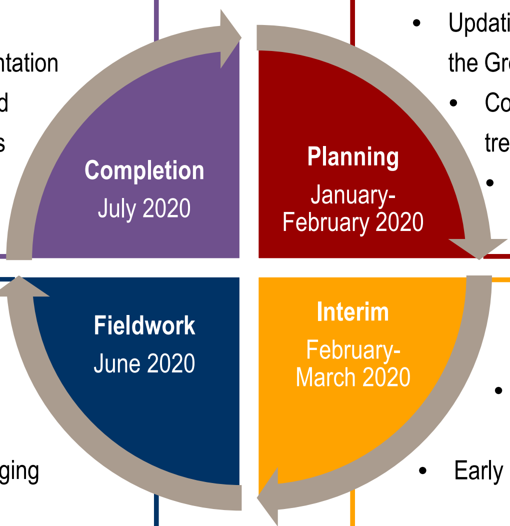
If we conclude that appropriately-designed controls are in place then we may plan to test and rely upon these controls. If we decide controls are not appropriately designed, or we decide it would be more efficient to do so, we may take a wholly substantive approach to our audit testing. Substantive procedures are audit procedures designed to detect material misstatements at the assertion level and comprise tests of details (of classes of transactions, account balances, and disclosures) and substantive analytical procedures. Irrespective of the assessed risks of material misstatement, which take into account our evaluation of the operating effectiveness of controls, we are required to design and perform substantive procedures for each material class of transactions, account balance, and disclosure.

Our audit will be planned and performed so as to provide reasonable assurance that the financial statements are free from material misstatement and give a true and fair view. The concept of materiality and how we define a misstatement is explained in more detail in section 8.

The diagram below outlines the procedures we perform at the different stages of the audit.

- Final review and disclosure checklist of financial statements
- Final partner review
- Agreeing content of letter of representation
- Reporting to NECA Leadership Board
- Reviewing post balance sheet events
- Signing our opinion

- Initial opinion and value for money risk assessments
- Updating our understanding of the NECA and the Group
- Considering proposed accounting treatments and accounting policies
- Development of our audit strategy
- Preliminary analytical procedures



- Review of draft financial statements
- Reassessment of audit strategy, revising as necessary
- Delivering our planned audit testing
- Continuous communication on emerging issues
- Clearance meeting

- Documenting systems and controls
- Walkthrough procedures
- Controls testing, including general and application IT controls
- Early substantive testing of transactions

3. AUDIT SCOPE, APPROACH AND TIMELINE (CONTINUED)

Reliance on internal audit

Where possible we will seek to utilise the work performed by internal audit to modify the nature, extent and timing of our audit procedures. We will meet with internal audit to discuss the progress and findings of their work prior to the commencement of our controls evaluation procedures.

Where we intend to rely on the work of internal audit, we will evaluate the work performed by your internal audit team and perform our own audit procedures to determine its adequacy for our audit.

Management's and our experts

Management makes use of experts in specific areas when preparing NECA and the Group financial statements. We also use experts to assist us to obtain sufficient appropriate audit evidence on specific items of account.

Items of account	Management's expert	Our expert
Defined benefit liability and associated IAS 19 entries and disclosures (relevant to Group accounts only)	Actuary (Aon Hewitt)	NAO's consulting actuary (PWC)
Fair values	Arlingclose	NAO

Service organisations

International Auditing Standards (UK) define service organisations as third party organisations that provide services to NECA and the Group that are part of its information systems relevant to financial reporting. We are required to obtain an understanding of the services provided by service organisations as well as evaluating the design and implementation of controls over those services. The table below summarises the service organisations used by NECA and the Group and our planned audit approach.

Items of account	Service organisation	Audit approach
All areas	Newcastle City Council	Review NECA's controls over: • The information provided to the service organisation; and • The outputs provided by the service organisation to NECA.

3. AUDIT SCOPE, APPROACH AND TIMELINE (CONTINUED)

Group audit approach

We are responsible for the audit of the group consolidation. For the year ended 31 March 2020, the Group will be made up of the following components:

- North East Combined Authority (NECA);
- Nexus;
- North East Metro Operations Limited (NEMOL); and
- Tyneside Transport Services Limited.

Cameron Waddell will be responsible for ensuring appropriate audit procedures are performed to obtain assurance for the group and Trust.

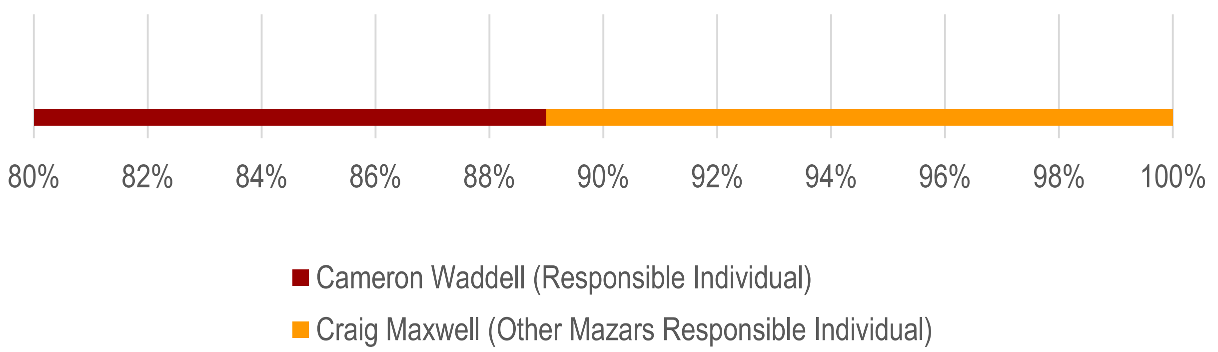
An analysis of the group is shown below setting out :

- an overview of the type of work to be performed on the financial information of the components; and
- the percentage of the components of the group audited directly by Cameron Waddell (Responsible Individual/Partner for the Group), the percentage audited by Craig Maxwell (Mazars Responsible Individual/Director for NEMOL).

Planned approach by percentage of group (using operating expenditure)

Year	Full scope audit	Limited or specific review	Other audit procedures
2019/20 estimate	100%	0%	0%

Percentage of group (using operating expenditure) audited by responsible individual



4. SIGNIFICANT RISKS AND KEY JUDGEMENT AREAS

Following the risk assessment approach discussed in section 3 of this document, we have identified relevant risks to the audit of financial statements. The risks that we identify are categorised as significant, enhanced or standard, as defined below:

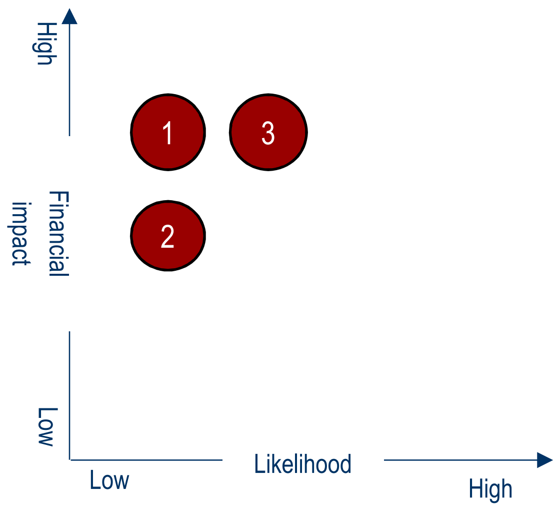
Significant risk A significant risk is an identified and assessed risk of material misstatement that, in the auditor's judgment, requires special audit consideration. For any significant risk, the auditor shall obtain an understanding of the entity's controls, including control activities relevant to that risk.

Enhanced risk An enhanced risk is an area of higher assessed risk of material misstatement at audit assertion level other than a significant risk. Enhanced risks incorporate but may not be limited to:

- key areas of management judgement, including accounting estimates which are material but are not considered to give rise to a significant risk of material misstatement; and
- other audit assertion risks arising from significant events or transactions that occurred during the period.

Standard risk This is related to relatively routine, non-complex transactions that tend to be subject to systematic processing and require little management judgement. Although it is considered that there is a risk of material misstatement, there are no elevated or special factors related to the nature, the likely magnitude of the potential misstatements or the likelihood of the risk occurring.

The summary risk assessment, illustrated in the table below, highlights those risks which we deem to be significant. We have summarised our audit response to these risks on the next page.



Risk	
1	Management override of control
2	Revenue recognition - in relation to Tyne Tunnel tolls and grant income
3	Defined benefit liability valuation

4. SIGNIFICANT RISKS AND KEY JUDGEMENT AREAS (CONTINUED)

We provide more detail on the identified risks and our testing approach with respect to significant risks in the table below. An audit is a dynamic process; should we change our view of risk or approach to address the identified risks during the course of our audit, we will report this to the NECA Leadership Board.

Significant risks

	Description of risk	Planned response
1	**Management override of controls (relevant to single entity and Group)** Management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur there is a risk of material misstatement due to fraud on all audits.	We plan to address the management override of controls risk through performing audit work over accounting estimates, journal entries and significant transactions outside the normal course of business or otherwise unusual.
2	**Revenue recognition - in relation to Tyne Tunnel tolls and grant income (relevant to single entity and group accounts)** Revenue recognition has been identified as a significant risk due to: • cut off considerations for Tyne Tunnel toll income given the cash nature of the receipts; and • grant income is recognised when all conditions attached to the grant have been met so there is significant management judgement in determining if there are any conditions and if they have been met.	We plan to address the revenue recognition risk through performing audit work over: • the design and implementation of controls management has in place to ensure income is recognised in the correct period; • cash receipts around the year end to ensure they have been recognised in the right year; • the judgements made by management in determining when grant income is recognised; • for Tyne Tunnel toll income, perform a substantive analytical review; and • for major grant income, obtaining counterparty confirmation.
3	**Defined benefit liability valuation (relevant to group accounts only)** The financial statements contain material pension entries in respect of the retirement benefits. The calculation of these pension figures, both assets and liabilities, can be subject to significant volatility and includes estimates based upon a complex interaction of actuarial assumptions. This results in an increased risk of material misstatement.	We plan to address the defined benefit liability valuation risk through performing audit work over • evaluate the management controls you have in place to assess the reasonableness of the figures provided by the Actuary; and • consider the reasonableness of the Actuary's output, referring to an expert's report on all actuaries nationally which is commissioned annually by the National Audit Office. We will discuss with key contacts any significant changes to the pension estimates prior to the preparation of the financial statements.

4. SIGNIFICANT RISKS AND KEY JUDGEMENT AREAS (CONTINUED)

Key areas of management judgement and enhanced risks

Key areas of management judgement include accounting estimates which are material but are not considered to give rise to a significant risk of material misstatement. These areas of management judgement represent other areas of audit emphasis.

	Area of management judgement / enhanced risk	Planned response
1	With effect from 2 November 2018, the footprint of NECA changed with the introduction of the North of Tyne Combined Authority. As a result of this decision, management took advice on how this reconfiguration should be reflected in the financial statements of NECA.	In 2018/19 we addressed this judgement by reviewing the advice supplied to management by their appointed expert (Deloitte) to ensure that it was reasonable and complied with the Code of Audit Practice and applicable accounting standards. For 2019/20 we will update our review of the proposed accounting treatment to ensure that apportionments remain reasonable. In addition, we will also test transactions and balances included in the Statement of Accounts are complete, accurate and relate to NECA.

5. VALUE FOR MONEY

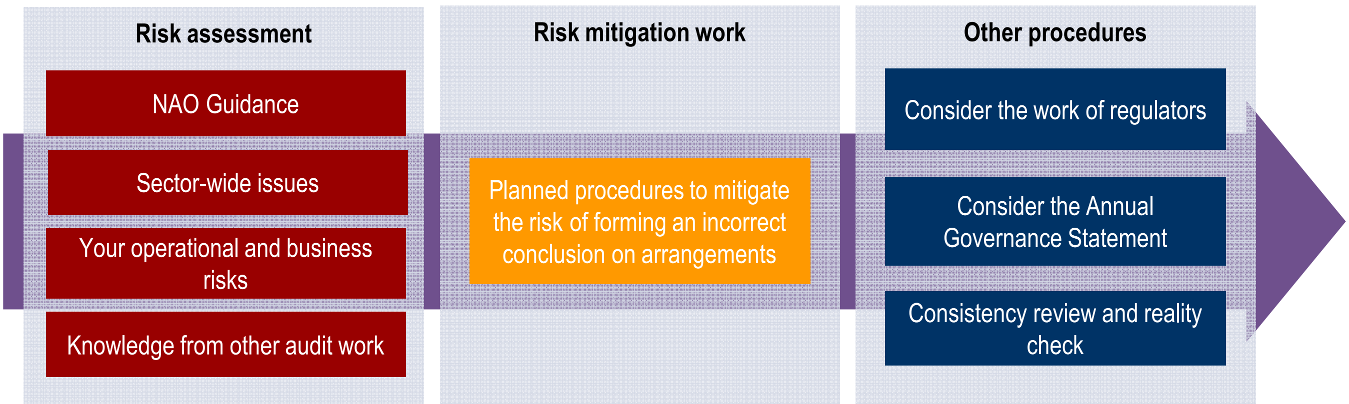
Our approach to Value for Money
We are required to form a conclusion as to whether NECA and the Group has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out, and sets out the overall criterion and sub-criteria that we are required to consider.

The overall criterion is that, ‘in all significant respects, NECA and the Group had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.’

To assist auditors in reaching a conclusion on this overall criterion, the following sub-criteria are set out by the NAO:

- informed decision making;
- sustainable resource deployment; and
- working with partners and other third parties.

A summary of the work we undertake to reach our conclusion is provided below:



Significant Value for Money risks
The NAO’s guidance requires us to carry out work at the planning stage to identify whether or not a Value for Money (VFM) exists. Risk, in the context of our VFM work, is the risk that we come to an incorrect conclusion rather than the risk of the arrangements in place at NECA and the Group being inadequate. As outlined above, we draw on our deep understanding of NECA and the Group and its partners, the local and national economy and wider knowledge of the public sector.

For the 2019/20 financial year, we have identified no significant risk to our value for money conclusion.

6. FEES FOR AUDIT AND OTHER SERVICES

Fees for work as NECA and the Group's appointed auditor

At this stage of the audit we are not planning any divergence from the scale fees set by PSAA as communicated in our fee letter 17 April 2019.

Service	2018/19 fee	2019/20 fee
Code audit work	£18,709 (plus VAT)	£18,709 (plus VAT)
Additional audit fee	£6,102 (plus VAT)*	N/A
Total	**£24,811 (plus VAT)**	**£18,709 (plus VAT)**

* Additional fee relates to the additional work required in relation to Devolution to ensure the opinion on the 2018/19 accounts was given by the deadline of 31 July 2019.

Fees for non-PSAA work

In addition to the fees outlined above in relation to our appointment by PSAA, we have been separately engaged by NECA and the Group to carry out additional work as set out in the table below. Before agreeing to undertake any additional work we consider whether there are any actual, potential or perceived threats to our independence. Further information about our responsibilities in relation to independence is provided in section 7.

Services provided to other entities within NECA's group

The group consists of the NECA, Nexus, NEMOL and TTS. We are responsible for the direction, supervision and performance of the group audit.

We are also the external auditor for Nexus and NEMOL. We do not carry out an external audit of TTS as it is within the limits for audit exemptions under Section 479A of the Companies Act 2006 relating to subsidiary companies.

7. OUR COMMITMENT TO INDEPENDENCE

We are committed to independence and are required by the Financial Reporting Council to confirm to you at least annually, in writing, that we comply with the Financial Reporting Council's Ethical Standard. In addition, we communicate any matters or relationship which we believe may have a bearing on our independence or the objectivity of the audit team.

Based on the information provided by you and our own internal procedures to safeguard our independence as auditors, we confirm that in our professional judgement there are no relationships between us and any of our related or subsidiary entities, and you and your related entities creating any unacceptable threats to our independence within the regulatory or professional requirements governing us as your auditors.

We have policies and procedures in place which are designed to ensure that we carry out our work with integrity, objectivity and independence. These policies include:

- all partners and staff are required to complete an annual independence declaration;
- all new partners and staff are required to complete an independence confirmation and also complete computer-based ethics training;
- rotation policies covering audit engagement partners and other key members of the audit team;
- use by managers and partners of our client and engagement acceptance system which requires all non-audit services to be approved in advance by the audit engagement partner.

We confirm, as at the date of this document, that the engagement team and others in the firm as appropriate, and Mazars LLP are independent and comply with relevant ethical requirements. However, if at any time you have concerns or questions about our integrity, objectivity or independence please discuss these with Cameron Waddell in the first instance.

Prior to the provision of any non-audit services Cameron Waddell will undertake appropriate procedures to consider and fully assess the impact that providing the service may have on our auditor independence. Included in this assessment is consideration of Auditor Guidance Note 01 as issued by the NAO, and the PSAA Terms of Appointment.

No threats to our independence have been identified.

Any emerging independence threats and associated identified safeguards will be communicated in our Audit Completion Report.

8. MATERIALITY AND MISSTATEMENTS

Summary of initial materiality thresholds

Threshold	Initial threshold NECA (£'000s)	Initial threshold Group (£'000s)
Overall materiality	6,310	11,738
Performance materiality	4,733	8,804
Trivial threshold for errors to be reported to the Audit & Standards Committee	189	352

Materiality

Materiality is an expression of the relative significance or importance of a particular matter in the context of financial statements as a whole. Misstatements in financial statements are considered to be material if they, individually or in aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

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

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

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

We consider materiality whilst planning and performing our audit based on quantitative and qualitative factors.

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

The materiality determined at the planning stage does not necessarily establish an amount below which uncorrected misstatements, either individually or in aggregate, will be considered as immaterial.

We revise materiality for the financial statements as our audit progresses should we become aware of information that would have caused us to determine a different amount had we been aware of that information at the planning stage.

Our provisional materiality is set based on a benchmark of total assets. We will identify a figure for materiality but identify separate levels for procedures designed to detect individual errors, and also a level above which all identified errors will be reported to the Audit & Standards Committee.

We consider that total assets remains the key focus of users of the financial statements and, as such, we base our materiality levels around this benchmark.

We expect to set a materiality threshold at 2% of total assets.

8. MATERIALITY AND MISSTATEMENTS (CONTINUED)

Based on our preliminary assessment of materiality we anticipate the overall materiality for the year ending 31st March 2020 to be in the region of £6.3m (£3.3m in the prior year).

After setting initial materiality, we continue to monitor materiality throughout the audit to ensure that it is set at an appropriate level.

Performance Materiality
Performance materiality is the amount or amounts set by the auditor at less than materiality for the financial statements as a whole to reduce, to an appropriately low level, the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. Our initial assessment of performance materiality is based on low inherent risk, meaning that we have applied 75% of overall materiality as performance materiality.

We have also calculated materiality for specific classes of transactions, balances or disclosures where we determine that misstatements of a lesser amount than materiality for the financial statements as a whole, could reasonably be expected to influence the decisions of users taken on the basis of the financial statements. We have set specific materiality for the following items of account:

Item of account	Specific materiality (£'000s)
Officers' remuneration	5

After setting initial materiality, we continue to monitor materiality throughout the audit to ensure that it is set at an appropriate level.

Misstatements
We aggregate misstatements identified during the audit that are other than clearly trivial. We set a level of triviality for individual errors identified (a reporting threshold) for reporting to the Audit & Standards Committee that is consistent with the level of triviality that we consider would not need to be accumulated because we expect that the accumulation of such amounts would not have a material effect on the financial statements. Based on our preliminary assessment of overall materiality, our proposed triviality threshold for NECA is £0.189m and Group is £0.325m, based on 3% of overall materiality. If you have any queries about this please do not hesitate to raise these with Cameron Waddell.

Reporting to the Audit & Standards Committee
To comply with International Standards on Auditing (UK), the following three types of audit differences will be presented to the Audit & Standards Committee:

- summary of adjusted audit differences;
- summary of unadjusted audit differences; and
- summary of disclosure differences (adjusted and unadjusted).

APPENDIX A – KEY COMMUNICATION POINTS

ISA (UK) 260 'Communication with Those Charged with Governance', ISA (UK) 265 'Communicating Deficiencies In Internal Control To Those Charged With Governance And Management' and other ISAs (UK) specifically require us to communicate the following:

Required communication	Audit Strategy Memorandum	Audit Completion Report
Our responsibilities in relation to the audit of the financial statements and our wider responsibilities	✓	
Planned scope and timing of the audit	✓	
Significant audit risks and areas of management judgement	✓	
Our commitment to independence	✓	✓
Responsibilities for preventing and detecting errors	✓	
Materiality and misstatements	✓	✓
Fees for audit and other services	✓	
Significant deficiencies in internal control		✓
Significant findings from the audit		✓
Significant matters discussed with management		✓
Our conclusions on the significant audit risks and areas of management judgement		✓
Summary of misstatements		✓
Management representation letter		✓
Our proposed draft audit report		✓

APPENDIX B – FORTHCOMING ACCOUNTING AND OTHER ISSUES

Financial reporting changes relevant to 2019/20

There are no significant changes in the Code of Practice on Local Authority Accounting for the 2019/20 financial year.

Financial reporting changes in future years

Accounting standard	Year of application	Commentary
IFRS 16 – Leases	2020/21	The CIPFA/LASAAC Code Board has determined that the Code of Practice on Local Authority Accounting will adopt the principles of IFRS 16 Leases, for the first time from 2020/21. IFRS 16 will replace the existing leasing standard, IAS 17, and will introduce significant changes to the way bodies account for leases, which will have substantial implications for the majority of public sector bodies. The most significant changes will be in respect of lessee accounting (i.e. where a body leases property or equipment from another entity). The existing distinction between operating and finance leases will be removed and instead, the new standard will require a right of use asset and an associated lease liability to be recognised on the lessee's Balance Sheet. In order to meet the requirements of IFRS 16, all local authorities will need to undertake a significant project that is likely to be time-consuming and potentially complex. There will also be consequential impacts upon capital financing arrangements at many authorities which will need to be identified and addressed at an early stage of the project.

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Audit and Standards Committee

Agenda Item 5

Date: 27 July 2020

Subject: Draft Accounts 2019/20

Report of: Chief Finance Officer

Executive Summary

This report presents the draft unaudited NECA Statement of Accounts for the 2019/20 financial year to the Audit and Standards Committee for consideration.

The unaudited statement of accounts was authorised by the Chief Finance Officer and published on the NECA website on 30 June 2020, in accordance with the revised statutory deadlines.

The statement of accounts is available for public inspection for the period 1 July to 11 August.

The accounts are currently being reviewed by the external auditor (Mazars LLP). Following the audit, it is expected that the final statement of accounts will be presented to the Audit and Standards Committee at the meeting in September for recommendation to the NECA Leadership Board for approval.

The report also provides an update on accounting policies used in the preparation of the accounts which remain unchanged from those previously approved.

Recommendations

The Audit and Standards Committee is recommended to note the contents of this report.

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Audit and Standards Committee

1. Background Information

1.1 The ‘Accounts and Audit Regulations 2015’ stipulates a two stage approval process for the statement of accounts. The first statutory deadline required that the responsible financial officer, by no later than 31 May, should sign and certify that the statement of accounts presents a true and fair view of:

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

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

1.2 The second stage required that on or before 31 July approval needed 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 so that the statement of accounts can then be formally published.

1.3 However, for this year only, due to the impact of Covid 19 on local authorities, the statutory deadlines have been extended. The Ministry of Housing, Communities and Local Government confirmed that a statutory instrument amending the Accounts and Audit Regulations had been laid and came into force on 30 April 2020. The Regulations change the dates that local authorities are required to publish their draft and final accounts for 2019/20 and remove the ‘common’ period during which local electors can inspect and object to those accounts.

1.4 The key changes for the publication of the accounts for 2019/20 are as follows:

a) The deadline for the Authority to publish its draft accounts is 31 August 2020 (not 31 May); and

b) The deadline for publication of its final (audited) accounts has moved from 31 July to 30 November 2020.

1.5 The requirement for a ‘common’ public inspection period, to begin on 1 June, has been removed. There is still the requirement for the Authority to hold a thirty working day inspection period which can commence at any time, but no later than 1 September 2020. This allows individual local authorities to produce draft accounts and commence inspection periods as soon as practicable for them.

1.6 Given the extension to the statutory deadlines and following discussion with external auditors, it was agreed that NECA officers would aim to have draft accounts complete during June 2020 and available for audit in July 2020.

1.7 The unaudited statement of accounts for NECA for the financial year ended 31 March 2020 was authorised by the responsible finance officer and published on the Authority's website on 30 June 2020, in accordance with revised statutory deadlines.

1.8 The statement of accounts is subject to audit by Mazars LLP. The audit of the accounts is currently ongoing; upon completion, the Auditor's report will be incorporated into the published version of the document.

1.9 Mazars anticipate largely completing their audit work by early September 2020. However, they will be unable to issue their final audit opinion until the completion of the audit of the Tyne and Wear Pension Fund which is expected to be the end of September. Therefore we anticipate presenting the final statement of accounts for 2019/20 for approval (subject to the completion of the pension fund audit) to the Leadership Board at their meeting on 14 September, with the final audit opinion to be issued and circulated to the Leadership Board and Audit and Standards Committee as soon as practicable.

1.10 The attached statement of accounts is available for inspection by the public from 1 July to 11 August 2020, in line with the revised regulations, and has been published on the NECA website.

2 Proposals

Statement of Accounts

2.1 The statement of accounts for the financial year 2019/20 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' and the 'Code of Practice on Local Authority Accounting 2019/20' (the Code) as published by the Chartered Institute of Public Finance and Accountancy (CIPFA).

2.2 The Code is based on approved accounting standards in England and Wales and constitutes 'proper accounting practice' under the terms of section21(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.

(a) Movement in Reserves Statement (page 4);
(b) Comprehensive Income and Expenditure Statement (page 5);
(c) Balance Sheet (page 6); and
(d) Cash Flow Statement (page 7)

NECA also produces Group accounts which consolidate the result of Nexus (page 66 onwards).

Movement in Reserves Statement

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

There has been an increase in reserves from £114.283m at 31 March 2019 to £125.141m at 31 March 2020, mainly due to funds set aside to meet expenditure in future years. The balance of usable reserves at the year-end was £55.717m, which is an £8.920m increase on the previous year. This is made up of a number of different elements, most of which are held for specific purposes. The increase is due to the increase in capital grants received which have not yet been applied to fund expenditure (known as the Capital Grants Unapplied reserve) and the increase in earmarked reserves held on behalf of Nexus to fund the local contribution to the Fleet Replacement project and Asset Renewal Programme, as well as an increase in balances held on behalf of the North East LEP including the North East Investment Fund.

Comprehensive Income and Expenditure Statement

2.5 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.

The gross cost of services during the year including capital grants to third parties as well as revenue expenditure was £104.772m (£160.531m in 2018/19 – which included Transport activity relating to the NTCA area up to 2 November 2018). This includes all areas of NECA's and the North East LEP's activity and also 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 £41.758m (£63.132m in 2018/19 – which included Transport activity relating to the NTCA area up to 2 November 2018). This was funded from a range of sources including the Transport Levy, other contributions from Constituent Authorities, Government Grants, Fees and Charges, and Enterprise Zones Business Rates Income. The net cost was lower than in 2018/19 due mainly to lower levels of capital grants issued in the year (REFCUS) on the Local Growth fund programme and higher levels of Government grants received in advance of expenditure, for example the Transforming Cities Tranche 2 grant received in March 2020 (£9.901m) and not yet applied to fund expenditure.

Balance Sheet

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

Net assets in the NECA accounts have increased from £114.283m at 31 March 2019 to £125.141m at 31 March 2020. The increase in total net assets is due to an increase in fixed assets and short term investments/cash equivalents due to the receipt of additional capital grants (e.g. Transforming Cities grant) and other amounts held in earmarked reserves to fund activity in future years.

Cash Flow Statement

2.7 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.

Cash and cash equivalents increased from £11.270m at 31 March 2019 to £18.396m at 31 March 2020, again mainly due to additional capital grants received close to the year end and held to fund activity in future years.

Notes to the Core Financial Statements

2.8 The notes are important in the presentation of a true and fair view. 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

2.9 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

2.10 Accompanying 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** (considered elsewhere on this agenda) gives assurance that appropriate mechanisms are in place for the maintenance of good governance across the activities of the Authority.

Accounting for the North East Joint Transport Committee

2.11 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.

2.12 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 2019/20 accounts the mid-year estimated population published by the Office of National Statistics as at June 2017 is used, which is the basis on which the Transport Levy payments for the year are required to be calculated.

Audit of the Statement of Accounts

2.13 The audit of the Statement of Accounts is underway. At the end of this process, the external auditor (Mazars LLP) will provide an Audit Completion Report detailing their comments and recommendations for improvements, based on the position at 31 March 2020.

Accounting Policies

2.14 The Accounting Policies would normally be approved by the Audit and Standards Committee at its meeting in April. This meeting was cancelled due to Covid 19. However, there were no changes proposed to the previously approved accounting policies used in the preparation of the Statement of Accounts. The full Accounting Policies can be found in Note 30 to the Statement of Accounts (pages 47-64).

3. Reasons for the Proposals

3.1 The Statement of Accounts is presented to the Audit and Standards Committee

4. Alternative Options Available

4.1 The report is presented for information.

5. Next Steps and Timetable for Implementation

5.1 The main audit of the NECA accounts will take place during July to September 2020, after which the final accounts, along with the findings 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

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

7. Financial and Other Resources Implications

7.1 This report details the financial position of the Authority as at 31 March 2020.

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 2019/20 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 Consultation 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 2019/20

Appendix 2 – Narrative Report 2019/20

15. Background Papers

15.1 None

Audit and Standards Committee

16. Contact Officers

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

17. Sign off

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

Appendix 1

North East Combined Authority

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North East Combined Authority

Statement of Accounts 2019/20

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 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 2020 and its income and expenditure for the year ended 31 March 2020.

Signed:

John Hewitt,
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 2018		**(32,808)**	**(14,650)**	**(692)**	**(7,727)**	**(55,877)**	**(107,722)**	**(163,599)**
Movement in reserves during 2018/19								
Total Comprehensive Income and Expenditure		(5,066)	-	-	-	**(5,066)**	(230)	(5,296)
Adjustments between accounting basis & funding basis under regulations	3	3,026	-	-		**3,026**	(3,026)	-
Balance at 1 November 2018		**(34,848)**	**(14,650)**	**(692)**	**(7,727)**	**(57,917)**	**(110,978)**	**(168,895)**
Transfer of Services to the NTCA at 2 November 2018		**10,894**	**5,513**	**-**	**545**	**16,952**	**40,548**	**57,500**
Balance at 2 November 2018		**(23,954)**	**(9,137)**	**(692)**	**(7,182)**	**(40,965)**	**(70,430)**	**(111,395)**
Total Comprehensive Income and Expenditure		(2,508)	-	-	-	**(2,508)**	(380)	(2,888)
Adjustments between accounting basis & funding basis under regulations	3	2,976	-	(1,811)	(4,490)	**(3,325)**	3,325	-
Net (Increase)/Decrease before transfers to Earmarked Reserves		**468**	**-**	**(1,811)**	**(4,490)**	**(5,833)**	**2,945**	**(2,888)**
Transfers (To)/From Earmarked Reserves	21	655	(655)	-	-	**-**	-	-
(Increase)/Decrease in 2018/19		1,123	(655)	(1,811)	(4,490)	(5,833)	2,945	(2,888)
Balance at 31 March 2019 carried forward		**(22,831)**	**(9,792)**	**(2,503)**	**(11,672)**	**(46,798)**	**(67,485)**	**(114,283)**
Total Comprehensive Income and Expenditure		(9,988)				**(9,988)**	(870)	(10,858)
Adjustments between accounting basis & funding basis under regulations		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)**	**(55,718)**	**(69,423)**	**(125,141)**

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.

2018/19					2019/20		
Gross Expenditure	Gross Income	Net Expenditure		Note	Gross Expenditure	Gross Income	Net Expenditure
£000	£000	£000			£000	£000	£000
			Continuing NECA Services	1			
1,044	(311)	733	Corporate		1,342	(678)	664
295	(294)	1	Inward Investment		374	(161)	213
52,283	(52,022)	261	Local Growth Fund Programme		26,390	(26,053)	337
5,248	(1,753)	3,495	North East Local Enterprise Partnership		3,680	(3,505)	175
767	(762)	5	Skills		290	(290)	-
105	-	105	Transport - Retained Levy Budget		143	-	143
15,692	-	15,692	Transport - Durham		15,552	-	15,552
31,409	-	31,409	Transport - Tyne and Wear		31,010	-	31,010
9,398	(13,972)	(4,574)	Transport - Other		11,742	(13,609)	(1,867)
16,527	(17,805)	(1,278)	Transport - Tyne Tunnels		14,250	(18,719)	(4,469)
132,768	**(86,919)**	**45,849**	**Cost of services relating to continuing services excluding operations transferred to the NTCA**		**104,772**	**(63,015)**	**41,758**
			Services transferred to the NTCA - income and expenditure for the period 1 April 2018 - 1 November 2018	1			
3,585	-	3,585	Transport - Northumberland		-	-	-
39	-	39	Transport - Retained Levy Budget		-	-	-
15,420	-	15,420	Transport - Tyne and Wear		-	-	-
2,320	(2,316)	4	Transport - Other		-	-	-
6,399	(9,159)	(2,760)	Transport - Tyne Tunnels		-	-	-
27,763	**(11,475)**	**16,288**	**Cost of services relating to services transferred to the NTCA**		**-**	**-**	**-**
160,531	**(98,394)**	**62,137**	**Cost of services**		**104,772**	**(63,015)**	**41,758**
			Financing and Investment Income and Expenditure	4			
4,120	(2,760)	1,360	- From continuing services		4,196	(2,224)	1,972
1,531	(45)	1,486	- From services transferred to the NTCA		-	-	-
			Taxation and Non-Specific Grant Income	5			
-	(52,539)	(52,539)	- From continuing services		-	(53,717)	(53,717)
-	(20,018)	(20,018)	- From services transferred to the NTCA		-	-	-
		(7,574)	**(Surplus)/Deficit on Provision of Services**				**(9,988)**
			Other Comprehensive Income and Expenditure				
		(610)	Re-measurement of the defined benefit liability	19			(870)
		(8,184)	**Total Comprehensive Income and Expenditure**				**(10,858)**

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 2019 £000		Note	31 March 2020 £000
193,921	Property, Plant and Equipment	11	193,200
32,671	Long Term Debtors	15	31,935
226,592	**Long Term Assets**		**225,135**
65,281	Short Term Investments	12	61,857
11,926	Short Term Debtors	14	8,899
11,720	Cash and Cash Equivalents	16	18,396
88,927	**Current Assets**		**89,152**
(1,288)	Short Term Borrowing	12	(1,298)
(51,118)	Short Term Creditors	17	(39,984)
(1,205)	Grants Receipts in Advance	6	(891)
(2,838)	New Tyne Crossing Deferred Income	18	(2,837)
(56,449)	**Current Liabilities**		**(45,010)**
(51,076)	New Tyne Crossing Deferred Income	18	(48,224)
(92,685)	Long Term Borrowing	12	(95,072)
(126)	Grants Receipts in Advance	6	-
(900)	Pension Liability	19	(840)
(144,787)	**Long Term Liabilities**		**(144,136)**
114,283	**Net Assets**		**125,141**
(46,797)	Usable Reserves	20	(55,717)
(67,486)	Unusable Reserves	22	(69,424)
(114,283)	**Total Reserves**		**(125,141)**

Chief Finance Officer Certificate

I certify that the accounts set out on pages 4 to 64 give a true and fair view of the financial position of the North East Combined Authority as at the 31 March 2020.

Signed:

John Hewitt, 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.

2018/19 £000		Note	2019/20 £000
7,574	Net Surplus/(Deficit) on the provision of services		9,988
8,983	Adjustments to net surplus or deficit on the provision of services for non-cash movements	24	(11,982)
(68,990)	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	24	(41,940)
(52,433)	**Net cash flows from Operating Activities**		**(43,934)**
52,707	Investing Activities	25	48,196
(548)	Financing Activities	26	2,414
(274)	**Net (Decrease)/Increase in cash and cash equivalents**		**6,676**
22,231	Cash and cash equivalents at the beginning of the reporting period	16	11,720
(10,237)	Transfer to the NTCA		-
11,720	**Cash and cash equivalents at the end of the reporting period**		**18,396**

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

During 2018/19 it was anticipated that Transport staff in the Regional Transport Team now known as the Transport Strategy Unit would be transferred to NECA. This took place on 1st April 2020. The North East LEP have appointed NTCA as their accountable body. The North East LEP staff transferred to NTCA on 1st April 2020.

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.

Note 02: Expenditure and Funding Analysis

	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	-	840	-	664	664
Inward Investment	-	-	-	213	213
Local Growth Fund Programme	(1,694)	-	-	337	337
North East Local Enterprise Partnership	-	-	-	175	175
Skills	-	-	-	-	-
Transport - Retained Levy Budget	(295)	-	-	143	143
Transport - Durham	-	-	-	15,552	15,552
Transport - Tyne and Wear	-	-	-	31,010	31,010
Transport - Other	(2,277)	-	-	(1,867)	(1,867)
Transport - Tyne Tunnels	(1,235)	(50)	-	(4,469)	(4,469)
Cost of services	**(5,501)**	**790**	**-**	**41,758**	**41,758**
Other Income and Expenditure	**(389)**	20	(589)	(51,746)	**(51,746)**
(Surplus)/Deficit on Provision of Services	**(5,890)**	**810**	**(589)**	**(9,988)**	**(9,988)**
Opening General Fund Balances	(32,624)				
Closing General Fund Balances	**(38,514)**				

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.

	2018/19				
	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
Continuing NECA Services					
Corporate	153	-	580	-	733
Inward Investment	1	-	-	-	1
Local Growth Fund Programme	502	(241)	-	-	261
North East Local Enterprise Partnership	3,495	-	-	-	3,495
Skills	5	-	-	-	5
Transport - Retained Levy Budget	335	(230)	-	-	105
Transport - Durham	15,692	-	-	-	15,692
Transport - Tyne and Wear	31,409	-	-	-	31,409
Transport - Other	(1,281)	(3,293)	-	-	(4,574)
Transport - Tyne Tunnels	(1,804)	576	(50)	-	(1,278)
Cost of services relating to continuing services excluding operations transferred to the NTCA	**48,507**	**(3,189)**	**530**	**-**	**45,849**
Services transferred to the NTCA					
Transport - Northumberland	3,585	-	-	-	3,585
Transport - Retained Levy Budget	222	(183)	-	-	39
Transport - Tyne and Wear	15,420	-	-	-	15,420
Transport - Other	2,621	(2,617)	-	-	4
Transport - Tyne Tunnels	(3,217)	457	-	-	(2,760)
Cost of services relating to services transferred to the NTCA	**18,630**	**(2,342)**	**-**	**-**	**16,288**
Cost of services	**67,137**	**(5,531)**	**530**	**-**	**62,137**
Other Income and Expenditure					
- From continuing services	(50,178)	-	20	(1,021)	(51,179)
- From services transferred to the NTCA	(18,532)	-	-	-	(18,532)
(Surplus)/Deficit on Provision of Services	**(1,573)**	**(5,531)**	**550**	**(1,021)**	**(7,574)**
Opening General Fund Balances	(47,458)				
Transferred to the NTCA 2 November 2018	16,407				
Closing General Fund Balances	**(32,624)**				

Note 02a: Income and Expenditure Analysed by Nature

	2018/19 £000	2019/20 £000
Expenditure		
Employee benefit expenses	2,372	3,007
Other service expenses	88,989	61,910
Depreciation, impairment and Revenue Expenditure Funded from Capital Under Statute (REFCUS)	69,170	39,855
Interest payments	5,651	4,196
Total expenditure	**166,182**	**108,968**
Income		
Fees, charges and other service income (Tyne Tunnels tolls)*	(22,788)	(15,866)
Interest and investment income	(2,805)	(2,224)
Income from business rates on enterprise zones	(1,675)	(2,398)
Income from transport levy	(69,683)	(49,598)
Government grants and contributions	(71,997)	(45,684)
Other income	(4,808)	(3,186)
Total income	**(173,756)**	**(118,956)**
Surplus/Deficit on the provision of services	**(7,574)**	**(9,988)**

* 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.

2018/19				Adjustments between Accounting Basis and Funding Basis Under Statute	2019/20			
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				
(6,331)	-	-	6,331	Charges for depreciation and impairment of non current assets	(2,317)	-	-	2,317
4,166	-	-	(4,166)	Other income that cannot be credited to the General Fund	2,837	-	-	(2,837)
62,928	-	-	(62,928)	Capital grants and contributions applied	35,904	-	-	(35,904)
(62,839)	-	-	62,839	Revenue expenditure funded from capital under statute	(37,538)	-	-	37,538
				Insertion of items not debited or credited to the CIES				
1,521	-	-	(1,521)	Statutory provision for the financing of capital investment	964	-	-	(964)
24	-	-	(24)	Capital expenditure charged against the General Fund	5	-	-	(5)
				Adjustments primarily involving the Capital Grants Unapplied Account				
6,063	-	(6,063)	-	Grants and contributions unapplied credited to the CIES	6,036	-	(6,036)	-
-	-	1,573	(1,573)	Application of grants to capital financing transferred to the CAA	-	-	4,485	(4,485)
				Adjustments involving the Capital Receipts Reserve				
-	(3,794)	-	3,794	Loan principal repayments	2,482	(8,042)	-	5,559
-	-	-	-	Use of Capital Receipts Reserve to finance new capital expenditure	855	778	-	(1,633)
-	1,983	-	(1,983)	Application of Capital Receipts to repayment of debt	-	878	-	(878)
				Adjustments involving the Financial Instruments Adjustment Account				
1,021	-	-	(1,021)	Amount by which finance costs charged to the CIES are different from finance costs chargeable in the year in accordance with statutory requirements	589	-	-	(589)
				Adjustments involving the Pensions Reserve				
(600)	-	-	600	Reversal of items relating to retirement benefits debited or credited to the CIES	(860)	-	-	860
50	-	-	(50)	Employer's pension contributions and direct payments to pensioners payable in the year	50	-	-	(50)
6,003	**(1,811)**	**(4,490)**	**299**	**Total Adjustments**	**9,006**	**(6,386)**	**(1,551)**	**(1,069)**

Note 04: Financing and Investment Income and Expenditure

	Note	2018/19		2019/20
		Continuing Services	Transport Services transferred to NTCA - 1 April 2018 - 1 November	
		£000	£000	£000
Interest Payable and Similar Charges		4,100	1,531	4,176
Interest Payable on defined benefit liability	19	20	-	20
Interest Receivable and similar income		(2,760)	(45)	(2,224)
Total		**1,360**	**1,486**	**1,972**

Note 05: Taxation and Non Specific Grant Income

	2018/19		2019/20
	Continuing Services	Transport Services transferred to NTCA - 1 April 2018 - 1 November	
	£000	£000	£000
Transport Levy	(50,133)	(19,550)	(49,598)
Enterprise Zones Income	(1,675)	-	(2,398)
Non-Specific Capital Grants	(731)	(468)	(1,721)
Total	**(52,539)**	**(20,018)**	**(53,717)**

Note 06: Grant Income

	2018/19		2019/20
	Continuing Services	Transport Services transferred to NTCA - 1 April 2018 - 1 November	
	£000	£000	£000
LEP Core and Capacity Grant	(500)	-	(500)
Growth Hub	(410)	-	(442)
Local Authority Contributions to NECA	(440)	-	(352)
Local Authority Contribution to North East LEP	(250)	-	(253)
Local Growth Fund	(51,706)	-	(28,063)
Local Transport Plan	(7,773)	(2,316)	(7,770)
European Grants	(1,034)	(234)	(979)
North East Smart Ticketing Initiative	(463)	-	(202)
Transforming Cities Fund	(5,600)	-	(5,516)
LEP Local Industrial Strategy Grant	(176)	-	(224)
Office for Low Emission Vehicles	(393)	(234)	(302)
Other Grants	(468)	-	(1,082)
Total	**(69,213)**	**(2,784)**	**(45,685)**

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 2019 £000	31 March 2020 £000
North East Smart Ticketing Initiative	(316)	(114)
Office for Low Emission Vehicles	(443)	(141)
Other Grants	(572)	(636)
Total	**(1,331)**	**(891)**

Shown as Short-Term Liability on the Balance Sheet	(1,205)	(891)
Short as Long-Term Liability on the Balance Sheet	(126)	-
Total	**(1,331)**	**(891)**

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.

	2018/19 £000	2019/20 £000
Allowances	6	12
Total	**6**	**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	2019/20	127	-	**127**
	2018/19	125	21	**146**
Monitoring Officer	2019/20	-	-	**-**
	2018/19	76	-	**76**

The Managing Director of Transport Operations became a NECA employee during 2019/20. NECA currently has a pension surplus, which accounts for the change in pension contributions. From 1 April 2020, the role of Monitoring Officer was provided through a Service Level Agreement with South Tyneside Council.

All three of the Authority's statutory officers in 2019/20 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.

2018/19 was a transitional year for NECA which meant that two of the Authority's interim statutory officers were not formal employees of the authority (and therefore were not included in the statutory disclosure above), but their services had been provided via secondment and agency arrangements, details of which were included in the 2018/19 disclosure in the interest of transparency.

The number of other officers (including those employed on behalf of the North East LEP) who received remuneration greater than £50,000 (excluding employers' pension contributions) was as follows:

	2018/19 £000	2019/20 £000
£50,000-£54,999	2	5
£55,000-£59,999	0	0
£60,000-£64,999	4	1
£65,000-£69,999	0	3
£70,000-£74,999	0	0
£75,000-£79,999	1	0
£80,000-£84,999	0	0
£85,000-£89,999	1	1
£90,000-£94,999	0	0
£95,000-£99,999	0	0
Total	**8**	**10**

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.

	2018/19 £000	2019/20 £000
Scale fee for the audit of the Statement of Accounts	19	19
Additional fee in relation to the audit of the 2018/19 Accounts (paid during 2019/20)	2	6
Total	**21**	**25**

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 2019/20 no works or services were commissioned from companies in which any members had an interest.

Officers

There have 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 consituent 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.

	2018/19				2019/20			
	Receivables	Income	Expenditure	Payables	Receivables	Income	Expenditure	Payables
	£000	£000	£000	£000	£000	£000	£000	£000
NECA Constituent Authorities								
Durham	-	(12,900)	15,826	77	(3)	(8,806)	12,441	595
Gateshead	(99)	(9,100)	8,887	7,661	(245)	(5,446)	4,525	2,625
South Tyneside	(213)	(6,981)	11,004	637	(3)	(4,689)	981	791
Sunderland	(849)	(13,260)	17,051	1,058	(763)	(9,582)	13,099	898
Remaining JTC Constituent Authorities								
Newcastle	(501)	(13,238)	7,271	914	(528)	(7,567)	3,126	1,308
North Tyneside	(245)	(9,394)	3,869	137	(433)	(2,380)	3,640	290
Northumberland	(780)	(5,479)	8,718	614	(351)	(491)	3,389	271
Other Public Bodies								
North of Tyne Combined Authority	-	-	-	-	(18)	(3,778)	-	10
Nexus	(889)	(1,685)	52,060	34,203	-	(81)	31,803	1,956

Note 11: Property, Plant and Equipment

	2019/20				
	Vehicles, Plant, Furniture & Equipment £000	Infrastructure Assets £000	Assets Under Construction £000	Total Property, Plant & Equipment £000	Service Concession Assets included in Property, Plant and Equipment £000
Cost or Valuation					
At 1 April 2019	1,785	209,166	10,067	**221,018**	209,166
Additions	-	-	1,594	**1,594**	-
Reclassification from Assets Under Construction	419	10,193	(10,612)	**(0)**	10,193
At 31 March 2020	**2,204**	**219,359**	**1,049**	**222,612**	**219,359**

Accumulated Depreciation and Impairment					
At 1 April 2019	(661)	(26,434)	-	**(27,095)**	**(26,434)**
Depreciation charge for the Year	(93)	(2,224)	-	**(2,317)**	(2,224)
At 31 March 2020	**(754)**	**(28,658)**	**-**	**(29,412)**	**(28,658)**

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**	**193,199**	**190,701**

	2018/19				
	Vehicles, Plant, Furniture & Equipment £000	Infrastructure Assets £000	Assets Under Construction £000	Total Property, Plant & Equipment £000	Service Concession Assets included in Property, Plant and Equipment £000
Cost or Valuation					
At 1 April 2018	3,205	381,075	12,695	396,975	381,075
Additions	-	-	2,702	2,702	-
At 2 November 2018	3,205	381,075	15,397	399,677	381,075
Transfer to the NTCA	(1,420)	(168,729)	(6,817)	**(176,966)**	(168,729)
Additions	-	24	1,487	**1,511**	24
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	-	(24)	-	**(24)**	**(24)**
Impairment recognised in the Surplus/Deficit on the Provision of Services	-	(3,180)	-	**(3,180)**	**(3,180)**
At 31 March 2019	**1,785**	**209,166**	**10,067**	**221,018**	**209,166**
Accumulated Depreciation and Impairment					
At 1st April 2018	(1,094)	(43,737)	-	**(44,831)**	**(43,737)**
Depreciation charge for the period 1/4/18 - 1/11/18	(54)	(2,233)	-	**(2,287)**	**(2,233)**
At 2nd November 2018	**(1,148)**	**(45,970)**	**-**	**(47,118)**	**(45,970)**
Transferred to the NTCA	508	20,355	-	**20,863**	**20,355**
Depreciation charge for the period 2/4/18 - 31/3/19	(21)	(818)	-	**(839)**	**(818)**
At 31 March 2019	**(661)**	**(26,434)**	**-**	**(27,094)**	**(26,434)**
Net Book Value					
At 1st April 2018	**2,111**	**337,338**	**12,695**	**352,144**	**337,338**
At date of configuration	2,057	335,105	15,397	352,559	335,105
At 31 March 2019	**1,124**	**182,732**	**10,067**	**193,923**	**182,732**

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 2019 £000	31 March 2020 £000	31 March 2019 £000	31 March 2020 £000	31 March 2019 £000	31 March 2020 £000	31 March 2019 £000	31 March 2020 £000
Amortised cost	-	-	32,354	31,935	65,281	61,857	9,809	6,926
Total financial assets	**-**	**-**	**32,354**	**31,935**	**65,281**	**61,857**	**9,809**	**6,926**
Non-financial assets	-	-	317	-	-	-	2,117	1,973
Total	**-**	**-**	**32,671**	**31,935**	**65,281**	**61,857**	**11,926**	**8,899**

Financial assets at amortised cost

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

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

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

Trade receivables

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

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

Financial Liabilities held at amortised cost

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

	Non-current				Current			
	Borrowings		Creditors		Borrowings		Creditors	
	31 March 2019 £000	31 March 2020 £000	31 March 2019 £000	31 March 2020 £000	31 March 2019 £000	31 March 2020 £000	31 March 2019 £000	31 March 2020 £000
Amortised cost	(92,685)	(95,072)	-	-	(1,288)	(1,298)	(36,869)	(5,748)
Total financial liabilities	**(92,685)**	**(95,072)**	**-**	**-**	**(1,288)**	**(1,298)**	**(36,869)**	**(5,748)**
Non-financial liabilities	-	-	-	-	-	-	(14,249)	(39,984)
Total	**(92,685)**	**(95,072)**	**-**	**-**	**(1,288)**	**(1,298)**	**(51,118)**	**(45,732)**

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

Income, Expense, Gains and Losses

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

31 March 2019				31 March 2020		
£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**
5,631	-	5,631	Interest expense	-	4,176	4,176
5,631	**-**	**5,631**	**Total expense in Surplus on Provision of Services**	**-**	**4,176**	**4,176**
-	(2,446)	(2,446)	Investment income	(2,092)	(2,092)	(4,184)
-	(359)	(359)	Movement on soft loans adjustment	(132)	(132)	(264)
-	**(2,804)**	**(2,804)**	**Total income in Surplus on Provision of Services**	**(2,224)**	**(2,224)**	**(4,449)**
5,631	**(2,804)**	**2,827**	**Net (gain)/loss for the year**	**(2,224)**	**1,952**	**-**

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 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 2019/20 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 2019		31 March 2020	
	Note	**Carrying amount £000**	**Fair value £000**	**Carrying amount £000**	**Fair value £000**
Financial liabilities held at amortised cost	2	(93,973)	(151,424)	(96,370)	165,234
Total		**(93,973)**	**(151,424)**	**(96,370)**	**165,234**
Financial Assets at amortised cost					
Held to maturity investments		65,281	65,281	61,857	61,857
Loan debtors	3	38,576	51,096	31,935	46,277
Total		**103,857**	**116,377**	**93,792**	**108,134**

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 soft 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 Zone.
- Cobalt Data Centre - Network improvments 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.

	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	(1,589)	-	7,655	-
Neptune Test Centre	9	0.00%	4.99%	3,397	(80)	90	3,408	1,465
Cobalt Data Centre	6	6.00%	7.00%	1,589	-	-	1,589	-
Boiler Shop	3	4.50%	5.02%	1,699	-	-	1,699	-

	2018/19							
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%	8,808	-	436	9,244	10,000
Neptune Test Centre	9	0.00%	4.99%	3,716	(697)	378	3,397	4,397
Cobalt Data Centre	6	6.00%	7.00%	1,881	-	(292)	1,589	1,549
Boiler Shop	3	4.50%	5.02%	1,641	-	58	1,699	1,545

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	2018/19 £000	2019/20 £000
AA2	-	3,621
A+	8,637	-
A-	2,786	-
n/a - investments with UK local authorities	32,808	52,446
n/a - investments with unrated building societies [1]	21,050	5,790
Total Short-Term Investments	**65,281**	**61,857**

[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 2020 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 2019 £000	31 March 2020 £000
Between 1-2 years	(372)	(371)
Between 2-5 years	(1,114)	(1,114)
Between 5-10 years	(928)	(557)
More than 10 years	(90,271)	(93,029)
	(92,685)	**(95,071)**
Less than 1 year	(1,288)	(1,298)
Total borrowing	**(93,973)**	**(96,369)**

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 2019 £000	31 March 2020 £000
Increase in interest payable on variable rate borrowing	-	-
Increase in interest receivable on variable rate investments	(691)	(520)
Impact on the (Surplus)/Deficit on Provision of Services	**(691)**	**(520)**

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 £31.001m 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 2019 £000	31 March 2020 £000
Central Government bodies	2,458	3,375
Other local authorities	2,898	4,327
Other entities and individuals	6,570	1,197
Total	**11,926**	**8,899**

Note 15: Long Term Debtors

	31 March 2019 £000	31 March 2020 £000
Nexus borrowing	20,325	19,614
Airport prepayment	317	-
North East Investment Fund loans	12,029	12,321
Total	**32,671**	**31,935**

Note 16: Cash and Cash Equivalents

	31 March 2019 £000	31 March 2020 £000
Cash held in Authority's bank account	7,819	5,048
Cash equivalents	3,901	13,348
Total	**11,720**	**18,396**

Note 17: Short Term Creditors

	31 March 2019 £000	31 March 2020 £000
Central government bodies	-	(38)
Other local authorities	(11,107)	(7,213)
Other entities and individuals		
- Nexus	(35,447)	(28,223)
- TT2	(1,871)	(1,693)
- Other	(2,693)	(2,816)
Total	**(51,118)**	**(39,983)**

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 2019/20 the total payment under the contract was £21.123m (2018/19 £20.256m).

The contribution to the capital works by the private sector partner is recognised as a deferred income balance with a 2019/20 value of £91.661m (2018/19 £96.753m), of which £51.061m is shown on the NECA balance sheet and £40.600m shown on the NTCA balance sheet

	Deferred Income Release	
	2018/19	**2019/20**
	£000	**£000**
Payable in 2019/20	(2,838)	(2,837)
Payable within 2 to 5 years	(11,350)	(11,347)
Payable within 6 to 10 years	(14,188)	(14,184)
Payable within 11 to 15 years	(14,188)	(14,184)
Payable within 16 to 20 years	(11,350)	(8,510)
Total	**(53,914)**	**(51,062)**

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.

(i) 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 responsibiliity 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	
	2018/19	2019/20	2018/19	2019/20
	£000	£000	£000	£000
Comprehensive Income and Expenditure Statement				
Cost of Services:				
Current service cost	400	840	-	-
Past service cost	180	-		-
Financing and Investment Income and Expenditure				
Interest on net defined benefit liability (asset)	-	-	20	20
Pension expense recognised in profit and loss	**580**	**840**	**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	(2,510)	2,630	-	-
Actuarial (gains)/losses due to changes in financial assumptions	1,890	-	40	-
Actuarial (gains)/losses due to changes in demographic assumptions	(1,610)	(390)	(40)	(20)
Actuarial (gains)/losses due to changes in liability assumptions	90	3,090	(30)	(10)
Adjustment in respect of paragraph 58	1,560	(6,170)	-	-
Total amount recognised in Other Comprehensive Income	**(580)**	**(840)**	**(30)**	**(30)**
Total amount recognised	**-**	**-**	**(10)**	**(10)**

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	
	2018/19	2019/20	2018/19	2019/20
	£000	£000	£000	£000
Opening balance at 1 April	**(38,950)**	**(39,520)**	**(960)**	**(900)**
Current service cost	(400)	(840)	-	-
Interest cost	(990)	(930)	(20)	(20)
Contributions by participants	(100)	(170)	-	-
Actuarial gains/(losses) on liabilities - financial assumptions	(1,890)	-	(40)	-
Actuarial gains/(losses) on liabilities - demographic assumptions	1,610	390	40	20
Actuarial gains/(losses) on liabilities - experience	(90)	(3,090)	30	10
Net benefits paid out	1,470	1,410	50	50
Past service costs	(180)	-	-	-
Closing balance at 31 March	**(39,520)**	**(42,750)**	**(900)**	**(840)**

Reconciliation of the fair value of the scheme assets:

	Local Government Pension Scheme		Discretionary Benefits	
	2018/19	**2019/20**	**2018/19**	**2019/20**
	£000	**£000**	**£000**	**£000**
Opening balance at 1 April	**45,980**	**48,300**	**-**	**-**
Interest income on assets	1,180	1,140	-	-
Remeasurement gains/(losses) on assets	2,510	(2,630)	-	-
Employer contributions	-	-	50	50
Contributions by scheme participants	100	170	-	-
Net benefits paid out	(1,470)	(1,410)	(50)	(50)
Closing balance at 31 March	**48,300**	**45,570**	**-**	**-**

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	**2015/16**	**2016/17**	**2017/18**	**2018/19**	**2019/20**
	£000	**£000**	**£000**	**£000**	**£000**
Fair value of LGPS assets	**37,150**	**45,050**	**45,980**	**48,300**	**45,570**
Present value of liabilities:					
- LGPS liabilities	(31,630)	(37,590)	(38,950)	(39,520)	(42,750)
- Impact of minimum funding	(5,520)	(7,460)	(7,030)	(8,780)	(2,820)
Deficit on funded defined benefit scheme					
Discretionary benefits	(890)	(980)	(960)	(900)	(840)
Total (Deficit)	**(890)**	**(980)**	**(960)**	**(900)**	**(840)**

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 £43.590m has an impact on the net worth of the Authority recorded on the balance sheet, resulting in a negative pension balance of £0.840m. 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. In addition, Strain on the Fund contributions may be required. Expected payments direct to beneficiaries in the year to 31 March 2021 are £0.05m in relation to unfunded benefits.

Basis for Estimating Assets and Liabilities

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

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

The principal assumptions used by the actuary have been:

	Local Government		Discretionary Benefits	
	2018/19	2019/20	2018/19	2019/20
Mortality assumptions:				
Longevity at 65 for current pensioners:				
Men	22.2	21.8	22.2	21.8
Women	25.3	25.0	25.3	25.0
Rate for discounting scheme liabilities	2.4%	2.3%	2.4%	2.3%
Rate of inflation - Retail Price Index	3.3%	n/a	3.3%	n/a
Rate of inflation - Consumer Price Index	2.2%	2.1%	2.2%	2.1%
Rate of increase in pensions	2.2%	2.1%	2.2%	2.1%
Pension accounts revaluation rate	2.2%	2.1%	n/a	n/a
Rate of increase in salaries	3.7%	3.6%	n/a	n/a

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

	31 March 2019	31 March 2020		
	% Total	% Quoted	% Unquoted	% Total
Equity investments	65.0%	48.0%	6.8%	54.8%
Property	8.8%	0.0%	9.0%	9.0%
Government bonds	4.1%	4.1%	0.0%	4.1%
Corporate bonds	11.7%	15.3%	0.0%	15.3%
Cash	2.7%	2.3%	0.0%	2.3%
Other*	7.7%	8.5%	6.0%	14.5%
Total	**100.0%**	**78.2%**	**21.8%**	**100.0%**

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

Actual Return on Assets

	Local Government	
	2018/19	2019/20
	£000	£000
Interest Income on Assets	1,180	1,140
Remeasurement gain/(loss) on assets	2,510	(2,630)
Actual Return on Assets	**3,690**	**(1,490)**

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 senstivity 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)	42.19	42.75	43.35
% change in present value of total obligation	-1.30%	0	1.40%
Projected service cost (£M)	0.84	0.87	0.90
Approximate % change in projected service cost	-2.90%	0	3.00%

Rate of general increase in salaries	**+0.1% per annum**	**Base Figure**	**-0.1% per annum**
Adjustment to salary increase rate			
Present value of total obligation (£M)	42.75	42.75	42.75
% change in present value of total obligation	0.00%	0	0.00%
Projected service cost (£M)	0.87	0.87	0.87
Approximate % change in projected service cost	0.00%	0	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	43.35	42.75	42.19
% change in present value of total obligation	1.40%	0	-1.30%
Projected service cost (£M)	0.90	0.87	0.84
Approximate % change in projected service cost	3.00%	0	-2.90%

Post retirement mortality assumption	- 1 year	Base Figure	+ 1 year
Adjustment to mortality age rating assumption *			
Present value of total obligation (£M)	44.12	42.75	41.38
% change in present value of total obligation	3.20%	0	-3.20%
Projected service cost (£M)	0.90	0.87	0.84
Approximate % change in projected service cost	3.90%	0	-3.90%

* 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 20: Usable Reserves

	Note	31 March 2019 £000	31 March 2020 £000
General Fund Balance		(22,830)	(21,233)
Earmarked Reserves	21	(9,792)	(12,372)
Capital Receipts Reserve		(2,502)	(8,889)
Capital Grants Unapplied Reserve		(11,673)	(13,224)
Total		**(46,797)**	**(55,718)**

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 resouces 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 2018	Transfer to NTCA 2 November 2018	Transfers Out 2018/19	Transfers In 2018/19	Balance at 31 March 2019	Transfers Out 2019/20	Transfers In 2019/20	Balance at 31 March 2020
	£000	£000	£000	£000	£000	£000	£000	£000
Metro Reinvigoration Reserve	(9,118)	4,037	-	(27)	**(5,108)**	-	(42)	(5,150)
Metro Fleet Replacement Reserve	(3,333)	1,476	-	(1,873)	**(3,730)**	-	(1,896)	(5,626)
North East LEP Restricted Cashable Reserve - RGF Interest	(792)	-	-	(142)	**(934)**	232	(628)	(1,330)
North East LEP Restricted Cashable Reserve - GPF Loan Repayments	(1,408)	-	1,706	(298)	**-**	609	(876)	(267)
Transforming Cities Fund Support	-	-	-	(20)	**(20)**	20	-	-
Total	**(14,651)**	**5,513**	**1,706**	**(2,360)**	**(9,792)**	**861**	**(3,442)**	**(12,373)**

Note 22: Unusable Reserves

Summary

	31 March 2019 £000	31 March 2020 £000
Capital Adjustment Account	(67,448)	(68,819)
Financial Instruments Adjustment Account	3,681	3,092
Revaluation Reserve	(4,619)	(4,538)
Pension Reserve	900	840
Total	**(67,486)**	**(69,425)**

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.

	2018/19 £000	2019/20 £000
Opening Balance 1 April	**(105,885)**	**(67,448)**
Reversal of items relating to capital expenditure debited or credited to the CIES:		
Charges for depreciation and impairment of non current assets	6,331	2,317
Other income that cannot be credited to the General Fund	(4,166)	(2,837)
Revenue expenditure funded from capital under statute	62,839	37,538
Write down of long term debtors	3,794	5,560
Adjusting amounts written out of the Revaluation Reserve	**(81)**	**(81)**
Transferred to the NTCA	**37,748**	**-**
Capital financing applied in the year:		
Capital grants and contributions credited to the CIES that have been applied to capital financing	(64,500)	(40,389)
Statutory provision for the financing of capital investment	(1,521)	(964)
Capital expenditure charged against the General Fund	(24)	(5)
Debt redeemed using capital receipts	(1,983)	(2,510)
Balance at 31 March	**(67,448)**	**(68,819)**

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.

	2018/19	2019/20
	£000	£000
Opening Balance 1 April	**5,638**	**3,681**
Proportion of premiums incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements	(477)	(457)
Transferred to the NTCA	(935)	-
Amount by which finance costs charged to the CIES are different from finance costs chargeable in the year in accordance with statutory requirements	(545)	(132)
Balance at 31 March	**3,681**	**3,092**

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.

	2018/19	2019/20
	£000	£000
Opening Balance 1 April	**(8,434)**	**(4,619)**
Difference between fair value depreciation and historical cost depreciation written off to the CAA	81	81
Transferred to the NTCA 2 November 2018	**3,734**	**-**
Balance at 31 March	**(4,619)**	**(4,538)**

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.

	2018/19	2019/20
	£000	£000
Opening Balance 1 April	**960**	**900**
Remeasurements of the net defined benefit liability (asset)	(610)	(870)
Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the CIES	600	860
Employer's pension contributions and direct payments to pensioners payable in the year	(50)	(50)
Balance at 31 March	**900**	**840**

Note 23: Capital Expenditure and Capital Financing

	2018/19 £000	2019/20 £000
Opening Capital Financing Requirement 1 April	**195,383**	**107,602**
Capital Investment		
Property, Plant and Equipment	4,213	1,594
Revenue Expenditure Funded from Capital Under Statute	62,839	37,538
Sources of Finance		
Capital receipts - repayment of principal from long term debtors	(1,983)	(2,510)
Government Grants and other contributions	(64,500)	(40,389)
Sums set aside from revenue		
Direct revenue contributions	(24)	(5)
Minimum Revenue Provision	(1,368)	(964)
Additional Voluntary Provision	(153)	-
Transfer to the NTCA	(86,805)	-
Closing Capital Financing Requirement 31 March	**107,602**	**102,866**
Decrease in underlying need to borrow (unsupported by government financial assistance)	**(987)**	**(4,736)**

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

	2018/19 £000	2019/20 £000
Surplus/(Deficit) on the provision of services	7,574	9,988
Adjustments to Surplus/(Deficit) on Provision of Services for Non-Cash Movements		
Depreciation and Impairment	6,331	2,317
(Increase)/Decrease in Creditors	480	(11,152)
Increase/(Decrease) in Debtors	5,787	(1,104)
Movement in Pension Liability	550	810
Other non-cash items charged to the net surplus or deficit on the provision of services	(4,166)	(2,852)
	8,983	**(11,982)**
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	(68,990)	(41,940)
Net cash flow from operating activities	**(52,434)**	**(43,934)**

The cash flows for operating activities include the following items:

	2018/19 £000	2019/20 £000
Interest received	3,491	2,224
Interest paid	(6,317)	(4,196)

Note 25: Cash Flow Statement - Investing Activities

	2018/19 £000	2019/20 £000
Purchase of property, plant and equipment, investment property and intangible assets	(4,213)	(1,596)
Purchase of short-term and long-term investments	(137,517)	(188,000)
Proceeds from short-term and long-term investments	123,426	188,000
Other receipts from investing activities	71,011	49,792
Net cash flows from investing activities	**52,707**	**48,196**

Note 26: Cash Flow Statement - Financing Activities

	2018/19 £000	2019/20 £000
Repayments of short and long-term borrowing	(548)	2,414
Net cash flows from financing activities	**(548)**	**2,414**

Note 27: Accounting Standards Issued, Not Yet Adopted

Impact of the adoption of new accounting standards on the 2019/20 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 recognition for low-value and short-term leases). CIPFA/LASAAC have deferred implementation of IFRS 16 for local government to 1 April 2020. Work to date has shown that NECA leases identified will not have a material effect on the 2020/21 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.

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 2020 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 2020 and the projected service cost for the year ending 31 March 2021 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 £42.19m, a variance of £0.56m, whereas a decrease of (0.1%) p.a. results in an increase to £43.35m, a variance of £0.6m. 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 £0.99m to £40.51m, whereas a decrease of (0.1%) p.a. results in a decrease to £38.57m, a variance of £0.95m. The percentage change in the present value of the total obligation would be 2.5% and (2.4%) respectively.

		Post retirement mortality assumption: an adjustment to the mortality age rating assumption of -1 year would change the present value of the total obligation to £44.12m, an increase of £1.37m, whereas a adjustment of +1 year results in a reduction to £41.38m, a variance of £0.95m. The percentage change in the present value of the total obligation would be 3.2% and (3.2%) respectively.
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	Possiblity of Local Authorities reducing their spend on Transport related services / schemes as they prioritise services. This would lead to a reduction of levy income. Could lead to a 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

Note 30: Accounting Policies

1. General Principles

The Statement of Accounts summarises the Authority's transactions for the 2019/20 financial year and its position at the year-end of 31 March 2020. 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 2019/20, supported by International Financial Reporting Standards (IFRS).

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

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

2. Accruals of Income and Expenditure

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

- Revenue from the sale of goods is recognised when the Authority transfers the significant risks and rewards of ownership to the purchaser and it is probable that the economic benefits or service potential associated with the transaction will flow to the Authority.
- Revenue from the provision of services is recognised when the Authority can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.
- Supplies are recorded as expenditure when they are consumed - where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payments on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument, rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded on the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected. The Authority has a policy of not accruing for manual sundry creditor or sundry debtor provisions for less than £1,000, other than in exceptional circumstances.

3. Cash and Cash Equivalents

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

4. Exceptional Items

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

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

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

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

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

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

6. Charges to Revenue for Non-Current Assets

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

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

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

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

7. Employee Benefits

Benefits Payable during Employment

Short-term employee benefits are those due to be settled within 12 months of the year end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render service to the Authority. Due to the small number of employees the Authority has, the cost of holiday entitlements (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year end which employees can carry forward into 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 2019/20

8. Post-Employment Benefits

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

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

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

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

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

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

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

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

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

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

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

Further details are provided in Note 19 to the accounts.

9. Events after the Balance Sheet Date

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

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

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

10. Fair Value Measurement

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

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

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

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

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

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

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

11. Financial Instruments

Financial Liabilities

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

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

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

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

Financial Assets

Financial assets are 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 at 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 has made a number of 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 than 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 from 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

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 that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

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

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

13. Property, Plant & Equipment

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

Recognition

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

Measurement

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

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

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

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

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

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

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

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

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

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

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

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

De Minimis Levels

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

Impairment

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

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

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

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

Depreciation

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

Depreciation on all Property, Plant and Equipment assets (except vehicles) is calculated by taking the asset value at 31 March 2020, divided by remaining life expectancy. Depreciation is charged in the year of acquisition, but not the year of disposal. Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation that would have been chargeable based on their historic cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

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

Disposals

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

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

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

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

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

14. Public Private Partnership (PPP) Contracts

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

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

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

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

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

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

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

- In each month NECA pays a Shadow Toll to the Operator; this being a fixed amount per vehicle, adjusted for changes in RPI;
- Throughout the Term, Formula Tolls for each vehicle type are defined to equal the corresponding vehicle Shadow Tolls;

- The Formula Tolls are the initially-defined sequence of tolls to be charged to users and collected by NECA. If NECA varies a Real Toll from its corresponding Formula Toll beyond a certain level, the Operator is compensated for the effect of this adjustment on demand.

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

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

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

15. Provisions

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

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

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

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

16. Contingent Liabilities

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

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

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts. There are no contingent liabilities disclosed in 2019/20.

17. Reserves

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

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

18. Revenue Expenditure Funded from Capital under Statute

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

19. VAT

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

20. Overheads

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

21. Tyne Tunnels Income

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

22. Group Accounts

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

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

For the 2019/20 accounts, NECA has fully complied with the requirements of the Code, providing Group figures for 2019/20 and comparators for 2018/19. From 2010/11, Passenger Transport Executives have been required to produce their accounts under International Financial Reporting Standards, and as if the proper practices in relation to accounts applicable to a local authority were, so far as appropriate, applicable to an Executive. The group financial statements are prepared in accordance with the policies set out in the Statement of Accounting Policies above.

23. Joint Transport Committee

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

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

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

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

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

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

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

By similar rationale and argument, the division of assets, liabilities and expenditure incurred will also be divided on this basis.

Note 31: Events After the Balance Sheet Date

Adjusting events after the Balance Sheet date

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

Non-adjusting Events after the Balance Sheet date

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

3.1 Group Movement in Reserves Statement

	Note	NECA Usable Reserves	NECA Unusable Reserves	Total NECA Reserves	Authority Share of Nexus	Total Group Reserves
		£000	£000	£000	£000	£000
Balance at 1 April 2018		**(55,877)**	**(107,722)**	**(163,599)**	**(444,257)**	**(607,856)**
Total Comprehensive Income and Expenditure		**(5,066)**	**(230)**	**(5,296)**	**1,829**	**(3,467)**
Adjustments between accounting basis & funding basis under regulations		**3,026**	**(3,026)**	**-**		**-**
Balance at 1 November 2018		**(57,917)**	**(110,978)**	**(168,895)**	**(442,428)**	**(611,323)**
Transfer of Services to the NTCA at 2 November 2018		**16,952**	**40,548**	**57,500**	**195,896**	**253,396**
Balance at 2 November 2018		**(40,965)**	**(70,430)**	**(111,395)**	**(246,532)**	**(357,927)**
Total Comprehensive Income and Expenditure		(2,508)	(380)	**(2,888)**	**728**	**(2,160)**
Adjustments between accounting basis & funding basis under regulations		(3,325)	3,325	-	-	-
Net (Increase)/Decrease before transfers to Earmarked Reserves		**(5,833)**	**2,945**	**(2,888)**	**728**	**(2,160)**
Transfers (To)/From Earmarked Reserves				-		-
(Increase)/Decrease in 2018/19		**(5,833)**	**2,945**	**(2,888)**	**728**	**(2,160)**
Balance at 31 March 2019 carried forward		**(46,798)**	**(67,485)**	**(114,283)**	**(245,804)**	**(360,087)**
Total Comprehensive Income and Expenditure (prior to transfer of services)		(9,988)	(870)	**(10,858)**		(10,858)
Adjustments between accounting basis & funding basis under regulations (prior to transfer of services)		1,068	(1,068)	-	-	-
Net (Increase)/Decrease before transfers to Earmarked Reserves		**(8,920)**	**(1,938)**	**(10,858)**		**(10,858)**
(Increase)/Decrease in 2019/20		**(8,920)**	**(1,938)**	**(10,858)**		**(10,858)**
Balance at 31 March 2020 carried forward		**(55,718)**	**(69,423)**	**(125,141)**	**(245,804)**	**(370,945)**

3.2 Group Comprehensive Income and Expenditure Statement

2018/19					2019/20		
Gross Expenditure	Gross Income	Net Expenditure		Note	Gross Expenditure	Gross Income	Net Expenditure
£000	£000	£000			£000	£000	£000
			Continuing NECA Services				
1,044	(311)	733	Corporate		1,342	(597)	745
295	(294)	1	Inward Investment		374	(161)	213
52,283	(52,022)	261	Local Growth Fund Programme		23,562	(26,053)	(2,491)
5,248	(1,753)	3,495	North East Local Enterprise Partnership		3,680	(3,505)	175
767	(762)	5	Skills		290	(290)	-
105	-	105	Transport - Retained Levy Budget		143	-	143
15,692	-	15,692	Transport - Durham		15,552	-	15,552
96,944	(44,585)	52,359	Transport - Tyne and Wear		93,132	(44,445)	48,687
7,530	(13,972)	(6,442)	Transport - Other		9,984	(13,609)	(3,625)
16,527	(17,805)	(1,278)	Transport - Tyne Tunnels		14,250	(18,719)	(4,469)
196,435	**(131,504)**	**64,931**	**Cost of services relating to continuing services excluding operations transferred to the NTCA**		**162,308**	**(107,379)**	**54,930**
			Services transferred to the NTCA - income and expenditure for the period 1 April 2018 - 1 November 2018				
3,585	-	3,585	Transport - Northumberland		-	-	-
39	-	39	Transport - Retained Levy Budget		-	-	-
44,936	(20,666)	24,270	Transport - Tyne and Wear		-	-	-
2,320	(2,316)	4	Transport - Other		-	-	-
6,399	(9,159)	(2,760)	Transport - Tyne Tunnels		-	-	-
57,279	**(32,141)**	**25,138**	**Cost of services relating to services transferred to the NTCA**		**-**	**-**	**-**
253,714	**(163,645)**	**90,069**	**Cost of services**		**162,308**	**(107,379)**	**54,930**
			Financing and Investment Income and Expenditure	G2			
4,672	(1,696)	2,976	- From continuing services		9,509	(5,955)	3,554
2,434	(186)	2,248	- From services transferred to the NTCA		-	-	-
			Taxation and Non-Specific Grant Income	G3			
-	(65,958)	(65,958)	- From continuing services		-	(77,162)	(77,162)
-	(26,242)	(26,242)	- From services transferred to the NTCA		-	-	-
			(Gain)/Loss on disposal or derecognition of non-current assets				
		(11)	- From continuing services				116
		(5)	- From services transferred to the NTCA				-
		3,077	**(Surplus)/Deficit on Provision of Services**				**(18,562)**
		(418)	**Taxation of Group Entities**				
		2,659	**Group (Surplus)/Deficit**				**(18,562)**
			Other Comprehensive Income and Expenditure				
			Re-measurement of the defined benefit liability	G11			
		(5,855)	- From continuing services				
		(2,431)	- From services transferred to the NTCA				
		(5,627)	**Total Comprehensive Income and Expenditure**				**(18,562)**

3.3 Group Balance Sheet

31 March 2019 £000		Note	31 March 2020 £000
466,715	Property, Plant and Equipment	G6	479,019
1,483	Intangible Assets	G7	2,501
12,029	Long Term Debtors	G8	12,321
1	Long Term Investments	G8	1
480,228	**Long Term Assets**		**493,842**
65,281	Short Term Investments	G8	61,857
17,794	Short Term Debtors	G9	16,815
21,964	Cash and Cash Equivalents	G10	35,064
1,647	Inventories		2,008
106,686	**Current Assets**		**115,744**
(1,288)	Short Term Borrowing	G8	(1,298)
(29,636)	Short Term Creditors	G11	(27,946)
(1,205)	Grants Receipts in Advance	G5	(891)
(2,838)	New Tyne Crossing Deferred Income		(2,837)
(34,967)	**Current Liabilities**		**(32,972)**
(51,076)	New Tyne Crossing Deferred Income		(48,224)
(92,508)	Long Term Borrowing	G8	(95,072)
(125)	Grants Receipts in Advance	G5	-
(43,011)	Pension Liability	G12	(39,251)
(2,562)	Provisions		(2,898)
(2,578)	Deferred Taxation	G13	(2,578)
(191,860)	**Long Term Liabilities**		**(188,023)**
360,087	**Net Assets**		**388,591**
(58,243)	Usable Reserves	G14	(76,093)
(301,844)	Unusable Reserves	G15	(312,498)
(360,087)	**Total Reserves**		**(388,591)**

Chief Finance Officer Certificate

I certify that the accounts set out on pages 66 to 97 give a true and fair view of the financial position of the North East Combined Authority Group as at the 31 March 2020.

Signed: John Hewitt, Chief Finance Officer

3.4 Group Cash Flow Statement

2018/19 £000		Note	2019/20 £000
(3,077)	Surplus/(Deficit) on the provision of services	G15	18,562
43,205	Adjustments to net surplus or deficit on the provision of services for non-cash movements	G15	13,906
(84,911)	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	G15	(69,890)
(44,783)	**Net cash flows from Operating Activities**	G15	**(37,422)**
28,201	Investing Activities	G16	47,930
(4,314)	Financing Activities	G17	2,592
(20,896)	**Net (Decrease)/Increase in cash and cash equivalents**		**13,100**
59,878	Cash and cash equivalents at the beginning of the reporting period		21,964
(17,019)	Transfer to the NTCA		-
21,964	**Cash and cash equivalents at the end of the reporting period**	G9	35,064

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 2019/20, 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 adoped 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 58 of the single entity accounts.

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

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

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

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

For more details see Note 1 on page 8.

Note G02: Expenditure and Funding Analysis

	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	(95)	-	840	-	745
Inward Investment	213	-	-	-	213
Local Growth Fund Programme	(797)	(1,694)	-	-	(2,491)
North East Local Enterprise Partnership	175	-	-	-	175
Skills	-	-	-	-	-
Transport - Retained Levy Budget	438	(295)	-	-	143
Transport - Durham	15,552	-	-	-	15,552
Transport - Tyne and Wear	22,362	12,644	13,681	-	48,687
Transport - Other	(1,348)	(2,277)	-	-	(3,625)
Transport - Tyne Tunnels	(3,184)	(1,235)	(50)	-	(4,469)
Cost of services	**33,316**	**7,143**	**14,471**	**-**	**54,929**
Other Income and Expenditure	(46,565)	(28,339)	1,014	399	**(73,491)**
(Surplus)/Deficit on Provision of Services	**(13,249)**	**(21,196)**	**15,485**	**399**	**(18,561)**
Opening General Fund Balances	(44,067)				
Transfer from Capital Receipts Reserve	3,336				
Closing General Fund Balances	**(53,980)**				

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.

	2018/19				
	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
Continuing NECA Services					
Corporate	153	-	580	-	733
Inward Investment	1	-	-	-	1
Local Growth Fund Programme	502	(241)	-	-	261
North East Local Enterprise Partnership	3,495	-	-	-	3,495
Skills	5	-	-	-	5
Transport - Retained Levy Budget	335	(230)	-	-	105
Transport - Durham	15,692	-	-	-	15,692
Transport - Tyne and Wear	31,409	-	-	-	31,409
Transport - Other	(1,281)	(3,293)	-	-	(4,574)
Transport - Tyne Tunnels	(1,804)	576	(50)	-	(1,278)
Cost of services relating to continuing services excluding operations transferred to the NTCA	**48,507**	**(3,189)**	**530**	**-**	**45,849**
Services transferred to the NTCA					
Transport - Northumberland	3,585	-	-	-	3,585
Transport - Retained Levy Budget	222	(183)	-	-	39
Transport - Tyne and Wear	15,420	-	-	-	15,420
Transport - Other	2,621	(2,617)	-	-	4
Transport - Tyne Tunnels	(3,217)	457	-	-	(2,760)
Cost of services relating to services transferred to the NTCA	**18,630**	**(2,342)**	**-**	**-**	**16,288**
Cost of services	**67,137**	**(5,531)**	**530**	**-**	**62,137**
Other Income and Expenditure					
- From continuing services	(50,178)	-	20	(1,021)	(51,179)
- From services transferred to the NTCA	(18,532)	-	-	-	(18,532)
(Surplus)/Deficit on Provision of Services	**(1,573)**	**(5,531)**	**550**	**(1,021)**	**(7,574)**
Opening General Fund Balances	(47,458)				
Transferred to the NTCA 2 November 2018	16,407				
Closing General Fund Balances	**(32,624)**				

Note G02a: Income and Expenditure Analysed by Nature

	2018/19 £000	2019/20 £000
Expenditure		
Employee benefit expenses	2,372	31,879
Other service expenses	88,989	75,060
Depreciation, impairment and Revenue Expenditure Funded from Capital Under Statute (REFCUS)	69,170	55,531
Interest payments	5,651	9,509
Total expenditure	**166,182**	**171,979**
Income		
Fees, charges and other service income (Tyne Tunnels tolls)*	(22,788)	(43,340)
Interest and investment income	(2,805)	(6,686)
Income from business rates on enterprise zones	(1,675)	(2,398)
Income from transport levy	(69,683)	(49,598)
Government grants and contributions	(71,997)	(85,333)
Other income	(4,808)	(3,186)
Total income	**(173,756)**	**(190,541)**
Surplus/Deficit on the provision of services	**(7,574)**	**(18,562)**

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

Note G03: Financing and Investment Income and Expenditure

	Note	2018/19 Continuing Services	2018/19 Transport Services transferred to NTCA - 1 April 2018 - 1 November 2018	2019/20
		£000	£000	£000
Interest Payable and Similar Charges		3,676	1,982	4,358
Interest Payable on defined benefit liability	G11	995	452	1,014
Interest Receivable and similar income		(1,696)	(186)	(1,819)
Total		**2,975**	**2,248**	**3,553**

Note G04: Taxation and Non Specific Grant Income

	2018/19 Continuing Services	2018/19 Transport Services transferred to NTCA - 1 April 2018 - 1 November 2018	2019/20
	£000	£000	£000
Transport Levy	(50,133)	(18,689)	(49,598)
Enterprise Zones Income	(1,675)	-	(2,398)
Non Specific Capital Grants	(14,150)	(7,553)	(25,165)
Total	**(65,958)**	**(26,242)**	**(77,161)**

Note G05: Grant Income

	2018/19 Continuing Services	2018/19 Transport Services transferred to NTCA - 1 April 2018 - 1 November 2018	2019/20
	£000	£000	£000
LEP Core and Capacity Grant	(500)	-	(500)
Growth Hub	(410)	-	(442)
Local Authority Contributions to NECA	(440)	-	(352)
Local Authority Contribution to North East LEP	(250)	-	(253)
Local Growth Fund	(51,706)	-	(28,063)
Local Transport Plan	(7,773)	(2,316)	(7,770)
European Grants	(1,034)	(234)	(979)
North East Smart Ticketing Initiative	(463)	-	(202)
Transforming Cities Fund	(5,600)	-	(5,516)
LEP Local Industrial Strategy Grant	(176)	-	(224)
Office for Low Emission Vehicles	(393)	(234)	(302)
Other Grants	(964)	(230)	(2,609)
Metro Rail Grant	(14,579)	(6,758)	(14,534)
Heavy Rail Grant	(140)	(65)	(144)
Total	**(84,428)**	**(9,837)**	**(61,890)**

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 2019 £000**	**31 March 2020 £000**
North East Smart Ticketing Initiative	(316)	(114)
Office for Low Emission Vehicles	(443)	(141)
Other Grants	(571)	(636)
Total	**(1,330)**	**(891)**

Shown as Short-Term Liability on the Balance Sheet	(1,205)	(891)
Short as Long-Term Liability on the Balance Sheet	(125)	-
Total	**(1,330)**	**(891)**

Note G06: Property, Plant and Equipment

	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	209,166
Additions	-	-	31,126	-	31,126	-
Transfers from Assets Under Construction	419	27,516	(27,935)	-	-	10,193
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**	**633,936**	**25,743**	**1,957**	**682,846**	**219,359**
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	-	-	1,100	-
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**	**182,732**
At 31 March 2020	**7,135**	**444,599**	**25,743**	**1,542**	**479,019**	**190,701**

	2018/19					
	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 2018	34,975	1,071,546	43,586	1,739	**1,151,846**	**381,072**
Additions	-	-	17,527	-	**17,527**	-
Transfers from Assets Under Construction	1,485	17,062	(18,547)	-	**-**	-
Derecognition - Disposals	(58)	(2,034)	-	-	**(2,092)**	-
At 2 November 2018	**36,402**	**1,086,574**	**42,566**	**1,739**	**1,167,281**	**381,072**
Transferred to the NTCA	(16,118)	(481,108)	(18,847)	(770)	**(516,843)**	(168,729)
Additions	-	24	7,388	-	**7,412**	24
Transfers from Assets Under Construction	591	6,791	(7,382)	-	**-**	-
Revaluation increases/(decreases) recognised in Surplus/Deficit on the Provision of Services	-	(24)	-	-	**(24)**	(24)
Impairment recognised in Surplus/Deficit on Provision of Services	-	(3,180)	-	-	**(3,180)**	**(3,180)**
Derecognition - Disposals	(23)	(809)	-	-	**(832)**	-
At 31 March 2019	**20,852**	**608,268**	**23,725**	**969**	**653,815**	**209,163**

Accumulated Depreciation and Impairment						
At 1 April 2018	(20,843)	(287,122)	-	(666)	**(308,631)**	(43,738)
Depreciation charge for the period 1/4/18-1/11/18	(1,575)	(16,288)	-	(23)	**(17,886)**	(2,233)
Derecognition - Disposals	56	1,927	-	-	**1,983**	-
At 2 November 2018	(22,362)	(301,483)	-	(689)	**(324,534)**	(45,971)
Transferred to the NTCA	9,902	133,489	-	305	**143,696**	20,355
Depreciation charge for the period 2/4/18-31/3/19	(627)	(6,413)	-	(9)	**(7,049)**	(818)
Derecognition - Disposals	22	767	-	-	**789**	-
At 31 March 2019	**(13,065)**	**(173,640)**	**-**	**(393)**	**(187,098)**	**(26,434)**

Net Book Value						
At 1 April 2018	**14,130**	**784,428**	**43,586**	**1,073**	**843,217**	**337,338**
At date of reconfiguration	14,040	785,091	42,566	1,050	842,747	335,101
At 31 March 2019	**7,787**	**434,628**	**23,725**	**576**	**466,716**	**182,729**
At 31 March 2020	**7,135**	**444,599**	**25,743**	**1,542**	**479,019**	**190,701**

Note G07: Intangible Assets

Intangible assets in the Group Accounts relate wholly to Nexus.

	2018/19 £000	2019/20 £000
Cost or Valuation		
Opening Balance	8,157	4,778
Transferred to the NTCA 2 November 2018	(3,720)	-
Additions	343	397
Transfers from assets under construction		824
Derecognition - Disposals		(39)
Total	**4,780**	**5,960**
Amortisation		
Opening Balance	5,297	3,296
Transferred to the NTCA 2 November 2018	(2,506)	-
Amortisation provided during the period	506	164
Total	**3,297**	**3,460**
Net Book Value at 31 March	**1,483**	**2,500**

Note G08: Financial Instruments

Reclassification and Remeasurement of financial instruments at 1 April 2018

From 1 April 2018 a new accounting standards, IFRS 9 Financial Instruments, applies which changes the accounting treatment of financial instruments. Under the new arrangements, financial assets must be reviewed and reclassified into new categories.

The categorisation of financial assets under the new arrangements is detailed in the following table:

	Carrying amount brought forward at 1 April 2018	Amortised cost	Non-financial instrument balances
	£000	£000	£000
Previous classifications			
Loans & receivables	113,112	107,022	6,090
Cash & cash equivalents	59,878	59,878	-
Available for sale	-	-	-
Fair value through profit and loss	-	-	-
Reclassified amounts at 1 April 2018	-	-	-
Remeasurements at 1 April 2018	-	-	-
Remeasured carrying amounts at 1 April 2018	**172,990**	**166,900**	**6,090**

The categorisation of financial liabilities under the new arrangements is detailed in the following table:

	Carrying amount brought forward at 1 April 2018	Amortised cost	Non-financial instrument balances
	£000	£000	£000
Previous classifications			
Short Term Borrowing	(2,596)	(2,596)	-
Long Term Borrowing	(167,000)	(167,000)	-
Short Term Creditors	(59,976)	(51,526)	(8,450)
Reclassified amounts at 1 April 2018	-	-	-
Remeasurements at 1 April 2018	-	-	-
Remeasured carrying amounts at 1 April 2018	**(229,572)**	**(221,122)**	**(8,450)**

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 2019 £000	31 March 2020 £000	31 March 2019 £000	31 March 2020 £000	31 March 2019 £000	31 March 2020 £000	31 March 2019 £000	31 March 2020 £000
Amortised cost	1	1	11,712	-	65,281	61,857	8,674	6,926
Total financial assets	**1**	**-**	**11,712**	**-**	**65,281**	**61,857**	**8,674**	**6,926**
Non-financial assets	-	-	-	-	-	-	9,073	9,888
Total	**1**	**-**	**11,712**	**-**	**65,281**	**61,857**	**17,747**	**16,814**

Financial assets at amortised cost

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

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

Trade receivables

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

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

Financial Liabilities held at amortised cost

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

	Non-current				Current			
	Borrowings		Creditors		Borrowings		Creditors	
	31 March 2019 £000	31 March 2020 £000	31 March 2019 £000	31 March 2020 £000	31 March 2019 £000	31 March 2020 £000	31 March 2019 £000	31 March 2020 £000
Amortised cost	(92,508)	(95,072)	-	-	(1,288)	(1,298)	(12,854)	(5,748)
Total financial liabilities	**(92,508)**	**(95,072)**	**-**	**-**	**(1,288)**	**(1,298)**	**(12,854)**	**(5,748)**
Non-financial liabilities	-	-	-	-	-	-	(16,873)	(22,199)
Total	**(92,508)**	**(95,072)**	**-**	**-**	**(1,288)**	**(1,298)**	**(16,873)**	**(27,947)**

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

Income, Expense, Gains and Losses

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

31 March 2019				31 March 2020		
£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
5,658	-	5,658	Interest expense	4,176	-	4,176
5,658	**-**	**5,658**	**Total expense in Surplus on Provision of Services**	**4,176**	**-**	**4,176**
-	(1,523)	(1,523)	Investment income	-	(2,092)	(2,092)
-	(359)	(359)	Movement on soft loans	-	(132)	(132)
-	**(1,882)**	**(1,882)**	**Total income in Surplus on Provision of Services**	**-**	**(2,224)**	**(2,224)**
5,658	**(1,882)**	**3,776**	**Net (gain)/loss for the year**	**4,176**	**(2,224)**	**1,952**

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 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 2019/20 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:

		31 March 2019		31 March 2019	
	Note	**Carrying amount £000**	**Fair value £000**	**Carrying amount £000**	**Fair value £000**
Financial liabilities held at amortised cost	2	(93,796)	(151,424)	(97,658)	(167,348)
Total		**(93,796)**	**(151,424)**	**(97,658)**	**(167,348)**
Financial Assets at amortised cost					
Held to maturity investments		65,281	65,281	61,857	61,857
Loan debtors [1]	3	17,373	17,373	12,321	12,321
Total		**82,654**	**82,654**	**74,178**	**74,178**

[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 2019 £000	31 March 2020 £000
Central Government bodies	8,012	11,881
Other local authorities	5,518	4,799
NHS bodies	45	2
Other entities and individuals	4,219	133
Total	**17,794**	**16,815**

Note G10: Cash and Cash Equivalents

	31 March 2019 £000	31 March 2020 £000
Cash	11,170	21,716
Short-term deposits with financial institutions	10,794	13,348
Total	**21,964**	**35,064**

Note G11: Short Term Creditors

	31 March 2019 £000	31 March 2019 £000
Central government bodies	(515)	(1,439)
Other local authorities	(11,415)	(7,844)
Other entities and individuals	(17,707)	(14,792)
- Nexus		283
- TT2		(1,693)
- Other		(2,461)
Total	**(29,637)**	**(27,946)**

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 £69.792m (2019 £76.462m) is the sum of the NECA, Nexus and NEMOL pension liability. The details of the NEMOL pension liability of £13.702m (2019 £32.152m) are set out within the NEMOL Annual Report and Accounts using the FRS 101 disclosure framework.

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	
	2018/19	2019/20	2018/19	2019/20
	£000	£000	£000	£000
Cost of Services:				
Current service cost [1]	9,844	8,222	-	-
Past service cost	6,464	65	-	-
Financing and Investment Income and Expenditure		-		-
Interest cost	1,346	5,086	102	65
Total Post-Employment benefit charged to the Surplus or Deficit on the Provision of Services	**17,654**	**9,236**	**102**	**65**
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	(12,957)	(14,940)	-	-
Remeasurement of the net Defined Benefit Liability	3,224	12,476	(112)	(295)
Adjustment in respect of paragraph 58	1,560	(6,170)	-	-
Total amount recognised in Other Comprehensive Income and Expenditure	**(8,173)**	**(8,634)**	**(112)**	**(295)**
Total amount recognised in CIES	**9,481**	**602**	**(10)**	**(230)**

1. The Current Service cost includes an allowance for administration expenses of £0.01m for NECA and £0.171m for the Nexus Group.

Reconciliation of the Present Value of Scheme Liabilities:

	LGPS		Discretionary Benefits	
	2018/19	2019/20	2018/19	2019/20
	£000	£000	£000	£000
Opening balance at 1 April	**(395,160)**	**(251,679)**	**(4,870)**	**(2,880)**
Current service cost to 2 November	(6,988)	-	-	-
Interest cost to 2 November	(5,927)	-	(70)	-
Contributions by participants to 2 November	(1,499)	-	-	-
November	(2,258)	-	76	-
Net benefits paid out to 2 November	6,633	-	233	-
Past service costs to 2 November	(4,603)	-	-	-
Closing balance at 2 November	**(409,802)**	**(251,679)**	**(4,631)**	**(2,880)**
Transfer to NTCA	**164,056**	**-**	**1,645**	**-**
Current service cost to 31 March	(2,855)	(8,206)	-	-
Interest cost to 31 March	(2,542)	(6,016)	(32)	(65)
Contributions by participants to 31 March	(615)	(1,680)	-	-
March	(967)	(12,482)	36	325
Net benefits paid out to 31 March	2,911	8,312	102	239
Past service costs to 31 March	(1,865)	(67)	-	-
Closing balance at 31 March	**(251,679)**	**(271,818)**	**(2,880)**	**(2,381)**

Reconciliation of the Fair Value of the Scheme Assets:

	LGPS		Discretionary Benefits	
	2018/19	2018/19	2018/19	2018/19
	£000	£000	£000	£000
Opening balance at 1 April	**335,520**	**220,326**	**-**	**-**
Interest income on assets to 2 November	5,075	-	-	-
Remeasurement gains/(losses) on assets to 2 November	8,937	-	-	-
Employer contributions to 2 November	3,663	-	233	-
Contributions by scheme participants to 2 November	1,499	-	-	-
Net benefits paid out to 2 November	(6,633)	-	(233)	-
Balance at date of reconfiguration	**348,061**	**220,326**	**-**	**-**
Transfer to NTCA	**(133,155)**	**-**	**-**	**-**
Interest income on assets to 31 March	2,238	5,279	-	-
Remeasurement gains/(losses) on assets to 31 March	4,020	14,940	-	-
Employer contributions to 31 March	1,458	3,855	102	239
Contributions by scheme participants to 31 March	615	1,680	-	-
Net benefits paid out to 31 March	(2,911)	(8,312)	(102)	(239)
Closing balance 31 March	**220,326**	**237,768**	**-**	**-**

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	2015/16 £000	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000
Fair value of LGPS assets	**222,650**	**271,850**	**335,520**	**220,327**	
Present value of liabilities:					
- LGPS liabilities	(251,680)	(301,460)	(395,160)	(251,678)	(271,818)
- Impact of minimum funding	(5,520)	(7,460)	(7,030)	(8,780)	(2,820)
Deficit on funded defined benefit scheme	**(34,550)**	**(37,070)**	**(66,670)**	**(40,131)**	**(36,871)**
Discretionary benefits	(5,090)	(5,130)	(4,870)	(2,880)	(2,380)
Total (Deficit)	**(39,640)**	**(42,200)**	**(71,540)**	**(43,011)**	**(39,251)**

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	5%	37%	85%
Deferred pensioners	10%	13%	5%
Pensioners	85%	50%	10%

The weighted average duration of the defined benefit obligation for scheme members is 13.3 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 £274.638m has an impact on the net worth of the Authority recorded on the balance sheet, resulting in a negative pension balance of £39.250m. 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 2020 is nil for NECA, £3.03m for Nexus and £0.38m for NEMOL (of which £1.69m and £0.21m respectively attributed to NECA) . In addition, Strain on the Fund contributions may be required. Expected payments direct to beneficiaries in the year to 31 March 2020 are £0.05m in relation to unfunded benefits for NECA and £0.350m in relation to unfunded benefits for Nexus (of which £0.19m attributed to NECA).

Basis for Estimating Assets and Liabilities

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

The principal assumptions used by the actuary have been:

NECA and Nexus	**LGPS**		**Discretionary Benefits**	
	2018/19	**2019/20**	**2018/19**	**2019/20**
Mortality assumptions:				
Longevity at 65 for current pensioners:				
Men	22.2	21.8	22.2	21.8
Women	25.3	25.0	25.3	25.0
Rate for discounting scheme liabilities	2.4%	2.3%	2.4%	2.3%
Rate of inflation - Retail Price Index	3.3%	n/a	3.3%	n/a
Rate of inflation - Consumer Price Index	2.2%	2.0%	2.2%	2.0%
Rate of increase in pensions	2.2%	2.0%	2.2%	2.0%
Pension accounts revaluation rate	2.2%	2.2%	n/a	2.2%
Rate of increase in salaries	3.7%	3.5%	n/a	3.5%

NEMOL	**LGPS**		**Discretionary Benefits**	
	2018/19	**2019/20**	**2018/19**	**2019/20**
Mortality assumptions:				
Longevity at 65 for current pensioners:				
Men	22.2	21.8	22.2	21.8
Women	25.3	25.0	25.3	25.0
Rate for discounting scheme liabilities	2.5%	2.3%	2.4%	2.3%
Rate of inflation - Retail Price Index	3.2%	n/a	3.3%	n/a
Rate of inflation - Consumer Price Index	2.1%	1.9%	2.2%	1.9%
Rate of increase in pensions	2.1%	1.9%	2.2%	1.9%
Pension accounts revaluation rate	2.1%	2.1%	n/a	2.1%
Rate of increase in salaries	3.6%	3.4%	n/a	3.4%

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

	31 March 2019	**31 March 2020**		
	% Total	**% Quoted**	**% Unquoted**	**% Total**
Equity investments	65.0%	48.0%	6.8%	54.8%
Property	8.8%	0.0%	9.0%	9.0%
Government bonds	4.1%	4.1%	0.0%	4.1%
Corporate bonds	11.7%	15.3%	0.0%	15.3%
Cash	2.7%	2.3%	0.0%	2.3%
Other*	7.7%	8.5%	6.0%	14.5%
Total	**100.0%**	**78.2%**	**21.8%**	**100.0%**

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

Actual Return on Assets

	Local Government	
	2018/19	2019/20
	£000	£000
Interest Income on Assets	7,313	5,279
Remeasurement gain/(loss) on assets	12,957	14,940
Actual Return on Assets	**20,270**	**20,219**

Sensitivity Analysis

Sensitivity analysis of NECA pension liabilities is set out on pages 35 to 36 of the single entity accounts. Sensitivity analysis of the Nexus pension liabilities is shown below.

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

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)	361.31	368.31	375.31
% change in present value of total obligation	-1.90%		1.90%
Projected service cost (£M)	11.02	11.43	11.85
Approximate % change in projected service cost	-3.60%		3.70%

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)	369.41	368.31	367.21
% change in present value of total obligation	0.30%		-0.30%
Projected service cost (£M)	11.43	11.43	11.43
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	374.20	368.31	362.42
% change in present value of total obligation	1.60%		-1.60%
Projected service cost (£M)	11.85	11.43	11.02
Approximate % change in projected service cost	3.70%		-3.60%

Post retirement mortality assumption	-1 year	Base Figure	+1 year
Adjustment to mortality age rating assumption *			
Present value of total obligation (£M)	380.10	368.31	356.52
% change in present value of total obligation	3.20%		-3.20%
Projected service cost (£M)	11.88	11.43	10.98
Approximate % change in projected service cost	3.90%		-3.90%

* 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:

	2018/19 £000	2019/20 £000
Capital Allowances	(112)	-
Roll over relief on capital gains	-	-
Other timing differences	-	-
Amount transferred to NTCA 2 November 2018	(2,074)	-
Total	**(2,186)**	**-**

The balance at the year end comprises:

	31 March 2019 £000	31 March 2020 £000
Excess of capital allowances over depreciation	(1,892)	-
Roll over relief on capital gains	(687)	-
Other timing differences	-	-
Tax effect of losses	-	-
Total	**(2,579)**	**-**

Note G14: Usable Reserves

	31 March 2019 £000	31 March 2020 £000
General Fund Balance	(52,192)	(49,239)
Earmarked Reserves	(9,792)	(12,372)
Capital Receipts Reserve	(2,502)	(8,889)
Capital Grants Unapplied Reserve	(11,673)	(13,224)
Pensions (NEMOL)	17,916	7,633
Total	**(58,243)**	**(76,091)**

Note G15: Unusable Reserves

Summary

	31 March 2019 £000	31 March 2020 £000
Capital Adjustment Account	(325,618)	(341,308)
Financial Instruments Adjustment Account	3,682	3,093
Revaluation Reserve	(5,000)	(5,908)
Pension Reserve	25,095	31,625
Total	**(301,844)**	**(312,498)**

Details of movements on the Financial Instruments Adjustment Account is shown on page 38 of the NECA single entity accounts. This reserve relates to NECA only.

Revaluation Reserve

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

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

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

	£000
Opening Balance 1 April 2018	**(9,120)**
Transferred to the NTCA 2 November 2018	**4,039**
CAA	81
Balance at 31 March 2019	**(5,000)**
CAA	81
Revaluation Gain recognised in Revaluation Reserve	(988)
Balance at 31 March 2020	**(5,907)**

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
Opening Balance 1 April 2018	**43,800**
Remeasurements of the net defined benefit liability	(4,529)
Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the CIES to 2 November 2018	6,938
Employer's pension contributions and direct payments to pensioners payable in the year	(2,101)
Balance at dcate of reconfiguration	**44,108**
Transfer to NTCA	**(19,118)**
Remeasurements of the net defined benefit liability to 2 November 2018	(2,091)
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 2019	3,040
Employer's pension contributions and direct payments to pensioners to 31 March 2019	(844)
Balance at 31 March 2019	**25,095**
Remeasurements of the net defined benefit liability to 31 March 2020	(8,955)
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	10,091
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**

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
Opening Balance 1 April 2018	**(572,135)**
Reversal of items relating to capital expenditure debited or credited to the CIES: to 2 November 2018	
Charges for depreciation and impairment of non current assets	17,207
Amounts of non-current assets written off on disposal or sale	2,010
Other income that cannot be credited to the General Fund	(3,000)
Revenue expenditure funded from capital under statute	5,144
Nexus movement between usable and unusable reserves	1,784
Capital financing applied in the year:	
financing	(22,203)
Statutory provision for the financing of capital investment	(981)
Capital expenditure charged against the General Fund	(998)
Balance at date of reconfiguration	**(573,172)**
Transferred to the NTCA	**243,433**
Reversal of items relating to capital expenditure debited or credited to the CIES to 31 March 2019:	
Charges for depreciation and impairment of non current assets	9,982
Amounts of non-current assets written off on disposal or sale	800
Other income that cannot be credited to the General Fund	(1,166)
Revenue expenditure funded from capital under statute	57,695
Write down of long term debtors	3,794
Nexus movement between usable and unusable reserves	710
Adjusting amounts written out of the Revaluation Reserve to 31 March 2019	**(81)**
Capital financing applied in the year to 31 March 2019	
financing	(64,670)
Statutory provision for the financing of capital investment	(540)
Capital expenditure charged against the General Fund	(421)
Debt redeemed using capital receipts	(1,983)
Balance at 31 March 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:	-
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)**

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

	2018/19 £000	2019/20 £000
Surplus/(Deficit) on the provision of services	(3,077)	18,562
Adjustments to Surplus/(Deficit) on Provision of Services for Non-Cash Movements		
Depreciation, Impairment and Amortisation	28,647	17,596
Loss on disposal of non-current assets	136	(9,967)
(Increase)/Decrease in Creditors	7,273	2,159
Increase/(Decrease) in Debtors	(91)	525
Increase/(Decrease) in Inventories	(85)	(3,214)
Movement in Pension Liability	12,296	4,397
Other non-cash items charged to the net surplus or deficit on the provision of services	(4,970)	-
	43,206	**11,497**
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	(85,860)	(69,890)
Other adjustments for items that are financing or investing activities	949	592
Capital grants received		(29,611)
Net cash flow from operating activities	**(44,782)**	**(68,850)**

The cash flows for operating activities include the following items:

	2018/19 £000	2019/20 £000
Interest received	3,491	2,224
Interest paid	(6,317)	(4,196)

Note G17: Cash Flow Statement - Investing Activities

	2019/20 £000	2019/20 £000
Purchase of property, plant and equipment, investment property and intangible assets	(25,283)	(1,596)
Purchase of short-term and long-term investments	(157,517)	(188,000)
Other payments for investing activities	-	-
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	15	11
Proceeds from short-term and long-term investments	123,426	188,000
Other receipts from investing activities	87,559	49,792
Net cash flows from investing activities	**28,200**	**48,207**

Note G18: Cash Flow Statement - Financing Activities

	2018/19 £000	2019/20 £000
Repayments of short and long-term borrowing	(2,102)	1,537
Other payments for financing activities	(2,212)	(548)
Net cash flows from financing activities	**(4,314)**	**989**

Note G19: Capital Expenditure and Capital Financing

	£000
Opening Capital Financing Requirement 1 April 2018	**195,383**
Capital Investment to 2 November 2018	
Property, Plant and Equipment	19,457
Intangible Assets	246
Revenue Expenditure Funded from Capital Under Statute	5,144
Sources of Finance to 2 November 2018	
Government Grants and other contributions	(22,203)
Sums set aside from revenue to 2 November 2018	
Direct revenue contributions	(998)
Minimum Revenue Provision	(981)
Closing Capital Financing Requirement 2 November 2018	**196,048**
Transfer to NTCA	**(86,805)**
NECA Capital Financing Requirement 2 November 2018	**109,243**
Capital Investment to 31 March 2019	
Property, Plant and Equipment	8,180
Intangible Assets	98
Revenue Expenditure Funded from Capital Under Statute	57,695
Sources of Finance to 31 March 2019	
Capital receipts - repayment of principal from long term debtors	(1,983)
Government Grants and other contributions	(64,670)
Sums set aside from revenue to 31 March 2019	
Direct revenue contributions	(421)
Minimum Revenue Provision	(387)
Additional Voluntary Provision	(153)
Closing Capital Financing Requirement 31 March 2019	**107,601**
Decrease in underlying need to borrow (unsupported by government financial assistance)	**(977)**

	£000
Opening Capital Financing Requirement 1 April 2019	**107,601**
Capital Investment	
Property, Plant and Equipment	31,204
Intangible Assets	397
Revenue Expenditure Funded from Capital Under Statute	37,538
Sources of Finance	-
Capital receipts - repayment of principal from long term debtors	(2,510)
Government Grants and other contributions	(68,339)
Sums set aside from revenue	-
Direct revenue contributions	(2,063)
Minimum Revenue Provision	(964)
Additional Voluntary Provision	-
Closing Capital Financing Requirement 31 March 2020	**102,864**
Decrease in underlying need to borrow (unsupported by government financial assistance)	**(4,736)**

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
Capital Adjustment Account	The account accumulates (on the debit side) the write down of the historical cost of fixed assets as they are consumed by depreciation and impairments or written off on disposal. It accumulates (on the credit side) the resources that have been set aside to finance capital expenditure. The same process applies to capital expenditure that is only capital by statutory definition (revenue expenditure funded from capital under statute). The balance on the account represents timing differences between the amount of the historical cost of fixed assets that has been consumed and the amount that has been financed in accordance with statutory requirements.

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

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

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

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

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

Appendix 2

Narrative Report for the Year ended 31 March 2020

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 2019/20 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 2020 and its financial position at that date.
- A look ahead to 2020/21 and beyond.

The Statement of Accounts sets out the financial performance of the Authority for the year ending 31 March 2020 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. NECA is also the Accountable Body for the North East Local Enterprise Partnership (North East LEP). Our accounts include all transactions relating to the North East LEP and summary information is highlighted in this report.

These statements and accounts collectively provide a comprehensive view of the Authority's financial position during the period to which they relate. The 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 the 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 2020/21, 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.

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. As NECA was the 'Accountable Body' for the North East LEP during 2019/20, all of its financial information is included in the accounts of NECA. From 1 April 2020, this role transferred to the NTCA.

Revenue Financial Summary 2019/20

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 £109.658m was managed within the revised revenue budget and income received was £113.960m, which resulted in a net surplus of £4.302m. This was in line with forecasts and and includes a planned contribution to reserves of £3.402m (including £0.069m interest) to provide match funding for the Metro Fleet replacement.

Table 1: Summary of Revenue Expenditure

	2019/20 Revised Budget	2019/20 Actual	Variance
	£000	£000	£000
Expenditure			
Joint Transport Committee			
- Retained levy budget	2,101	1,993	(108)
- Grant to Durham	15,552	15,552	-
- Grant to Nexus	55,667	55,667	-
- Grant to Northumberland	6,094	6,094	-
Tyne Tunnels			
- Contract Payments	21,233	21,123	(110)
- JTC costs	237	424	187
- Financing Costs	6,818	6,588	179
Other Transport Activity			
- Transport Strategy Unit	1,325	1,113	(212)
Invest North East England	425	359	(10)
Corporate/Central Budget	690	455	(235)
Mental Health Trailblazer Project and NETA	290	290	-
			-
Total Expenditure	**110,432**	**109,658**	**(309)**
Income			
External Grant Funding	(1,632)	(1,524)	108
Transport Levies	(82,766)	(82,766)	-
Tolls Income	(28,160)	(28,481)	(321)
Interest/Investment Income	(223)	(394)	(171)
Contributions from Constituent Authorities	(371)	(371)	-
Contributions from NELEP	(279)	(206)	73
Other Income	(185)	(218)	(33)
Total Income	**(113,616)**	**(113,960)**	**(344)**
Net Revenue Expenditure to fund from Reserves	**(3,184)**	**(4,302)**	**(653)**

This statement provides a comparison of the outturn position with the NECA (including JTC) revised revenue budget for 2019/20, before any allocation of costs and income between the accounts of NECA and NTCA. The purpose of this statement is to give the reader an understanding of overall spending and income for the whole year, in comparison with the revised budget.

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

The **Movement in Reserves Statement** (MIRS, page 4 of the Statement of Accounts) reflects these statutory adjustments and shows how the financial performance for the year has impacted on the Authority's reserves. There has been an increase in reserves from £114.283m at 31 March 2019 to £125.141m at 31 March 2020, mainly due to funds set aside to meet expenditure in future years, such as capital grants received in advance and contribution to earmarked reserves held for Metro Fleet renewal.

The gross cost of services during the year including capital grants to third parties as well as revenue expenditure was £104.772m (£160.531m in 2018/19 – which included Transport activity relating to the NTCA area up to 2 November 2018). This includes all areas of NECA's and the North East LEP's activity. 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 £41.758m (£63.132m in 2018/19 – which included Transport activity relating to the NTCA area up to 2 November 2018). This was funded from a range of sources including the Transport Levy, other contributions from Constituent Authorities, Government Grants, Fees and Charges, and Enterprise Zones Business Rates Income. The net cost was lower than in 2018/19 due mainly to lower levels of capital grants issued in the year (REFCUS) on the Local Growth fund programme and higher levels of Government grants received in advance of expenditure, for example the Transforming Cities Tranche 2 grant received in March 2020 (£9.901m) and not yet applied to fund expenditure.

The balance of usable reserves at the year-end was £55.717m, which is a £8.920m increase on the previous year. This is made up of a number of different elements, most of which are held for specific purposes. The increase is due to the increase in capital grants received which have not yet been applied to fund expenditure (known as the Capital Grants Unapplied reserve) and the increase in earmarked reserves held on behalf of Nexus to fund the local contribution to the Fleet Replacement project and Asset Renewal Programme, as well as an increase in balances held on behalf of the North East LEP including the North East Investment Fund.

3. Capital Investment

Capital investment (including Nexus as part of the NECA Group) during the year totalled £99.462m. Expenditure consisted of capital expenditure on the Authority's own assets, capital expenditure via capital grants to third parties and long-term capital loans to third parties. An analysis of capital investment by programme are shown in the following table.

Table 2: Capital Expenditure by Programme

	2019/20 Revised	2019/20 Actual	2019/20 Variance
	£000	£000	£000
Transforming Cities Fund Tranche 1	9,102	6,129	(2,973)
Go Ultra Low	1,083	699	(384)
Metro Asset Renewal Plan	31,088	28,496	(2,592)
Metro Fleet Replacement	30,200	24,932	(5,268)
Nexus non-Metro	2,292	440	(1,852)
Tyne Tunnels	2,090	2,268	178
Local Transport Plan *	11,539	11,272	(267)
Local Growth Fund *	25,280	23,594	(1,686)
North East Investment Fund	1,632	1,632	-
Total Funding	**114,306**	**99,462**	**(14,844)**

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

The largest area of capital expenditure is in relation to Transport, reflecting the NECA's responsibilities as the accountable body for the North East Joint Transport Committee. Capital expenditure on Economic Assets and Infrastructure and Economic Development comprises Local Growth Fund and the North East Investment Fund activity which is reported in NECA's role as accountable body for the LEP.

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

Table 3: Capital Funding 2019/20

	2019/20 Actual	2019/20
	£000	%
Local Growth Fund Grant	28,629	28.8%
Local Transport Plan Grant	13,921	14.0%
Metro Capital Grant	23,149	23.3%
Metro Fleet Grant	21,600	21.7%
Transforming Cities Fund Grant	6,129	6.2%
Other Capital Grants	699	0.7%
North East Investment Fund	1,632	1.6%
Reserves	3,703	3.7%
Total Funding	**99,462**	**100.0%**

4. Treasury Management

The Balance Sheet on page 6 of the accounts shows external borrowing of £96.370m at the end of the year, which is split between short term borrowing (£1.298m) and long term borrowing (£95.072m), after the allocation of part of the transport borrowing to NTCA accounts. This is a small increase compared to the previous year due to new PWLB borrowing taken out during the year to fund Enterprise Zones activity. 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 £61.857m in the NECA accounts at the end of the year compared to £65.281m at the end of the previous year. The total of investments included £21.268m of investments held on behalf of Nexus, with a further £13.348m cash equivalents. The increase in the combined total of short-term investments and cash equivalents in 2019/20 (£75.205m) compared to the previous year (£69.182m) is primarily due to the receipt of more grants in advance and the growth in reserves, such as the Metro fleet replacement reserve and NEIF funds.

5. Debtors

The Balance Sheet on page 8 of the accounts shows a short-term debtors balance at 31 March 2020 of £8.899m (£11.926m at 31 March 2019). These balances mainly relate to interest and principal repayments due within 12 months on loans issued and business rates income from enterprise zones and are analysed in more detail in Note 14 on page 29 in the accounts.

6. Creditors

Short term creditors at 31 March 2020 were £39.984m (£51.118m at 31 March 2020). These balances are analysed in more detail in Note 17 on page 29 in the accounts. The main reason for the decrease is the balances owed to Nexus for short term investments and cash equivalents placed on their behalf (£48m total creditor of which £26.739m 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 £2.82m at 31 March 2020, compared with £8.78m at 31 March 2019. The reduction in year is due to market conditions at 31 March 2020 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 particularly in relation to the North East LEP.

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 2019/20. At the end of the year there was an unfunded liability of £0.84m (£0.9m at 31 March 2019) and this is disclosed on the Balance Sheet.

The deficit as at 31 March 2020 takes into account the national judgements on McCloud and Guaranteed Minimum Pensions (GMP). The actuarial valuation is influenced by a number of economic factors and this includes the potential impact of Brexit. Note 19 to the accounts on page 31 provides further analysis and disclosure of the Pension Fund liability.

Net Assets

Net assets in the NECA accounts have increased from £114.283m at 31 March 2019 to £125.141m at 31 March 2020. The increase in total net assets is due to an increase in fixed assets and short term investments/cash equivalents due to the receipt of additional capital grants (e.g. Transforming Cities grant) and other amounts held in earmarked reserves to fund activity in future years.

8. Group Results

The Group Accounts included as part of the Statement of Accounts fully incorporate the results of Nexus (The Tyne and Wear Passenger Transport Executive). More details can be found in Group Note 1 on page 70.

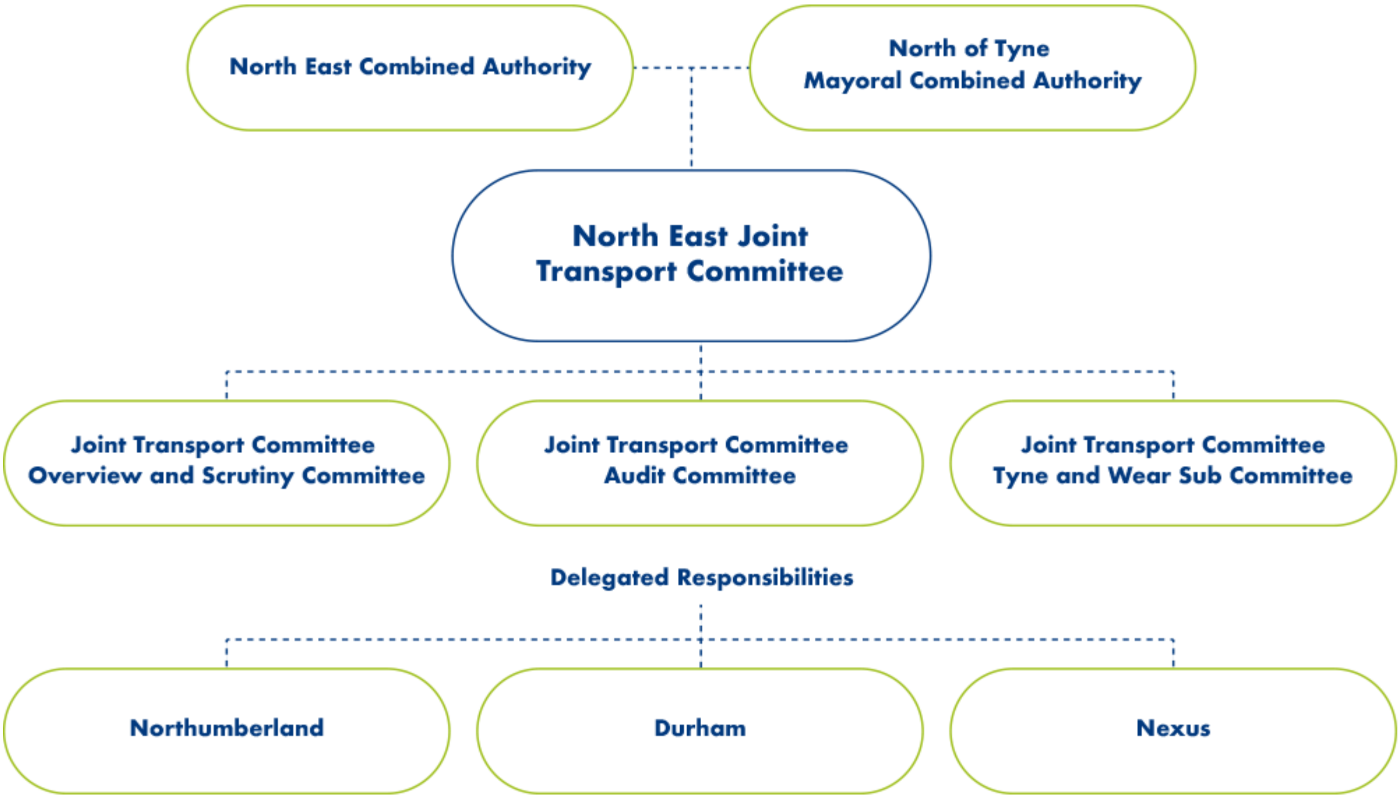
The Nexus accounts are apportioned between NTCA and NECA accounts (after elimination of intra-Group transactions), with the balance sheet information at 31 March 2020 allocated between the two Combined Authorities in proportion to their relative share of Tyne and Wear Population as set out in table 9. The full accounts for the Nexus Group and more information about their activity and performance can be obtained from the Nexus website at https://www.nexus.org.uk.

9. Accounting for the North East Joint Transport Committee

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

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

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



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

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

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

For the 2019/20 accounts the mid-year estimated population published by the Office of National Statistics as at June 2017 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 2020 is shown in Table 4 below.

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

	Mid Year 2017 Population	Proportion
	People	Proportion
NECA		
- Gateshead	202,419	
- South Tyneside	149,555	
- Sunderland	277,249	
	629,223	0.55706
NTCA		
- Newcastle	295,842	
- North Tyneside	204,473	
	500,315	0.44294
Tyne and Wear Total	**1,129,538**	**1**

10. North East LEP

NECA remained the Accountable Body for the North East LEP during the last year and these accounts include details of its income and expenditure during 2019/20, fully consolidated with the figures for NECA itself. The accountable body arrangements changed at 1 April 2020, when the responsibility was transferred to the North of Tyne Combined Authority.

The North East LEP brings together business leaders, universities and the Leaders and Elected Mayor of the seven local authorities in the North East LEP area. It is the fourth largest LEP in the country and covers the seven local authorities in the North East area. It is responsible for promoting and developing economic growth in the area and works together with NECA to ensure there is co-ordination across a range of activities.

The North East LEP core budget covers operational activity and also management of the Local Growth Fund (LGF) programme and other activities undertaken by the LEP and funded by additional income. Table 5 below provides a summary of actual spend against the revised budget for the year. Total revenue expenditure amounted to £4.579m, which was within the revised budget for the year. There was a small surplus of £0.018m for the year, which was £0.044m better than expected and resulted in an increased level of LEP reserves of £0.603m to be carried into 2020/21. Considerable additional business support and advice was provided by the LEP's North East Growth Hub in the run up to Brexit and towards the year end in relation to impact of the Covid-19 pandemic and this additional work was undertaken by existing staff and resources.

Table 5: North East LEP Revenue Expenditure

	2019/20 Revised Budget	2019/20 Actual	Variance
	£000	£000	£000
Expenditure			
Employees	2,516	2,451	(65)
Premises	193	199	6
Communications	247	257	10
Transport LGF Monitoring and Evaluation	72	63	(9)
Growth Hub Operational Costs	141	143	2
Invite (Horizon 2020) Operational Costs	56	57	1
LIS (Local Industrial Strategy) Costs	68	69	1
Other Operational Costs	662	708	46
North East Ambition Operational Costs	96	90	(6)
Brexit Intelligence and Business Support	204	211	7
LGF High Potential	78	65	(13)
Energy Programme Operational Costs	40	16	(24)
Other NECA LGF Costs	151	109	(42)
Inward Investment Contribution	140	140	-
Gross Expenditure	**4,664**	**4,578**	**(86)**
Income			
LEP Core Grant	(500)	(500)	-
Local Authority Match Contributions	(250)	(250)	-
BEIS Grant	(224)	(224)	-
Local Growth Fund Management Contribution	(950)	(828)	122
Other Grants / Energy and Digital	(391)	(309)	82
Brexit Intelligence, Business Support and Policy	(263)	(247)	16
Growth Hub Grant	(442)	(442)	-
Other Grants / Enterprise Advisor	(488)	(459)	29
LGF High Potential	(93)	(109)	(16)
European Social Fund / LGF Match	(560)	(560)	-
Invite (Horizon 2020)	(84)	(67)	17
5G Pilot	(35)	(35)	-
NEIF/EZ Contributions	(154)	(325)	(171)
Interest on Balances	(167)	(191)	(24)
Other Income	(37)	(51)	(14)
Gross Income	**(4,638)**	**(4,597)**	**41**
Net (Surplus)/Deficit	**26**	**(19)**	**(45)**

Local Growth Fund

The full LGF capital grant of £28.06m was utilised in 2019/20, (including a funding swap in respect of the Tyne Pedestrian and Cycle Tunnel) and this should be seen as good performance in the review of LGF programme being undertaken later this year and in the next annual performance assessment. In addition, revenue spending of £0.725m was funded by the return of LGF swap funding in year.

The major elements of capital expenditure during the year included:

- International Advance Manufacturing Park (IAMP) - £11.27m
- South Shields Metro Training and Maintenance Skills Centre - £2.79m
- Gateshead Quays - £2.50m
- Swans Business Centre Phase 2 - £1.43m
- North East Rural Growth Network - £1.37m
- A19 North Bank of Tyne highway works - £1.22m
- Temporary (LGF swap) Funding for Tyne Pedestrian and Cycle Tunnel - £2.2m

Further details of the activities of the North East LEP are available at www.nelep.co.uk.

Enterprise Zones

The original round 1 North East Low Carbon Enterprise Zone is located across four Local Authority areas: Newcastle upon Tyne, North Tyneside, Northumberland and Sunderland. Business rates growth generated on these designated sites accrues to the benefit of the North East LEP for a 25 year period. The surplus will be allocated by the North East LEP to help improve the economy of the North East LEP area and the delivery of the Strategic Economic Plan (or its equivalent). 2019/20 was the seventh year of the zone's life.

During 2019/20 £14.1m of capital investment in EZ sites was undertaken, to be funded by the EZ programme as part of an overall level of capital investment across ten sites of £165m. New approvals were given to capital investment on the Newcastle North Bank of Tyne Site (£14m), the Northumberland Bates site (£2.8m) at the Port of Blyth and Infrastructure works on the Holborn phase 2 (Tyne Dock) (£1.45m) Enterprise Zone site. Construction of building on IAMP and Jade sites in Durham made good progress in the last twelve months.

A summary of the Enterprise Zone Revenue account is shown in Table 6 below together with information for the previous 3 years. Business Rate Growth Income (BRGI) of £2.01m was received for the year, which is higher than the income received for previous years and in line with the revised estimate for the year.

Expenditure included £0.258m on interest payments to Councils to cover capital financing costs on expenditure that they are financing. Repayments of £1.438m have been made to the NEIF account to repay previous loans from the NEIF to fund round 1 capital expenditure on Enterprise Zones. A contribution is made to the Invest North East England team to help with the marketing of the EZ sites. Operating costs include programme management support, finance and legal support needed to complete appraisals and legal funding agreements

Table 6: North East Enterprise Zone Business Rates Growth - period to 2019/20

	2016/17	2017/18	2018/19	2019/20
	£000	£000	£000	£000
Business Rate Income EZ Areas				
- Gateshead				(242)
- Newcastle	(614)	(437)	(501)	(508)
- North Tyneside	(165)	(160)	(194)	(160)
- Northumberland	(173)	(321)	(374)	(348)
- Sunderland	(743)	(708)	(750)	(752)
	(1,695)	(1,626)	(1,819)	(2,010)
Interest	(5)	(11)	(25)	(20)
EZ Commercial Advice Grant		(30)		
Gross Income	**(1,700)**	**(1,667)**	**(1,844)**	**(2,030)**
NEIF Loan Repayment	1,306	1,302	1,238	1,438
Financing Costs	-		235	258
Contribution to Inward Investment Team	6	148	71	66
EZ Operating Costs	115	112	100	128
Gross Expenditure	**1,427**	**1,562**	**1,644**	**1,890**
Annual Surplus	**(273)**	**(105)**	**(200)**	**(140)**
Cumulative Surplus	**(2,602)**	**(2,707)**	**(2,907)**	**(3,047)**

North East Investment Fund (NEIF)

The North East Investment Fund has been operating since 2012, utilising £25m of Growing Places Fund and £30m of Regional Growth Fund to invest £69m over its life in 29 projects, including money that has been repaid into the fund. The total balance of the fund at 31 March 2020 was £20.26m, which is held in the NECA accounts as a combination of usable reserves and capital receipts/capital grants unapplied in the balance sheet. These balances will be transferred to NTCA in 2020/21 as part of the change in accountable body role from 1 April 2020.

£9.8m of the available balance is committed to approved projects including £8m as part of a £10m Strategic Grant fund to support Inward Investment and £1m which has been earmarked to support a crowdfunding initiative to provide match funding grant support of up to £5,000 to support small businesses and social enterprise adversely affected by the impact of the Covid-19 pandemic.

11. Looking Ahead

The financial environment for local government is likely to remain challenging for the foreseeable future. The impact of Covid-19, uncertainties arising from Brexit and the delay in the publication of both the Comprehensive Spending Review and the outcomes of the Fair Funding Review mean the outlook continues to be extremely uncertain. Since a significant proportion of NECA and the JTC's funding comes from its constituent authorities, this has the potential to put further pressure on its Medium-Term Financial Strategy.

The North East LEP has been leading a 'Covid-19 Economic Response Group' made up of NECA, NTCA, local authorities, the Confederation of British Industry (CBI) on behalf of business, North East JTC and regional universities. The group are working on a phased approach to the region's recovery that is underpinned by identifying opportunities for our businesses to take advantage of. A summary report published in June 2020 references the completion of the regional Transport Plan and that setting down our transport infrastructure priorities of the future is an essential part of the regional recovery.

During 2020/21 the North East Transport Strategy Unit (TSU) will launch and consult on the Transport Plan for the region. In November 2019 a vision of "Moving to a green, healthy, dynamic and thriving North East" was agreed alongside some accompanying principles and objectives, which will underpin the Transport Plan.

In March 2020, the JTC was notified that it had been awarded £198.483m funding from Transforming Cities Fund Tranche 2 following the submission of a bid earlier in the year. This will deliver the £95m Metro Flow project sponsored by Nexus as well as providing a devolved pot to fund a range of Transport projects across the region. The TSU will coordinate the programme, which will be delivered over the period 2020/21 to 2022/23.

An initial bid to the Emergency Active Travel Fund in June 2020 was also successful and grant funding of £2.262m will be available for schemes to encourage walking and cycling during the Covid-19 lockdown and recovery period. A larger Fund will be available to bid into during the summer and the submission will be coordinated by the TSU.

Work is underway 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.

There has already been considerable activity associated with the development of an ambitious and forward-thinking economic strategy for the NECA area which will be worked on further during 2020/21. The emerging themes of our Economic Strategy are:

- Decarbonising our economy, private and public
- Further developing our leadership in international trade and investment
- Securing better skills and more quality jobs for our residents
- Drawing many more of our residents into the economic mainstream to increase prosperity and reduce dependence
- Becoming a well-connected region within our green economy
- Becoming a Great Northern Place

Activity continues to develop a proposal to government on the additional resources, powers and legislation needed to support the four NECA Constituent Authorities in their endeavours to meet their respective carbon reduction commitments. This follows the resolution by NECA in November 2019 to declare a Climate Emergency.

NECA will work with the LEP and other partners on the Covid-19 recovery. Data and intelligence about the economic impact of the pandemic is being gathered, which will be used to help shape the recovery plan that is being developed. This will need considerable financial support for Government and active support from public and private sector partners across the region, including the two combined authorities and the local authorities. Further rounds of LGF/Future prosperity/Economic Recovery funding will be required to support the capital investment and revenue support that is needed to help the region's economy to recover and grow.

The cross-partner North East Brexit Group continues to meet and provides a forum for sharing intelligence across sectors. This information and intelligence has informed action such as the Brexit Toolkit on the Growth Hub, as well as the Work Programme. The focus of the group is now on opportunities post-Brexit and preparations in the light of potential trade deals with the EU and other nations/trading areas.

12. The Statement of Accounts

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

Movement in Reserves Statement (Statement of Accounts page 4)

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

Comprehensive Income and Expenditure Statement (Statement of Accounts page 5)

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

Balance Sheet (Statement of Accounts page 6)

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

Cash Flow Statement (Statement of Accounts page 7)

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

Group Financial Statements and Notes (Statement of Accounts page 8 onwards)

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

13. 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.

14. 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 – in the first three quarters of 2019/20 in the NECA area there have been 24 inward investment projects leading to 801 new jobs. These comprised of 17 Foreign Direct Investment projects creating 494 jobs and 7 UK projects creating 307 jobs.

Finance, Skills and Employability

- North East Mental Health Trailblazer – the programme ran from January 2017 to December 2019 and supported 1,462 residents with IPS and mental health therapies, 273 people were supported into work, a 19% conversion rate which is a good return for a hard-to-help cohort.

Transport

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.

The following table of Traffic flows shows a small increase in traffic in 2019/20 until the end of March when the impact of the Covid-19 pandemic took effect. The increase was seen in all classes of vehicle except Class 1.

Table 8 – Tyne Tunnel Traffic Flow data

	Class 1	Class 2	Class 3	Exempt	Total
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 13 May 2019 from £1.70 to £1.80 for class 2 vehicles without permits (now £1.62 with a pre-paid permit) and from £3.40 to £3.60 for class 3 vehicles (now £3.24 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 2019/20.

- The number of passenger journeys across Tyne and Wear was estimated at 154.5million; a 3.0% decline when compared to 159.3million in the previous year.
- Bus patronage reduced to 119.4 million in 2019/20; a 0.9% decline when compared to 120.4 million in the previous year.
- Metro patronage reduced to 33.1 million in 2019/20; a 9.2% decline when compared to 36.4 million in the previous year.
- Ferry patronage reduced to 352,900 passengers in 2019/20; a 19% decline when compared to 436,600 journeys in the previous year.
- Rail patronage increased to 1.68 million journeys in 2019/20; a 5.3% uplift when compared to 1.60 million journeys in the previous year.
- Metro reliability (operated mileage) was 95.7% during 2019/20, a decrease on the 97.9% achieved in the previous year.
- Metro reliability (Charter punctuality) was 80.8% during 2019/20, an increase on the 79.6% 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.
- New statutory officer arrangements came into operation from 1 April 2019 and have been embedded during the year.
- Movement in employee numbers up to the end of 2019/20 mainly relates to staff supporting the North East LEP, see table (below), which mainly results from the success in securing funding for operational skills activity.

Table 9 – Change in Staffing numbers since 2015/16

	Total NECA Employees at the year end	Employed on behalf of North East LEP
2019/20	63	56
2018/19	43	39
2017/18	25	21
2016/17	21	18
2015/16	14	11

- 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.

15. Further Information Available

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

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

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

Audit and Standards Committee

Agenda Item 6

Date: **27 July 2020**

Subject: **Draft Annual Governance Statement 2019/20**

Report of: **Senior Manager – Assurance (Sunderland City Council)**

Executive Summary

This report presents the outcome of the annual review of the Authority's governance and internal control arrangements. The review highlighted no areas requiring improvement. Action planned during 2019 to address one area requiring improvement around the Tyne pedestrian and cycle tunnels has been implemented.

A copy of the draft Annual Governance Statement is provided at Appendix 1.

Recommendation

It is recommended that the Committee:

I. Agree the draft 2019/20 Annual Governance Statement narrative and consider the evidence provided to support its production;

II. Acknowledge that the Statement will be subject to further review following the completion of the external audit of the accounts and before it is signed by the Head of Paid Service and Chair of the Combined Authority.

Audit and Standards Committee

1 Background Information

1.1 The Combined Authority has a statutory duty under the Accounts and Audit Regulations 2015 Amended 2020) to do the following on an annual basis:

- Conduct a review of the effectiveness of its governance framework, including the system of internal control;
- Prepare an annual governance statement; and
- Through a relevant committee review and approve the annual governance statement

1.2 The final accounts and Annual Governance Statement (AGS) will be approved by the Leadership Board at the September meeting, therefore Audit and Standards Committee are requested to consider the draft 2019/20 Statement at today's meeting to ensure the deadlines are met.

2 2019/20 Annual Governance Statement

The approach to produce the 2019/20 Statement is based on a framework of assurance from a number of areas and in preparing it, it was necessary to review evidence from the following sources. This approach complies with the Chartered Institute of Public Finance and Accountancy's (CIPFA) recommended practice:

- Governance Arrangements e.g. the Authority's Constitution
- Statutory Officers - Completion of assurance statements
- Members – The Audit and Standards Committee
- Internal Audit Activity – including annual opinion
- Risk Management
- Performance Management - Outcomes reported during 2019/20
- Views of the external auditor and other external inspectorates
- Key Partnerships - Completion of assurance statements
- Nexus – Completion of assurance statement and also opinion from Head of Nexus' Internal Audit function.

2.1 **Governance Arrangements** - The Combined Authority has in place a Constitution which was updated to reflect the change in the NECA boundary, following removal of three constituent authorities. The Constitution defines the roles and responsibilities of those charged with Governance within the Authority. This evidence and the information below provides assurance that governance arrangements have been defined.

Audit and Standards Committee

2.2 **Statutory Officers –** The Monitoring Officer and Chief Finance Officer have provided signed assurance statements setting out the mechanisms they have in place and concluding that they can provide assurance that effective controls are in place. The Monitoring Officer as the Senior Information Risk Owner (SIRO), has also certified an appropriate assurance statement. The signed statements can be found at Appendix 2.

2.3 **Members** – The Audit and Standards Committee have reviewed evidence throughout 2019/20 relevant to the control and governance arrangements in place for the Combined Authority. This has included internal and external audit activity, financial records relevant to budgets and the accounts, risk management and other assurance information. Members can draw on this when giving a view of the effectiveness of control and governance arrangements in place.

2.4 **Internal Audit Activity –** The Internal Audit Plan included two audits which were agreed to be undertaken in the fourth quarter of the year and were due to be completed by the end of March 2020. Unfortunately, due to the Covid 19 outbreak the Sunderland City Council Internal Audit Team was stood down for a temporary period in order to support the response to the outbreak, and clients also found it difficult to support the audit process due to the response required within their own Councils. One of the two audits has since been completed and the draft report issued (Project Management, Procurement and Contract Management Procedures) and the other is ongoing (Governance Arrangements). Based on this audit activity the overall internal audit opinion for the year will provide independent assurance and is be included on the agenda of this Committee meeting.

2.5 **Risk Management** – A risk management policy and strategy is in place and a strategic risk register has been developed, which monitors the most significant risks and opportunities to the Combined Authority. The strategic risk register is included on this meeting's agenda and provides evidence that there is a sound process in place for managing strategic risks and opportunities within the Combined Authority.

2.6 **Performance Management** – Performance information from each theme is reported to the Leadership Board on a regular basis and has not identified any issues which would suggest a significant weakness in the control environment.

2.7 **External auditor –** The external auditor Mazars issued an unqualified opinion on the NECA 2018/19 accounts and an unqualified value for money opinion. An audit of the Authority's 2019/20 accounts will be undertaken, and further assurance will be given at that point before the accounts are finalised.

2.8 **Key Partnerships** – There is a register of significant partnerships which sets out associated partners to NECA, the purpose of the partnerships, link officer and review dates for each one.

2.9 **Nexus** - Nexus is not included in the significant partnership register due to its status as an officer of the Combined Authority, however a separate assurance statement has been signed by their Director of Finance and Resources, which states Nexus have an effective control environment in place. A copy of the Statement can be found at Appendix 3. Also the overall opinion of Nexus Chief Internal Auditor for the year states "…based on the internal audit work undertaken in year, ….. there is an adequate and effective framework of governance, risk management and control."

3. Outcomes of the Review of Assurances

3.1 The review highlighted no significant weakness in the internal control environment during 2019/20.

4. Proposals

4.1 The Committee are asked to review the draft 2019/20 Annual Governance Statement and the evidence provided to support its production. The Committee are also asked to acknowledge that the Statement will be subject to a further review in September 2020, following approval of the financial accounts and consideration by the Leadership Board.

5. Reason for the Proposals

5.1 Audit and Standards Committee's role is to provide an ongoing review, challenge and assurance role in relation to governance and internal control issues. The Committee therefore reviews the Annual Governance Statement process and supporting evidence before the Statement is approved and certified.

6. Next Steps and Timetable for Implementation

6.1 The final Annual Governance Statement will be considered once more by the Audit and Standards Committee in September 2020, before it is included in the 2019/20 Statement of Accounts. This is to consider any significant weaknesses should they arise before the 2019/20 accounts are audited and finalised.

6.2 The final Annual Governance Statement will then be signed by the Chair of the Combined Authority and the Head of Paid Service, before being published with the final accounts.

7. Potential Impact on Objectives

7.1 No direct impact on objectives.

8 Financial and Other Resources Implications

8.1 This work to develop the Annual Governance Statement has been carried out by Sunderland City Council's Internal Audit Service under the SLA for 2019/20.

9. Legal Implications

9.1 No direct legal implications arising specially from this report.

10. Key Risks

10.1 Risk management will be considered as part of the production of the Annual Governance Statement. There are no specific risk implications directly arising from this report.

11. Equalities and Diversity

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

12. Crime and Disorder

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

13. Consultation/Engagement

13.1 The Head of Paid Service, Monitoring Officer and Chief Finance Officer have consulted on the draft Statement.

14. Other Impact of the Proposals

Audit and Standards Committee

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

15. Appendices

15.1 Appendix 1 - Annual Governance Statement
Appendix 2 – Assurance Statements signed by Monitoring Officer/Senior Information Risk Owner/Chief Finance Officer
Appendix 3 – Nexus Assurance Statement

16. Background Papers

16.1 The Annual Governance Framework and completed Partnership Assurance Statements are available.

17. Contact Officers

17.1 Tracy Davis, Assistant Head of Assurance
E mail: tracy.davis@sunderland.gov.uk
Tel: 0191 5612861

18. Sign off

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

Appendix 1

north east combined authority

ANNUAL GOVERNANCE STATEMENT 2019/20

In partnership with

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

Annual Governance Statement 2019/20

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 2020 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 (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'Impact of COVID-19 on Governance Arrangements – Due to the COVID-19 pandemic, the usual operations and meetings of the Combined Authority have been affected. In accordance with the Local Authorities and Police and Crime Panels (Coronavirus) (Flexibility of Local Authority and Police and Crime Panel Meetings) (England and Wales) Regulations 2020 and the Coronavirus Act 2020, the Combined Authority stood down Committee Meetings from 19 March 2020 onwards. Only statutory, business-critical meetings have been taking place. The Annual Meeting of the Combined Authority, which was scheduled to take place 9 June 2020, has been stood down until such a time when all of the constituent authorities have held their Annual Meetings.

Governance Arrangements including the review of the NECA Constitution, Appointment of Committees, Agreement of Membership, Appointment of Chairs and Vice-Chairs and Appointment of Membership to Outside Bodies will therefore not be considered until the Annual Meeting is held at a later date in the Municipal Year. In line with the Local Authorities and Police and Crime Panels (Coronavirus) (Flexibility of Local Authority and Police and Crime Panel Meetings) (England and Wales) Regulations 2020, Appointments made by NECA will roll over until they are considered at the next Annual Meeting.'

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 The control and financial management arrangements are reviewed by Internal and External Audit throughout the year. The outcome for 2019/20 are noted in Section 5 of this Statement - Annual Review of Effectiveness of Governance Framework.

5.4 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.

5.5 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 2019/20 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 2013.

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 Internal Auditor's opinion will be reported to the July meeting of the Audit and Standards Committee.

(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 Governance 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 (Annexe 1).

(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 Annul Governance Statement 2019/20 Report. The opinion of the Nexus Chief Internal Auditor for 2019/20 is "…based on the internal audit work undertaken in year, ….. 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 2019/20.

Section 8: Conclusion

We consider the governance and internal control environment operating during 2019/20 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 2019/20 are in place and operating as planned.

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

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

Appendix 2

North East Combined Authority

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Monitoring Officer Assurance Statement for 2019/20

The Monitoring Officer is a statutory appointment under Section 5 of the Local Government and Housing Act 1989 and has a key role in ensuring the ethical governance of the North East Combined Authority (NECA). The responsibilities of the Monitoring Officer are set out in part 3.6 (B) of the North East Combined Authority's Constitution.

Within NECA the following processes have been in place during 2019/20 to provide the Monitoring Officer with assurance on the NECA's governance arrangements:

- The NECA Constitution is in place and has been reviewed and updated following establishment of the North of Tyne Mayoral Combined Authority. Standing Orders have also been developed and adopted for the new North East Joint Transport Committee and its structures.
- The Monitoring Officer/Deputy Monitoring Officer attended meetings of NECA Leadership Board, Overview and Scrutiny Committee and the Economic Development and Digital Advisory Board and the Audit and Standards Committee.
- Following establishment of the North of Tyne Mayoral Combined Authority the Monitoring Officer/Deputy Monitoring Officer also attends meetings of the recently formed North East Joint Transport Committee, its Tyne and Wear Sub Committee, the Joint Transport Committee Audit Committee, and the Joint Transport Committee Overview and Scrutiny Committee.
- Reports to the Leadership Board and other committees include a section on the legal implications of the report and the Monitoring Officer/Deputy Monitoring Officer signs-off all reports in advance of each committee, together with other Statutory officers.
- The Monitoring officer/Deputy Monitoring Officer may arrange to attend North East LEP Board, Investment Board and Technical Officers Group to observe.
- A register of Members' interests (including gifts and hospitality) is maintained.

I confirm that based on this evidence the internal control, risk management and governance arrangements in relation to NECA's governance are in place and are operating effectively.

Deputy Monitoring Officer Signature:

Full Name (in capitals): NICOLA ROBASON

Date: 10 March 2020

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Chief Finance Officer Assurance Statement for 2019/20

Section 73 of the Local Government Act 1985 requires Combined Authorities to make arrangements for the proper administration of their financial affairs and appoint a Chief Finance Officer to have responsibility for those arrangements.

In addition, CIPFA have produced a Statement on the Role of the Chief Finance Officer which sets out how the requirements of legislation and professional standards should be fulfilled by officers in the carrying out of their role.

For the North East Combined Authority an appointment has been made of Chief Finance Officer.

Within the Authority the following processes have been in place during 2019/20 to provide the Chief Finance Officer with assurance on financial affairs:

- Monitoring of all budgets by appropriate officers;
- Leadership Board received regular finance updates;
- Audit and Standards Committee review of budget reports;
- High level financial risk assessment set out in budget report;
- Annual budget sign-off process;
- Review of financial implications/risks within individual Leadership Board and other committee reports;
- Delivery of the Internal Audit Plan and specifically financial systems audit work.
- North East Joint Transport Committee received regular finance updates in respect of its transport responsibilities.

I confirm that based on this evidence the internal control, risk management and governance arrangements in relation to the Authority's financial affairs are in place and operating effectively.

Chief Finance Officer Signature:

Full Name (Capitals) JOHN HEWITT

Date: 19 March 2020

Appendix 3

NEXUS

Assurance Statement for 2019/2020

On 2nd November 2018 an Order was created to form the North of Tyne Combined Authority. As part of these revised arrangements the North East Joint Transport Committee (NE JTC) was established which brought together a total of seven members for each of the Constituent Authorities of the region; four Members for the North East Combined Authority and three Members from the North of Tyne Combined Authority.

Within Nexus the following arrangements have been in place during 2019/2020 which enables Nexus to provide further assurance on its governance arrangements:

- Weekly meetings of the Senior Leadership Team took place and were minuted, recording all delegated decisions taken in accordance with Nexus' Standing Orders and Financial Regulations;

- The 2019/2020 Internal Audit Plan was kept under review by Nexus' Audit Committee which comprises three members who are independent of Nexus' executive arrangements;

- External Audit provided clean opinions on the 2018/2019 statutory accounts (true and fair view, and value for money conclusion);

- Effective partnership and contracting arrangements were in place;

- External scrutiny of the Metro Asset Renewal Plan delivery arrangements by the Department for Transport took place, with a positive report received

- External scrutiny of the procurement of the suite of contracts for the replacement fleet of Metrocars took place through a Department for Transport sponsored OGC Gateway Review, with a positive report received

- Before the end of the financial year, the COVID-19 pandemic began to adversely affect Nexus and the services it provides on an unprecedented scale. Patronage on public transport in general, fell by around 95% before the end of March 2020, with losses at that level sustained during the early part of 2020/21 also. In relation to Metro, Nexus reported losses in its fare and commercial revenues of around £1.3m during March 2020. In response, Nexus sought emergency financial support from the DfT and HM Treasury and £8.6m of special grant, payable for 12 weeks from 17 March to 9 June 2020 was announced by the DfT in May 2020. This was followed by an additional £7.6m of emergency support, payable until 4 August.

I confirm that based on this evidence the internal control, risk management and governance arrangements at Nexus are in place and operating effectively.

Director of Finance & Resources Signature:

Name in full: JOHN FENWICK

Date: 24th June 2020

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Audit and Standards Committee

Agenda Item 7

Date: **27th July 2020**

Subject: **NECA Internal Audit Annual Report 2019/20**

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

Executive Summary

This report provides a summary of the Internal Audit work undertaken during 2019/20 together with the opinion on the Authority's internal control arrangements, and details of the performance of Internal Audit against its agreed performance indicators.

Two audits were planned for 2019/20 and both were schedules to conducted in the fourth quarter of the year, both due to completed by the end of March 2020.

Unfortunately, due to the Covid 19 outbreak the Sunderland City Council Internal Audit Team was stood down for a temporary period in order to support the response to the outbreak, clients were made aware of this.

The report identifies that the Financial Arrangements Assurance audit has since been completed and the draft report issued whilst the Governance Arrangements audit was ongoing at the time of writing this report. Details are provided at Appendix 1 for these audits.

In terms of performance against the key performance indicators for the internal audit service, unfortunately, the Covid 19 outbreak has had a negative impact on the performance in relation to the timeliness of the completion of the audits. Under normal circumstances performance in these areas is usually within target.

Recommendations

The Audit and Standards Committee is invited to consider and, if appropriate, make comment on the Internal Audit Annual Report for 2019/20 which includes the key performance measures for the provision of the service.

Audit and Standards Committee

1 Background Information

1.1 In September 2019 the Audit and Standards Committee agreed the Internal Audit Strategy and Internal Audit Plan for 2019/20, which included two audits for completion during the year. The audits were:

- Governance Arrangements, and
- Financial Arrangements Assurance

1.2 Both of the audits were being conducted in the fourth quarter of the year and were due to be completed by the end of March 2020. Unfortunately, due to the Covid 19 outbreak the Sunderland City Council Internal Audit Team was stood down for a temporary period in order to support the response to the outbreak, clients were made aware of this. The Financial Arrangements Assurance audit has since been completed and the draft report issued, the Governance Arrangements audit is ongoing.

2. Proposals

2.1 Appendix 1 provides a summary of the audits, including the scope, conclusion and opinion at draft stage. The opinion for the Financial Arrangements Assurance audit is Moderate at he draft report stage. This is mainly due to the accounting arrangements sitting at Newcastle City Council but the financial responsibility now sitting with Durham County Council. Most of the issues will be resolved once the service moves to Durham County Council and an audit is planned for 2020/21 to review the new arrangements.

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. The response to the Covid 19 outbreak has had a negative impact on the performance in relation to the timeliness of the completion of the audits. Under normal circumstances performance in these areas is usually within target.

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 have been considered in drafting the Annual Governance Statement which is included within the Statement of Accounts.

5. Potential Impact on Objectives

Audit and Standards Committee

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 Internal Audit Annual Report 2019/20.

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 undertaken during 2019/20.

Appendix 2 – Performance of Internal Audit for 2019/20 where available.

14. Background Documents

14.1 NECA Standing Orders.

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Audit and Standards Committee

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

Audit and Standards Committee

Summary of Internal Audit Work 2019/20

Audits 2019/20	Scope	Opinion	Overall Opinion
Governance Arrangements	• Roles and responsibilities • Development and Delivery of the NECA's Business Plan • Decision making (including delegation scheme) • NECA policies and procedures e.g. performance management, procurement, financial procedures, business continuity, whistleblowing, fraud and corruption.	Ongoing	M
Financial Arrangements Assurance	• Arrangements for delivery of financial services (including capacity and business continuity) • Accounting arrangements • Project management for changes in delivery of financial services	The findings of the audit give moderate assurance regarding NECA's existing financial arrangements under its current hosting arrangements. Overall NECA has effective accounting arrangements. It has developed its capacity to enable it to deliver its financial responsibilities and effective arrangements regarding the change in the delivery of financial services. The audit has identified improvements to existing arrangements for documenting delegated responsibilities, budget preparation, management and monitoring arrangements, business continuity and	

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Audit and Standards Committee

Audits 2019/20	Scope	Opinion	Overall Opinion
		transfer planning. A number of these matters are already being considered by management, but implementation of the actions identified in Appendix B will provide greater assurance that management objectives can be achieved	

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

Appendix 2

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Audit and Standards Committee

Internal Audit - Overall Objectives, Key Performance Indicators (KPI's) and Targets for 2019/20			
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) All key risk areas covered over a 3 year period	N/A
	2) Percentage of draft reports issued within 15 days of the end of fieldwork.	2) 90%	Behind target – 0% (Covid impact)
	3) Percentage of audits completed by the target date (from scoping meeting to issue of draft report).	3) 85%	Behind target – 0% (Covid impact)

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Audit and Standards Committee

Internal Audit - Overall Objectives, Key Performance Indicators (KPI’s) and Targets for 2019/20			
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	No Information yet
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)	No Information yet
	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

North East Combined Authority

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Audit and Standards Committee

Agenda Item 8

Date: **27th July 2020**

Subject: **NECA Internal Audit Plan 2020/21**

Report Of: **Senior Manager – Assurance (Sunderland City Council)**

Executive Summary

This report provides members with the proposed Internal Audit Plan and associated performance measures for 2020/21.

It is intended as part of the Audit Plan for 2020/21, in addition to completing the 2019/20 Governance Audit, to carry out two further audits. These relate to the following areas:

a) General Data Protection Regulations – Data Protection Officer Role.

b) Finance Service Relocation.

The scope of these planned audits is included in the Audit Plan attached at Appendix 1 to this report.

Recommendations

The Audit and Standards Committee is invited to consider and, if appropriate, make comment on the proposed Internal Audit Plan for 2020/21 which includes the key performance measures for the provision of the service.

Audit and Standards Committee

1 Background Information

1.1 The Terms of Reference of the Audit and Standards Committee included within the Constitution of the North East Combined Authority (NECA) state that the Audit and Standards Committee should receive on an annual basis, '*Internal Audit's Strategic Audit Plan, including Internal Audit's terms of reference, strategy and resources. The Audit and Standards Committee will approve, but not direct, the NECA Strategic Audit Plan*'. The submission of this report seeks to allow the Audit and Standards Committee to fulfil this requirement.

1.2 The internal audit service is provided to NECA by the internal auditors of Sunderland City Council.

2. Proposals

2.1 The Internal Audit Strategy was agreed by the Committee in 2019/20 and as no changes have been made to it this report sets out only the proposed Internal Audit plan and performance measures for 2020/21.

2.2 The draft Internal Audit Plan for 2020/21 is set out in Appendix 1. The Audit Plan covers Internal Audit's key performance measures and outlines the proposed internal audit work for NECA.

2.3 It was intended that a Strategic Audit Plan for the next three years would be developed during the previous financial year, however the outbreak of Covid 19 delayed such work as the Internal Audit service was made available to support other areas. This will be progressed during the current year.

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 Delivery of the audit plan will be monitored to ensure it is delivered together with any actions arising from audit work. Update reports will be provided to the Audit and Standards Committee.

Audit and Standards Committee

5. Potential Impact on Objectives

5.1 The development of the audit plan 2020/21 will not impact directly on NECA's objectives, however the delivery of the audit plan will support 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 draft Internal Audit Plan 2020/21.

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 – Internal Audit Plan 2020/21 provides a description of the audit work to be carried out during the year.

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Audit and Standards Committee

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 ✓

North East Combined Authority

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Audit and Standards Committee Appendix 1

Internal Audit Plan 2020/21

1. Introduction

This document presents the Internal Audit Plan for 2020/21 including the key performance measures for Internal Audit.

2. Division of Responsibilities

2.1 It is management's responsibility to manage the systems of NECA to ensure that risks are managed, an appropriate system of internal control is maintained, and its assets adequately protected. This includes ensuring that controls are in place to guard against error, potential fraud and corruption, and that there is efficiency and effectiveness in how the systems are operated.

2.2 Internal Audit independently reviews how effectively management discharges this aspect of its responsibilities by evaluating the effectiveness of systems and controls and providing objective analyses and suggesting areas for improvement. Management retains full ownership and responsibility for the implementation of any agreed actions within the agreed timescales.

3. Development of the Plan

3.1. The plan was developed based on consultation with the NECA's statutory officers and consideration of the key activities and risks relevant to NECA. A three year strategic audit plan will be developed, in consultation with the NECA during the year.

3.2. As specific areas of concern or irregularity may require investigation as and when they arise, a small contingency is made for this work. Should a significant piece of work be required there may be a need to replace a planned audit, in consultation with the NECA.

3.1 Where individual audits cannot be undertaken as originally planned (e.g. service no longer provided), attempts will be made to replace the audit with a suitable replacement in consultation with the NECA's Chief Finance Officer. Where these changes are agreed this shall be considered a variation to this Plan for the purposes of performance reporting.

Audit and Standards Committee

3.2 Time has also been allocated for the provision of advice and guidance on internal control matters.

4 Planned Audit Work for 2020/21

4.1 The following audits are planned.

General Data Protection Regulations (GDPR) – Data Protection Officer Role

4.2 A review of the arrangements for the Data Protection Officer's role to be carried out in line with the GDPR requirements.

4.3 The scope of the audit includes the following:

- Role of Data Protection Officer;
- Schedule of compliance checks;
- Reporting arrangements; and
- Investigating and reporting of breaches and required improvements.

Finance Service Relocation

4.4 Audit work in relation to the relocation of the Finance Service from Newcastle City Council to Durham County Council.

4.5 The scope of the audit includes:

- Roles and responsibilities
- Accounting Arrangements
- Access Arrangements
- Financial Monitoring and reporting

5 Reporting Protocols

5.1 At the conclusion of each individual audit a draft report and, if necessary, a proposed action plan will be forwarded to the appropriate manager. Once agreement has been reached, a final report (including any agreed action plan) will be forwarded to the relevant senior officer and the Head of Paid Service. Where audits highlight issues which need to be brought to the attention of the Chief Finance Officer they will be raised as and when necessary.

Audit and Standards Committee

5.2 Senior Management and the Audit and Standards Committee will be updated on progress against the audit plan on a twice yearly basis.

5.3 An Annual Report will be prepared for the Audit and Standards Committee, in order to give assurance, or otherwise, regarding the NECA's internal control environment

6 Performance Management

6.1 All work undertaken will be in accordance with the internal audit service's policies and procedures, which are based upon the Public Sector Internal Audit Standards.

6.2 The Key Performance Indicators which will be used to measure the performance of the service throughout the year are shown in Annexe 1.

North East Combined Authority

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Audit and Standards Committee

Annexe 1

Internal Audit - Overall Objectives, Key Performance Indicators (KPI’s) and Targets for 2020/21		
Efficiency and Effectiveness		
Objectives 1) To ensure the service provided is effective and efficient.	**KPIs** 1) Complete sufficient audit work to provide an opinion on the corporate risk areas 2) Percentage of draft reports issued within 15 days of the end of fieldwork 3) Percentage of audits completed by the target date	**Targets** 1) All corporate risk areas covered over a 3 year period 2) 90% 3) 85%
Quality		
Objectives 1) To maintain an effective system of Quality Assurance **2)** To ensure recommendations made by the service are agreed and implemented	**KPIs** 1) Opinion of External Auditor 2) Percentage of agreed high, significant and medium risk internal audit recommendations which are implemented	**Targets** 1) Satisfactory opinion 2) 100% for high and significant. 90% for medium risk
Client Satisfaction		
Objectives 1) To ensure that clients are satisfied with the service and consider it to be good quality	**KPIs** 1) Results of Post Audit Questionnaire 2) Results of Audit Questionnaire 3) Number of complaints and compliments	Targets 1) Overall average score of better than 1.5 (where 1=Good and 4=Poor) 2) Results classed as ‘good’ 3) No target – actual numbers will be reported