North East Combined Authority, Governance Committee

Tuesday 12th September, 2017 at 2.00 pm

Meeting to be held: Durham County Council, County Hall, Durham DH1 5UL

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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 handed to the Democratic Services Officer). Please also remember to leave the meeting where any personal interest requires this.	
3.	**Minutes of Previous Meeting held on 4 July 2017**	**1 - 4**
4.	**Internal Audit Progress Report 2017/18**	**5 - 12**
5.	**Annual Governance Statement**	**13 - 22**
6.	**External Audit Completion Report - year ended 31 March 2017**	**23 - 44**
7.	**Statement of Accounts 2016-17**	**45 - 184**
8.	**Treasury Management 2017-18 Mid-Year Update**	**185 - 192**
9.	**Draft Budget 2018-19 - Process and Timetable**	**193 - 198**
10.	**Strategic Risk and Opportunities Register**	**199 - 208**

12. **Date and Time of Next Meeting**

Tuesday 5 December 2017 at 2.00pm – Northumberland County Council, County Hall Morpeth NE61 2EF

Contact Officer: Christine Patterson Tel: 0191 211 6156 E-mail: christine.patterson@newcastle.gov.uk

To: All Members

North East Combined Authority, Governance Committee
4 July 2017

(2.00 pm - 3.15 pm)

Meeting held Gateshead Council, Civic Centre, Regent Street, Gateshead NE8 1HH

Present:

Independent Members:	M Scrimshaw (Chair), G Clark(Vice Chair)
Councillors:	H Haran (Gateshead), B Kellet (Reserve - Durham), M Talbot (Newcastle), M Swinburn (Northumberland) and G Hobson (South Tyneside)

1 **APOLOGIES FOR ABSENCE**

Apologies for absence were received from E Bell (Durham), H Trueman (Sunderland) and S Gardner (Independent Person)

2 **DECLARATIONS OF INTEREST**

None

3 **MINUTES OF PREVIOUS MEETING HELD ON 4 APRIL 2017**

Clarification was sought on Minute 43 – Finance Update. P Woods explained that details of the governance of the Special Purpose Vehicle (SPV), would be attached to the Minutes of this meeting.

RESOLVED - That the Minutes of the previous meeting held on 4 April 2017 be agreed as a correct record, subject to the following amendment then the Minutes be signed by the Chair:

- G Clark (Vice Chair) be removed from the list of Councillors in attendance and be included in list of Independent Persons.

4 **GOVERNANCE COMMITTEE SELF-ASSESSMENT FEEDBACK**

Submitted: Report by Mazars (External Auditor) (previously circulated and a copy attached to official minutes), which set out the findings of the survey, which gathered thoughts on how well the Governance Committee was performing and what improvements could be made. The Committee was advised that the overwhelming results were positive.

Reference was made to the possible need for additional members training in light of some of findings of the survey. The committee was advised that there was an induction session for new members scheduled in July and reminded about previous training/briefing sessions provided to this committee. It was suggested that any briefing notes and/or copies of presentations, originally provided to the committee could be re-circulated. In addition, a ½ hour training session should be organised by the relevant lead officers and included as the first item of each future meeting. Specific areas initially to be covered were highlighted as: the role and remit of the committee; internal audit; external audit and risks and opportunities etc.

RESOLVED – That the findings of the survey be received and noted.

5 **2016-17 OUTTURN AND KEY FINANCIAL STATEMENTS**

Submitted: Report by Chief Finance Officer (previously circulated and a copy attached to official minutes), which summarised the North East Combined Authority's financial results for 2016-17, presented the draft accounting statements and provided an overview of significant financial matters which occurred during the year.

During discussions, clarification was provided on the pension fund in relation to the impact of employee redundancies and adjustments in employer contributions; the capital expenditure of the Pedestrian Tyne Tunnel; the expenditure allocated for upskilling and the usable and reusable reserves. As a result of comments raised, P Woods advised that the report being prepared for the NECA Leadership Board would be strengthening. He also confirmed that an explanatory note would be included in the final accounts on the Pedestrian Tyne Tunnel capital expenditure and on the usable and unusable reserves. He offered the committee a brief training session on NECA Financial Accounts at the meeting scheduled in September 2017.

RESOLVED – That the report be received and noted.

6 **EXTERNAL AUDIT PROGRESS UPDATE**

Submitted: Report by External Auditor (previously circulated and a copy attached to official minutes), which presented an update on their progress in delivering their responsibilities as external auditors and also information on key emerging national issues and development.

P Woods appraised the committee about the progress being made on the national procurement exercise for establishing future public sector audit appointments. He emphasised the importance of appointing a single external auditor to deal with both with the NECA and NEXUS financial accounts to achieve continuity, good value for money and ensure targets were met within the allocated timescales.

On providing some clarification about how the narrative was produced on the national publications and other updates and responding to queries raised, C Waddell, agreed to provide a briefing note at a future meeting on the potential challenges and risks associated with the '*scheme for 100% retention of business rates by local authorities'* and the impact as a result of it not being reflected in Queen's Speech.

Congratulations was passed onto the Finance Team, particularly E Goodman for the efforts in ensuring there were no significant deficiencies found in the internal controls.

RESOLVED – That the report be received and noted.

7 **DRAFT ANNUAL GOVERNANCE STATEMENT 2016/17**

Submitted: Report by Audit, Risk and Insurance Service Manager (previously circulated and a copy attached to official minutes), which provided details of the draft 2016-17 Annual Governance Statement for inclusion in the accounts.

Clarification was provided on the role of this committee in relation to any code of conduct issues that may arise.

In response to queries raised, P Woods agreed to circulate relevant papers, which provided updates on *'Transport for the North'*, previously provided to TWSC and/or Leadership Board.

RESOLVED – That the Committee:

(i) Agreed the draft 2016-17 Annual Governance Statement narrative after considering the evidence provided to supports its production.

(ii) Acknowledged that the Statement would be subject to further review in September 2017, following the completion of the external audit of the accounts and before it was signed by the Head of Paid Service and Chair of the Combined Authority.

8 **INTERNAL AUDIT 2016/17 ANNUAL REPORT AND INTERNAL AUDIT PLAN 2017/18 TO 2018/19**

Submitted: Report by Audit, Risk and Insurance Service Manager (previously circulated and a copy attached to official minutes), which provided members with a summary of the outcomes from the delivery of the 2016-17 internal audit plan; information on the implementation of audit recommendations; an opinion on the effectiveness of NECA's control environment during 2016-17 as required by the Public Sector Internal Audit Standard (PSIAS) 2013 and a draft internal audit plan for 2017-18 – 2018-19.

C Waddell agreed to circulate the National briefing note on the changes to data protection as a result of the General Data Protection Regulation which takes effect in May 2018 to the committee; the Chair asking for a hard copy to be circulated to him.

RESOLVED – That the Committee:

(i) Noted the internal audit activity undertaken during 2016-17.

(ii) Considered the annual opinion of the Audit, Risk and Insurance Service Manager on NECA's control environment in 2016-17.

(iii) Approved the 2017-18 and 2018-19 Internal Audit Plan.

9 STRATEGIC RISK REGISTER AND OPPORTUNITIES REGISTER

Submitted: Report by Audit, Risk and Insurance Service Manager (previously circulated and a copy attached to official minutes), which provided the committee with an update of the Strategic Risks and Opportunities for the NECA.

As a result of comments raised and ensuring clarification was provided, P Slater agreed to include a clearer statement on the risks associated with European Funding and to include web links to the NECA, LEP and NEXUS Risk Registers in future reports.

Reference was made to the progress being made to recruit additional support for E Goodman. P Woods provided an update on the progress, in addition to the progress being made on the succession planning for the NECA Strategic Officers.

RESOLVED – That the Committee:

(i) Reviewed and challenged the outcomes of the strategic risk review.

(ii) Acknowledged the strategic risk review by the Leadership Board and received an update; details of which was noted.

10 DATE AND TIME OF NEXT MEETING

Tuesday 12 September 2017, 2pm, Durham County Council

north east combined authority

Governance Committee

Date:	**12 September 2017**
Subject:	**Internal Audit Progress Report 2017/18**
Report Of:	**Audit, Risk and Insurance Service Manager**

Executive Summary

The purpose of this report is to provide Members with:

- Progress against the delivery of the 2017/18 internal audit plan; and
- Information on the implementation of audit recommendations.

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Recommendations

It is recommended that the Committee note the internal audit activity.

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Governance Committee

1 Background Information

Progress against 2017/18 Audit Plan

1.1 Set out below is the Internal Audit work currently in progress. The Procurement audit was originally planned to be reported to the September Governance Committee but is not yet complete so will now be taken to the December Committee. The LTP grant certification was not in the Audit Plan agreed at the last committee but will be completed and signed off by the end of September in line with the grant requirements. This time allocation will be met from the contingency time in the plan. The four other audits in the programme set out at Appendix 2 are due to commence over the next few months with two audits planned to be reported to Committee in December 2017 and two audits to be reported in April 2018.

1.2 Definitions for levels of assurance in reports are included in Appendix 1, and the 2017/18 Audit Plan including the status of each audit is at Appendix 2.

1.3 It was agreed at the April 2017 meeting of the Committee that an Assurance Mapping exercise should be undertaken by Internal Audit for NECA. This work is ongoing with the initial evidence obtained being fed into the Annual Governance Statement. This work will continue and be reported to future Governance Committees.

Implementation of Outstanding Recommendations

1.4 Management is responsible for implementing all audit recommendations. Internal Audit will follow up all high, medium and value for money recommendations to verify implementation. This provides assurance that those recommendations which are both fundamental and important to the Authority's system of control are addressed. The current position as regards outstanding recommendation is that 1 is outstanding (detailed below) but this will not be implemented until there is more certainty on NECA's governance arrangements possibly by January 2018.

	Audit and Recommendation	Lead Officer/ Implementation due date	Progress update
1	**Major Projects**		
1.1	The protocols referred to in the Constitution for the discharge of the transport, and economic development and regeneration functions should be developed and approved with the appropriate bodies. A timescale for	Head of Paid Service Original date 1 April 2016 Revised date 1 January 2018 (unchanged from the	Work will commence to develop these protocols when there is greater certainty around the structure and future governance of NECA.

	developing and agreeing the protocols should be agreed and progress monitored against it. (medium)	previous Governance Committee)	

1.5 The current position as regards outstanding recommendations raised in 2015/16 to 2017/18 is detailed below:

	2015/16	2016/17
Recommendations issued	10	6
Recommendations fully implemented	9 (90%)	6 (100%)
Recommendations not yet due for implementation	0 (0%)	0 (0%)
Recommendations not fully implemented and the target date for implementation has been exceeded	**1 (10%)**	**0 (0%)**

No recommendations have been made in 2017/18 as yet.

2 Proposals

2.1 The Governance Committee are asked to note the internal audit activity during 2017/18.

3 Reasons for the Proposals

3.1 Governance Committee continue to fulfil an ongoing review, challenge and assurance role in relation to governance and internal control issues.

4 Next Steps and Timetable for Implementation

4.1 The 2017/18 audit work continues and opinions will feed into the Annual Governance Statement for 2017/18 which will be reported to Committee in July 2018.

5 Potential Impact on Objectives

5.1 No direct impact on objectives.

6 Finance and Other Resources Implications

6.1 Internal Audit is provided principally by Newcastle City Council and an SLA has been developed to cover this as well as risk management and preparation of the Annual Governance Statement.

7 Legal Implications

7.1 No direct legal implications arising specifically from the report.

8 Key Risks

8.1 A risk assessment has taken place to identify key areas for inclusion within the Internal Audit Annual Plan. Members assess the plan to determine if key risks are covered by the planning process.

9 Equality and Diversity

9.1 There are no equalities and diversity implications directly 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, Chief Finance Officer and Chair of the Governance Committee have consulted on the internal audit activity.

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

13.1 Appendix 1 - Definitions
Appendix 2 – 2017/18 internal audit plan

14 Background Papers

14.1 Final Internal Audit Reports

15 Contact Officers

15.1 Philip Slater, Audit, Risk and Insurance Service Manager
E mail: philip.slater@newcastle.gov.uk
Tel: 0191 2116511

16 Sign off

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Governance Committee

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

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Governance Committee

Appendix 1 - Definitions

Overall Opinion

Full Assurance

There is a highly effective system of internal control in place designed to achieve the Authority's objectives with no issues being identified.

Substantial Assurance

There is an effective system of internal control in place designed to achieve the Authority's objectives with only minor issues being identified which require improvement.

Moderate Assurance

There is a sound system of internal control in place with some weaknesses being present which may put some of the Authority's objectives at risk. Issues require management attention.

Limited Assurance

The system of internal control in place has some major weaknesses which may put the achievement of the Authority's objectives at risk. Issues therefore require prompt management attention.

No Assurance

There are significant weaknesses in the system of control which could result in failure to achieve the Authority's objectives. Immediate management action is therefore required.

Findings and Recommendations

High

A fundamental control weakness which could have a significant impact on the achievement of the Authority's objectives and reputation.

Medium

A control weakness which could have a major impact on the achievement of the Authority's objectives and reputation.

Low

An issue which if addressed would bring some improvement to the effectiveness of the control system.

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Governance Committee

Internal Audit Plan — Appendix 2

2017/18 Audits	Audit scope and coverage	Status/ Assessment	Report to Governance Committee
Treasury Management	To assess the adequacy and effectiveness of treasury management arrangements, i.e. monitoring cash flows and investment / borrowing activity.	To Start	April 2018
Human Resources Arrangements	To review human resources arrangements for the Combined Authority including policies, recruitment, training and arrangements for the engagement of agency/contractors staff.	To Start	December 2017
Information Governance and Freedom of Information	To review arrangements in relation to information governance particularly to consider the Combined Authority's preparations for changes in Data Protection regulations coming in during 2018. The audit will also cover procedures to deal with Freedom of Information requests	To Start	December 2017
Procurement	To consider procurement arrangements for all NECA activity and compliance with Financial Regulations to ensure these provide NECA with value for money and adequate assurance.	In progress	December 2017 (from Sept. 2017)
Repayment of LEP Loans from the North East Investment Fund	This audit is scheduled towards the end of the year and will consider loans and control loans and repayment arrangements.	To Start	April 2018
Contingency	Provision to cover emerging risks, fraud investigation and general advice.	As required	
LTP Grant Certification		In progress	December 2017
Governance Committee Support	• Development and monitor delivery of the Internal Audit Annual Plan. • Preparation of reports to and attendance at Governance Committee. • Follow up on the implementation of recommendations. • Assurance Mapping	As required	

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Governance Committee

Data: **12 September 2017**

Subject: **Annual Governance Statement 2016/17**

Report of: **Audit, Risk and Insurance Service Manager**

Executive Summary

The purpose of this report is to bring the final 2016/17 Annual Governance Statement to Members to consider its inclusion in the annual accounts.

The draft Statement was agreed at the July Governance Committee and there have been no significant weaknesses identified or changes to its content since its approval.

Recommendation

I. It is recommended that the Committee agree the Annual Governance Statement for inclusion in the annual accounts and recommends it for signature by the Chair of the Authority and Head of Paid Service. The Annual Governance Statement is at Appendix 1

north east combined authority

Governance Committee

1 Background Information

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

- Conduct a review of the effectiveness of its governance framework, including the system of internal control;
- Identify significant weaknesses and the actions that have taken place (or will take place) to address them;
- Report these to the public in the Annual Governance Statement which is part of the Accounts.

2 Evidence

2.1 The assurance framework for the Combined Authority is set out below. This table shows the elements making up the framework. This process complies with the Chartered Institute of Public Finance and Accountancy's (CIPFA) recommended practice and will be subject to review by the Authority's external auditors at the time of their audit of the 2016/17 final accounts.

Element of Assurance
Governance Arrangements
Statutory Officers
Members
Internal Audit Activity
Risk Management
Performance Management
External auditor and other external inspectorates
Key Partnerships

2.2 **Governance Arrangements** - The Combined Authority has in place a Constitution which was reviewed and approved by the Leadership Board at their annual meeting on 20 June 2017. The Constitution defines the roles and responsibilities of those charged with Governance within the Authority. There are also a number of other key documents including the NECA Order and Operating Agreement in place. This evidence and the information below provides assurance that governance arrangements have been defined.

2.3 **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.

2.4 **Members** – the Governance Committee have reviewed evidence throughout 2016/17 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.

2.5 **Internal Audit Activity –** This is considered in more detail in the internal audit annual report, which was presented to Governance Committee at its July meeting and has been presented to the Governance Committee throughout the year. The opinion based on the internal audit work for 2016/17 is that the control environment was effective and provided a substantial level of assurance.

2.6 **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 risk register is elsewhere on this agenda and provides evidence that there is a sound process in place for managing strategic risks and opportunities within the Combined Authority.

2.7 **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.

2.8 **External auditor –** The external auditor Mazars issued an unqualified opinion on the NECA 2016/17 accounts and an unqualified value for money opinion.

2.9 **Key Partnerships** – There is a register of significant partnerships which has been used to identify those partnerships where the Authority needs assurance on their control environment to support its Annual Governance Statement. Based on evidence from the returned assurance statements, the partnerships have stated that they have an effective control environment in place with no weakness identified.

2.10 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 presented to the July committee, which states Nexus have an effective control environment in place.

3. Outcomes of the Review of Assurances

3.1 The review highlighted no significant weakness in the internal control environment during 2016/17 or areas which require improvement.

4. Proposals

4.1 The Committee are asked to agree the 2016/17 Annual Governance Statement for inclusion in the annual accounts and recommend it for signature by the Chair of the Authority and Head of Paid Service.

5. Reason for the Proposals

5.1 Governance 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

6.2 The Annual Governance Statement will 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 Newcastle City Council's Internal Audit Service under the SLA for 2016/17.

9. Legal Implications

9.1 No direct legal implications arising specially from this report.

10. Key Risks

10.1 Risk management has been 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 Annual Governance Statement.

14. Other Impact of the Proposals

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

16. Background Papers

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

17. Contact Officers

17.1 Philip Slater, Audit, Risk and Insurance Service Manager
E mail: philip.slater@newcastle.gov.uk
Tel: 0191 2116511

18. Sign off

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

Appendix 1

Annual Governance Statement 2016/17

Section 1: Scope Of Responsibility

The seven local authorities of Durham, Gateshead, Newcastle Upon Tyne, North Tyneside, Northumberland, South Tyneside and Sunderland, as the already established North East Leadership Board came together in April 2014 to establish a Combined Authority for the area. Building on the track record of joint working, the Authority is an enabling body, which reinforces and strengthens existing partnership arrangements to collectively drive forward change and enable economic growth. It brings together the political leadership of the seven local authorities in the region to help co-ordinate strategic transport and economic planning for growth in the long term in a global context.

The Combined Authority works closely with the Local Enterprise Partnership, for which it is the accountable body, to deliver the objectives of the Combined Authority and the Strategic Economic Plan, which sets out our ambitious vision to strengthen the area’s economy and provide more opportunities for businesses and communities.

We (the North East Combined Authority) are responsible for ensuring that our business is conducted in accordance with the law and proper standards and that public money is safeguarded and properly accounted for and used economically, efficiently and effectively.

We also have a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which we exercise our functions, having regard to a combination of economy, efficiency and effectiveness.

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 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 Governance Committee. This information can be found under the Governance Committee on the Authority's web-site at: http://www.northeastca.gov.uk/committee-meetings/governance-committee-background-information-papers

Section 2: 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 2017 and up to the date of approval of the Authority's Annual Report and Accounts.

This Annual Governance Statement meets the requirements of Regulation 3 of the Accounts and Audit (England) Regulations 2015 which requires all relevant public bodies to prepare an annual governance statement, therefore in doing so complies with the principles of corporate governance set out in the CIPFA/SOLACE Good Governance Framework 2012.

Section 3: The Governance Framework

Our Governance Framework is developing, following the formation of the North East Combined Authority in April 2014 and is maturing with the organisation. As such systems, processes and controls are developing and adapting to meet the needs of the Combined Authority going forward, to ensure we are in the best position to achieve our objectives.

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

Focusing on our objectives and outcomes

1.1 We ensure that we are clear on delivering the objectives of the Combined Authority and intended outcomes of our Strategic Economic Plan, to create the best possible conditions for growth in jobs, investment and living standards, enabling residents to develop high-level skills so they can benefit long into the future.

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

Members and officers have clearly defined roles and responsibilities

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.

We promote high standards of conduct and behaviour

3.1 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. Governance 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. NECA Constitution

Transparent decision making subject to scrutiny and risk management

4.1 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 interim Monitoring Officer (Head of Law and Governance, North Tyneside Council) advises on compliance with our policy framework, ensuring that decision making is lawful and fair. Our financial management arrangements conform to the CIPFA Statement on the Role of the Chief Finance Officer and are the responsibility of the interim Chief Finance Officer.

4.2 We ensure that our Governance Committee undertakes the core functions identified in CIPFA's Audit Committees – Practical Guidance for Local Authorities 2013.

4.3 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.

Developing the capacity of members and officers to be effective

5.1 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.

Engaging with local people and stakeholders

6.1 We have established channels of communication with the community and other stakeholders, ensuring accountability and encouraging open consultation. Meetings are held in public unless there are good reasons for confidentiality.

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

Section 4: 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 Governance Committee who provide independence and challenge. The outcomes of the review were circulated informally to Leadership Board and will be considered further by the Governance Committee.

The review is informed by:

(a) The views of our internal auditors, reported to Governance Committee through regular progress reports, and the Annual Internal Audit Opinion.

(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 Governance Committee through regular progress reports, and the annual Internal Audit Opinion, adhering to the principles in CIFPA Statement 2010 on the role of the Head of Internal Audit.

(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.

(f) The views of Members through the ongoing activities of Governance Committee (Governance Committee includes the activity of an Audit Committee and a 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.

Section 5: 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 2016/17.

Section 6: Conclusion

We consider the governance and internal control environment operating during 2016/17 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.

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

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

Interim Head of Paid Service	**Chair of the Combined Authority**
Full Name: Helen Golightly	**Full Name: Paul Watson**
Signature:	**Signature:**
Date:	**Date:**

Audit Completion Report

North East Combined Authority

north east combined authority

For the year ended 31 March 2017

MAZARS

Contents

1. Executive summary

Purpose of this report

The Audit Completion Report sets out the findings of our audit of the North East Combined Authority (NECA) for the year ended 31 March 2017, and forms the basis for discussion at North East Leadership Board meeting on 19 September 2017.

The scope of our work and overall summary

The detailed scope of our work as your appointed auditor for 2016/17 is set out in the National Audit Office's (NAO) Code of Audit Practice. Our responsibilities and powers are derived from the Local Audit and Accountability Act 2014 and include the matters outlined in the following table.

Financial statements	In our Audit Strategy Memorandum we reported that materiality for the financial statements as a whole was set at £4.526 million for NECA and £5.782 million for the Group. We have updated our assessment as part of our continuous planning processes and have set materiality at £5.147 million for NECA and £5.927 million for the Group. Our clearly trivial threshold for reporting matters to you has been set at £154,000 for NECA and £178,000 for the Group. We communicated identified significant risks to you as part of our Audit Strategy Memorandum in April 2017. Section 2 of this report outlines the work we have undertaken, and the conclusions we have reached, for each significant risk. At the time of issuing this report, and subject to the satisfactory conclusion of the remaining audit work, we anticipate issuing an unqualified opinion, without modification, on the financial statements. Our draft auditor's report is provided in Appendix C.
Identified misstatements	Our work identified a number of misstatements that have been discussed with management. A summary of the identified misstatements is provided in Appendix A.
Value for Money	At the time of issuing this report, and subject to the satisfactory conclusion of the remaining audit work, we anticipate having no matters to report in respect of NECA's arrangements to secure economy, efficiency and effectiveness in its use of resources. Our draft auditor's report is provided in Appendix C.
Whole of Government Accounts (WGA)	We anticipate completing our work on your WGA submission, in line with the group instructions issued by the National Audit Office, by the deadline of 30 September 2017. We anticipate reporting that the WGA submission is consistent with the audited financial statements.

The status of our work

We have substantially completed our audit in respect of the financial statements for the year ended 31 March 2017.
At the time of preparing this report, the following significant matters remain outstanding:

Area outstanding	Work to be completed
Cut – Off Testing	Our work in relation to the sample testing of transactions to ensure that they have been recognised in the correct year is still ongoing. This work impacts on CIES, Debtors and Creditors.
Expenditure and Funding Analysis	Our work in relation to reconciliation to reported outturn in both years is still ongoing.
Group accounts	Completion of our standard audit programme for group accounts.
Closure procedures	We will complete our standard closure procedures, including review of the amended financial statements and consideration of post balance sheet events.

We will provide an update to you in relation to these outstanding matters in a follow up letter prior to giving our opinion.

2. Significant findings

This section sets out the significant findings from our audit and provides information on a number of matters that we are required to report to you by ISA 260 ‘Communication with those charged with governance’.

Significant risks

As part of our planning procedures we considered the risks of material misstatement in NECA’s financial statements that required special audit consideration. Although we report identified significant risks at the planning stage of the audit in our Audit Strategy Memorandum, our risk assessment is a continuous process and we regularly consider whether new significant risks have arisen and how we will mitigate these risks. No new risks have been identified since we issued our Audit Strategy Memorandum. The significant risks identified, and our conclusions against each are outlined below.

Management override of control (relevant to single entity and group accounts) In all entities, 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 overrides could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits.	Our testing strategy included: • reviewing material accounting estimates, which may be subject to management bias, included in the financial statements; • consideration and reviewing unusual or significant transactions outside the normal course of business; and • testing of journals recorded in the general ledger and other adjustments made in preparation of the financial statements.	Work ongoing.
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	We addressed this risk through performing audit work over: • the design and implementation of controls management had in place to ensure income is recognised in the correct period; • cash receipts around the year end to ensure they had been recognised in the right year;	Work ongoing.

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significant management judgement in determining if there are any conditions and if they have been met.	• the judgements made by management in determining when grant income was recognised; and • for major grant income, obtaining counterparty confirmation.	
Property, Plant and Equipment Valuation (relevant to single entity and group accounts) Our previous audit work identified the lack of a detailed asset register to fully support the land & buildings and infrastructure assets in the Authority's balance sheet.	Our testing strategy included: • reviewing the Authority's arrangements for ensuring that all assets in the asset register were accounted for in the financial statements and vice versa; and • testing a sample of assets and obtaining suitable evidence that these assets existed at the balance sheet date and that the Authority held the rights to the asset.	Work identified asset categories for PPE were incorrect in that the land and buildings should have been classed as infrastructure as they were intrinsically part of the old Tyne Tunnel. This issue has been corrected and the asset register updated accordingly.
Pension Estimates (IAS 19) (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 discussed with key contacts significant changes to the pension estimates prior to the preparation of the financial statements. In addition to our standard programme of work in this area, we also: • evaluated the management controls you had in place to assess the reasonableness of the figures provided by the Actuary; and • considered the reasonableness of the Actuary's output, referring to an expert's report on all actuaries nationally which was commissioned annually by the National Audit Office.	Our work has provided the assurance we sought and has not highlighted any material issues to bring to your attention.

Qualitative aspects of NECA's accounting practices

We are required to communicate to you our views on the significant qualitative aspects of NECA's accounting practices, including the accounting policies used and the quality of disclosures.

Qualitative aspect	Our views
Accounting policies and disclosures	We have reviewed NECA's accounting policies and disclosures and found these to be in line with the requirements of the Code of Practice on Local Authority Accounting (the Code). In line with our expectations, there have been no significant changes to accounting policies for the year ended 31 March 2017.
Quality of the draft financial statements	We received draft financial statements from management on 20 June 2017. We have identified a number of changes to be made to the draft accounts.
Quality of supporting working papers	Producing high-quality working papers is as crucial part of compiling financial statements that are complete and materially accurate. They also support the delivery of an efficient audit. The Principal Accountant has have worked closely with us to provide working papers which has enabled the audit to progress as smooth as possible.

Significant matters discussed with management

Last year we reported that we were concerned at the lack of staffing support allocated to the Principal Accountant to help produce both the draft and audited accounts whilst also being available to assist in responding to audit queries. This issue is still ongoing and will become even more important for next year as the deadlines for the publication of both the draft and audited accounts will come forward to 31 May 2018 and 31 July 2018 respectively.

Significant difficulties during the audit

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

3. Internal control recommendations

The purpose of our audit is to express an opinion on the financial statements. As part of our audit we have considered the internal controls in place that are relevant to the preparation of the financial statements. We do this to design audit procedures that allow us to express an opinion on the financial statements; this does not extend to expressing an opinion on the effectiveness of internal control or to identify any significant deficiencies in their design or operation.

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

Our findings and recommendations are set out below.
We have not identified any significant deficiencies as a result of our work this year.

Follow-up of previous internal control deficiencies and recommendations

Description of deficiency	**Service Level Agreement (SLA) with Newcastle City Council is not up to date**
Potential effects	Given the services that the Council provides to NECA, the Authority should ensure that the SLA is up to date.
Action taken	NECA have agreed an SLA which identifies all of the services provided by the Council.

Description of deficiency	**Lack of formal loan agreements with Nexus**
Potential effects	NECA has lent Nexus £45.237 million. Whilst both parties fully understand the terms of the loan and subsequent repayments, there is no formal agreement in place. Existing arrangements would be strengthened by introducing formal agreements between both parties.
Action taken	Loan agreements with Nexus have been agreed and introduced during the year.

Description of deficiency	**Lack of detailed assets register to support land & buildings and infrastructure assets in the balance sheet**
Potential effects	NECA should further strengthen the asset register that is currently in place.
Action taken	Up to date, relevant asset register now in place.

4. Value for Money Conclusion

Our approach to Value for Money

We are required to form a conclusion as to whether the North East Combined Authority (NECA) has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out in order to form our conclusion, and sets out the criterion and sub-criteria that we are required to consider.

The overall criterion is that, 'in all significant respects, NECA 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.
- Working with partners and other third parties.

Significant Value for Money risks

The NAO's guidance requires us to carry out work to identify whether or not a risk to the Value for Money conclusion exists. Risk, in the context of our work, is the risk that we come to an incorrect conclusion rather than the risk of the arrangements in place at the Commissioner being inadequate. We did not identify any significant risks at the planning stage of our audit, and as such did not report any in our Audit Strategy Memorandum. We have kept this under review throughout our audit and are satisfied that there are no significant risks apparent in respect of VFM.

Commentary against each of the sub-criteria, and an indication of whether arrangements are in place, is provided below

Sub-criteria	Commentary	Arrangements in place?
Informed decision making	The North East Leadership Board (NELB) is made up of the Leaders of the seven constituent bodies. The NELB is supplemented by elected members who serve on a number of committees along with non-executives. There is a very experienced senior officer team in post at NECA led by Helen Golightly, the Interim Head of Paid Service who was appointed in September 2016. NECA has an update to date Constitution (June 2017) which is available on their website. Risk management arrangements along with an up to date risk register is in place. A risk update is reported regularly to Governance Committee, who provide the necessary challenge	Yes

	No indicators of inappropriate governance arrangements. An Annual governance statement is prepared, reviewed and approved before being included in the financial statements.	
Sustainable resource deployment	Very experienced officer team in place Financial and performance reports demonstrate a history of achieving financial targets. The 2017/18 revenue budget and capital programme was approved by the NELB on 17 January 2017. Arrangements in place for the Financial Plan to be updated as appropriate. 2016-17 Outturn report to Governance Committee on 4 July 2017 identified an underspend of £0.570m at the year end. Relevant HR policies and procedures in place	Yes
Working with partners and other third parties	NECA work very closely with the North East Local Enterprise Partnership (NELEP). This is a business-led, strategic partnership responsible for promoting and developing economic growth in the area. NECA supports the work of the enterprise partnership and they work together to ensure co-ordination across their range of activities. The NELEP board includes 18 representatives from across the private and public sectors. Each of the leaders and the elected Mayor representing the seven NECA councils are members of the NELEP and the Chair of the NELEP is a non-voting member of the NELB. The Combined Authority provides the formal accountability arrangements for the enterprise partnership. A service concession exists in relation to the Tyne Tunnel. This is subject to a detailed 30 year agreement with the operator TT2 which was introduced in 2008.	Yes

Having gathered evidence of NECA's arrangements for each criterion we conducted a 'reality check', building upon our existing knowledge of NECA and considering the robustness of our assessment by referring to:

- reports by statutory inspectorates or other regulators;
- achievement of performance and other targets; and
- performance against budgets and other financial targets.

Evidence	Auditor assessment
Reports by statutory inspectorates or other regulators	We are not aware of any relevant work which impacts upon our value for money conclusion.
Achievement of performance and other targets	No issues identified.
Performance against budgets and other financial targets	All relevant financial targets have been achieved.

Overall conclusion

Having completed our assessment, and having carried out a ‘reality check’, we can conclude that our initial risk assessment remains appropriate and we can be confident in our conclusion that NECA has adequate arrangements in place for each criterion. We therefore intend to issue an unqualified Value for Money conclusion as set out in Appendix C.

Appendix A – Summary of misstatements

The misstatements identified for adjustment during the course of the audit that are above the trivial level of £154,000, are set out below.

The first table outlines the identified misstatements which management has assessed as not being material, either individually or in aggregate to the financial statements, and does not currently plan to adjust.

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

Unadjusted misstatements 2016/17 – work ongoing as at 1 September 2017					
		Comprehensive Income and Expenditure Statement		**Balance Sheet**	
		Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
1	Dr:				
	Cr:				
	Explanation				
2	Dr:				
	Cr:				
	Explanation				

Adjusted misstatements 2016/17– work ongoing as at 1 September 2017		Comprehensive Income and Expenditure Statement		Balance Sheet	
		Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
1	Dr: income (NEL)	263			
	Cr: short term creditors				263
	Explanation: Correction of duplicate entry for grants received in advance incorrectly deducted from short term creditors.				
2	Dr: Transport – Tyne Tunnels expenditure	608			
	Cr: PPE				608
	Explanation: Additional depreciation charge as a result of reclassification of other land and buildings to infrastructure (old Tyne Tunnel) as these were an intrinsic part of the tunnel.				
3	Dr: NELEP expenditure	423			
	Cr: Tyne tunnel expenditure		423		
	Explanation: Expenditure on airport advertising which relates to LEP advertising rather than Tyne Tunnels.				
4	Dr: NELEP income	256			
	Cr: NELEP expenditure		256		
	Explanation: Business rate income which was netted off expenditure when income should have been grossed up.				

Disclosure amendments (work ongoing as at 1 September 2017)

The main disclosure issues identified during the course of the audit are outlined below, all of which have been corrected by management

- Note 7 – Officer Remuneration. A number of disclosure issues have been identified in relation to the bandings in the Note.
- Cash Flow Statement – our work identified a number of errors which required amendment.

- Note 10 –Property, plant and equipment. Other land and buildings has been reclassified as infrastructure assets as they are an intrinsic part of the old Tyne Tunnel and this is consistent with treatment of similar assets which are part of new Tyne Tunnel.
- Note 15 – short term creditors. Amendment required between amount owed to “other local authorities” and amount owed to “other entities & individuals – other”.
- Additional disclosure required to explain the restatement of Comprehensive Income and Expenditure Statement.
- We identified a number of other minor errors, omissions, clarifications and typographical errors.

Appendix B – Draft management representation letter

North East Combined Authority - audit for year ended 31 March 2017

This representation letter is provided in connection with your audit of the statement of accounts for the North East Combined Authority (NECA) and Group for the year ended 31 March 2017 for the purpose of expressing an opinion as to whether the statement of accounts give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

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

My responsibility for the statement of accounts and accounting information

I believe that I have fulfilled my responsibilities for the true and fair presentation and preparation of the statement of accounts in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

My responsibility to provide and disclose relevant information

I have provided you with:

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

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

Accounting records

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

Accounting policies

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

Accounting estimates, including those measured at fair value

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

Contingencies

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

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

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

There are no contingent gains which should be disclosed.

All material matters, including unasserted claims, that may result in litigation against NECA and Group have been brought to your attention. All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to you and accounted for and disclosed in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Laws and regulations

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

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

Fraud and error

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

I have disclosed to you:

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

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

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Related party transactions

I confirm that all related party relationships, transactions and balances, have been appropriately accounted for and disclosed in accordance with the requirements of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

I have disclosed to you the identity of the Authority's related parties and all related party relationships and transactions of which I am aware.

Impairment review

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

Future commitments

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

Service Concession Arrangements

I am not aware of any material contract variations, payment deductions or additional service charges in 2015/16 in relation to the Authority's PFI schemes that you have not been made aware of.

Subsequent events

I confirm all events subsequent to the date of the financial statements and for which the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom require adjustment or disclosure have been adjusted or disclosed.

Should further material events occur after the date of this letter which may necessitate revision of the figures included in the financial statements or inclusion of a note thereto, I will advise you accordingly.

Going concern

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

Yours sincerely

Chief Finance Officer

Date………………………

Appendix C – Draft audit report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NORTH EAST COMBINED AUTHORITY

Opinion on the financial statements

We have audited the financial statements of the North East Combined Authority (NECA) and Group for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014. The financial statements comprise the NECA and Group Movement in Reserves Statements, the NECA and Group Comprehensive Income and Expenditure Statements, the NECA and Group Balance Sheets, the NECA and Group Cash Flow Statements and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

This report is made solely to NECA, in accordance with Part 5 of the Local Audit and Accountability Act 2014 as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than NECA, for this report or for the opinions we have formed.

Respective responsibilities of the Chief Finance Officer and auditor

As explained more fully in the Statement of the Chief Finance Officer's Responsibilities, the Chief Finance Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to NECA and Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Finance Officer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Narrative Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements
In our opinion the financial statements:

- give a true and fair view of the financial position of NECA (and Group) as at 31 March 2017 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

Opinion on other matters
In our opinion, the information given in the Narrative Report for the financial year for which the financial statements are prepared, is consistent with the financial statements.

Matters on which we report by exception
We report to you if:

- in our opinion the Annual Governance Statement does not comply with Delivering Good Governance in Local Government: Framework (2016);
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make a recommendation under section 24 of the Local Audit and Accountability Act 2014; or
- we exercise any other special powers of the auditor under the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

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

Respective responsibilities of NECA and the auditor
NECA is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

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

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources
We are required to conclude whether NECA has put in place arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

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We have planned and undertaken our work in accordance with the Code of Audit Practice as issued by the Comptroller and Auditor General, and had regard to relevant guidance. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, NECA had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General, we are satisfied that in all significant respects, NECA put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

Certificate

We certify that we have completed the audit of the financial statements of the North East Combined Authority (and Group) in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

[*Signature*]

Cameron Waddell
For and on behalf of Mazars LLP
Salvus House
Aykley Heads
Durham
DH1 5TS

[*Date*]

Appendix D – Independence

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

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

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north east combined authority

Governance Committee

Date: **12 September 2017**

Subject: **Statement of Accounts 2016/17**

Report of: **Chief Finance Officer**

Executive Summary

The purpose of this report is to present the final, audited 2016/17 accounts for review by Governance Committee. The 2016/17 audit programme is now largely complete and Mazars, the external auditor, expect to issue their opinion before the end of September. Their report on the audit is elsewhere on this agenda. The NECA Leadership Board is meeting on 19th September and will receive the 2016/17 accounts for approval at this meeting, taking into account any comments raised by the Governance Committee.

Recommendations

Governance Committee is recommended to;

i) review and comment on the Statement of Accounts for 2016/17 and recommend them to the Leadership Board for approval.

ii) approve the amended accounting policies detailed in section 2.4.

north east combined authority

Governance Committee

1. Background Information

1.1 The draft Statement of Accounts was completed and signed off by the Chief Finance Officer on 31 May 2017, in advance of the statutory deadline. A report on the Outturn and Draft Financial Statements was considered at the last meeting of the Governance Committee on 4 July.

1.2 The Statement of Accounts has been subject to a period of public inspection and external audit and the final Statement of Accounts is now presented for review by Governance Committee. Feedback and recommendations from Governance Committee will be reported to the Leadership Board meeting on 19 September.

1.3 The Statement of Accounts must be signed off by the Chair of the Leadership Board and the Chief Finance Officer on behalf of the Authority and published online by 30 September 2017.

1.4 At the time of writing this report, the accounts are as set out in Appendix 2. Audit work is still ongoing and should there be any further changes identified to the statements, these will be circulated at the Committee meeting.

2 Proposals

2.1 **Independent Auditor's Opinion**

2.1.1 The detailed report of the external auditor is contained elsewhere on this agenda. Mazars anticipate issuing an unqualified audit opinion on the statement of accounts, and anticipate concluding that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources, dependent on the satisfactory conclusion of the remaining audit work.

2.2 **Adjustments to the financial statements**

2.2.1 A number of adjustments have been made between the draft and final accounts, which are set out in the external auditor's report. A summary of the main adjustments is presented below:

<u>Property, Plant and Equipment</u>

An inconsistency of treatment has been identified between land balances held on the NECA balance sheet as 'Other Land and Buildings' and the land acquired for the second Tyne Tunnel ('New Tyne Crossing'), which was included in the valuation of the Infrastructure asset, and carried at a depreciated historic cost basis. It is not classed as a separate component due to its low value in relation to the overall asset value.

To correct this inconsistency going forward and bring both Vehicle Tunnels onto a consistent basis, the land and roads balances have been combined with the original vehicle tunnel balance into one original vehicle tunnel asset valued as Transport Infrastructure, on a Depreciated Historic Cost basis.

A correction has been posted in-year to ‘catch up’ depreciation that would have been charged on the combined balance had it been accounted for in this way since the introduction of International Financial Reporting Standards accounting in 2010/11. This has been calculated as £0.608m. Since this value is not material, it has been corrected in year with no prior period adjustment.

This correction leads to a reduction in Property Plant and Equipment on the Balance Sheet of £0.608m, a decrease in the surplus on the Comprehensive Income and Expenditure Statement (CIES) of £0.608m and a decrease in Unusable Reserves of £0.608m, with amendments required to the relevant disclosure notes to the accounts.

Grants Received in Advance

A duplicate entry was identified which had been processed releasing grant income from the Balance Sheet to the CIES. This had led to short term creditors being understated by £0.263m and the General Fund being overstated by £0.263m.

This has been corrected with a resulting decrease in the surplus on CIES and General Fund and increase in short term creditors.

Comprehensive Income and Expenditure Statement and Expenditure and Funding Analysis

Additional lines have been added to the Comprehensive Income and Expenditure Statement and Expenditure and Funding Analysis to accurately reflect the Authority’s format for budget and decision making purposes: to separate the Durham, Northumberland and Tyne and Wear transport expenditure. This has no effect on overall figures.

2.2.2 Additional information has been included in the Statement of Accounts and the Narrative Report about ‘Usable’ and ‘Unusable’ Reserves, and the ringfenced nature of the majority of the Authority’s reserves, which was a topic discussed at the last meeting of the Governance Committee and which members felt it was important to provide explanation on.

2.3 **Arrangements to secure economy, efficiency and effectiveness in the use of resources**

2.3.1 As part of the audit of the Authority’s accounts, the External Auditor is required to assess the Authority's arrangements to secure economy, efficiency and effectiveness in the use of resources, commonly referred to as the Value for Money (VFM) assessment.

At the time of writing their report, the external auditors have assessed that NECA had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources, and anticipate issuing an unqualified VFM opinion.

2.4 **Accounting Policies**

2.4.1 At its meeting in April 2017, Governance Committee approved the accounting policies for use in the preparation of the 2016/17 accounts. The policy for Tyne Tunnels income was not updated in line with current practice around accruals of income at the year end and stated that no accruals were necessary. The revised accounting policy is as follows:

"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."

2.4.1 An addition has been made to the Accounting Policy for Financial Instruments. Borrowing taken on behalf of Nexus is carried on the Balance Sheet at carrying value, but is disclosed in the Financial Instruments note at Fair Value. The Accounting Policy sets out the means of estimating this Fair Value:

"Where the fair value of loans and receivables is disclosed (i.e. the Financial Instruments note) the fair value of the Nexus borrowing debtor is estimated by applying a proportion of the Authority's total fair value of borrowing to the proportion of the carrying value which relates to loans taken on behalf of Nexus."

3. Reasons for the Proposals

3.1 Although it is the responsibility of the Leadership Board to approve the Statement of Accounts, it is within the terms of reference of the Governance Committee to 'review key information relating to NECA's Statement of Accounts' and to 'review the external auditor's opinion and reports on the statement of accounts'.

4. Next Steps and Timetable for Implementation

4.1 The Statement of Accounts and the Annual Governance Statement will be presented to the Leadership Board on 19 September, and the views of Governance Committee will be reported to this meeting for the Leadership

Board to take into consideration. The Statement of Accounts must be signed by the Chair of the Leadership Board and the Chief Finance Officer by 30 September 2017, and published online by this date.

5. Potential Impact on Objectives

5.1 There are no direct impacts on objectives as a result of this report. Sound financial stewardship improves the ability of the Authority to meet all of its objectives.

6. Financial and Other Resources Implications

6.1 The financial implications are set out in the body of the report.

7. Legal Implications

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

8. Key Risks

8.1 There are no risk management implications directly arising from this report.

9. Equality and Diversity

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

10. Crime and Disorder

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

11. Consultation/Engagement

11.1 The draft accounts have been subject to a period of public inspection from 26 June 2017 to 4 August 2017 with no enquiries made by members of the public.

12. Other Impact of the Proposals

12.1 There are no other impacts arising from this report.

13. Appendices

13.1 Appendix 1 – Narrative Report 2016/17
Appendix 2 – Statement of Accounts 2016/17

14. Background Papers

14.1 2016/17 Code of Practice on Local Authority Accounting in the United Kingdom

15. Contact Officers

15.1 Paul Woods, Chief Finance Officer, paul.woods@northeastca.gov.uk, Tel: 07446936840

Eleanor Goodman, Principal Accountant, eleanor.goodman@northeastca.gov.uk, Tel: 0191 277 7518

16. Sign off

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

Chief Finance Officer's Narrative Report for the Year ended 31 March 2017

Chief Finance Officer's Narrative Report 2016/17

1. Introduction

This Narrative Report provides information about the North East Combined Authority, including the key issues affecting the Authority and its accounts. This report 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 2016/17 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 ended 31 March 2017 and its financial position at that date.
- A look ahead to 2017/18 and beyond.

The Statement of Accounts sets out the financial performance of the Authority for the year ended 31 March 2017 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 backup 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 (NELEP). Our accounts include all transactions relating to the NELEP 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 Authority seeks to make 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 2017/18, available on the NECA website (www.northeastca.gov.uk) set out how we will do this looking forward. The Statement of Accounts accompanying this report looks backwards at our performance over the past year. Reviewed together they provide the reader with a complete 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 new legal body that brings together the seven councils which serve Durham, Gateshead, Newcastle upon Tyne, North Tyneside, Northumberland, South Tyneside and Sunderland. Its ambition is 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 authority was established in April 2014 in order to enable more effective collaboration on the key regeneration and transport issues which cut across council boundaries.

NECA is working closely with the North East Local Enterprise Partnership (NELEP) and the wider business community to deliver the Strategic Economic Plan for the North East and capitalise on these opportunities. NECA is the Accountable Body for the NELEP and all of the financial information relating to the NELEP is included in the accounts of NECA. This has a significant impact on the accounts in 2016/17 because NECA received significantly more Local Growth Fund (LGF) grant in 2016/17 than was spent on projects in the year, which means an increased surplus in the CIES and an equivalent increase in capital grants unapplied which increases the useable reserves of the Authority. Ten new enterprise zone sites have been approved to start in April 2017 and NECA and the LEP is working jointly to secure a £120m North East extension to the JEREMIE access to finance for business fund, which is due to start in 2017. In the absence of a devolution deal for the North East, the authority will continue to seek external funding such as Local Growth funding; infrastructure funding for major transport projects; and will seek to maximise European funding and the replacement of Europe regional funding following Brexit for the North East.

3. Revenue Financial Summary 2016/17

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 budget is set out in the table overleaf. Expenditure totalling £119.328m was managed within the approved revenue budget and income, with an underspend of around £0.570m at the year end which means the requirement to fund activity from reserves is less than originally budgeted for.

This statement provides a comparison with the NECA revenue budget for 2016/17 and does not include the Corporate budget of the NELEP, which is shown in detail in Table 3.

Table 1: Summary of Revenue Expenditure Against Budget

	2016/17 Revised Budget	2016/17 Actual	Variance
	£000	£000	£000
Expenditure			
Transport Levy Budget			
- NECA retained (less contributions to other NECA activity)	2,333	2,262	(71)
- Grant to Durham	15,414	15,414	-
- Grant to Nexus	62,500	62,500	-
- Grant to Northumberland	6,293	6,293	-
Tyne Tunnels			
- Contract Payments	22,049	21,201	(848)
- NECA costs	224	206	(18)
- Financing Costs	7,002	6,824	(178)
Other Transport Activity			
- Regional Transport Team	1,153	997	(156)
- Go Smarter Programme	2,343	2,343	-
Inward Investment	439	337	(102)
Corporate/Central Budget	450	461	11
North East Technical Assistance match funding contribution	-	16	16
Devolution Activity	474	474	-
Skills - Mental Health Trailblazer Project	-	-	-
Total Expenditure	**120,674**	**119,328**	**(1,346)**
Income			
External Grant Funding	(3,243)	(3,295)	(52)
Transport Levies	(86,894)	(86,894)	-
Tolls Income	(28,775)	(27,795)	980
Interest/Investment Income	(251)	(272)	(21)
Contributions from Constituent Authorities	(440)	(440)	-
Contributions from NELEP	(166)	(146)	20
Tyne Tunnels Miscellaneous Income	-	(146)	(146)
Other Income	(10)	(15)	(5)
Total Income	**(119,779)**	**(119,003)**	**776**
Net Revenue Expenditure to fund from Reserves	**895**	**325**	**(570)**

Within the accompanying Statement of Accounts document the **Comprehensive Income & Expenditure Statement** (CIES, page 12) sets out the Authority's financial position for the year before taking account of statutory adjustments required to be made to the accounts. The **Movement in Reserves Statement** (MIRS, page 11) reflects these statutory adjustments and shows how the financial performance for the year has impacted on the Authority's reserves. The figures presented in these statements are different from the budgeted revenue expenditure as they include accounting adjustments for costs such as Depreciation, and Revenue Expenditure Funded by Capital Under Statute and other grant-funded expenditure not included in the revenue budget.

The gross cost of services during the year including capital grants to third parties as well as revenue expenditure was £200.352m (£200.453m in 2015/16). This includes all areas of the NECA's and NELEP's activity. This includes '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 £66.703m, 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 Growth.

The CIES shows a net surplus for the year on the Provision of Services of £19.940m. This largely reflects Local Growth Fund (LGF) grant income being credited to the CIES where grant conditions have been met but it has not yet been used to fund expenditure. This is carried forward in the 'Capital Grants Unapplied Reserve' to fund expenditure in future years.

The General Fund balance at the year end was £34.897m. However, this is made up of a number of amounts which are held for specific purposes and the true unringfenced balance available to the Authority (the NECA Corporate reserve) is relatively low. The table below sets out a breakdown of the General Fund balance.

Table 2: Breakdown of General Fund Balance

	2016/17
	£000
NECA Corporate	(283)
Tyne and Wear Transport	(475)
Tyne Tunnels	(25,993)
Inward Investment	(110)
Revenue Grants Unapplied	(1,434)
NELEP General Fund	(592)
Enterprise Zones reserve	(4,924)
Growing Places Fund interest	(500)
Regional Growth Fund interest	(586)
Total	**(34,897)**

4. North East Local Enterprise Partnership

NECA is the Accountable Body for the North East Local Enterprise Partnership (NELEP) and, as such, these accounts include details of its income and expenditure during 2016/17, fully consolidated with the figures for NECA itself.

The NELEP brings together business leaders, universities and members of the NECA Leadership Board. It is the fourth largest LEP in the country and covers the seven local authority areas which also make up NECA. 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. One of its major areas of activity is the North East Investment Fund (NEIF), a capital loans fund supporting projects that specifically encourage local economic growth and create jobs in the area.

Table 3: Summary of North East Investment Fund Activity 2016/17

	Grants Paid	Loans Advanced	Total Payments 2016/17	Interest Repayments 2016/17	Principal Repayments 2016/17	Total Repayments 2016/17
	£000	£000	£000	£000	£000	£000
Growing Places Fund	1,306	734	2,040	(59)	(271)	(330)
Regional Growth Fund	-	125	125	(347)	(213)	(560)
Contribution to North East Property Fund	3,000	-	3,000	-	-	-
Total	**4,306**	**859**	**5,165**	**(406)**	**(484)**	**(890)**

The table below summarises the LEP's revenue expenditure in 2016/17.

Table 4: North East LEP Revenue Expenditure

The LEP core budget covers LEP operational activity and also management of the Local Growth Fund (LGF) programme. Table 3 below provides a summary of actual spend against the revised budget for the year. Total revenue expenditure amounted to £2.999m, which was £0.053m lower than the revised budget for the year. Income was £3.181m, resulted in a net surplus of £0.182m carried over into 2017/18.

The main underspend in the year was on the recharge from the regional transport team for LGF transport project support, which was £127k below the budget set at the beginning of the year. This underspend was primarily due to delays in procuring two studies, which commenced in March and will be completed in the current year, and also reduced independent scheme assessment work for LGF transport schemes in the year. An underspend on the Inward Investment Budget means that the one off earmarked contribution of £0.020m carried over from 2015/16 will no longer be required. Income received, was in line with the revised budget for the majority of the funding streams.

	2016/17 Original Budget	2016/17 Revised Budget	2016/17 Actual Spend	2016/17 Variance
	£000	£000	£000	£000
Expenditure				
Employees	1,550	1,234	1,285	51
Premises	95	95	95	-
Communications	247	251	216	(35)
Transport LGF Monitoring and Evaluation	400	385	258	(127)
Gatsby and Growth Hub Operational Costs	106	377	389	12
Other Operational Costs	615	570	616	46
Inward Investment Contribution	160	140	140	-
Gross Expenditure	**3,173**	**3,052**	**2,999**	**(53)**
Income				
LEP Core Grant	(250)	(250)	(250)	-
Local Authority Match Contributions	(250)	(250)	(250)	-
LEP Strategy Grant	-	(250)	(250)	-
Local Growth Fund (2.5% Top-Slice)	(1,985)	(1,250)	(1,192)	58
NEIF/EZ Business Rate Receipts	(50)	(100)	(100)	-
Gatsby and Growth Hub Grants	(168)	(606)	(646)	(40)
Other Grants / Enterprise Advisor	(175)	(31)	(69)	(38)
NECA contribution to Head of Paid Service	-	(36)	(36)	-
Interest on Balances	(295)	(305)	(349)	(44)
Other Income	-	-	(39)	(39)
Gross Income	**(3,173)**	**(3,078)**	**(3,181)**	**(103)**
Net (Surplus)/Deficit	**-**	**(26)**	**(182)**	**(156)**

The table below shows the North East LEP revenue balances as at 31 March 2017. The general reserve has increased by £112k over the year to £548k. This is £86k higher than anticipated in the revised budget.

Table 5: North East LEP Revenue Balances

	Opening Balance	Movement in 2016/17	Closing Balance
	£000	£000	£000
General Reserve	436	112	548
LGF Revenue Allocation	-	44	44
GPF Revenue Allocation	66	(66)	-
Total	**502**	**90**	**592**

Further details of the activities of the NELEP are available at www.nelep.co.uk.

5. Capital Investment

Capital investment during the year totalled £116.8m, less than the 2015/16 figure of £127m. This 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 and by thematic area are shown in the following table and charts.

Table 6: Capital Expenditure by Programme

	2015/16	2016/17
	£000	£000
Local Growth Fund Programme	51,472	61,794
Metro Asset Renewal Plan	39,747	37,817
Transport Grants	11,070	11,877
North East Investment Fund	22,820	5,165
Other	2,111	129
Total	**127,220**	**116,782**

Included within the Local Growth Fund Programme is £1.826m expenditure on the refurbishment of the Tyne Pedestrian and Cycle Tunnels, which was temporarily funded from grant as part of a funding swap, with an equivalent amount to be repaid to the LGF programme from Tyne Tunnels reserves in future years.

Chart 1: Capital Expenditure by Programme

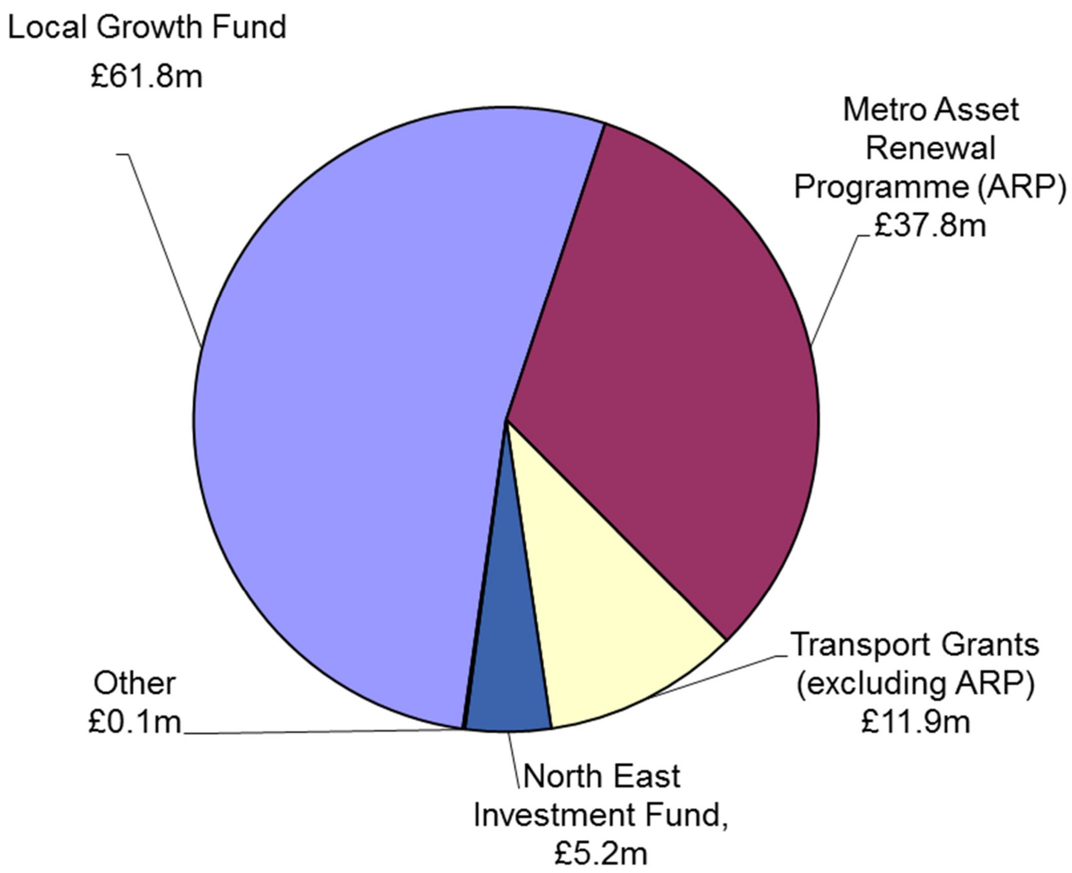
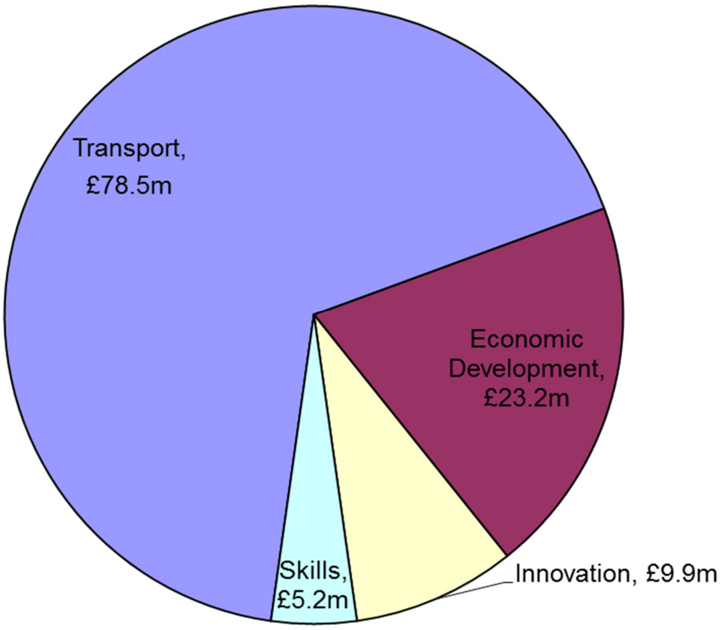


Chart 2: Capital Expenditure by Thematic Area



The largest area of capital expenditure is in relation to Transport and Digital Connectivity, reflecting the NECA's responsibilities as Transport Authority, which it inherited from the former Tyne and Wear Integrated Transport Authority. Activity on Economic Assets and Infrastructure and Economic Development continues to grow, building on strong performance in 2015/16, and includes the North East Investment Fund. Skills and Innovation were new areas of activity for NECA in 2015/16 and have continued to be supported in 2016/17.

A selection of the significant by value capital projects / programmes under each thematic area are set out below (figures in brackets represent capital investment in the year funded by NECA sources).

Economic Assets and Infrastructure

- North East Investment Fund – Loans and grants including the contribution to the North East Property Fund (£5.1m)
- LGF – Infrastructure for Forrest Park (£2.1m) (Durham County Council)
- LGF – Sunderland Central Business District (£1.5m) (Sunderland City Council)
- LGF – Rural Growth Network (£0.757) (Northumberland County Council)

Innovation

- LGF – Centre for Innovation in Formulation (£1.0m)
- LGF – Newcastle Laboratory and Life Science Incubation Hub (£1.0m) (Newcastle City Council)
- LGF – Northern Centre for Emerging Technologies (£0.9m) (Gateshead Council)
- LGF – NetPark Infrastructure Phase 3 (£0.8m)

Transport and Digital Connectivity

- Metro Asset Renewal Programme (£37.8m) (Tyne & Wear – Nexus)
- LGF – A19 Employment Corridor Improvements (£2.0m) (North Tyneside Council)
- LGF – South Shields Transport Hub (£1.8m) (South Tyneside Council)
- Tyne Tunnels Capital Programme (£1.9m)

Skills

- LGF – Rural Skills Development East Durham College (£2.5m)
- LGF – Beacon of Light World of Work (£1.8m)
- LGF – Northumberland College STEM centre (£0.9m)

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

Table 7: Capital Funding 2016/17

	2016/17	2016/17
	£000	%
Local Growth Fund Grant	(61,794)	52.9%
Local Transport Plan Grant	(14,460)	12.4%
Metro Capital Grant	(34,252)	29.3%
North East Investment Fund	(2,864)	2.5%
Growing Places Fund Capital Grant	(2,358)	2.0%
Revenue/Reserves	(1,054)	0.9%
Total Funding	**(116,782)**	**100.0%**

6. Enterprise Zones

The 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. 2016/17 was the fourth year of the zone's life.

Analysis of the business rates generated to date is shown in the table below. This funding is available to support future NELEP activity; primarily additional Enterprise Zone site development works to future enhance this income stream in the coming years.

Table 8: NE Enterprise Zone Business Rates Growth 2016/17

	2013/14	2014/15	2015/16	2016/17
	£000	£000	£000	£000
Local Authority Area				
Newcastle upon Tyne	(312)	(330)	(262)	(614)
North Tyneside	(14)	(55)	(100)	(165)
Northumberland	(12)	(28)	(96)	(173)
Sunderland	(696)	(653)	(745)	(743)
Gross Expenditure	**(1,034)**	**(1,066)**	**(1,203)**	**(1,695)**
NEIF Repayment	-	-	542	1,306
Financing Costs	-	-	424	-
EZ Costs	-	9	9	121
Interest	-	(3)	(7)	(5)
Total Surplus	**(1,034)**	**(1,060)**	**(235)**	**(273)**
Cumulative Surplus	**(1,034)**	**(2,094)**	**(2,329)**	**(2,602)**

Business Rate Income for 2016/17 amounted to £1.695m and Expenditure, including accelerated repayments back to the NEIF, amounted to £1.422m. The surplus for the year was £0.273m, resulting in a cumulative surplus of £2.602m being held. This is higher than the cumulative surplus forecast set out in the 2014 Financial Model of £1.727m.

7. Treasury Management

The Balance Sheet on page 13 of the accounts shows external borrowing of £169.998m at the end of the year, which is split between short term borrowing (£2.231m) and long term borrowing (£167.667m). This compares to £171.690 for 2015/16. The decrease is due to the regular principal repayments made on Equal Instalment of Principal (EIP) loans. 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 £104m at the end of the year compared to £89m at the end of the previous year, consisting of £66m NECA's own investments and £38m of investments held on behalf of Nexus. The increase in NECA investments in 2016/17 compared to the previous year is primarily due to receipt of a greater level of LGF grant income in advance of payments being made to projects and the need to achieve better investment returns leading to deposits being placed for longer time periods where it is considered safe to do so.

8. Debtors

The Balance Sheet on page 13 shows short term debtors of £10.904m at the end of the year compared to £9.965m at the end of the previous year. These balances are analysed in more detail in Note 13 on page 39.

9. Creditors

The Balance Sheet on page 13 shows short term creditors of £88.624m at the end of the year compared to £113.252m at the end of the previous year. These balances are analysed in more detail in Note 15 on page 39. The main reason for the significant reduction compared to the previous year is a reduction in the balance of cash owed to Newcastle City Council which was £43.015m in 2015/16 but had reduced to £8.896m at 31 March 2017. This balance exists because NECA receives the majority of its income into its own bank account but payments are made from Newcastle City Council's account as NECA uses its financial systems. This balance was reconciled following the year end and settled during April 2017, with monthly settlements ongoing during 2017/18.

10. 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, NECA is in a surplus position amounting to £7.46m, reflecting the decision of the former Tyne and Wear ITA to make a lump sum payment to clear its pension deficit in December 2013, and the high employers' contribution rate on employee costs paid in recent years. This approach has given significant increases in the value of assets in the fund, well above the levels of return that could have been achieved by the Authority itself, and also significant savings in the revenue budget.

For accounting purposes this surplus is limited to nil on the NECA balance sheet because, under Pension Fund arrangements, the Authority is not able to "withdraw" the surplus from the Fund. It 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 LEP.

Unfunded or discretionary benefits e.g. early retirement awards sit outside the Authority's funded part of the scheme and are therefore not backed by assets, but must be paid as incurred on a monthly basis. These costs all relate to former Tyne Tunnels employees and are paid from the Tyne Tunnels revenue account, at a cost of approximately £51k in 2016/17. At the end of the year there was a pension fund deficit of £0.980m and this is disclosed on the Balance Sheet on page 13. This compares with a deficit of £0.890m at the end of the previous year. The main reason for the small increase is due to the assumptions made by the pension fund actuary, particularly a reduction in the discount rate used to revalue liabilities from 3.3% to 2.5%. A decrease in the discount rate increases the current value of the liability outstanding.

Further disclosures related to the pension fund are included in Note 18 from pages 41-46 of the Statement of Accounts.

11. Net Assets

The Authority's total net assets have increased from £150.878m at 31 March 2016 to £170.698m at 31 March 2017, matched by a corresponding increase in Reserves. This increase is primarily due to the slippage against the LGF programme during the year and is therefore expected to be a short-term increase only, with the grant not yet used to fund up expenditure being held in the Capital Grants Unapplied Account. It is anticipated that this will be drawn down in full during 2017/18 and 2018/19.

12. 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 82.

The Group results show a surplus for the year of £33.097m (2015/16 £29.328m). The net assets of the Group stood at £632.811m at 31 March 2017 (£599.718m at 31 March 2016). The increase is due to the increase in LGF grant carried forward to 2017/18 in the single entity accounts, as described above, and an increase in non-current assets held by Nexus.

13. Accounting Developments

The main changes in the current year are as follows:

- **Faster Closure of Accounts** – the deadline for faster closure of accounts from 2017/18 will be for draft accounts to be prepared and signed by the Chief Finance Officer by 31st May (currently 30th June) and for approval and publication of financial statements with audit opinion by 31st July (currently 30th September). Many of the procedures implemented during 2016/17 are designed to ensure these revised reporting deadlines are met.

- **Highways Network Assets** – on 8th March 2017 the CIPFA / Local Authority Accounting Code Board announced the decision not to proceed with the introduction of the Highways Network Asset Code into the financial reporting requirements for local authorities.

- **Telling the Story review of the presentation of local authority financial statements** – Following the Telling the Story review of the presentation of local authority financial statements, the 2016/17 Code changed the segmental reporting arrangements for the Comprehensive Income and Expenditure Statement and introduced the Expenditure and Funding Analysis.

  The new Expenditure and Funding Analysis seeks to bring together local authority performance reported on the basis of expenditure measured under proper accounting practices with statutorily defined charges to the General Fund.

Both the Comprehensive Income and Expenditure Statement and the Expenditure and Funding Analysis now require local authorities to report performance on the basis of how they are structured and how they operate, monitor and manage financial performance.

Additional accounting developments have been reviewed and determined to have no significant impact on the Authority, see Note 26 (page 55) within the Statement of Accounts.

14. Looking Ahead

In the absence of a Devolution Agreement at the current time, the focus for 2017/18 and beyond is on supporting the existing objectives of the NECA and delivering the objectives of the North East Strategic Economic Plan. The 2017/18 net revenue budget was agreed by the Leadership Board in January 2017, was made up of several elements and amounted to £85.5m, excluding grant funded elements of the LEP budget. Total Gross Revenue Expenditure before applying income and funding from external grants is forecast to be in excess of £231m. A capital programme for the year totalling £148.9m (including overprogramming) was set, covering a wide range of transport improvements and economic and regeneration initiatives.

NECA activity for the year ahead falls into three key themes:

Transport

Transport is seen as a key driver of growth and the strategic alignment of transport within economic growth strategies emphasises a clear link between transport and skills, housing and economic prosperity. NECA has ensured political leadership at the highest level on strategic transport planning, set within the context of the wider economic strategy for the area.

Since its establishment NECA has facilitated greater co-operation amongst regional and local partners which has resulted in improvements to the region’s public transport network, increased opportunity to address congestion on the local road network, and a step change in information and ticketing provision for the travelling public. Since the publication of the SEP in 2014 NECA and NELEP have continued to develop collaborative working arrangements across the region and provide a single approach to transport.

NECA transport activity is focused on providing leadership and a united voice on key strategic transport issues; representing the North East on transport issues of national significance; coordinating the area’s public transport network; and managing the transport investment programme. NECA has produced and consulted on the Transport Manifesto setting out the vision and objectives for transport in the area. This will feed into the Transport Plan which will be developed in 2017/18.

During 2016/17, NECA also agreed outline business cases for the replacement of the Metrocar fleet and the continuation of the programme of essential renewals across the Metro network. The funding required for these business cases will be pursued with DfT next year and Nexus’ budget for 2017/18 provides the necessary provision to take the Metrocar replacement project forward through procurement.

NECA has also recently approved the Metro and Local Rail Strategy which in addition to the need for investment to replace the Metrocar fleet and continue the programme of essential renewals, sets out an ambitious vision which will potentially bring the planning of all local rail services within the region’s scope for the first time; essential building blocks for route expansion plans, service enhancements and improved network capacity.

Specifically, in terms of Metro, during 2017/18, 400+ employees will transfer into Nexus from DB Regio Tyne and Wear Limited, whose concession for operating the Metro system will expire on 1 April 2017. The re-introduction of a vertically integrated model where operations, maintenance and renewals are undertaken by the same organisation is expected to help improve reliability, notwithstanding the need to replace the life expired fleet of Metrocars.

Nexus' overall budget proposal for 2017/18 will allow it to maintain frontline services despite a £1.610m reduction in the grant it receives from the NECA. This is possible because of a combination of permanent savings being achieved in the current year, further planned efficiency savings next year and the application of reserves which will be augmented this financial year-end as a result of the outturn for 2016/17.

NECA Transport Team activity for 2017/18 includes strategy development, the coordination of bids and regional initiatives, continuous development of the transport pipeline and programme management of the transport investment programme. The team will continue to represent the North East at an interregional and national level including engagement with Transport for the North, liaison with Government and other national agencies and NECA representation on strategic rail partnerships.

Employment and Skills

NECA and its constituent authorities, in partnership with NELEP, and local education organisations deliver against the Employability and Inclusion and Skills themes of the Strategic Economic Plan (SEP) for the North East. NECA’s and NELEP’s objective is to ensure that economic growth benefits the whole of the North East, delivering an increase in the economic participation rate and closing the gap in performance with the national average. Key themes of work revolve around raising attainment; implementing a responsive skills system; tackling social exclusion and improving employment prospects.

NECA wide initiatives currently being delivered, and will continue in 2017/18, include the Mental Health Trailblazer and Generation North East. NECA has successfully developed a Mental Health Trailblazer project, which will support 1,500 ESA claimants. This was one of four projects nationally to secure support though the Cabinet Office Transformation Challenge Award in December 2014. The North East model supports Employment Support Allowance (ESA) claimants with common mental health conditions into employment through integrating employment support with psychological therapy.

Generation North East is delivering a significant part of the support offer available to young unemployed people in the NECA area. The NECA area was awarded a £4.5m grant in April 2014 under the Cabinet Office’s Youth Contract for Cities initiative to test locally devolved approaches to tackling youth unemployment. The programme has now been operational for two years and to date over 2200 young people have benefited from support with over 800 moving into employment to date

NECA employment and skills activity for 2017/18 includes maintaining effective and efficient delivery of pan-NECA initiatives, supporting the development and implementation of the Area Based Review, maximising European Social Fund investment for employment and skills interventions and options development for the future implementation of a devolved Adult Education Budget.

Economic Development and Regeneration

The Economic Development and Regeneration Portfolio focuses on overseeing the coordination of inward investment activity and providing the right environment and infrastructure for attracting and embedding investment.

NECA sees a strong housing, employment and urban core offer as critical in securing the North East's sustained economic growth. NECA's role is to create the conditions to enable an appropriate quantity, of good quality developments in the right places to meet the North East's demands and aspirations and build on well-connected infrastructure to support economic growth.

The North East Enterprise Zone sites provide specific additional benefits to businesses and room to grow and are central to NECA's and NELEP's plans to create 'more and better jobs'. The targeted investment and benefits to businesses provided through the scheme have already supported over 27 businesses and brought in over £116m private investment which has resulted in over 1,700 jobs by enabling employers to grow. An additional round of Enterprise Zone sites (10 new sites) have also been secured, which will be available from April 2017.

Co-operation between NELEP, NECA and its constituent authorities has secured the £120m European funded JEREMIE 2 financial support for Business fund, which will be operational in 2017. There will be continued activity next year to support the new Special Purpose Vehicle (SPV) company that has been established to deliver JEREMIE 2 and to explore options for further support for Business. It is estimated that JEREMIE 2 could provide financial support for 600 businesses; help create around 3,500 jobs over the next five years and deliver a legacy fund of up to £80m over the next decade for further financial support to businesses.

Key areas of work for the NECA Economic Development and Regeneration Theme in 2017/18, includes continuing to oversee activity relating to inward investment, providing strategic advice and intelligence relating to key drivers of and barriers to investment and growth, supporting the development of enterprise zones secured for the area and developing regional priorities for investment and maintaining a robust project pipeline to respond to funding calls.

15. 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 11)

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 12)

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 13)

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 14)

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 pages 83-109)

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

16. 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.

17. Non-Financial Performance

The Statement of Accounts is focused on the Financial Performance of the Authority. NECA also monitors and reports its non-financial Performance, particularly in the following areas:

Economic Development and Regeneration

- Inward Investment – in the financial year 2016/17, in total there were 84 inward investments into the NECA area which will lead to the creation of 6,126 jobs. This contrasts with 2015/16 of 107 inward investments leading to 3,368 jobs.
    - Foreign Direct Investment – 64 investments leading to the creation of 4,257 new jobs and many thousands safeguarded.
    - Investments by UK-owned Companies from Outside of the Region – 20 investments leading to the creation of 1,869 jobs.
- Strategic Economic Plan Update – the NELEP has worked with the local authorities, the business community and partners across the region to refresh the SEP for 2017. Headlines are:
    - The North East is ahead of schedule to reach its 100,000 more and better jobs target before 2024 – over 53,000 jobs created since 2014, with 63% of these classed as higher skilled jobs.
    - Job growth added at a rate of 6.6% over the past two years eclipsing the national rate of 5.4% in England.

Employability and Inclusion

- DWP European Social Fund Opt-In for the North East – the programme is still at a relatively early stage of delivery (the first referrals began in January). 210 participants are being supported by the programme, 12 people to date have moved into work.
- North East Mental Health Trailblazer – the programme began to take referrals in mid-January, 99 people are currently being supported and 13 participants have moved into work.
- Generation NE – the scheme has been operational since July 2014 and the programme has supported 3250 young people of which 1600 have moved into employment (914 of those sustaining employment for 6 months or more).

Transport

- Tyne Tunnels

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, i.e. there is no call on the Authority's budget or local tax payers to support them, and assets and liabilities associated with the tunnels are ringfenced to the Tyne and Wear constituent councils within the Authority.

The Tunnels are operated under a contract to a concessionaire company, TT2 Ltd.

Traffic Indicators:

	Class 1	Class 2	Class 3	Exempt	Total
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**
2012/13	160,889	13,066,933	775,757	396,412	**14,399,991**

- Tyne and Wear Passenger Transport Executive – Nexus

NECA sets public transport policy for the region, which in Tyne and Wear is delivered operationally by Nexus. The following indicators describe the general performance of public transport in Tyne and Wear during 2016/17.

- The number of passenger journeys across Tyne and Wear was estimated at 168 million; a reduction when compared to 170 million in the previous year.
- Patronage increased slightly on Bus, with the number of journeys rising by 0.4% in 2016/17 to 128.8 million.
- Metro patronage declined by over 2 million in 2016/17 to 37.7 million journeys.
- Ferry carried 441,000 passengers in 2016/17, down slightly from 442,000 the year before.
- Rail passengers in Tyne and Wear made 1.5 million journeys on local services, an increase on the previous year of 1.3 million.
- Metro reliability (operated mileage) was 97.9% during 2016/17, a small decrease on the 98.0% achieved in the previous year.
- Metro Charter punctuality was 82.8% during 2016/17, an increase compared to the 80.4% achieved in the previous year.

NECA Structure

- Still a relatively new organisation, NECA continues to adapt and grow to meet the requirements of the region, while keeping costs to a minimum. Movement in employee numbers, which mainly relates to staff supporting the North East LEP, is set out in table below:

	Employees at the year end
2016/17	21
2015/16	15
2014/15	2

18. 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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P.Woods

Paul Woods
Chief Finance Officer, North East Combined Authority

North East Combined Authority

Statement of Accounts 2016/17

north east combined authority

www.northeastca.gov.uk

Contents

1.0 Statement of Responsibilities for the Statement of Accounts

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 2017 and its income and expenditure for the year ended 31 March 2017.

Signed:

Paul Woods, Chief Finance Officer

Signed:

Councillor Paul Watson, Chair, North East Leadership Board

2.0 Core Financial Statements and Explanatory Notes

2.0 Core Financial Statements and Explanatory Notes

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 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 income 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 £000	Earmarked General Fund Reserves £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000
Balance at 1 April 2015		**(32,702)**	**(12,984)**	**(1,050)**	**(10,688)**	**(57,425)**	**(91,284)**	**(148,709)**
Movement in reserves during 2015/16								
Total Comprehensive Income & Expenditure		**(2,039)**	**-**	**-**	**-**	**(2,039)**	**(130)**	**(2,169)**
Adjustments between accounting basis & funding basis under regulations	2	4,340	-	(2,553)	(300)	**1,487**	(1,487)	-
Net (Increase)/Decrease before transfers to Earmarked Reserves		**2,301**	**-**	**(2,553)**	**(300)**	**(552)**	**(1,617)**	**(2,169)**
Transfers (To)/From Earmarked Reserves	20	(4,606)	1,003	3,603	-	**-**	-	-
(Increase)/Decrease in 2015/16		**(2,305)**	**1,003**	**1,050**	**(300)**	**(552)**	**(1,617)**	**(2,169)**
Balance at 31 March 2016 carried forward		**(35,007)**	**(11,981)**	**-**	**(10,988)**	**(57,977)**	**(92,901)**	**(150,878)**
Movement in reserves during 2016/17								
Total Comprehensive Income & Expenditure		**(19,940)**	**-**	**-**	**-**	**(19,940)**	**120**	**(19,820)**
Adjustments between accounting basis & funding basis under regulations	2	22,638	-	(439)	(14,738)	7,461	(7,461)	-
Net (Increase)/Decrease before transfers to Earmarked Reserves		**2,698**	**-**	**(439)**	**(14,738)**	**(12,479)**	**(7,341)**	**(19,820)**
Transfers (To)/From Earmarked Reserves	20	(2,588)	2,317	271	-	-	-	-
(Increase)/Decrease in 2016/17		**110**	**2,317**	**(168)**	**(14,738)**	**(12,479)**	**(7,341)**	**(19,820)**
Balance at 31 March 2017 carried forward		**(34,897)**	**(9,664)**	**(168)**	**(25,726)**	**(70,456)**	**(100,242)**	**(170,698)**

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 to be funded from the levy and other sources of income which is set out in the Movement in Reserves Statement.

2015/16 (restated*)					2016/17		
Gross Expenditure £000	Gross Income £000	Net Expenditure £000		Note	Gross Expenditure £000	Gross Income £000	Net Expenditure £000
757	(300)	457	Corporate		1,318	(656)	662
149	(140)	9	Inward Investment		344	(169)	175
50,958	(53,910)	(2,952)	Local Growth Fund Programme		61,268	(77,575)	(16,307)
15,449	(16,785)	(1,336)	North East LEP		6,348	(2,658)	3,690
49	(49)	0	Skills		1,148	(1,148)	-
224	(5)	219	Transport - Retained Levy Budget		461	-	461
16,071	-	16,071	Transport - Durham		15,414	-	15,414
5,896	-	5,896	Transport - Northumberland		6,293	-	6,293
64,500	-	64,500	Transport - Tyne and Wear		62,500	-	62,500
19,927	(20,117)	(190)	Transport - Other		19,320	(18,160)	1,160
26,474	(33,538)	(7,064)	Transport - Tyne Tunnels		25,938	(33,283)	(7,345)
200,454	**(124,844)**	**75,610**	**Cost of Services**		**200,352**	**(133,649)**	**66,703**
3,672	-	3,672	Other Operating Expenditure		-	-	-
12,240	(3,181)	9,059	Financing & Investment Income & Expenditure	3	7,450	(3,677)	3,773
-	(90,380)	(90,380)	Taxation & Non-Specific Grant Income	4	-	(90,416)	(90,416)
		(2,039)	**(Surplus) on Provision of Services**				**(19,940)**
		(130)	Re-measurements of the defined benefit liability	18			120
		(130)	**Other Comprehensive Income & Expenditure**				**120**
		(2,169)	**Total Comprehensive Income & Expenditure (Surplus)**				**(19,820)**

* The 2015/16 position has been restated across the Authority's Service Expenditure

2.3 Balance Sheet

The Balance Sheet summarises the Authority's financial postion 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. Unusable Reserves include those which hold unrealised gains and losses (e.g. the Revaluation Reserve) where amounts only become availbale 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 2016 £000		Note	31 March 2017 £000
355,673	Property, Plant & Equipment	10	353,056
58,172	Long Term Debtors	11	56,521
413,845	**Long Term Assets**		**409,577**
89,000	Short Term Investments	11	104,000
9,965	Short Term Debtors	11, 13	10,904
41,739	Cash and Cash Equivalents	14	16,212
140,704	**Current Assets**		**131,116**
(3,356)	Short Term Borrowing	11	(2,332)
(113,252)	Short Term Creditors	11, 15	(88,624)
(4,955)	Grants Receipts in Advance	5	(2,483)
(5,092)	New Tyne Crossing - Deferred Income	16	(5,093)
(126,655)	**Current Liabilities**		**(98,532)**
(106,938)	New Tyne Crossing - Deferred Income	16	(101,845)
(168,333)	Long Term Borrowing	11	(167,667)
(855)	Grants Receipts in Advance	5	(971)
(890)	Pension Liability	11, 18	(980)
(277,016)	**Long Term Liabilities**		**(271,463)**
150,878	**Net Assets**		**170,698**
(57,977)	Usable Reserves	19	(70,456)
(92,901)	Unusable Reserves	21	(100,242)
(150,878)	**Total Reserves**		**(170,698)**

Chief Finance Officer Certificate

I certify that the accounts set out on pages 11 to 74 give a true and fair view of the financial position of the North East Combined Authority as at 31 March 2017.

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 finance activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Authority.

2015/16 £000		Note	2016/17 £000
2,039	Net Surplus/(Deficit) on the provision of services	23	19,940
66,842	Adjustments to net surplus or deficit on the provision of services for non cash movements	23	(25,336)
(81,803)	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	23	(74,216)
(12,922)	**Net cash flows from Operating Activities**		**(79,612)**
13,432	Investing Activities	24	55,802
(27,302)	Financing Activities	25	(1,717)
(26,792)	**Net (Decrease)/Increase in cash and cash equivalents**		**(25,527)**
68,531	Cash and cash equivalents at the beginning of the reporting period	14	41,739
41,739	**Cash and cash equivalents at the end of the reporting period**	14	**16,212**

2.5 Index of Explanatory Notes to the Core Statements

1 Expenditure and Funding Analysis

The Expenditure and Funding Analysis shows how annual expenditure is used and funded from resources (transport levy, government grants, constituent authority contributions) by local authorities in comparison with those resources consumed or earned by authorities in accordance with generally accepted accounting practices. It also shows how this expenditure is allocated for decision making between the Authority's services/thematic areas. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

2015/16 (Restated)						2016/17				
	Adjustments between the Funding and Accounting Basis						Adjustments between the Funding and Accounting Basis			
Net Expenditure Chargeable to the General Fund	Adjustments for Capital Purposes	Pension Adjustments	Other Differences	Net Expenditure in the CIES		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		£000	£000	£000	£000	£000
377	-	80	-	457	Corporate	662	-	-	-	662
9	-	-	-	9	Inward Investment	175	-	(1)	-	175
(1,054)	(1,898)	-	-	(2,952)	Local Growth Fund	1,898	(19,506)	-	-	(17,608)
5,743	(7,019)	(60)	-	(1,336)	North East LEP	3,455	1,544	(9)	-	4,991
-	-	-	-	-	Skills	-	-	-	-	-
1,300	(1,081)	-	-	219	Transport - Retained Levy	1,500	(1,038)	-	-	461
16,072	-	-	-	16,072	Transport - Durham	15,414	-	-	-	15,414
5,896	-	-	-	5,896		6,293	-	-	-	6,293
					Transport - Northumberland					
64,500	-	-	-	64,500		62,500	-	-	-	62,500
					Transport - Tyne and Wear					
1,720	(1,910)	-	-	(190)	Transport - Other	1,549	(389)	-	-	1,159
(4,527)	(2,487)	(50)	-	(7,064)	Transport - Tyne Tunnels	(5,159)	(2,135)	(50)	-	(7,344)
90,036	(14,395)	(30)	-	75,610	Net Cost of Services	88,287	(21,524)	(60)	-	66,703
(87,735)	3,672	30	6,384	(77,649)	Other Income and Expenditure	(85,589)	-	30	(1,084)	(86,643)
2,301	(10,723)	-	6,384	(2,039)	Surplus or Deficit	2,698	(21,524)	(30)	(1,084)	(19,940)

2015/16 (Restated)						2016/17				
	Adjustments between the Funding and Accounting Basis						Adjustments between the Funding and Accounting Basis			
Net Expenditure Chargeable to the General Fund	Adjustments for Capital Purposes	Pension Adjustments	Other Differences	Net Expenditure in the CIES		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		£000	£000	£000	£000	£000
(45,686)					Opening General Fund Balances	(46,988)				
(3,603)					Transfer from Capital Receipts Reserve	(271)				
2,301					Less Surplus on General Fund Balances in Year	2,698				
(46,988)					Closing General Fund Balances at 31 March	(44,561)				

Adjustments for Capital Purposes

Adjustments for Capital Purposes - this column adds in depreciation and impairment and revaluation gains and losses in the services 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.

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.

1a Expenditure and Income Analysed by Nature

	2015/16	2016/17
	£000	£000
Expenditure		
Employee benefit expenses	937	1,346
Other service expenses	118,914	118,897
Depreciation, impairment and Revenue Expenditure Funded from Capital Under Statute (REFCUS)	78,177	79,757
Interest payments	14,666	7,450
Loss/gain on disposal of non-current assets	3,672	-
Total expenditure	**216,366**	**207,450**
Income		
Fees, charges and other service income (Tyne Tunnels tolls)*	(28,408)	(27,804)
Interest and investment income	(3,181)	(3,677)
Income from business rates on enterprise zones	(1,203)	(1,696)
Income from transport levy	(89,177)	(86,894)
Government grants and contributions	(91,259)	(102,239)
Other income	(5,177)	(5,952)
Total income	**(218,405)**	**(228,261)**
Surplus / Deficit on the provision of services	**(2,039)**	**(20,811)**

* Fees, charges and other service income relates wholly to tolls charged on the Tyne Tunnels, which is reported as income in the Tyne Tunnels line of the CIES.

2 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.

2015/16				Adjustments between Accounting Basis and Funding Basis Under Statute	2016/17			
General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Unusable Reserves £000		General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Unusable Reserves £000
				Adjustments primarily involving the Capital Adjustment Account:				
				Reversal of items debited or credited to the CIES				
(4,182)	-	-	4,182	Charges for depreciation and impairment of non current assets	(4,572)	-	-	4,572
5,128	-	-	(5,128)	Other Income that cannot be credited to the General Fund	5,092	-	-	(5,092)
81,803	-	-	(81,803)	Capital grants and contributions applied	74,216	-	-	(74,216)
(73,995)	-	-	73,995	Revenue expenditure funded from capital under statute	(75,981)	-	-	75,981
(3,672)	-	-	3,672	Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	-	-	-	-
				Insertion of items not debited or credited to the CIES				
2,309	-	-	(2,309)	Statutory provision for the financing of capital investment	2,523	-	-	(2,523)
314	-	-	(314)	Capital expenditure charged against the General Fund	130	-	-	(130)
				Adjustments primarily involving the Capital Grants Unapplied Account:				
3,019	-	(3,019)	-	Grants & contributions unapplied credited to CIES	20,116	-	(20,116)	-
-	-	2,719	(2,719)	Application of grants to capital financing transferred to Capital Adjustment Account	-	-	5,378	(5,378)
				Adjustments involving the Capital Receipts Reserve:				
-	(6,322)	-	6,322	Loan principal repayments	-	(2,250)	-	2,250
-	1,936	-	(1,936)	Use of Capital Receipts Reserve to finance new Capital Expenditure	-	45	-	(45)
-	1,833	-	(1,833)	Application of Capital Receipts to repayment of debt	-	1,765	-	(1,765)
				Adjustments involving the Financial Instruments Adjustment Account:				
(6,384)	-	-	6,384	Amount by which finance costs charged to the CIES are different from finance costs chargeable in the year in accordance with statutory requirements	1,084	-	-	(1,084)
				Adjustments involving the Pensions Reserve:				
110	-	-	(110)	Reversal of items relating to retirement benefits debited or credited to the CIES	(150)	-	-	150
(110)	-	-	110	Employer's pensions contributions and direct payments to pensioners payable in the year	180	-	-	(180)
4,340	**(2,553)**	**(300)**	**(1,487)**	**Total Adjustments**	**22,638**	**(440)**	**(14,738)**	**(7,460)**

3 Financing and Investment Income and Expenditure

	Note	2015/16 £000	2016/17 £000
Interest payable and similar charges		12,210	7,421
Interest on defined benefit liability	18	30	30
Interest receivable and similar income		(3,181)	(3,677)
Total		**9,059**	**3,774**

4 Taxation and Non Specific Grant Income

	Note	2015/16 £000	2016/17 £000
Transport Levy		(89,177)	(86,894)
Enterprise Zone income		(1,203)	(1,694)
Non-specific Capital Grant (LGF grant applied to Tyne Tunnels capital expenditure)		-	(1,826)
Total		**(90,380)**	**(90,415)**

5 Grant Income and Other Contributions

The Authority credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2016/17

Credited to Services	2015/16 £000	2016/17 £000
DCLG Capacity Grant	(500)	(500)
Growth Hub	(354)	(556)
Local Authority Contributions to NECA	(440)	(440)
Local Authority Contributions to NELEP	(250)	(250)
Local Growth Fund	(53,910)	(77,576)
Local Sustainable Transport Fund	(3,850)	-
Local Transport Plan	(14,723)	(13,949)
Mental Health Trailblazer	(49)	(1,148)
North East Smart Ticketing Initiative	(789)	(901)
North East Technical Assistance	-	(356)
Other Grants	(802)	(510)
Regional Growth Fund Capital	(15,401)	(80)
Regional Growth Fund Revenue	(205)	-
Sustainable Travel Transition Year	-	(2,343)
Total	**(91,273)**	**(98,609)**

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	2015/16 £000	2016/17 £000
Revenue Grants		
Growth Hub	(146)	-
Mental Health Trailblazer	(1,051)	-
North East Smart Ticketing Initiative	(2,824)	(1,924)
Office for Low Emission Vehicles - Revenue	(30)	(30)
Other Grants	(178)	-
Capital Grants		
Office for Low Emission Vehicles - Capital	(1,500)	(1,500)
Regional Growth Fund Capital	(80)	-
Total	**(5,809)**	**(3,454)**
Shown as Short-Term Liability on Balance Sheet	(4,954)	(2,483)
Shown as Long-Term Liability on Balance Sheet	(855)	(971)
Total	**(5,809)**	**(3,454)**

6 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.

	2015/16 £000	2016/17 £000
Allowances	5	4
Total	**5**	**4**

7 Officers' Remuneration

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

		Salary Fees and Allowances	Pension Contribution	Total
		£000	£000	£000
Managing Director of Transport Operations	2016/17	116	19	**135**
	2015/16	115	19	**134**

Two of the Authority's interim statutory officers are not formal employees of the authority (and therefore are not included in the statutory disclosure above), but their services have been provided via agency arrangements, details of which are set out below in the interests of transparency:

		Payment for days worked	Expenses	Total
		£000	£000	£000
Interim Chief Executive (June 2015 - July 2016)	2016/17	68	1	**69**
	2015/16	114	2	**116**
Interim Chief Finance Officer	2016/17	120	3	**123**
	2015/16	97	2	**99**

The third of the Authority's statutory officers, the Interim Monitoring Officer, is not an employee of the authority but the service is provided by the Head of Law & Governance, North Tyneside Council, under a Service Level Agreement.

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

	2015/16	2016/17
£50,000 - £54,999	-	1
£55,000 - £59,999	-	-
£60,000 - £64,999	-	1
£65,000 - £69,999	-	-
£70,000 - £74,999	-	-
£75,000 - £79,999	-	-
£80,000 - £84,999	-	-
£85,000 - £89,999	-	-
£90,000 - £94,999	-	-
£95,000 - £99,999	-	-
Total	**-**	**2**

The increase in 2016/17 is due to officers formerly employed by other organisations and seconded to NECA being transferred into the employment of NECA during the year.

8 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 to non-audit services provided by the Authority's external auditors.

	2015/16 £000	2016/17 £000
Fees payable with regard to external audit services carried out by the appointed auditor for the year	24	24
Total	**24**	**24**

9 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
- 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 4.

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 2016/17 no works or services were commissioned from companies in which any members had an interest.

Officers
There have been no pecuniary interests involving the Head of Paid Service, the Chief Finance Officer or the Monitoring Officer to the Authority.

NECA Constituent Authorities
The Leaders and Elected Mayor of the seven NECA constituent Authorities serve as members of the NECA Leadership Board. Details of income and expenditure 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 sets the policy which is delivered by Nexus, and agrees its budget and revenue grant. Income and expenditure with Nexus is set out in the table below.

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

Arch - a wholly owned subsidiary of Northumberland County Council, and was awarded grant funding through the Regional Growth Fund and Local Growth Fund during the year.

University of Sunderland - a disclosable related party which was awarded grant funding through the Local Growth Fund during the year.

Income and expenditure and debtors/creditors at the year end with these entities is set out in the table below.

	2015/16 Receiveables	2015/16 Income	2015/16 Expenditure	2015/16 Payables	2016/17 Receiveables	2016/17 Income	2016/17 Expenditure	2016/17 Payables
	£000	£000	£000	£000	£000	£000	£000	£000
NECA Constituent Authorities								
Durham	(5)	(16,175)	19,515	6,279	-	(15,539)	21,498	6,167
Gateshead	-	(12,168)	1,547	207	-	(11,778)	1,517	1,037
Newcastle	(13)	(17,570)	2,992	51,194	(614)	(16,970)	7,098	13,386
North Tyneside	-	(12,298)	7,026	282	(165)	(11,907)	7,312	3,875
Northumberland	(13)	(5,979)	8,398	676	(173)	(6,420)	9,742	1,366
South Tyneside	(5)	(9,062)	2,234	167	(2)	(8,757)	3,528	4,512
Sunderland	(5)	(18,009)	8,375	836	(748)	(16,220)	6,767	2,207
Other Public Bodies								
Nexus	(3,378)	-	70,673	44,473	(3,251)	(3,378)	62,787	42,419
Other Entities								
Newcastle International Airport Ltd	-	-	1,588	-	-	-	-	-
Arch	(20)	-	1,858	-	-	(21)	126	4,345
University of Sunderland	-	-	1,370	771	-	-	484	-
	(3,439)	**(91,261)**	**125,576**	**104,885**	**(4,953)**	**(90,990)**	**120,859**	**79,314**

10 Property, Plant and Equipment

2016/17	Other Land and Buildings £000	Vehicles, Plant, Furniture & Equipment £000	Infrastructure Assets £000	Assets Under Construction £000	Total Property, Plant and Equipment £000
Cost or Valuation					
At 1 April 2016	**-**	**3,205**	**381,075**	**7,900**	**392,180**
Additions	-	-	65	1,826	**1,892**
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	-	-	(65)	-	**(65)**
At 31 March 2017	**-**	**3,205**	**381,075**	**9,726**	**394,006**
Accumulated Depreciation and Impairment					
At 1 April 2016	**-**	**(910)**	**(35,597)**	**-**	**(36,507)**
Depreciation Charge for the Year	-	(92)	(3,742)	-	**(3,834)**
Depreciation Adjustment	-	-	(608)	-	**(608)**
At 31 March 2017	**-**	**(1,002)**	**(39,947)**	**-**	**(40,949)**

Net Book Value

2016/17	Other Land and Buildings £000	Vehicles, Plant, Furniture & Equipment £000	Infrastructure Assets £000	Assets Under Construction £000	Total Property, Plant and Equipment £000
At 1 April 2016	**-**	**2,295**	**345,478**	**7,900**	**355,673**
At 31 March 2017	**-**	**2,203**	**341,128**	**9,726**	**353,057**

Comparative information 2015/16 (Restated)	Other Land and Buildings* £000	Vehicles, Plant, Furniture & Equipment £000	Infrastructure Assets £000	Assets Under Construction £000	Total Property, Plant and Equipment £000
Cost or Valuation					
At 1 April 2015	**3,672**	**3,205**	**381,075**	**6,346**	**394,298**
Additions	-	-	348	1,554	**1,902**
Derecognition - other	(3,672)	-	-	-	**(3,672)**
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	-	-	(348)	-	**(348)**
At 31 March 2016	**-**	**3,205**	**381,075**	**7,900**	**392,180**

Comparative information 2015/16 (Restated)	Other Land and Buildings £000	Vehicles, Plant, Furniture & Equipment £000	Infrastructure Assets £000	Assets Under Construction £000	Total Property, Plant and Equipment £000
Accumulated Depreciation and Impairment					
At 1 April 2015	-	(818)	(31,855)	-	**(32,673)**
Depreciation Charge for the Year	-	(92)	(3,742)	-	**(3,834)**
At 31 March 2016	**-**	**(910)**	**(35,597)**	**-**	**(36,507)**

The Other Land and Buildings figures for 2015/16 have been restated to correct an inconsistency of treatment between the two vehicle Tyne Tunnels. Costs of land intrinsically linked to the original Tyne Tunnel has now been included within the valuation of that Tunnel and therefore is shown as part of the Infrastructure Assets balance within this note.

11 Financial Instruments

Categories of Financial Instruments

The investments and borrowing disclosed in the Balances Sheet are made up of the following categories of financial instrument:

Long Term 31 March 2016 £000	Short Term 31 March 2016 £000		Long Term 31 March 2017 £000	Short Term 31 March 2017 £000
		Investments		
-	89,000	Fixed term deposits	-	104,000
-	**89,000**	**Total Investments**	**-**	**104,000**
		Debtors		
57,008	-	Long term debtors - Loans and advances treated as capital expenditure	55,780	-
1,164	9,965	Other debtors	741	10,904
58,172	**9,965**	**Total Debtors**	**56,521**	**10,904**
		Borrowings		
(168,333)	(1,666)	Financial liabilities at amortised cost - Loans (Principal)	(167,667)	(667)
-	(1,690)	Financial liabilities at amortised cost - Loans (Interest)	-	(1,664)
(168,333)	**(3,356)**	**Total included in Borrowings**	**(167,667)**	**(2,331)**
		Other Long Term Liabilities		
(890)	-	Pension Liability	(980)	-
(890)	-	**Total Other Long Term Liabilities**	**(980)**	**-**
		Creditors		
-	(113,252)	Short Term Creditors	-	(88,624)
-	**(113,252)**	**Total Creditors**	**-**	**(88,624)**

Income, Expense, Gains and Losses

The gains and losses recognised in the Comprehensive Income and Expenditure Statement in relation to financial instruments are made up as follows:

Financial Liabilities at amortised cost	Financial assets: loans and receivables	Total		Financial Liabilities at amortised cost	Financial assets: loans and receivables	Total
£000	£000	£000		£000	£000	£000
12,210	-	12,210	Interest expense	7,421	-	**7,421**
12,210	**-**	**12,210**	**Total expense in Surplus on Provision of Services**	**7,421**	**-**	**7,421**
-	(3,046)	(3,046)	Investment income	-	(3,677)	**(3,677)**
-	**(3,046)**	**(3,046)**	**Total income in Surplus on Provision of Services**	-	(3,677)	**(3,677)**
12,210	**(3,046)**	**9,164**	**Net (gain)/loss for the year**	**7,421**	**(3,677)**	**3,744**

The Fair Values of Financial Assets and Financial Liabilities that are not measured at Fair Value (but for which Fair Value disclosures are required)

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 2017, 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. 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.
- 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 2016/17 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, e.g. bond prices.
- Level 2 - fair value is calculated from inputs other than quoted prices that are observable for the asset or liability e.g. interest rates or yields for similar instruments.
- Level 3 - fair value is determined using unobservable inputs, e.g. non-market data such as cash flow forecasts or estimated creditworthiness.

31 March 2016			31 March 2017	
Carrying Amount	Fair Value		Carrying Amount	Fair Value
£000	£000		£000	£000
		Financial Liabilities		
(73,000)	(96,664)	PWLB - Maturity Loans	(73,000)	(111,326)
(8,000)	(8,732)	PWLB - EIP Loans	(6,333)	(7,156)
(89,000)	(150,580)	LOBOs	(89,000)	(168,411)
(170,000)	**(255,976)**		**(168,333)**	**(286,892)**

31 March 2016 (Restated)			31 March 2017	
Carrying Amount	Fair Value		Carrying Amount	Fair Value
£000	£000		£000	£000
		Loans and receivables		
89,000	89,000	Fixed Term Investments	104,000	104,000
57,008	78,066	Long-Term debtors	56,521	84,650
146,008	**167,066**		**160,521**	**188,650**

The fair value of short-term financial liabilities including trade payables and short term financial assets including trade receivables is assumed to approximate to the carrying amount.

The fair value differs from the carrying value as fair value is assessed according to market rates relating to the outstanding life of the loan. Carrying amount relates to the actual interest rate applicable to the loan outstanding. The fair value differences for financial instruments relates to the fact that the Authority has loans at fixed rates that result in it paying a higher interest charge than if it had taken out variable rate loans.

The 2015/16 Long Term debtors fair value has been restated as a result of a change in Accounting Policy. Previously, for loans between NECA and Nexus the fair value had been assumed to be the same as the carrying value. Now a proportion of the Authority's overall fair value of borrowing has been used to give an approximation of fair value for the Nexus loans.

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 soft 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. The term of two of the loans has been extended.

Valuation Assumptions
The interest rate at which the fair value of soft loans has been made is derived from the prevailing market rate of interest for a similar instrument.

2016/17

Description	Term (Years)	Contracted Rate	Fair Value Rate	Opening Balance (Nominal)	Advances in Year	FV adjustment on initial recognition	Loans Repaid	Increase in discounted amount	Closing Balance (fair value)	Closing Balance (Nominal)
				£000	£000	£000	£000	£000	£000	£000
Durham University	12	1.90%	4.95%	10,000	-	(1,607)	-	-	8,393	10,000
Neptune Test Centre	9	0.00%	4.99%	5,094	-	(1,555)	-	-	3,539	5,094
Cobalt Data Centre	6	6.00%	7.00%	2,375	125	(106)	(116)	-	2,278	2,384
Boiler Shop	3	4.50%	5.02%	811	734	18	-	-	1,563	1,545
The Jesmond	2	11.00%	11.02%	1,269	-	50	-	-	1,319	1,269

2015/16

Description	Term (Years)	Contracted Rate	Fair Value Rate	Opening Balance (Nominal)	Advances in Year	FV adjustment on initial recognition	Loans Repaid	Increase in discounted amount	Closing Balance (fair value)	Closing Balance (Nominal)
				£000	£000	£000	£000	£000	£000	£000
Sunderland City Council - Vaux Loan	3	0.00%	0.95%	1,250	-	-	(1,250)	-	-	-
Durham University	12	1.90%	4.95%	5,796	4,204	(2,003)	-	-	7,997	10,000
Neptune Test Centre	9	0.00%	4.99%	2,430	2,664	(1,723)	-	-	3,371	5,094
Cobalt Data Centre	4	6.00%	7.00%	-	2,375	(60)	-	-	2,315	2,375
Boiler Shop	3	4.50%	5.02%	-	811	(8)	-	-	803	811
The Jesmond	1	11.00%	11.02%	-	1,269	5	-	-	1,274	1,269

12 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.

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. A provision for bad debt on the outstanding NEIF loans balance has been made in year, calculated at 5% of loans outstanding at 31 March 2017, although all loans are still expected to be

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 2017 that this was likely to crystallise. Actions are taken immediately if an institution is downgraded and deposits withdrawn in line with Treasury Management Strategy.

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 2016 £000	31 March 2017 £000
Between 1-2 years	(667)	(667)
Between 2-5 years	(2,000)	(2,000)
Between 5-10 years	(3,333)	(3,000)
More than 10 years	(162,333)	(162,000)
	(168,333)	**(167,667)**
Less than 1 year	(3,356)	(2,332)
Total borrowing	**(171,689)**	**(169,999)**

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.

The table below shows the impact on the debt portfolio at 31st March 2017 if interest rates had been 1% higher with all other variables held constant. The only loans affected by such a movement would be new loans taken during 2016/17 and variable interest rate loans. Existing fixed rate loans, which make up the greatest proportion of the portfolio, would not be affected. According to this strategy, at 31 March, if interest rates had been 1% higher with all other variables held constant, the financial effect would be:

	£000
Increase in interest payable on borrowings	-
Increase in interest receivable on investments	(832)
Impact on Surplus on the Provision of Services	**(832)**

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.

13 Debtors

	31 Mar 2016 £000	31 Mar 2017 £000
Central government bodies	1,349	1,255
Other local authorities	1,274	1,800
Other entities and individuals	7,342	7,848
Total	**9,965**	**10,904**

14 Cash and Cash Equivalents

	31 Mar 2016 £000	31 Mar 2017 £000
Cash balances held by Sunderland City Council	4,545	368
Cash held in Authority's bank account	37,194	15,844
Total Cash and Cash Equivalents	**41,739**	**16,212**

15 Short Term Creditors

	31 Mar 2016 £000	31 Mar 2017 £000
Central government bodies	(63)	(63)
Other local authorities	(60,102)	(32,629)
Other entities and individuals		
- Nexus	(44,357)	(42,419)
- TT2 Ltd	(3,789)	(3,458)
- Other	(4,941)	(10,056)
Total	**(113,252)**	**(88,624)**

16 Private Finance Initiatives & 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, refurbish the existing tunnel and operate both vehicle tunnels alongside the pedestrian and cycle tunnels for the period. The second tunnel was opened on 25 February 2011, with the refurbished original tunnel opened on 21 November 2011. Both are included on NECA's balance sheet.

In 2016/17 the payment under the contract was £21.201m (2015/16 £22.033m).

The contribution to the capital works by the private sector partner is recognised as a deferred income balance with a 2016/17 value of £106.938m (2015/16 £112.030m) which is written down over the remaining life of the contract, as shown in the table below.

	Deferred Income Release	
	2015/16 £000	2016/17 £000
Payable in 2016/17	(5,092)	(5,093)
Payable within 2 to 5 years	(20,369)	(20,369)
Payable within 6 to 10 years	(25,461)	(25,461)
Payable within 11 to 15 years	(25,461)	(25,461)
Payable within 16 to 20 years	(25,461)	(25,461)
Payable within 21 to 25 years	(10,186)	(5,093)
Total	**(112,030)**	**(106,938)**

	2015/16 £000	2016/17 £000
Shown as Short Term Liability on Balance Sheet	(5,092)	(5,093)
Shown as Long Term Liability on Balance Sheet	(106,938)	(101,845)
Balance outstanding at year-end	**(112,030)**	**(106,938)**

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.

17 Contingent Liabilities

The Authority has a contingent liability in relation to any gains or losses in the Local Government Pension Scheme transferred assets and liabilities that were transferred to TT2 Ltd on 1 February 2008 and relate to membership accrued before that date. 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.

18 Defined Benefit Pension Schemes

The Authority participates in two post-employment schemes:
(i) The Tyne and Wear Pension Fund, admininstered 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 investment.

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

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 levy 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:

	Local Government Pension Scheme		Discretionary Benefits Arrangements	
	2015/16 £000	2016/17 £000	2015/16 £000	2016/17 £000
Comprehensive Income and Expenditure Statement				
Cost of Services:				
Current service cost	80	120	-	-
Past service costs	-	-	-	-
Financing and Investment Income and Expenditure:				
Interest on net defined benefit liability/(asset)	-	-	30	30
Pension expense recognised in profit and loss	**80**	**120**	**30**	**30**

	Local Government Pension Scheme		Discretionary Benefits Arrangements	
	2015/16 £000	2016/17 £000	2015/16 £000	2016/17 £000
Other Post Employment Benefit charged to the Comprehensive Income and Expenditure Statement:				
Return on plan assets (in excess of)/ below that recognised in net interest	520	(7,640)	-	-
Actuarial (gains)/losses due to changes in financial assumptions	(1,820)	6,300	(30)	140
Actuarial (gains)/losses due to changes in demographic assumptions	-	510	-	(20)
Actuarial (gains)/losses due to changes in liability assumptions	(890)	(920)	(80)	(10)
Adjustment in respect of paragraph 58	2,170	1,760	-	-
Total amount recognised in Other Comprehensive Income	**(20)**	**10**	**(110)**	**110**
Total amount recognised	**60**	**130**	**(80)**	**140**

Assets and Liabilities in Relation to Post-employment Benefits

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

	Funded liabilities: Local Government Pension Scheme		Unfunded liabilities: Discretionary Benefits	
	2015/16 £000	2016/17 £000	2015/16 £000	2016/17 £000
Opening balance at 1 April	(34,520)	(31,630)	(1,020)	(890)
Current service cost	(80)	(120)	-	-
Interest cost	(1,050)	(1,030)	30	(30)
Contributions by participants	(20)	(50)	-	-
Actuarial gains/(losses) on liabilities - financial assumptions	1,820	(6,300)	(30)	(140)
Actuarial gains/(losses) on liabilities - demographic assumptions	-	(510)	-	20
Actuarial gains/(losses) on liabilities - experience	890	920	80	10
Net benefits paid out	1,330	1,130	50	50
Past service costs	-	-	-	-
Closing balance at 31 March	**(31,630)**	**(37,590)**	**(890)**	**(980)**

Reconciliation of fair value of the scheme assets:

	Local Government Pension Scheme		Discretionary Benefits	
	2015/16 £000	2016/17 £000	2015/16 £000	2016/17 £000
Opening balance at 1 April	37,770	37,150	-	-
Interest income on assets	1,150	1,210	-	-
Remeasurement gains/(losses) on assets	(520)	7,640	-	-
Employer contributions	60	130	50	50
Contributions by scheme participants	20	50	-	-
Net benefits paid out	(1,330)	(1,130)	(50)	(50)
Closing balance at 31 March	**37,150**	**45,050**	**-**	**-**

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

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

Scheme History	2012/13 £000	2013/14 £000	2014/15 £000	2015/16 £000	2016/17 £000
Fair value of LGPS assets	24,990	34,920	37,770	37,150	45,050
Present value of liabilities:					
LGPS liabilities	(32,270)	(32,640)	(34,520)	(31,630)	(37,590)
Impact of minimum funding	-	(2,280)	(3,250)	(5,520)	(7,460)
(Deficit) on funded defined benefit scheme	**(7,280)**	**-**	**-**	**-**	**-**
Discretionary benefits	(970)	(960)	(1,020)	(890)	(980)
Total (Deficit)	**(8,250)**	**(960)**	**(1,020)**	**(890)**	**(980)**

The split of the defined benefit obligation at the last valuation date between the various categories of members was as follows; active members 5%, deferred pensioners 10% and pensioners 85%.

The liabilities show the underlying commitments that the Authority has in the long run to pay post employment (retirement) benefits. The total liability of £38.57m has an impact on the net worth of the Authority as recorded in the balance sheet, resulting in a negative pension balance of £0.98m. 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 2018 is £0.13m. In addition, Strain on the Fund contributions may be required. Expected payments direct to beneficiaries in the year to 31 March 2018 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, estimates for the pension fund being based on the latest full valuation of the scheme as at 31 March 2016.

The principal assumptions used by the actuary have been:

	Local Government Pension Scheme		Discretionary Benefits	
	2015/16	2016/17	2015/16	2016/17
Mortality assumptions:-				
Longevity at 65 for current pensioners:				
Men	23.2	22.8	23.2	22.8
Women	24.8	26.3	24.8	26.3
Rate for discounting scheme liabilities	3.3%	2.5%	3.3%	2.5%
Rate of inflation - Retail Price Index	2.8%	3.1%	2.8%	3.1%
Rate of inflation - Consumer Price Index	1.7%	2.0%	1.7%	2.0%
Rate of increase in pensions	1.7%	2.0%	1.7%	2.0%
Pension accounts revaluation rate	1.7%	2.0%	n/a	n/a
Rate of increase in salaries	3.2%	3.5%	n/a	n/a

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

	31 March 2016	31 March 2017		
	% Total	% Quoted	% Unquoted	% Total
Equity investments	66.1	59.5	7.4	66.9
Property	10.4	0.0	9.2	9.2
Government bonds	3.7	3.9	0.0	3.9
Corporate bonds	11.6	11.5	0.0	11.5
Cash	2.6	2.6	0.0	2.6
Other*	5.6	3.5	2.4	5.9
Total	100.0	81.0	19.0	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	Funded 2015/16 £000	Funded 2016/17 £000
Interest income on assets	1,150	1,210
Remeasurement gain/(loss) on assets	(520)	7,640
Actual return on assets	**630**	**8,850**

Sensitivity Analysis

The approximate impact of changing the key assumptions on the present value of the funded defined benefit obligation as at 31 March 2017 and the projected service cost for the period ending 31 March 2018 is set out below.

Sensitivity analysis of unfunded benefits (where applicable) has not been included on materiality grounds.

Funded LGPS Benefits

Discount Rate assumption

Adjustment to Discount rate	+0.1% per annum	Base Figure	-0.1% per annum
Present value of total obligation (£m)	37.10	37.59	38.10
% change in present value of total obligation	-1.30%	0.00%	1.30%
Projected service cost (£m)	0.19	0.20	0.21
Approximate % change in projected service cost	-4.00%	0.00%	4.10%

Rate of general increase in salaries

Adjustment to salary increase rate	+0.1% per annum	Base Figure	-0.1% per annum
Present value of total obligation (£m)	37.60	37.59	37.58
% change in present value of total obligation	0.00%	0.00%	0.00%
Projected service cost (£m)	0.20	0.20	0.20
Approximate % change in projected service cost	0.00%	0.00%	0.00%

Rate of increase to pensions in payment and deferred pensions

Adjustment to pension increase rate	+0.1% per annum	Base Figure	-0.1% per annum
Present value of total obligation (£m)	38.59	37.59	36.61
% change in present value of total obligation	2.60%	0.00%	-2.60%
Projected service cost (£m)	0.21	0.20	0.19
Approximate % change in projected service cost	4.10%	0.00%	-4.10%

Post retirement mortality assumption

Adjustment to mortality age rating assumption *	+ 1 year	Base Figure	- 1 year
Present value of total obligation (£m)	39.00	37.59	36.20
% change in present value of total obligation	3.70%	0.00%	-3.70%
Projected service cost (£m)	0.21	0.20	0.19
Approximate % change in projected service cost	3.70%	0.00%	-3.70%

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

19 Usable Reserves

	31 Mar 2016 £000	31 Mar 2017 £000
General Fund Balance	(35,007)	(34,899)
Metro Reinvigoration Reserve	(10,005)	(9,125)
NELEP Earmarked Reserves	(1,976)	(538)
Capital Receipts Reserve	-	(168)
Capital Grants Unapplied Reserve	(10,988)	(25,726)
Total Usable Reserves	**(57,976)**	**(70,456)**

20 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 2015 £000	Transfers Out 2015/16 £000	Transfers In 2015/16 £000	Balance at 31 March 2016 £000	Transfers Out 2016/17 £000	Transfers In 2016/17 £000	Balance at 31 March 2017 £000
Metro Reinvigoration Reserve	(10,988)	1,032	(49)	**(10,005)**	924	(45)	**(9,126)**
NELEP Restricted cashable reserve - RGF Interest	(136)	36	(81)	**(181)**	-	(358)	**(538)**
NELEP Restricted cashable reserve - GPF Loan	(1,728)	3,602	(3,603)	**(1,729)**	2,000	(271)	**(0)**
NELEP GPF Revenue Grant Unapplied	(132)	66	-	**(66)**	66	-	**0**
	(12,984)	**4,736**	**(3,733)**	**(11,981)**	**2,990**	**(674)**	**(9,664)**

21 Unusable Reserves

	31 Mar 2016 £000	31 Mar 2017 £000
Capital Adjustment Account	(93,180)	(99,672)
Financial Instruments Adjustment Account	8,113	7,029
Revaluation Reserve	(8,725)	(8,579)
Pension Reserve	890	980
Total Unusable Reserves	**(92,902)**	**(100,242)**

Capital Adjustment Account

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

The Account also contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the Authority. The Account 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 1 provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

	2015/16 £000	2016/17 £000
Opening Balance 1 April	**(85,147)**	**(93,180)**
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
Charges for depreciation and impairment of non current assets	4,182	4,572
Other income that cannot be credited to the General Fund	(5,128)	(5,092)
Revenue expenditure funded from capital under statute	73,995	75,981
Amounts of non current assets written off on disposal	3,672	-
Write down of long term debtors	6,322	2,250

Adjusting amounts written out of the Revaluation Reserve	**(162)**	**(146)**
Capital financing applied in the year:		
Capital grants and contributions credited to the CIES that have been applied to capital financing	(84,522)	(79,594)
Statutory provision for the financing of capital investment	(2,309)	(2,523)
Capital expenditure charged against the General Fund	(314)	(130)
Debt redeemed using capital receipts	(3,769)	(1,810)
Balance at 31 March	**(93,180)**	**(99,672)**

Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses 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.

	2015/16 £000	2016/17 £000
Opening Balance 1 April	**1,730**	**8,113**
Premiums incurred in the year and charged to the Comprehensive Income and Expenditure Statement	4,820	-
Proportion of premiums incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements	(728)	(728)
Amount by which finance costs charged to the CIES are different from finance costs chargeable in the year in accordance with statutory requirements	2,291	(356)
Balance at 31 March	**8,113**	**7,029**

Revaluation Reserve

The Revaluation Reserve 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 reserve contains only 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 Capital Adjustment Account.

	2015/16 £000	2016/17 £000
Opening Balance 1 April	**(8,887)**	**(8,725)**
Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	-	-
Difference between fair value depreciation and historical cost depreciation Amount written off to the Capital Adjustment Account	162	146
Balance at 31 March	**(8,725)**	**(8,579)**

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 Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any 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 substantial 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.

Pensions Reserve

	2015/16 £000	2016/17 £000
Opening Balance 1 April	**1,020**	**890**
Remeasurements of the net defined benefit liability/(asset)	(130)	120
Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	110	150
Employer's pensions contributions and direct payments to pensioners payable in the year	(110)	(180)
Balance at 31 March	**890**	**980**

22 Capital Expenditure & Capital Financing

The total amount of capital expenditure incurred in the year is shown in the table below, together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as the assets are used by the Authority, the expenditure results in an increase in the Capital Financing Requirement (CFR) a measure of the capital expenditure incurred historically by the Authority that has yet to be financed.

	2015/16 £000	2016/17 £000
Opening Capital Financing Requirement	**205,746**	**202,438**
Capital investment:		
Property, Plant and Equipment	1,902	1,956
Revenue Expenditure Funded from Capital under Statute	73,995	75,981
Loans issued	11,709	859
Sources of finance:		
Capital receipts	-	-
Capital receipts - repayment of principal from long-term debtors	(3,769)	(1,765)
Government Grants and other contributions	(84,522)	(77,156)
Sums set aside from revenue:		
Direct revenue contributions	(314)	(130)
Minimum Revenue Provision	(2,139)	(2,123)
Additional Voluntary Provision	(170)	(400)
Closing Capital Financing Requirement	**202,438**	**199,660**
Explanation of movements in year:		
Decrease in underlying need to borrow (unsupported by government financial assistance)	(3,308)	(2,778)
Decrease in Capital Financing Requirement	**(3,308)**	**(2,778)**

23 Adjustment to net surplus or deficit on the provision of services for non cash movements and items that are Investing or Financing activities

	2015/16 £000	2016/17 £000
Surplus/(Deficit) on the provision of services	2,039	(19,940)
Adjustments to Surplus/(Deficit) on Provision of Services for Non-Cash Movements		
Depreciation and Impairment	4,182	4,572
(Increase)/Decrease in Creditors	70,140	(24,274)
Increase/(Decrease) in Debtors	(6,060)	(95)
Movement in Pension Liability	-	(30)
Other non-cash items charged to the net surplus or deficit on the provision of services	(1,420)	(5,509)
	66,842	**(25,336)**
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	(81,803)	(74,216)
	(81,803)	**(74,216)**
Net cash flow from operating activities	**(12,922)**	**(119,492)**

Cash Flow Statement -
The cash flows for operating activities include the following items:

	2015/16 £000	2016/17 £000
Interest received	2,592	2,893
Interest paid	(12,954)	(7,446)

24 Cash Flow Statement - Investing Activities

	2015/16 £000	2016/17 £000
Purchase of property, plant and equipment, investment property and intangible assets	(2,318)	(2,022)
Purchase of short-term and long-term investments	(166,140)	(102,500)
Proceeds from short-term and long-term investments	105,140	87,500
Other receipts from investing activities	76,750	72,824
Net cash flows from investing activities	**13,432**	**55,802**

25 Cash Flow Statement - Financing Activities

	2015/16 £000	2016/17 £000
Repayments of short and long-term borrowing	(27,302)	(1,717)
Net cash flows from financing activities	**(27,302)**	**(1,717)**

26 Accounting Standards Issued, Not Yet Adopted

Impact of the adoption of the new accounting standards on the 2016/17 financial statements.

The Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 (the Code) has introduced changes in accounting policy in relation to the following IFRS (International Financial Reporting Standard) statements:

- Amendments to IFRS10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 28 Investments in Associates and Joint Ventures: Investment Entities

This change has not had any impact on the NECA financial statements.

27 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 refurbishement of the existing Tunnel are recorded within the Authority's Property, Plant and Equipment on the Balance Sheet.

Public Sector Funding Context
There is a high degree of uncertainty regarding future levels of funding for local government and the impact of the decision for Britain to leave the European Union remains unclear. However the Authority takes the view that this uncertainty is not yet sufficient indication that the value of the Authority's assets might need to be impaired due to reduced levels of service provision.

28 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 2017 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 2017 and the projected service cost for the year ending 31 March 2018 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 £37.10m, a variance of £0.49m, whereas a decrease of (0.1%) p.a. results in an increase to £38.10m. The percentage change in the present value of the total obligation would be (4%) and 4.1% 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 £1.0m to £38.59m, whereas a decrease of (0.1%) p.a. results in a decrease to £36.61m, a variance of £0.98m. The percentage change in the present value of the total obligation would be 4.1% and (4.1%) respectively.

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
		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 £39.0m, an increase of £1.41m, whereas a adjustment of +1 year results in a reduction to £36.2m, a variance of £1.39m. The percentage change in the present value of the total obligation would be 3.7% and (3.7%) respectively.

29 Events after the Reporting Period

The Statement of Accounts was authorised for issue by the Chief Finance Officer on 31 May 2017. Where events taking place before this date provided information about conditions existing at 31 March 2017, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

There have been no non-adjusting events after the balance sheet date.

30 Statement of Accounting Policies

1. General Principles

The Statement of Accounts summarises the Authority's transactions for the 2016/17 financial year and its position at the year-end of 31 March 2017. 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 2016/17, 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

The financial statements, other than the cash flow statement, are prepared on an accruals basis. This means that transactions are reflected in the accounts of the period in which they take place, as opposed to the period in which payments are made or received. Accruals are raised for income and expenditure exceeding £1,000.

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 tne 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 2016/17.

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 Pension Scheme

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

· 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 services for which the employees worked.

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 Non Distributed Costs.

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 18 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 classified into two types:

· Loans and receivables - assets that have fixed or determinable payments but are not quoted in an active market.

· Available-for-sale assets - assets that have a quoted market price and/or do not have fixed or determinable payments.

Loans and Receivables

Loans and receivables 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 Comprehensive Income and Expenditure Statement 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 loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the relevant service (for receivables specific to that service) or the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

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

Where the fair value of loans and receivables is disclosed (i.e. the Financial Instruments note) the fair value of the Nexus borrowing debtor is estimated by applying a proportion of the Authority's total fair value of borrowing to the proportion of the carrying value which relates to loans taken on behalf of Nexus.

Soft Loans

A Soft Loan is a loan made to a third party at a preferential rate of interest, i.e. below market rate. In accordance with the Code of Practice on Local Authority Accounting, the difference between the interest payable to the Authority by the recipient of the loan and the amount they would have paid if they had acquired a loan for the same amount is charged to the income and expenditure account under the relevant net cost of service heading. This charge is then reversed out through the Movement in Reserves Statement to mitigate any effect on usable reserves.

Available-for-Sale Assets
Available-for-sale assets 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. Where the asset has fixed or determinable payments, annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income (e.g. dividends) is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the Authority.

Assets are maintained in the Balance Sheet at fair value. Values are based on the following principles:

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

- Equity shares with no quoted market prices - independent appraisal of company valuations.

Changes in fair value are balanced by an entry in the Available-for-Sale Reserve and the gain/loss is recognised in the Surplus or Deficit on Revaluation of Available-for-Sale Financial Assets. The exception is where impairment losses have been incurred - these are debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any net gain or loss for the asset accumulated in the Available-for-Sale Reserve.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made (fixed or determinable payments) or fair value falls below cost, the asset is written down and a charge made to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. If the asset has fixed or determinable payments, the impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate. Otherwise, the impairment loss is measured as any shortfall of fair value against the acquisition cost of the instrument (net of any principal repayment and amortisation).

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, along with any accumulated gains or losses previously recognised in the Available-for-Sale Reserve.

Where fair value cannot be measured reliably, the instrument is carried at cost (less any impairment losses).

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 bases:

- Infrastructure assets - depreciated historical cost.
- Assets Under Construction - cost

· All other assets – current value, determined as the amount that would be paid for the asset in its existing use (existing use value - EUV).

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, adjusted for depreciation that would have been charged if the loss had not been recognised.

Depreciation

Depreciation is provided for 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 2016, divided by remaining life expectancy. Depreciation is therefore 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 previously 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 accrodance 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.

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 2016/17 to produce Group Accounts to include services paid 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 2016/17 accounts, NECA has fully complied with the requirements of the Code, providing Group figures for 2016/17 and comparators for 2015/16. 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.

3.0 Group Financial Statements and Explanatory Notes

3.0 Group Financial Statements and Explanatory Notes

3.1 Group Movement in Reserves Statement

	NECA Usable Reserves £000	NECA Unusable Reserves £000	Total NECA Reserves £000	Authority Share of Nexus £000	Total Group Reserves £000
Balance at 1 April 2015	(57,425)	(91,284)	(148,709)	(421,680)	(570,389)
Movement in reserves during 2015/16					
Total Comprehensive Income & Expenditure	(2,039)	(130)	(2,169)	(27,160)	(29,329)
Adjustments between accounting basis & funding basis under regulations	1,487	(1,487)	-	-	-
Net (Increase)/Decrease before transfers to Earmarked Reserves	(552)	(1,617)	(2,169)	(27,160)	(29,329)
Transfers (To)/From Earmarked Reserves	-	-	-	-	-
(Increase)/Decrease in 2015/16	(552)	(1,617)	(2,169)	(27,160)	(29,329)
Balance at 31 March 2016 carried forward	(57,977)	(92,901)	(150,878)	(448,840)	(599,718)
Movement in reserves during 2016/17					
Adjustment to opening balance					
Total Comprehensive Income & Expenditure	(19,940)	120	(19,820)	(13,273)	(33,093)
Adjustments between accounting basis & funding basis under regulations	7,461	(7,461)	-	-	-
Net (Increase)/Decrease before transfers to Earmarked Reserves	(12,479)	(7,341)	(19,820)	(13,273)	(33,093)
Transfers (To)/From Earmarked Reserves	-	-	-	-	-
(Increase)/Decrease in 2016/17	(12,479)	(7,341)	(19,820)	(13,273)	(33,093)
Balance at 31 March 2017 carried forward	(70,456)	(100,242)	(170,698)	(462,113)	(632,811)

3.2 Group Comprehensive Income and Expenditure Statement

2015/16 Restated					2016/17		
Gross Expenditure £000	Gross Income £000	Net Expenditure £000		Note	Gross Expenditure £000	Gross Income £000	Net Expenditure £000
757	(300)	457	Corporate		1,318	(656)	662
149	(140)	9	Inward Investment		344	(169)	175
50,958	(53,910)	(2,952)	Local Growth Fund		61,268	(77,575)	(16,307)
15,449	(16,785)	(1,336)	North East Local Enterprise Partnership		6,348	(2,658)	3,690
49	(49)	-	Skills		1,148	(1,148)	-
224	(5)	219	Transport - Retained Levy		461	-	461
16,071	-	16,071	Transport - Durham		15,414	-	15,414
5,896	-	5,896	Transport - Northumberland		6,293	-	6,293
153,140	(80,286)	72,854	Transport - Tyne and Wear		150,633	(76,320)	74,313
19,927	(20,117)	(190)	Transport - Other		19,320	(18,160)	1,160
26,474	(33,538)	(7,064)	Transport - Tyne Tunnels		25,938	(33,282)	(7,344)
289,094	**(205,130)**	**83,964**	**Cost of Services**		**288,486**	**(209,968)**	**78,518**
14,035	(2,003)	12,032	Financing & Investment Income & Expenditure	G2	7,793	(1,312)	6,481
-	(122,675)	(122,675)	Taxation & Non-Specific Grant Income	G3	-	(122,736)	(122,736)
3,672	(37)	3,635	(Gain)/Loss on disposal or derecognition of non-current assets		46	-	46
		(23,044)	**Deficit/(Surplus) on Provision of Services**				**(37,692)**
		(7,370)	Re-measurements of the defined benefit liability	G11			4,810
		1,087	Taxation of Group Entities	G12			(211)
		(6,283)	**Other Comprehensive Income & Expenditure**				**4,599**
		(29,327)	**Total Comprehensive Income & Expenditure Deficit/(Surplus)**				**(33,093)**

2015/16 figures have been restated across the Authority's service areas.

3.3 Group Balance Sheet

31 March 2016 £000		Note	31 March 2017 £000
830,110	Property, Plant & Equipment	G5	840,319
2,627	Intangible Assets	G6	2,089
16,534	Long Term Debtors	G7	16,583
1	Long Term Investments	G7	1
849,272	**Long Term Assets**		**858,992**
89,000	Short Term Investments	G7	104,000
26,620	Short Term Debtors	G7, G8	21,923
66,483	Cash and Cash Equivalents	G9	43,432
750	Inventories		901
182,853	**Current Assets**		**170,256**
(3,577)	Short Term Borrowing	G7	(2,611)
(96,895)	Short Term Creditors	G7, G10	(67,286)
(4,955)	Grants Receipts in Advance	G4	(2,483)
(5,092)	New Tyne Crossing - Deferred Income	16	(5,093)
(110,519)	**Current Liabilities**		**(77,473)**
(935)	Provisions		(1,304)
(5,188)	Deferred Taxation	G12	(4,977)
(106,937)	New Tyne Crossing - Deferred Income	16	(101,845)
(168,333)	Long Term Borrowing	G7	(167,667)
(855)	Grants Receipts in Advance	G4	(971)
(39,640)	Pension Liability	G7, G11	(42,200)
(321,888)	**Long Term Liabilities**		**(318,964)**
599,718	**Net Assets**		**632,811**
(100,350)	Usable Reserves	G13	(113,670)
(499,368)	Unusable Reserves	G14	(519,141)
(599,718)	**Total Reserves**		**(632,811)**

Chief Finance Officer Certificate

I certify that the group accounts set out on pages 77 to 101 give a true and fair view of the financial position of the North East Combined Authority Group at 31 March 2017

3.4 Group Cash Flow Statement

2015/16 £000		Note	2016/17 £000
23,046	Net Surplus/(Deficit) on the provision of services after taxation of Group Entities	G15	37,692
102,353	Adjustments to net surplus or deficit on the provision of services for non cash movements	G15	(14,928)
(113,612)	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	G15	(106,439)
11,787	**Net cash flows from Operating Activities**	**G15**	**(83,675)**
(17,039)	Investing Activities	G16	63,968
(29,100)	Financing Activities	G17	(3,345)
(34,352)	**Net (Decrease)/Increase in cash and cash equivalents**		**(23,051)**
100,835	Cash and cash equivalents at the beginning of the reporting period	G9	66,483
66,483	**Cash and cash equivalents at the end of the reporting period**	**G9**	**43,432**

3.5 Index of Explanatory Notes to the Group Financial Statements

3.6 Explanatory Notes to the Group Financial Statements

G1 Group Accounts

Under the Code of Practice for Local Authority 2016/17, authorities with interest in subsidiaries, associates and/or joint ventures shall prepare Group Accounts in addition to their single entity financial statements, unless their interest is considered to be not material.

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

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

Property, Plant and Equipment and Intangible Assets
Nexus uses the following estimated useful lives for each class of assets:
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 p.74 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

G2 Financing and Investment Income and Expenditure

	Note	2015/16 £000	2016/17 £000
Interest payable and similar charges		12,615	7,793
Interest on defined benefit liability	G11	1,420	1,220
Interest receivable and similar income		(2,003)	(2,532)
Total		**12,032**	**6,481**

G3 Taxation and Non Specific Grant Income

	2015/16 £000	2016/17 £000
Transport Levy	(89,177)	(86,894)
Enterprise Zone income	(1,203)	(1,696)
Nexus Capital Grants	(32,295)	(32,320)
LGF Grant applied to Tyne Tunnels capital expenditure	-	(1,826)
Total	**(122,675)**	**(122,736)**

G4 Grant Income and Other Contributions

The Authority credited the following grants and contributions to the Comprehensive Income and Expenditure Statement in 2015/16 and 2016/17:

Credited to Services	2015/16 £000	2016/17 £000
DCLG Capacity Grant	(500)	(500)
Growth Hub	(354)	(556)
Local Authority Contributions to NECA	(440)	(440)
Local Authority Contributions to NELEP	(250)	(250)
Local Growth Fund	(53,910)	(79,402)
Local Sustainable Transport Fund	(3,850)	-
Local Transport Plan	(14,723)	(13,949)
Mental Health Trailblazer	(49)	(1,148)
North East Smart Ticketing Initiative	(789)	(901)
North East Technical Assistance	-	(356)
Other Grants	(448)	(1,184)
Regional Growth Fund Capital	(15,401)	(80)
Regional Growth Fund Revenue	(205)	-
Sustainable Travel Transition Year	-	(2,343)
Metro Rail Grant	(24,457)	(24,689)
Heavy Rail Grant	(3,077)	(262)
Total	**(118,453)**	**(126,060)**

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	2015/16 £000	2016/17 £000
Revenue Grants		
Growth Hub	(146)	-
Mental Health Trailblazer	(1,051)	-
North East Smart Ticketing Initiative	(2,824)	(1,924)
Office for Low Emission Vehicles - Revenue	(30)	(30)
Other Grants	(178)	-
Capital Grants		
Office for Low Emission Vehicles - Capital	(1,500)	(1,500)
Regional Growth Fund Capital	(80)	-
Total	**(5,809)**	**(3,454)**
Shown as Short-Term Liability on Balance Sheet	(4,954)	(2,483)
Shown as Long-Term Liability on Balance Sheet	(855)	(971)
Total	**(5,809)**	**(3,454)**

G5 Property, Plant and Equipment

2016/17	Other Land and Buildings £000	Vehicles, Plant, Furniture & Equipment £000	Infrastructure Assets £000	Assets Under Construction £000	Total Property, Plant and Equipment £000
Cost or Valuation					
At 1 April 2016	**1,739**	**34,462**	**1,016,486**	**56,772**	**1,109,459**
Assets reclassified	-	-	-	-	**-**
Transfers from assets under construction	-	163	41,722	(41,885)	**-**
Derecognition - disposals	-	(342)	(923)	-	**(1,265)**
Derecognition - other	-	-	-	-	**-**
Additions	-	-	130	38,253	**38,383**
Revaluation increases/(decreases) recognised in the Revaluation Reserve	-	-	-	-	**-**
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	-	-	(130)	-	**(130)**
At 31 March 2017	**1,739**	**34,283**	**1,057,285**	**53,140**	**1,146,447**
Accumulated Depreciation and Impairment					
At 1 April 2016	**(582)**	**(16,602)**	**(262,165)**	**-**	**(279,349)**
Reclassification	-	-	-	-	**-**
Depreciation Adjustment	-	-	(608)	-	**(608)**
Depreciation Charge for the Year	(44)	(2,417)	(24,816)	-	**(27,277)**
Derecognition - Disposals	-	342	764	-	**1,106**
At 31 March 2017	**(626)**	**(18,677)**	**(286,825)**	**-**	**(306,128)**
Net Book Value					
At 1 April 2016	**1,157**	**17,860**	**754,321**	**56,772**	**830,110**
At 31 March 2017	**1,113**	**15,606**	**770,460**	**53,140**	**840,319**

Comparative Information 2015/16 Restated	Other Land and Buildings £000	Vehicles, Plant, Furniture & Equipment £000	Infrastructure Assets £000	Assets Under Construction £000	Total Property, Plant and Equipment £000
Cost or Valuation					
At 1 April 2015	**5,411**	**34,630**	**1,004,359**	**27,636**	**1,072,036**
Assets reclassified	-	(161)	161	-	**-**
Transfers from assets under construction	-	84	12,044	(12,128)	**-**
Derecognition - disposals	-	(92)	(78)	-	**(170)**
Derecognition - other	(3,672)	-	-	-	**(3,672)**
Additions	-	-	349	41,264	**41,612**
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	-	-	(348)	-	**(348)**
At 31 March 2016	**1,739**	**34,461**	**1,016,487**	**56,772**	**1,109,459**
Accumulated Depreciation and Impairment					
At 1 April 2015	**(538)**	**(13,918)**	**(237,480)**	**-**	**(251,936)**
Depreciation Charge for the Year	(44)	(2,776)	(24,729)	-	**(27,549)**
Derecognition - Disposals	-	92	44	-	**136**
At 31 March 2016	**(582)**	**(16,602)**	**(262,165)**	**-**	**(279,349)**
Net Book Value					
At 1 April 2015	**4,873**	**20,712**	**766,879**	**27,636**	**820,100**
At 31 March 2016	**1,157**	**17,859**	**754,322**	**56,772**	**830,110**

G6 Intangible Assets

Intangible assets in the Group Accounts relate wholly to Nexus.

Cost or valuation	2015/16 £000	2016/17 £000
Opening Balance	6,937	6,937
Reclassification	-	-
Derecognition - disposals	-	-
Transfers from assets under construction	-	-
Total	**6,937**	**6,937**

Depreciation and impairment	2015/16 £000	2016/17 £000
Opening Balance	3,509	4,310
Reclassification	-	-
Amortisation correction	-	-
Amortisation provided during the period	801	537
Derecognition - disposals	-	-
Total	**4,310**	**4,847**
Net Book Value at 31 March	**2,627**	**2,090**

G7 Financial Instruments

Categories of Financial Instruments

The investments and borrowing disclosed in the Balances Sheet are made up of the following categories of financial instrument:

Long Term 31 March 2016 £000	Short Term 31 March 2016 £000		Long Term 31 March 2017 £000	Short Term 31 March 2017 £000
		Investments		
-	89,000	Fixed term deposits	-	104,000
1	-	Long term investments	1	-
1	**89,000**	**Total Investments**	**1**	**104,000**
		Debtors		
15,370	-	Long term debtors - Loans and advances treated as capital expenditure	15,842	-
1,164	26,620	Other debtors	741	21,923
16,534	**26,620**	**Total Debtors**	**16,583**	**21,923**
		Borrowings		
(168,333)	(1,887)	Financial liabilities at amortised cost - Loans (Principal)	(167,667)	(667)
-	(1,690)	Financial liabilities at amortised cost - Loans (Interest)	-	(1,944)
(168,333)	**(3,577)**	**Total included in Borrowings**	**(167,667)**	**(2,611)**
		Other Long Term Liabilities		
(39,640)	-	Pension Liability	(42,200)	-
(39,640)	-	**Total Other Long Term Liabilities**	**(42,200)**	**-**
		Creditors		
-	(96,895)	Short Term Creditors	-	(67,286)
-	**(96,895)**	**Total Creditors**	**-**	**(67,286)**

G8 Short Term Debtors

	31 Mar 2016 £000	31 Mar 2017 £000
Central government bodies	16,905	9,548
Other local authorities	846	2,552
NHS bodies	93	10
Public corporations and trading funds	87	-
Other entities and individuals	8,689	9,812
Total	**26,620**	**21,923**

G9 Cash and Cash Equivalents

	31 Mar 2016 £000	31 Mar 2017 £000
Cash	42,803	16,961
Short-term deposits with financial institutions	23,680	26,470
Total Cash and Cash Equivalents	**66,483**	**43,431**

G10 Short Term Creditors

	31 Mar 2016 £000	31 Mar 2017 £000
Central government bodies	(504)	(550)
Other local authorities	(62,853)	(33,687)
Other entities and individuals	(33,538)	(33,049)
Total	**(96,895)**	**(67,286)**

G11 Defined Benefit Pension Schemes

NECA and Nexus both 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 arrangments 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.

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 levy 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:

	Local Government Pension Scheme		Discretionary Benefits Arrangements	
	2015/16 £000	2016/17 £000	2015/16 £000	2016/17 £000
Comprehensive Income and Expenditure Statement				
Cost of Services:				
Current service cost	4,590	4,500	-	-
Past service costs	-	-	-	-
Financing and Investment Income and Expenditure:				
Interest on net defined benefit liability/(asset)	1,250	1,050	170	170
Pension expense recognised in profit and loss	**5,840**	**5,550**	**170**	**170**

	Local Government Pension Scheme		Discretionary Benefits Arrangements	
	2015/16 £000	2016/17 £000	2015/16 £000	2016/17 £000
Other Post Employment Benefit charged to the Comprehensive Income and Expenditure Statement:				
Return on plan assets (in excess of)/ below that recognised in net interest	3,300	(42,300)	-	-
Actuarial (gains)/losses due to changes in financial assumptions	(9,650)	54,290	(110)	140
Actuarial (gains)/losses due to changes in demographic assumptions	-	510	-	(20)
Actuarial (gains)/losses due to changes in liability assumptions	(2,920)	(9,780)	(160)	(10)
Adjustment in respect of paragraph 58	2,170	1,760	-	-
Total amount recognised in Other Comprehensive Income	**(7,100)**	**4,480**	**(270)**	**110**
Total amount recognised	**(1,260)**	**10,030**	**(100)**	**280**

Assets and Liabilities in Relation to Post-employment Benefits
Reconciliation of present value of the scheme liabilities (defined benefit obligation):

	Funded liabilities: Local Government Pension Scheme		Unfunded liabilities: Discretionary Benefits	
	2015/16 £000	2016/17 £000	2015/16 £000	2016/17 £000
Opening balance at 1 April	(258,730)	(251,680)	(5,680)	(5,090)
Current service cost	(4,590)	(4,500)	-	-
Interest cost	(8,130)	(8,390)	(170)	(170)
Contributions by participants	(1,300)	(1,400)	-	-
Actuarial gains/(losses) on liabilities - financial assumptions	9,650	(54,290)	110	(410)
Actuarial gains/(losses) on liabilities - demographic assumptions	-	(130)	-	(210)
Actuarial gains/(losses) on liabilities - experience	2,920	9,400	160	290
Net benefits paid out	8,500	9,530	490	460
Past service costs	-	-	-	-
Closing balance at 31 March	**(251,680)**	**(301,460)**	**(5,090)**	**(5,130)**

Reconciliation of fair value of the scheme assets:

	Local Government Pension Scheme		Discretionary Benefits	
	2015/16 £000	2016/17 £000	2015/16 £000	2016/17 £000
Opening balance at 1 April	218,780	222,650	-	-
Interest income on assets	6,970	7,520	-	-
Remeasurement gains/(losses) on assets	(3,300)	42,300	-	-
Employer contributions	7,400	7,510	490	460
Contributions by scheme participants	1,300	1,400	-	-
Net benefits paid out	(8,500)	(9,530)	(490)	(460)
Closing balance at 31 March	**222,650**	**271,850**	**-**	**-**

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	2012/13 £000	2013/14 £000	2014/15 £000	2015/16 £000	2016/17 £000
Fair value of LGPS assets	179,530	194,330	218,780	222,650	271,850
Present value of liabilities:					
LGPS liabilities	(240,150)	(229,650)	(258,730)	(251,680)	(301,460)
Impact of minimum funding requirement/asset ceiling	-	(2,280)	(3,250)	(5,520)	(7,460)
(Deficit) on funded defined benefit scheme	**(60,620)**	**(37,600)**	**(43,200)**	**(34,550)**	**(37,070)**
Discretionary benefits	(6,110)	(5,740)	(5,680)	(5,090)	(5,130)
Total (Deficit)	**(66,730)**	**(43,340)**	**(48,880)**	**(39,640)**	**(42,200)**

The split of the defined benefit obligation at the last valuation date between the various categories of members was as follows; NECA - active members 5%, deferred pensioners 10% and pensioners 85%; Nexus - active members 34%, deferred pensioners 10% and pensioners 56%.

The liabilities show the underlying commitments that the Authority has in the long run to pay post employment (retirement) benefits. The total combined liabilities of NECA and Nexus of £306.590m has an impact on the net worth of the authorities as recorded in the balance sheet, resulting in a negative pension balance of £42.200m. However, statutory arrangements for funding the deficit mean that the financial position of the authorities remain 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 NECA and Nexus in the year to 31 March 2018 is £7.810m. In addition, Strain on the Fund contributions may be required. Expected payments direct to beneficiaries in the year to 31 March 2018 are £0.460m 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, estimates for the pension fund being based on the latest full valuation of the scheme as at 31 March 2016.

The principal assumptions used by the actuary have been:

	Local Government Pension Scheme		Discretionary Benefits	
	2015/16	2016/17	2015/16	2016/17
Mortality assumptions:-				
Longevity at 65 for current pensioners:				
Men	23.2	22.8	23.2	22.8
Women	24.8	26.3	24.8	26.3
Rate for discounting scheme liabilities	3.3%	2.5%	3.3%	2.5%
Rate of inflation - Retail Price Index	2.8%	3.1%	2.8%	3.1%
Rate of inflation - Consumer Price Index	1.7%	2.0%	1.7%	2.0%
Rate of increase in pensions	1.7%	2.0%	1.7%	2.0%
Pension accounts revaluation rate	1.7%	2.0%	n/a	n/a
Rate of increase in salaries	3.2%	3.5%	n/a	n/a

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

	31 March 2016	31 March 2017		
	% Total	% Quoted	% Unquoted	% Total
Equity investments	66.1	59.5	7.4	66.9
Property	10.4	0.0	9.2	9.2
Government bonds	3.7	3.9	0.0	3.9
Corporate bonds	11.6	11.5	0.0	11.5
Cash	2.6	2.6	0.0	2.6
Other*	5.6	3.5	2.4	5.9
Total	100.0	81.0	19.0	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	Funded 2015/16 £000	Funded 2016/17 £000
Interest income on assets	6,970	7,520
Remeasurement gain/(loss) on assets	(3,300)	42,300
Actual return on assets	**3,670**	**49,820**

Sensitivity Analysis

Sensitivity analysis of NECA pension liabilities is set out on p45-46 of the single entity accounts. Sensitivity analysis of Nexus pension liabilities is shown below.

The approximate impact of changing the key assumptions on the present value of the funded defined benefit obligation as at 31 March 2017 and the projected cost for the period ending 31 March 2017 is set out below. In each case, only the assumption mentioned is altered; all other assumptions remain the same and are summarised above.

Discount Rate assumption

Adjustment to Discount rate	+0.1% per annum	Base Figure	-0.1% per annum
Present value of total obligation (£m)	259.22	263.87	268.61
% change in present value of total obligation	-1.80%		1.80%
Projected service cost (£m)	5.97	4.39	6.35
Approximate % change in projected service cost	-3.10%		3.10%

Rate of general increase in salaries

Adjustment to salary increase rate	+0.1% per annum	Base Figure	-0.1% per annum
Present value of total obligation (£m)	265.03	263.87	262.72
% change in present value of total obligation	0.40%		-0.40%
Projected service cost (£m)	6.16	6.16	6.16
Approximate % change in projected service cost	0.00%		0.00%

Rate of increase to pensions in payment and deferred pensions

Adjustment to pension increase rate	+0.1% per annum	Base Figure	-0.1% per annum
Present value of total obligation (£m)	267.44	263.87	262.72
% change in present value of total obligation	1.40%		-1.30%
Projected service cost (£m)	6.35	6.16	5.97
Approximate % change in projected service cost	3.10%		-3.10%

Post retirement mortality assumption

Adjustment to mortality age rating assumption *	+ 1 year	Base Figure	- 1 year
Present value of total obligation (£m)	271.67	263.87	260.35
% change in present value of total obligation	3.00%		-2.90%
Projected service cost (£m)	6.38	6.16	5.94
Approximate % change in projected service cost	3.60%		-3.60%

* 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.

G12 Deferred Tax Liability

The movement for the year comprises:

	2015/16 £000	2016/17 £000
Capital Allowances	72	(154)
Roll over relief on capital gains	-	(64)
Other timing differences	29	7
Tax effect of losses	986	-
Total	**1,087**	**(211)**

The balance at the year end comprises:

	31 March 2016 £000	31 March 2017 £000
Excess of Capital Allowances over depreciation	(3,978)	(3,824)
Roll over relief on capital gains	(1,297)	(1,233)
Other timing differences	87	80
Tax effect of losses	-	-
Total	**(5,188)**	**(4,977)**

G13 Usable Reserves

	31 March 2016 £000	31 March 2017 £000
General Fund Balance	(35,007)	(34,899)
Metro Reinvigoration Reserve	(10,005)	(9,125)
NELEP Earmarked Reserves	(1,976)	(538)
Capital Receipts Reserve	-	(168)
Capital Grants Unapplied Reserve	(10,988)	(25,726)
Nexus Revenue Reserves	(14,206)	(15,540)
Nexus Capital Reserves	(28,168)	(27,674)
Total Usable Reserves	**(100,350)**	**(113,670)**

G14 Unusable Reserves

Details of movements on the Capital Adjustment Account and Financial Instruments Adjustment Account are shown on pages 48 to 49 of the NECA single entity accounts. These reserves relate to NECA only.

	31 March 2016 £000	31 March 2017 £000
Revaluation Reserve	(9,412)	(9,266)
Capital Adjustment Account	(93,180)	(99,672)
Financial Instruments Adjustment Account	8,113	7,029
Pensions Reserve	39,640	42,200
Nexus Grant Deferred Account	(415,894)	(432,093)
Nexus Unusable Capital Reserve	(28,635)	(27,338)
Total Unusable Reserves	**(499,368)**	**(519,140)**

Revaluation Reserve

The Revaluation Reserve 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 reserve contains only 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 Capital Adjustment Account.

	2015/16 £000	2016/17 £000
Balance at 1 April	(9,574)	(9,412)
Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	-	-
Difference between fair value depreciation and historic cost depreciation - amount written off to the Capital Adjustment Account	162	146
Balance at 31 March	**(9,412)**	**(9,266)**

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 Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any 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 substantial 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.

	2015/16 £000	2016/17 £000
Balance at 1 April	48,880	39,640
Remeasurement of the Net Defined Benefit Liability	(7,370)	4,810
Reversal of items relating to retirement benefits debited or	6,020	5,720
Employer's pension contributions and direct payments to pensioners payable in the year	(7,890)	(7,970)
Balance at 31 March	**39,640**	**42,200**

Nexus Grant Deferred Account

	2015/16 £000	2016/17 £000
Balance at 1 April	(396,730)	(415,894)
Capital Grants Released	20,849	20,730
Capital Grants Applied	(40,013)	(36,930)
Balance at 31 March	**(415,894)**	**(432,094)**

Nexus Unusable Capital Reserve

	2015/16 £000	2016/17 £000
Balance at 1 April	(29,773)	(28,635)
Depreciation	1,138	1,297
Balance at 31 March	**(28,635)**	**(27,338)**

G15 Adjustment to net surplus or deficit on the provision of services for non cash movements and items that are Investing or Financing activities

	2015/16 £000	2016/17 £000
Surplus/(Deficit) on the provision of services	23,046	37,692
Adjustments to Surplus/(Deficit) on Provision of Services for Non-Cash Movements		
Depreciation/ Impairment & Amortisation	28,698	28,552
(Gain)/Loss on disposal of non-current assets	3,635	46
(Increase)/Decrease in Creditors	76,802	(32,671)
Increase/(Decrease) in Debtors	305	(2,945)
Increase/(Decrease) in Inventories	(123)	(151)
Movement in Pension Liability	(1,870)	(2,250)
Other non-cash items charged to the net surplus or deficit on the provision of services	(5,092)	(5,509)
	102,355	**(14,928)**
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	(114,098)	(108,167)
Other adjustments for items that are financing or investing activities	486	1,728
	(113,612)	**(106,439)**
Net cash flow from operating activities	**11,789**	**(83,675)**

Cash Flow Statement -

The cash flows for operating activities include the following items:

	2015/16 £000	2016/17 £000
Interest received	865	1,407
Interest paid	(12,954)	(7,446)

G16 Cash Flow Statement - Investing Activities

	2015/16 £000	2016/17 £000
Purchase of property, plant and equipment, investment property and intangible assets	(42,030)	(38,447)
Purchase of short-term and long-term investments	(176,140)	(102,500)
Other payments for investing activities	(1,834)	(1,765)
Proceeds from the sale of property, plant and equipment, investment property, intangible assets & heritage assets	71	113
Proceeds from short-term and long-term investments	105,140	87,500
Other receipts from investing activities	97,754	119,068
Net cash flows from investing activities	**(17,039)**	**63,968**

G17 Cash Flow Statement - Financing Activities

	2015/16 £000	2016/17 £000
Repayments of short and long-term borrowing	(27,374)	(1,787)
Other payments for financing activities	(1,726)	(1,558)
Net cash flows from financing activities	**(29,100)**	**(3,345)**

4.0 Supplemental Information

4.0 Supplemental Information

4.1 Glossary of Terms

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

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

Curtailment (Pensions)	For a defined benefit pension scheme an event that reduces the expected years of future service of present employees or reduces for a number of employees the accrual of defined benefits for some or all of their future service. Examples include termination of employee's service through redundancy or amendment of the terms affecting future benefits.
Debtors	Monies owed to the Authority but not received at the balance sheet date.
Defined Benefit Scheme (Pensions)	A pension or other retirement scheme other than a defined contribution scheme. Usually, the scheme rules define the benefits independently of the contributions payable, and the benefits are not directly related to the investments of the scheme. The scheme may be funded or unfunded.
Depreciation	The measure of the wearing out, consumption or other reduction in the useful economic life of an asset.
Earmarked Reserve	A sum set aside for a specific purpose.
Emoluments	Payments received in cash and benefits for employment.
Events after the Balance Sheet Date	Events after the balance sheet date are those events, favourable and unfavourable, that occur between the balance sheet date and the date when the statement of Accounts is authorised for issue.
Expected Rate of Return on Pensions Assets	This is an actuarially calculated estimate of the return on the scheme's investment assets during the year.
Fair Value	The fair value of an asset is the price at which it could be exchanged in an arm's length transaction less, where applicable, any grants receivable towards the purchase or use of the assets.
Fees and Charges	Income arising from the provision of services, for example, charges for the use of leisure facilities.

Finance Lease	A lease that transfers substantially all of the risks and rewards of ownership of a fixed asset to the lessee. The payments usually cover the full cost of the asset together with a return for the cost of finance.
Financial Instrument	Document (such as a cheque, draft, bond, share, bill of exchange, futures or options contract) that has a monetary value or evidences a legally enforceable (binding) agreement between two or more parties regarding a right to payment of money.
Financial Instruments Adjustment Account	The reserve records the accumulated difference between the financing costs included in the Comprehensive Income & Expenditure Account and the accumulated financing costs required in accordance with regulations to be charged to the General Fund Balance.
General Fund	The total services of the Authority.
Going Concern	The concept that the Authority will remain in operational existence for the foreseeable future, in particular that the revenue accounts and balance sheet assume no intention to curtail significantly the scale of operations.
Impairment	A reduction in the value of a fixed asset below its carrying amount on the balance sheet resulting from causes such as obsolescence or physical damage.
Intangible Assets	An asset that is not physical in nature, e.g. software licences.
Interest Cost (Pensions)	For a defined benefit scheme, the expected increase during the period in the present value of the scheme liabilities because the benefits are one period closer to settlement.
Investment Properties	Interest in land and buildings where construction work and development has been completed and the asset is held for its investment potential, any rental income being negotiated at arms length.
Liabilities	Any amounts owed to individuals or organisations which will have to be paid at some time in the future.

Liquid Resources	Current asset investments that are readily disposable by the Authority without disrupting its business and are either readily convertible to known amounts of cash at or close to the carrying amount or traded in an active market.
Materiality	An item is material if its omission, non-disclosure or misstatement in the financial statements could be expected to lead to a distortion of the view given by the financial statements.
Minimum Revenue Provision (MRP)	An amount charged by the Authority to the Comprehensive Income & Expenditure Account, for debt redemption or for the discharge of other credit liabilities.
Movement in Reserves Statement	The statement shows the movement in the year on the different reserves held by the Authority
Net Book Value	The amount at which fixed assets are included in the balance sheet being the historical cost or current value less the cumulative amounts provided for depreciation.
Net Debt	The Authority's borrowings less cash and liquid resources.
Operating Leases	Leases other than a finance lease.
Property, Plant & Equipment (PPE)	Assets that yield benefits to the Authority and the services that it provides for a period of more than one year. Examples include land, buildings and vehicles.
Provisions	These are sums set aside to meet liabilities or losses which have been incurred but where the amount and/or timing of such costs are uncertain.
Prudence	This accounting concept requires that revenue is not anticipated until realisation can be assessed with reasonable certainty. Provision is made for all known liabilities whether the amount is certain or can only be estimated in the light of information available.
Public Works Loan Board	This is a Government agency which provides loans to local authorities at favourable rates.

Related Party Transactions	A related party transaction is the transfer of assets or liabilities or the performance of services by, to or for a related party irrespective of whether a charge is made. An example could be the purchase, sale, lease, rental or hire of assets between related parties.
Reserves	These are sums set aside to meet possible future liabilities where there is no certainty about whether or not these liabilities will be incurred.
Residual Value	The net realisable value of an asset at the end of its useful life. Residual values are based on prices prevailing at the date of the acquisition (or revaluation) of the asset and do not take account of expected future price changes.
Revaluation Reserve	The reserve records the accumulated gains on the fixed assets held by the Authority arising from increases in value as a result of inflation or other factors.
Revenue Expenditure	Expenditure on providing day-to-day services, for example employee cost 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.

4.2 Index

4.3 External Audit Opinion

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north east combined authority

Governance Committee

Date: 12 September 2017

Subject: Treasury Management Mid-Year Update 2017/18

Report of: Chief Finance Officer

Executive Summary

The purpose of this report is to provide a summary of treasury management activity during 2017/18. The activity is in line with the original budget for the year and no changes to the strategy are proposed as part of this mid year review.

Recommendations

The Governance Committee is recommended to receive the report for information.

north east combined authority

Governance Committee

1. Background Information

1.1 In line with the CIPFA Code of Practice on Treasury Management in the Public Services, the Authority is required to approve a treasury management strategy (including a range of prudential indicators) before the start of each financial year and to monitor/report performance against these prudential indicators during the year (with a mid-year review).

2 Proposals

2.1 **Borrowing**

External interest rates payable in the first five months of 2017/18 were at the level assumed in the treasury management strategy, with a weighted average rate of 4.3%. All borrowing currently relates to Transport activity in Tyne and Wear (borrowing taken out by the Tyne and Wear Integrated Transport Authority) and the costs of this borrowing are charged to the Tyne and Wear transport levy budget, the Tyne Tunnels budget and the Nexus budget as appropriate.

2.2 No new loans have been taken out during the year or are anticipated. The table below shows the movement between the opening and closing level of external loans during 2017/18. External loans were £168m at 1 September, which is well within the NECA authorised borrowing limit of £240.0m.

	Actual	Authorised Limit
	£m	£m
Level of external loan principal at 1 April 2017	**168.333**	**240.000**
New loans taken out during 2017/18	-	-
Scheduled repayments during 2017/18	0.333	-
Early repayment of borrowing during 2017/18	-	-
Level of external loan principal at 1 September 2017	**168.000**	**240.000**

2.3 As can be seen from the above table, the overall level of borrowing has decreased to £168m in the first five months of the year. This is due to regular repayments on Equal Instalment of Principal (EIP) loans. This level of borrowing is well under the authorised limit for the year, as the Authority has used internal funds in place of external borrowing to part fund its capital financing requirement. The authorised limit has been retained at a consistent level despite repayment of external borrowing, to allow the flexibility to undertake external borrowing if required.

2.4 The Authority strives to minimise the interest rate risk it faces and maintain stability by seeking to maintain an appropriate debt maturity profile (i.e. the profile of when external loans need to be repaid), which is shown in Table 2 below.

Table 2: External Debt Maturity Profile

Loans repayable:	**01/04/2017 (actual) £m**	**01/09/2017 (actual) £m**	**31/03/2018 (estimate) £m**
In less than one year	0.667	0.333	0.667
Between one and two years	0.667	0.667	0.667
Between two and five years	2.000	2.000	2.000
Between five and ten years	3.333	3.333	2.333
In more than ten years	161.667	161.667	161.000
Total	**168.333**	**168.000**	**167.667**

2.5 As can be seen from the above table, the profile is weighted heavily towards long-term borrowing. This is because most of the borrowing relates to the New Tyne Crossing Project, where long-term borrowing was preferable to provide certainty of payments to enable accurate financial modelling over the period of the operating concession. As short-term loans have matured, they have not been replaced.

2.6 The current average rate of external interest payable (i.e. 4.3%) is in line with the assumptions made when the 2017/18 budget was set and total external interest charges to the year-end will be within budget.

2.7 **Investments**

At 1 September 2017 the Authority had £86m externally invested in short term deposits, plus short term bank current account balances not exceeding £5m.

2.8 Due to the receipt of £43m Local Growth Deal funding in April 2017 (following the receipt of £79m in April 2016), the Authority has had a higher level of cash during 2016/17 and 2017/18 than in previous years and the level of external investments has therefore increased. This requires additional flexibility and options to manage investments. Based on the current level of planned capital expenditure and the expected profile of LGF grant payments, which is weighted towards the year end, the level of external investments is expected to be around £30m to £35m by the end of the financial year and to fall further in 2018/19.

2.9 The rate of external interest receivable ranges from 0.4% on short term balances to 0.8% on external investments held for up to 12 months. These rates are lower than those achievable in the previous financial year due to reductions in the rates available in the investment market in which NECA operates.

Investments of cash balances are placed for up to 12 months where possible in order to help secure an increased average rate of return, with increased interest income used to help fund the costs of the Authority.

2.10 The primary objective of the Authority's investment strategy is to ensure the security of funds invested, and to achieve a reasonable rate of return commensurate with the level of security required. No changes are proposed at this time to the current investment and counterparty limits, and these will be reviewed in advance of setting the limits for 2018/19, which will be presented to the Leadership Board in January 2018.

Table 3: Investment Limits

Type of institution	Financial Limit	Time Limit
UK central government (Debt Management Office	Unlimited	Unlimited
UK banks with AAA, AA+, AA, AA-, A+, A credit ratings	£15m each	1 year
UK banks with A- credit ratings	£10m each	1 year
UK Local authorities	£10m each	3 years
UK building societies whose lowest published long-term credit rating is BB and societies without credit ratings with assets greater than £250m	£5m each	1 year
UK money market funds and similar pooled vehicles whose lowest published credit rating is AAA	£5m each	1 year
Local Authority controlled companies in the NECA area	£10m each	20 years

2.11 **Prudential Indicators**

The treasury management strategy agreed by the Leadership Board in January 2017 included a range of indicators to ensure the prudent use of the Authority's borrowing powers set out in the Local Government Act 2003. The Authority's borrowing powers currently extend to Transport related activity only and, as a result, the prudential indicators are currently focused on that area of NECA activity. These prudential indicators have been revised based on the most up to date capital expenditure/financing position and are set out in the following table. No external borrowing for Enterprise Zones is anticipated in the current year. A provisional sum of £20m has been included for 2018/19 and this will be updated in the January 2018 report to the Leadership Board.

Table 4: Prudential Indicators

	2016/17 actual	2017/18 estimate	2018/19 estimate	2019/20 estimate
	£m	£m	£m	£m
Capital expenditure (Transport capital programme)	78.728	82.326	70.000	70.000
Financing costs to Net Revenue Stream				
Tyne & Wear Transport levy	65.120	63.040	61.800	61.220
Tyne & Wear Transport financing costs	2.040	1.539	1.516	1.494
%	3.1	2.4	2.5	2.4
Nexus grant plus direct grants and external income	147.797	146.179	144.660	144.070
Nexus interest and principal repayments to NECA	3.623	3.481	3.346	3.215
%	2.5	2.4	2.3	2.2
Tunnels tolls income	27.795	26.960	30.809	32.007
Tunnels financing costs	6.774	6.778	6.860	6.913
%	22.4	25.1	22.3	21.6
CFR at end of year				
Tyne Tunnels and Tyne & Wear Transport	156.285	154.174	152.071	149.973
Nexus	41.637	39.938	38.302	36.726
Enterprise Zones transport infrastructure	-	-	20.000	20.000
Total	**197.922**	**194.112**	**210.373**	**206.699**
Incremental impact of CF decisions (impact on Transport levy)	(0.028)	(0.524)	(0.023)	(0.022)
Operational Boundary for External Debt	**235**	**235**	**235**	**235**
Authorised Limit for External Debt	**240**	**240**	**240**	**240**
Actual External Borrowing	**168**	**168**	**167**	**186**

3. Reasons for the Proposals

3.1 The purpose of the report is to provide for information a mid-year update of Treasury Management activity for 2017/18 on activity to September 2017.

4. Next Steps and Timetable for Implementation

4.1 Proposals for the 2018/19 strategy will be developed further by officers and presented for agreement by the Leadership Board with the budget report in January 2018. Any significant proposals for change will be included with budget proposals presented to Governance Committee for consultation at its December meeting.

5. Potential Impact on Objectives

5.1 Effective treasury management enables financing charges to be minimised and interest income maximised while maintaining the security of the Authority's liquid assets. This supports the Authority's overall budget position which enables it to deliver all of its objectives more effectively.

6. Financial and Other Resources Implications

6.1 There are no direct financial implications arising from this report.

7. Legal Implications

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

8. Key Risks

8.1 The main risks relate to external interest rates and security of investments. Interest rate risks are mitigated by maintaining a balance of predominantly longer-term fixed rate borrowing, while seeking to minimise interest charges through reducing the total level of external borrowing as opportunities are presented. The risk of investments being lost due to the financial difficulties of a third party is being mitigated by revising the Authority's investment criteria to reflect the most up to date information on credit worthiness from external treasury management advisers.

9. Equality and Diversity

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

10. Crime and Disorder

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

11. Consultation/Engagement

11.1 The Treasury Management Policy and Strategy was included with the 2017/18 budget which was subject to consultation with NECA constituent authorities, NECA committees and key officer groups.

12. Other Impact of the Proposals

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

13. Appendices

13.1 None.

14. Background Papers

14.1 CIPFA Treasury Management in the Public Services: Code of Practice

15. Contact Officers

15.1 Eleanor Goodman, Principal Accountant, eleanor.goodman@northeastca.gov.uk, 0191 277 7518

16. Sign off

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

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north east combined authority

Governance Committee

Date: 12 September 2017

Subject: Budget Process and Timetable 2018/19

Report of: Chief Finance Officer

Executive Summary

The purpose of this report is to set out the process and timetable for the preparation, consultation and approval of the 2018/19 budget and indicative medium term financial strategy, including consultation with Governance Committee.

Recommendations

The Governance Committee is recommended to receive the report for information.

north east combined authority

Governance Committee

1. Background Information

1.1 2018/19 Budget and Medium Term Financial Strategy

1.1.1 NECA is required to set its budget and Transport Levies in its area for 2018/19 before 15 February 2018. It is currently planned that the NECA Leadership Board will agree these at its meeting on 16 January 2018.

1.1.2 To achieve this, Transport levies must be considered by the Tyne and Wear Transport Sub-Committee and in Durham and Northumberland by mid-December 2017.

1.1.3 While the statutory requirement is for an annual budget and levies to be set for 2018/19, it is good practice to set a budget and in particular a capital programme within the context of a Medium Term Financial Strategy covering a three to five year period. In the last two years external factors have meant that NECA has only been able to set annual budgets. The authority will need to take into account the information available about the availability of revenue and capital resources for future years when it considers its budget position for future years.

1.2 Budget Timetable

1.2.1 An indicative timetable has been prepared (see Appendix 1) to enable the budget and levy decisions to be taken on 16 January 2018, and to meet the need for consultation over the 2018/19 budget proposals as set out in NECA's constitution.

1.2.2 The timetable will be challenging, and requires an outline budget for 2018/19 to be agreed on 21 November for consultation, meaning discussion of substantive policy, strategy and financial considerations in September and October.

1.2.3 Outline budget proposals will highlight the overall level of the capital and revenue budgets for 2018/19 and any significant service impacts upon which consultation would be required. It should set out the level of reserves considered prudent for NECA and an assessment of the opportunities and risks facing the authority. More detail can be agreed in early December to be added to the budget report for 16 January.

1.2.4 As in previous years, consultation with Governance Committee will take place at the committee's meeting in December, to enable any comments to be reflected in the report to the January meeting of the Leadership Board.

1.3 Reserves

1.3.1 The budget proposals need to include an assessment of the level of financial risk facing the NECA budget. Risks to the budget are currently considered to be generally relatively low in respect of Transport as, under the Levy rules, the in-year

Transport cost risks are taken by Durham and Northumberland Councils, and by Nexus for Tyne and Wear.

1.3.2 Risks from the pension fund are minimal as NECA's fund is currently in a surplus position.

1.3.3 Risks associated with Treasury Management loans and investments will be covered in a separate statement as part of the budget process.

1.3.4 Risks relating to NELEP funds will be managed within NELEP budgets, including access to funds where the use is determined by the NELEP board.

1.3.5 While NECA has substantial total reserves, these are virtually all earmarked for specific purposes, particularly capital investment and the Tyne Tunnels. The NECA corporate reserve is low (£283k at 1 April 2017). The adequacy of this reserve will be reviewed as part of the budget preparation process.

2 Proposals

2.1 The proposals are as set out above as information for the Governance Committee.

3. Reasons for the Proposals

3.1 This report is for information. The proposed timetable has been developed in order to meet the Authority's responsibilities for budget setting in line with regulations and its own constitution.

4. Next Steps and Timetable for Implementation

4.1 During August and September the budget process is being discussed with Economic Development Officer Group, the Directors of Finance Group, the Heads of Transport Group and individual Treasurers. Senior officers have been encouraged to have discussions within each authority as part of their budget process.

4.2 Meetings in September and October with Senior officers and members will identify the key issues that need to be reflected in the initial budget report in November.

5. Potential Impact on Objectives

5.1 The budget and Medium Term Financial Strategy will be prepared to reflect the objectives of the Authority including the delivery of the Strategic Economic Plan.

Future reports will set out revenue and capital budget proposals in detail that will help deliver the objectives of the Authority.

6. Financial and Other Resources Implications

6.1 This report sets out the timetable and process for agreement of the necessary budgets and funding for the Authority. The Chief Finance Officer will draw on available resources to deliver the budget report and plan.

7. Legal Implications

7.1 NECA is required by the Transport Levying Bodies (Amendment) Regulations 2015 to issue the transport levies by 15 February preceding the commencement of the financial year in respect of which it is issued.

7.2 In accordance with the Budget and Policy Framework Rules of Procedure of the NECA's Constitution, at least 2 months before the calculation of the revenue budget and transport levies are required to be finalised, the Leadership Board will produce initial outline proposals and it is proposed that consultation on the draft Budget Report commence on 14 November 2017, once the Leadership Board Agenda has been circulated, and that the published draft Budget Report will be subject to any changes by the Leadership Board on 21 November. This report will be circulated to the members of NECA's Governance Committee once it is available.

7.3 Once the consultation process has been completed, details of the final proposals in relation to the revenue budget and levies will be referred to the Governance Committee.

7.4 Given the timescales set out above, the detailed proposals in relation to the revenue budget and transport levies need to be considered by the Leadership Board at its meeting on 21 November and by the Governance Committee on 5 December.

8. Key Risks

8.1 The budget timetable has been developed to manage the risk that the budget is not agreed unanimously by the requisite deadline through early discussion with all constituent authorities. The budget proposals will include an assessment of the risk facing the NECA budget, which will be used to inform the level of reserves which is determined to be prudent.

8.2 The Budget will need to reflect any changes needed in the event of any devolution deal being announced for the North of Tyne area.

9. Equality and Diversity

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

10. Crime and Disorder

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

11. Consultation/Engagement

11.1 The budget timetable proposed includes provision for consultation and engagement with key stakeholders, including the various committees of NECA, the North East Chamber of Commerce and officer groups representing all of the NECA constituent authorities.

12. Other Impact of the Proposals

12.1 There are no other impacts arising from this report.

13. Appendices

13.1 Appendix 1 – Budget Timetable

14. Background Papers

14.1 None

15. Contact Officers

15.1 Paul Woods, Chief Finance Officer, paul.woods@northeastca.gov.uk, Tel: 07446936840

Eleanor Goodman, Principal Accountant, eleanor.goodman@northeastca.gov.uk, Tel: 0191 277 7518

16. Sign off

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

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Appendix 1 – Budget Timetable 2018/19

DATE	EVENT/MEETING	ACTION
August-September 2017	Budget preparation – discussions with local authorities and officer groups	Consider and comment on NECA budget issues
12 September 2017	NECA Governance Committee	Update on Budget Process and Timetable
14 September 2017	Transport North East Committee – Tyne and Wear Sub Committee	Update on budget process with specific reference to the Tyne and Wear Transport Levy and the Tyne Tunnels budget.
19 September 2017	NECA Leadership Board	Consider and agree 2018/19 budget process/timetable and updated 2017/18 budget position
October 2017	Meetings with individual authorities	Consult/discuss budget proposals; identify and resolve issues
14 November 2017		Draft NECA Leadership Board Budget Report circulated for consultation.
16 November 2017	Transport North East Committee	Consider Transport budget/levy proposals for consideration by Leadership Board
21 November 2017	NECA Leadership Board	Consider and agree draft budget report and agree any changes to the report for wider consultation
5 December 2017	Governance Committee	Consider budget report as part of consultation process
12 December 2017	LA7 Leadership Briefing	Informal consideration of the content of the budget report and levy proposals
14 December 2017	NECA Overview & Scrutiny Committee	Consider budget report as part of consultation process
8 January 2018	Paper circulation	Final budget report published
16 January 2018	NECA Leadership Board	Formally agree levies and budget

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Date: 12 September 2017

Subject: Strategic Risk and Opportunities Register

Report Of: Audit, Risk and Insurance Service Manager

Executive Summary

The purpose of this report is to provide members with an update of the Strategic Risks and Opportunities for the North East Combined Authority.

Recommendations

Governance Committee are asked to:

I. Review the outcome of the strategic risk review, as well as highlight any additional strategic risks that may need to be considered for inclusion in the risk register.

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1 Background Information

1.1 The risks continue to be closely monitored following the uncertainty surrounding future membership, as the North of Tyne Authorities continue to discuss with Government a North of Tyne area devolution deal.

1.2 The Leadership Board agreed the appointment of Peter Judge and his designation as Monitoring Officer for the Combined Authority. The Monitoring Officer has taken up his position 3 days per week on a 12 months fixed term basis.

1.3 The risk which monitors the Authority's access to European funding is moving in a positive direction of travel. A further tranche of European Social Funding has been made available within the North East. The North East LEP continues to work closely with DCLG to inform the need for future funding to be released.

1.4 Appendices A and B provide the Committee with details of each risk. The Toolkit at Appendix C is used to determine the risk priority.

1.5 The strategic risk register only contains high level risks covering the overall Authority. Specific risks relating to themes within the Strategic Economic Plan, continue to be monitored within the themes. Nexus continue to report risks to the Transport North East (Tyne and Wear) Sub Committee.

2. Proposals

2.1 The Combined Authority will continue to develop the strategic risk register to record, monitor and report the strategic risks to the Governance Committee at 3 monthly intervals, utilising support from officers.

3. Reason for the Proposals

3.1 Governance Committee continue to fulfil an ongoing review challenge and assurance role in relation to governance and internal control issues.

4. Next Steps and Timetable for Implementation

4.1 The risk register will be closely monitored to ensure the mitigation plans and next steps are delivered.

5. Potential Impact on Objectives

5.1 The development of the strategic risk register will not impact directly on the objectives of the Authority's policies and priorities, however the approach to strategic risk management will support delivery of aims and ambitions by acknowledging the biggest threats and putting plans in place to manage them.

6. Finance and Other Resources Implications

6.1 There are no direct financial implications arising from this report. Risk Management work is supplied to NECA through a Service Level Agreement with Newcastle City Council.

7. Legal Implications

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

8. Key Risks

There are no direct risk management implications from this report. The approach to risk management is documented within the agreed policy and strategy.

9. Equalities and Diversity

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

10. Crime and Disorder

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

11. Consultation /Engagement

The Head of Paid Service, Monitoring Officer and Chief Finance Officer have consulted on the Strategic Risk Register

12. Other Impact of the Proposals

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

13. Appendices

Appendix A – 'Risk at a glance' shows live risks, risk priority and direction of travel
Appendix B – Provides a detailed assessment of the strategic risks and future activity to reduce the overall risk exposure
Appendix C – Risk Analysis Toolkit determines the risk priority

13. Background Documents

Nexus risks can be found on the NECA website as part of the - Transport North East (Tyne and Wear) Sub-Committee. (Page 59)
The North East Local Enterprise Partnership risk register is available on request from Helen Golightly. - helen.golightly@nelep.co.uk

14. Contact Officers

Philip Slater - Audit, Risk and Insurance Service Manager - Newcastle City Council.
Philip.slater@newcastle.gov.uk.
Telephone - 0191 2116511

15. **Sign off**

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

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Risk at a glance		Appendix A
Risk Title & Description	**Risk Priority**	**Direction of Travel**

Live Risks		
Effectiveness The future effectiveness of the Combined Authority may be adversely impacted by the uncertainty surrounding future membership of the North East Combined Authority.	**Red 12**	**Static**
European Funding Failure of the Combined Authority to secure the notional funding previously identified through the European Structural and Investment Funding Scheme will jeopardise delivery of the Strategic Economic Plan.	**Amber 8**	**Improving**
Operational Capacity and Resourcing The Combined Authority is unable to demonstrate to Government and partners that it has the necessary operational capacity, skills and budget, to successfully deliver the Authority's objectives.	**Red 12**	**Improving**

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Appendix B

Effectiveness The future effectiveness of the Combined Authority may be adversely impacted by the uncertainty surrounding future membership of the North East Combined Authority.	**Risk Owner** Interim Head of Paid Service **Risk Score** **Red 12** Likelihood – Medium Impact - Critical

Cause:
The Authority's decision not to proceed with a Mayoral Combined Authority and the withdrawal of the devolution deal has resulted in the North of Tyne Authorities considering a future North of Tyne area deal.

Impact/Consequence:
The Authority will need to adjust to operate with a reduced local authorities' membership and changes to its boundaries.

Controls (already in place)

- The Constitution covers the current operating model
- The Order provides for the existence of the NECA and specifies its current membership and functions
- There is an agreed schedule/programme of meetings involving Leaders, Chief Executive's and Economic Directors
- Formal decision making committees including Leadership Board, Transport North East, and Transport North East Sub Committee
- The LA7 continue to work together using agreed joint working arrangements i.e. regular officer meetings of Chief Executives, Economic Directors, Finance Directors, Monitoring Officers and Heads of Transport, plus formal Transport and Governance Committees.
- The Strategic Economic Plan has been refreshed by the North East LEP to ensure the economic priorities remain current, reflecting the region's economic position
- A Strategic Partnership Register has been agreed which identifies all partnerships that are entirely or substantially responsible for delivering or managing an outcome for the Combined Authority
- The appointment of the Commission for Health and Social Care integration for the North East. Set up by the NHS and NECA to identify opportunities for further collaboration and integration to improve the health and wellbeing of residents and reduce health inequalities across the North East

Next Steps	Lead Officer(s)
Identify the potential impacts an alternative devolution deal would have on the current governance and working arrangements of NECA.	Helen Golightly (Head of Paid Service)
Understand the legal and decision making process associated with the potential changes to NECA that a North of the Tyne devolution deal will bring.	Helen Golightly (Head of Paid Service)

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European Funding	**Risk Owner** Interim Head of Paid Service **Risk Score** Amber 8 Likelihood - Medium Impact – Low
Failure of the Combined Authority to secure the notional funding previously identified through European Structural and Investment Funding Scheme will jeopardise delivery of the Strategic Economic Plan.	

Cause:
Government's plans to release European funding following the referendum result to leave the European Union have changed and the availability of future funding opportunities are more constrained.

Impact/Consequence:
The ability to secure European funding risks damaging local regeneration plans and stalling infrastructure projects, business growth, employment and skills schemes and local growth projects. This could result in the success of the Strategic Economic Plan being adversely affected and outcomes delayed or not achieved.

Controls (already in place)

- Government has given assurances that key projects supporting economic development will be honoured if they were signed before the Autumn Statement 2016
- Government have also set out criteria for further projects to be approved whilst the UK is still within the EU, which allows projects to access further ESIF.
- The Combined Authority and the North East LEP have secured £58.5m of JEREMIE 2 grant funding (part of the European Structural and Investment Fund) and a Special Purpose Vehicle has been established to deliver funding for projects, supporting small and medium sized enterprises
- The North East LEP and NECA have set up a working group of partners to maximise the access to and retention of ESIF in the North East.
- The Strategic Economic Plan has been refreshed to ensure its priorities remain current. The Plan is aligned to a European Structural and Investment Fund Strategy, to direct the allocation of European Funding 2014-2020 to grow the North East Economy

Next Steps	**Lead Officer(s)**
The North East LEP and NECA are working with the Managing Authority (DCLG) to ensure that the maximum funding will be allocated to the North East, in line with the notional allocation of £437m. This is in line with the parameters now set by Government and the ability to secure ESIF for projects whilst the UK is in the EU, and some projects to spend after leaving the EU.	Heather Heward (NELEP) Programme Manager

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Operational Capacity and Resourcing The Combined Authority is unable to demonstrate to Government and partners that it has the necessary operational capacity, skills and budget, to successfully deliver the Authority's objectives.	**Risk Owner** Interim Head of Paid Service **Risk Score** **Red 12** Likelihood – Medium Impact - Critical

Cause:
The uncertainty following the withdrawal of the devolution deal has contributed to:
- The Authority's commitment to secure permanent senior staff and secondment opportunities, resulting in key officer disciplines and resource requirements being at risk
- The North of Tyne proposal may result in current officer resources being reduced

Impact/Consequence:
Without permanent Statutory Officers and recruitment into other officer positions, the Authority will be unable to improve its effectiveness whilst carrying out its statutory responsibilities and core activities.

Controls (already in place)

- The appointment of the North East LEP's Executive Director to the position of Interim Head of Paid Service has further strengthened the partnership arrangements between the North East LEP and the Combined Authority
- Service Level Agreements continue to provide key officer support to Statutory Officers and Leadership Board
- A dedicated Monitoring Officer has been appointed for 3 days a week on a fixed 12 month contract. A contract with the Chief Finance Officer is in place, which would not automatically be affected by a separate North of Tyne Deal.
- Partners continue to engage through the formal meetings of the Combined Authority and LA7, including at Leader, Chief Executive, Economic Director, Chief Legal Officer and Finance Director levels
- Economic Directors Group have put in place a significant programme of work, looking at the impact of Brexit on the economy, Local Authority finances and the region more widely
- The Leadership Board has agreed a budget for 2017/18
- As part of the budget process Chief Executives and the Interim Head of Paid Service identified the risks relating to capacity and political commitment

Next Steps	Lead Officer(s)
Develop a plan to address the capacity and resourcing risks within the Combined Authority, in particular the recruitment of permanent statutory officers. In the event of a North of Tyne Devolution Deal future operational capacity and resource risks should also be considered.	Helen Golightly (Head of Paid Service) Paul Woods (Chief Finance Officer)
Leadership Board agreed to the appointment of the Monitoring Officer on a 3-year fixed term basis. The officer will take up their post early September 2017.	Helen Golightly (Head of Paid Service)

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Appendix C

Action plans must be developed for Red and Amber risks

Determine the risk priority					
		Impact			
Likelihood		Insignificant	Minor	Significant	Critical
	High	4	8	12	16
	Medium	3	6	9	12
	Low	2	4	6	8
	Negligible	1	2	3	4

Assess the likelihood of the risk occurring	
High	Risk will almost certainly occur or is occurring at present
Medium	Risk is likely to occur in most circumstances
Low	Risk may occur
Negligible	Risk is unlikely to occur

Assess the impact should the risk occur

	Objective	Service Delivery	Financial	Reputational
Critical/Showstopper	• Over half the objectives/programmes affected • More than one critical objective affected • Partners do not commit to the Shared vision	• Significant change in partner services • Relationship breakdown between major partners and stakeholders • Serious impact on delivery of Strategic Investment Plans • Unplanned major re-prioritisation of resources and/or services in partner organisations • Failure of a delivery programme/major project	• Inability to secure or loss of significant funding opportunity(£5m) • Significant financial loss in one or more partners (£2m) • Significant adverse impact on budgets (£3m – Transport / NELEP; £0.2m Central Budget)	• Adverse national media attention • External criticism (press) • Significant change in confidence or satisfaction of stakeholders • Significant loss of community confidence
Significant	• One or more objectives/programmes affected • One or more partners do not committee to shared vision • Significant environmental impact	• Partner unable to committee to joint arrangements • Recoverable impact on delivery of Strategic Economic Plan • Major project failure	• Prosecution • Change in notable funding or loss of major funding opportunity (£2m) • Notable change in a Partners contribution • Notable adverse impact on budget (£0.5m-£1.5m Transport or NELEP budgets)	• Notable external criticism • Notable change in confidence or satisfaction • Internal dispute between partners • Adverse national/regional media attention • Lack of partner consultation • Significant change in community confidence
Minor	• Less than 2 priority outcomes adversely affected • Isolated serious injury/ill health • Minor environmental impact	• Threatened loss of partner's commitment	• Minor financial loss in more than one partner • Some/loss of funding or funding opportunity threatened	• Failure to reach agreement with individual partner • Change in confidence or satisfaction • Minor change in community confidence
Insignificant	• Minor effect on priorities/service objectives • Isolated minor injury/ill health • No environmental impact		• Isolated/minor financial impact in a partner organisation	

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Governance Committee

Date: 12 September 2017

Subject: Consultation on Auditor Appointment from 2018/19

Report of: Chief Finance Officer

Executive Summary

As reported to previous meetings of the Committee, NECA has chosen to opt-in to the national scheme for auditor appointments administered by Public Sector Audit Appointments (PSAA). PSAA propose appointing Mazars LLP as the auditor of NECA for a five year period from 2018/19. This is in line with outcome that NECA and the committee had been seeking.

Recommendations

Governance Committee is recommended to receive the report for information and comment.

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1. Background Information

1.1 On 7 March 2017, the Leadership Board agreed to accept the invitation received from Public Sector Audit Appointments Limited (PSAA) for NECA to opt in to the national scheme for auditor appointments, which applies for the audit of accounts from 2018/19 onwards.

1.2 PSAA must, under regulation 13 of the Regulations, appoint an external auditor to each opted-in authority and consult the authority about the proposed appointment.

1.3 NECA has opted into PSAA’s auditor appointment arrangements and has received email communications to audited bodies about the process. On 19 June 2017 PSAA wrote to the Head of Paid Service and Chief Finance Officer to advise that they had completed a procurement to let audit contracts from 2018/19. Mazars LLP was successful in winning a contract in the procurement, and PSAA propose to appoint this firm as the auditor of NECA.

1.4 Mazars are current external auditors to NECA and have been since 2015/16. Mazars is a large global audit and accounting firm with over 18,000 professionals in 79 countries worldwide. In the UK, the firm ranks in the top ten with 1,700 employees and 140 partners working out of 19 offices, and UK fee income in 2016 of £160m. The firm’s regionally based dedicated public audit team has significant experience in providing external audit to public sector bodies. It comprises individuals with experience of auditing councils, combined authorities, police bodies, fire and rescue authorities, local government pension funds and other public bodies. In addition to its audit contract with PSAA, the firm also has a substantial portfolio of NHS audits and is one of the National Audit Office's framework suppliers for central government audit.

1.5 Mazars are also the External Auditors of Nexus, whose accounts form part of the group accounts of NECA. Having a single auditor for both accounts should help streamline arrangements, which will help with the early closedown of accounts required from 2017/18.

2 Proposals

2.1 It is the recommendation of the Chief Finance Officer that the appointment of Mazars be formally accepted by the Leadership Board.

2.2 Should an authority wish to object to a proposed auditor arrangement, representations must be made by 5pm on Friday 22 September 2017. Representations can include matters that an authority believes may be an impediment to the proposed firm’s independence. The following may represent acceptable reasons:

i. There is an independence issue in relation to the firm proposed as the auditor, which had not previously been notified to PSAA;

ii. There are formal and joint working arrangements relevant to the auditor's responsibilities, which had not previously been notified to PSAA; or
iii. There is another valid reason, for example the authority can demonstrate a history of inadequate service from the proposed firm.

2.3 It is not considered that any of these criteria apply to NECA in relation to the proposed appointment of Mazars.

3. Reasons for the Proposals

3.1 This report is presented for information.

4. Next Steps and Timetable for Implementation

4.1 The consultation by PSAA will close at 5pm on Friday 22 September 2017.

4.2 The PSAA Board will consider all proposed auditor appointments at its meeting scheduled for 14 December 2017, and will write by email to all opted-in bodies after this Board meeting to confirm auditor appointments.

4.3 Audit fees will be consulted upon early next year and are standard fees irrespective of the chosen external auditor.

5. Potential Impact on Objectives

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

6. Financial and Other Resources Implications

6.1 PSAA will consult on scale fees for 2018/19 in due course and will publish confirmed scale fees for 2018/19 for opted-in bodies on their website in March 2018. The results of the audit procurement indicate that a reduction in scale fees in the region of approximately 18% should be possible for 2018/19, based on the individual scale fees applicable for 2016/17. The level of the scale fee will not be affected by the choice of firm appointed as external auditor.

7. Legal Implications

7.1 New arrangements for the appointment of external auditors were introduced in the Local Audit and Accountability Act 2014. Local government bodies must appoint their auditor for accounts from 2018/19 onwards by the end of the calendar year.

7.2 NECA opted to meet its legal obligations to appoint an auditor under the new regime by joining the national sector led scheme managed by PSAA.

8. Key Risks

8.1 There are no risks arising from this report which is for information.

9. Equality and Diversity

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

10. Crime and Disorder

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

11. Consultation/Engagement

11.1 PSAA consultation runs until 22 September 2017. This report provides the mechanism for consultation with Governance Committee on the proposed appointment.

12. Other Impact of the Proposals

12.1 There are no other impacts arising from this report.

13. Appendices

13.1 None

14. Background Papers

14.1 Public Sector Audit Appointments – Overview of Appointing Person scheme

http://www.psaa.co.uk/wp-content/uploads/2017/07/Overview_of_Appointing_Person_scheme_July_2017.pdf

15. Contact Officers

15.1 Paul Woods, Chief Finance Officer, paul.woods@northeastca.gov.uk, Tel: 07446936840

Eleanor Goodman, Principal Accountant, eleanor.goodman@northeastca.gov.uk, Tel: 0191 277 7518

16. Sign off

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

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