



North East Combined Authority, Governance Committee

Friday 12th September, 2014 at 2.00 pm

Meeting to be held: Committee Room 1 - Northumberland County Council, County Hall, Morpeth NE61 2EF

PLEASE NOTE: THERE WILL BE A PRE-MEETING (CHAIR AND COMMITTEE MEMBERS ONLY) BETWEEN 1.30PM-2.00PM

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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 27 June 2014** 1 - 4
4. **The Establishment of a Sub-Committee of the Governance Committee** 5 - 8
5. **Request for Dispensations** 9 - 26
6. **Annual Report and Accounts 2013/14** 27 - 162
7. **External Auditor's report to the Governance Committee of the North East Combined Authority** 163 - 190

8. **Internal Audit Progress Report**

191 - 202

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

Friday 13 February 2015 at 2.00pm – venue to be confirmed

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

To: All Members

North East Combined Authority, Governance Committee

27 June 2014

(2.00 - 2.45 pm)

Meeting held North Tyneside Council, Quadrant, The Silverlink North, Cobalt Business Park, North Tyneside, NE27 0BY

Present:

M Scrimshaw (In the Chair)

Councillors: E Bell, H Franks, A McMillan, J O'Shea and H Trueman

Independent Member: G Clark

Observing: Councillor B Coates

1 WELCOME AND INTRODUCTIONS

The Chair welcomed everyone to the meeting and brief introductions were provided.

2 APOLOGIES FOR ABSENCE

Apologies were received from Councillor A Dale.

3 DECLARATIONS OF INTEREST

The declaration of interest procedure was noted.

4 2013/14 OUTTURN AND DRAFT FINANCIAL STATEMENTS

Submitted: Report of Chief Finance Officer (previously circulated and a copy attached to official minutes) which provided a summary of the Tyne and Wear Integrated Transport Authority's financial results for 2013/14; the draft accounting statements and an overview of significant financial matters which occurred during the year.

Eleanor Goodman introduced the report, appraising Members of the background, proposals and next steps. During discussions the following points were made:

- Reference was made to the significant variance in the operating costs 2013/14 budget and actual in terms of the Tyne Tunnel with clarification being sought. It was explained that officers had been overly pessimistic with the traffic estimates. The £0.4m surplus had not been included in the budget. The main reasons for this were the improved traffic figures leading to higher toll income; reserves to make payments to the pension to reduce the deficit; and expenditure on the

North East Smart Ticketing Initiative (NESTI) finance in year from Tunnels Reserves.

- A question was asked about the cooperation received from the Bus Companies in terms of the Better Bus Fund Area project. It was explained that a Task and Finish Group had been set up, which included representatives from Arriva North East and Stage Coach etc. Throughout the project the bus operators had worked well with the local authority to improve journey time reliability on key bus routes to improve the attractiveness of buses.
- Reference was made to the surplus monies received from the Tyne Tunnel toll costs. A suggestion was made that it be reinvested into other areas. It was explained that the surplus was currently being used to support the financing and repayment costs of the new Tyne Tunnel; however, there would be an opportunity in the future, earlier than was initially expected, to give some consideration to reinvesting the funds.
- A question was asked about the monitoring arrangements. It was explained that a regular report would be presented to the Combined Authority, the next meeting being 15 July. The report being presented at this meeting could be made available to the Governance Committee.
- The Committee noted that the Full Audited Accounts would be considered at the September meeting prior to submission to NECA Leadership Board.

RESOLVED – That the report be received.

5 **ANNUAL GOVERNANCE STATEMENT 2013/14**

Submitted: Report of Chief Finance Officer (previously circulated and a copy attached to official minutes) which explained and presented the outcome of the annual review of governance and internal control arrangements conducted by officers working on behalf of the Combined Authority, known as the Annual Governance Statement.

Phil Slater introduced the report, appraising the Committee about the background, proposals and outcome of the review. He referred the Committee's attention to the appendices circulated separately to the agenda, stating that the two key documents to be considered were Appendix A: draft Annual Governance Statement 2013/14 and Appendix B: Draft Local Code of Corporate Governance. He reported that there were no areas of significant weakness identified in the review and no areas needing significant improvement. He indicated that the final Statement would be presented to the Committee in September prior to submission to the NECA Leadership Board.

During discussions, confirmation was given that there would be other areas of activity included in future Statement relevant to the Combined e.g. Economic Development and LEAP etc; that a framework had been established for seeking internal and external assurances; and that a timetable and the arrangements e.g. Sub Committee hearings and activities, would be drafted and submitted for consideration at the September meeting.

RESOLVED – That

- (i) That the draft annual Governance Statement provided in Appendix A be recommended for approval to the NECA Leadership Board in September 2014 as part of the Annual Report and Accounts for 2013/1.
- (ii) That the Annual Governance Statement would be updated, if necessary and submitted to the Committee for final consideration in September 2014.
- (iii) That the Local Code of Corporate Governance, provided at Appendix B be recommended to the NECA Leadership Board for approval in September 2014.

6 **EXTERNAL AUDIT ARRANGEMENTS FOR 2014/15 AND 2015/16**

Submitted: Report of Chief Finance Officer (previously circulated and a copy attached to official minutes) which explained the External Audit Arrangements for 2014/15 and 2015/16.

Paul Woods introduced the report explaining that the Combined Authority had agreed a preference for Deloitte to be the External Auditor for 2014/15. This was for continuity of knowledge and experience and for relationship in the transitional year. However, the Audit Commission had consulted on the appointment of Mazars as the Auditors, reflecting national new contractual arrangements. He reported that further discussions had been held with the Audit Commission, who had decided to take a revised proposal to its June Board meeting which was to retain Deloitte as the Auditors for 2014/15, deferring the change to Mazars as Auditors for a two year period until 2015/16.

RESOLVED – That the current position be noted.

7 **INTERNAL AUDIT ANNUAL PLAN**

Submitted: Report of Audit, Risk and Insurance Service Manager (Newcastle City Council), which was to provide members with a draft Internal Audit Annual Plan for the Combined Authority for 2014/15. A proposed plan was attached at Appendix 1.

Phil Slater introduced the report. He explained that existing arrangements would continue at a local level during the transitional year in as much as audit activities would be carried out by individual Authorities; however, Newcastle City Council's Internal Audit Service would be co-ordinating the Audit Plan and reporting progress to this Committee. He referred the Committee's attention to Appendix 1, summarising the proposed planned audit activities.

A discussion was held around the importance of being able to influencing what activities were to be reviewed; the need in establishing a timeline for this Committee to examine activities at the most appropriate stage, with comments being raised around the possible need for additional meetings particular between September and February; and to have a plan to include further details, such as when the activity was to occur; recommendations arising from the audits and the date this Committee would expect to consider the outcomes.

The Committee noted that there would be regular progress reports submitted as part of the monitoring process; although it was pointed out that there would be a need to discuss the use of language to develop some consistency throughout the various authorities.

In response to further comments highlighted around benchmarking, long term plans, keeping sight of performance and value for money, it was explained that consideration was being given to the different opportunities to work collaboratively and introduce more effective controls. Risk management was part of the audit plan and an integral part of the overall process.

RESOLVED – That

- (i) The proposed Internal Annual Audit Plan for 2014/15, attached at Appendix 1 be approved.
- (ii) The Committee agreed to receive regular reports on activity undertaken against the audit plan during the year.

8 CODE OF CONDUCT AND PROTOCOLS (FOR INFORMATION)

Submitted: An extract from the Constitution of the Combined Authority (previously circulated and a copy attached to official minutes) which provide information on the Code of Conduct and Protocols.

The Chair reported that the documents had been submitted for information. There was an opportunity to review the Code and Protocols but any recommendations for change would need to be ratified by the NECA Leadership Board who had scheduled an interim review in October.

The Committee noted that the Governance Committee had responsibility for recommending any changes to the Code and Protocols. It was agreed that if any Member had any suggestions to make on the documents then they should forward them to Viv Geary by end of August. This would ensure all suggestions were collated and presented for discussion at September meeting, prior to being passed into the interim review.

RESOLVED - That the information be received and noted.

9 DATE AND TIME OF NEXT MEETING

A discussion took place around the dates of future meetings. It was agreed that the next meeting be as scheduled, Friday 12 September 2014 at 2.00pm, venue to be confirmed.

NORTH EAST COMBINED AUTHORITY

GOVERNANCE COMMITTEE

DATE: 12 September 2014

SUBJECT: The Establishment of a Sub-Committee of the Governance Committee

REPORT OF: Monitoring Officer

EXECUTIVE SUMMARY

The purpose of this report is to consider the Terms of Reference for a sub-committee to consider and determine complaints of breaches of the Code of conduct for Members, the grant of dispensations from non-participation in a meeting or voting at the meeting because of a disclosable pecuniary interest held by a member.

RECOMMENDATIONS

It is recommended that the Committee note the report and invite the Leadership Board to amend the Constitution to create a sub-committee for the purposes of determining complaints of breaches of the Code of Conduct for Members and for granting dispensations for members with registerable and non-registerable personal interests to enable Members to participate and vote at Committees where otherwise this would be prohibited, as set out in the report.

1 Background Information

- 1.1 The North East Combined Authority (the NECA) was established on the basis that it would be a lean, efficient and streamlined decision making body when exercising its functions. In accordance with that principle in mind, the Authority's Committee/Sub-Committee structure is as streamlined as possible. The adoption of this principle is exemplified by the responsibilities of Governance Committee being for both Standards and Audit functions rather than introducing two separate Committees.
- 1.2 Despite the principles referred to above it is recognised that for the specified purposes the opportunity to use a sub-committee to be used on an ad hoc basis would be an efficient and effective means of addressing some of the work of the Committee. In particular a sub-committee could consider
 - complaints that the Code of Conduct for Members has been contravened
 - requests for dispensations to enable a Member to attend a Committee and potentially to vote on a matter where a registerable or non-registerable interest has arisen

NORTH EAST COMBINED AUTHORITY

GOVERNANCE COMMITTEE

The use of a sub-committee for these purposes will facilitate the calling of meetings at short notice and minimise the risk of the meeting being inquorate. In addition it enables actual or potential conflicts of interest or allegations of bias for members hearing a complaint or considering a request for a dispensation to be minimised or avoided.

1.3 The current membership of the Governance Committee comprises one Councillor from each of the Constituent Authorities of the NECA and 2 non-voting co-opted Independent Members who are also the Chair and Vice Chair of the Governance Committee.

1.4 In view of the Committee's areas of responsibility, the following terms of reference for the Sub-Committees are suggested:-

- a) To grant dispensations to the members and co-opted members from requirements relating to interests set out in the members' Code of Conduct.
- b) To conduct hearings following an investigation to determine complaints made against members of the NECA (including following requests for review).
- c) To receive the report from the Investigating Officer when no breach of the Code of Conduct has been found to have occurred and to determine whether to accept the report, refer the report to a hearing or refer it back to the Investigating Officer for further investigation.
- d) To consider complaints of breaches of the Code of Conduct for Members received referred by the Monitoring Officer where the Monitoring Officer is unable to act because of a conflict of interest and to refer such a complaint for investigation if considered appropriate.
- e) To undertake such further functions of the Governance Committee as may be delegated to the Sub-Committee in respect of complaints against the members and co-opted members of the NECA.

1.5 The membership of the sub-committee needs to be considered. Given the membership of the Committee is nine members with a quorum of 5 members, the Committee may consider a membership of 3 members with a quorum of 2 appropriate for a sub-committee. In addition the sub-committee could be chaired by one of the non-voting co-opted Independent Members. The Committee is invited to make recommendations to the Leadership Board on the size and composition of the sub-committee.

2 Proposals

2.1 The proposals are those set out in the Recommendations section of the report above.

3 Next Steps

NORTH EAST COMBINED AUTHORITY

GOVERNANCE COMMITTEE

- 3.1 A request for the setting up of a sub-committee will be submitted to the Leadership Board for consideration during the review of the Constitution currently underway.

4 Potential Impact on Objectives

- 4.1 The NECA and its committees/sub-committees need to operate in an efficient and cost effective manner and any potential changes to the structure of the NECA and its committees needs to be considered with that objective in mind.

5 Finance and Other Resources

- 5.1 There are no financial implications for the NECA in relation to this report.

6 Legal

- 6.1 The Committee has the power to set up a sub-committee of its own volition. However in the light of the review of the Constitution currently underway, and the view that the decision-making structures of the Authority are to be as streamlined and efficient as possible it is appropriate that the request for a sub-committee is considered by the Leadership Board at the appropriate time.

7 Other Considerations

7.1 Consultation/Community Engagement

There are no consultation/community engagement issues in relation to this report.

7.2 Human Rights

There are no human rights implications directly arising from this report.

7.3 Equalities and Diversity

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

7.4 Risk Management

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

7.5 Crime and Disorder

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

7.6 Environment and Sustainability

There are no environment and sustainability implications directly arising from this report.

8 Background Documents

- 8.1 NECA Constitution.

NORTH EAST COMBINED AUTHORITY

GOVERNANCE COMMITTEE

9 Links to Plans in the Policy Framework

9.1 There are no links to plans in the policy framework.

10 Appendices

10.1 None

11 Contact Officers

11.1 Vivienne Geary, Monitoring Officer – Tel: 0191 643 5339 –
vivienne.geary@northtyneside.gov.uk

12 Sign off

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

Use ✓

North East Combined Authority

Governance Committee

DATE: 12 September 2014

SUBJECT: Request for Dispensations

REPORT OF: Monitoring Officer

EXECUTIVE SUMMARY

The purpose of this report is to determine requests for dispensations from Members and substitute Members of the Leadership Board in relation to their registerable and non-registerable personal interests.

RECOMMENDATIONS

The Committee is requested to:

- (1) determine the requests for dispensation submitted by Members and substitute Members of the Leadership Board; and
- (2) authorise the Monitoring Officer to grant dispensations to the Members and substitute Members of the Leadership Board where such requests are not received in time for consideration by the Governance Committee; and
- (3) where dispensations are granted that the Monitoring Officer be authorised to issue a certificate of dispensation to the Members concerned.

1 Background Information

- 1.1 At the Annual Meeting of the NECA, Members of the Leadership Board and those nominated by the Constituent Authorities are appointed to the various Committees and Sub-Committees of the Authority. The Members of the Leadership Board and the Members of the Constituent Authorities are required to register their registerable and non-registerable personal interests under the NECA's Code of Conduct for Members. Those interests may relate to any item of business considered at a NECA meeting and may mean that the criteria set out in paragraph 17 of the Code of Conduct may be satisfied requiring a Member to leave the meeting.
- 1.2 The Localism Act 2011 introduced a more generous regime of dispensations to that which existed under the previous arrangements that enables a Member to participate in a meeting relating to a Member's registerable interest provided that the Member has an appropriate dispensation. Members may now be given a dispensation either to speak but not vote, or to speak and vote, on several grounds, including that it would be in the interests of local people to allow a dispensation, or even that it is simply "appropriate to grant a dispensation". Dispensations may last for up to four years.

North East Combined Authority

Governance Committee

- 1.3 The Authority is the Accountable Body for the North East Local Enterprise Partnership. As part of the responsibilities arising in that role, the Leadership Board is called upon to agree to the Authority entering into funding agreements with bodies that have made application for funding from the NELEP. Such agreements on occasion are with one or more of the Constituent Authorities of the NECA and as a result, to date, when a matter has been considered by the Leadership Board the Leader from the Constituent Authority affected has declared the interest and left the meeting for the consideration of that item.
- 1.4 The quorum for the Leadership Board is 6 of the 7 members and as a result there is a material risk that the meeting could become inquorate and unable to conduct the necessary business of the Authority. As a result a number of Members of the Leadership Board and their substitutes have sought dispensations from the requirements of the Code of Conduct, under Section 33(2)(c) and (e) of the Localism Act 2011. If a dispensation is granted it will enable them to speak on any item of business considered at a NECA meeting relating to their interest in the funding to be made available to their own Authority as a result of the NECA entering into the funding agreements. The letters from Members seeking dispensations are attached at Appendix 1.
- 1.5 A dispensation can be granted in the following circumstances –
- (1) So many Members of the decision-making body have interests that require them not to take part in a matter that it would “impede the transaction of the business”. Effectively this means the decision-making body would be inquorate as a result;
 - (2) Without a dispensation, no member of the Leadership Board would be able to participate on the matter;
 - (3) Without the dispensation, the representation of different political groups on the body transacting the business would be so upset as to alter the outcome of any vote on the matter;
 - (4) the NECA considers that a dispensation is in the interests of persons living in its area;
 - (5) the NECA considers that it is otherwise appropriate to grant a dispensation.

In view of the potential impact of the Leadership Board being inquorate when these items are due to be considered it is recommended that dispensations are granted to members of the Leadership Board and their substitutes where these have been requested on the ground that the dispensation is in the interests of persons living in the area and it is otherwise appropriate to grant the dispensation.

- 1.6 The dispensation can be granted for up to a period of 4 years, however at this point in time it is recommended that the dispensation is granted for a period of

North East Combined Authority

Governance Committee

2 years. The period can be extended if considered appropriate on expiry of that time.

- 1.7 It is also recommended that if further dispensations are received from members of the Leadership Board or their substitutes that authority is granted to the Monitoring Officer to grant the dispensation on the grounds identified.
- 1.8 The Committee should note that the Code of Conduct for Members includes pre-existing dispensations in relation to the matters listed below but these are not areas that are likely to be considered by the Leadership Board or Members of the Constituent Authorities save perhaps for indemnities to Members and the setting of the precept annually. The pre-existing dispensations are:-
- Housing
 - School meals or transport
 - Statutory sick pay
 - An allowance, payment or indemnity given to Members
 - Any ceremonial honour given to Members and
 - Setting the Council Tax or precept.

2 Proposals

- 2.1 That the Committee consider and determine the requests for dispensations.

3 Next Steps

- 3.1 If the dispensations are granted then a certificate of dispensation will be forwarded to the Members concerned by the Monitoring Officer.

4 Potential Impact on Objectives

- 4.1 The issue of dispensations relates to the good governance of the NECA and its decisions making.

5 Finance and Other Resources

- 5.1 There are no particular financial implications in relation to this report.

6 Legal

- 6.1 The Governance Committee on behalf of the NECA may on a written request to the Monitoring Officer from a Member of the Leadership Board or other member of a NECA Committee, grant a dispensation relieving the member from either or both of the restrictions in section 31(4) of the Localism Act 2011, namely the member being unable to (a) participate, or participate further, in any discussion of the matter at the meeting, or (b) participate in any vote, or further vote, taken on the matter at the meeting in relation to a matter that concerns a registerable or non-registerable interest.

North East Combined Authority

Governance Committee

7 Other Considerations

7.1 Consultation/Community Engagement

The Leadership Board and Chief Officers have been made aware of this report and its contents.

7.2 Human Rights

There are no human rights implications directly arising from this report.

7.3 Equalities and Diversity

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

7.4 Risk Management

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

7.5 Crime and Disorder

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

7.6 Environment and Sustainability

There are no environment and sustainability implications directly arising from this report.

8 Background Documents

8.1 None.

9 Links to Plans in the Policy Framework

9.1 There are no links to plans in the policy framework.

10 Appendices

10.1 Appendix 1 Dispensation Request Letters

11 Contact Officers

11.1 Vivienne Geary, Monitoring Officer – Tel: 0191 643 5339 –
vivienne.geary@northtyneside.gov.uk

North East Combined Authority

Governance Committee

12 Sign off

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

Use ✓

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Councillor Martin Gannon Deputy Leader of the Council

Ms V Geary
Monitoring Officer
North East Combined Authority
Quadrant
The Silverlink North,
Cobalt Business Park
North Tyneside
NE27 0BY

My Ref: MG/EA
Your Ref:
Contact: M Gannon
Ext No: 2002
Date: 20 August 2014

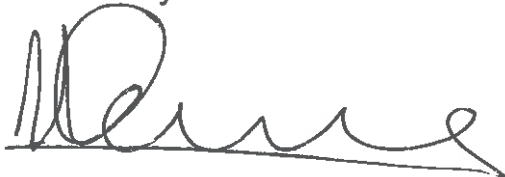
Dear Ms Geary

Application to Governance Committee for a Dispensation

I am the Deputy Leader of Gateshead Council and the Council's substitute representative on the Leadership Board of the North East Combined Authority (NECA). The NECA is the Accountable Body for the North East Local Enterprise Partnership (NELEP). As a result of my role at Gateshead Council, when the Leadership Board is required to consider whether it is appropriate for funding agreements with my Council to be entered into, I am required to declare my interest in that decision and leave the meeting. This impacts on the proper operation of the NECA as my absence from the meeting may lead to the meeting being inquorate. The quorum for the Leadership Board is 6 out of 7 members and if one other member is unable to attend due to unforeseen circumstances, the meeting will not be quorate and therefore unable to proceed with that business.

As a result, I request a dispensation under section 33(2)(c) and (e) of the Localism Act 2011, on the basis that the dispensation is in the interests of persons living in the area of the Combined Authority and it is otherwise appropriate to grant such a dispensation

Yours sincerely



Councillor Martin Gannon
Deputy Leader of the Council

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Councillor Mick Henry Leader of the Council

Ms V Geary
Monitoring Officer
North East Combined Authority
Quadrant
The Silverlink North,
Cobalt Business Park
North Tyneside
NE27 0BY

My Ref: MH/EA
Your Ref:
Contact: M Henry
Ext No: 2002
Date: 20 August 2014

Dear Ms Geary

Application to Governance Committee for a Dispensation

I am the Leader of Gateshead Council and the Council's representative on the Leadership Board of the North East Combined Authority (NECA). The NECA is the Accountable Body for the North East Local Enterprise Partnership (NELEP). As a result of my role at Gateshead Council, when the Leadership Board is required to consider whether it is appropriate for funding agreements with my Council to be entered into, I am required to declare my interest in that decision and leave the meeting. This impacts on the proper operation of the NECA as my absence from the meeting may lead to the meeting being inquorate. The quorum for the Leadership Board is 6 out of 7 members and if one other member is unable to attend due to unforeseen circumstances, the meeting will not be quorate and therefore unable to proceed with that business.

As a result, I request a dispensation under section 33(2)(c) and (e) of the Localism Act 2011, on the basis that the dispensation is in the interests of persons living in the area of the Combined Authority and it is otherwise appropriate to grant such a dispensation

Yours sincerely



Councillor Mick Henry
Leader of the Council

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Contact: Cllr Simon Henig
Direct Tel: 03000 268 820
Fax: 0191 383 3662
email: simon.henig@durham.gov.uk
Your ref:
Our ref: SH/CL/PC



Ms V Geary
Head of Law & Governance
North Tyneside Council
Quadrant
The Silverlink North
Cobalt business Park
NORTH TYNESIDE
NE27 0BY

21 August 2014

Dear Ms Geary

Application to Governance Committee for a Dispensation

I am the Leader of Durham County Council and the Council's representative on the Leadership Board of the North East Combined Authority (NECA). The NECA is the Accountable Body for the North East Local Enterprise Partnership (NELEP). As a result of my role at Durham County Council, when the Leadership Board is required to consider whether it is appropriate for funding agreements with my Council to be entered into, I am required to declare my interest in that decision and leave the meeting. This impacts on the proper operation of the NECA as my absence from the meeting may lead to the meeting being inquorate. The quorum for the Leadership Board is 6 out of 7 members and if one other member is unable to attend due to unforeseen circumstances, the meeting will not be quorate and therefore unable to proceed with that business.

As a result, I request a dispensation under section 33(2)(c) and (e) of the Localism Act 2011, on the basis that the dispensation is in the interests of persons living in the area of the Combined Authority and it is otherwise appropriate to grant such a dispensation.

Yours sincerely

Councillor Simon Henig
Leader of the Council

26 AUG 2014

Leader of the Council

Durham County Council, County Hall, Durham DH1 5UL
Customer Services 03000 26 0000 Minicom 0191 383 3802

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Contact: Cllr Alan Napier
Direct Tel: 03000 268 797
Fax: 0191 383 3662
email: alan.napier.@durham.gov.uk
Your ref:
Our ref:



26th August 2014

Ms V Geary
Head of Law & Governance
North Tyneside Council
Quadrant
The Silverlink North
Cobalt business Park
NORTH TYNESIDE
NE27 0BY

Dear Ms Geary

Application to Governance Committee for a Dispensation

I am the Deputy Leader of Durham County Council and the Council's substitute representative on the Leadership Board of the North East Combined Authority (NECA). The NECA is the Accountable Body for the North East Local Enterprise Partnership (NELEP). As a result of my role at Durham County Council, when the Leadership Board is required to consider whether it is appropriate for funding agreements with my Council to be entered into, I am required to declare my interest in that decision and leave the meeting. This impacts on the proper operation of the NECA as my absence from the meeting may lead to the meeting being inquorate. The quorum for the Leadership Board is 6 out of 7 members and if one other member is unable to attend due to unforeseen circumstances, the meeting will not be quorate and therefore unable to proceed with that business.

As a result, I request a dispensation under section 33(2)(c) and (e) of the Localism Act 2011, on the basis that the dispensation is in the interests of persons living in the area of the Combined Authority and it is otherwise appropriate to grant such a dispensation.

Yours sincerely

Alan Napier

Councillor Alan Napier
Deputy Leader of the Council

Cabinet

Durham County Council, County Hall, Durham DH1 5UL
Customer Services 03000 26 0000 Minicom 0191 383 3802

100 Awards 2014 Council of the Year

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North Tyneside Council

North Tyneside Council
Quadrant
The Silverlink North
Cobalt Business Park
North Tyneside
NE27 0BY

The Monitoring Officer
North Tyneside Council
Quadrant
The Silverlink North
Cobalt Business Park
North Tyneside
NE27 0BY

Date: 26.8.2014

Dear Ms Geary

Application to Governance Committee for a Dispensation

I am the Elected Mayor of North Tyneside Council and the Council's representative on the Leadership Board of the North East Combined Authority (NECA). The NECA is the Accountable Body for the North East Local Enterprise Partnership (NELEP). As a result of my role at North Tyneside Council, when the Leadership Board is required to consider whether it is appropriate for funding agreements with my Council to be entered into, I am required to declare my interest in that decision and leave the meeting. This impacts on the proper operation of the NECA as my absence from the meeting may lead to the meeting being inquorate. The quorum for the Leadership Board is 6 out of 7 members and if one other member is unable to attend due to unforeseen circumstances, the meeting will not be quorate and therefore unable to proceed with that business.

As a result, I request a dispensation under section 33(2)(c) and (e) of the Localism Act 2011, on the basis that the dispensation is in the interests of persons living in the area of the Combined Authority and it is otherwise appropriate to grant such a dispensation.

Yours sincerely

A handwritten signature in black ink that reads 'Norma Redfearn'.

Elected Mayor Norma Redfearn

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North Tyneside Council

North Tyneside Council
Quadrant
The Silverlink North
Cobalt Business Park
North Tyneside
NE27 0BY

The Monitoring Officer of the NECA
North Tyneside Council
Quadrant
The Silverlink North
Cobalt Business Park
North Tyneside NE27 0BY

Date: 26/08/14.

Dear Ms Geary

Application to Governance Committee for a Dispensation

I am the Deputy Mayor of North Tyneside Council and the Council's Substitute representative on the Leadership Board of the North East Combined Authority (NECA). The NECA is the Accountable Body for the North East Local Enterprise Partnership (NELEP). As a result of my role at North Tyneside Council, when the Leadership Board is required to consider whether it is appropriate for funding agreements with my Council to be entered into, I am required to declare my interest in that decision and leave the meeting. This impacts on the proper operation of the NECA as my absence from the meeting may lead to the meeting being inquorate. The quorum for the Leadership Board is 6 out of 7 members and if one other member is unable to attend due to unforeseen circumstances, the meeting will not be quorate and therefore unable to proceed with that business.

As a result, I request a dispensation under section 33(2)(c) and (e) of the Localism Act 2011, on the basis that the dispensation is in the interests of persons living in the area of the Combined Authority and it is otherwise appropriate to grant such a dispensation.

Yours sincerely

Deputy Mayor Bruce Pickard

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North East Combined Authority

Governance Committee

DATE: 12 September 2014

SUBJECT: Annual Report and Accounts 2013/14

REPORT OF: Chief Finance Officer

EXECUTIVE SUMMARY

The 2013/14 audit of the accounts is now largely completed and Deloitte as external auditor expect to issue their opinion before the end of September. Our external auditor has not identified any significant issues during the audit and their report indicates that they are likely to issue an unqualified opinion on the accounts and an unqualified value for money opinion. As a result of the audit, the final Annual Report and Accounts for 2013/14 are now presented for Governance Committee to comment on, prior to consideration by the Leadership Board. This report summarises the findings of the audit and presents the final accounts for consideration.

RECOMMENDATIONS

Governance Committee is recommended to:

1. Consider and comment on the Annual Report and Accounts 2013/14, and to recommend to the Leadership Board for sign-off.
2. Consider and comment on the Annual Governance Statement 2013/14, and to recommend to the Leadership Board for sign-off.

North East Combined Authority

Governance Committee

1 Background Information

- 1.1 At the June meeting of Governance Committee, the draft financial statements were presented along with information on the outturn position. The full Annual Report and Accounts was completed and signed off by the Chief Finance Officer on 27 May, well in advance of the statutory deadline of 30 June.
- 1.2 The Statement of Accounts have been subject to a period of public inspection and external audit, and the final Annual Report and Accounts is now presented for consideration.
- 1.3 The final Annual Report and Accounts must be signed off by the Authority and published by 30 September.

2 Proposals

2.1 Independent Auditors' Opinion

- 2.1.2 The detailed report of the external auditor is elsewhere on this agenda. Deloitte anticipate issuing an unmodified audit opinion, dependent on the successful completion of a small number of outstanding items which are set out in their report.

2.2 Adjustments to the financial statements

- 2.2.1 There have been no material adjustments required to the financial statements which were published in draft format in June. The final Annual Report and Accounts are attached as Appendix 1.

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 auditors are required to assess the Authority's arrangements to secure economy, efficiency and effectiveness in the user of resources, commonly referred to as the Value for Money (or VFM) assessment.
- 2.3.2 At the time of writing their report, the external auditors have assessed that the ITA had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources, and anticipate issuing an unqualified VFM opinion.

North East Combined Authority

Governance Committee

2.4 Annual Governance Statement

- 2.4.1 Governance Committee reviewed the draft Annual Governance Statement (AGS) at its meeting on 27 June 2014. Since that point, there have been no additional governance and control issues arising from the host authority, either through internal audit work or from the audit of the host authority's accounts. There are no issues emerging from the audit of the ITA's accounts that would need to be reflected in the AGS. NECA officers are not aware of any issues arising since 27 June that would need to be reflected in the AGS.
- 2.4.2 It is therefore recommended that the AGS as approved in draft on 27 June be approved for inclusion with the ITA's final accounts for 2013/14, and signed off by the Chair of the North East Combined Authority, the Head of Paid Service and the Chief Finance Officer.

3 Next Steps

- 3.1 The Final Annual Report and Accounts and Audit Report will be presented to the Leadership Board on 16 September. Any comments or issues raised by the Governance Committee will be reported to the Leadership Board at this point.
- 3.2 The Accounts must be signed by the Chair of the North East Combined Authority and the Chief Finance Officer by 30 September 2014, and published online by this date.
- 3.3 The Annual Audit Letter from Deloitte will be reported to the next meeting of the Governance Committee, marking the end of the reporting process in relation to the 2013/14 accounts. The letter will be circulated electronically for information once it is received.

4 Potential Impact on Objectives

- 4.1 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.

5 Finance and Other Resources

- 5.1 The views of the Chief Finance Officer are reflected in the body of the report. It is pleasing to see a positive audit report on the final Annual Report and Accounts of TWITA and I would like to thank those involved in preparing and auditing the accounts and the Governance Statement, including Finance staff at Nexus whose early production of their accounts helps with the consolidation of the group accounts, members of the former Audit Committee

North East Combined Authority

Governance Committee

of TWITA and the Governance Committee of the North East Combined Authority.

6 Legal

- 6.1 The Accounts and Audit (England) Regulations 2011 set out the responsibilities of bodies such as NECA in relation to the production of statutory accounts and their audit. The NECA Constitution sets out the responsibilities of Governance Committee to review key information relating to the NECA's Statement of Accounts.

7 Other Considerations

7.1 Consultation/Community Engagement

The accounts have been subject to a period of public inspection from 14 July to 10 August 2014.

7.2 Human Rights

There are no human rights implications directly arising from this report.

7.3 Equalities and Diversity

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

7.4 Risk Management

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

7.5 Crime and Disorder

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

7.6 Environment and Sustainability

There are no environment and sustainability implications directly arising from this report.

8 Background Documents

- 8.1 Code of Practice on Local Authority Accounting 2013/14

- 8.2 Accounts and Audit (England) Regulations 2011

9 Links to Plans in the Policy Framework

- 9.1 There are no links to plans in the policy framework

10 Appendices

North East Combined Authority

Governance Committee

10.1 Appendix 1 comprises the full Annual Report and Accounts for 2013/14

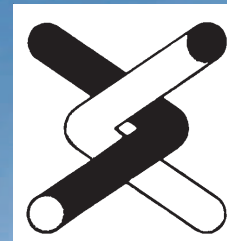
11 Contact Officers

11.1 Eleanor Goodman, eleanor.goodman@newcastle.gov.uk, Tel: 0191 277 7518

12 Sign off

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

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**Annual Report & Accounts for the
Financial Year ended 31 March
2014**

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4072


Danger
Overhead
live wires

Section 1

**Tyne & Wear Integrated
Transport Authority**

Annual Report 2013/14

Tare Weight of six axle vehicle
40 tonnes

Chairman's Foreword and Introduction 2013/14



The Annual Report of the Tyne and Wear Integrated Transport Authority's finances normally enables me to reflect on our progress over the past year and what has been achieved. However, as the ITA moves into a new era with the establishment of the North East Combined Authority, this foreword gives me the opportunity to look back on over 40 years of achievements and the legacy which will be left behind.

The Passenger Transport Authority, as it was known then, first came into being on 1st January 1970 with the objective of improving public transport provision and tackling the congestion which – even at that time – was holding back the local economy. As befits a region which pioneered passenger railways, the Authority has a proud record of innovation and the Tyne and Wear Metro system, which opened in August 1980, was one of the first light rail systems to open in the UK. Since the development of the initial network, there have been two further successful extensions; one to our International Airport and the second to Sunderland, as well as the opening of several new stations.

The Authority has been responsible for managing the Tyne Tunnel, opened in 1967, and more recently, in response to growing demand on the A19 strategic route, we supervised the design and construction of the TT2 which opened in 2011, a major project which was completed on budget and ahead of schedule, receiving the top civil engineering award at the British Construction Industry Awards in London.

The region's other main strategic road link is the A1 and, in April of this year, government announced that the A1 Libley Hill to Dunston Improvement Scheme would be extended to Coal House and Metro Centre. This positive news was the result of £19 million savings from the original scheme. This extended scheme will address congestion and improve capacity over a wider area of the A1 as well as tackling congestion and assisting economic growth.

With the passing of the 2008 Transport Act, the Passenger Transport Authority became the Integrated Transport Authority, with a wider remit to cover all forms of transport. I am particularly pleased that we have become recognised for our success in improving sustainable transport and we were delighted in March this year, when the Department for Transport announced that Tyne and Wear's Local Sustainable Transport Fund Team had been awarded £904,000 of additional monies as part of the £2 million underspend that had been identified across the LSTF programmes nationally. Tyne and Wear received almost 50% of the available funding, reflecting the positive reputation we have achieved for successful delivery of our Go Smarter programme. Tyne and Wear have recently submitted a further LSTF revenue bid for measures to be delivered in 2015/16; we are currently awaiting confirmation as to whether we have been successful with an announcement expected in July.

It has always been one of my great ambitions as Chairman to see the introduction of a comprehensive smart ticketing system for the Tyne and Wear. I am both delighted and proud at

Chairman's Foreword and Introduction

the progress that has been made towards this vision, particularly in the final year of the ITA. In October 2011, I was present to see the installation of the first of a new generation of Metro ticket machines, accepting cards and notes for the first time but also enabled to handle smart transactions. It seems incredible that, little more than two years later, there are more than 100,000 passengers using smart cards to buy and make journeys, touching in and out easily at station gates and validators.

North East England leads the country in delivering new smart travel for local people. Investment by NESTI, the North East Smart Ticketing Initiative partnership of local authorities running in parallel with the work of the ITA and Nexus, means that a single card can soon be used for travel on buses and Metro anywhere from north Northumberland through Tyne and Wear and Durham to the Tees Valley.

During my last few days as Chairman I was able to observe the next steps on this path, as I launched the first Pay As You Go travel pilots, as well as ticket sales through the Payzone retail network. The on-going roll-out of smart technology will continue in the coming year.

The Metro: *all change* modernisation programme continued to deliver record investment in our transport infrastructure and impressive standards of project management and efficiency. The programme was honoured by the Royal Institute of Chartered Surveyors in the 2014 North East Renaissance awards. I was also pleased to see the efforts Nexus and its suppliers make to engage with customers and residents around major engineering works recognised by two accolades at the UK Rail Business Awards, for public relations and for customer information and marketing.

I visited construction work at Walkergate station, where refurbishment and the installation of a new lift will hugely improve access, to celebrate with engineers as our investment in Metro since 2010 passed the £150 million mark.

Another important milestone was the publication of the Metro Strategy 2030, which sets out the future for the light rail system as the current modernisation programme ends in 2021. This important document makes clear that investment in a new train fleet is essential, while there may also be potential for new extensions to the network. It will be for the Combined Authority to build on the ITA's successful record of investment and make sure Metro continues to thrive in the decades ahead.

Important though the Metro is, it is only one part of our public transport network and we have always emphasised the integrated nature of our system and the need for convenient interchange between different modes of transport. During the lifespan of the Authority, there has been major investment in the Shields ferry and in enhancing our important transport interchanges, whilst we have used Better Bus Improvement funding to improve the reliability and efficiency of our bus network by introducing new traffic management systems on key routes - benefiting 35 million bus journeys a year and reducing carbon emissions by 46,360 tonnes per year. To underpin our transport network, good co-ordination and information are essential and ITA members have been impressed to visit the Tyne and Wear Urban Traffic Management Control Centre, based at the University of Newcastle, which amalgamates traffic management operations for the five Tyne and Wear districts in order to co-ordinate traffic flows, reduce congestion and provide accurate real-time information for road users when delays occur.

Chairman's Foreword and Introduction

Transport links do not respect county boundaries and many journeys by public or private transport start or finish outside Tyne and Wear, in Northumberland or Durham. The creation of the North East Combined Authority offers the opportunity to build on our previous achievements and co-ordinate services across a wider area, providing a regional transport network that supports the economy, promotes health and wellbeing and is sustainable and inclusive.

In this foreword, it has only been possible to list a few of the achievements of the ITA and its predecessor the Passenger Transport Authority. I would like to take this opportunity to thank everyone who has played a part in those achievements. The vision and hard work of all these individuals has enabled millions of people to travel around the region rapidly, safely and reliably during the last 44 years. I hope you continue to enjoy many further happy and rewarding journeys over the years ahead.

Councillor David Wood
Chair of Tyne & Wear Integrated Transport Authority

Members of the Authority during 2013/14



J. McElroy
(Vice Chair)



S. Green



P. Maughan



D. Wood
(Chairman)



S. Lambert



J. McCarty



G. Stone



F. Lott
(Vice Chair)



M. Green



E. Hodson



North Tyneside Council



G. Hobson
(Vice Chair)



A. Smith



South Tyneside Council



B. Curran
(Statutory
Vice Chair)



P. Wood
(Leader of
Opposition)



D. Errington



F. Miller



Explanatory Foreword by the Chief Finance Officer

This is the final set of accounts for the Tyne and Wear Integrated Transport Authority (ITA). On 15 April 2014, the ITA was dissolved and its functions taken over by the newly-established North East Combined Authority. These accounts have been prepared on a going concern basis, which is appropriate since the rights, assets and liabilities of the ITA have been taken over by the new body, which was established by The Durham, Gateshead, Newcastle Upon Tyne, North Tyneside, Northumberland, South Tyneside and Sunderland Combined Authority Order 2014.

This statement of accounts has been prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting in Great Britain which requires that the accounts present a true and fair view of the position of the Authority. Suitable accounting policies have been employed and where necessary prudent judgements and estimates were made which complied with the Code.

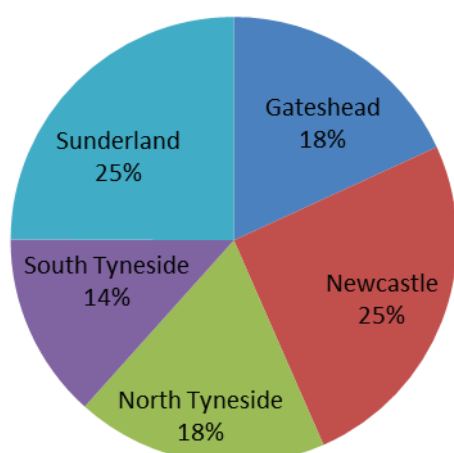
The purpose of this foreword is to provide the reader with:

- An understanding of the accounting statements;
- A review of the Authority's financial results in 2013/14 and its financial position; and
- An overview of activities and significant matters which occurred during the year.

Background to the Tyne and Wear Integrated Transport Authority's Finances

The Authority's main source of income is the levy applied to the five constituent local authorities of the ITA based upon population. The other major source of income is tolls paid by users of the Tyne Tunnels, which are used to fund the operation of the Tunnels and the financing of the New Tyne Crossing project. The levy for 2013/14 amounted to £70.207m, distributed between the Districts as set out in the chart and table below:

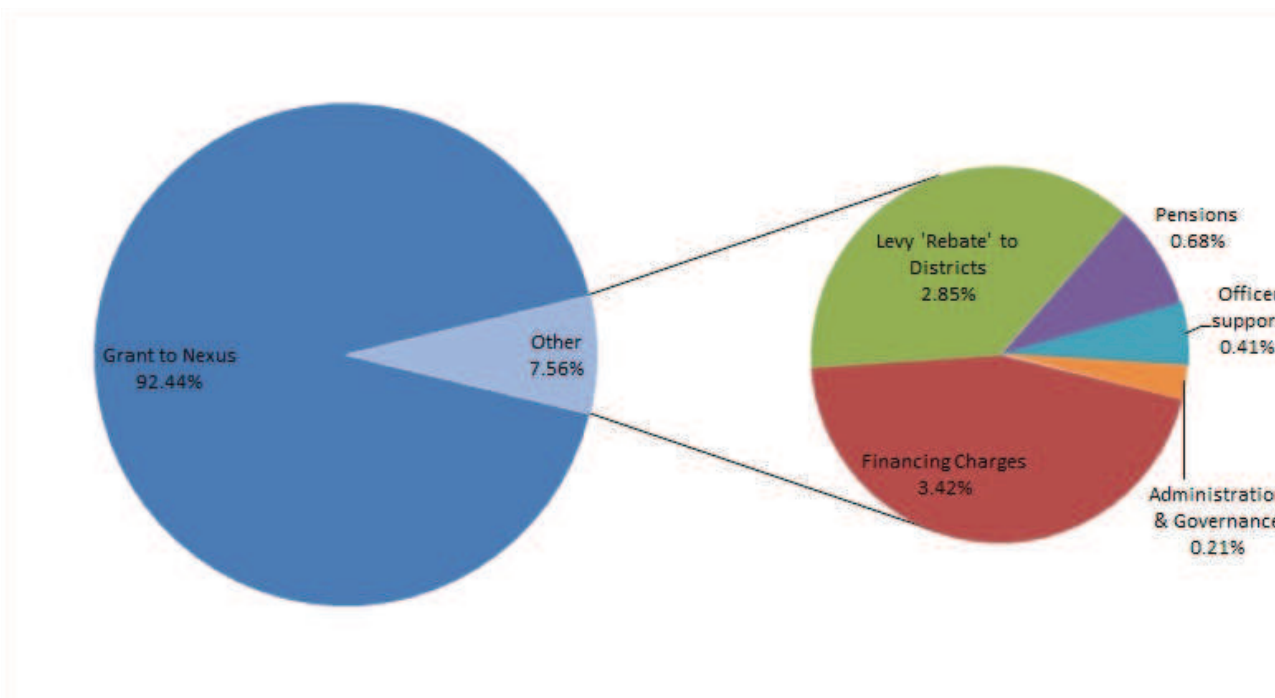
ITA Levy 2013/14 Distribution between Tyne & Wear Authorities



District	Levy 2013/14
Gateshead	£12.737m
Newcastle	£17.747m
North Tyneside	£12.794m
South Tyneside	£9.424m
Sunderland	£17.505m
Total	£70.207m

Explanatory Foreword by the Chief Finance Officer

The major item of ITA expenditure is a revenue grant paid to Nexus, the Passenger Transport Executive. This supports concessionary travel, the Metro, other bus and rail services, bus infrastructure and the Tyne Ferry. Expenditure for the year on the ITA's retained element of the levy was £3.293m against a budget of £3.378m. Expenditure on officer support arrangements and administration and governance of the ITA represents less than 1% of the total levy, as shown in the chart below which reflects the 2013/14 outturn position (with further detail shown in the table overleaf).



The lead authority for the ITA is Newcastle City Council. It provides administrative, engineering, financial, legal and other advisory services directly to the Authority under a Service Level Agreement. Further expenditure is incurred by the ITA on costs relating to governance and administration, financing charges relating to principal and interest payments on inherited debts and capital grant to Nexus and the Tyne and Wear Districts, and superannuation contributions in respect of the ITA's obligations for the pensions of former employees.

The ITA 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 levy to support them. The Tunnels are operated under a contract to a concessionaire company TT2 Ltd and appear within the accounts as a trading function. Tolls on vehicles are also used to fund the works required for the New Tyne Crossing. The New Tyne Crossing is a major construction project that began in 2008, to provide a new tunnel alongside the existing one. The new tunnel was completed and opened in February 2011, and the old tunnel was closed for refurbishment. The newly refurbished tunnel opened ahead of schedule in November 2011, to carry two lanes of northbound traffic while the new tunnel carries two lanes of southbound traffic. The Pedestrian and Cycle tunnels are free to users and funded from toll income from the vehicle tunnels. They are currently undergoing major refurbishment works which are due to be completed in Summer 2015.

Explanatory Foreword by the Chief Finance Officer

Analysis of Revenue Expenditure Against Budget - ITA

The table below compares actual spend against the revised budget for 2013/14 agreed in January 2014, and shows actual figures for 2012/13 to provide comparison across years.

Budget Heading	2012/13 Actual £000	2013/14 Budget £000	2013/14 Actual £000	Variance £000
Service Level Agreement and staffing charges	281	292	285	(7)
Audit Fees	18	20	17	(3)
Members Allowances and Expenses	82	84	80	(4)
Local Government Association Subscription	30	29	29	-
Conferences and Travel Expenses	3	4	4	-
Website Costs	12	20	12	(8)
Supplies and Services	8	17	8	(9)
Payments to Pension Fund	455	479	479	-
Financing Charges	2,568	2,448	2,399	(49)
Interest on investments and revenue balances	(35)	(15)	(20)	(5)
Total ITA Operating Expenses	3,422	3,378	3,293	(85)
One-off Lump Sum Payment to Pension Fund	-	1,800	1,800	-
Grant to Nexus	66,922	64,922	64,922	-
Levy 'rebate' to Tyne & Wear Districts	-	2,000	2,000	-
Total ITA Expenditure	70,344	72,100	72,015	(85)
Levy Income	(70,207)	(70,207)	(70,207)	-
Transfer from ITA General Fund Reserve	137	1,893	1,808	(85)

Overall spending for 2013/14 was within budget, with small variations on some individual budget lines. Small savings were made on all controllable budgets, and there was a reduction in financing charges as historic debts are reducing over time. The saving of £0.085m has reduced the planned use of reserves.

The final position is a use of ITA General reserve of £1.808m, compared with the revised budget of £1.893m. This includes £1.8m of ITA reserves used to make a lump-sum payment to the Tyne and Wear Pension Fund to reduce the pension deficit. A total of £4.41m of the Pension Deficit as estimated by the Fund was attributable to the ITA, and the balance of £2.61m has been temporarily borrowed from the Tyne Tunnels reserves, to be repaid over 14 years (equal to the deficit recovery period set by the Tyne and Wear pension fund). This strategy has allowed for an annual saving in excess of £0.2m per annum on the levy funded budget, after allowing for the repayment to the Tunnels and loss of income on the reserves.

Explanatory Foreword by the Chief Finance Officer

Analysis of Revenue Expenditure against Budget - Tyne Tunnels

In 2013/14 the traffic level was 15.424m vehicles, corresponding to a total toll income of £23.744m after adjusting for prepayments (compared with £19.869m in 2012/13). In line with the financing strategy for the New Tyne Crossing, tolls were maintained on 1 January 2014 at £1.60 for cars and small vans but increased to £3.20 for lorries and large vans (with a ten percent discount for permit holders). The toll increase did not have an adverse effect on traffic levels which showed a 7.1% increase compared to 2012/13.

The table below details expenditure within the ringfenced Tyne Tunnels trading account:

	2012/13 Actual £000	2013/14 Budget £000	2013/14 Actual £000	Variance £000
Employees	31	35	34	(1)
Pensions	526	553	552	(1)
Supplies and Services and Other Expenses	34	50	28	(22)
Support Services	108	130	116	(14)
Cost of Official Opening Ceremony	49	-	-	-
Community Fund	8	10	14	4
Financing Charges	6,622	6,723	6,666	(57)
Toll Income	(19,869)	(23,200)	(23,744)	(544)
Usage Payments	13,986	16,900	16,929	29
Other Income	(110)	-	(132)	(132)
Interest on Investments and Tunnel Balances	(517)	(275)	(236)	39
Total Tunnels Operating Costs	868	926	227	(699)
One-off Payment to Tyne & Wear Pension Fund	-	7,200	7,200	-
NESTI Expenditure financed from Tunnel Reserves	413	1,935	658	(1,277)
(Surplus) / Deficit transferred to Tyne Tunnels General Fund Reserve	1,281	10,061	8,085	(1,976)

The outturn on the Tyne Tunnels operational budget was a deficit of £0.227m against a budgeted £0.926m deficit. The main reasons for this were improved traffic figures leading to higher toll income, some additional one-off income relating to savings made on insurance contracts and lower financing costs than budgeted. £7.2m of Tunnels reserves were used to make a payment to the Tyne and Wear Pension fund to reduce the pension deficit to a small balance. Of this total, £4.59m relates to liabilities which are charged to the Tunnels, and the remaining £2.61m has been used to temporarily fund the ITA's share of this deficit, with the funds to be repaid to the Tunnels reserves with interest over the next 14 years.

£0.658m of expenditure on the North East Smart Ticketing Initiative (NESTI) has been financed in year from Tunnel Reserves. This reflects the fact that in 2009/10, grant was received by the twelve North East Local Authorities, Nexus and the ITA and this grant was applied to finance capital expenditure on the New Tyne Crossing in that year. An equivalent total amount (£7.178m in total) of capital and revenue expenditure was therefore to be funded from Tunnel Reserves.

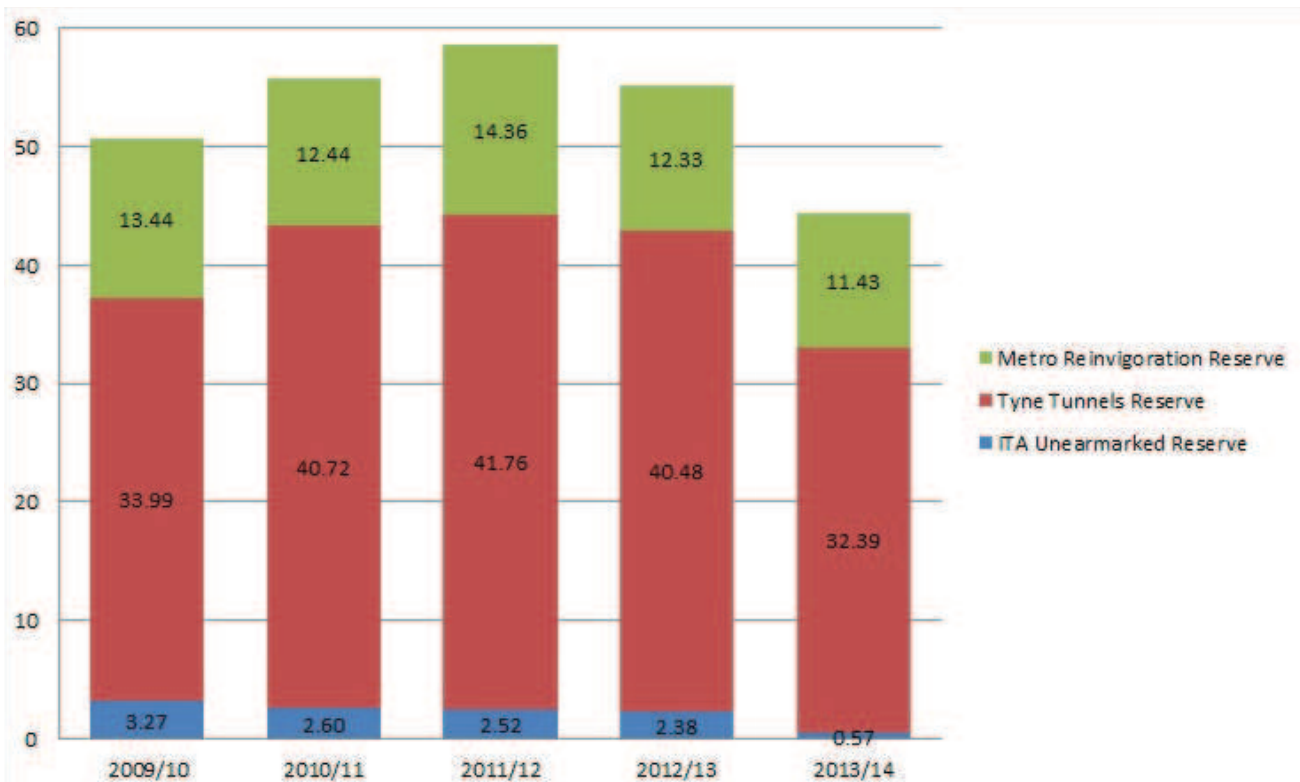
Explanatory Foreword by the Chief Finance Officer

Reserves

	2012/13 £000	2013/14 £000	Movement £000
General Fund			
ITA	(2,382)	(574)	1,808
Tyne Tunnels	(40,477)	(32,392)	8,085
Earmarked Reserves			
Metro Reinvigoration	(12,325)	(11,425)	900
Total	(55,184)	(44,391)	10,793

In 2013/14, £10.79m of reserves has been used, with £9m used to reduce the deficit in the Pension Fund, £0.235m used to fund ITA and Tyne Tunnels expenditure, £0.658m used to fund NESTI expenditure and £0.900m to fund capital expenditure on Metro.

The chart below shows the level of ITA and Tyne Tunnels reserves from 2009/10 to 2013/14. A strategy has been implemented since 2011/12 to reduce the level of reserves held as risks are managed and to protect services while longer-term savings proposals are established.



The unearmarked general reserve of the ITA has been reduced to a minimum by the end of 2013/14, taking into account the fact that earmarked reserves are held by both the ITA and Nexus to mitigate against specific risks, and the level of corporate risk to the authority had reduced through the reduction in the pension deficit. On the dissolution of the ITA and the establishment of the combined authority in April 2014, the majority of this unearmarked reserve was refunded to the Tyne and Wear Districts, and a new unearmarked reserve established for the new Combined Authority.

Explanatory Foreword by the Chief Finance Officer

Capital Expenditure

Capital Expenditure of £3.1m has been incurred in 2013/14 in relation to the New Tyne Crossing Project and the refurbishment of the Tyne Pedestrian and Cycle Tunnel. There has been further capital expenditure on payment of capital grants to the Tyne and Wear Districts and Nexus.

In addition to the £17.9m capital expenditure shown within the ITA's own accounts, Nexus have also invested £37.9m in the Metro Asset Renewal Plan (ARP) and Metro Ticketing and Gating programmes, resulting in total transport capital investment of £55.8m. A summary of expenditure against the ITA's (non-Nexus) capital programme is set out in the table below:

	2012/13	2013/14	2013/14	2013/14
	Actual	Budget	Actual	Variance
	£000	£000	£000	£000
New Tyne Crossing	682	585	1,076	491
Tyne Pedestrian and Cycle Tunnel Refurbishment	402	4,000	2,065	(1,935)
Total Tunnels Capital Programme	1,084	4,585	3,141	(1,444)
Local Transport Plan				
Integrated Transport Block Grant to Districts	8,509	8,509	8,509	-
ARP/Public Transport Schemes Allocation	6,292	4,184	3,800	(384)
Total LTP	14,081	12,693	12,309	(384)
Other Capital Grants				
Local Sustainable Transport Fund	302	858	683	(175)
Better Bus Area Fund	2,262	1,627	1,627	-
North East Smart Ticketing Initiative				
Capital Payments to Nexus	3,235	975	177	(798)

Tunnels Capital Programme

Following the completion of the construction works on the New Tyne Crossing, the Tunnels capital programme is significantly lower than in recent years. During 2013/14 the final capital payments were released to the concessionaire on completion of the water ingress monitoring, totalling £0.650m. Other expenditure related to professional fees, remaining environmental works and environmental monitoring and costs associated with land transfer work.

In addition, £2.1m expenditure was incurred on Tyne Pedestrian and Cycle Tunnels refurbishment project. The Tunnels are currently temporarily closed to the public to allow for the removal of two escalators, installation of two inclined lifts and the complete replacement of all Mechanical and Electrical systems. There has been some slippage against the original programme which has led to lower than anticipated expenditure in year. The remaining capital budget has been added to the 2014/15 programme.

Explanatory Foreword by the Chief Finance Officer

Local Transport Plan (LTP) Integrated Transport Block

LTP Integrated Transport Block funding is capital grant awarded to the ITA by DfT. The ITA allocates this funding between the five Tyne and Wear Districts and Nexus, with a proportion being ringfenced to provide support to the Metro Asset Renewal Programme (ARP) and other public transport related schemes. Some grant has been carried forward at the year end where Districts' schemes were not yet complete, and will be used in 2014/15.

Local Sustainable Transport Fund

2013/14 was the second full year of the Schools Go Smarter programme, which commenced in autumn 2011. 2013/14 capital expenditure related primarily to the purchase of vehicles for parking enforcement, and the school links and school grants workstreams. School grants provides funding for bike sheds, to provide safe places for pupils to store their bicycles, and other works including new paths, pool bikes and tools. School links funds infrastructure work in the Districts making it easier to cycle or walk to school, such as upgrading cycle paths or installing new pedestrian crossings.

The 'Go Smarter to Work' programme began in December 2012, making 2013/14 the first full year of the scheme. Capital works are focused around infrastructure investments, implementing the physical infrastructure work necessary to make cycle, walking and public transport trips a more attractive alternative to car use; and improved information including use of open data sources and Real Time Passenger Information (RTPI) to enable the transport user to access more reliable and up-to-date details of transport services.

Where schemes were not fully signed off at the year end the grant has been carried forward to 2014/15 which is permitted under the grant conditions.

Better Bus Area Fund

In April 2012, the ITA received notice that it had been successful in its application for DfT Better Bus Area funding, including £3.889m capital grant. The project is aimed at improving journey times on key bus routes, to improve the attractiveness of buses to the travelling public. The capital grant was used primarily for the procurement and installation of equipment including CCTV, Automatic Number Plate Recognition and co-ordination of traffic signal installations. In addition, infrastructure works have taken place on a number of key bus routes to aid journey time reliability. All capital works were completed by 31 March 2014 and capital grant fully used.

North East Smart Ticketing Initiative (NESTI)

The ITA acts as accountable body for NESTI which is a programme of investment in smart ticketing infrastructure across the north east. The programme is governed via a collaboration agreement which was entered into by all 12 local authorities in the region plus the ITA and Nexus. The ITA holds the funding on behalf of the authorities, and the remaining budget of £4.221m is shown on the ITA's balance sheet as Grants Received in Advance (see Note 14 to the accounts, p. 40).

The outturn for 2013/14 was £0.658m, (£0.177m capital) with main highlights during the year being implementation of the Retail Distribution Network project and Card Management System integration and procurement and installation of bus stop validation equipment. There was some slippage against the 2013/14 programme which accounts for the lower than budgeted claim, with the funds carried forward to finance delivery of works in 2014/15.

Explanatory Foreword by the Chief Finance Officer

Financing of ITA Capital Expenditure 2013/14

The vast majority of the ITA's Capital Programme is now funded by government grant awarded by DfT. Expenditure on NESTI was funded through revenue contributions from Tyne Tunnels reserves as described on p.10. Expenditure on the Tunnels capital programme is presented as funded by Borrowing, although no additional external borrowing has been undertaken in 2013/14 and the expenditure was met in year through internal cash balances. The funding of Tunnels capital works will be reviewed during 2014 once there is a clearer picture of potential availability of capital grant and levels of reserves. The table below shows the sources of funding used for the financing of the ITA's capital programme in 2013/14.

Funding	2013/14 (£000)	2013/14 (%)
Prudential Borrowing	3,141	17.5%
Central Government Grants	14,619	81.5%
Capital Expenditure Funded from Revenue	177	1.0%
Total	17,937	

Pension Liabilities

The ITA is a member of the Tyne and Wear Pension Fund, which is part of the Local Government Pension Scheme. This is a scheme which provides defined benefits based on members' final pensionable salary. In the ITA's accounts, a liability for future pension costs is recognised on the Balance Sheet, and pension contributions are charged against the General Fund (i.e. funded from the levy and tolls).

The figure presented in the Comprehensive Income and Expenditure Statement is different to the actual contributions charged against the General Fund. This is because it is prepared on an International Accounting Standard 19 (IAS 19) basis. Under IAS 19, the ITA is required to disclose the total value of all pension payments that have accumulated (including deferred pensions) at 31 March each year. This value is made up of:

- The total cost of pensions that are being paid out to former employees who have retired
- The total sum of the pension entitlements earned to date for current employees

The standard also requires all investments (assets) of the Pension Fund to be shown at their market value at 31 March each year. In reality, the value of such investments fluctuates on a day-to-day basis, but this is ignored for the purpose of the accounting standard. Comparing the value of all future pension payments and the value of investments at 31 March results in an overall surplus or deficit for the Pension Fund. This is called the IAS 19 surplus or deficit.

During 2013/14, the ITA made a payment of £9m to the Tyne and Wear Pension Fund to clear the vast majority of the deficit in its scheme. The purpose of this strategy was to reduce the historic deficit before the pension liabilities were transferred to the North East Combined Authority, and also to give a saving on the regular deficit contribution payments which is far in excess of the lost potential investment income that would have been achieved by holding the cash in reserves.

Explanatory Foreword by the Chief Finance Officer

Looking ahead to 2014/15 and beyond

This is the last set of accounts which will be produced by the Tyne and Wear Integrated Transport Authority, which was dissolved on 15 April 2014 and its functions, rights, assets and liabilities taken over by the North East Combined Authority. The period from 1 April 2014 to 15 April 2014 will be presented within the first set of North East Combined Authority Accounts at the end of the 2014/15 year. Separate spending figures will continue to be shown at a Tyne and Wear level to enable the calculation of the Tyne and Wear element of the transport levy.

The establishment of the North East Combined Authority allows governance and decision making on regional transport issues to be taken across a broader geographic footprint (including Durham and Northumberland as well as the Tyne and Wear Districts) and also alongside other policy areas including economic development, inward investment and skills. The new arrangements will build on the work of the Tyne and Wear ITA in recent years in playing a leading role in the provision of quality public transport services in the region.

Explanatory Foreword by the Chief Finance Officer

ITA Accounts

The ITA Accounts for 2013/14 are set out in section 2. These consist of the following statements, along with notes to each:

Movement in Reserves Statement

This statement shows the movement in year on the different reserves held by the Authority, analysed into Usable Reserves (i.e. those that can be applied to fund expenditure or reduce the levy) and Unusable Reserves. The surplus or deficit on the provision of services line shows the true economic cost in accounting terms of providing the ITA'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

This statement shows the accounting cost in year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from the levy. Integrated Transport Authorities raise a levy to cover expenditure in accordance with regulations; this may be different from the accounting cost. The levy position is shown in the Movement in Reserves Statement.

Balance Sheet

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Authority. The net assets of the Authority (assets less liabilities) are matched by the reserves held by the Authority. Reserves are reported in two categories: Usable Reserves (i.e. those which the Authority may use to provide services, subject to the need to maintain a prudent level) and Unusable Reserves (i.e. those which the Authority is not able to use to provide services). This category of reserves includes those that hold unrealised gains and losses (e.g. the 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".

Cash Flow Statement

The Cash Flow Statement shows the change 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. The amount of net cash flows arising from operating activities is a key indicator of 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 Accounts

The Group Accounts provide the same information as above, but incorporate the Nexus accounts within the figures. Notes to the Group Accounts provide further detail to items which are materially different in the Group Accounts to the single entity ITA accounts.

ITA Audit Committee Review of 2013/14

The role of the Committee can be summarised as follows:

- Provide independent assurance of the adequacy of the risk management framework and the associated control environment;
- Provide independent scrutiny of the Authority's financial and non-financial performance to the extent that it affects the Authority's exposure to risk and weakens the control environment;
- Oversee the financial reporting process.

Detailed roles and responsibilities for the Committee are agreed annually by the ITA and can be viewed on the ITA website at www.twita.gov.uk.

The Committee met three times during the year, in July and September 2013 and March 2014.

In 2013/14 the Audit Committee appointed two new Independent members, Mr Brian O'Doherty and Mr Rex Winter, to replace Mr Anthony Atkinson and Ms Elizabeth Green who stepped down from the Committee at the end of 2012/13.

During the year, the Committee monitored the work of Deloitte, the ITA's external auditors. This included reviewing their proposed audit plan, and the results of the annual audit of the accounts. The results of the audit were very positive, with no material adjustments required to the draft accounts and no recommendations for improvements made. Deloitte confirmed that in their view the authority achieved a good standard of financial reporting. Audit Committee reviewed the ITA's Annual Report and Accounts in detail, and recommended it to the Authority for final sign off. The Committee also considered the Annual Governance Statement and Local Code of Corporate Governance, which did not identify any significant weaknesses or areas for improvement.

As in previous years, the Committee monitored the performance of the Internal Audit function and, in particular, the outcome of individual audits as well as the annual report of the Head of Audit and Strategic Risk.

Also this year, the Committee considered updates on the proposals for the establishment of the Combined Authority which will take over the functions of the ITA early in 2014/15.

Audit Committee

Members of the Committee in 2013/14

Independent members

M. Scrimshaw (Chair)

G. Clark (Vice-Chair)

B. O'Doherty

R. Winter

ITA members

B. Curran (Sunderland)

S. Lambert (Newcastle)

P. Maughan (Gateshead)

F. Miller (Sunderland)

A. Smith (South Tyneside)

Statement of Responsibilities for the Statement of Accounts

The Authority's Responsibilities

The Authority is required:

- To make arrangements for the proper administration of its financial affairs and to secure 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 to safeguard its assets.
- To approve the statement of accounts by 30 September 2014.

Signed
Simon Henig, Chair, North East Combined Authority
Date:

The Chief Finance Officer's Responsibilities

The Chief Finance Officer is responsible for the preparation of the Authority's Statement of Accounts which, in terms of the CIPFA / LASAAC Code of Practice on Local Authority Accounting in Great Britain ('the Code'), is required to give a true and fair view of the financial position of the Authority at the accounting date and its income and expenditure for the year ended 31 March 2014.

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 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

Chief Finance Officer's Certificate

I hereby certify that the Statement of Accounts for the year ended 31 March 2014, required by the Accounts and Audit Regulations 2011 are set out in the following pages.

I further certify that the Statement of Accounts gives a true and fair view of the financial position of the Authority at 31 March 2014 and its income and expenditure for the year ended 31 March 2014.

Signed
Paul Woods, Chief Finance Officer, North East Combined Authority
Date:

Section 2

Tyne & Wear Integrated Transport Authority

Accounts for the year ended 31
March 2014

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 that can be applied to fund ITA or Tyne Tunnels expenditure or reduce the levy) and 'unusable reserves' which can not be used in this way. The surplus or deficit on provision of services line shows the economic cost in accounting terms of providing the ITA'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.

	General Fund	Earmarked Reserves	Total Usable Reserves	Unusable Reserves	Total Reserves
	£000	£000	£000	£000	£000
Balance at 1 April 2013	(42,859)	(12,325)	(55,184)	(62,266)	(117,450)
<u>Movement in Reserves During 2013/14</u>					
(Surplus) on Provision of Services	(2,613)	-	(2,613)	-	(2,613)
Other Comprehensive Income and Expenditure	-	-	-	2,500	2,500
Total Comprehensive Income and Expenditure	(2,613)	-	(2,613)	2,500	(113)
Adjustments between Accounting Basis and Funding Basis Under Regulations (Note 4)	13,406	-	13,406	(13,406)	-
Net (Increase) / Decrease before transfers to Earmarked Reserves	10,793	-	10,793	(10,906)	(113)
Transfers (to) / from Earmarked Reserves (Note 5)	(900)	900	-	-	-
(Increase) / Decrease in 2013/14	9,893	900	10,793	(10,906)	(113)
Balance at 31 March 2014 carried forward	(32,966)	(11,425)	(44,391)	(73,172)	(117,563)

Breakdown of Usable Reserves (See Note 15 for more detail)

31 March 2013 £000		31 March 2014 £000
	General Fund Reserves	
(2,382)	- ITA General Fund	(574)
(40,476)	- Tyne Tunnels General Fund	(32,392)
<u>(42,858)</u>	Total General Fund Reserves	<u>(32,966)</u>
(12,325)	Earmarked Metro Reinvigoration Reserve	(11,425)
<u>(55,183)</u>	Total Usable Reserves	<u>(44,391)</u>

Movement in Reserves Statement

Restated Figures for 2012/13

	General Fund	Earmarked Reserves	Total Usable Reserves	Unusable Reserves	Total Reserves
	£000	£000	£000	£000	£000
Balance at 1 April 2012	(44,277)	(14,357)	(58,634)	(59,862)	(118,496)
<u>Movement in Reserves During 2012/13</u>					
(Surplus) / Deficit on Provision of Services	(1,154)	-	(1,154)	-	(1,154)
Other Comprehensive Income and Expenditure	-	-	-	2,200	2,200
Total Comprehensive Income and Expenditure	(1,154)	-	(1,154)	2,200	1,046
Adjustments between Accounting Basis and Funding Basis Under Regulations (Note 4)	4,604	-	4,604	(4,604)	-
Net (Increase) / Decrease before transfers to Earmarked Reserves	3,450	-	3,450	(2,404)	1,046
Transfers (to) / from Earmarked Reserves (Note 5)	(2,032)	2,032	-	-	-
(Increase) / Decrease in 2012/13	1,418	2,032	3,450	(2,404)	1,046
Balance at 31 March 2013 carried forward	(42,859)	(12,325)	(55,184)	(62,266)	(117,450)

Details of the prior year restatement are shown in Note 31.

Comprehensive Income and Expenditure Statement

This statement shows the economic cost in year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from the levy. Integrated Transport Authorities raise a levy to cover expenditure in accordance with regulations; this may be different from the accounting cost. The levy position is shown in the Movement in Reserves Statement.

← 2012/13 → Restated			← 2013/14 →			
Gross Expenditure	Gross Income	Net Expenditure		Gross Expenditure	Gross Income	Net Expenditure
£000	£000	£000		£000	£000	£000
435	-	435	Corporate and Democratic Highways and Transport	435	-	435
18,079	(25,088)	(7,009)	- Tyne Tunnels	21,934	(29,405)	(7,471)
91,209	(22,083)	69,126	- Other Highways and Transport Services	85,646	(17,750)	67,896
10	-	10	Non-Distributed Costs	10	-	10
109,733	(47,171)	62,562	Cost of Services	108,024	(47,155)	60,870
9,391	(2,900)	6,491	Financing and Investment Income and Expenditure (note 6)	9,087	(2,363)	6,724
-	(70,207)	(70,207)	Taxation and Non-Specific Grant Income (ITA Levy - Note 7)	-	(70,207)	(70,207)
		(1,154)	(Surplus) / Deficit on Provision of Services			(2,613)
		2,200	Re-measurements of the defined benefit liability (Note 28)			2,500
		2,200	Other Comprehensive Income and Expenditure			2,500
		1,046	Total Comprehensive Income and Expenditure			(113)

Details of the prior year restatement are shown in Note 31.

Balance Sheet

The Balance Sheet shows the value at the Balance Sheet date of the assets and liabilities of the Authority. The Net Assets (Assets less Liabilities) are matched by Reserves. Reserves are reported in two categories: Usable (i.e. those the Authority may use to provide services subject to any statutory limitations on their use) and Unusable (those the Authority may not use to provide services). This category includes reserve that hold unrealised gains and losses (e.g. the 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".

31 March 2013 £000	Notes	31 March 2014 £000
365,566 Property, Plant and Equipment	8	363,916
47,141 Long Term Debtors	9, 10	45,236
412,707 Long Term Assets		409,152
18,000 Short Term Investments	9	20,500
16,858 Short Term Debtors	9, 11	14,475
74,084 Cash and Cash Equivalents	12	52,004
108,942 Current Assets		86,979
(4,694) Short Term Borrowing	9	(7,941)
(44,684) Short Term Creditors	9, 13	(38,735)
(5,501) New Tyne Crossing - Deferred Income	27	(5,092)
(10,125) Grants and Contributions Receipts in Advance	14	(8,404)
(65,004) Current Liabilities		(60,172)
(122,222) New Tyne Crossing - Deferred Income	27	(117,122)
(5,830) Grants and Contributions Receipts in Advance	14	(3,347)
(202,893) Long Term Borrowing	9	(196,967)
(8,250) Other Long Term Liabilities	9, 28	(960)
(339,195) Long Term Liabilities		(318,396)
117,450 Net Assets		117,563
(55,184) Usable Reserves	15	(44,391)
(62,266) Unusable Reserves	16	(73,172)
(117,450)		(117,563)

Chief Finance Officer's Certificate

I certify that the accounts set out on pages 23 to 81 present a true and fair view of the financial position of the Tyne and Wear Integrated Transport Authority as at 31 March 2014.

Signed

Paul Woods

Chief Finance Officer, North East Combined Authority

Date:

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. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Authority are funded by way of levy and grant income or from the recipients of services provided to the Authority. 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.

2012/13 Restated £000	Notes	2013/14 £000
(1,154)	Net surplus on the provision of services	(2,613)
(2,764)	Adjustments to net surplus or deficit on the provision of services for non cash movements	14,308
20,671	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	15,277
<u>16,753</u>	Net cash flows from Operating Activities	<u>26,972</u>
(27,082)	Investing activities	(7,572)
2,699	Financing activities	2,680
(7,630)	Net increase in cash and cash equivalents	22,080
(66,454)	Cash and cash equivalents at the beginning of the reporting period	(74,084)
<u>(74,084)</u>	Cash and cash equivalents at the end of the reporting period	<u>(52,004)</u>

Details of the prior year restatement are shown in Note 31.

Notes to the Accounts

Note 1: Accounting Standards Issued but Not Yet Adopted

Impact of the adoption of new accounting standards on the 2013/14 financial statements

The Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 (the Code) has introduced changes in accounting policy in relation to the following International Financial Reporting Standard (IFRS) statements:

IFRS 10 Consolidated Financial Statements

IFRS 11 Joint Arrangements

IFRS 12 Disclosure of Interests in Other Entities

IAS 27 Separate Financial Statements (as amended in 2011)

IAS 28 investments in Associates & Joint Ventures (as amended in 2011)

The standards outlined above deal with the consolidation of financial statements and the publication of group accounts. The amendments to the accounting policies have been reviewed and it has been concluded that the changes do not impact on the requirement for the ITA to produce group accounts.

The group accounts consolidating the financial statements of Nexus (the Passenger Transport Executive) can be found on pages 85 to 106 of this document. The revised Code will be used as the basis for consideration of whether consolidation of any additional entities may be required for the first accounts of the North East Combined Authority which will be produced for the financial year 2014/15.

Note 2: 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 refurbishment of the existing Tunnel are recorded within its Property, Plant and Equipment.

Notes to the Accounts

Note 3: Assumptions Made About the Future and Other 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 2014 for which there is a risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainty	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 effects on the pension liability for funded LGPS benefits of changes in individual assumptions can be measured. For instance, a 0.1% increase in the discount rate assumptions would result in a decrease in the gross pension liability of £0.46m.

Further sensitivity analysis in relation to the assumptions used in the calculation of the pension liability is included in Note 28 (p. 62).

Notes to the Accounts

Note 4: 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.

2013/14

	Usable Reserves	
	General Fund Balance	Movement in Unusable Reserves
	£000	£000
Adjustments involving the Capital Adjustment Account:		
<u>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:</u>		
Charges for depreciation and impairment of non current assets	(4,792)	4,792
Write down of New Tyne Crossing deferred income balance	5,509	(5,509)
Capital grants and contributions applied	15,277	(15,277)
Revenue expenditure funded from capital under statute	(14,618)	14,618
<u>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</u>		
Statutory provision for the financing of capital investment	2,168	(2,168)
Adjustments involving the Financial Instruments Adjustment Account:		
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	72	(72)
Adjustments involving the Pensions Reserve:		
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 28)	(240)	240
Employer's pensions contributions and direct payments to pensioners payable in the year	10,030	(10,030)
Total Adjustments	13,406	(13,406)

Notes to the Accounts

Note 4 (Continued)

2012/13 (Restated)

	Usable Reserves	
	General Fund Balance	Movement in Unusable Reserves
	£000	£000
Adjustments involving the Capital Adjustment Account:		
<u>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:</u>		
Charges for depreciation and impairment of non current assets	(3,862)	3,862
Write down of New Tyne Crossing deferred income balance	5,109	(5,109)
Capital grants and contributions applied	-	-
Revenue expenditure funded from capital under statute	(20,258)	20,258
<u>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</u>		
Statutory provision for the financing of capital investment	2,192	(2,192)
Capital expenditure charged against the General Fund	-	-
Adjustments involving the Capital Grants Unapplied Account:		
Application of grants to capital financing transferred to the Capital Adjustment Account	20,671	(20,671)
Adjustments involving the Financial Instruments Adjustment Account:		
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	72	(72)
Adjustments involving the Pensions Reserve:		
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 28)	(300)	300
Employer's pensions contributions and direct payments to pensioners payable in the year	980	(980)
Total Adjustments	4,604	(4,604)

Details of the prior year restatement are shown in Note 31.

Notes to the Accounts

Note 5: Transfers to / from Earmarked Reserves

This note sets out the balances in earmarked reserves set aside to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund expenditure in 2013/14, with comparative figures for 2012/13.

	Balance at 01/04/12 £000	Transfers Out 2012/13 £000	Transfers In 2012/13 £000	Balance at 31/03/1 £000	Transfers Out 2013/14 £000	Transfers In 2013/14 £000	Balance at 31/03/14 £000
Metro Reinvigoration Reserve	(14,357)	2,204	(172)	(12,325)	974	(74)	(11,425)
Total	(14,357)	2,204	(172)	(12,325)	974	(74)	(11,425)

Note 6: Financing and Investment Income and Expenditure

2012/13 Restated £000		2013-14 £000
9,101	Interest payable and similar charges	8,857
290	Interest on net defined benefit liability	230
(2,900)	Interest receivable and similar income	(2,363)
6,491		6,724

Details of the prior year restatement are shown in Note 31.

Notes to the Accounts

Note 7: Taxation and non-specific Grant Income

2012/13 £000		2013/14 £000
(70,207)	Levy on Tyne and Wear Authorities	(70,207)
<u>(70,207)</u>		<u>(70,207)</u>

Note 8: Property, Plant and Equipment

	Land £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 2013	12,135	3,205	373,450	824	389,614
Additions	-	-	1,085	2,056	3,141
At 31 March 2014	<u>12,135</u>	<u>3,205</u>	<u>374,535</u>	<u>2,880</u>	<u>392,755</u>
Accumulated Depreciation and Impairment					
At 1 April 2013	-	(634)	(23,414)	-	(24,048)
Depreciation charge	-	(92)	(3,763)	-	(3,855)
Impairment losses recognised in the Surplus/Deficit on the Provision of Services	-	-	(936)	-	(936)
At 31 March 2014	<u>-</u>	<u>(726)</u>	<u>(28,113)</u>	<u>-</u>	<u>(28,839)</u>
Net Book Value					
At 31 March 2014	12,135	2,479	346,421	2,880	363,916
At 31 March 2013	12,135	2,571	350,035	824	365,566

Notes to the Accounts

Note 8 (Continued)

Comparative Figures for 2012/13

	Land	Vehicles, Plant, Furniture & Equipment	Infrastructure Assets	Assets Under Construction	Total Property, Plant and Equipment
	£000	£000	£000	£000	£000
Cost or Valuation					
At 1 April 2012	12,135	3,205	372,767	423	388,530
Additions	-	-	683	401	1,084
At 31 March 2013	12,135	3,205	373,450	824	389,614
Accumulated Depreciation and Impairment					
At 1 April 2012	-	(542)	(19,644)	-	(20,186)
Depreciation charge	-	(92)	(3,770)	-	(3,862)
At 31 March 2013	-	(634)	(23,414)	-	(24,048)
Net Book Value					
At 31 March 2013	12,135	2,571	350,036	824	365,566
At 31 March 2012	12,135	2,663	353,123	423	368,344

Depreciation

The following useful lives and depreciation rates have been used in the calculation of depreciation:

- Vehicles, Plant, Furniture and Equipment - 30 years. This class of assets relates to plant, machinery and other equipment and fittings that were transferred to TT2 Ltd at the commencement of the 30 year contract for the operation of the Tyne Tunnels. These assets are defined as "handback assets" in the Project Agreement, as they (or their equivalent replacements) must be returned to the ITA at the end of the contract
- Vehicle Tunnels (Infrastructure) - 120 years
- Pedestrian and Cycle Tunnels (Infrastructure) - 40-120 years
- Land - This category is not depreciated as it has no finite useful life

Notes to the Accounts

Note 8 (Continued)

Revaluations

The Authority carries out a rolling programme that ensures that all Property, Plant and Equipment assets required to be measured at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, and as a minimum every five years. All valuations were carried out by surveyors from the Lead Authority, Newcastle City Council. Valuations of land and buildings and Infrastructure were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. Valuations of Vehicles, Plant and Equipment relate to assets transferred to the use of TT2 Ltd as described above. The valuations are based on records held by TT2 Ltd.

The significant assumptions applied in estimating the fair values are:

- That no high alumina cement, concrete or calcium chloride additive or other potentially deleterious material was used in the construction of the property and that none has been subsequently incorporated
- The property is not subject to any unusual or especially onerous restrictions, encumbrances or outgoings and that good title can be shown
- The property and its value are unaffected by any matters which would be revealed by a local search or inspection of any register and the use and occupation are both lawful
- Inspection of those parts which have not been inspected would not cause the Appointed Valuer to alter the opinion of value
- The land and properties are not contaminated
- The land and buildings are fully equipped with fixed plant and equipment
- The Tyne and Wear Integrated Transport Authority continues to maintain and repair all buildings and structures in a proper manner

Notes to the Accounts

Note 9: Financial Instruments

The following categories of financial instrument are carried on the Balance Sheet:

31 March 2013		31 March 2014
£000		£000
	Short Term Investments:	
18,000	Bank deposits	20,500
	Long Term Debtors:	
47,141	Loans to Nexus	45,236
	Short Term Debtors:	
16,858	Short term debtors:	14,475
31 March 2013		31 March 2014
£000	Borrowings:	£000
(4,694)	Short term borrowing	(7,941)
(202,893)	Financial liabilities at amortised cost - long term borrowing	(196,967)
(207,587)		(204,908)
	Other Long Term Liabilities:	
(8,250)	Pensions Liability	(960)
	Short Term Creditors:	
(44,684)	Short Term Creditors	(38,735)

The short-term investment shown relates to investments placed on behalf of Nexus by the ITA. A corresponding creditor is shown under short-term creditors to recognise the fact that the total investment must be repaid to Nexus on their request.

Income, Expense, Gains and Losses

Financial liabilities, financial assets represented by loans and receivables and long-term debtors and creditors are carried on the Balance Sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instrument, using the following assumptions:

- Public Works Loan Board (PWLB) interest rates for new fixed borrowing in the appropriate maturity bands as at 31 March 2014
- No early repayment or impairment is recognised
- Where an instrument will mature in the next 12 months, carrying amount is assumed to approximate to fair value
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.
- Estimated ranges of interest rates at 31 March 2014 of 2% to 10.3% for loans from the PWLB and 4.1% to 4.9% for other loans receivable and payable, based on new lending rates for equivalent loans at that date

Notes to the Accounts

Note 9 (Continued)

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

2012/13			2013/14		
Financial Liabilities (amortised cost) £000	Financial Assets: Loans and Receivables £000	Total £000	Financial Liabilities (amortised cost) £000	Financial Assets: Loans and Receivables £000	Total £000
9,101		9,101	8,857		8,857
					Interest expense
					Total expense in
					Surplus/Deficit on
9,101	-	9,101	8,857	-	8,857
					Provision of Services
-	(2,900)	(2,900)	-	(2,363)	(2,363)
					Interest income
					Total income in
					Surplus/Deficit on
-	(2,900)	(2,900)	-	(2,363)	(2,363)
					Provision of Services
9,101	(2,900)	6,201	8,857	(2,363)	6,494
					Net (gain)/loss for the
					year

Borrowings and investments disclosed in the Balance Sheet are shown at amortised cost. For most of the Authority's borrowings, this means that the amount presented is the outstanding principal repayable plus accrued interest.

The fair value of borrowings and investments disclosed below is assessed by calculating the net present value of the cash flows that take place over the remaining life of the instruments. The fair value is higher than the carrying amount because the Authority's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the rates applicable to similar loans in the market at the Balance Sheet date. This commitment to pay interest above current market rate increases the amount that the Authority would have to pay (in terms of premiums etc.) if the lender requested or agreed to early repayment of the loans.

For financial instruments with a maturity of twelve months or less the fair value is taken to be the invoiced or billed amount.

For the long term debtor with Nexus, the fair value has been determined to be equal to the carrying value.

Notes to the Accounts

Note 9 (Continued)

Financial Liabilities

31 March 2013		31 March 2014	
Carrying amount £000	Fair value £000	Carrying amount £000	Fair value £000
Short Term Borrowing			
(3,677)	(3,677)	(6,924)	(7,088)
(1,017)	(1,017)	(1,017)	(1,017)
(4,694)	(4,694)	(7,941)	(8,105)
Long Term Borrowing			
(113,893)	(142,041)	(107,967)	(130,074)
(89,000)	(133,343)	(89,000)	(116,342)
(202,893)	(275,384)	(196,967)	(246,416)
(207,587)	(280,078)	(204,908)	(254,521)
Total Borrowing			

Financial Assets

31 March 2013		31 March 2014	
Carrying amount £000	Fair value £000	Carrying amount £000	Fair value £000
47,141	47,141	45,236	45,236
47,141	47,141	45,236	45,236
Total			

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 instrument relates to the fact that the Authority has loans at fixed rates that results in it paying a higher interest charge than if it had taken out variable rate loans.

Note 10: Long Term Debtors

The long term debtor represents loans to Nexus made in previous years, to finance capital expenditure on works relating to Metro operations, special needs transport and bus stations.

31 March 2013 £000		31 March 2014 £000
47,141	Loans to Nexus	45,236
47,141	Closing Balance 31 March	45,236

Notes to the Accounts

Note 11: Short Term Debtors

31 March 2013	31 March 2014
£000	£000
907 Central Government Bodies	1,310
10,056 Other Local Authorities	7,556
5,895 Other entities and individuals	5,609
16,858 Total	14,475

Within 'Other entities and individuals', £5,798k relates to Nexus at 31/03/13 and £5,512k relates to Nexus at 31/03/14.

Note 12: Cash and Cash Equivalents

31 March 2013	31 March 2014
£000	£000
74,084 Bank current accounts	52,004
74,084 Total Cash and Cash Equivalents	52,004

ITA cash was held at the year end in the Newcastle City Council District Account.

Note 13: Short Term Creditors

31 March 2013	31 March 2014
£000	£000
(1,963) Other local authorities	(1,384)
(42,721) Other bodies	(37,351)
(44,684) Total	(38,735)

'Other bodies' can be broken down as follows:

(39,257) Nexus	(33,203)
(2,517) TT2 Ltd	(2,759)
(705) Prepaid Tunnels Permits	(818)
(5) Accrued payments to pension fund	(5)
(237) Other entities and individuals	(566)
(42,721)	(37,351)

The significant level of short term creditors due to Nexus reflects the fact that the ITA is holding investments on its behalf. The creditor is shown to recognise that the total value of these investments must be repaid to Nexus on their request.

Notes to the Accounts

Note 14: Grants and Contributions Received in Advance

2012/13	2013/14
£000	£000
(4,879) NESTI Contributions from Local Authorities	(4,221)
(3,331) Local Sustainable Transport Fund - Schools Go Smarter	(2,577)
(4,888) Local Sustainable Transport Fund - Go Smarter to Work	(4,076)
(2,554) Better Bus Area Fund	(491)
(303) Local Transport Plan	(386)
(15,955) Balance at 31 March	(11,751)
(10,125) Shown as Short-Term Liability on Balance Sheet	(8,404)
(5,830) Shown as Long-Term Liability on Balance Sheet	(3,347)
(15,955)	(11,751)

Grants and Contributions Received in Advance have been split between long term and short term liabilities based on the budget for 2014/15, showing when they are expected to be released to the Comprehensive Income and Expenditure Statement.

Note 15: Usable Reserves

Summary

31 March 2013	31 March 2014
£000	£000
General Fund Reserves	
(2,382) - ITA General Fund	(574)
(40,476) - Tyne Tunnels General Fund	(32,392)
(42,858) Total General Fund Reserves	(32,966)
(12,325) Earmarked Metro Reinvigoration Reserve	(11,425)
(55,183) Total Usable Reserves	(44,391)

ITA General Fund

This represents the unearmarked, usable balances held by the ITA which can be used to support ITA expenditure or allow for a reduction in the levy on Tyne and Wear authorities.

2012/13	2013/14
£000	£000
(2,519) Balance at 1 April	(2,382)
137 Drawn down to support expenditure in year	1,808
(2,382) Balance at 31 March	(574)

Notes to the Accounts

Note 15 (Continued)

Tyne Tunnels General Fund

This reserve represents the balances of the ringfenced Tyne Tunnels trading account. It is shown separately from the ITA General Fund as it is used to support Tyne Tunnels activity only, and is separate from levy-funded activities undertaken by the ITA.

2012/13	2013/14
£000	£000
(41,757) Balance at 1 April	(40,476)
868 (Surplus)/Deficit on Tyne Tunnels trading account	226
- Other expenditure funded by Tyne Tunnels reserves	7,200
413 NESTI expenditure funded by Tyne Tunnels reserves	658
(40,476) Balance at 31 March	(32,392)

Earmarked Metro Reinvigoration Reserve

This is an earmarked reserve which holds amounts ringfenced for expenditure on Metro Reinvigoration

2012/13	2013/14
£000	£000
(14,357) Balance at 1 April	(12,325)
(172) Interest on reserve	(74)
2,204 Draw down to support expenditure in year	974
(12,325) Balance at 31 March	(11,425)

Note 16: Unusable Reserves

Summary

31 March 2013	31 March 2014
£000	£000
(10,290) Revaluation Reserve	(10,128)
(60,398) Capital Adjustment Account	(64,103)
171 Financial Instruments Adjustment Account	99
8,250 Pensions Reserve	960
(62,267) Total Unusable Reserves	(73,172)

Notes to the Accounts

Note 16 (Continued)

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, or
- 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.

2012/13		2013/14
£000		£000
(11,167)	Balance at 1 April	(10,290)
877	Difference between fair value depreciation and historical cost depreciation	162
877	Amount written off to the Capital Adjustment Account	162
(10,290)	Balance at 31 March	(10,128)

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.

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 4 provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

Notes to the Accounts

Note 16 (Continued)

2012/13 £000		2013/14 £000
(55,669)	Balance at 1 April	(60,398)
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:	
3,862	Charges for depreciation and impairment of non current assets	4,792
(5,109)	Write down New Tyne Crossing deferred income balance	(5,509)
20,258	Revenue expenditure funded from capital under statute	14,619
(36,658)		(46,496)
(877)	Adjusting amounts written out of the Revaluation Reserve	(162)
	Capital financing applied in the year:	
(20,671)	Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	(15,277)
(2,192)	Statutory provision for the financing of capital investment charged against the General Fund	(2,168)
-	Capital expenditure charged against the General Fund	-
(60,398)	Balance at 31 March	(64,103)

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 benefiting 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.

2012/13 £000		2013/14 £000
243	Balance at 1 April	171
(72)	Proportion of premiums incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements	(72)
171	Balance at 31 March	99

Notes to the Accounts

Note 16 (Continued)

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 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.

2012/13	2013/14
Restated	
£000	£000
6,730 Balance at 1 April	8,250
2,200 Remeasurements of the net defined benefit liability/(asset)	2,500
300 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	240
(980)	(10,030)
8,250 Balance at 31 March	960

Details of the prior year restatement are shown in Note 31.

Notes to the Accounts

Note 17: Cash Flow Statement: Operating Activities

The cash flows for operating activities includes the following items relating to interest paid and received:

2012/13	2012/13
£000	£000
2,900 Interest received	2,363
(9,101) Interest paid	(8,857)

Note 18: Cash Flow Statement: Adjustments to Net Surplus or Deficit on the Provision of Services for non-cash movements and items that are Investing or Financing Activities

2012/13	2013/14
Restated	£000
£000	£000
(1,154) Surplus or deficit on the provision of services	(2,613)
Adjustments to Surplus or Deficit on Provision of Services for Non-Cash Movements	
(3,862) Depreciation and impairment	(4,792)
(9,801) (Increase) / Decrease in Creditors	6,109
5,110 Increase / (Decrease) in Debtors	(2,308)
680 Movement in Pension Liability	9,790
5,109 Other non-cash items charged to the net surplus or deficit on the provision of services	5,509
(2,764)	14,308
Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	
20,671 Capital grants credited to surplus / deficit on provision of services	15,277
20,671	15,277
16,753	26,972
Net cash flow from operating activities	

Details of the prior year restatement are shown in Note 31.

Notes to the Accounts

Note 19: Cash Flow Statement: Investing Activities

2012/13	2013/14
£000	£000
1,230 Purchase of property, plant and equipment, investment property and intangible assets	2,981
65,000 Purchase of short-term and long-term investments	30,500
- Other payments for investing activities	-
(70,000) Proceeds from short-term and long-term investments	(28,000)
(23,312) Other receipts from investing activities	(13,053)
(27,082) Net cash flows from investing activities	(7,572)

Note 20: Cash Flows from Financing Activities

2012/13	2013/14
£000	£000
- Cash receipts of short and long-term borrowing	-
- Other receipts from financing activities	-
2,699 Repayments of short and long-term borrowing	2,667
- Other payments for financing activities	13
2,699 Net cash flows from financing activities	2,680

Note 21: Members' Allowances

The Authority paid the following amounts to members the during the year:

2012/13	2013/14
£000	£000
82 Allowances	80
82 Total	80

Note 22: 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

2012/13	2013/14
£000	£000
20 Fees payable with regard to external audit services carried out by the appointed auditor for the year	20
(2) Rebate on audit fee received from Audit Commission	(3)
18 Total	17

Notes to the Accounts

Note 23: Amounts Reported for Resource Allocation

The analysis of income and expenditure on the face of the CIES is that specified by the Service Reporting Code of Practice (SeRCOP). However, decisions about resource allocation are taken by the Authority on the basis of budget reports analysed across functions - i.e. split between costs relating to the ITA and costs relating to the Tyne Tunnels. These reports are prepared on a different basis from the accounting policies used in the financial statements. In particular, no charges are made in relation to capital expenditure (whereas depreciation, revaluation and impairment losses in excess of the balance on the Revaluation Reserve and amortisation are charged to services in the CIES; and the cost of retirement benefits is based on cash flows (payment of Employers' pension contributions and deficit payments) rather than the current service cost of benefits accrued in the year.

	ITA	Tyne Tunnels	Total
2013/14	£000	£000	£000
Fees, charges & other service income	-	(23,896)	(23,896)
Levy income	(70,207)	-	(70,207)
Interest	(20)	(236)	(256)
Total Income	(70,227)	(24,132)	(94,359)
Employee expenses (including pensions)	2,279	7,786	10,065
Other service expenses	150	16,991	17,141
Support service recharges	285	116	401
Provision for Repayment of Debt	1,173	995	2,168
Interest Payments	1,226	5,671	6,897
Public Transport Revenue Grant to Nexus and contribution to Tyne & Wear Districts	66,922	-	66,922
NESTI Expenditure met from Tyne Tunnels reserves	-	658	658
Total Expenditure	72,035	32,217	104,252
Net Expenditure	1,808	8,085	9,893

Reconciliation of Income and Expenditure to Cost of Services

This reconciliation shows how the figures in the analysis of Income and Expenditure reported to Management relates to the amounts included in the CIES.

	2013/14
	£000
Net Expenditure in the Analysis reported to Management	9,893
Amounts in the CIES not reported to Management in the Analysis	(392)
Amounts included in the Analysis not included in the CIES Cost of Services	51,368
Cost of Services in Comprehensive Income and Expenditure Statement	60,869

Notes to the Accounts

Note 23 (Continued)

Reconciliation to Subjective Analysis

This reconciliation shows how the figures in the analysis of income and expenditure by function relate to a subjective analysis of the Surplus or Deficit on the Provision of Services included in the Comprehensive Income and Expenditure Statement.

	Analysis by function	Amounts not reported to management for decision making	Amounts not included in CIES Cost of Services	Cost of Services	Corporate Amounts	Total
2013/14	£000	£000	£000	£000	£000	£000
Fees, charges & other service income	(23,896)	-	-	(23,896)	-	(23,896)
New Tyne Crossing Deferred Income Release	-	(5,509)	-	(5,509)	-	(5,509)
Interest and investment income	(256)	-	256	-	(2,363)	(2,363)
Levy income	(70,207)	-	70,207	-	(70,207)	(70,207)
Government grants and contributions	-	(17,750)	-	(17,750)	-	(17,750)
Total Income	(94,359)	(23,259)	70,463	(47,155)	(72,570)	(119,725)
Employee expenses	10,065	10	(10,030)	45	-	45
Other service expenses	17,141	3,466	-	20,607	-	20,607
Support Service recharges	401	-	-	401	-	401
Provision for Repayment of Debt	2,168	-	(2,168)	-	-	-
Interest Payments	6,897	-	(6,897)	-	9,087	9,087
Depreciation and REFCUS	-	19,411	-	19,411	-	19,411
Public Transport Revenue Grant to Nexus	66,922	-	-	66,922	-	66,922
NESTI Expenditure met from Tyne Tunnels	658	-	-	658	-	658
Total expenditure	104,252	22,887	(19,095)	108,044	9,087	117,131
Surplus or deficit on the provision of services	9,893	(372)	51,368	60,889	(63,483)	(2,594)

Notes to the Accounts

Note 23 (Continued)

Comparative Figures for 2012/13

Income and Expenditure reported to Management

	ITA	Tyne Tunnels	Total
2012/13	£000	£000	£000
Fees, charges & other service income	-	(19,979)	(19,979)
Levy income	(70,207)	-	(70,207)
Interest	(35)	(517)	(552)
Total Income	(70,242)	(20,496)	(90,738)
Employee expenses (including pensions)	455	557	1,012
Other service expenses	164	14,077	14,241
Support service recharges	270	108	378
Provision for Repayment of Debt	1,222	970	2,192
Interest Payments	1,346	5,652	6,998
Public Transport Revenue Grant to Nexus	66,922	-	66,922
NESTI Expenditure met from Tyne Tunnels reserves	-	413	413
Total Expenditure	70,379	21,777	92,156
Net Expenditure	137	1,281	1,418

Reconciliation of Income and Expenditure to Cost of Services

	2012/13
	£000
Net Expenditure in the Analysis reported to Management	1,418
Amounts in the CIES not reported to Management in the Analysis	555
Amounts included in the Analysis not included in the CIES Cost of Services	60,589
Cost of Services in Comprehensive Income and Expenditure Statement	62,562

Notes to the Accounts

Note 23 (Continued)

	Analysis by function	Amounts not reported to management for decision making	Amounts not included in CIES Cost of Services	Cost of Services	Corporate Amounts	Total
2012/13 Restated	£000	£000	£000	£000	£000	£000
Fees, charges & other service income	(19,979)	-	-	(19,979)	-	(19,979)
New Tyne Crossing Deferred Income Release	-	(5,109)	-	(5,109)	-	(5,109)
Interest and investment income	(552)	-	552	-	(2,900)	(2,900)
Levy income	(70,207)	-	70,207	-	(70,207)	(70,207)
Government grants and contributions	-	(22,083)	-	(22,083)	-	(22,083)
Total Income	(90,738)	(27,192)	70,759	(47,171)	(73,107)	(120,278)
Employee expenses	1,012	10	(980)	42	-	42
Other service expenses	14,241	1,414	-	15,655	-	15,655
Support Service recharges	378	-	-	378	-	378
Provision for Repayment of Debt	2,192	-	(2,192)	-	-	-
Interest Payments	6,998	-	(6,998)	-	9,391	9,391
Depreciation and REFCUS	-	26,323	-	26,323	-	26,323
Public Transport Revenue Grant to Nexus	66,922	-	-	66,922	-	66,922
NESTI Expenditure met from Tyne Tunnels	413	-	-	413	-	413
Total expenditure	92,156	27,747	(10,170)	109,733	9,391	119,124
Surplus or deficit on the provision of services	1,418	555	60,589	62,562	(63,716)	(1,154)

Notes to the Accounts

Note 24: Grant Income

The Authority credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2013/14:

2012/13 £000		2013/14 £000
	Credited to Services	
(14,867)	Local Transport Plan	(12,309)
(1,254)	Local Sustainable Transport Fund	(2,470)
(3,235)	NESTI	(658)
(2,418)	Better Bus Area Fund	(2,063)
(309)	Local Contributions to Go Smarter Programme	(250)
<u>(22,083)</u>		<u>(17,750)</u>

Note 25: 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 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.

Central government has effective control over the general operations of the Authority - it is responsible for providing the statutory framework within which the Authority operates, provides funding in the form of grants and prescribes the terms of many of the transactions that the Authority has with other parties (e.g. Authorities contributing to the Levy). Grants received from government departments are set out in the subjective analysis in Note 23 on reporting for resource allocation decisions.

Notes to the Accounts

Note 25 (Continued)

Members of the Authority have direct control over the Authority's financial and operating policies and are required to disclose all pecuniary and non-financial interests which could conflict with those of the Authority. No such disclosures were made in 2013/14.

Under the Officer's Code, officers must declare any potential contractual or financial interest in the work of the Authority. There were no such declarations during the year.

Other Public Bodies (subject to common control by central government)

The Authority has a direct relationship with the Passenger Transport Executive (Nexus). The ITA sets the policy, which is then delivered by Nexus. During 2013/14 The Clerk to the ITA, Treasurer & Deputy Clerk and the Director of Housing, Planning and Transportation were non-Executive Directors of Nexus and also officers of Newcastle City Council. New officer arrangements have been put in place to provide services to the North East Combined Authority for the period from 15 April 2014.

The tables below and overleaf set out all expenditure paid to and income received from any related parties in 2013/14, including amounts accrued at the year end.

	2012/13 £000	2013/14 £000	£000
		Paid / Received in year	Accrued at year end
Receipts			
<u>Levy on Tyne and Wear Councils</u>			
Gateshead Council	(12,021)	(12,737)	-
Newcastle City Council	(18,323)	(17,747)	-
North Tyneside Council	(12,447)	(12,794)	-
South Tyneside Council	(9,638)	(9,424)	-
Sunderland City Council	(17,778)	(17,505)	-
	<u>(70,207)</u>	<u>(70,207)</u>	-
<u>Newcastle City Council (NCC)</u>			
Interest on Revenue Balances	(725)	(330)	-
Investments held on behalf of Nexus by NCC	(10,000)	-	(7,500)

Notes to the Accounts

Note 25 (Continued)

	2012/13	2013/14	
	£000	£000	£000
		Paid / Received in year	Accrued at year end
Receipts			
<u>Nexus</u>			
Loans from ITA - Principal	(2,057)	-	(1,980)
Loans from ITA - Interest	(1,740)	-	(1,625)
	<u>(3,797)</u>	<u>-</u>	<u>(3,605)</u>

The amount paid/received in year is shown as nil since these receipts are paid following the year end (i.e. the 2012/13 invoice was paid in April 2013).

Contributions to NESTI held as Contributions Received*

Darlington Borough Council	(215)	-	(186)
Durham County Council	(731)	-	(632)
Gateshead Council	(375)	-	(325)
Hartlepool Borough Council	(148)	-	(128)
Middlesbrough Borough Council	(248)	-	(215)
Newcastle City Council	(451)	-	(390)
North Tyneside Council	(290)	-	(251)
Northumberland County Council	(441)	-	(382)
Redcar & Cleveland Borough Council	(195)	-	(168)
South Tyneside Council	(231)	-	(199)
Stockton-on-Tees Borough Council	(280)	-	(242)
Sunderland City Council	(453)	-	(392)
	<u>(4,058)</u>	<u>-</u>	<u>(3,510)</u>

* A pro-rata split according to original percentage contribution has been applied to split total NESTI contributions held on ITA balance sheet at year end (excluding TWITA's own allocation).

Notes to the Accounts

Note 25 (Continued)

	2012/13	2013/14	
	£000	£000	£000
		Paid / Received in year	Accrued at year end
Payments			
<u>Specific Grants</u>			
Gateshead Council	2,349	2,009	328
Newcastle City Council	2,276	2,222	151
North Tyneside Council	1,780	1,421	176
South Tyneside Council	1,353	1,135	316
Sunderland City Council	2,639	2,342	272
	10,397	9,129	1,243
<u>Levy rebate</u>			
Gateshead Council	-	363	-
Newcastle City Council	-	506	-
North Tyneside Council	-	364	-
South Tyneside Council	-	268	-
Sunderland City Council	-	499	-
	-	2,000	-
<u>Newcastle City Council</u>			
Provision of Support Services	668	827	-
	2012/13	2013/14	
	£000	£000	£000
		Paid / Received in year	Accrued at year end
<u>Nexus</u>			
Revenue Support Grant	66,922	64,922	-
Specific Grants	9,334	54	5,191
Grant from Metro Reinvigoration Reserve	2,204	-	974
	78,460	64,976	6,165
<u>Tyne & Wear Superannuation Fund</u>			
Employers Contributions	981	1,026	4
Lump sum payment to reduce deficit	-	9,000	-
	981	10,026	4

Notes to the Accounts

Note 26: Capital Expenditure and 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 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. The CFR is analysed in the second part of this note.

2012/13		2013/14
£000		£000
214,386	Opening Capital Financing Requirement	211,221
	Capital investment:	
1,084	- Property, Plant and Equipment	3,141
-	- Investment Properties	-
-	- Non Operational assets	-
20,258	- Revenue Expenditure Funded from Capital under Statute	14,619
-	- Loans to Other Public Bodies	-
	Sources of finance:	
(2,057)	- Capital receipts (Nexus borrowing repayments)	(1,980)
(20,258)	- Government grants and other contributions	(15,277)
	Sums set aside from revenue:	
-	- Direct revenue contributions	-
(2,192)	- Minimum revenue provision	(2,168)
211,221	Closing Capital Financing Requirement	209,556
	Explanation of movements in year:	
(3,165)	- Increase/(Decrease) in underlying need to borrow (unsupported by government financial assistance)	(1,665)
(3,165)	Increase/(decrease) in Capital Financing Requirement	(1,665)

Notes to the Accounts

Note 27: Private Finance Initiatives and Similar Contracts

In November 2007 the ITA 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 tunnel for a period of thirty years. The second tunnel was opened on 25 February 2011, with the refurbished original tunnel opened on 21 November 2011. Both are included on the ITA's balance sheet.

In 2013/14 the payment under the contract was £16.929m. In 2012/13 this was £13.986m. The payment under the contract in 2014/15 is estimated to be £18.303m.

The contribution by TT2 is recognised as a deferred income balance (with a 2013/14 value of £122.214m) which is written down over the remaining life of the contract.

	Estimated TT2 Payment of Toll Income £000	Deferred Income release £000
Payable in 2014/15	18,303	(5,092)
Payable within two to five years	89,941	(20,369)
Payable within six to ten years	147,328	(25,461)
Payable within eleven to fifteen years	179,082	(25,461)
Payable within sixteen to twenty years	210,047	(25,461)
Payable within twenty-one to twenty-five years	170,868	(20,370)
Total	815,569	(122,214)
	31 March 2013	31 March 2014
	£000	£000
Shown as Short Term Liability on Balance Sheet	(5,501)	(5,092)
Shown as Long Term Liability on Balance Sheet	(122,222)	(117,122)
Total New Tyne Crossing Deferred Income Balance	(127,723)	(122,214)
Released to CIES in year	(5,109)	(5,509)

Notes to the Accounts

Note 28: Defined Benefit Pension Schemes

The Authority participates in two post employment schemes:

(i) the Tyne & Wear Pension Fund, administered locally by South Tyneside Council - this is a funded defined benefit final salary scheme, meaning that the Authority and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment

(ii) Unfunded Defined Benefit Arrangements for the award of discretionary post retirement 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 pensions liabilities, and cash has to be generated to meet actual pensions payments as they eventually fall due.

Reconciliation of funded status and unfunded defined benefit obligation to Balance Sheet

	Local Government Pension Scheme		Discretionary Benefits Arrangements	
	2012/13 £000	2013/14 £000	2012/13 £000	2013/14 £000
Fair value of assets	24,990	34,920	-	-
Present value of funded defined benefit	(32,270)	(32,640)	(970)	(960)
Funded status	(7,280)	2,280	(970)	(960)
Impact of minimum funding requirement / asset ceiling under	-	(2,280)	-	-
Asset / (Liability) recognised on the balance sheet	(7,280)	-	(970)	(960)

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:

Notes to the Accounts

Note 28 (Continued)

	Local Government Pension Scheme		Discretionary Benefits Arrangements	
	2012/13 £000	2013/14 £000	2012/13 £000	2013/14 £000
Comprehensive Income and Expenditure Statement				
Cost of Services:				
Current service cost	10	10	-	-
Past service costs	-	-	-	-
Financing and Investment Income and Expenditure:				
Interest on net defined benefit	250	190	40	40
Pension expense recognised in profit and loss	260	200	40	40
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	(1,680)	(120)	-	-
Actuarial (gains)/losses due to changes in financial assumptions	3,780	(1,670)	70	(30)
Actuarial (gains)/losses due to changes in demographic assumptions	-	860	-	30
Actuarial (gains)/losses due to changes in liability assumptions	20	1,150	10	-
Total actuarial (gains)/losses	2,120	220	80	-
Adjustment in respect of paragraph 58	-	2,280	-	-
Total amount recognised in Other Comprehensive Income	2,120	2,500	80	-
Total amount recognised in Comprehensive Income and Expenditure Statement	2,380	2,700	120	40

Notes to the Accounts

Note 28 (Continued)

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	
	2012/13 £000	2013/14 £000	2012/13 £000	2013/14 £000
Opening balance at 1 April	(28,630)	(32,270)	(900)	(970)
Current service cost	(10)	(10)	-	-
Interest cost	(1,290)	(1,300)	(40)	(40)
Contributions by participants	-	-	-	-
Actuarial gains/(losses) on liabilities - financial assumptions	(3,780)	1,670	(70)	30
Actuarial gains/(losses) on liabilities - demographic assumptions	-	(860)	-	(30)
Actuarial gains/(losses) on liabilities - experience	(20)	(1,150)	(10)	-
Net benefits paid out	1,460	1,280	50	50
Past service costs	-	-	-	-
Closing balance at 31 March	(32,270)	(32,640)	(970)	(960)

Reconciliation of fair value of the scheme assets:

	Local Government Pension Scheme	
	2012/13 £000	2013/14 £000
Opening balance at 1 April	22,800	24,990
Interest income on assets	1,040	1,110
Remeasurement gains/(losses) on assets	1,680	120
Employer contributions	930	9,980
Contributions by scheme participants	-	-
Net benefits paid out	(1,460)	(1,280)
Closing balance at 31 March	24,990	34,920

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.

Notes to the Accounts

Note 28 (Continued)

Scheme History

	2009/10 £000	2010/11 £000	2011/12 £000	2012/13 £000	2013/14 £000
Fair value of assets in the Local	21,690	22,650	22,800	24,990	34,920
Present value of liabilities:					
Local Government funding requirement/asset ceiling under paragraph	(36,170)	(26,130)	(28,630)	(32,270)	(32,640)
funded defined benefit scheme:					
Discretionary benefits	(910)	(790)	(900)	(970)	(960)
Total Surplus/(deficit)	(15,390)	(4,270)	(6,730)	(8,250)	(960)

The split of the defined benefit obligation at the last valuation date between the various categories of members was as follows; active members 26%, deferred pensioners 13% and pensioners 61%.

As a result of the £9m lump sum payment to the Pension Fund made during 2013/14, contributions for the next three years have been set to nil. Any deficit will be assessed at the next triennial valuation date of 31 March 2016. Expected payments direct to beneficiaries in the year to 31 March 2014 are £0.05m in relation to unfunded benefits.

Basis for Estimating Assets and Liabilities

The latest actuarial valuation of Tyne & Wear Integrated Transport Authority's liabilities took place as at 31 March 2013. Liabilities have been estimated by the independent qualified actuary on an actuarial basis using the projected unit credit method. The principal assumptions used by the actuary in updating the latest valuation of the Fund for IAS 19 purposes were:

	Local Government Pension Scheme and Discretionary	
	2012/13	2013/14
Mortality assumptions:-		
Longevity at 65 for current pensioners:		
Men	21.7	23.0
Women	23.9	24.6
Rate for discounting scheme liabilities	4.1%	4.2%
Rate of inflation - Retail Price Index	3.3%	3.2%
Rate of inflation - Consumer Price Index	2.4%	2.2%
Rate of increase in pensions	2.4%	2.2%
Rate of increase to deferred pensions	2.4%	2.2%
Rate of increase in salaries	3.8%	3.7%

Notes to the Accounts

Note 28 (Continued)

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

	31 March 2013	31 March 2014		%
	%	Quoted	Unquoted	
Equity investments	68.0	58.1	8.7	66.8
Property	9.0	0.0	8.5	8.5
Government bonds	7.0	3.5	0.0	3.5
Corporate bonds	11.0	11.5	0.0	11.5
Cash	1.6	2.9	0.0	2.9
Other*	3.4	5.0	1.8	6.8
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 get a return in line with equities.

Actual Return on Assets

	Funded	Funded
	31 March 2013	31 March 2014
	£000	£000
Interest income on assets	(1,040)	(1,110)
Remeasurement	(1,680)	(120)
gain/(loss) on assets		
Actual return on assets	(2,720)	(1,230)

Notes to the Accounts

Note 28 (Continued)

Sensitivity Analysis

The results shown in this disclosure are sensitive to the assumptions used. The approximate impact of changing the key assumptions as at 31 March 2014 and the projected service cost for the year ending 31 March 2015 is set out below.

In each case, only the assumption mentioned is altered; all other assumptions remain the same.

Sensitivity of unfunded benefits is not included on materiality grounds.

Funded LGPS Benefits

Discount rate assumption

Adjustment to discount rate	+0.1% p.a.	-0.1% p.a.
Present value of total obligation (£m)	32.18	33.15
% change in present value of total obligation	-1.4%	1.6%

Rate of general increase in salaries

Adjustment to salary increase rate	+0.1% p.a.	-0.1% p.a.
Present value of total obligation (£m)	32.65	32.64
% change in present value of total obligation	0.0%	0.0%

Rate of increase to pensions in payment and deferred pensions assumption, and rate of revaluation of pension accounts assumption

Adjustment to pension increase rate	+0.1% p.a.	-0.1% p.a.
Present value of total obligation (£m)	33.46	31.89
% change in present value of total obligation	2.5%	-2.3%

Post retirement mortality age rating assumption

Adjustment to mortality age rating assumption*	-1 year	+1 year
Present value of total obligation (£m)	33.71	31.58
% change in present value of total obligation	3.3%	-3.3%

*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

Notes to the Accounts

Note 29: Contingent Liabilities

The ITA 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 ITA will be required to reimburse the shortfall. The calculation to determine the position on the ITA and the TT2 elements of the assets is currently underway following the most recent triennial valuation.

Under Part 1 of the Land Compensation Act 1973, TWITA has received a total of 215 claims from agents acting on behalf of homeowners who allege that the value of their properties have been adversely affected by the New Tyne Crossing works. However, none of the claims received have included any supporting justification or evidence and so their validity cannot currently be assessed. This supporting information has been requested of the agents by TWITA but has not yet been received. It is therefore not possible to reliably estimate the value or timing of the liability at this point. Once the claims have been assessed, the costs of valid claims will be met from Tyne Tunnels reserves.

There is the possibility that the previous approach to Tyne Tunnel toll exemptions may be subject to challenge from some individuals who consider that they should not have been charged tolls but instead should have benefitted from exemptions for a period from August 2005. The Combined Authority would need to consider the merits of any such claims for reimbursement if received. It is not currently possible to reliably estimate the extent or timing of the liability (if any) which may arise, although it is not considered to be material and would be met from Tyne Tunnels reserves.

Notes to the Accounts

Note 30: 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 stock 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 Treasury Management officers under policies approved by the Authority in the Treasury Management Policy. The policy 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 risk is minimised through the Treasury Management Policy, which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria. The Treasury Management policy 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 which is agreed by the ITA.

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 very 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.

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 recoverability applied to all of the Authority's deposits, but there was no evidence at 31 March 2013 that this was likely to crystallise.

Notes to the Accounts

Note 30 (Continued)

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 that 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:

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 example, 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 the liabilities will fall

	31 March 2013	31 March 2014
	£000	£000
Less than one year	(4,694)	(7,941)
Between one and two years	(7,260)	(4,333)
Between two and five years	(3,667)	(2,000)
More than five years	(191,966)	(190,634)
	(207,587)	(204,908)

Notes to the Accounts

Note 30 (Continued)

- 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. 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 risk of loss is ameliorated by the fact that a proportion of government grant payable on financing costs will normally move with prevailing interest rates or the Authority's cost of borrowing and provide compensation for a proportion of any higher costs.

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 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.

According to this investment strategy, at 31 March 2014 if interest rates had been 1% higher with all other variables held constant, the financial effect would be:

	£000
Increase in interest payable on variable rate borrowings*	-
Increase in interest receivable on variable rate investments	(550)
Impact on Surplus or Deficit on the Provision of Services	<u>(550)</u>

*The ITA's borrowings are all currently 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.

Foreign Exchange Risk

The Authority has no financial assets or liabilities denominated in foreign currencies and thus has no exposure to loss arising from movements in exchange rates.

Notes to the Accounts

Note 31: Prior Period Adjustments and Changes in Accounting Policies

IAS 19 Change to Accounting Standard

Adjustments have been made to the 2012/13 financial statements to take account of the amended IAS 19 Pension Costs accounting standard. The revised standard implemented a change to the expected return on asset component of pension cost. The change means that the expected return on assets is calculated at the discount rate, instead of, as previously, at an expected rate of return based on actual plan assets held. Below is an extract of the changes in respect of the Comprehensive Income & Expenditure Statement, Movement in Reserves and Cash Flow. Where figures within the supplementary notes to the accounts have been restated this is indicated on the note. Note 28 – Pension Costs has been prepared based on the restated figures for 2012/13.

Adjustments to 2012/13 Comprehensive Income and Expenditure Statement

2012/13 Published Accounts			IAS 19 Adjust- ment	2012/13 Restatement		
Gross Expenditure £000	Gross Income £000	Net Expenditure £000	£000	Gross Expenditure £000	Gross Income £000	Net Expenditure £000
9,101	(3,160)	5,941	550	9,391	(2,900)	6,491
		Financing & Investment Income and Expenditure				
		(1,704) Surplus on Provision of Services	550			(1,154)
		2,750 Actuarial Losses on Pension Assets / Liabilities	(550)			2,200
		1,046 Total Comprehensive Income & Expenditure	-			1,046

Notes to the Accounts

Note 31 (Continued)

Adjustments to 2012/13 Movement in Reserves

Total Usable Reserves	Unusable Reserves	Total Reserves		IAS19 Adjust-ment	Total Usable Reserves	Unusable Reserves	Total Reserves
£000	£000	£000		£000	£000	£000	£000
(58,634)	(59,862)	(118,496)	Balance at 1 April 2012	-	(58,634)	(59,862)	(118,496)
(1,704)	-	(1,704)	(Surplus) on Provision of Services	550	(1,154)	-	(1,154)
-	2,750	2,750	Other Comprehensive Income and Expenditure	(550)		2,200	2,200
(1,704)	2,750	1,046	Total Comprehensive Income and Expenditure	-	(1,154)	2,200	1,046
5,154	(5,154)	-	Adjustments between Accounting Basis and Funding Basis Under Net (Increase) / Decrease before transfers to Earmarked Reserves		4,604	(4,604)	-
-	-	1,046	(Increase) / Decrease in 2012/13				1,046
(58,634)	(59,862)	(117,450)	Balance at 31 March 2013	-	(58,634)	(59,862)	(117,450)

Adjustments to 2012/13 Cash Flow Statement

2012/13 Published £000		IAS 19 Adjustment	2012/13 Restated £000
(1,704)	Net surplus on the provision of services	550	(1,154)
(2,214)	Adjustments to net surplus or deficit on the provision of services for non cash movements	(550)	(2,764)
20,671	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	-	20,671
16,753	Net cash flows from Operating Activities		16,753

Notes to the Accounts

Note 32: Events After the Balance Sheet Date

On 15 April 2014, the Tyne and Wear Integrated Transport Authority was dissolved and its functions, assets and liabilities wholly transferred to the North East Combined Authority, which was established on the same day.

Accounts for the period 1 April to 15 April 2014 will be presented with the accounts for the North East Combined Authority for the year ending 31 March 2015.

Notes to the Accounts

Note 33: Accounting Policies

1. General Principles

The Statement of Accounts summarises the Authority's transactions for the 2013/14 financial year and its position at the year-end of 31 March 2014. The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit (England) Regulations, 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 2013/14 (the Code) and the Service Reporting Code of Practice for Local Authorities 2013/14, supported by International Financial Reporting Standards (IFRS).

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

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.

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 no more than three months or less 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

Where 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

Notes to the Accounts - Accounting Policies

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.

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 and amortisations 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 Costs

Following the transfer of the Tyne Tunnels to the Concessionaire in 2008, the ITA only has one employee. The full cost of the employee, including holidays, is charged to the accounts of the period within which the employee worked.

Employee costs in the Comprehensive Income and Expenditure Statement include the direct salaries and employers' contributions for National Insurance and contributions to the Local Government Pension Scheme in respect of that member of staff. Officers of the Authority and other professional and technical support staff are primarily employed by the Lead Authority, Newcastle City Council. Their costs are charged to the ITA, together with a proportion of overhead costs, on the basis of estimated time spent on ITA business by the staff involved.

Under the Code, an accrual is required for the cost of holiday entitlements (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. Since the ITA only has one employee, this amount is not material and so an accrual will not be made.

8. Pensions

The ITA participates in 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

Notes to the Accounts - Accounting Policies

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 liabilities of the pension fund attributable to the ITA 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, etc, and projections of projected earnings for current employees;

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 seven 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. **Interest cost** - the expected increase in the present value of liabilities during the year as they move one year closer to being paid - debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;
- 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 and 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, charges 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 by 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 28.

Notes to the Accounts - Accounting Policies

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; and
- 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. 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.

Notes to the Accounts - Accounting Policies

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; and
- 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 Authority 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.

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

Notes to the Accounts - Accounting Policies

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).

11. Government Grants and Contributions

The provisions relating to Grants and Contributions apply to both revenue and capital grants and 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; and
- 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) or Taxation and Non-Specific Grant Income (non-ringfenced 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

Notes to the Accounts - Accounting Policies

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.

12. Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

The ITA is not currently party to any lease arrangements, either as lessor or lessee.

(a) The Authority as Lessee

Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a rent-free period at the commencement of the lease).

(b) The Authority as Lessor

Operating Leases

Where the Authority grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

13. Property, Plant and 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.

Notes to the Accounts - Accounting Policies

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; and
- The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

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, community assets and assets under construction – depreciated historical cost;
- All other assets – fair 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 fair 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. This work is carried out on behalf of the Authority by the Property Services Division of the lead authority. Revaluations are detailed within the Notes to the Core

Notes to the Accounts - Accounting Policies

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 by:

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

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

De Minimis Levels

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

Impairment

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

Where impairment losses are identified, they are accounted for by:

- 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); and
- 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

Notes to the Accounts - Accounting Policies

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 is calculated by taking the asset value at 31 March 2014, divided by remaining life expectancy. Depreciation is therefore charged in the year of acquisition, but not the year of disposal.

Depreciation on vehicles and plant is based on a thirty year useful economic life, since this class of asset relates to assets which were transferred to the concessionaire, TT2 Ltd at the commencement of the thirty year contract. These assets (or their equivalent replacements) are to be returned to the ITA at the end of the contract.

The Tyne Vehicle Tunnels are depreciated over a 120 year useful life and the Tyne Pedestrian and Cycle Tunnels over a 40-120 year.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the 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 Service and the Toll Plaza 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

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. The balance of receipts is 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.

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 the 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.

Notes to the Accounts - Accounting Policies

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 the ITA therefore recognises the costs of the new tunnel on its Balance Sheet.

In most arrangements within the scope of the Application, the grantor will account for the arrangement's financing by recording and measuring a long term liability in accordance with IAS17. 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 the new tunnel and the existing tunnel. The ITA may therefore have no long term obligation to transfer economic resources to TT2 Ltd. 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 the ITA 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 type Shadow Tolls;
- The Formula Tolls are the initially-defined sequence of tolls to be charged to users and collected by the ITA. If the ITA varies a Real Toll from its corresponding Formula Toll, the Operator is compensated for the effect of this adjustment on demand.

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

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

In relation to such an arrangement, the Code and the accompanying guidance 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. The ITA has therefore recognised a deferred credit balance, added to as each of Phase 1 and Phase 2 are 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

Notes to the Accounts - Accounting Policies

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 – these reserves are explained in the relevant policies.

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 as 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 reversed out the amounts charged so that there is no impact on the levy.

Notes to the Accounts - Accounting Policies

19. VAT

VAT payable is included as an expense only to the extent that it is not recoverable from HM Revenue and 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 the ITA 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 ITA, Tyne Tunnels and the New Tyne Crossing project in accordance with estimated work done on each area.

21. Tyne Tunnel Income

The majority of the income from tolls is received on a cash basis and so no accruals are necessary. However, prepayments on permit accounts are also received. The balance outstanding on the permit account has been accrued.

22. Group Accounts

The ITA is required by the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 to produce Group Accounts to include services provided to Council Tax payers in Tyne and Wear 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 Integrated Transport 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 the ITA 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 2013/14 accounts, the ITA has fully complied with the requirements of the Code, providing Group figures for the 2013/14 accounts and comparators for 2012/13. 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.



Section 3

Tyne & Wear Integrated Transport Authority

Group Accounts for the year ended 31
March 2014

Group Movement in Reserves Statement

	ITA Usable Reserves £000	ITA Unusable Reserves £000	Total ITA Reserves £000	Authority Share of Nexus £000	Total Group Reserves £000
Balance at 1 April 2013	(55,184)	(62,266)	(117,450)	(393,576)	(511,026)
<u>Movement in reserves during 2013/14</u>					
Surplus or (deficit) on provision of services	(2,613)	-	(2,613)	(21,047)	(23,660)
Other Comprehensive Income and Expenditure	-	2,500	2,500	(15,222)	(12,722)
Total Comprehensive Income and Expenditure	(2,613)	2,500	(113)	(36,269)	(36,382)
Adjustments between accounting basis and funding basis under regulations	13,406	(13,406)	-	-	-
Net Increase/Decrease before Transfers to Earmarked Reserves	10,793	(10,906)	(113)	(36,269)	(36,382)
Transfer to/from Earmarked Reserves	-	-	-	-	-
Increase/Decrease in 2013/14	10,793	(10,906)	(113)	(36,269)	(36,382)
Balance at 31 March 2014 carried forward	(44,391)	(73,172)	(117,563)	(429,845)	(547,408)

Analysis of Usable and Unusable Reserves

	Balance at 31 March 2014 carried forward		
	Usable Reserves £000	Unusable Reserves £000	Total Group Reserves £000
ITA	(44,391)	(73,172)	(117,563)
Nexus	(38,125)	(391,720)	(429,845)
Total	(82,516)	(464,892)	(547,408)

Group Movement in Reserves Statement

2012/13 Restated

	ITA Usable Reserves £000	ITA Unusable Reserves £000	Total ITA Reserves £000	Authority Share of Nexus £000	Total Group Reserves £000
Balance at 1 April 2012	(58,634)	(59,862)	(118,496)	(366,388)	(484,884)
<u>Movement in reserves during 2012/13</u>					
Surplus or (deficit) on provision of services	(1,154)	-	(1,154)	(32,443)	(33,597)
Other Comprehensive Income and Expenditure	-	2,200	2,200	5,255	7,455
Total Comprehensive Income and Expenditure	(1,154)	2,200	1,046	(27,188)	(26,142)
Adjustments between accounting basis and funding basis under regulations	4,604	(4,604)	-	-	-
Net Increase/Decrease before Transfers to Earmarked Reserves	3,450	(2,404)	1,046	(27,188)	(26,142)
Transfer to/from Earmarked Reserves	-	-	-	-	-
Increase/Decrease in 2012/13	3,450	(2,404)	1,046	(27,188)	(26,142)
Balance at 31 March 2013 carried forward	(55,184)	(62,266)	(117,450)	(393,576)	(511,026)

Analysis of Usable and Unusable Reserves

	Balance at 31 March 2013 carried forward		
	Usable Reserves £000	Unusable Reserves £000	Total Group Reserves £000
ITA	(55,184)	(62,266)	(117,450)
Nexus	(36,047)	(357,529)	(393,576)
Total	(91,231)	(419,795)	(511,026)

Group Comprehensive Income and Expenditure Statement

← 2012/13 →			← 2013/14 →			
Restated						
Gross Expenditure	Gross Income	Net Expenditure		Gross Expenditure	Gross Income	Net Expenditure
£000	£000	£000		£000	£000	£000
2,735	-	2,735	Corporate and Democratic Core	2,726	-	2,726
			Highways and Transport			-
18,079	(25,088)	(7,009)	- Tyne Tunnels	21,934	(29,405)	(7,471)
172,701	(105,527)	67,174	- Other Highways and Transport Services	175,949	(101,970)	73,979
133	-	133	Non-Distributed Costs	366	-	366
193,648	(130,615)	63,033	Cost of Services	200,975	(131,375)	69,600
12,172	(1,994)	10,178	Financing and Investment Income and Expenditure (Note 3)	11,697	(1,080)	10,617
		574	(Gain)/Loss on disposal of fixed assets			(24)
		(107,382)	Non-Specific Grant Income (Note 5)			(103,853)
		(33,597)	(Surplus) / Deficit on Provision of Services			(23,660)
		95	Taxation Charge for the Year			(702)
		7,360	Re-measurement of the defined benefit liability			(12,020)
		7,455	Other Comprehensive Income and Expenditure			(12,722)
		(26,142)	Total Comprehensive Income and Expenditure			(36,382)

Group Balance Sheet

31 March 2013 £000	Notes	31 March 2014 £000	
815,139	Property, Plant and Equipment	6	830,187
2,338	Intangible Assets	7	1,909
1	Long Term Investments	8	1
817,478	Long Term Assets		832,097
18,000	Short Term Investments	8	20,500
1,136	Inventories		913
30,303	Short Term Debtors	9	22,672
101,728	Cash and Cash Equivalents	10	86,904
151,167	Current Assets		130,989
(4,694)	Short Term Borrowing	8	(7,941)
(32,754)	Short Term Creditors	11	(27,933)
(5,501)	New Tyne Crossing - Deferred Income		(5,092)
(10,125)	Grants and Contributions Receipts in Advance	12	(8,404)
(53,074)	Current Liabilities		(49,370)
(122,222)	New Tyne Crossing - Deferred Income		(117,122)
(1,049)	Provisions	13	(735)
(6,379)	Grants and Contributions Receipts in Advance	12	(3,574)
(202,893)	Long Term Borrowing	8	(196,967)
(66,730)	Other Long Term Liabilities	14	(43,340)
(5,272)	Deferred Tax Liability	15	(4,570)
(404,545)	Long Term Liabilities		(366,308)
511,026	Net Assets		547,408
(91,231)	Usable Reserves	16	(82,516)
(419,795)	Unusable Reserves	17	(464,892)
(511,026)			(547,408)

Chief Finance Officer's Certificate

I certify that the accounts set out on pages 85 to 106 present a true and fair view of the financial position of the Tyne and Wear Integrated Transport Authority as at 31 March 2014

Signed

Paul Woods
Chief Finance Officer, North East Combined Authority
Date:

Group Cash Flow Statement

2012/13 Restated £000	Notes	2013/14 £000
(36,837)	Net (surplus) or deficit on the provision of services	(24,362)
(20,006)	Adjustments to net surplus or deficit on the provision of services for non cash movements	(1,049)
56,539	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	47,350
<u>(304)</u>	Net cash flows from Operating Activities	<u>21,939</u>
(9,803)	Investing activities	(11,577)
4,151	Financing activities	4,462
(5,956)	Net increase or decrease in cash and cash equivalents	14,824
(95,772)	Cash and cash equivalents at the beginning of the reporting period	(101,728)
<u>(101,728)</u>	Cash and cash equivalents at the end of the reporting period	<u>(86,904)</u>

Group Notes to the Accounts

Group Note 1: Group Accounts

Under the Code of Practice for Local Authority Accounting 2013/14, authorities with interests in subsidiaries, associates and/or joint ventures (jointly controlled entities) shall prepare Group Accounts in addition to their single entity financial statements, unless their interest is considered not material.

Nexus is the only subsidiary for the Tyne and Wear Integrated Transport Authority, and the group accounts have been prepared on a consolidation basis. From 2010/11, Passenger Transport Executives (including Nexus) have a legal requirement under the Accounting and Audit Regulations 2011 to produce their single entity accounts on an IFRS basis in accordance with the Code of Practice. The accounting policies adopted by Nexus are now largely aligned with those of the ITA, with the following minor differences:

Deferred Tax

The ITA does not require a policy on Deferred Tax. 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

Useful lives used by the ITA can be found on p. 34 of the single entity accounts.

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

Where Group Accounts are required, authorities must produce 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 from www.nexus.org.uk

Group Notes to the Accounts

Group Note 2: Integrated Transport Authority Lead Officers

During 2013/14, the ITA was principally advised by three senior officers employed by the lead Authority. These officers were also non-executive directors of Nexus. During 2013/14 these officers were as follows:

Responsibility	Title	Officer
Policy / Legal / Administration	Clerk	Pat Ritchie
Financial Advice	Treasurer	Paul Woods
Transport Policy Advice	Policy Advisor	Harvey Emms

The Nexus Board during 2013/14 comprised the above officers and the following Nexus Directors:

Director General	Bernard Garner
Director of Customer Services	Tobyn Hughes
Director of Finance and Resources	John Fenwick
Director of Rail and Infrastructure	Ken Mackay (until 01/12/13)
Director of Rail and Infrastructure	Raymond Johnstone (from 01/01/14)
Non-Executive Director	Peter Wignall

Group Note 3: Financing and Investment Income and Expenditure

2012/13	2013/14
Restated	
£000	£000
9,502 Interest payable and similar charges	9,147
2,670 Interest on net defined benefit liability	2,550
(1,994) Interest receivable and similar income	(1,080)
10,178	10,617

Group Note 4: Grant Income Credited to Services

The following grants and contributions were credited to the Surplus or Deficit on the Provision of Services:

2012/13	2013/14
£000	£000
(1,254) Local Sustainable Transport Fund	(2,470)
(14,867) Local Transport Plan	(12,309)
(3,235) North East Smart Ticketing Initiative	(658)
(24,674) Metro Rail Grant	(24,802)
(2,418) Better Bus Area Fund	(2,063)
(3,455) Heavy Rail Grant	(3,886)
(347) Other Grants and Contributions	(1,205)
(50,250) Total	(47,393)

Group Notes to the Accounts

Group Note 5: Non-Specific Grant Income

The following amounts are included within the CIES line 'Non-Specific Grant Income':

2012/13 £000		2013/14 £000
(70,207)	Levy on Tyne and Wear Authorities	(70,207)
(37,175)	Nexus Capital Grants	(33,646)
(107,382)		(103,853)

Group Note 6: Property, Plant and Equipment

Movements in 2013/14:

	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					
<u>At 1 April 2013</u>	12,971	30,801	982,920	34,236	1,060,928
Additions	-	-	1,085	40,083	41,168
Disposals	-	(145)	(394)	-	(539)
Transfers from assets under construction	-	517	44,873	(45,491)	(101)
<u>At 31 March 2014</u>	<u>12,971</u>	<u>31,173</u>	<u>1,028,484</u>	<u>28,828</u>	<u>1,101,456</u>

Accumulated Depreciation and Impairment

<u>At 1 April 2013</u>	(468)	(21,633)	(223,688)	-	(245,789)
Depreciation charge	(38)	(1,164)	(23,877)	-	(25,080)
Derecognition - disposals	-	141	394	-	535
Impairment	-	-	(936)	-	(936)
<u>At 31 March 2014</u>	<u>(506)</u>	<u>(22,656)</u>	<u>(248,107)</u>	<u>-</u>	<u>(271,269)</u>

Net Book Value

At 31 March 2014	12,465	8,517	780,377	28,828	830,186
At 31 March 2013	12,503	9,168	759,232	34,236	815,139

Group Notes to the Accounts

Group Note 6 (Continued)

	Other Land and Buildings	Vehicles, Plant, Furniture & Equipment	Infrastructure Assets	Assets Under Construction	Total Property, Plant and Equipment
	£000	£000	£000	£000	£000
Cost or Valuation					
<u>At 1 April 2012</u>	12,971	28,264	915,050	56,482	1,012,767
Additions	-	-	683	48,820	49,503
Disposals	-	(23)	(759)	-	(782)
Transfers from assets under construction	-	2,560	67,946	(71,066)	(560)
<u>At 31 March 2013</u>	<u>12,971</u>	<u>30,801</u>	<u>982,920</u>	<u>34,236</u>	<u>1,060,928</u>
Accumulated Depreciation and Impairment					
<u>At 1 April 2012</u>	(430)	(20,282)	(201,255)	-	(221,967)
Depreciation charge	(37)	(1,374)	(22,615)	-	(24,026)
Derecognition - disposals	-	23	182	-	205
<u>At 31 March 2013</u>	<u>(468)</u>	<u>(21,633)</u>	<u>(223,688)</u>	<u>-</u>	<u>(245,789)</u>
Net Book Value					
At 31 March 2013	12,503	9,168	759,232	34,236	815,139
At 31 March 2012	12,541	7,982	713,795	56,482	790,800

Group Notes to the Accounts

Group Note 7: Intangible Assets

2012/13 £000		2013/14 £000
	Cost or Valuation	
3,015	At 1 April	3,575
	Additions:	
560	Transfers from assets under construction	101
<u>3,575</u>	At 31 March	<u>3,676</u>
	Depreciation and Impairment	
825	Accumulated at 1 April	1,237
412	Depreciation provided during the period	530
<u>1,237</u>	Accumulated at 31 March	<u>1,767</u>
<u>2,338</u>	Net Book Value	<u>1,909</u>

Group Note 8: Financial Instruments

31 March 2013 £000		31 March 2014 £000
	Long Term Investments:	
<u>1</u>	Unquoted Equity Investment at cost	<u>1</u>
	Short Term Investments:	
<u>18,000</u>	Bank deposits	<u>20,500</u>
	Short Term Debtors:	
<u>30,303</u>	Short Term Debtors	<u>22,672</u>
	Borrowing:	
(4,694)	Short term borrowing	(7,941)
(202,893)	Financial liabilities at amortised cost - long term borrowing	(196,967)
<u>(207,587)</u>		<u>(204,908)</u>
	Other Long Term Liabilities:	
<u>(66,730)</u>	Pensions Liability	<u>(43,340)</u>
	Short Term Creditors:	
<u>(32,754)</u>	Short Term Creditors	<u>(27,933)</u>

Group Notes to the Accounts

Group Note 9: Short Term Debtors

31 March 2013		31 March 2014
£000		£000
17,036	Central government bodies	11,124
7,768	Other local authorities	6,518
5	NHS bodies	3
113	Public corporations and trading funds	135
5,381	Other entities and individuals	4,892
30,303	Total	22,672

Group Note 10: Cash and Cash Equivalents

31 March 2013		31 March 2014
£000		£000
74,778	Cash at bank and in hand	53,154
26,950	Short-term deposits with building societies	33,750
101,728	Total Cash and Cash Equivalents	86,904

Group Note 11: Short Term Creditors

31 March 2013		31 March 2014
£000		£000
(1,139)	Central government bodies	(1,216)
(3,130)	Other local authorities	(4,585)
(4)	NHS Bodies	(1)
(16)	Public Corporations	(271)
(28,466)	Other entities and individuals	(21,860)
(32,754)	Total	(27,933)

Group Notes to the Accounts

Group Note 12: Grants and Contributions Receipts in Advance

The Authority has received a number of grants and contributions that have yet to be recognised as income in the Comprehensive Income and Expenditure Statement as they have conditions attached to them that will require the monies to be returned to the giver if they are not fulfilled.

The balances at the year end are as follows:

31 March 2013	31 March 2014
£000	£000
(303) Local Transport Plan	(386)
(3,331) Local Sustainable Transport Fund - Schools Go Smarter	(2,577)
(4,888) Local Sustainable Transport Fund - Go Smarter to Work	(4,076)
(4,879) North East Smart Ticketing Initiative	(4,221)
(2,554) Better Bus Area Fund	(491)
(549) Other	(227)
(16,504) Total	(11,978)
(10,125) Shown as Short Term Liability on Balance Sheet	(8,404)
(6,379) Shown as Long Term Liability on Balance Sheet	(3,574)
(16,504)	(11,978)

Group Note 13: Provisions

Provisions in the Group Accounts relate wholly to Nexus.

Provisions are established to meet liabilities or losses that are likely or certain to be incurred, but where the amounts or timings are uncertain. Provisions during the year can be analysed as follows:

	Insurance Excess (1)	Employment Related (2)	Capital Expenditure (3)	Total
	£000	£000	£000	£000
At 31 March 2013	(246)	(419)	(384)	(1,049)
Additional Provisions Made	(85)	(77)	-	(162)
Utilised during the year	25	451	-	476
Unused amounts reversed	-	-	-	-
At 31 March 2014	(306)	(45)	(384)	(735)

- (1) Public liability claims for minor accidents to the public, and Employer's liability claims for work related illnesses received for incidents prior to the year end.
- (2) Costs for certain employment related obligations and benefits.
- (3) Claims for additional costs associated with the Nexus capital programme.

Group Notes to the Accounts

Group Note 14: Defined Benefit Pension Scheme

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

Principal Mortality and Financial Assumptions

The principal assumptions used by the actuary are:

	ITA		Nexus	
	2012/13	2013/14	2012/13	2013/14
Mortality assumptions:-				
Longevity at 65 for current pensioners:				
Men	21.7	23.0	21.7	23.0
Women	23.9	24.6	23.9	24.6
Rate for discounting scheme liabilities	4.1%	4.2%	4.3%	4.3%
Rate of inflation - Retail Price Index	3.3%	3.2%	3.6%	3.3%
Rate of inflation - Consumer Price Index	2.4%	2.2%	2.3%	2.7%
Rate of increase in pensions	2.4%	2.2%	2.3%	2.7%
Rate of increase to deferred pensions	2.4%	2.2%	2.3%	2.7%
Rate of increase in salaries	3.8%	3.7%	3.8%	4.6%

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

	31 March 2013		31 March 2014		Total
	%	%	Quoted	Unquoted	
Equity investments	68.0	58.1	8.7	66.8	
Property	9.0	0.0	8.5	8.5	
Government bonds	7.0	3.5	0.0	3.5	
Corporate bonds	11.0	11.5	0.0	11.5	
Cash	1.6	2.9	0.0	2.9	
Other*	3.4	5.0	1.8	6.8	
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 get a return in line with equities.

Group Notes to the Accounts

Group Note 14 (Continued)

Funded Benefits

Reconciliation of funded status to Balance Sheet

	ITA		Nexus	
	2012/13 £000	2013/14 £000	2012/13 £000	2013/14 £000
Fair value of assets	24,990	34,920	154,540	159,410
Present value of funded defined benefit obligation	(32,270)	(32,640)	(207,880)	(197,010)
Funded status	(7,280)	2,280	(53,340)	(37,600)
Impact of minimum funding requirement / asset ceiling under	-	(2,280)	-	-
Asset / (Liability) recognised on the balance sheet	(7,280)	-	(53,340)	(37,600)

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:

	ITA		Nexus	
	2012/13 £000	2013/14 £000	2012/13 £000	2013/14 £000
Comprehensive Income and Expenditure Statement				
Cost of Services:				
Current service cost	10	10	3,660	4,350
Past service costs	-	-	-	260
Financing and Investment Income and Expenditure:				
Interest on net defined benefit liability/(asset)	250	190	2,150	2,120
Pension expense recognised in Surplus or Deficit on the Provision of Services	260	200	5,810	6,730

Group Notes to the Accounts

Group Note 14 (Continued)

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	(1,680)	(120)	(10,040)	3,480
Actuarial (gains)/losses due to changes in financial assumptions	3,780	(1,670)	15,320	(16,940)
Actuarial (gains)/losses due to changes in demographic assumptions	-	860	-	1,340
Actuarial (gains)/losses due to changes in liability assumptions	20	1,150	(280)	(2,320)
Total actuarial (gains)/losses	2,120	220	5,000	(14,440)
Adjustment in respect of paragraph 58	-	2,280	-	-
Total amount recognised in Other Comprehensive Income	2,120	2,500	5,000	(14,440)
Total amount recognised in Comprehensive Income and Expenditure Statement	2,380	2,700	10,810	(7,710)

Assets and Liabilities in Relation to Post-employment Benefits

Changes to the present value of defined benefit obligation during the accounting period

	2012/13	ITA	2012/13	Nexus
	2012/13	2013/14	2012/13	2013/14
	£000	£000	£000	£000
Opening balance at 1 April	(28,630)	(32,270)	(186,200)	(207,880)
Current service cost	(10)	(10)	(3,660)	(4,350)
Interest cost	(1,290)	(1,300)	(8,600)	(8,800)
Contributions by participants	-	-	(1,060)	(1,090)
Actuarial gains/(losses) on liabilities - financial assumptions	(3,780)	1,670	(15,320)	16,940
Actuarial gains/(losses) on liabilities - demographic assumptions	-	(860)	-	(1,340)
Actuarial gains/(losses) on liabilities - experience	(20)	(1,150)	280	2,320
Net benefits paid out	1,460	1,280	6,680	7,450
Past service costs	-	-	-	(260)
Closing balance at 31 March	(32,270)	(32,640)	(207,880)	(197,010)

Group Notes to the Accounts

Group Note 14 (Continued)

Reconciliation of fair value of the scheme assets:

	ITA		Nexus	
	2012/13	2013/14	2012/13	2013/14
	£000	£000	£000	£000
Opening balance at 1 April	22,800	24,990	136,240	154,540
Interest income on assets	1,040	1,110	6,450	6,680
Remeasurement gains/(losses) on asset	1,680	120	10,040	(3,480)
Employer contributions	930	9,980	7,430	8,030
Contributions by scheme participants	-	-	1,060	1,090
Net benefits paid out	(1,460)	(1,280)	(6,680)	(7,450)
Closing balance at 31 March	24,990	34,920	154,540	159,410

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.

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

ITA: Active Members 26%; Deferred Pensioners 13%; Pensioners 61%

Nexus: Active Members 35%; Deferred Pensioners 11%; Pensioners 54%

As a result of the £9m lump sum payment to the Pension Fund made during 2013/14, ITA contributions for the next three years have been set to nil. Any deficit will be assessed at the next triennial valuation date of 31 March 2016.

Nexus' regular contributions to the Fund for the accounting period ending 31 March 2015 are estimated to be £8.06m.

Group Notes to the Accounts

Group Note 14 (Continued) - Unfunded Benefits

Reconciliation of unfunded defined benefit obligation to Balance Sheet

	ITA		Nexus	
	2012/13 £000	2013/14 £000	2012/13 £000	2013/14 £000
Present value of unfunded defined benefit obligation	(970)	(960)	(5,140)	(4,780)
Pension (Liability) recognised on the balance sheet	(970)	(960)	(5,140)	(4,780)

Breakdown of amounts recognised in Surplus or Deficit on the Provision of Services and Other Comprehensive Income and Expenditure

	ITA		Nexus	
	2012/13 £000	2013/14 £000	2012/13 £000	2013/14 £000
Comprehensive Income and Expenditure Statement				
Financing and Investment Income and Expenditure:				
Interest on net defined benefit liability	40	40	230	200
Pension expense recognised in Surplus or Deficit on the Provision of Services	40	40	230	200
Other Post Employment Benefit charged to the Comprehensive Income and Expenditure Statement:				
Actuarial (gains)/losses due to changes in financial assumptions	70	(30)	290	(160)
Actuarial (gains)/losses due to changes in demographic assumptions	-	30	-	130
Actuarial (gains)/losses due to changes in liability assumptions	10	-	(130)	(50)
Total amount recognised in Other Comprehensive Income	80	-	160	(80)
Total amount recognised in Comprehensive Income and Expenditure Statement	120	40	390	120

Group Notes to the Accounts

Group Note 14 (Continued) - Unfunded Benefits

Changes to the present value of unfunded defined benefit obligation during the accounting period

	ITA		Nexus	
	2012/13	2013/14	2012/13	2013/14
	£000	£000	£000	£000
Opening defined benefit obligation	(900)	(970)	(5,230)	(5,140)
Current service cost	-	-	-	-
Interest expense on defined benefit obligation	(40)	(40)	(230)	(200)
Contributions by participants	-	-	-	-
Actuarial gains/(losses) on liabilities - financial assumptions	(70)	(30)	(290)	160
Actuarial gains/(losses) on liabilities - demographic assumptions	-	30	-	(130)
Actuarial gains/(losses) on liabilities - experience	(10)	-	130	50
Net benefits paid out	50	50	480	480
Past service costs	-	-	-	-
Closing defined benefit obligation	(970)	(960)	(5,140)	(4,780)

Changes to the fair value of assets during the accounting period

	ITA		Nexus	
	2012/13	2013/14	2012/13	2013/14
	£000	£000	£000	£000
Opening fair value of assets	-	-	-	-
Contributions by the employer	50	50	480	480
Net benefits paid out	(50)	(50)	(480)	(480)
Closing fair value of assets	-	-	-	-

Group Notes to the Accounts

Group Note 15: Deferred Tax Liability

Deferred Taxation in the Group Accounts relates wholly to Nexus.

The Balance Sheet figure comprises:

31 March 2013	31 March 2014
£000	£000
(5,049) Excess of Capital Allowances over depreciation	(4,573)
(1,492) Roll over relief on capital gains	(1,362)
127 Other timing differences	124
1,142 Tax effect of losses	1,241
(5,272)	(4,570)

Group Note 16: Usable Reserves

31 March 2013	31 March 2014
£000	£000
(2,382) ITA General Fund	(573)
(40,477) Tyne Tunnels General Fund	(32,393)
(12,325) Metro Reinvigoration Reserve	(11,425)
(15,838) Nexus Revenue Reserves	(15,265)
(20,209) Nexus Capital Reserves	(22,860)
(91,231) Total Usable Reserves	(82,516)

Group Note 17: Unusable Reserves

Details of movements on the Revaluation Reserve, Capital Adjustment Account and Financial Instruments Adjustment Account are shown on p.42-43 of the ITA single entity accounts. These reserves relate to the ITA only.

31 March 2013	31 March 2014
£000	£000
(10,290) Revaluation Reserve	(10,128)
(60,397) Capital Adjustment Account	(64,103)
171 Financial Instruments Adjustment Account	99
66,730 Pensions Reserve	43,340
(375,452) Nexus Grant Deferred Account	(396,194)
(40,557) Nexus Unusable Capital Reserve	(37,906)
(419,795) Total Unusable Reserves	(464,892)

Group Notes to the Accounts

Group Note 17 (Continued)

Pensions Reserve:

2012/13 Restated £000		2013/14 £000
61,920	Balance at 1 April	66,730
7,360	Remeasurement of the net Defined Benefit liability	(12,020)
6,340	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	7,170
(8,890)	Employer's pensions contributions and direct payments to pensioners payable in the year	(18,540)
66,730	Balance at 31 March	43,340

Nexus Grant Deferred Account:

2012/13 £000		2013/14 £000
(343,075)	Balance at 1 April	(375,452)
15,700	Capital Grants Released	17,312
(48,077)	Capital Grants Applied	(38,054)
(375,452)	Balance at 31 March	(396,194)

Nexus Unusable Capital Reserve:

2012/13 £000		2013/14 £000
(43,006)	Balance at 1 April	(40,557)
-	Adjustment	-
-	Additions	-
2,449	Depreciation	2,651
(40,557)	Balance at 31 March	(37,906)

Group Notes to the Accounts

Group Note 18: Cash Flow Statement - Operating Activities

The cash flows for operating activities includes the following items relating to interest paid and received:

2012/13	2013/14
£000	£000
1,994 Interest received	1,057
(9,502) Interest paid	(9,147)

Group Note 19: Cash Flow Statement - Adjustments to Net Surplus or Deficit on the Provision of Services for non-cash movements and items that are investing and financing activities

2012/13	2013/14
Restated	£000
£000	£000
(33,502) Surplus or deficit on the provision of services	(24,362)
Adjustments to Surplus or Deficit on Provision of Services for Non-Cash Movements	
(24,438) Depreciation and impairment	(26,546)
(574) Gain / loss on disposal of non-current assets	24
(12,254) (Increase) / Decrease in Creditors	14,058
6,562 Increase / (Decrease) in Debtors	(5,241)
(296) Increase / Decrease in Inventories	(223)
2,550 Movement in Pension Liability	11,370
5,109 Other non-cash items charged to the net surplus or deficit on the provision of services	5,509
(23,341)	(1,049)
Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	
57,846 Capital grants credited to surplus / deficit on provision of services	48,923
(1,307) Other adjustments for items that are financing or investing activities	(1,573)
56,539	47,350
(304) Net cash flow from operating activities	21,939

Group Notes to the Accounts

Group Note 20: Cash Flow Statement - Cash Flows from Investing Activities

Total		Total
2012/13		2013/14
£000		£000
49,649	Purchase of property, plant and equipment, investment property and intangible assets	41,008
65,000	Purchase of short-term and long-term investments	30,500
-	Other payments for investing activities	-
(3)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(28)
(70,000)	Proceeds from short-term and long-term investments	(28,000)
(54,449)	Other receipts from investing activities	(55,057)
(9,803)	Net cash flows from investing activities	(11,577)

Group Note 21: Cash Flow Statement - Cash Flows from Financing Activities

2012/13		2013/14
£000		£000
-	Cash receipts of short and long-term borrowing	-
-	Other receipts from financing activities	-
2,781	Repayments of short and long-term borrowing	4,449
1,370	Other payments for financing activities	13
4,151	Net cash flows from financing activities	4,462

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.
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 and Expenditure Account	This account summarises the resources that have been generated and consumed in providing services and managing the Authority during the financial year.

Glossary of Terms

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.
Contingent Rent	The portion of the lease payments that is not fixed in amount but is based on the future amount of a factor that changes other than with the passage of time, e.g. future price indices, future market rates of interest.
Corporate and Democratic Core	The corporate and democratic core comprises all activities which local authorities engage in specifically because they are elected, multi-purpose 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.
Curtailement (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.
Earmarked Reserve	The measure of the wearing out, consumption or other reduction in the useful economic life of an asset.
Emoluments	Payments received in cash and benefits for employment.

Glossary of Terms

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 Pension 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.
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 and 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, the net cost of which is met by the levy, Government Grants and toll income.
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 licenses.
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.

Glossary of Terms

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 and 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 and Equipment (PPE)	Assets that yield benefits to the Authority and the services 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 service 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 future possible 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.

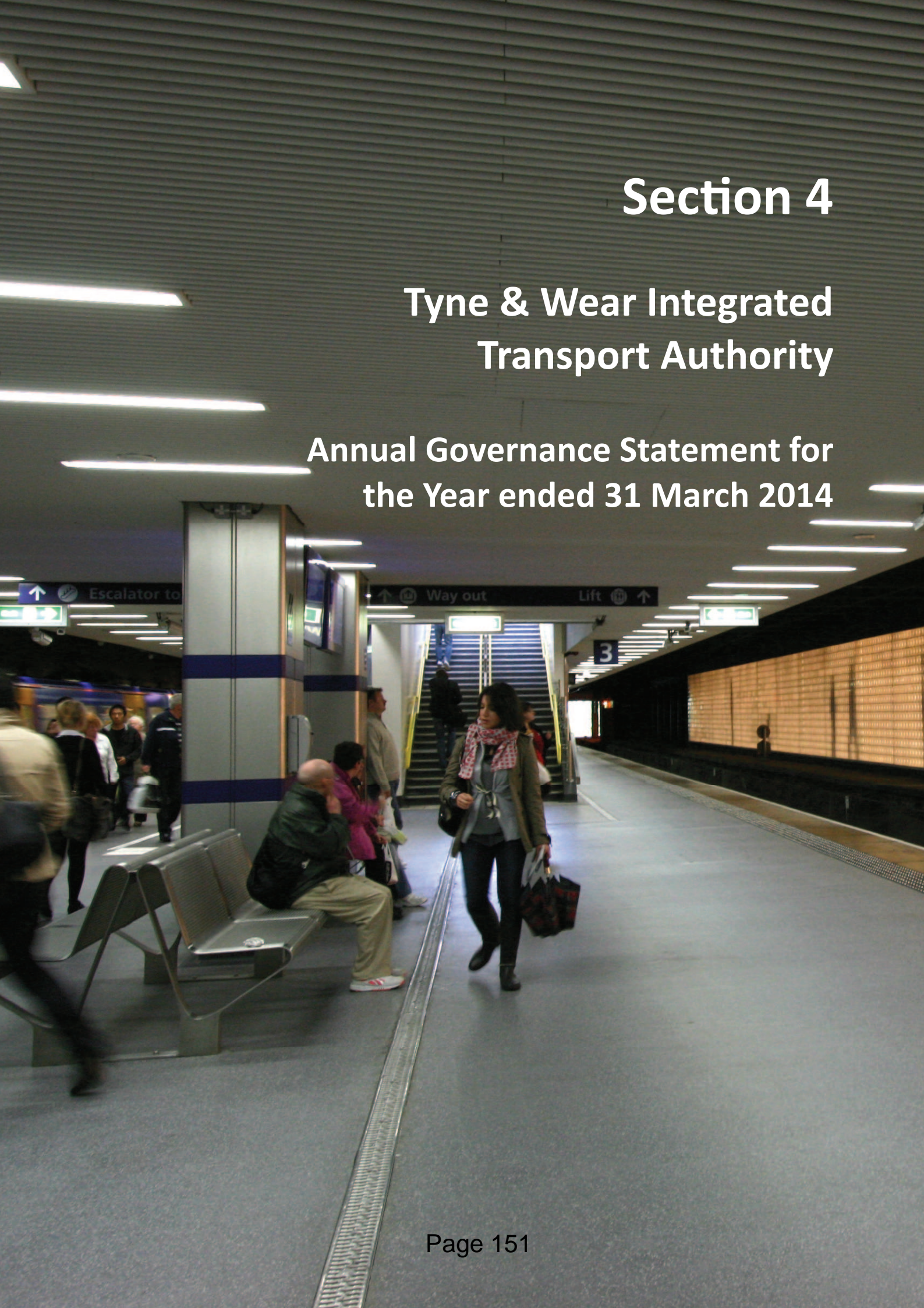
Glossary of Terms

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.
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.

Section 4

Tyne & Wear Integrated Transport Authority

Annual Governance Statement for the Year ended 31 March 2014



Annual Governance Statement

ANNUAL GOVERNANCE STATEMENT 2013/14

FOREWORD JUNE 2014

On the establishment of the Durham, Gateshead, Newcastle upon Tyne, Northumberland, North Tyneside, South Tyneside and Sunderland Combined Authority (known as the 'North East Combined Authority') the Tyne and Wear ITA ceased to exist and its assets, liabilities and functions were all taken over by the new Combined Authority.

This Annual Governance Statement sets out those arrangements which were in place in Tyne and Wear ITA during 2013/14. A review of all aspects of corporate governance for the new Combined Authority will take place during 2014/15 and be reported with that year's accounts.

SECTION 1: SCOPE OF RESPONSIBILITY

The Tyne and Wear Integrated Transport Authority (ITA) is responsible for ensuring that its 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. The ITA also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness. The ITA also has a general power of promoting well-being within its area that was introduced by the Local Transport Act 2008.

In discharging this overall responsibility, the ITA is responsible for putting in place proper arrangements (known as a Governance Framework) for:

- (i) The governance of our affairs and
- (ii) Facilitating the effective exercise of our functions, including arrangements for the management of risk.

In relation to (i) we have adopted a Local Code of Corporate Governance ("Local Code") which is consistent with the principles of the CIPFA/SOLACE Framework Delivering Good Governance in Local Government. A copy is available on our website at www.twita.gov.uk.

The Local Code evidences our commitment to achieving good governance and demonstrates how we comply with the governance standards recommended by CIPFA. It has been updated and approved as part of this review.

In addition to the Local Code, the authority's financial management arrangements conform with the governance requirements of the CIPFA *Statement on the Role of the Chief Financial Officer in Local Government (2010)* as set out in the Application Note to Delivering Good Governance in Local Government: A Framework.

In relation to (ii) the ITA 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 policies, aims and objectives and

Annual Governance Statement

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 policies, aims and objectives; and
- (b) To evaluate the likelihood of those risks being realised, the impact should they be realised, and to manage them efficiently, effectively and economically.

SECTION 2: THE PURPOSE OF THE GOVERNANCE FRAMEWORK

In addition to the above, the ITA's Governance Framework comprises the systems and processes, cultures and values, through which the ITA is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the ITA to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost effective services.

The governance framework has been in place at the ITA for the year ended 31 March 2014 and up to the date of the approval of the Annual Report and Accounts.

This Annual Governance Statement explains how we have complied with the Code and also meets the requirements of Regulation 4(3) of the Accounts and Audit Regulations 2011 which requires all relevant public bodies to prepare an Annual Governance Statement.

SECTION 3: THE GOVERNANCE FRAMEWORK

The main features of our Governance Framework are described in our Local Code and are summarised below:

CORE PRINCIPLE 1: FOCUSING ON OUR PURPOSE AND OUTCOMES FOR RESIDENTS

Identifying and communicating the ITA's vision of purpose and intended outcomes for residents and service users

The ITA's priorities were set out in the Passenger Transport Policy Statement, published every three years. With the ITA having overall responsibility for the Tyne and Wear Local Transport Plan 2011-2021, we have sought to include our vision and policies within our LTP. The LTP sets out the ITA's policies, priorities and implementation plan for action in the coming years, and included significant consultation with residents during the development stage. We consulted with Members, residents and businesses during 2010 on the vision and objectives. This helped inform our adopted vision and objectives and a chapter of the finalised LTP documents is dedicated to outlining changes to the document post-consultation.

There is a policy work programme enabling us to secure effective and forward looking decisions while also being flexible enough to be able to react to emerging changes. This is strengthened by bi-monthly policy seminars for Members.

Reviewing the ITA's vision and the implications for its governance arrangements

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We are assisted by the work of our internal and external auditors, in helping to identify strengths and weaknesses in our performances, governance and internal control.

We have been working with colleagues in Nexus and across Tyne and Wear to implement the opportunities presented by the Local Transport Act 2008 and the transition to the Integrated Transport Authority. We continued to support the ITA informal working groups to help the ITA to discharge its broader remit. These are the LTP Working Group, the Equality and Diversity Working Group, the Bus Strategy Working Group and the Tyne Tunnels Working Group. We also continued to support the Metro Sub Committee, Standards Committee, Audit Committee and Scrutiny Advisory Group.

The ITA has been closely involved in the review of transport governance across the Tyne and Wear City Region. This strengthened the role of the ITA in developing transport strategy and policy at the City Region level. More recently, the ITA has been working closely with the North East Local Enterprise Partnership on transport-related issues – including the establishment of Local Transport Bodies to establish the devolution of future local major transport schemes from 2015 onwards.

The Scrutiny Advisory Group has an agreed annual work programme which has been implemented. The Scrutiny Advisory Group moved from themed meetings around national policy goals to more timely scrutiny of issues in the ITA's own forward plan. Regular review enabled the committee to take account of the balance of the work programme, new and emerging issues, changing scrutiny priorities and discussion at meetings.

Measuring the quality of services for users, for ensuring they are delivered in accordance with the ITA's objectives and for ensuring that they represent the best use of resources

We measure value for money through the annual financial planning process which reviews services and identifies specific actions required to improve value for money which are then built into our budget.

In previous years, the ITA completed an annual value for money (VFM) self-assessment that was submitted to our external auditors. This assessed how well we manage and use our financial resources in broad theme areas, considering Key Lines of Enquiry (KLOE) as specified by the Audit Commission.

The Audit Commission has revised the approach to the auditor's local VFM work at certain types of body including integrated transport authorities. Auditors now apply a lighter-touch approach to their local VGM work and will meet their VFM duty by:

- Reviewing the annual governance statement
- Reviewing the results of the work of other relevant regulatory bodies or inspectorates
- Undertaking other local risk-based work as appropriate

Performance against the capital programme is also monitored on a regular basis, with quarterly reports taken to the ITA. There is also regular monitoring of the Financial Strategy, with revenue budget monitoring reports to the ITA.

Service level agreements with the Lead Authority (Newcastle City Council) are in place, and

Annual Governance Statement

regularly monitored to ensure value for money is being achieved. These are reviewed and updated annually.

Nexus provide a Business Intelligence report to ITA Members which highlights issues such as number of people using public transport, type of ticket purchased etc.

The main non-financial performance reporting undertaken by the ITA relates to LTP3, which is the main strategy document of the ITA, covering all forms of transport in Tyne and Wear, and is underpinned by the first in a series of three year delivery plans (2011-14) setting out how the strategy will be put into effect at a local level.

The LTP3 Delivery Plan Chapter 5 (Monitoring) sets out the Performance Management Framework, based on monitoring the 12 main policies identified in the LTP3 strategy. Updated baseline measurements and targets were reported to the ITA and are reviewed and monitored on a regular basis, with performance reported to the ITA and the ITA LTP Working Group.

CORE PRINCIPLE 2: MEMBERS AND OFFICERS HAVE CLEARLY DEFINED ROLES AND RESPONSIBILITIES

Defining and documenting the roles and responsibilities of the ITA, scrutiny and officer functions, with clear delegation arrangements and protocols for effective communication

The roles and responsibilities of committees and working groups of the ITA are set out in their Terms of Reference.

The responsibilities of members and officers of the ITA in relation to the use of assets and resources are set out in the financial regulations of the ITA, which are part of the ITA constitution. There is a clear scheme of delegation to officers.

There is a code of conduct for members, to which all members sign up, upon taking the Office.

CORE PRINCIPLE 3: WE PROMOTE HIGH STANDARDS OF CONDUCT AND BEHAVIOUR

Developing, communicating and embedding codes of conduct, defining the standards of behaviour for members and staff

There is a Code of Conduct for Members and a Code of Conduct for Employees.

The Standards Committee deals with issues of conduct and promotes high standards among officers and members.

There is a Register of Interests and Registers of Gifts and Hospitality for both members and officers.

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CORE PRINCIPLE 4: TRANSPARENT DECISION MAKING SUBJECT TO SCRUTINY AND RISK MANAGEMENT

Reviewing and updating standing orders, standing financial instructions, a scheme of delegation and supporting procedure notes/manuals, which clearly define how decisions are taken and the processes and controls required to manage risks

The ITA's constitution and scheme of delegation are reviewed annually in May. Officers undertook the annual review of the ITA's corporate governance, to ensure that the relevant documents remain up to date, and reported to the ITA in May 2013.

Policy and decision making is undertaken by the ITA and its committees. Officers from the ITA, the constituent Councils and Nexus have developed transport policies for the Local Transport Plan (2011-2021).

The ITA has developed and maintains an effective scrutiny function which encourages constructive challenge and enhances overall performance. The Scrutiny Advisory Group consists of members who are not ITA Members, so are able to provide independent scrutiny.

The ITA has a Risk Management Framework in place and maintains a register of its strategic risks as well as project risks related to the New Tyne Crossing Project. The ITA uses the risk management resources available within the Lead Authority as required.

The ITA purchases appropriate levels of insurance to minimise financial risks, and self-insures wherever possible.

Undertaking the core functions of an audit committee, as identified in CIPFA's Audit Committees – Practical Guidance for Local Authorities

We have an established Audit Committee, which is independent of the ITA and scrutiny functions. It includes an independent chair and independent members to whom training is provided.

Ensuring compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful

The Clerk, Treasurer (S73 of the 1985 Act), Monitoring Officer, Head of Democratic Services and other senior managers are responsible for advising the ITA and associated committees on legal, financial and other procedures and policy considerations.

The ITA is subject to internal and external audit and inspection regimes. The ITA has an internal audit service provided by the Lead Authority.

The ITA also has a Standards Committee and an Audit Committee, whose terms of reference ensure probity and further scrutiny of ITA activities.

Whistle-blowing and procedure for receiving and investigation complaints from the public

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The ITA has an agreed whistle-blowing policy which is kept up to date and reviewed by Standards Committee. The policy is available via the ITA website.

There is a corporate complaints procedure in place via the Lead Authority, with Nexus having separate procedures in place for managing complaints.

CORE PRINCIPLE 5: DEVELOPING THE CAPACITY AND CAPABILITY OF MEMBERS TO BE EFFECTIVE

Identifying the development needs of members and senior officers in relation to their strategic roles, supported by appropriate training

The ITA provides members with regular training and there is induction training for new members. The ITA also holds a number of policy seminars with Nexus throughout the year to enhance member training and understanding.

ITA members also undertake site visits where they are able to see progress in action at first hand. For example, site visits have taken place to see the New Tyne Crossing, Haymarket Metro development, Sunderland Station development, Tyne Pedestrian and Cycle Tunnels refurbishment, the fitting of the new Metrocars as part of the reinvigoration programme, and London Docklands Light Railway, to examine future generation light trains.

ITA members undertake an annual visit to examine relevant transport developments. The most recent visit was to view transport developments promoted by Transport for London and Docklands Light Railway. Schemes and policies considered included tendering for bus route networks, rolling out smartcard technology and future smartcard and technology developments in light rail operations. These issues are all very relevant to the ITA in respect of future transport policy, including the planning of next generation Metro, the implementation and roll out of Ticketing & Gating and the NEST1 regional smartcard project and the delivery of better buses.

CORE PRINCIPLE 6: ENGAGING WITH LOCAL PEOPLE AND STAKEHOLDERS

Establishing clear channels of communication with all sections of the community and other stakeholders, ensuring accountability and encouraging open consultation

Meetings are held in public, and committee papers are available on the ITA's website which is reviewed regularly. The ITA reviewed and refreshed its website during 2011/12 to ensure it was easier to use and held more up-to-date information, and it has continued these improvements in subsequent years. A feedback mechanism has been incorporated into the website to encourage users to get in touch on any subject.

In line with the guidance on Local Transparency issued by the Department for Communities and Local Government, details of all external payments over £250 are published on the ITA's website on a regular basis. Details of the members' allowances scheme and amounts paid to members are also published.

The consultation and involvement strategy sets out how Nexus on behalf of the ITA is engaging

Annual Governance Statement

with its partners and stakeholders. The Nexus website encourages people to submit questions and offer feedback.

LTP3 was subject to a period of public consultation with feedback received through a myriad of channels including the website, social media, face-to-face interviews and letters. Comments received were used to finalise the document.

Specific consultations also take place as required, for example there has been significant public consultation

Incorporating good governance arrangements in respect of partnerships and other group working as identified by the Audit Commission's report on the governance of partnerships (Governing Partnerships: Bridging the Accountability Gap, Audit Commission, 2005) and reflecting on these in the Authority's overall governance arrangements

The ITA takes the lead on the development of the Local Transport Plan, in partnership with the other districts and Nexus.

The ITA is now working closely with the North East Local Enterprise Partnership on transport issues. A Local Transport Body has been established, made up of the seven Leaders and Elected Mayor of the local authorities in the North East. The ITA is a full voting member of the Local Transport Body and is represented by the ITA Chairman. The officer group that provides support to the Local Transport Body is chaired by the Clerk of the ITA, in her role as the Chief Executive for transport in the North East.

Partnership arrangements are in place for the Local Sustainable Transport Fund Schools Go Smarter and Go Smarter to Work programmes, which includes a Programme Board made up of representatives from each of the Tyne and Wear Districts, Nexus, the ITA and other delivery partners. A task-and-finish group has been set up for the delivery of the Better Bus Areas programme, made up of officers from the ITA, Districts, Nexus and the major bus operators. Nexus establishes and monitors its objectives and performance through the Passenger Transport Policy Statement and its Annual Performance Plan and 3 year business plan.

The ITA has a partnership with TT2 Ltd to operate the Tyne Tunnels under a 30 year concession contract.

The NESTI partnership is made up from all local authorities across the North East and Tees Valley in order to provide a smart ticketing transport infrastructure across the region. A collaboration agreement between the ITA and other authorities was entered into in October 2010 and runs for a five year period; the ITA leads of the development of this initiative with Nexus delivering it on behalf of partners. The ITA Policy lead chairs the NESTI Board meetings.

SECTION 4: ANNUAL REVIEW OF EFFECTIVENESS OF GOVERNANCE FRAMEWORK

The ITA has responsibility for conducting, at least annually, a review of the effectiveness of the Governance Framework including the system of internal control. The review is led by the ITA Officer Working Group and the outcomes are reviewed by the Audit Committee before being

Annual Governance Statement

considered and approved by the ITA. The review is informed by:

- The executive managers within the ITA who have responsibility for the development and maintenance of the governance environment
- The views of our internal auditors which are reported to Audit Committee through regular progress reports and through the Annual Internal Audit Opinion.
- An annual review of the effectiveness of our Internal Audit arrangements (as required by Regulation 6 of the Accounts and Audit (Amendment) (England) Regulations 2011).
- The views of our external auditors, regularly reported to Standards and Audit Committees through regular progress reports and through the Annual Audit and Inspection Letter, Annual Governance Report and through regular meetings with officers.
- The independent views of inspection agencies.
- The governance and internal control arrangements of our significant partnerships, contractors and group arrangements:
- The Local Transport Plan Partnership (responsible for delivering the Local Transport Plan)
- Nexus (the passenger transport executive responsible for the planning, provision and promotion of public transport). The ITA has appropriate representation within Nexus which provides an ongoing source of assurance
- TT2 Ltd (responsible for the construction and effective operation of the Tyne Tunnels and New Tyne Crossing) and internal arrangements in place to support and monitor the contract.
- The ITA's Strategic Risk Register, which captures the most significant risks associated with delivery of the ITA's objectives
- The Lead Authority's own annual review of its Governance Framework
- The views of members through the ongoing work of Audit Committee and the ITA
- The work of the ITA Officer Working Group – this group consists of Lead Authority officers who meet monthly for agenda setting purposes, to share information and to monitor performance issues and governance arrangements.

SECTION 5: SIGNIFICANT GOVERNANCE ISSUES

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

Annual Governance Statement

detected within a timely period and that significant risks impacting on the achievement of the ITA's objectives have been mitigated.

The review did not highlight any issues as significant weaknesses in governance or internal control during 2013/14.

SECTION 6: SIGNIFICANT IMPROVEMENTS NEEDED TO GOVERNANCE AND INTERNAL CONTROL

The purpose of the review is also to identify issues that may need significant improvement but which do not constitute "significant weaknesses" in our governance and internal control arrangements.

The review did not highlight any governance or internal control issues as requiring significant improvement during 2013/14.

SECTION 7: CONCLUSION

We consider the governance and internal control environment operating during 2013/14 to provide reasonable and objective assurance that any significant risks impacting on the achievement of our principal objectives will be identified and actions taken to avoid or mitigate their impact.

Systems are in place to continually review and improve the governance and internal control environment.

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 ITA Officer Working Group.

Chair of the NECA

Date:

Chief Executive

Date:

Chief Finance Officer

Date:

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North East Combined Authority

Governance Committee

DATE: 12 September 2014

SUBJECT: External Auditor's report to the Governance Committee of the North East Combined Authority

REPORT OF: External Audit

EXECUTIVE SUMMARY

Attached to this report as Appendix 1 is the Report of the External Auditor on the 2013/14 Accounts.

RECOMMENDATIONS

Governance Committee is recommended to:

1. Consider and comment on the report of the External Auditor which is attached as Appendix 1 to this report.

North East Combined Authority

Governance Committee

1 Background Information

- 1.1 The draft accounts of Tyne and Wear Integrated Transport Authority 2013/14 were completed in advance of the statutory deadline of 30 June. They have since been subject to audit by the Authority's independent external auditors, Deloitte, whose report is attached at Appendix 1.

2 Proposals

- 2.1 Details of the audit opinion and findings are set out in Deloitte's report at Appendix 1.

3 Next Steps

- 3.1 External Audit will attend the meeting on 12 September to provide an update on the audit at that point.
- 3.2 The Accounts must be signed by the Chair of the North East Combined Authority and the Chief Finance Officer by 30 September 2014, and published online by this date.

4 Potential Impact on Objectives

- 4.1 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.

5 Finance and Other Resources

- 5.1 The Chief Finance Officer has been consulted on the draft of this report.

6 Legal

- 6.1 The Accounts and Audit (England) Regulations 2011 set out the responsibilities of bodies such as NECA in relation to the production of statutory accounts and their audit. The NECA Constitution sets out the responsibilities of Governance Committee to review the external auditor's opinion and reports on the statement of accounts, and monitor management action in response to any issues raised in relation to the accounts before external audit.

7 Other Considerations

North East Combined Authority

Governance Committee

7.1 Consultation/Community Engagement

The accounts have been subject to a period of public inspection from 14 July to 10 August 2014.

7.2 Human Rights

There are no human rights implications directly arising from this report.

7.3 Equalities and Diversity

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

7.4 Risk Management

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

7.5 Crime and Disorder

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

7.6 Environment and Sustainability

There are no environment and sustainability implications directly arising from this report.

8 Background Documents

- 8.1 Tyne and Wear Integrated Transport Authority Annual Report and Accounts 2013/14.

9 Links to Plans in the Policy Framework

- 9.1 There are no links to plans in the policy framework

10 Appendices

- 10.1 Appendix 1 – Deloitte report on the Audit of the Accounts.

11 Contact Officers

- 11.1 Eleanor Goodman, eleanor.goodman@newcastle.gov.uk, Tel: 0191 277 7518

12 Sign off

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

North East Combined Authority

Governance Committee

Tyne and Wear Integrated Transport Authority
Report to the Governance Committee of the North East
Combined Authority

31 March 2014

Governance Committee
North East Combined Authority
Civic Centre
Newcastle upon Tyne
NE1 8PD

September 2014

Dear Sirs,

We have pleasure in setting out in this document our report to the Governance Committee of the North East Combined Authority (NECA) with regard to the Tyne and Wear Integrated Transport Authority for the year ended 31st March 2014. This report covers the principal matters that have arisen from our audit for the year ended 31st March 2014.

In summary:

- Our audit work is substantially complete. The outstanding areas which remain are detailed in our report. We will be in attendance at the Committee meeting on the 12 September 2014 and will present an updated final report on our audit at that time.
- There are a number of judgemental areas to which we draw your attention in our report.
- In the absence of unforeseen difficulties, management and we expect to meet the agreed audit and financial reporting timetable.

We would like to take this opportunity to thank the management team for their assistance and co-operation during the course of our audit work.



David Wilkinson

Senior Statutory Auditor

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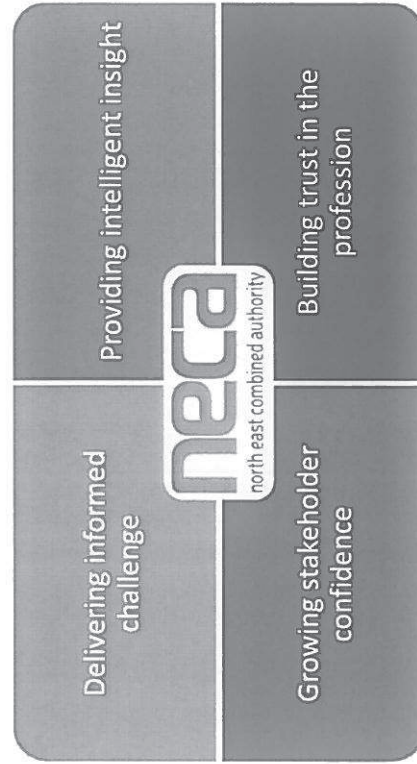
Member of Deloitte Touche Tohmatsu Limited

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A reminder of our audit plan:

- We determined materiality as £3.5m and a reporting threshold of £176k.
- We identified 4 significant risks in our Audit Plan and have not made any changes from the scope set out in the Audit Plan.
- We have taken a substantive approach to testing the financial statements as the control based audit approach has not been considered appropriate for the current year.



The big picture

The Big Picture

We anticipate issuing an unmodified audit opinion upon completion of our work.

Audit work

- We have discussed our initial comments on the draft financial statements with management.
- From our audit work on the financial statements we have not identified any material misstatements or significant deficiencies in internal controls at the Integrated Transport Authority, a number of minor disclosure deficiencies were identified which have been corrected by management.
- Our work completed to date supports an unqualified Value for Money conclusion.
- We have assessed the adequacy of the Annual Governance Statement and have noted no issues with its content or presentation.
- A representation letter will be circulated separately for consideration by management.
- From our work undertaken to date we expect to issue an unmodified opinion in line with your specified deadlines.

We have the following principal matters to complete:

- completion of the Whole of Government Accounts review;
- receipt of assurance over plan assets from Tyne and Wear Pension Fund auditors;
- receipt of Nationwide investment letter and legal letter from Newcastle City Council.
- review of revised financial statements and consolidation of the group accounts; and
- final review and close down procedures including subsequent events review and receipt of letter of representation.

Significant audit risks

This section explains the nature of significant risks, how these risks have been addressed by our audit work and our conclusions. We also explain related presentational and/or disclosure matters within the financial statements.

Summary of significant audit risks

Key areas of judgement focused upon during the audit

Description of the risk	←	Acceptable Range	→	Findings
Revenue recognition	Overly Cautious and/or likely to future credit		Overly Optimistic and/or likely to future debit	G
Management override of controls				G
Accounting for NESTI funding				G
Combined Authority				G

G No issues noted
A Adjustment identified
R Material unresolved matter
 Included in the audit report

✓ Current Year Assessment ✓ Previous Year Assessment

Deloitte view

In our view, management have prepared financial statements which demonstrate fair and balanced judgement. Our independent assessment of these judgements is outlined in this section

1. Revenue Recognition

Revenue recognition is consistent with the Code.

Nature of risk

ISA 240 states that when identifying and assessing the risks of material misstatement due to fraud, the auditor shall, based on a presumption that there are risks of fraud in revenue recognition, evaluate which types of revenue, revenue transaction or assertions give rise to such risks.

The key judgement area, its impact on the financial statements and our audit challenge

For the Authority, we consider that the specific revenue recognition risk relates to the completeness of Tyne Tunnel toll income.

Audit work completed to address the significant risk

We have performed tests of detail on a sample of toll income to gain assurance over the completeness of this income stream. In addition we have reviewed management controls currently in place to ensure that the revenue is recognised appropriately. No issues have been identified in our testing.

Deloitte view

We do not consider there to be evidence of management bias in the revenue recognition policies adopted.

The revenue recognition policies are in line with other Local Government entities and the CIPFA Code.

2. Management override of controls

Assessment of management estimates for bias or fraud

Nature of risk

International Standards on Auditing requires auditors to identify a presumed risk of management override of control. This presumed risk cannot be rebutted by the auditor. This recognises that management may be able to override controls that are in place to present inaccurate or even fraudulent financial reports.

The significant risk in relation to management override, its impact on the financial statements and our audit challenge

Management is in a unique position to perpetrate fraud because of the ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

Management may override controls through:

- recording fictitious journal entries;
- applying inappropriate judgment;
- omitting, advancing, or delaying recognition of events and transactions;
- engaging in complex transactions that are structured to misrepresent the financial position or financial performance;
- omitting disclosure of related parties and transactions; and
- altering records related to significant and unusual transactions.

Audit work completed to address the significant risk

We have performed the following audit procedures:

- understood and evaluated the financial reporting process and the controls over journal entries and other adjustments made in the preparation of the financial statements, and tested the appropriateness of a sample of such entries and adjustments; and

- reviewed accounting estimates for biases that could result in material misstatement due to fraud.

Through these procedures and over the course of our audit work we have not identified any instances of management override of controls.

Deloitte view

From our testing of a sample of journals and over the course of audit work, we do not consider management's estimates to be unreasonable and nor have we identified any evidence of bias.

3. Accounting for NESTI funding

We consider a significant risk exists in relation to accounting for the NESTI funding as a result of the funding arrangements.

Nature of risk

Funding received from the Local Authorities is held on the balance sheet until the associated conditions, namely spend incurred on the NESTI project, are satisfied. The release of the funding will therefore need to be in line with the conditions attached to the funding. From prior year knowledge this is when it has been matched to relevant expenditure.

The key judgement areas, its impact on the financial statements and our audit challenge

We have identified a related audit risk arising because of:

- the conditions attached to the funding; and
- the judgement involved around matching the funding to the relevant expenditure.

The key judgement area is around whether the related expenditure qualifies for a release of funding; therefore our challenge is to gain assurance over the release of funding by testing the related expenditure.

Audit work completed to address the significant risk

We have reviewed the expenditure recognised in relation to NESTI and performed a test of detail on a sample of expenditure to ensure that the release of the funding complies with the funding requirements. Our testing has not identified any issues.

Deloitte view

Based on our testing the NESTI project has been accounted for in accordance with the substance of the transaction.

4. Combined Authority

As part of the formation of the combined authority, TWITA was dissolved and its functions transferred to the combined authority.

Nature of risk

Combined Authority

The seven North East councils (Durham, Gateshead, Newcastle, North Tyneside, Northumberland, South Tyneside and Sunderland councils) formed a combined authority on the 14 April 2014.

As part of the formation of the combined authority, TWITA was dissolved and its functions have transferred to the combined authority.

The 2013-2014 accounts have been prepared on the assumption that the function of the ITA has transferred to the new authority and therefore it is appropriate for these accounts to be prepared on a going concern basis.

The key judgement areas and their potential impact on the financial statements

We have identified a related audit risk arising because:

- of the risk connected to the loss of key staff and members involved in the production and approval of the accounts and annual governance statements;
- additional disclosures are required to maintain adherence to the Code.

Audit work completed to address the significant risk

We have reviewed the progress made in this area and the impact on TWITA. We have reviewed the controls managements have put in place to ensure accounts and the annual governance statements are prepared and approved after ITA was dissolved.

The 2013-2014 accounts have been prepared on the assumption that the rights, assets and liabilities of the ITA have transferred to the new authority and per the Code, transfer of services under combinations of public sector bodies (such as local government reorganisation) do not negate the presumption of going concern. Therefore it is appropriate for these accounts to be prepared on a going concern basis.

We have confirmed that the additional disclosures required within the 2013-2014 accounts to disclose the formation of the combined authority and the impact on TWITA is appropriate and in-line with the Code.

Deloitte view

Based on our discussions with management, and through our knowledge of the formation of the Combined Authority and the application of the Code to such an event, we consider the accounts and related disclosures to have been prepared appropriately.

Value for money and the Annual Governance Statement

Value for Money Conclusion

Requirement

Under the Audit Commission Code of Audit Practice, as appointed auditors, we are required to draw a conclusion regarding the organisation's arrangements to secure economy, efficiency and effectiveness of its use of resources (the value for money (VFM) conclusion).

Area of Focus

In 2013/14 as set out in the *Work Programme and Scales of Fees 2013/14: Local Government*, the approach to local VFM audit work at specified bodies, including the Authority, is not based on criteria specified by the Commission. For 2013/14, auditors of these bodies will continue to meet their VFM duty by:

- reviewing the Annual Governance Statement ;
- reviewing the results of the work of the Commission and other relevant regulatory bodies or inspectorates, to consider whether there is any impact on the auditor's responsibilities at the audited body; and
- undertaking other local risk-based work as appropriate, or any work mandated by the Commission.

Audit work completed

We have reviewed the Annual Governance Statement. We have not identified any work undertaken by other regulatory bodies or the need to undertake any local risk-based work, nor was there any additional work mandated by the Commission.

No issues impacting our VFM conclusion have been identified and we intend to issue an unqualified conclusion

Annual Governance Statement

In respect of the Annual Governance Statement we are required to review the statement for compliance with the prescribed format and content and to report where the Statement is inconsistent with our understanding of the Authority.

Area of Focus

In June 2007, CIPFA in conjunction with the Society of Local Authority Chief Executives ("SOLACE") published 'Delivering Good Governance in Local Government: A Framework'. This framework replaced the previous CIPFA/SOLACE framework 'Corporate Governance in Local Government – A Keystone for Community Governance: A Framework' which was published in 2001.

The framework introduced, from 2007/08, an integrated Annual Governance Statement ("AGS"). The AGS covers all significant corporate systems, processes and controls, spanning the whole range of an Authority's activities, including in particular those designed to ensure that:

- the Authority's policies are implemented in practice;
- high quality services are delivered efficiently and effectively;
- the Authority's values and ethical standards are met;
- laws and regulations are complied with;
- required processes are adhered to;
- financial statements and other published performance information are accurate and reliable; and
- human, financial, environmental and other resources are managed efficiently and effectively.

Our review is directed at:

- considering the completeness of the disclosures in the governance statement and whether it complies with proper practice as specified by CIPFA; and
- identifying any inconsistencies between the disclosure and the information that we are aware of from our work on the financial statements and other work relating to the Code of Audit Practice.

Audit work completed

We have performed the following work in relation to the Annual Governance Statement (AGS):

- ensured that it complies with the requirements as set out in the Code of Practice on Local Authority Accounting in the United Kingdom 2013-14.
- reviewed the Governance Statement to confirm that it is consistent with internal audit reports, board minutes, the Internal Audit Annual Report and Opinion and our work on the financial statements.

We have concluded that the AGS includes all appropriate disclosures and is consistent with our understanding of the Authority's governance arrangements and internal controls derived from our audit work.

In this section we set out our comments regarding your internal control and risk management processes. We communicate any significant deficiencies in the internal control environment to the audit committee.

Insight - Internal control and risk management

Internal control and risk management



We are required to provide a view, based on our audit procedures, on the effectiveness of your system of internal control relevant to risks that may affect financial reporting; and other risks arising from the entity's business model and the effectiveness of related internal controls.

Significant Risk	Internal Controls	Current position
Fraudulent manipulation of revenue recognition	<ul style="list-style-type: none"> Regular finance report to the Authority. Grant documentation reviewed for conditions and retained on file to ensure release is inline with conditions. Annual levy allocation provided by the ITA with regular drawdowns. Treasury management service provided by Newcastle City Council. 	●
Management override of controls	<ul style="list-style-type: none"> Regular financial reporting to the Authority including progress against budget. Budget holders responsible for monitoring progress against budget. Manual approval process for journals with journals posted by the finance team reviewed by senior accountant. 	●
NESTI funding	<ul style="list-style-type: none"> Nexus are required to submit claims to draw down for expenditure incurred from the NESTI funding. Backup documentation is required for amounts claimed to ensure that the expenditure relates to NESTI. Activity undertaken by Nexus in relation to NESTI is reported to the NESTI board which includes chair of the ITA and ANEC. This ensures management are aware of any progress and able to judge the reasonableness of claims. 	●
Combined Authority	<ul style="list-style-type: none"> Appropriately qualified and experienced staff and staff retention where possible Deloitte have provided support based on our knowledge of similar events 	●
No issues noted	<ul style="list-style-type: none"> Acceptable but could be improved Requires significant improvement 	●

Liaison with internal audit

The audit team, following an assessment of the independence and competence of the internal audit department, reviewed the work of internal audit. We did not place direct reliance on the work of internal audit however the findings influence the formation of our views on the risk and accuracy of the Annual Governance Statement.

Responsibility Statement

Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

What we report

Our report is designed to help the Governance and Audit Committee and the Authority discharge their governance duties. It also represents one way in which we fulfil our obligations under ISA 260 to communicate with you regarding your oversight of the financial reporting process and your governance requirements. Our report includes:

- Results of our work on key audit judgements and our observations on the quality of your Explanatory foreword
- Our views on the effectiveness of your system of internal control relevant to risks that may affect financial reporting.
- Other insights we have identified from our audit

What we don't report

- As you will be aware, our audit was not designed to identify all matters that may be relevant to the Authority.
- Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by management or by other specialist advisers.
- Finally, our views on internal controls and business risk assessment should not be taken as comprehensive or as an opinion on effectiveness since they have been based solely on the audit procedures performed in the audit of the financial statements.

The scope of our work

- Our observations are developed in the context of our audit of the financial statements.
- We described the scope of our work in our audit plan dated 27 March 2014 and the supplementary "Briefing on audit matters" which was circulated as an appendix to the Audit Plan.

We welcome the opportunity to discuss our report with you and receive your feedback.



Deloitte LLP
Chartered Accountants
Newcastle-Upon-Tyne
September 2014

This report has been prepared for the Authority, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose. Except where required by law or regulation, it should not be made available to any other parties without our prior written consent.

Appendices

Appendix 1: Audit adjustments Unadjusted misstatements detail

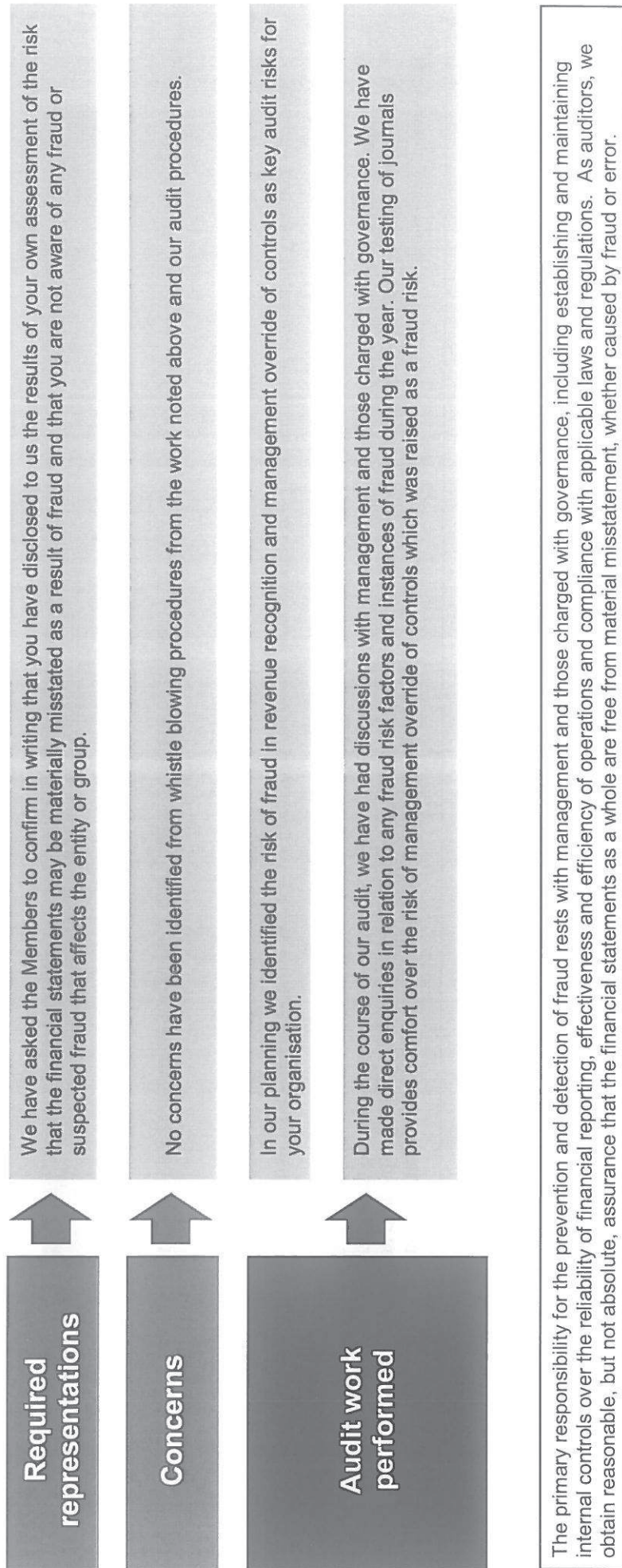
Uncorrected misstatements

There are no uncorrected misstatements. We identified a number of minor disclosure deficiencies in the financial statements which have been corrected by management.

Additional disclosure identified by the client

Management have identified an additional contingent liability relating to the Tyne Tunnel Toll charges. We are currently in discussions with management to agree additional disclosures to be included within the accounts. We will provide a verbal update during the meeting.

Appendix 2: Fraud: responsibilities and representations



Appendix 3: Independence and fees

As part of our obligations under International Standards on Auditing (UK and Ireland), we are required to report to you on the matters listed below:

Independence confirmation We confirm that we comply with APB Ethical Standards for Auditors and that, in our professional judgement, we are independent and our objectivity is not compromised.

Fees We have not provided any non-audit services in the period from 1 April 2013 to 31 March 2014

Non-audit services In our opinion there are no inconsistencies between APB Ethical Standards for Auditors and the Authority's policy for the supply of non-audit services or of any apparent breach of that policy. We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.

Relationships There are no other relationships with the North East Combined Authority, incorporating the Tyne and Wear Integrated Transport Authority, which would impact on our objectivity and independence.

The professional fees earned by Deloitte in the period from 1 April 2012 to 31 March 2014 are as follows:

	Current year £	Prior year £
Audit of Tyne and Wear Integrated Transport Authority	19,599	19,599
Total	19,599	19,599

Appendix 4: Our approach to audit quality

Recognition of and further impetus for our quality agenda

Audit quality is our number one priority. We pride ourselves on our commitment to quality and our quality control procedures. We have an unyielding pursuit of quality in order to deliver consistent, objective and insightful assurance.

The Financial Reporting Council ("FRC") issues an Annual Report on Audit Quality Inspections, providing an overview of the activities of its Audit Quality Review ("AQR") team for the year.

"The firm places considerable emphasis on its overall systems of quality control and, in most areas, has appropriate policies and procedures in place for its size and the nature of its client base. Nevertheless, we have identified certain areas where improvements are required to those policies and procedures... The firm took a number of steps in response to our prior year findings to achieve improvements in audit quality. This included enhanced guidance, technical communications and audit training on the recurring themes. However, issues continued to arise in some of these areas."

AQR Report on Deloitte for 2013/14
<https://www.frc.org.uk/Our-Work/Publications/Audit-Quality-Review/Audit-Quality-Inspection-Report-May-2014-Deloitte.pdf>

Deloitte response

- Our strategic objective is to execute high quality, distinctive audits.
- We adopt an open and communicative approach with the regulator and their contribution to audit quality is respected and supported at all levels of our firm.
- We consider that the AQR's report provides a balanced view of the focus and results of its inspections and its recognition of the emphasis we place on our overall systems of quality control is welcome.
- We value the regulator's inspection and comments, and the review performed by the AQR forms an important part of our overall inspection process.
- As part of our agenda of continuous improvement we have given careful consideration to each of the FRC's comments and recommendations. This has included investigation of the root causes of each finding. This has enabled us to develop, in conjunction with findings arising from our own quality review procedures, an effective response to the themes arising.
- Following the AQR review, we have implemented improvements to our audit procedures and our system of quality control.
- Deloitte's Audit Transparency Report provides further information regarding our approach to delivering quality and is available on our website: http://www.deloitte.com/view/en_GB/uk/about/annual-reports/index.htm.

We will inform you if the AQR team selects your audit as part of their review for this year and will share its final report with you when it is complete.

Twelve of the audits reviewed by the AQR were performed to a good standard with limited improvements required and four audits required improvements. We were disappointed that one audit was assessed as requiring significant improvements in relation to the testing of the collective and individual loan loss provisions although this did not cause the AQR to doubt the validity of our audit opinion. The overall analysis of the AQR file reviews by grade for the last five years evidences that, among the largest firms, Deloitte remains at the forefront of audit quality with 67% of audits achieving the top grade from the AQR, the highest proportion amongst our peers.

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Member of Deloitte Touche Tohmatsu Limited

North East Combined Authority

Governance Committee

DATE: 12 September 2014

SUBJECT: Internal Audit Progress Report

REPORT OF: Audit, Risk and Insurance Service Manager (Newcastle City Council)

EXECUTIVE SUMMARY

The purpose of this report is to provide members with an updated Internal Audit Plan for the Combined Authority for 2014/15 (Appendix I) and detail progress against the delivery of the plan and implementation of audit recommendations.

One audit has been completed since the last Governance Committee covering Tyne Tunnel Toll income and it concluded that systems give substantial assurance. This audit is summarised in this report.

RECOMMENDATIONS

It is recommended that the Committee note the revised Internal Audit Plan for 2014/15 and internal audit activity to date.

As this is the first progress report for the Governance Committee members should consider the level of detail and information it contains.

North East Combined Authority

Governance Committee

1 Background Information

2014/15 Audit Plan

- 1.1 The proposed Internal Audit Plan for 2014/15 was agreed at the June meeting of the Governance Committee. Following that meeting discussion has taken place with the Heads of Internal Audit from the other councils making up the Combined Authority who will deliver elements of the plan. Appendix I shows the plan with start dates for each of the pieces of internal audit work. The scheduling of the audit plan is summarised below:

Period for start of audit	Number of Audits	Comments
August/September	2	1 complete for September Committee (Tyne Tunnel see below)
October/November	3	
December/January	1	
February/March	3	

- 1.2 At the June Committee the schedule of future meetings was discussed for 2014/15. Meetings are planned for September 2014 and February 2015 and consideration was given to the need for an additional meeting in December 2014.
- 1.3 It is not essential to have a December meeting but based on the audit plan there would be 2 or 3 audits completed that could be presented to it. The alternative would be these reports would go to the February 2015 meeting.

Progress with Delivery of the Plan

- 1.4 The table below details the audit work completed since the June meeting and Appendix 2 provides an executive summary of the points raised by the report.

Audit	Assessment
Tyne Tunnel Toll Income	Substantial Assurance

- 1.5 Appendix 3 includes definitions for the overall assessments and recommendation ratings used in audit reports. These definitions have been developed specifically for the Combined Authority and will be used in all reports regardless of which Council's Internal Audit Service has delivered the work.
- 1.6 Management is responsible for implementing all audit recommendations. Internal Audit will follow up all high and medium priority recommendations to verify implementation. This provides assurance that those recommendations which are both fundamental and important to the Authority's system of control

North East Combined Authority

Governance Committee

are addressed. The current position as regards recommendation implementation is detailed below:

Audit and Recommendation	Due date	Progress update
Tyne Tunnel Toll Income The NECA Bank Account / Cash Book Control Account, was not promptly reconciled and cleared to the relevant revenue account at the time of the audit. (Medium)	September 2014	Not yet due for implementation

- 1.7 The style of this progress report has been devised to give members a summary of the main points relating to the audit work. If members require a change to the level of information or style of reporting this can be included in future reports.

2 Next Steps

- 2.1 The Governance Committee will continue to receive reports detailing progress against the audit plan, outcomes from audit work and information on the implementation of recommendations throughout the year. This work will feed into the Internal Audit Annual Report and Annual Governance Statement for 2014/15.
- 2.2 Members should consider whether the level of detail and information contained in the report covers their needs.

3 Potential Impact on Objectives

- 3.1 No direct impact on objectives.

4 Finance and Other Resources

- 4.1 Internal Audit is provided within existing budgets and utilises each Council's own Internal Audit Service, IT and other resources. There is no overall financial impact from provision of the service and costs will be approximately £30k.

5 Legal

- 5.1 No legal implications.

6 Other Considerations

- 6.1 **Consultation/Community Engagement**

North East Combined Authority

Governance Committee

No external consultation or community engagement required.

6.2 Human Rights

No implications under the Human Rights Act 1998 (or as amended).

6.3 Equalities and Diversity

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

6.4 Risk Management

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.

6.5 Crime and Disorder

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

6.6 Environment and Sustainability

There are no environment and sustainability implications directly arising from this report.

7 Background Documents

7.1 Final Internal Audit Reports

8 Links to Plans in the Policy Framework

8.1 No direct link to the Policy Framework.

9 Appendices

- 9.1 Appendix 1 – Internal Audit Annual Plan 2014/15
- Appendix 2 – Audit Activity since June 2014
- Appendix 3 - Definitions

10 Contact Officers

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

North East Combined Authority

Governance Committee

11 Sign off

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

North East Combined Authority

Governance Committee

2014/15 Internal Audit Plan			Appendix 1
Audit	Delivered by	Audit scope and coverage	Schedule date
Governance and Performance	Newcastle City Council	Review of the operation of governance and performance arrangements in place and being developed for the Combined Authority and provide appropriate advice to officers establishing processes for reporting and monitoring.	November 2014
Financial Management	Newcastle City Council	Audit coverage will include: <ul style="list-style-type: none"> • The adequacy of financial arrangements for the overall Combined Authority. • Processes in place within Newcastle City Council in relation to Tyne and Wear transport financial systems. • The development and design of new arrangements. 	January 2015
Tyne Tunnels Contract Monitoring	Newcastle City Council	Assess the adequacy and effectiveness of arrangements for receipt of Tyne Tunnels toll income.	August 2014
Risk Management	Newcastle City Council	To review and assist in the develop risk management arrangements for the Combined Authority.	October 2014
Concessionary Travel	Nexus	Assurance obtained from Nexus' Internal Audit service to confirm the adequacy and effectiveness of controls in relation to this area.	March 2015
Metro Re-Invigoration	Nexus	Assurance obtained from Nexus' Internal Audit service to confirm the adequacy and effectiveness of controls in relation to this area.	March 2015
North East Local Enterprise Partnership	Sunderland City Council	Accounting arrangements, the process for allocating grants/loans to third parties, the monitoring arrangements and the quarterly claims process.	October 2014
Transport Network Management – Durham	Durham County Council	Review of the governance and performance arrangements in place for reporting to the Combined Authority.	September 2014

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Strategic Transport - Northumberland	Northumberland County Council	Review spend and governance particularly relating to the Local Transport Capital Block Funding (Integrated Transport and Highways Maintenance).	March 2015
Contingency	As required	Provision to cover emerging risks, grant certification work and general advice.	As and when required
Governance Committee Support	Newcastle City Council	<ul style="list-style-type: none">• Development and monitoring delivery of the Internal Audit Annual Plan.• Preparation of reports to and attendance at Governance Committee.• Follow up on the implementation of recommendations made within Internal Audit reports.	As and when required

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Time allocation:

Newcastle City Council – 35 days

Sunderland City Council – 15 days

Durham County Council – 10 days

Northumberland County Council – 10 days

Nexus – this work is undertaken as part of Nexus’s internal audit plan delivered by their own internal audit service but the outcomes of the work are provided to Newcastle City Council.

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Audit Activity since June 2014

Appendix 2

Responsible Council	Name of Audit	Level of Assurance	Number of Recommendations		
			High	Medium	Low
Newcastle City Council	Tyne Tunnel Toll income	Substantial Assurance	0	1	2
Audit objectives and scope					
<p>The review was to assess whether significant risks in relation to collection and accounting for toll income are adequately and effectively controlled, specifically in relation to the following:</p> <ul style="list-style-type: none"> • There is a formal contract in place setting out arrangements for collection of toll income and transfer of monies into the Combined Authority bank account. • Toll income is collected, counted and banked in line with the agreed contract. • Toll income is promptly allocated to relevant income codes, reconciled against expected amounts with discrepancies being investigated and promptly resolved. • Procedures operate efficiently 					
Internal Audit work undertaken was as shown below					
<ul style="list-style-type: none"> • Discussions were held with officers at the Tyne Tunnel operator (TT2) and Newcastle City Council. • Testing covered a sample of 3 days. • The audit covered the current financial year, i.e. April to June 2014. 					

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Effective controls and good practice	High or medium priority findings
<p data-bbox="85 730 138 922">Page 199</p> <ul data-bbox="120 427 936 1359" style="list-style-type: none"><li data-bbox="120 427 936 571">• The collection and transfer of cash vaults from the Tyne Tunnels to Newcastle City Council’s Internal Banking Section is adequately controlled, recorded and secure.<li data-bbox="120 593 936 699">• Counting and banking records are retained by Internal Banking to support all monies processed by the section.<li data-bbox="120 721 936 865">• Vault Income is promptly banked, and copy bank deposit slips are passed to the Newcastle City Council’s Income Control Section to enable check and prompt allocation of monies deposited.<li data-bbox="120 887 936 1031">• There is appropriate segregation of duties between collection, counting and banking, and reconciliation of tolls income; TT2 are notified of the count for each vault to enable comparison to daily vault reports.<li data-bbox="120 1053 936 1197">• Permit income, collected by TT2, is promptly transferred to the NECA bank account within the agreed timescale; this is monitored by the Tyne Crossing Project Monitoring Officer.<li data-bbox="120 1219 936 1362">• TT2 reconcile permit income to account credits. A summary of permit, income, toll usage, and account balances, is reported via the TT2 Weekly Tolling Report.	<ul data-bbox="981 418 1942 529" style="list-style-type: none"><li data-bbox="981 418 1942 529">• The NECA Bank Account / Cash Book Control Account, was not promptly reconciled and cleared to the relevant revenue account at the time of the audit. (Medium)

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Appendix 3 - 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.

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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

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

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