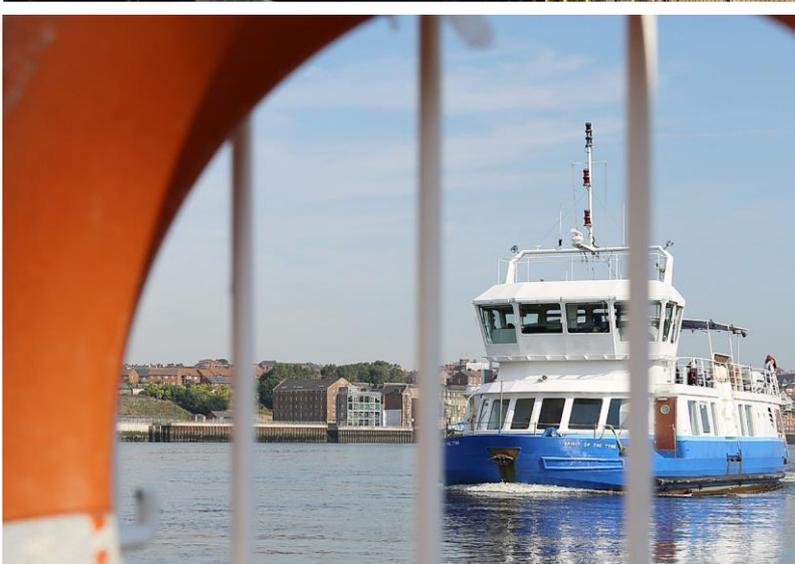


Annual Accounts

For the year ended 31 March 2019



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Narrative Statement

The Tyne and Wear Passenger Transport Executive is a body corporate under the Transport Act 1968 and operates under the name of Nexus. The Executive Directors are appointed by the North East Joint Transport Committee on behalf of the North East Combined Authority (NECA) and the North of Tyne Combined Authority. In the year to 31 March 2019 the Executive Directors were:-

Executive Directors

Tobyn Hughes	Managing Director, Transport North East and Director General
John Fenwick	Director of Finance and Resources
Raymond Johnstone	Director of Rail and Infrastructure

The Tyne and Wear Sub-Committee of the North East Joint Transport Committee has a specific remit to supervise and oversee Nexus' delivery of its Corporate Plan, which is developed in accordance with the North East Joint Transport Committee's policy objectives and Nexus' overall resourcing. Nexus' governance arrangements are further explained within the Annual Governance Statement on pages 8 to 13.

Corporate Objectives

Nexus acts as a delivery agency and officer of the North East Joint Transport Committee for the area covered by the 5 local authorities in Tyne and Wear.

Nexus' mission statement is:

'Making public transport great for our environment, economy and communities'

Nexus' high-level corporate objectives for the financial year 2018/19 were to:

- 1) Deliver public transport today
 - Improve the Metro customer journey experience.
 - Introduce a more affordable and sustainable fares offer for Under 19s.
 - Protect levy funded frontline services.
 - Deliver technological improvements.
- 2) Prepare for the future:
 - Procure a new fleet of trains and their ongoing maintenance requirements.
 - Develop proposals for the further devolution of the Northern rail franchise.
 - Develop plans to expand Metro and local rail services.
 - Develop plans to improve the local bus network.
- 3) Focus on organisational effectiveness:
 - Implement change and pursue continuous improvement.
 - Continue with the Metro Asset Renewal Programme (ARP).
 - Make Nexus an employer of choice.
 - Facilitate change in local political governance structures.

Overview of Service Delivery 2018/19

Nexus is responsible for the Tyne and Wear Metro, which during the year was operated by North East Metro Operations Limited (NEMOL), a wholly owned subsidiary of Nexus. Nexus continued to own, maintain and renew the system, with the North East Joint Transport Committee having overall responsibility for fares policy. The Metro has 60 stations with peak service trains running every three minutes through the central corridor.

Narrative Statement

Bus services in Tyne and Wear are provided by commercial operators who define and operate approximately 90% of routes. Nexus monitors bus service performance and secures the remaining routes, around 200 services or parts of services under contract. Nexus also owns major bus stations at Gateshead Interchange, Regent Centre, Four Lane Ends and Heworth in addition to managing stations at Park Lane Interchange, Eldon Square, Haymarket, Wallsend, Jarrow, Blaydon and South Shields.

Residents of Tyne and Wear enjoy several concessionary travel schemes (both statutory and discretionary), administered and funded by Nexus, providing free and reduced price travel on different modes of transport to those who are eligible.

Nexus runs a cross-Tyne ferry that operates between North Shields and South Shields. In addition, Nexus also provides public transport information to the public via its website, a call centre, electronic displays and printed materials.

Our capital investment plans include the Metro: all change modernisation programme, providing a step change in comfort and reliability for our passengers. We are now at the end of the ninth year of an eleven year £352m programme to renew and upgrade Metro, having secured capital funding from the Department for Transport in February 2010.

During the year, Nexus commenced the procurement of a train manufacturer who will design and build 42 Metro trains (84 carriages in total) and a new maintenance depot, which will be built on the existing Metro depot site in Gosforth. The new fleet will offer greater reliability while delivering improved comfort and convenience for passengers; air conditioning, digital connectivity, phone charging points and a linear seat layout to create more space for wheelchairs, standing room and luggage. The preferred supplier will be selected during 2019, with the first new trains expected to arrive from the end of 2021.

Nexus act as programme manager for the North East Smart Ticketing Initiative (NESTI), which has invested £9.1m over the past 8 years with a further £0.7m of investment to come in smart technology infrastructure throughout the North East. We are also a member of Network Ticketing Limited, the multi-modal, multi-operator public transport ticketing company that operates within Tyne and Wear.

Nexus is also involved, on behalf of the North East Joint Transport Committee, in partnership working across the North of England to help improve transport services. We do this in collaboration with Transport for the North and Rail North. In addition, Nexus works in partnership with the North East Local Enterprise Partnership and other agencies to improve digital connectivity throughout the region. Whilst the primary aim of this partnership is to enhance the economic performance of the region, it will also provide direct benefits to public transport users, particularly Metro customers.

Nexus' financial position is affected by the current economic climate where restrictions are placed on overall levels of net expenditure. Despite the Revenue Support Grant received from the North East Joint Transport Committee being reduced over recent years by £14.6m (or 20%) since 2010, it has been possible, through working more efficiently, to operate without reductions in the levels of service provided.

Passenger Numbers 2018/19

The following indicators describe the general performance of public transport in Tyne and Wear during 2018/19:-

- The number of passenger journeys across all modes within Tyne and Wear was estimated at 159.3 million; a 0.8% increase when compared to 158.5 million in the previous year
- Bus patronage increased to 120.9 million in 2018/19; a 0.5% increase when compared to 120.3 million in the previous year
- Metro patronage remained at 36.4 million in 2018/19

Narrative Statement

- Ferry patronage increased to 436,600 passengers in 2018/19; an increase of 3.5% when compared to 422,000 journeys in the previous year
- Rail patronage increased to 1.6 million journeys in 2018/19; an increase of 14% when compared to 1.4 million journeys in the previous year

Metro Performance 2018/19

- Metro reliability (operated mileage) was 98.5% during 2018/19, an improvement on the 97.9% achieved in the previous year
- Metro Charter punctuality was 79.6% during 2018/19, compared to 85.1% achieved in the previous year

Financial Performance 2018/19

The loss reported in the Comprehensive Income and Expenditure Statement (“CIES”) for the group after grants and taxation was £12.547m. This compares to the loss reported in the prior year of £20.047m. The main cause of the variation is the increased pension liability following the incorporation of NEMOL incurred in the previous year.

The Nexus Group management accounts as presented internally and to North East Joint Transport Committee reported a surplus of £0.924m before taxation and after movements in capital reserves.

The surplus can be compared to the budget for the year as follows:-

	Budget	Actual	Variance
	£m	£m	£m
Income	(54.023)	(51.215)	2.808
Revenue Support Grants (Note 21)	(56.367)	(56.367)	-
Other Revenue Grants	(26.854)	(27.305)	(0.451)
Other income	(25.010)	(25.577)	(0.567)
Service expenditure	159.566	157.380	(2.186)
Loan interest	1.713	1.709	(0.004)
	(0.975)	(1.375)	(0.400)

A reconciliation between the management accounts and the surplus as reported in the Comprehensive Income and Expenditure Statement is included in the Expenditure and Funding Analysis, and also within Note 5 to the accounts.

The balance of usable reserves (Note 19) stands at £50.4m at the end of the year, of which £10.5m is potentially available to allow the protection of services during the transition to a balanced budget in the medium term.

During the year Nexus invested £29.5m of capital expenditure in public transport in Tyne and Wear which was funded primarily by central government grants.

The liquidity of Nexus remained strong with net current assets of £68.8m, adequate to cover both short term fluctuations and future commitments from usable reserves.

Nexus is a Scheduled Body in the Tyne and Wear Pension Fund and its Pension deficit has increased from £42.8m to £43.4m as at 31 March 2019. NEMOL is an Admitted Body in the Tyne and Wear Pension Fund and its Pension deficit as at 31 March 2019 is £32.2m, which is disclosed within the group accounts.

Narrative Statement

Financial Instruments

Nexus manages the risk on its investments by restricting its list of counterparties to institutions with an adequate credit rating. The length of time funds are deposited with counterparties is also restricted, dependant on the credit rating of the counterparty. The amount invested in any counterparty is also restricted by the application of a ceiling. Nexus' investments policy was reviewed by its Senior Leadership Team during 2018/19.

Nexus operates without the requirement of an overdraft facility. Borrowing is restricted to a long term loan with NECA as detailed in Note 18.

Donations

Nexus made no political or charitable donations during the year which should be disclosed.

The Tyne and Wear Passenger Transport Executive is a body corporate under the Transport Act 1968 and operates under the name of Nexus. The Directors are appointed by the North East Combined Authority (NECA) and, in the year to 31 March 2019 were :-

Executive Directors

Tobyn Hughes	Managing Director (Transport Operations) and Director General
John Fenwick	Director of Finance and Resources
Raymond Johnstone	Director of Rail and Infrastructure

The Tyne and Wear Sub-Committee (TWSC) of the Joint Transport Committee (JTC) of the regions two Combined Authorities, the North East Combined Authority (NECA) and the North of Tyne Combined Authority (NTCA), has a specific remit to supervise and oversee Nexus' delivery of its Corporate Plan, which is developed in accordance with the JTC's policy objectives and Nexus' overall resourcing. Nexus' governance arrangements are further explained within the Annual Governance Statement on pages 7 to 13.

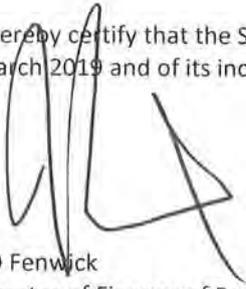
Statement of Directors' Responsibilities

The Directors are required by company law to prepare financial statements for each financial year which present a true and fair view of the Executive's financial position and performance for that period.

In preparing the financial statements, the Directors are required to:-

- select suitable accounting policies and apply them consistently
- ensure that the financial statements are prepared in accordance with the requirements of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom and with the Accounts and Audit Regulations 2015
- make judgements and estimates that are reasonable and prudent
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements
- keep proper financial records which are up to date
- ensure that the financial management and accounting control systems are adequate and effective

I hereby certify that the Statement of Accounts gives a true and fair view of the financial position of Nexus as at 31 March 2019 and of its income and expenditure for the year ended 31 March 2019.



J D Fenwick
Director of Finance of Resources
26 July 2019

Annual Governance Statement

Scope of responsibility

1. Tyne and Wear Passenger Transport Executive (Nexus) 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. Nexus also follows best practice in making arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.
2. In discharging this overall responsibility Nexus is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions and which includes arrangements for the management of risk.
3. Nexus has approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Framework "Delivering Good Governance in Local Government". This statement explains how Nexus has complied with the code and also meets the requirements of the Accounts and Audit Regulations 2015, Part 2 which requires all relevant bodies to conduct a review of the effectiveness of the system of internal controls required under the Regulation.

The purpose of the governance framework

4. The governance framework comprises the systems and processes, culture and values by which Nexus is directed and controlled and its activities through which it accounts to, engages with and leads its communities. It enables Nexus to monitor the achievement of its strategic objectives and consider whether those objectives have led to the delivery of appropriate services and value for money.
5. The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Nexus policies, aims and objectives, to evaluate the likelihood and impact of those risks being realised and the impact should they be realised and to manage them efficiently, effectively and economically.
6. The governance framework has been in place at Nexus for the year ended 31st March 2019 and up to the date of approval of the annual accounts.

The governance environment

7. The key elements of the governance arrangements are:

Political Accountability

- The North East Combined Authority (NECA) who took over the duties, responsibilities and functions of the former Tyne and Wear Integrated Transport Authority (ITA) on 15th April 2014, is the statutory corporate body responsible for designing policies to promote and enhance the provision of public passenger transport and for overseeing the implementation of those policies through Nexus.
- On 4th July 2018 a Deed of Co-operation was made by the NECA and the seven Constituent Authorities (and on behalf of the North of Tyne Combined Authority (NTCA) which outlined a framework for collaborative working and their strong working relationships of the two Combined Authorities and their constituent councils.
- Clause 8.2 of the Deed provided that the Constituent Authorities would procure that NECA was the host Combined Authority for the Joint Transport Committee and the functions discharged by it.

Annual Governance Statement

- At its meeting of 13th November 2018, the NECA agreed to adopt a revised Constitution. The Constitution constitutes a North East Joint Transport Committee in accordance with NECA's obligations under Article 8 of the Newcastle upon Tyne, North Tyneside and Northumberland Combined Authority (Establishment and Functions) Order 2018.
- The North East Joint Transport Committee is constituted as a joint committee of NECA and NTCA for the purposes of Sections 101 and 102 of the Local Government Act 1972 and delegates authority to that Committee.
- The North East Joint Transport Committee met for the first time on 20th November 2018. At this meeting the Standing Orders for the North East Joint Transport Committee were approved. Part 4 of the Standing Orders resolves that a Tyne and Wear Sub-Committee is constituted. The Tyne and Wear Sub-Committee met for the first time on 21st November 2018.
- The JTC develops and approves a Local Transport Plan (LTP) which reflects the policy objectives of the NECA and the NTCA, and is prepared in accordance with detailed guidance from Government – "LTP3 – 3rd Local Transport Plan for Tyne and Wear Strategy 2011/2021". The regional transport team is currently developing an integrated LTP covering the entire NECA/NTCA area.
- The Tyne and Wear Sub-Committee of the North East Joint Transport Committee has a specific remit to supervise and oversee Nexus' delivery of its Corporate Business Plan which is developed in accordance with the North East Joint Transport Committee's policy objectives and Nexus' overall resourcing. On 31st January 2019 the Tyne and Wear Sub-Committee of the North East Joint Transport Committee approved the Nexus Corporate Business Plan for 2019/20.
- In addition, Nexus reports its financial performance to the North East Joint Transport Committee as part of a composite report prepared by the Chief Finance Officer to the NECA. The North East Joint Transport Committee approves Nexus' revenue and capital budgets annually. The budgets for 2019/20 were approved by the North East Joint Transport Committee on 22nd January 2019.
- As an officer of the North East Joint Transport Committee, Nexus is also subjected to scrutiny of its performance through the North East Joint Transport Committee's Overview and Scrutiny Committee. Nexus is also asked periodically to attend the North East Joint Transport Committee's Audit Committee.

Nexus management structure and how it is governed

- Nexus is led by its Director General who is also the Managing Director, Transport North East for the North East Joint Transport Committee. By law, Nexus must have a Director General and at least two other directors. In this regard, the Director General is supported by the Director of Finance and Resources and the Director of Rail and Infrastructure. All three Executive Directors are appointed by the political body responsible for overseeing Nexus' delivery arrangements.
- In addition, there is a Senior Leadership Team (SLT) comprising the three Executive Directors, Customer Services Director, Transport Strategy Director, Metro Services Director, Group Head of Legal and Group Head of Human Resources whose responsibilities relate to all areas of the organisation. The SLT meets weekly and is chaired by the Director General.
- An Audit Committee whose membership consists of individuals independent of Nexus provides assurance to SLT and the North East Joint Transport Committee by reviewing the adequacy of internal controls, monitoring

Annual Governance Statement

the performance of the Internal Audit section, agreeing the internal and external audit plans, overseeing corporate governance and by reviewing the annual accounts, prior to their approval by the SLT. In addition, the Audit Committee receives periodic reports from Nexus' external auditor for review. Paragraph 8 of the Annual Governance Statement sets out the Audit Committee's current Terms of Reference.

Nexus arrangements to secure good governance

- Nexus has a corporate performance management system to identify and deal with possible failures in service delivery. Progress against departmental key performance indicators and service improvement plans, drawn from the Corporate Business Plan, is monitored on a 4 weekly basis by SLT.
- The roles and responsibilities of the Nexus Executive Directors and SLT are set out in Nexus' Standing Orders. The SLT has a work programme covering (not exclusively) approval of the Capital and Revenue budgets, the Corporate Business Plan, Safety Plan, key objectives, policies, financial and risk strategies alongside service and financial performance monitoring throughout the year.
- Powers are delegated formally from the SLT to individuals as recorded in the Standing Orders document and associated appendices which are available to all employees via the Nexus intranet.
- The day-to-day business of Nexus is therefore governed by formal Standing Orders including Financial Regulations which includes a Code of Conduct for Directors and Employees as well as separate specific policies and regulations which cover the proper use of ICT assets and resources, the procurement of goods and services, fraud and corruption, gifts and hospitality and a number of other areas.
- The Standing Orders including Financial Regulations are subject to review and updated as required, subject to SLT approval.
- As part of the continual review process, Heads of Service and Directors are required to complete and sign an annual assurance statement declaration outlining the key features of the systems of internal control within their area of responsibility. In addition, Heads of Service and Directors, along with the executive directors are required to sign a related party transactions declaration, highlighting their relationships with external organisations with whom Nexus may have transacted and where this could be of material significance to the annual accounts. This allows them to identify whether the arrangements set out are in place and operating effectively, identify problems encountered and set out action that has been taken or is proposed to address those issues.
- Any significant risks identified by general reporting will be considered by the SLT for inclusion in the Corporate Risk Register. Departmental risk registers are formally reviewed and updated periodically alongside a review of the status of approved departmental action plans.
- The Corporate Risk Register is reviewed at each meeting of the Tyne and Wear Sub-Committee of the North East Joint Transport Committee, having been reviewed at SLT. The Corporate Risk Register is also reviewed at each meeting of the Audit Committee.
- Nexus operates an internal audit service utilising specialist audit services from Newcastle City Council (in its capacity as the internal auditor for the NECA) under a service level agreement, which is subject to regular inspection by the external auditor who reports annually to SLT in communicating the outcome of its audit into Nexus' statement of accounts, their assessment of the arrangements to secure value for money and matters that they are required to, or wish to bring to the SLT's attention. In addition, the external auditor reports to quarterly meetings of the Nexus Audit Committee on a range of other matters and in doing so, places great reliance on the work carried out by the Internal Audit section.
- Internal Audit monitor and review the quality and effectiveness of internal control. The audit plan is developed in line with best practice using a robust risk model, informed by the annual audit strategy and is approved by the Audit Committee. The audit methodology is contained within the Audit manual which is largely based on the CIPFA model, and reflects the standards defined by the Public Sector Internal Audit

Annual Governance Statement

Standards 2017 and the CIPFA Application Note and meets the requirements of the Accounts and Audit Regulations 2015.

- Reports for each audit undertaken are submitted to relevant line managers and Directors. Reports include the Head of Internal Audit's independent opinion on the adequacy and effectiveness of the system of internal control, together with recommendations for any improvements. The process is subject to escalation where agreement cannot be reached and includes quarterly reviews of recommendations by the Audit Committee to ensure that they are acted upon.
- Nexus operates a Performance Review process for all APT and C staff (which are known as My Performance and Development Reviews). This review process is intended in part to ensure that sufficient skills and knowledge are held by staff to allow them to carry out their roles effectively and to meet known future requirements in line with corporate improvement projects and plans.
- Nexus carries out a substantial amount of market research and customer satisfaction tracking studies and there is a formal complaints procedure for those who want to express their dissatisfaction with any aspect of public transport delivery.
- Nexus has in place a protocol and strategy for acting in partnership with other bodies. Major partnerships are governed by statutory and legal frameworks. SLT review partnership arrangements on an annual basis.
- During the financial year 2018/19, Nexus continued its Metro All Change programme which will deliver £350m of investment across the Tyne and Wear Metro system between 2010 and 2021. In order to effectively govern this programme, specific reporting requirements ensure that periodic progress is reported to SLT each reporting period including progress, reporting and consideration of monthly reports to DfT.
- During 2018/19, Nexus passed the £300 million investment milestone with the replacement of the bridge at Beach Road in North Tyneside. A number of significant and complex projects have been undertaken since 2010 with further work planned up to March 2021.
- During the financial year, Nexus has developed a Spending Review 2019 (SR19) submission to DfT, for the continuation of revenue and capital grant funding for the operation of the Tyne and Wear Metro and investment in the network infrastructure. Nexus is seeking a commitment from DfT for operations and asset renewals until March 2025.
- Following the government announcement on 20th November 2017 in which a funding commitment of £362m (including a £25m contribution from Nexus' reserves) was given for a new Metro fleet and maintenance facility, Nexus embarked on the procurement of a new Metro fleet and Depot at South Gosforth.
- During 2018/19, Nexus continued to attend a joint programme board with DfT in order to help govern the delivery of its various activities part funded by DfT. This builds upon inter alia, DfT's Assurance Review Team (ART) which in 2017 stated that they are of the opinion that Nexus is managing delivery of the Metro Reinvigoration Phase 2 Programme with a high degree of competence and that the maturity of the project, asset and commercial management is appropriately scaled for the size and complexity of the programme.

Review of effectiveness

8. Nexus has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the managers within Nexus who have responsibility for the development and maintenance of the governance environment, the Head of Internal Audit's annual report and also by comments made by the external auditors and other review agencies and inspectorates. The Annual Governance Statement is reviewed by the Audit Committee prior to being recommended for approval by Nexus' Senior Leadership Team. In addition, the terms of reference for the Audit Committee say it will:-

Annual Governance Statement

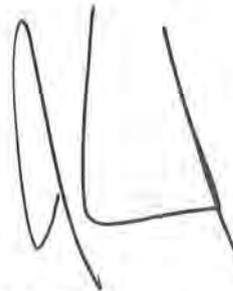
- i. Provide assurance relating to the corporate governance requirements for the organisation, including the provision of necessary assurance to the North East Joint Transport Audit Committee who will receive the Annual Audit Letter;
 - ii. Consider and make recommendations to the Senior Leadership Team in the appointment of the external Auditor and the audit fee and also in the appointment of the Internal Auditor and fee if outsourced;
 - iii. Approve the annual Internal Audit Plan and consider the annual report of the Internal Auditor; ensuring recommendations are implemented within agreed timescales;
 - iv. Consider Nexus' internal control systems, together with the Internal Audit Plan and assessment of the audit performance, including the Quarterly Audit Progress Reports, ensuring agreed recommendations are implemented within agreed timescales;
 - v. Consider the external auditor's Audit Strategy Memorandum including the nature and scope of the audit and its relationship with the Internal Audit Plan;
 - vi. Consider in draft form the audited Financial Accounts, and the external auditor's Audit Completion Report and Annual Audit Letter;
 - vii. Make requests as appropriate to the Nexus Senior Leadership Team on matters where it is considered further information or action is required;
 - viii. Review Nexus' Corporate Risk Register on a quarterly basis and make recommendations, ensuring the Register reflects current and future risks and appropriate mitigation and controls on a timely basis;
 - ix. Review any significant findings of internal investigations and receive and act upon internal audit reports on breaches of Standing Orders;
 - x. Review all waivers of Nexus's Standing Orders on a quarterly basis;
 - xi. Review the Gifts and Hospitality Register on a quarterly basis and other Registers, etc. as considered necessary; and
9. The Head of Internal Audit reports to the Nexus Director of Finance and Resources, but in order to ensure independence has a right of access to both the Director General and the Nexus Audit Committee.
 10. The Head of Internal Audit provides an independent opinion on the adequacy and effectiveness of the system of internal control, which it incorporates in its Audit Report to the Audit Committee.
 11. Heads of Service have carried out self-assessments of the processes and controls they have in place to allow them to achieve their service objectives. Such assessments are completed on an annual basis.
 12. The performance management framework requires scrutiny of departmental action plans and key performance indicators as they relate to the delivery of strategies, underpinned by the Corporate Plan. SLT receive a composite performance report for each period in relation to this subject covering key aspects of the services that Nexus delivers.
 13. The review of the effectiveness of the system of internal control is informed by: -
 - the work of Heads of Service within Nexus;
 - the work of Internal Audit service;
 - the performance management framework;
 - the external auditors in their reports.

Annual Governance Statement

14. The results of the review of Nexus' system of internal controls have concluded that it is satisfactory and effective and that Nexus has in place adequate corporate arrangements for securing economy, efficiency and effectiveness in the use of its resources.
15. During 2015/16, North Tyneside Council carried out a peer review of Newcastle City Council's Internal Audit Section against the requirements of the Public Sector Internal Audit Standards and the CIPFA Application Note and concluded that the Section was substantially compliant; the two recommendations made as a consequence of this review were subsequently implemented. An external review of internal audit is required every 5 years by the Standard with self-assessment being required on an annual basis. The self-assessment for 2018/19 continues to conclude that the service is compliant with the Standards.
16. Nexus financial management arrangements conform with the government's requirements of the CIPFA statement on the role of the Chief Financial Officer in local government.
17. In summary, the Director of Finance and Resources is Nexus' nominated section 151 officer and is responsible for the making arrangements for the proper administration of Nexus' financial affairs. In regard to the role that the Director of Finance and Resources undertakes within Nexus as it relates to the CIPFA statement on the role of the Chief Financial Officer in local government, the Director of Finance and Resources:-
 - is one of three Executive Directors and is therefore a key member of the Nexus senior leadership team;
 - is responsible for determining the financial implications of all reports that are considered by the SLT and its project boards and in this respect has regard to both immediate and longer term implications, opportunities and risks as well as alignment with the organisation's medium term financial strategy;
 - actively promotes the economic, efficient and effective use of public money;
 - leads a finance function that is adequately resourced and has staff that are suitably qualified;
 - is a member of the Chartered Institute of Public Finance and Accountancy with twenty-four years post qualification experience.



TJ Hughes
Managing Director, Transport North East



JD Fenwick
Director of Finance and Resources

26 July 2019

Independent Auditors Report to the Directors of Nexus and the Group

Independent auditor's report to Nexus and the Group Report on the financial statements

Opinion

We have audited the financial statements of Nexus and Group for the year ended 31 March 2019, which comprise the Nexus and Group Movement in Reserves Statement, the Nexus and Group Comprehensive Income and Expenditure Statement, the Nexus and Group Balance Sheet, the Nexus and Group Cash Flow Statement, and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

In our opinion, the financial statements:

- give a true and fair view of the financial position of Nexus and Group as at 31st March 2019 and of its expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

Basis for opinion

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

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Director of Finance and Resources' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Director of Finance and Resources has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about Nexus and Group's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

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

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

We have nothing to report in this regard.

Responsibilities of the Director of Finance and Resources for the financial statements

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the Director of Finance and Resources is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, and for being satisfied that they give a true and fair view. The Director of Finance and

Independent Auditors Report to the Directors of Nexus and the Group

Resources is also responsible for such internal control as the Director of Finance and Resources determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Director of Finance and Resources is required to comply with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 and prepare the financial statements on a going concern basis, unless Nexus and Group is informed of the intention for dissolution without transfer of services or function to another entity. The Director of Finance and Resources is responsible for assessing each year whether or not it is appropriate for Nexus and Group to prepare its accounts on the going concern basis and disclosing, as applicable, matters related to going concern.

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

We have nothing to report in these respects.

Conclusion on Nexus' arrangements for securing economy, efficiency and effectiveness in the use of resources

Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, we are satisfied that, in all significant respects, Nexus has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

Basis for conclusion

We have undertaken our review in accordance with the Code of Audit Practice issued by the Comptroller and Auditor General, having regard to the guidance on the specified criterion issued in November 2017, as to whether Nexus had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider in satisfying ourselves whether Nexus put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, Nexus had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Responsibilities of Nexus

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

Independent Auditors Report to the Directors of Nexus and the Group

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

We are required under section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that Nexus has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice requires us to report to you our conclusion relating to proper arrangements. We are not required to consider, nor have we considered, whether all aspects of Nexus' arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Use of the audit report

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

Certificate

We certify that we have completed the audit of Nexus and Group in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.



Cameron Waddell
Partner
For and on behalf of Mazars LLP
Salvus House
Aykley Heads
Durham DH1 5TS
29 July 2019

Comprehensive Income and Expenditure Statement

as at 31st March 2019

The Comprehensive Income and Expenditure Statements show the accounting cost in the year of providing services in accordance with generally accepted accounting practices.

Group

		2018			2019	
Gross Expenditure	Gross Income	Net Expenditure		Notes	Gross Expenditure	Net Expenditure
£000	£000	£000			£000	£000
(94,923)	73,875	(21,048)	Metro		(99,229)	74,581
(39,869)	1,446	(38,423)	Concessionary Travel		(39,672)	759
(17,418)	3,770	(13,648)	Bus Services and Infrastructure		(16,741)	3,807
(8,985)	788	(8,197)	Other Transport Services		(8,976)	865
(1,415)	-	(1,415)	Corporate costs		(1,653)	-
(24,734)	-	(24,734)	Non distributed costs		(7,705)	-
(187,344)	79,878	(107,465)	Cost of services		(173,976)	80,012
-	57,557	57,557	Non-specific grant income	21	-	56,367
-	33,185	33,185	Capital grants applied	21	-	27,433
-	20	20	Gain/(Loss) on disposal of non-current assets	8	-	19
(10,407)	7,345	(3,061)	Financing costs and investment income	5	(10,978)	8,063
(197,751)	177,986	(19,765)	Surplus/(Loss) on provision of services		(184,954)	171,894
		(282)	Taxation credit (charge) for the year	7		513
		(20,047)	Surplus/(Loss) for the year after taxation			(12,547)
		-	Gains on Revaluation of property			-
		2,191	Remeasurement of the net Defined Benefit liability			9,412
		(17,856)	Total Comprehensive Income and Expenditure			(3,135)

All amounts relate to continuing operations.

The Notes on pages 24 to 65 form part of these accounts.

Comprehensive Income and Expenditure Statement

as at 31st March 2019

Nexus

2018				2019		
Gross Expenditure	Gross Income	Net Expenditure		Gross Expenditure	Gross Income	Net Expenditure
£000	£000	£000	Notes	£000	£000	£000
(94,375)	72,635	(21,740)	Metro	(97,719)	72,715	(25,004)
(39,869)	1,446	(38,423)	Concessionary Travel	(39,672)	759	(38,913)
(17,418)	3,770	(13,648)	Bus Services and Infrastructure	(16,741)	3,807	(12,934)
(6,276)	788	(5,488)	Other Transport Services	(6,568)	865	(5,703)
(1,348)	-	(1,348)	Corporate costs	(1,594)	-	(1,594)
-	-	-	Non distributed costs	(4,400)	-	(4,400)
(159,286)	78,639	(80,647)	Cost of services	(166,694)	78,146	(88,548)
-	57,557	57,557	Non-specific grant income	21	56,367	56,367
-	33,185	33,185	Capital grants applied	21	27,433	27,433
-	20	20	Gain/(Loss) on disposal of non-current assets	8	19	19
(8,397)	5,937	(2,459)	Financing costs and investment income	5	(8,769)	(2,234)
(167,683)	175,338	7,655	Surplus/(Loss) on provision of services	(175,463)	168,500	(6,963)
		112	Taxation credit/(charge) for the year	7		568
		7,767	Surplus/(Loss) for the year after taxation			(6,395)
		-	Gains on Revaluation of property			-
		1,820	Remeasurement of the net Defined Benefit liability			7,370
		9,587	Total Comprehensive Income and Expenditure			975

All amounts relate to continuing operations.

The Notes on pages 24 to 65 form part of these accounts.

Balance Sheet

as at 31st March 2019

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by Nexus. The net assets of Nexus (assets less liabilities) are matched by the reserves held by Nexus.

Group	Notes	31 March 2019 £000	31 March 2018 Restated £000	1 April 2017 Restated £000
ASSETS				
Non-Current Assets				
Property, Plant & Equipment	8	489,559	491,073	486,058
Intangible Assets	9	2,661	2,860	3,294
Investments	10	1	1	1
		<u>492,221</u>	<u>493,934</u>	<u>489,353</u>
Current Assets				
Short Term Debtors	13	17,607	16,375	18,623
Inventories	11	2,956	2,852	901
Cash and Cash Equivalents	12	76,385	75,647	65,220
		<u>96,948</u>	<u>94,874</u>	<u>84,744</u>
LIABILITIES				
Current Liabilities				
Short Term Borrowing	14	(1,575)	(3,335)	(3,464)
Short Term Creditors	15	(24,949)	(24,348)	(21,081)
		<u>(26,524)</u>	<u>(27,683)</u>	<u>(24,545)</u>
Non-Current Liabilities				
Provisions	16	(4,598)	(3,222)	(1,304)
Long Term Borrowing	18	(36,726)	(38,302)	(39,938)
Deferred Taxation	17	(4,627)	(4,763)	(4,977)
Net Pension Liabilities	19, 20	(75,572)	(70,581)	(41,220)
		<u>(121,523)</u>	<u>(116,868)</u>	<u>(87,439)</u>
Net Assets				
		<u>441,122</u>	<u>444,257</u>	<u>462,113</u>
FINANCED AS FOLLOWS :-				
Usable Reserves	19	20,542	20,159	43,214
Unusable Reserves	19	420,580	424,098	418,899
		<u>441,122</u>	<u>444,257</u>	<u>462,113</u>

The Notes on pages 24 to 65 form part of these accounts


TJ Hughes
Managing Director, Transport North East


JD Fenwick
Director of Finance and Resources

26 July 2019

Balance Sheet

as at 31st March 2019

Nexus		31 March 2019 £000	31 March 2018 Restated £000	1 April 2017 Restated £000
	Notes			
ASSETS				
Non-Current Assets				
Property, Plant & Equipment	8	489,559	491,073	486,058
Intangible Assets	9	2,661	2,860	3,294
Investments	10	1	1	1
		<u>492,221</u>	<u>493,934</u>	<u>489,353</u>
Current Assets				
Short Term Debtors	13	17,312	16,953	18,483
Inventories	11	2,956	2,852	901
Cash and Cash Equivalents	12	70,845	71,258	65,219
		<u>91,113</u>	<u>91,063</u>	<u>84,603</u>
LIABILITIES				
Current Liabilities				
Short Term Borrowing	14	(1,575)	(3,335)	(3,464)
Short Term Creditors	15	(20,368)	(21,457)	(21,169)
		<u>(21,943)</u>	<u>(24,792)</u>	<u>(24,633)</u>
Non-Current Liabilities				
Provisions	16	(4,598)	(3,222)	(1,304)
Long Term Borrowing	18	(36,726)	(38,302)	(39,938)
Deferred Taxation	17	(5,693)	(5,863)	(6,470)
Net Pension Liabilities	20	(43,420)	(42,840)	(41,220)
		<u>(90,437)</u>	<u>(90,227)</u>	<u>(88,932)</u>
Net Assets		<u>470,954</u>	<u>469,978</u>	<u>460,392</u>
FINANCED AS FOLLOWS :-				
Usable Reserves	19	50,374	45,881	41,493
Unusable Reserves	19	420,580	424,097	418,899
		<u>470,954</u>	<u>469,978</u>	<u>460,392</u>

The Notes on pages 24 to 65 form part of these accounts.



TJ Hughes
Managing Director, Transport North East



JD Fenwick
Director of Finance and Resources

26 July 2019

Movement in Reserves Statements for the year ended 31st March 2019

The Movement in Reserves Statements show the movement in the year on the different reserves held by Nexus, analysed into 'usable reserves' (those that can be applied to fund expenditure) and 'unusable reserves' (those that hold unrealised gains and losses, where amounts would only become available to fund expenditure if the assets are sold); or those that hold timing differences (for example the Capital Grant Deferred Account). The Increase/(Decrease) before Transfers line shows the economic cost of providing Nexus' services and the provision of grants to fund the introduction of capital assets, more details of which are shown in the Comprehensive Income and Expenditure Statement.

Movement in Reserves Statements for the year ended 31st March 2019

Group

	Usable Reserves	Unusable Reserves	Total
	£000	£000	£000
At 31 March 2017	43,214	418,899	462,113
Loss on provision of services	(19,765)	-	(19,765)
Taxation	(282)	-	(282)
Remeasurement of the net Defined Benefit liability	2,191	-	2,191
Total Comprehensive Income and Expenditure	<u>(17,856)</u>	<u>-</u>	<u>(17,856)</u>
Adjustments between accounting basis and funding basis (note 30)	(5,198)	5,198	-
Increase/(decrease) in 2017/18	<u>(23,054)</u>	<u>5,198</u>	<u>(17,856)</u>
At 31 March 2018 Restated	20,160	424,097	444,257
Loss on provision of services	(13,060)	-	(13,060)
Taxation	513	-	513
Remeasurement of the net Defined Benefit liability	9,412	-	9,412
Total Comprehensive Income and Expenditure	<u>(3,135)</u>	<u>-</u>	<u>(3,135)</u>
Adjustments between accounting basis and funding basis (note 30)	3,517	(3,517)	-
Increase/(decrease) in 2018/19	<u>382</u>	<u>(3,517)</u>	<u>(3,135)</u>
At 31 March 2019	<u>20,542</u>	<u>420,580</u>	<u>441,122</u>

The Notes on pages 24 to 65 form part of these accounts.

Movement in Reserves Statements for the year ended 31st March 2019

Nexus

	Usable Reserves	Unusable Reserves	Total
	£000	£000	£000
At 31 March 2017	41,493	418,899	460,392
Surplus on provision of services	7,655	-	7,655
Taxation	112	-	112
Remeasurement of the net Defined Benefit liability	1,820	-	1,820
Total Comprehensive Income and Expenditure	<u>9,587</u>	<u>-</u>	<u>9,587</u>
Adjustments between accounting basis and funding basis (note 30)	(5,198)	5,198	-
Increase/(decrease) in 2017/18	<u><u>4,389</u></u>	<u><u>5,198</u></u>	<u><u>9,587</u></u>
At 31 March 2018	45,882	424,097	469,979
Loss on provision of services	(6,963)	-	(6,963)
Taxation	568	-	568
Remeasurement of the net Defined Benefit liability	7,370	-	7,370
Total Comprehensive Income and Expenditure	<u>975</u>	<u>-</u>	<u>975</u>
Adjustments between accounting basis and funding basis (note 30)	3,517	(3,517)	-
Increase/(decrease) in 2018/19	<u><u>4,492</u></u>	<u><u>(3,517)</u></u>	<u><u>975</u></u>
At 31 March 2019	<u><u>50,374</u></u>	<u><u>420,580</u></u>	<u><u>470,954</u></u>

The Notes on pages 24 to 65 form part of these accounts.

Cash Flow Statement for the year ended 31st March 2019

The Group Cash Flow Statement shows the changes in cash and cash equivalents of Nexus during the reporting period. The statement shows how Nexus generates and uses cash and cash equivalents by classifying cash flows as 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 Nexus are funded by way of grant income or from the recipients of services provided by Nexus. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to Nexus'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 Nexus.

	Notes	Group		Nexus	
		2019 £000	2018 £000	2019 £000	2018 £000
Net surplus/(deficit) on provision of services after taxation		(12,547)	(20,047)	(6,395)	7,767
Adjustments to reconcile income to net cash flows :-					
Capital grants applied		(27,433)	(33,185)	(27,433)	(33,185)
Financing costs and Investment		1,164	1,480	1,164	1,480
Pension transactions		14,403	31,552	7,950	3,440
Depreciation		27,364	25,014	27,364	25,014
Loss/(gain) on disposal of non-current assets*	8	167	2,648	167	2,648
(Increase)/decrease in debtors		(719)	3,065	154	2,347
(Increase)/decrease in inventories	11	(104)	(1,951)	(104)	(1,951)
Increase/(decrease) in creditors and provisions		1,840	4,973	117	1,600
Net cash flows from operating activities		4,135	13,547	2,984	9,159
Investing Activities					
Payments on capital projects		(25,836)	(32,264)	(25,836)	(32,264)
Capital grants received		27,038	32,336	27,038	32,336
Net receipts from disposal of non-current assets	8	19	20	19	20
Net cash flows from investing activities		1,221	92	1,221	92
Financing Activities					
Interest paid		(1,709)	(1,787)	(1,709)	(1,787)
Interest received		427	339	427	339
Repayment of loan capital		(1,906)	(1,765)	(1,906)	(1,765)
Loan balance write off		(1,430)	-	(1,430)	-
Net cash flows from financing activities		(4,618)	(3,213)	(4,618)	(3,213)
Net increase/(decrease) in cash and cash equivalents		738	10,427	(413)	6,038
Cash and cash equivalents as at 1 April		75,647	65,220	71,258	65,219
Cash and cash equivalents as at 31 March	12	76,385	75,647	70,845	71,258

*The 2018/19 Loss on disposal of non-current assets includes the part disposal of an infrastructure asset with a Net Book Value of £2.668m. This asset was fully grant funded and therefore the release of deferred grant offsets this loss.

The profit on disposal of assets is detailed in Note 8.

The Notes on pages 24 to 65 form part of these accounts.

Notes to the Accounts

1 Introduction

The accounts have been prepared in accordance with the Accounts and Audit (England) Regulations 2015. These require the accounts to be no less informative than if the disclosure requirements of the Companies Acts were, as far as appropriate, applicable. They also require that the accounts are prepared in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

The financial statements were authorised for issue at a meeting of the directors on 26 July 2019.

2 Basis of Preparation

The Group financial statements have been prepared on a historical cost basis, except for certain categories of non-current assets. The accounts have been prepared on a going concern basis. The consolidated accounts have been prepared using consistent accounting policies, removing inter-company transactions and balances outstanding at 31 March 2019.

Consolidation

The financial statements comprise the accounts of Nexus and its subsidiary and associated undertakings as at 31 March 2019. Nexus has interests in a number of entities as detailed in Note 10.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. The financial performance of those subsidiaries that are considered material are fully consolidated on a line-by-line basis from the date that Nexus obtains control, until the date that such control ceases. Both subsidiary undertakings North East Metro Operations Limited and Tyneside Transport Services Limited are included within the consolidated Group accounts.

For the associated undertaking Network Ticketing Limited for which the financial performance is not deemed to be material, this is not included within the consolidation.

All intra-group trading, balances and unrealised gains and losses as at the end of each period, are eliminated in full as part of the consolidation process.

In Nexus's own single-entity accounts, the interests in companies and other entities are recorded as financial assets at cost, less any provision for losses.

3 Summary of Significant Accounting Policies

3.1 Property, Plant, Equipment and Intangible Assets

- Items of property, plant and equipment are stated at cost less accumulated depreciation, with the exception of certain operational assets which are measured at fair value. Nexus' policy is to write off the carrying value of all assets, other than freehold land, on a straight line basis over their estimated remaining useful lives.
- The range of estimated useful lives for each class of assets is as follows :-

Freehold buildings	40 years
Short leasehold buildings	over the lease term
Infrastructure assets	up to 50 years
Plant and equipment	5 to 30 years
Vehicles	5 to 10 years
Marine Vessels	30 years
Intangibles	5 to 15 years

Notes to the Accounts

- Nexus analyse assets into their component parts as appropriate for items in excess of £100,000. Expenditure that cannot be directly allocated to specific assets – i.e. administration of the Capital Programme and for preliminary consultancy works are fully charged to the Comprehensive Income and Expenditure Statement in the year in which they are incurred. Expenditure less than the de-minimis level of £10,000 is not capitalised.
- Depreciation on the asset is commenced with effect from the month following capitalisation. Capitalisation of assets is carried out as soon as practicable following their availability for use.
- Annual reviews are made of the estimated remaining life and current carrying amount of assets, ensuring that significant assets with a life greater than five years are reviewed annually.
- An annual assessment is made at the end of each financial year as to whether there is any indication that an asset, or class of assets, is impaired, i.e. whether its carrying value in the accounts exceeds its recoverable amount. Where an asset is determined to be impaired its carrying value will be written down to its recoverable value.
- For the on-going measurement of property, plant and equipment, assets are carried in the Balance Sheet using the following measurement bases:
 - infrastructure assets and assets under construction – depreciated historical cost;
 - surplus assets – the current value measurement base is fair value, estimated at highest and best use from a market participant’s perspective; and
 - all other assets – current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).
- Where there is no market-based evidence of current value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of current 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 current value.
- Assets above £100,000 included in the Balance Sheet at current value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their current value at the year-end, but as a minimum every five years.
- Non-current assets classified as held for sale are classified as such, and measured at the lower of carrying amount and fair value less costs to sell. Property, plant and equipment classified as held for sale is not depreciated.

3.2 Assets under Construction

- Assets under construction relate to expenditure incurred in respect of assets which are incomplete as at the reporting date. The assets are transferred to the appropriate heading and depreciated when they become available for use.

3.3 Grants

- Capital grants receivable are recognised immediately in the Comprehensive Income and Expenditure Statement except where the grant has a condition that has not yet been met. These amounts are recognised in the Balance Sheet- Short Term Liabilities until such time as the conditions are met whereupon they are transferred to the Comprehensive Income and Expenditure Statement.
- Specific revenue grants are allocated to the relevant areas within the Comprehensive Income and Expenditure Statement in order to comply with the terms and conditions of the grant. Non-specific grants are shown separately within the Comprehensive Income and Expenditure Statement.

Notes to the Accounts

3.4 Inventory

- Nexus carry spares and parts for the maintenance of Metro infrastructure and equipment not for resale. These are valued at actual historic cost after provision for slow moving items on a “First in First out” basis.

3.5 Financial Assets

- Financial assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cashflow characteristics. Nexus holds investments to collect contractual cash flows. Financial assets are therefore classified as amortised cost, except for those whose contractual payments are not solely payment of principal and interest (i.e. where the cash flows do not take the form of a basic debt instrument).
- Financial assets measured at amortised cost are recognised on the Balance Sheet when Nexus 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 (CIES) for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the financial assets held by Nexus, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the CIES is the amount receivable for the year in the loan agreement.

3.6 Financial Liabilities

- Financial liabilities are recognised on the Balance Sheet when Nexus 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 (CIES) 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 Nexus has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the CIES is the amount payable for the year according to the loan agreement.

3.7 Offsetting of Financial Instruments

- Financial assets and liabilities are offset, and the net amount reported in the Balance Sheet, if and only if there is an enforceable legal right to offset, and there is an intention to settle on a net basis in order to realise the assets and discharge the liabilities simultaneously.

3.8 Provisions

- Provisions are recognised when Nexus has a present, legal or constructive obligation as a result of a past event which makes it probable that a transfer of economic benefits will be required to settle the obligation, and a reliable estimate can be made of its amount.
- Where Nexus expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset only if the reimbursement is highly probable.
- The expense relating to any provision is recognised in the Comprehensive Income and Expenditure Statement net of any reimbursement.

Notes to the Accounts

3.9 Revenue

Revenue mainly comprises the value of all passenger receipts in the normal course of business and the activity's share of revenue from the countywide travel schemes. The Nexus management accounts reported internally and to the North East Joint Transport Committee include additional income related to internal allocations of income for concessionary travel on Metro, the Ferry and certain Secured Bus Services.

3.10 Accruals and Revenue Recognition

- The financial statements, other than the cash flow, are prepared on an accruals basis, with activity being accounted for in the year that it takes place rather than when cash payments are made or received.

3.11 Lease Income

- Amounts receivable under finance leases are stated net of interest allocated to future periods. Interest is allocated to accounting periods to produce a constant periodic rate of return on the remaining net investment.
- Rentals receivable under operating leases and secondary rentals received and retained by the group under finance leases, are credited to income as they arise. Any premia or incentives within the lease are recognised within income on an equal basis over the term of the lease.

3.12 Lease Expenditure

- Assets held under finance leases where Nexus retains substantially all the risks and benefits of ownership are capitalised in the balance sheet at the lower of the fair value of the asset and the net present value of the minimum lease payments; the assets are then depreciated over their useful economic lives.
- The lease obligations are recognised as a financial liability. The interest element of the rental obligations is charged to the revenue account over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding.
- Rentals paid under operating leases are charged to expenditure on a straight line basis over the term of the lease, recognising on an equal basis the impact of any premia or incentives.

3.13 Value Added Tax (VAT)

- VAT would be included in the Comprehensive Income and Expenditure Statement only to the extent that it is irrecoverable from HM Revenue and Customs. Throughout 2018/19 Nexus has been able to reclaim all VAT charged on supplies and services.

3.14 Deferred Taxation

- Deferred taxation (which arises from differences in the timing of the recognition of items, principally depreciation, in the accounts and by the tax authorities) has been calculated 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.

Notes to the Accounts

3.15 Pensions and other employee benefits

- Short-term employee benefits are those due to be settled wholly within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. Employee Assistance Programme) for current employees and are recognised as an expense for services in the year in which employees render service to Nexus. An accrual is made 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. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday entitlements are charged to revenue in the financial year in which the holiday absence occurs.
- Termination benefits are amounts payable as a result of a decision by Nexus to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy in exchange for those benefits and are charged on an accruals basis to the appropriate service segment or, where applicable, to a corporate service segment at the earlier of when the authority can no longer withdraw the offer of those benefits or when the authority recognises costs for a restructuring. Where termination benefits involve the enhancement of pensions, statutory provisions require the revenue account to be charged with the amount payable by the authority to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.
- Employees of Nexus are eligible for membership of the Local Government Pensions Scheme, administered by the Tyne and Wear Pension Fund. This is a defined benefit pension scheme. The liabilities of the Tyne and Wear Pension Fund attributable to Nexus 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. Liabilities are discounted to their value at current prices, using a discount rate based on the indicative rate of return on high quality corporate bonds. The assets of the Tyne and Wear Pension Fund attributable to Nexus are included in the Balance Sheet at their fair value. The change in the net pension liability is analysed into the following components:
 - Current service costs
 - Past service costs (including curtailments)
 - Pension administration expenses
 - Net interest expenses (interest on plan assets and liabilities)
 - Remeasurement gains and losses
 - Contributions paid to the Tyne and Wear Pension Fund
- In relation to retirement benefits, statutory provisions require the revenue account to be charged with the amount payable by Nexus 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 transfers to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the revenue reserve of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.
- Nexus also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff are accrued

Notes to the Accounts

in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

3.16 Reserves

- Nexus creates reserves from surpluses on the Comprehensive Income and Expenditure Account. These reserves are initially taken to the Usable Revenue Reserve.
- An amount is retained in the Usable reserves as a Capital reserve to the level that the Directors consider prudent to ensure that future capital expenditure can be funded.
- Where surpluses originate from the receipt of capital grants they are subsequently transferred to the Capital Adjustment Account. An amount is transferred annually from the Capital Adjustment Account to the Revenue reserve such that the end of year balance is equal to the net book value of the assets funded by the receipt of the grants.
- Where assets are acquired by the use of reserves an amount equal to the value of reserves used is transferred from Usable reserves to Unusable reserves such that the end of year balance on the Unusable reserve is equal to the net book value of the assets funded in this way.
- The Unusable Reserve – Pension reserve is maintained in line with Note 19 such that the end of year balance equates to the value of the Net Pension Liability in the Balance Sheet.

3.17 Contingent Assets and Liabilities

- A contingent asset arises where an event has taken place that gives Nexus a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within Nexus' control.
- Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.
- A contingent liability arises where an event has taken place that gives Nexus a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within Nexus' control. 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 Note 27 to the accounts.

3.18 Events after the Balance Sheet date

- Where an event occurs after the Balance Sheet date, favourable or unfavourable, which provides evidence of conditions that existed at the Balance Sheet date, an adjusting event occurs and the amounts recognised in the Statement of Accounts will be adjusted to take into account any new information about that adjusting event.
- Where an event occurs after the Balance Sheet date that is indicative of conditions that arose after the Balance Sheet date, the amounts recognised in the Statement of Accounts are not adjusted but are disclosed as a separate note to the accounts.
- Any events after the balance sheet date 31 March 2019 are described in Note 24.

Notes to the Accounts

3.19 Accounting standards that have been issued but have not been adopted

- The following change to accounting standards will affect the Statement of Accounts from 1 April 2019 and may require retrospective application:
 - IFRS 16 Leases: this new standard replaces IAS 17 from 2019/20 and establishes a new model for lessees. The standard will affect the accounts as it changes the treatment of the lease of a building with a remaining term of 6.75 years as at 31 March 2020. The expected impact is the recognition of a non-current asset and lease liability of c£3m on the balance sheet.

3.20 Prior period adjustments

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error.

- 1) A prior period adjustment is required to correct the treatment of pension reserves relating to the pension liability of the subsidiary company, North East Metro Operations Limited where the statutory override available to local authorities was incorrectly applied. The impact of the adjustment is a decrease in usable reserves in the 2017/18 Group balance sheet of £27.741m:-

Group	31 March 2018 £000	Adjustment £000	31 March 2018 Restated £000
Usable Reserves	47,900	(27,741)	20,159
Unusable Reserves	396,357	27,741	424,098
	<u>444,257</u>	<u>-</u>	<u>444,257</u>

- 2) A prior period adjustment is required to correct the presentation of assets under construction which were previously classified separately on the face of the balance sheet. The adjustment has the following impact on the 1 April 2017 and 31 March 2018 Nexus and Group balance sheets:-

Group and Nexus	31 March 2018 £000	Adjustment £000	31 March 2018 Restated £000
Property, Plant & Equipment	460,182	30,891	491,073
Intangible Assets	2,860	-	2,860
Assets under Construction	30,891	(30,891)	-
	<u>493,933</u>	<u>-</u>	<u>493,933</u>

Group and Nexus	1 April 2017 £000	Adjustment £000	1 April 2017 Restated £000
Property, Plant & Equipment	443,849	42,209	486,058
Intangible Assets	2,089	1,205	3,294
Assets under Construction	43,414	(43,414)	-
	<u>489,352</u>	<u>-</u>	<u>489,352</u>

Notes to the Accounts

4 Significant Accounting Judgements, Estimates and Assumptions

- The preparation of Nexus' individual and Group financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities at the reporting date. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability in future periods.
- The following estimates have been made in Nexus' individual and Group Balance Sheet as at 31 March 2019 that give rise to uncertainty:
 - Property, Plant and Equipment – Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets as detailed in Note 3.1. If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. It is estimated that the annual depreciation charge for buildings would increase by £981,000 for every year that useful lives had to be reduced.
 - 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. The Pension Fund engages a firm of specialist actuaries to provide Nexus with expert advice about the assumptions to be applied, detailed in Note 20.
- In applying the accounting policies set out in Note 1, Nexus 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:
 - Property, Plant and Equipment – Assets are categorised when capitalised as either infrastructure or other assets. This is a critical judgement due to the difference in measurement basis with infrastructure assets being held at depreciated historical cost and all other assets being held at current value. Infrastructure assets include the following: tracks, lines, signals, stations, interchange systems and all other assets associated with delivering the Metro service that could not be repurposed for an alternative use. Concessions at Metro stations that provide Nexus with rental income are deemed to be incidental and do not change the overall judgement that these assets constitute infrastructure assets. The car parks that Nexus operate generate income from charges that are below market value and are in place for the sole purpose to increase Metro patronage therefore they are also classified as infrastructure assets. The depot and control centre are both assets that are required to run the Metro and as such are deemed to constitute infrastructure assets. Other major types of assets include bus stations and shelters which are also classified as infrastructure assets as they are required to run bus services and cannot be repurposed for an alternative use.

5 Financing Costs and Investment Income

	Group		Nexus	
	2019	2018	2019	2018
	£000	£000	£000	£000
Interest payable and similar charges	1,709	1,786	1,709	1,786
Interest payable on the net defined benefit liability	9269	8,620	7,060	6,610
Interest receivable and similar income	(545)	(307)	(545)	(307)
Interest receivable on the net defined benefit asset	(7,518)	(7,038)	(5,990)	(5,630)
Total financing and investment income and expenditure	2,915	3,061	2,234	2,459

Notes to the Accounts

6 Officers' Remuneration

(a) Remuneration banding

The number of employees (excluding Statutory Directors) whose remuneration falls into the following headings is :-

	Group		Nexus	
	2019	2018	2019	2018
£50,000 to £55,000	42	33	24	17
£55,001 to £60,000	31	18	19	9
£60,001 to £65,000	12	13	4	7
£65,001 to £70,000	15	8	10	7
£70,001 to £75,000	4	4	4	4
£75,001 to £80,000	5	0	4	0
£80,001 to £85,000	0	1	0	1
£85,001 to £90,000	0	1	0	1
	109	78	65	46

(b) Remuneration of Directors

The remuneration of the Statutory Directors over £50,000 is noted below :-

2019	Salary £000	Pension £000	Total £000
Managing Director, Transport North East	125	21	146
Director of Finance and Resources	100	17	117
Director of Rail and Infrastructure	99	17	116
	324	55	379
2018	Salary £000	Pension £000	Total £000
Managing Director, Transport North East	127	22	149 ¹
Director of Finance and Resources	97	17	114
Director of Rail and Infrastructure	96	17	113
	320	56	376

¹ This includes £6,000 of back pay relating to 2017

Notes to the Accounts

(c) Redundancy Payments (Group)

The numbers of exit packages with total cost per band and total cost of compulsory and other redundancies are set out below :-

Exit Package Cost band (including special payments)	Number of Compulsory Redundancies		Number of other Departures agreed		Total number of exit packages in each band		Total Cost of Exit Packages in each band	
	2019	2018	2019	2018	2019	2018	2019	2018
	£000	£000	£000	£000	£000	£000	£000	£000
£0 to £20,000	-	-	2	1	2	1	18	18
£20,001 to £40,000	-	-	-	1	-	1	-	26
£40,001 to £60,000	-	-	-	-	-	-	-	-
£60,001 to £80,000	-	-	-	-	-	-	-	-
£80,001 to £100,000	-	-	1	-	1	-	86	-
Total	-	-	3	2	3	2	104	44

7 Taxation

The charge / (credit) for taxation is as follows :-

	Group		Nexus	
	2019 £000	2018 £000	2019 £000	2018 £000
Current Year Charge	(376)	495	(398)	495
Deferred Tax at 17%	(137)	(213)	(170)	(607)
	(513)	282	(568)	(112)

Notes to the Accounts

8 Property, Plant and Equipment

An analysis of the movements within the gross and depreciated or impaired book value of property, plant and equipment by key category is contained in the tables below :-

GROUP	Total	Infra-structure	Land & Buildings	Vehicles, Plant & Equipment	AUC
	£000	£000	£000	£000	£000
Cost or valuation	Restated				Restated
At 1 April 2017	727,322	652,295	1,739	31,078	42,210
Additions	33,184	-	-	-	33,184
Transfers from assets under construction	-	42,671	-	896	(43,567)
Derecognition – disposals	(5,634)	(4,492)	-	(206)	(936)
At 1 April 2018	754,872	690,474	1,739	31,768	30,891
Additions	28,723	-	-	-	28,723
Transfers from assets under construction	-	29,249	-	2,546	(31,795)
Derecognition – disposals	(6,893)	(3,486)	-	(99)	(3,308)
At 31 March 2019	776,702	716,237	1,739	34,215	24,511
Depreciation and Impairment					
At 1 April 2017	241,264	222,963	625	17,676	-
Depreciation provided during the period	24,564	22,244	41	2,279	-
Derecognition – disposals	(2,029)	(1,823)	-	(206)	-
At 1 April 2018	263,799	243,384	666	19,749	-
Depreciation provided during the period	26,743	24,095	40	2,608	-
Derecognition – disposals	(3,399)	(3,303)	-	(96)	-
At 31 March 2019	287,143	264,176	706	22,261	-
Net Book Value					
At 31 March 2018	491,073	447,090	1,073	12,019	30,891
At 31 March 2019	489,559	452,061	1,033	11,954	24,511

Notes to the Accounts

NEXUS	Total £000	Infra- structure £000	Land & Buildings £000	Vehicles, Plant & Equipment £000	Leased Assets £000	AUC £000
Cost or valuation	Restated					Restated
At 1 April 2017	727,090	650,909	1,739	30,845	1,387	42,210
Additions	33,184	-	-	-	-	33,184
Transfers from assets under construction	-	42,671	-	896	-	(43,567)
Derecognition – disposals	(5,634)	(4,492)	-	(206)	-	(936)
At 1 April 2018	754,640	689,088	1,739	31,535	1,387	30,891
Additions	28,723	-	-	-	-	28,723
Transfers from assets under construction	-	29,249	-	2,546	-	(31,795)
Derecognition – disposals	(6,893)	(2,674)	-	(99)	(812)	(3,308)
At 31 March 2019	776,470	715,663	1,739	33,982	575	24,511
Depreciation and Impairment						
At 1 April 2017	241,031	221,577	625	17,443	1,386	-
Depreciation provided during the period	24,564	22,244	41	2,279	-	-
Derecognition – disposals	(2,029)	(1,823)	-	(206)	-	-
At 1 April 2018	263,567	241,998	666	19,517	1,386	-
Depreciation provided during the period	26,743	24,095	40	2,608	-	-
Derecognition – disposals	(3,399)	(2,491)	-	(96)	(812)	-
At 31 March 2019	286,911	263,602	706	22,029	574	-
Net Book Value						
At 31 March 2018	491,073	447,090	1,073	12,018	1	30,891
At 31 March 2019	489,559	452,061	1,033	11,953	1	24,511

Notes to the Accounts

The Net Book Value of land and buildings as at 31 March comprised:-

	Group		Nexus	
	2019 £000	2018 £000	2019 £000	2018 £000
Freehold	1,033	1,073	1,033	1,073
Long leasehold	-	-	-	-
Short leasehold	-	-	-	-
	<u>1,033</u>	<u>1,073</u>	<u>1,033</u>	<u>1,073</u>

Assets held under Finance Leases

Nexus has a number of leases relating to infrastructure with subsidiary companies. The carrying value of these assets held under finance leases at 31 March 2019 was £1,000 (2018: £1,000). The annual rentals are at a peppercorn rate. The leases are in the secondary period and can be terminated at any time.

Revaluation of Property, Plant and Equipment

In accordance with the Code of Practice on local authority accounting, Nexus carries out regular revaluations of all non-infrastructure operational assets of a material net value. Current value is determined by reference to market based evidence, adjusted for the nature, location and condition of the specific property. The latest revaluation of appropriate assets was carried out by GVA Grimley Limited (a qualified independent valuer) on 25 March 2015 in accordance with the Royal Institution of Chartered Surveyors Valuation Professional Standards, which indicated a valuation of £687,000 above the value of assets as shown in the Balance Sheet.

The cumulative surplus held in Nexus's undistributable revaluation reserve at 31 March 2019 was £687,000 (2018: £687,000).

Profit on Disposal of Property, Plant and Equipment

The reported gain or loss on disposal of fixed assets is calculated with reference to both the carrying value of the assets themselves, and also the write-back of any unamortised grant outstanding. In relation to the gains made during the year, they can be analysed as follows :-

	Group		Nexus	
	2019 £000	2018 £000	2019 £000	2018 £000
Net proceeds from sale	64	20	64	20
Derecognition of carrying values of assets	(45)	-	(45)	-
	<u>19</u>	<u>20</u>	<u>19</u>	<u>20</u>

Notes to the Accounts

Capital Commitments

At 31 March 2019 Nexus has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in future years budgeted to cost £14.95m (2018: £18.47m). The major commitments are:-

	£m
Nexus Learning Centre	4.47
Track works – Gateshead Stadium to Felling	3.68
South Shields Transport Interchange	0.97
Overhead Line	1.20
Location Case Rewire	0.52
Shiremoor, Palmersville, Benton, Longbenton Stations	0.52

9 Intangible Assets

Group and Nexus	£000
Cost or Valuation	Restated
At 1 April 2017	8,141
Additions	16
At 1 April 2018	<u>8,157</u>
Additions	421
At 31 March 2019	<u>8,578</u>
Amortisation	
At 1 April 2017	4,847
Amortisation provided during the period	450
At 1 April 2018	<u>5,297</u>
Amortisation provided during the period	620
At 31 March 2019	<u>5,917</u>
Net Book Value	
At 31 March 2018	<u>2,860</u>
At 31 March 2019	<u>2,661</u>

Amortisation charged on intangible assets is included within the relevant segment of Cost of Services in the Comprehensive Income and Expenditure Statement.

Notes to the Accounts

10 Investments

The Group holds the following unquoted investments :-

	2019 £	2018 £
Subsidiaries		
North East Metro Operations Limited (NEMOL)	1	1
Tyneside Transport Services Limited		
- Ordinary Shares of £1 each	25	25
- 5% Non-Cumulative Preference Shares of £1	375	375
	<u>401</u>	<u>401</u>
Associated Undertakings		
Network Ticketing Limited	404	407
	<u>805</u>	<u>808</u>

North East Metro Operations Limited ("NEMOL") is a wholly owned subsidiary incorporated in Great Britain and is included in the consolidation. The principal activity of the subsidiary is operation of the Metro service. The company shares the same financial reporting period and prepares accounts under the FRS 101 reduced disclosure framework.

Tyneside Transport Services Limited ("TTS") is a wholly owned subsidiary incorporated in Great Britain and is included in the consolidation. The principal activity of the subsidiary is vehicle and plant leasing. The subsidiary shares the same financial reporting period and adopts accounting policies consistent with those used throughout the group.

The holding in Network Ticketing Limited ("NTL") represented 404 of the 1,000 Ordinary £1 shares in issue and 1 of the 34 Ordinary £1 "A" shares in issue. NTL's business is the operation of a countywide multi-operator, multi-modal public transport ticket.

Subsidiary Audit Exemption

For the year ending 31 March 2019, Tyneside Transport Services Limited (company registration number 01029328) was entitled to exemption from audit under section 479A of the Companies Act 2006 relating to subsidiary companies.

Notes to the Accounts

The latest available accounts for the subsidiaries and associated undertakings show :-

	NEMOL	TTS	NTL
Accounting period ended	31st March	31st March	30th June
	2019	2019	2018
	£000	£000	£000
Turnover	35,147	548	-
Profit/(Loss) before Taxation	(6,099)	2	-
Taxation	(26)	-	-
Profit/(Loss) after Taxation	<u>(6,125)</u>	<u>2</u>	<u>-</u>
Fixed Assets	-	-	-
Current Assets	6,623	417	1,266
Liabilities due within one year	(5,597)	(188)	(1,265)
Liabilities due after more than one year	(32,152)	-	-
Aggregate of Capital and Reserves	<u>(31,126)</u>	<u>229</u>	<u>1</u>

11 Inventories

	Group and Nexus	
	2019	2018
	£000	£000
Opening balance	2,852	901
Purchases	3,597	6,102
Consumed in year	(3,523)	(2,866)
Movement in slow moving provision	30	(1,284)
Closing balance	<u>2,956</u>	<u>2,852</u>

12 Cash and Cash Equivalents

	Group		Nexus	
	2019	2018	2019	2018
	£000	£000	£000	£000
Cash at bank and in hand	6,014	5,697	1,145	1,309
Short term deposits	70,371	69,950	69,700	69,950
	<u>76,385</u>	<u>75,647</u>	<u>70,845</u>	<u>71,258</u>

Notes to the Accounts

13 Short Term Debtors

Amounts falling due within one year :-

	Group		Nexus	
	2019 £000	2018 £000	2019 £000	2018 £000
Central Government Bodies	9,967	8,364	9,967	8,364
Local Authorities	4,702	4,631	4,702	4,631
NHS Bodies	81	81	81	81
Other entities and individuals	2,857	3,298	2,174	2,095
Amount due to group undertakings	-	-	388	1,781
	<u>17,607</u>	<u>16,375</u>	<u>17,312</u>	<u>16,953</u>

14 Short Term Borrowing

	Group and Nexus	
	2019 £000	2018 £000
Loans repayable by instalments	<u>1,575</u>	<u>3,335</u>

15 Short Term Creditors

Trade and other payables :-

	Group		Nexus	
	2019 £000	2018 £000	2019 £000	2018 £000
Central Government Bodies	924	2,819	924	1,346
Local Authorities	552	1,802	552	1,802
NHS Bodies	-	-	-	-
Public Corporations	-	-	-	-
Other entities and individuals	23,473	19,727	18,072	16,481
Amounts due to group undertakings	-	-	820	1,828
	<u>24,949</u>	<u>24,348</u>	<u>20,368</u>	<u>21,457</u>

Trade creditors are non-interest bearing and are generally on terms of 30 days or less.

Notes to the Accounts

16 Provisions

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

	Total £000	Insurance Excess¹ £000	Employment Related² £000	Capital Expenditure / Other³ £000
At 01 April 2018	3,222	137	2,817	268
Additional provisions made	1,396	18	1,377	1
Utilised during the year	(20)	(20)	-	-
Unutilised provisions reversed	-	-	-	-
At 31 March 2019	<u>4,598</u>	<u>135</u>	<u>4,194</u>	<u>269</u>

- Public Liability claims, for minor accidents to the public, and Employers Liability claims for work related illnesses received for incidents prior to the year end. It is uncertain as to the timing of the outflow of these provisions held.
- Costs for certain employment related obligations and benefits. Whilst it is possible that some payments will occur during the year, it is more probable that any payment would occur during 2019/20 or later.
- Claims for additional costs associated to the Nexus Capital programme and Other specific provisions not related to insurance claims or employment. It is uncertain as to the timing of the outflow of these provisions held.

17 Deferred Tax

	Group		Nexus	
	2019 £000	2018 £000	2019 £000	2018 £000
The movement for the year comprises				
Excess of Capital Allowances over depreciation	(137)	(293)	(170)	(686)
Roll over relief on capital gains	-	(1)	-	(1)
Tax effect of losses	-	-	-	-
Other timing differences	-	80	-	80
	<u>(137)</u>	<u>(213)</u>	<u>(170)</u>	<u>(607)</u>
The balance at the year-end comprises				
Excess of Capital Allowances over depreciation	3,395	3,531	4,461	4,631
Roll over relief on capital gains	1,232	1,232	1,232	1,232
Tax effect of losses	-	-	-	-
Other timing differences	-	-	-	-
	<u>4,627</u>	<u>4,763</u>	<u>5,693</u>	<u>5,863</u>

Notes to the Accounts

18 Financial Instruments

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

Financial Assets at Amortised Cost

Group	2019		2018	
	£000	£000	£000	£000
Unquoted Equity Investment at cost		1		1
Current Debtors	5,040		12,927	
Short term deposits	<u>76,385</u>		<u>75,647</u>	
		81,425		88,574
		<u>81,426</u>		<u>88,575</u>

Nexus	2019		2018	
	£000	£000	£000	£000
Unquoted Equity Investment at cost		1		1
Current Debtors	4,357		13,326	
Short term deposits	<u>70,845</u>		<u>65,221</u>	
		75,202		78,547
		<u>75,203</u>		<u>78,548</u>

Financial Liabilities

Financial Liabilities at Amortised Cost

	Group		Nexus	
	2019 £000	2018 £000	2019 £000	2018 £000
Current trade creditors and accruals	(20,402)	(15,898)	(15,021)	(15,906)
Interest bearing loans and borrowings:				
Fixed rate borrowings – due within one year	(1,575)	(3,335)	(1,575)	(3,335)
Fixed rate borrowings – due after one year	(36,726)	(38,302)	(36,726)	(38,302)
	<u>(58,703)</u>	<u>(57,535)</u>	<u>(53,322)</u>	<u>(57,543)</u>

Instalments on borrowings are payable as follows :-

	Group and Nexus	
	2019 £000	2018 £000
Within 1 year	1,575	3,335
Within 1 to 2 years	1,517	1,575
Within 2 to 5 years	4,225	4,386
Within 5 to 10 years	6,076	6,305
Longer than 10 years (scheduled to be repaid in full by 2029/30)	24,908	26,035
	<u>38,301</u>	<u>41,637</u>

Notes to the Accounts

The long term loan detailed above is due to NECA. It is not possible to identify specific loans held by NECA as relating to the Nexus loan since their borrowings are on a pooled basis at various interest rates. Nexus is charged an interest rate representing an average of rates applying to NECA's own borrowings.

The "fair value" of the Nexus long term borrowing has been calculated using an average of the fair value uplift of NECA loans across their pool of 61.8% (2019) and 65.4% (2018).

Accordingly, the fair value of Nexus long term borrowing is as follows :-

	2019	2018
	£000	£000
Fixed rate borrowings – due after one year	36,726	38,302
Uplift (categorised at level 1 in the Fair Value Hierarchy)	22,710	25,046
Fair value of borrowings	<u>59,436</u>	<u>63,348</u>

* On the 1st April 2018, IFRS9 (Financial Instruments) became applicable to Nexus accounts. As a result the Loans & Receivables classification of Financial Assets shown in the 2017-18 accounts no longer applies and under IFRS 9 Financial Assets are now shown as being held at Amortised cost.

19 Reserves

The balances at the year-end comprise :-

	Group		Nexus	
	2019	2018	2019	2018
	£000	£000	£000	£000
		Restated		
Usable Reserves				
General	52,694	47,900	50,374	45,881
Pension (NEMOL)	(32,152)	(27,741)	-	-
Total	<u>20,542</u>	<u>20,159</u>	<u>50,374</u>	<u>45,881</u>
Unusable Reserves				
Capital Adjustment Account	463,313	466,250	463,313	466,250
Pension	(43,420)	(42,840)	(43,420)	(42,840)
Revaluation	687	687	687	687
Total	<u>420,580</u>	<u>424,097</u>	<u>420,580</u>	<u>424,097</u>
Total Reserves	<u>441,122</u>	<u>444,257</u>	<u>470,954</u>	<u>469,978</u>

Usable Reserves

Usable reserves are those reserves that can be applied to fund expenditure and comprise both revenue and capital commitments.

Unusable Reserves

Unusable reserves are those reserves that cannot be applied to fund expenditure since they have already been expended. These comprise :-

- a Revaluation Reserve reflecting the revaluation of certain properties carried out in 2015 detailed in Note 8 (no movement in current or prior year).

Notes to the Accounts

- A Pension Reserve reflecting the gross deficit on funding the Nexus Pension Scheme. 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. Nexus 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 Nexus makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources Nexus 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.

Movements on the Pension Reserve over the year comprise :-

	Group and Nexus	
	2019	2018
	£000	£000
At 1 April	42,840	41,220
Remeasurement of the net Defined Benefit liability	(7,370)	(1,820)
Employer's pensions contributions and direct payments to pensioners payable in the year	(3,550)	(3,540)
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	11,500	6,980
At 31 March	<u>43,420</u>	<u>42,840</u>

- The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or additions to those assets under statutory provisions. The account is debited with the cost of acquisition, construction or subsequent costs as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert current and 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 subsequent costs.

	Group and Nexus	
	2019	2018
	£000	£000
At 1 April	466,250	459,432
Reversal of items relating to capital expenditure debited/credited to the CIES		
Charges for depreciation, amortisation and impairment of non-current assets	(25,577)	(23,042)
Amounts of non-current assets written off on disposal or sale	(3,446)	(3,340)
Capital financing applied in the year		
Capital grants and contributions credited to the CIES applied to capital financing	27,433	33,185
Use of reserves to finance new capital expenditure	1,711	15
Transfer between usable and unusable reserves	(3,058)	-
Total adjustments	<u>(2,937)</u>	<u>6,818</u>
At 31 March	<u>463,313</u>	<u>466,250</u>

Notes to the Accounts

20 Employee Benefits – Pension Costs

Consolidated Pension Liability

The Group pension liability of £75.572m (2018: £70.581m) is the sum of the Nexus and NEMOL pension liability. The details of the NEMOL pension liability of £32.152m (2018: £27.741m) are set out within the NEMOL Annual Report and Accounts using the FRS 101 disclosure framework.

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

Group	Local Government Pension Scheme		Unfunded Benefits	
	2019 £000	2018 £000	2019 £000	2018 £000
Comprehensive Income & Expenditure Account				
Cost of Services				
Current Service costs	11,580	11,968	-	-
Past Service costs	7,705	-	-	-
Financing and Investment Income and Expenditure				
Interest cost	9,169	8,520	100	100
Expected Return on Scheme Assets	(7,518)	(7,038)	-	-
Total Post-employment benefit charged to the Surplus or deficit on the provision of Services	<u>20,936</u>	<u>13,450</u>	<u>100</u>	<u>100</u>
Other Post-employment benefit charged to the Comprehensive Income and Expenditure Account	(9,312)	(2,231)	(100)	40
Total Post-employment benefit charged to the Comprehensive Income and Expenditure Account	<u>11,624</u>	<u>11,219</u>	<u>-</u>	<u>140</u>
Movement in Reserves Statement				
Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post-employment benefits in accordance with the Code	(5,341)	(4,867)	350	240
Employer's Contribution to Scheme	<u>6,283</u>	<u>6,352</u>		
Retirement benefits payable to pensioners			<u>350</u>	<u>380</u>

Notes to the Accounts

Nexus	Local Government Pension Scheme		Unfunded Benefits	
	2019 £000	2018 £000	2019 £000	2018 £000
Comprehensive Income & Expenditure Account				
Cost of Services				
Current Service costs	6,030	6,000	-	-
Past Service costs	4,400	-	-	-
Financing and Investment Income and Expenditure				
Interest cost	6,960	6,510	100	100
Expected Return on Scheme Assets	(5,990)	(5,630)	-	-
Total Post-employment benefit charged to the Surplus or deficit on the provision of Services	<u>11,400</u>	<u>6,880</u>	<u>100</u>	<u>100</u>
Other Post-employment benefit charged to the Comprehensive Income and Expenditure Account	(7,270)	(1,860)	(100)	40
Total Post-employment benefit charged to the Comprehensive Income and Expenditure Account	<u>4,130</u>	<u>5,020</u>	<u>-</u>	<u>140</u>
Movement in Reserves Statement				
Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post-employment benefits in accordance with the Code	(930)	(1,860)	350	240
Employer's Contribution to Scheme	<u>3,200</u>	<u>3,160</u>		
Retirement benefits payable to pensioners			<u>350</u>	<u>380</u>

The Pension Scheme liability at 31 March 2019 comprised :-

	Group		Nexus	
	2019 £m	2018 £m	2019 £m	2018 £m
Funded Benefits	(72.01)	(66.67)	(39.86)	(38.93)
Unfunded Benefits	(3.56)	(3.91)	(3.56)	(3.91)
Net pension liability	<u>(75.57)</u>	<u>(70.58)</u>	<u>(43.42)</u>	<u>(42.84)</u>

Notes to the Accounts

Pensions Assets and Liabilities recognised in the Balance Sheet

Group	Local Government Pension Scheme		Unfunded Benefits		Total	
	2019	2018	2019	2018	2019	2018
	£m	£m	£m	£m	£m	£m
Present Value of defined benefit obligation	380.73	356.21	3.56	3.91	384.29	360.12
Fair Value of plan assets	(308.72)	(289.54)	-	-	(308.72)	(289.54)
Net Liability recognised in the Balance Sheet	<u>72.01</u>	<u>66.67</u>	<u>3.56</u>	<u>3.91</u>	<u>75.57</u>	<u>70.58</u>

Nexus	Local Government Pension Scheme		Unfunded Benefits		Total	
	2019	2018	2019	2018	2019	2018
	£m	£m	£m	£m	£m	£m
Present Value of defined benefit obligation	284.64	270.99	3.56	3.91	288.20	274.90
Fair Value of plan assets	(244.78)	(232.06)	-	-	(244.78)	(232.06)
Net Liability recognised in the Balance Sheet	<u>39.86</u>	<u>38.93</u>	<u>3.56</u>	<u>3.91</u>	<u>43.42</u>	<u>42.84</u>

Reconciliation of the Movements in the Fair Value of Scheme Assets

Group	Local Government Pension Scheme		Unfunded Benefits		Total	
	2019	2018	2019	2018	2019	2018
	£m	£m	£m	£m	£m	£m
Opening Fair value of scheme assets	289.54	226.80	-	-	289.54	226.80
Transferred in at 1 April	-	52.57	-	-	-	52.57
Interest income on assets	7.52	7.04	-	-	7.52	7.04
Remeasurement gains/(losses) on assets	12.81	3.64	-	-	12.81	3.64
Contributions by the employer	6.28	6.35	0.35	0.38	6.63	6.73
Contributions by participants	2.47	2.41	-	-	2.47	2.41
Net benefits paid out ¹	(9.90)	(9.27)	(0.35)	(0.38)	(10.25)	(9.65)
Closing Fair Value of scheme assets	<u>308.72</u>	<u>289.54</u>	<u>-</u>	<u>-</u>	<u>308.72</u>	<u>289.54</u>

Notes to the Accounts

Nexus	Local Government Pension Scheme		Unfunded Benefits		Total	
	2019	2018	2019	2018	2019	2018
	£m	£m	£m	£m	£m	£m
Opening Fair value of scheme assets	232.06	226.80	-	-	232.06	226.80
Interest income on assets	5.99	5.63	-	-	5.99	5.63
Remeasurement gains/(losses) on assets	10.38	3.27	-	-	10.38	3.27
Contributions by the employer	3.20	3.16	0.35	0.38	3.55	3.54
Contributions by participants	1.33	1.33	-	-	1.33	1.33
Net benefits paid out ¹	(8.18)	(8.13)	(0.35)	(0.38)	(8.53)	(8.51)
Closing Fair Value of scheme assets	<u>244.78</u>	<u>232.06</u>	<u>-</u>	<u>-</u>	<u>244.78</u>	<u>232.06</u>

- 1 Consists of net cash-flow out of the Fund in respect of the employer, excluding contributions and any death in service lump sums paid, and including an approximate allowance for the expected cost of death in service lump sums. Also includes an allowance for fund administration expenses of £0.10m for Nexus and £0.184m for Group.

Reconciliation of Present Value of the Scheme Liabilities (Defined Benefit Obligation)

Group	Local Government Pension Scheme		Unfunded Benefits		Total	
	2019	2018	2019	2018	2019	2018
	£m	£m	£m	£m	£m	£m
Opening defined benefit obligation	356.21	263.87	3.91	4.15	360.12	268.02
Transferred in at 1 April	-	77.30	-	-	-	77.30
Current service cost	11.58	11.97	-	-	11.58	11.97
Interest expenses on defined benefit obligation	9.17	8.52	0.10	0.10	9.27	8.62
Contributions by participants	2.47	2.41	-	-	2.47	2.41
Remeasurement of the net Defined Benefit liability	3.50	1.41	(0.10)	0.04	3.40	1.45
Net benefits paid out ¹	(9.90)	(9.27)	(0.35)	(0.38)	(10.25)	(9.65)
Past service cost (inc curtailments)	7.71	-	-	-	7.71	-
Closing defined benefit obligation	<u>380.73</u>	<u>356.21</u>	<u>3.56</u>	<u>3.91</u>	<u>384.29</u>	<u>360.12</u>

Notes to the Accounts

Nexus	Local Government Pension Scheme		Unfunded Benefits		Total	
	2019	2018	2019	2018	2019	2018
	£m	£m	£m	£m	£m	£m
Opening defined benefit obligation	270.99	263.87	3.91	4.15	274.90	268.02
Current service cost	6.03	6.00	-	-	6.03	6.00
Interest expenses on defined benefit obligation	6.96	6.51	0.10	0.10	7.06	6.61
Contributions by participants	1.33	1.33	-	-	1.33	1.33
Remeasurement of the net Defined Benefit liability :-						
financial assumptions	14.24	(0.33)	0.08	-	14.32	(0.33)
Demographic assumptions	(11.41)	0.00	(0.19)	-	(11.60)	-
experience	0.28	1.74	0.01	0.04	0.29	1.78
Net benefits paid out ¹	(8.18)	(8.13)	(0.35)	(0.38)	(8.53)	(8.51)
Past service cost (inc curtailments)	4.40	-	-	-	4.40	-
Closing defined benefit obligation	<u>284.64</u>	<u>270.99</u>	<u>3.56</u>	<u>3.91</u>	<u>288.20</u>	<u>274.90</u>

- 1 Consists of net cash-flow out of the Fund in respect of the employer, excluding contributions and any death in service lump sums paid, and including an approximate allowance for the expected cost of death in service lump sums. Also includes an allowance for fund administration expenses of £0.10m for Nexus and £0.184m for Group.

Funded Benefits

Introduction

The disclosures below relate to the funded liabilities within the Tyne & Wear Pension Fund (the "Fund") which is part of the Local Government Pension Scheme (the "LGPS"). The LGPS is a funded defined benefit plan with benefits earned up to 31 March 2014 being linked to final salary. Benefits after 31 March 2014 are based on a Career Average Revalued Earnings scheme. Details of the benefits to be paid for the period covered by this disclosure are set out in the LGPS Regulations 2013 and the LGPS (Transitional Provisions, Savings and Amendment) Regulations 2014.

The funded nature of the LGPS requires the Employer and its employees to pay contributions into the Fund, calculated at a level intended to balance the pension liabilities with investment assets. Information on the framework for calculating contributions to be paid is set out in LGPS Regulations 2013 and the Fund's Funding Strategy Statement. The last actuarial valuation was at 31 March 2016 and the contributions to be paid until the date the next actuarial valuation of the Fund is available are set out in the Rates and Adjustment Certificate.

The Fund Administering Authority, South Tyneside Council, is responsible for the governance of the Fund.

Contributions for the accounting period ending 31 March 2020

The Employer's regular contributions to the Fund for the accounting period ending 31 March 2020 are estimated to be £3.320m for Nexus and £3.155m for NEMOL.

Notes to the Accounts

Additional contributions may also become due in respect of any employer discretions to enhance members' benefits in the Fund over the next accounting period.

The current duration of Liabilities for Nexus is 17.8 years. The current duration of liabilities for NEMOL is 22.4 years.

Assumptions

The latest actuarial valuation of Nexus's liabilities took place as at 31 March 2016. Liabilities have been estimated by the independent qualified actuary 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:

Principal financial assumptions (% per annum)

	2019	2018	2017	2016
Nexus				
Discount rate	2.4	2.6	2.5	3.4
RPI inflation	3.3	3.2	3.1	2.9
CPI inflation	2.2	2.1	2.0	1.8
Rate of increase to pensions in payment ¹	2.2	2.1	2.0	1.8
Rate of general increase in salaries	3.7	3.6	3.5	3.3
Pension accounts revaluation rate	2.2	2.1	2.0	1.8
NEMOL				
Discount rate	2.5	2.6	N/A	N/A
RPI inflation	3.2	3.1	N/A	N/A
CPI inflation	2.1	2.0	N/A	N/A
Rate of increase to pensions in payment ¹	2.1	2.0	N/A	N/A
Rate of general increase in salaries	3.6	3.5	N/A	N/A
Pension accounts revaluation rate	2.1	2.0	N/A	N/A

1 In excess of Guaranteed Minimum Pension increases in payment where appropriate.

Mortality assumptions

The mortality assumptions are based on the recent actual mortality experience of members within the Fund and allow for expected future mortality improvements

Post retirement mortality (retirement in normal health)	2019	2018
Males		
Future lifetime from age 65 (aged 65 at accounting date)	22.2	22.9
Future lifetime from age 65 (aged 45 at accounting date)	23.9	25.1
Females		
Future lifetime from age 65 (aged 65 at accounting date)	25.3	26.4
Future lifetime from age 65 (aged 45 at accounting date)	27.2	28.7

Notes to the Accounts

Asset Allocation

The approximate split of assets for the Fund as a whole (based on data supplied by the Fund Administering Authority) is shown in the table below. The assets allocated to the Employer in the Fund are notional and the assets are assumed to be invested in line with the investments of the Fund set out below for the purposes of calculating the return to be applied to those notional assets. The Fund is large and holds a significant proportion of its assets in liquid investments. As a consequence there will be no significant restriction on realising assets if a large payment is required to be paid from the Fund in relation to an employer's liabilities. The assets are invested in a diversified spread of investments and the approximate split of assets for the Fund as a whole.

The Fund Administering Authority may invest a small proportion of the Fund's investments in the assets of some of the employer participating in the Fund if it forms part of their balance investment strategy.

Asset split (%)	2019			2018
	Quoted	Unquoted	Total	Total
Equities	58.0	7.0	65.0	67.0
Property	0.0	8.8	8.8	8.5
Government bonds	4.1	0.0	4.1	4.0
Corporate bonds	11.7	0.0	11.7	11.7
Cash	2.7	0.0	2.7	3.7
Other ¹	3.5	4.2	7.7	5.1
Total	80.0	20.0	100.0	100.0

1 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.

Reconciliation of funded status to Balance Sheet

	Group		Nexus	
	2019 £m	2018 £m	2019 £m	2018 £m
Fair value of assets	308.72	289.54	244.78	232.06
Present value of funded defined benefit obligation	380.73	356.21	284.64	270.99
Funded status	(72.01)	(66.67)	(39.86)	(38.93)
Impact of minimum funding requirement/asset ceiling	0.00	0.00	0.00	0.00
Asset/(Liability) recognised in the Balance Sheet	(72.01)	(66.67)	(39.86)	(38.93)

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

Nexus

Active members	34%
Deferred pensioners	10%
Pensioners	56%

NEMOL

Active members	100%
Deferred pensioners	0%
Pensioners	0%

Notes to the Accounts

Breakdown of amounts recognised in profit and loss / Surplus or Deficit on the Provision of Services and Other Comprehensive Income (OCI)

Group	2019 £m	2018 £m
Operating Cost		
Current service cost ¹	11.58	11.97
Past service cost (inc curtailments)	7.71	-
Financing Cost		
Interest on net defined benefit liability/(asset)	1.65	1.48
Pension expense recognised in profit and loss	<u>20.94</u>	<u>13.45</u>
Remeasurements in OCI		
Return on plan assets (in excess of)/below that recognised in net interest	(12.81)	(3.64)
Remeasurement of the net Defined Benefit liability	3.50	1.41
Total Amount recognised in OCI	<u>(9.31)</u>	<u>(2.23)</u>
Total Amount recognised	11.62	11.22
Nexus	2019 £m	2018 £m
Operating Cost		
Current service cost ¹	6.03	6.00
Past service cost (inc curtailments)	4.40	-
Financing Cost		
Interest on net defined benefit liability/(asset)	0.97	0.88
Pension expense recognised in profit and loss	<u>11.40</u>	<u>6.88</u>
Remeasurements in OCI		
Return on plan assets (in excess of)/below that recognised in net interest	(10.38)	(3.27)
Remeasurement of the net Defined Benefit liability due to changes in :-		
financial assumptions	14.24	(0.33)
Demographic assumptions	(11.41)	0.00
liability experience	0.28	1.74
Total Amount recognised in OCI	<u>(7.27)</u>	<u>(1.86)</u>
Total Amount recognised	4.13	5.02

1 The Current service cost includes an allowance for the administration expenses of £0.10m for Nexus and £0.184m for Group.

Notes to the Accounts

	Group		Nexus	
	2019 £m	2018 £m	2019 £m	2018 £m
Actual return on assets				
Interest income on assets	7.52	7.04	5.99	5.63
Remeasurement gains/(losses) on assets	12.81	3.64	10.38	3.27
Actual return on assets	<u>20.33</u>	<u>10.68</u>	<u>16.37</u>	<u>8.90</u>

Sensitivity Analysis

The approximate impact of changing the key assumptions on the present value of the funded defined benefit obligation for Nexus as at 31 March 2019 and the projected cost for the period ending 31 March 2020 is set out below. In each case, only the assumption mentioned is altered; all other assumptions remain the same and are summarised above. The NEMOL sensitivity analysis, data summary and pensioner numbers are set out within the NEMOL Annual Report.

Discount rate assumption

Adjustment to Discount rate	+0.1%pa	Base figure	-0.1%pa
Present value of total obligation (£m)	279.62	284.64	289.75
Change in present value of total obligation	-1.8%		1.8%
Projected service cost (£m)	6.79	7.00	7.21
Approximate change in projected service cost	-3.0%		3.1%

Rate of general increase in salaries

Adjustment to salary increase rate	+0.1%pa	Base figure	-0.1%pa
Present value of total obligation (£m)	285.93	284.64	283.37
Change in present value of total obligation	0.4%		-0.4%
Projected service cost (£m)	7.00	7.00	7.00
Approximate change in projected service cost	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%pa	Base figure	-0.1%pa
Present value of total obligation (£m)	288.45	284.64	280.88
Change in present value of total obligation	1.3%		-1.3%
Projected service cost (£m)	7.21	7.00	6.79
Approximate change in projected service cost	3.1%		-3.0%

Post retirement mortality assumption

Adjustment to mortality age rating assumption ¹	-1 year	Base figure	+1 year
Present value of total obligation (£m)	293.69	284.64	275.68
Change in present value of total obligation	3.2%		-3.1%
Projected service cost (£m)	7.27	7.00	6.73
Approximate change in projected service cost	3.9%		-3.8%

¹ 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

Data Summary

Nexus

Active members as at 31 March 2016 -	Number	Total Pay (£m)
Total	571	17.79

Pensioner and deferred pensioner numbers at 31 March 2016	Number	Total Pension (£m)
Deferred members	438	1.13
Pensioners and dependants	1,370	6.61
Total	<u>1,808</u>	<u>7.74</u>

Unfunded Benefits

Introduction

The disclosures below relate to unfunded pension arrangements established by Nexus. These are termination benefits made on a discretionary basis upon early retirement in respect of members of the Local Government Pension Scheme (LGPS) under the Local Government (Early Termination of Employment) (Discretionary Compensation) (England and Wales) Regulations.

No pension fund exists to meet these benefits.

Contributions for the accounting period ending 31 March 2020

In the accounting period ending 31 March 2020 the Employer expects to pay £0.360m directly to beneficiaries.

Assumptions

The latest actuarial valuation of unfunded LGPS benefits took place as at 31 March 2017. Liabilities have been estimated by the independent qualified actuary 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 :-

Principal financial assumptions (% per annum)	2019	2018	2017	2016
Discount rate	2.40	2.60	2.50	3.40
RPI inflation	3.30	3.20	3.10	2.90
CPI inflation	2.20	2.10	2.00	1.80
Rate of increase to pensions in payment	2.20	2.10	2.00	1.80

Notes to the Accounts

Mortality assumptions

The mortality assumptions are based on the recent actual mortality experience of members within the Fund and allow for expected future mortality improvements.

Post retirement mortality (retirement in normal health)	2019	2018
Males		
Future lifetime from age 65 (aged 65 at accounting date)	22.2	22.9
Females		
Future lifetime from age 65 (aged 65 at accounting date)	25.3	26.4

Reconciliation of unfunded defined benefit obligation to the Balance Sheet

	2019	2018	2017	2016
	£m	£m	£m	£m
Present value of unfunded defined benefit obligation	3.56	3.91	4.15	4.20
Pension (liability) recognised on the Balance Sheet	(3.56)	(3.91)	(4.15)	(4.20)

Breakdown of amounts recognised in profit and loss / Surplus or Deficit on the Provision of Services and Other Comprehensive Income (OCI)

	2019	2018
	£m	£m
Operating Cost	0.00	0.00
Financing Cost		
Interest on net defined benefit liability/(asset)	0.10	0.10
Pension expense recognised in profit and loss	<u>0.10</u>	<u>0.10</u>
Remeasurements in OCI		
Remeasurement of the net Defined Benefit liability due to changes in :-		
financial assumptions	0.08	0.00
Demographic assumptions	(0.19)	0.00
liability experience	0.01	0.04
Total Amount recognised in OCI	<u>(0.10)</u>	<u>0.04</u>
Total Amount recognised	<u>0.00</u>	<u>0.14</u>

Notes to the Accounts

21 Grant Income

The following grants were credited to the Comprehensive Income and Expenditure Statement during the year :-

	£000	2019 £000	£000	2018 £000
Non-Specific Grant Income				
Revenue Support		56,367		57,557
Cost of Services Income				
Metro Rail	26,163		25,110	
Heavy Rail	252		262	
Other	1519		547	
		<u>27,934</u>		<u>25,918</u>
		<u>84,301</u>		<u>83,475</u>
Capital Grants		27,433		33,185
		<u>111,734</u>		<u>116,660</u>

22 Related Party Disclosures

These financial statements include the financial statements of Nexus and its subsidiaries; namely Tyneside Transport Services limited and North East Metro operations limited, in which Nexus hold a 100% equity interest.

As well as the subsidiaries named above the directors regard the Joint Transport Committee, North East Combined Authority (NECA) and North of Tyne Combined Authority (NTCA) as a Related Party by virtue of :-

- its powers to appoint Nexus Directors
- the responsibility of Nexus to execute NECA public transport policies
- the significant level of Revenue Support Grant provided (Note 21 refers)

Nexus accounts are consolidated into the NECA and NTCA financial statements.

Balances with NECA are included under the following Balance Sheet headings :-

	Group and Nexus	
	2019 £000	2018 £000
Debtors	4,514	4,292
Creditors – Amounts falling due within one year	1,575	5,122
Creditors – Amounts falling due after more than one year	36,726	38,302

Notes to the Accounts

During the year to 31 March 2019, Nexus entered into transactions with NECA/NTCA as follows :-

		£000	£000
Grants received from NECA/NTCA	Revenue (Levy)	56,367	
	Revenue (Other)	628	
	Capital	5,649	
Loan repayments made to NECA/NTCA			1,636
Loan interest paid to the NECA/NTCA			1,367

NECA can be contacted at its main address at the Town Hall & Civic Offices, Westoe Road, South Shields, NE33 2RL. NTCA can be contacted at its main address at CO North Tyneside Council, Quadrant, The Silverlink North, Cobalt Business Park, North Tyneside, NE27 0BY.

Network Ticketing Ltd (NTL) provides multi modal, multi operator travel tickets for the Tyne & Wear region. As the operator of the Tyne and Wear Metro and the cross Tyne Ferry, Nexus participates in the NTL travel ticket arrangements and receives a share of the revenues that are generated, commensurate with its market share. John Fenwick, Nexus' Director of Finance and Resources, and Huw Lewis, Nexus' Director of Customer Services, are also Directors of Network Ticketing Ltd.

Nexus provides the Continuous Monitoring Surveys that underpin the calculation of the market share of all participating operators, receiving income of £216,781 in 2018/19 (2017/18: £203,743). Nexus also provides retail channels for NTL products, earning a commission from the sale of these products of £264,391 in 2018/19 (2017/18: £271,476). Excluding these receipts, during the financial year 2018/19 Nexus received £5,872,631 in income from its participation in NTL (2017/18: £6,124,457).

Funding for a substantial portion of the costs of operating the Metro and for the capital expenditure invested in public transport in Tyne and Wear is provided by grants received from the United Kingdom Government, consequently the United Kingdom Government is a related party. Details of grants received are given in Note 21 to the Accounts.

23 Lease Commitments

There were no amounts due under external finance leases and hire purchase contracts for either Nexus or the group. The future minimum lease payments due under non-cancellable leases in future years are:

	2019 £000	2018 £000
Not later than one year	519	527
Later than one year and not later than five years	2,053	2,058
Later than five years	898	1,411
	<u>3,470</u>	<u>3,996</u>

The expenditure charged to the Comprehensive Income and Expenditure Statement during the year in relation to these leases was £527,207 (2017/18: £543,393).

Notes to the Accounts

24 Post Balance Sheet events

There have been no material post balance sheet events that would affect these accounts.

25 Nature and extent of risks arising from financial instruments

Nexus 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

Nexus 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 the Finance Department, under policies approved by the Board in the annual treasury management strategy. The Board 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 Nexus customers. This risk is minimised through the Investment Strategy, which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria, as laid down by professional Ratings Services. The Annual Investment Strategy 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 during 2018/19 and 2019/20 are detailed below:-

	Long-term rating	2018/19		2019/20	
		Cash limit	Time limit	Cash limit	Time limit
UK Central Government (irrespective of credit rating)		Unlimited	Unlimited	Unlimited	Unlimited
UK Local Authorities		£25m each £20m each £15m each	1 year 2 years 3 years	£25m each £20m each £15m each	1 year 2 years 3 years
UK Banks and other organisations whose lowest published long-term credit rating from Fitch, Moody's and Standard and Poor's is :	AAA	£20m each	1 year	£20m each	1 year
	AA+				
	AA				
	AA-				
	A+				
	A				
	A-	£15m each	6 months	£15m each	6 months
BBB+	£5m each	6 months	£5m each	6 months	
UK money market funds and similar pooled vehicles whose lowest published credit rating is AAA	AAA	£10m each	1 year	£10m each	1 year

Notes to the Accounts

UK building societies	AAA	£10m each	1 year	£10m each	1 year
	AA+				
	AA				
	AA-				
	A+				
	A				
	A-	£5m each	6 months	£5m each	6 months
	BBB+	£1m each	100 days	£1m each	100 days
	BBB	N/A	N/A	N/A	N/A
	BBB-	N/A	N/A	N/A	N/A
UK building societies without credit ratings with assets greater than £250m		£5m each	6 months	£5m each	6 months
Banks domiciles in AAA rated sovereign countries	AAA	£5m each	1 year	£5m each	1 year
	AA+				
	AA				
	AA-				
	A+				
	A				
A-	N/A	N/A	N/A	N/A	
Nexus' current bank account (to bring in line with UK Banks rules and limits in Row 3 above)		As Row 3	As Row 3	As Row 3	As Row 3

Customers for goods and services are assessed taking into account their financial position, past experience and other factors. Risk in this area is low due to the majority of debtors being other public sector bodies.

Nexus maximum exposure to credit risk in relation to its investments in banks and building societies of £5m per institution 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 irrecoverability applies to all of Nexus deposits, but there was no evidence at the 31 March 2018 that this was likely to crystallise.

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 NECA. There is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

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

Market Risk

Interest Rate Risk

Nexus is exposed to risk in terms of its exposure to interest rate movements on its borrowings and investments. An increase of 1% pa in the rate payable on interest bearing loans would increase the annual charge by £383,010 (2018: £416,370).

Nexus borrows via the NECA from the Public Works Loan Board. All current borrowings are subject to the current prevailing rate.

Notes to the Accounts

Nexus invests funds on a short term basis (maximum length one year) and is therefore subject to the current prevailing rate.

Price Risk

Nexus does not invest in equity shares but does have shareholdings to the value of £404 in joint ventures. This does not represent a material financial risk.

Nexus does not possess material assets or liabilities denominated in foreign currencies and thus have no exposure to material loss arising from movements in exchange rates.

26 External Audit Fees

The following table details the amounts paid to external auditors (Mazars) for the financial years shown:-

	2019 £000	2018 £000
Fees payable to auditors appointed under the Local Audit and Accountability Act 2014 with regard to external audit services carried out by the appointed auditor under the Code of Audit Practice prepared by the Comptroller and Auditor General in accordance with Section 18 of the Local Audit and Accountability Act 2014	26	26
Fees payable to auditors in respect of statutory inspection	11	11
Fees payable in respect of other services provided by external auditors during the year	4	4
	<u>41</u>	<u>41</u>

27 Contingent Assets, Contingent Liabilities and Financial Guarantees

Nexus has received a claim on a large capital project from contractors concerning the value of the works completed to date. It is difficult to quantify what, if any, liability will fall to Nexus.

Nexus entered into a Guarantee Agreement on 31 March 2017 with the Tyne and Wear Pension Fund (the Fund). Nexus agreed to guarantee all and any payments (howsoever arising) due from Metro Operations (NEMOL) to the Fund in line with the terms and regulations set out in the Admission Agreement. The guarantee has been judged to be an insurance contract and has been valued accordingly.

28 Reconciliation of Liabilities Arising From Financing Activities

	1 April 2018 £000	Financing cash flows £000	31 March 2019 £000
Long Term Borrowings	38,302	(1,576)	36,726
Short Term Borrowings	3,335	(1,760)	1,575
Total Liabilities from Financing Activities	<u>41,637</u>	<u>(3,336)</u>	<u>38,301</u>

Notes to the Accounts

29 Expenditure and Funding Analysis

The Expenditure and Funding Analysis demonstrates how the funding available to the authority for the year has been used in providing services in comparison with those resources consumed or earned by the authority in accordance with generally accepted accounting practices. The analysis also presents a reconciliation of the adjustments between the authority's financial performance under the funding position and the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement.

The Expenditure and Funding Analysis below contains data relating to the 2018/19 financial year for the Group.

	Net Expenditure Chargeable to Useable Reserves £000	Adjustments between Funding and Account Basis £000	2018/19 Net Expenditure in the Comprehensive Income and Expenditure Statement £000
Metro	(24,648)	-	(24,648)
Concessionary Travel	(38,914)	-	(38,914)
Bus Services and Infrastructure	(12,934)	-	(12,934)
Other Transport Services	(3,282)	(4,828)	(8,110)
Corporate costs	(1,534)	(119)	(1,653)
Non distributed costs	-	(7,705)	(7,705)
Net Cost of Services	(81,312)	(12,652)	(93,964)
Grants	56,367	-	56,367
Grant release	27,620	(187)	27,433
Revenue Contribution to Capital	1,403	(1,403)	-
Other Income and Expenditure	(1,145)	(1,751)	(2,896)
Total Other Income and Expenditure	84,245	(3,341)	80,904
Surplus or (deficit)	2,933	(15,993)	(13,060)
Opening Reserves Balance			444,257
Less / Plus Surplus or Deficit on Reserves			(13,060)
Taxation			513
Remeasurement of the net Defined Benefit liability			9,412
Closing Reserve Balance as at 31st March			441,122

Notes to the Accounts

Table 1 – Material Adjustments

Adjustments from Reserves to arrive at the Comprehensive Income and Expenditure Statement accounts	Adjustments for Capital Purposes ¹	Net change of Pensions Adjustment ²	Other Differences	Total Adjustments
	£000	£000	£000	£000
Metro	-	-	-	-
Concessionary Travel	-	-	-	-
Bus Services and Infrastructure	-	-	-	-
Other Transport Services	-	(4,828)	-	(4,828)
Corporate costs	-	(119)	-	(119)
Non distributed costs	-	(7,705)	-	(7,705)
Net Cost of Services	-	(12,652)	-	(12,652)
Grants	-	-	-	-
Grant release	(187)	-	-	(187)
Revenue Contribution to Capital	(1,403)	-	-	(1,403)
Other Income and Expenditure	-	(1,751)	-	(1,751)
Total Other Income and Expenditure	(1,590)	(1,751)	-	(3,341)
Surplus or deficit	(1,590)	(14,403)	-	(15,993)

1 - Represents the difference between the capital grants released to fund depreciation of grant funded assets and the net increase in the deferred capital grants.

2 - Analysis of pension adjustments completed in line with IAS 19 as detailed in Note 20 (and consolidation of the NEMOL pensions liability).

	Net Expenditure Chargeable to Useable Reserves	Adjustments between Funding and Account Basis	Net Expenditure in the Comprehensive Income and Expenditure Statement
	£000	£000	£000
Metro	(21,048)	-	(21,048)
Concessionary Travel	(38,423)	-	(38,423)
Bus Services and Infrastructure	(13,648)	-	(13,648)
Other Transport Services	(3,087)	(5,110)	(8,197)
Corporate costs	(1,289)	(126)	(1,415)
Non distributed costs	-	(24,734)	(24,734)
Net Cost of Services	(77,495)	(29,970)	(107,465)
Grants	57,557	-	57,557
Grant release	24,697	8,488	33,185
Revenue Contribution to Capital	1,685	(1,685)	-
Other Income and Expenditure	(1,459)	(1,582)	(3,041)
Total Other Income and Expenditure	82,479	5,222	87,701
Surplus or deficit	4,984	(24,748)	(19,765)
Opening Reserves Balance			462,113
Less / Plus Surplus or Deficit on Reserves			(19,765)
Taxation			(282)

Notes to the Accounts

Remeasurement of the net Defined Benefit liability	2,191
Closing Reserve Balance as at 31st March	<u>444,257</u>

Table 1 – Material Adjustments

Adjustments from Reserves to arrive at the Comprehensive Income and Expenditure Statement accounts	Adjustments for Capital Purposes ¹	Net change of Pensions Adjustment ²	Other Differences	Total Adjustments
	£000	£000	£000	£000
Metro	-	-	-	-
Concessionary Travel	-	-	-	-
Bus Services and Infrastructure	-	-	-	-
Other Transport Services	-	(5,110)	-	(5,110)
Corporate costs	-	(126)	-	(126)
Non distributed costs	-	(24,734)	-	(24,734)
Net Cost of Services	-	(29,970)	-	(29,970)
Grants	-	-	-	-
Grant release	8,488	-	-	8,488
Revenue Contribution to Capital	(1,685)	-	-	(1,685)
Other Income and Expenditure	-	(1,582)	-	(1,582)
Total Other Income and Expenditure	6,804	(1,582)	-	5,222
Surplus or deficit	6,804	(31,552)	-	(24,748)

1 - Represents the difference between the capital grants released to fund depreciation of grant funded assets and the net increase in the deferred capital grants.

2 - Analysis of pension adjustments completed in line with IAS 19 as detailed in Note 20 (and consolidation of the NEMOL pensions liability).

30 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 Nexus in the year in accordance with proper accounting practice to arrive at the resources that are specified by statutory provisions as being available to the authority to meet future capital and revenue expenditure. The following sets out a description of the reserves that the adjustments are made against.

	2019 £000	2018 £000
Adjustments to the Revenue Resources		
Amounts by which income and expenditure included in the CIES are different from revenue in the year in accordance with statutory requirements:		
Pension costs (transferred to pensions reserve) (see note 19)	580	1,620
Reversal of entries included in the surplus on the provision of services in relation to capital expenditure (those items are charged to the capital adjustment account) (see note 19)	2,937	(6,818)
Total adjustments to Revenue Resources	<u>3,517</u>	<u>(5,198)</u>

Notes to the Accounts

31 Movement in Earmarked Reserves

This note sets out the amounts set aside from the General Fund balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund expenditure in 2018/19.

Group	Balance at 1 April 2017	Transfers Out 2017/18	Transfers In 2017/18	Balance at 31 March 2018	Transfers Out 2018/19	Transfers In 2018/19	Balance at 31 March 2019
	£000	£000	£000	£000	£000	£000	£000
Nexus	41,493	(15)	4,403	45,881	-	4,493	50,374
North East Metro Operations Ltd	-	(27,741)	698	(27,043)	(4,083)	-	(31,126)
Tyneside Transport Services Ltd	229	(2)	-	227	-	2	229
Deferred tax reserve	1,492	(398)	-	1,094	(29)	-	1,065
Total	43,214	(28,156)	5,102	20,159	(4,112)	4,495	20,542

Nexus	Balance at 1 April 2017	Transfers Out 2017/18	Transfers In 2017/18	Balance at 31 March 2018	Transfers Out 2018/19	Transfers In 2018/19	Balance at 31 March 2019
	£000	£000	£000	£000	£000	£000	£000
Available to fund capital or revenue expenditure	41,493	(15)	4,403	45,881	-	4,493	50,374
Total	41,493	(15)	4,403	45,881	-	4,493	50,374

32 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.

	2019 £000	2018 £000
Capital Investment		
Property Plant and Equipment	28,723	33,184
Intangible assets	421	16
	<u>29,144</u>	<u>33,200</u>

Sources of Finance

Notes to the Accounts

Government grants and other contributions	27,433	33,185
Use of reserves	<u>1,711</u>	<u>15</u>
	<u>29,144</u>	<u>33,200</u>

33 Expenditure and Income Analysed By Nature

Group

	2019 £000	2018 £000
Expenditure		
Employee benefits expenses	(48,610)	(46,655)
Other services expenses	(95,691)	(112,205)
Support services recharges	(2,311)	(3,470)
Depreciation, amortisation, impairment	(27,364)	(25,014)
Interest payable	(10,978)	(10,407)
Total expenditure	<u>(184,954)</u>	<u>(197,751)</u>
Income		
Fees, charges and other service income	52,726	53,980
Interest and investment income	8,063	7,345
Government grants and contributions	<u>111,105</u>	<u>116,660</u>
Total Income	<u>171,894</u>	<u>177,986</u>
Surplus/(loss) on provision of services	<u>(13,060)</u>	<u>(19,765)</u>

Nexus

	2019 £000	2018 £000
Expenditure		
Employee benefits expenses	(25,213)	(24,059)
Other services expenses	(111,806)	(106,743)
Support services recharges	(2,311)	(3,470)
Depreciation, amortisation, impairment	(27,364)	(25,014)
Interest payable	(8,769)	(8,397)
Total expenditure	<u>(175,463)</u>	<u>(167,683)</u>
Income		
Fees, charges and other service income	50,860	52,740
Interest and investment income	6,535	5,937
Government grants and contributions	<u>111,105</u>	<u>116,660</u>
Total Income	<u>168,500</u>	<u>175,338</u>
Surplus/(loss) on provision of services	<u>(6,963)</u>	<u>7,655</u>

Glossary

Accounting period

The period of time covered by the accounts, normally twelve months commencing on 1 April. The end of the accounting period i.e. 31 March is the balance sheet date.

Accounting policies

Within the range of possible methods of accounting, a statement of the actual methods chosen locally and used to prepare these accounts.

Accruals basis

The method of including amounts in accounts to cover income or expenditure attributable to an accounting period but for which payment has not been received or made by the end of the accounting period. This is based on the concept that income and expenditure are recognised as they are earned or incurred, not as money is received or paid.

Actuarial Gains and Losses

For a defined benefit pension scheme, the changes in actuarial deficits or surpluses that arise because:

- events have not coincided with the actuarial assumptions made for the last valuation
- experience gains or losses, or;
- the actuarial assumptions have changed.

Amortisation

Reducing the value of a balance in an accounting period. The reduction in value is transferred from the balance sheet to the Comprehensive Income and Expenditure Statement.

Annual Governance Statement

An annual statement setting out the ways in which it ensures that Nexus' 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.

Appropriations

Transferring of an amount between specific reserves in the Comprehensive Income and Expenditure Statement.

Asset

Something of value, measurable in monetary terms.

Assets under Construction

Assets which are under construction, but not considered to be in an operational condition at the Balance Sheet date.

Audit and Accounts Regulations 2015

The Statutory Instrument setting out the requirements for the audit of accounts of Local Authorities.

Audit Committee

A committee comprising non-executive directors meeting regularly to receive reports for internal and external audit.

Bad (and doubtful) debts

Glossary

Debts which may be uneconomic to collect or unenforceable in law.

Glossary

Balances

Reserves, both revenue and capital, which represent the accumulated surplus of income over expenditure on any of the funds.

Balance Sheet

A statement of the recorded assets, liabilities and other balances at the end of an accounting period.

Budget

A statement of the Nexus expected level of service expressed as an amount of spending over a set period, usually one year.

Capital expenditure

Expenditure on the acquisition or enhancement of non-current assets.

Capital Grants Receipts in Advance

Capital grants received in advance of the expenditure to which they relate.

Capitalised

Transferred from revenue to capital.

Cash and cash equivalents

Cash in hand, cash overdrawn and short term investments which are readily convertible into known amounts of cash.

Cash flow

Movement in money received and paid by Nexus in the accounting period.

Code (The)

CIPFA/LASAAC Code of Practice on Local Authority Accounting.

CIPFA

The Chartered Institute of Public Finance and Accountancy.

CIPFA/LASAAC Code of Practice on Local Authority Accounting (The Code)

The code of practice applicable to preparing the accounts.

Component

A significant part of an asset (such as a roof or major item of plant or equipment), which has to be separately identified for the purposes of accounting and asset management.

Comprehensive Income & Expenditure Statement

The account, that sets out Nexus' income and expenditure for the year for non-capital spending.

Glossary

Concessionary Travel

The provision of free or discounted travel on local bus services under the provisions of the Transport Act 2000 and the Concessionary Bus Travel Act 2007. The mandatory travel concession guarantees free off-peak local bus travel to eligible older and disabled people anywhere in England. Nexus reimburses bus operators for 'revenue forgone' for any passenger boarding in Tyne and Wear.

In addition to the mandatory bus concession, Nexus is also able to offer discretionary concessionary travel schemes, using powers provided in the Transport Act 1985.

Consistency

The concept that the accounting treatment of like items within an accounting period and from one period to the next should be the same.

Consolidated

Added together with adjustments to avoid double counting of income, expenditure or to avoid exaggeration as a result of trading between Nexus and its subsidiary which is reported on as a whole in the section on consolidated financial accounts.

Consumer Price Index (CPI)

The index has been designed as a macro-economic measure of consumer price inflation. The official measure is calculated each month by taking a sample of goods and services that a typical household might buy including food, heating, household goods and travel costs.

Contingent liabilities

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

Contingencies

Sums set aside as a provision for liabilities which may arise in the future but which cannot be determined in advance.

Corporate & Democratic Core

All activities that Nexus engages in specifically because of its status as authority public body acting on behalf of the NECA.

Corporate management

Those activities and costs which provide the framework for services to be undertaken and information required for public accountability.

Creditors

Amounts owed by Nexus for work done, goods received or services rendered to Nexus during the accounting period, but for which payment has not been made by the Balance Sheet date.

Current assets

Assets which will be consumed or cease to have value within the next accounting period, e.g. stock and debtors.

Glossary

Current liabilities

Amounts that Nexus owes to other bodies and are due for payment within 12 months.

Current Service Cost (Pensions)

The increase in the present value of a defined benefit scheme's liabilities expected to rise from employee service in the current period.

Curtailment

An event in a defined benefit pension scheme 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 being termination of employees service through redundancy or amendment of the terms affecting future benefits.

Debtors

Amounts due to Nexus relating to the accounting period which have not been received by the Balance Sheet date.

Deferred Liabilities

Liabilities which are payable beyond the next year at some point in the future or paid off by an annual sum over a period of time.

Deferred Taxation

An accounting concept meaning a future tax liability or asset, resulting from temporary differences or timing differences between the accounting value of assets and liabilities and their value for tax purposes.

Depreciation

The reduction in value of an asset due to age, wear and tear, deterioration or obsolescence.

Defined Benefit Scheme

A pension or other retirement benefit scheme into which an employer pays regular contributions fixed as an amount or a percentage of pay and will have no legal or constructive obligation to pay further contributions if the scheme does not have sufficient assets to pay all the employees benefits relating to employee service in the current or prior periods. A defined benefit scheme is a pension or retirement benefit scheme other than a defined contribution scheme.

Directors

Senior managers appointed by the NECA, to control the activities of Nexus, as described in the Explanatory Foreword.

Earmarked reserves

These reserves represent the monies set aside that can only be used for a specific usage or purpose.

Emoluments

All sums paid to or receivable by an employee and sums due by way of expenses or allowances (as far as those sums are chargeable to UK income tax) and the monetary value of any other benefits received other than in cash. Pension contributions payable by either employer or employee are excluded.

Exceptional items

Items that are material in terms of Nexus' overall expenditure.

Glossary

Expected Rate of Return on Pensions Assets

An actuarially calculated estimate of the return on the scheme's investment assets during the year.

Expenditure

Costs incurred by Nexus for goods received, services rendered or other value consumables during the accounting period, irrespective of whether or not any movement of cash has taken place.

Fair Value

The fair value of an asset is the price at which it would be exchanged in an arm's length transaction less, where applicable, any grants receivable towards the purchase or use of the assets.

Fair Value Hierarchy

The inputs used to measure fair value are categorised into different levels of the fair value hierarchy.

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

Ferry

The cross-Tyne passenger ferry operating between North and South Shields.

Finance Lease

A lease that transfers substantially all the risk and rewards of ownership of a fixed asset to the body leasing the asset.

Financial Asset

A right to future economic benefits controlled by Nexus that is represented by cash, an equity instrument of another entity, a contractual right to receive cash or another financial asset from another entity.

Financial Instruments

Contracts that give rise to a financial asset of one entity and a financial liability of another entity.

Financial Liability

An obligation to transfer economic benefits controlled by Nexus that is represented by a contractual obligation to deliver cash (or another financial asset) to another entity, or a contractual obligation to exchange financial assets/liabilities with another entity.

Government grants

Grants made by the Government towards either revenue or capital expenditure to support the cost of the provision of services. These grants may be specifically towards the cost of particular schemes or to support the general revenue spending of Nexus.

Glossary

Highways and Transport Services

Public Transport operations undertaken, or commissioned, by Nexus.

Historical cost

The actual cost of assets, goods or services, at the time of their acquisition.

Impairment

A reduction in the value of a fixed asset, measured by specific means, below its stated carrying amount in the Balance Sheet.

Income

Amounts which Nexus receives or expects to receive from any source.

Infrastructure Assets

Assets such as stations, rail tracks and bridges.

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.

Internal Audit

A permanent section within Nexus whose function is to ensure that Standing Orders are followed and that financial procedures are properly carried out.

International Accounting Standards (IAS)

International Accounting Standards issued by the International Accounting Standards Board, setting out how particular types of transactions and other events should be reflected in financial statements.

IAS 16

International Accounting Standard covering the accounting treatment of Property, Plant and Equipment.

IAS 19

International Accounting Standard covering the accounting treatment of Employee Benefits.

IAS 39

International Accounting Standard covering the accounting treatment of Financial Instruments.

IFRS

International Financial Reporting Standards.

Glossary

Inventories

Raw materials and consumable items which Nexus has procured to use on a continuing basis and have not been used by the end of the accounting period.

Investments

Assets comprising company shares, other securities and money deposited with financial institutions (other than bank current accounts).

Joint Transport Committee/Tyne and Wear Sub-Committee

The bodies responsible for discharging the transport responsibilities of the North East Combined Authority (NECA) and the North of Tyne Combined Authority (NTCA).

Leasing

A method of acquiring the use of an asset by paying a rental for a specified period of time, rather than purchasing it outright, comprising either Operating or Finance leases.

Liabilities

Amounts due to individuals or organisations, which will have to be paid at some time in the future.

Local Transport Plan

The Joint Transport Committee develops and approves a Local Transport Plan (LTP) which reflects the policy objectives of the NECA and the NTCA, and is prepared in accordance with detailed guidance from Government – “LTP3 – 3rd Local Transport Plan for Tyne and Wear Strategy 2011/2021”. The regional transport team is currently developing an integrated LTP covering the entire NECA/NTCA area.

Long Term Assets

Tangible assets which have value to Nexus for more than one year.

Materiality

The concept that any omission from or inaccuracy in the statements of account should not be large enough to affect the understanding of those statements by a reader.

Metro

The Tyne and Wear Metro passenger transport system.

North East Combined Authority (NECA)

The body responsible for overseeing the public transport system across Gateshead, South Tyneside, Sunderland and County Durham and for the promotion and development of the public transport network. The NECA comprises elected Councillors from the constituent local authorities who represent the NECA on the Joint Transport Committee and the Tyne and Wear Sub-committee.

North of Tyne Combined Authority (NTCA)

The body responsible for overseeing the public transport system across Newcastle, North Tyneside and Northumberland and for the promotion and development of the public transport network. The NTCA comprises elected Councillors from the constituent local authorities who represent the NTCA on the Joint Transport Committee and the Tyne and Wear Sub-committee..

Glossary

Net Book Value

The amount at which fixed assets are included in the balance sheet, i.e. their historical cost or current value less the cumulative amounts provided by depreciation.

Net Realisable Value

The open market value of the asset in its existing use (or open market value in the case of investment Property), less the expenses to be incurred in realising the asset.

Non-Current Asset

Assets which have value to Nexus for more than one year.

Operating Lease

A type of lease where the ownership of the asset remains with the lessor and rental payments are recorded against services in the Comprehensive Income and Expenditure Statement.

Post Balance Sheet Events

Events, both favourable and unfavourable, that occur between the Balance Sheet date and the date when the Statement of Accounts are authorised for issue.

Provisions

Amounts set aside in the accounts for liabilities or losses which are certain or very likely to occur but where there is uncertainty as to the amounts involved or the dates on which they will arise.

Public Sector Audit Appointments Limited

An independent company limited by guarantee incorporated by the Local Government Association in August 2014. The company is responsible, inter alia, for appointing auditors to local government bodies and for setting audit fees, responsibilities discharged by the Audit Commission prior to 1 April 2015.

Related Party

A party that, directly or indirectly, controls, is controlled by, or is under common control with, Nexus.

Remuneration

Defined as sums paid to or receivable by an employee and sums due by way of expenses allowances (as far as those sums are chargeable to UK income tax) and the money value of any other benefits received other than in cash. Pension contributions payable by the employer are excluded.

Replacement Cost

Cost of replacement of the asset at the balance sheet date.

Reserves

Amounts set aside in the accounts to meet expenditure which Nexus may decide to incur in a future period, but not allocated to specific liabilities which are certain or very likely to occur.

Reserves are analysed into 'usable reserves' (those that can be applied to fund expenditure) and 'unusable reserves' (those that hold unrealised gains and losses, where amounts would only become available to fund expenditure if the assets are sold), and those that hold timing differences (for example the Capital Grant Deferred Account).

Glossary

Retail Price Index (RPI)

Measurement of the monthly change in the average level of prices at the retail level weighted by the average expenditure pattern of the average person.

Revaluation Reserve

Records unrealised revaluation gains arising from holding property, plant & equipment. This reserve is matched by fixed assets within the Balance Sheet; therefore they are not resources available to Nexus.

Revenue Contributions

Method of financing capital expenditure directly from revenue.

Revenue Support Grant

A Grant paid to the Nexus by the NECA/NTCA which is levied on the Local Authorities in Tyne and Wear to help to finance its general expenditure, as opposed to specific grants.

Standing Orders

The formal rules made to govern and regulate the conduct of Nexus' procedures and business.

Strain on the Fund

An early payment of retirement benefits for members aged 55 or over and under 60 generates a 'Strain on the Fund' cost, resulting in Nexus reimbursing the Tyne & Wear Pension Fund for the loss of employer and employee contributions and investment income which results from the employee retiring early.

Subsidiary Company

A company that is controlled by another company, which owns over 50% of the issued share capital.

Tangible assets

Physical assets owned by Nexus, which can be seen or touched e.g. buildings and equipment.

UK GAAP

Generally Accepted Accounting Practice in the UK.

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“Nexus” is the trading name of the Tyne & Wear Passenger Transport Executive

The Tyne and Wear Passenger Transport Executive is a Body Corporate with perpetual succession under Statute (Transport Act 1968)