

Audit and Standards Committee

Tuesday 17 November 2020 at 10.00 am

The meeting will be held virtually and live streamed. The meeting can be viewed using the link below:

<https://youtu.be/euJP1MNeuk>

AGENDA

Page No

1. **Welcome and Apologies**

2. **Declarations of Interest**

Please remember to declare any personal interest where appropriate both verbally and by recording it on the relevant form (to be handed to the Democratic Services Officer). Please also remember to leave the meeting where any personal interest requires this.

3. **Agreement of the Minutes of the Meeting held on 28 July 2020** **1 - 8**

4. **Internal Audit - Quarterly Update** **9 - 16**

5. **Strategic Risk and Opportunities Register**

Members are requested to note the intention to circulate the above report on a supplemental agenda in accordance with the provisions of the Local Government (Access to Information) Act 1985

6. **Statement of Accounts**

(a) **Audit Completion Statement**

Members are requested to note the intention to circulate the above report on a supplemental agenda in accordance with the provisions of the Local Government (Access to Information) Act 1985

- | | | |
|-----|---|-----------------|
| (b) | Annual Governance Statement | 17 - 30 |
| (c) | 2019/20 Narrative Report and Statement of Accounts | 31 - 164 |

7. **Standards**

A verbal update may be provided at the meeting

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

19 January 2020 at 10.00am

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Audit and Standards Committee

28 July 2020

(10.00 - 11.05 am)

The meeting was held remotely and live streamed to YouTube

Draft Minutes

Present:

Chair: Mr Doug Ross

Councillors: A Chisholm, C Ferguson, C Penny-Evans, D Cox, R Glindon, M Rankin, Dickinson, M Swinburn and C Seymour

52 WELCOME AND APOLOGIES

The Chair welcomed everyone to the virtual meeting. All those present were aware that the meeting is recorded.

Apologies were received from Cllr J Watson and E Richards.

53 DECLARATIONS OF INTEREST

None

54 AGREEMENT OF THE MINUTES OF THE MEETING HELD ON 21 JANUARY 2020

The minutes of the meeting held on 21 January 2020 were agreed as a correct record (subject to a minor grammatical error) and confirmed by the Chair via email.

Matters arising - minute 46 Self-Assessment refers: Committee noted the revised timetable for the Self-Assessment.

55 INTERNAL AUDIT

Submitted: Report of the Acting Chief Internal Auditor (previously circulated and a copy attached to the Official Minutes).

Consideration was given to the annual report the purpose of which was to outline Internal Audit's 2019/20 Opinion on the Adequacy and Effectiveness of the Framework of Governance, Risk Management and Control. The report provided the opinion for 2019/20 demonstrating that the framework is satisfactory. This is a positive assessment of the control environment of the organisation.

Attention was drawn to paragraphs 3.5 and 3.7 of the report. Paragraph 3.5 confirmed that the framework of governance, risk management and control is satisfactory overall, at this stage in the authority's development, and given the range of responsibilities it is required to discharge. Paragraph 3.7 refers to the Coronavirus Pandemic. The full impact of the pandemic is still evolving, and all local government bodies are in the process of evaluating the changes to their risk profile and operations.

RESOLVED that - The Audit and Standards Committee considered and noted the Chief Internal Auditor's 2019/20 Opinion on the Adequacy and Effectiveness of the Framework of Governance, Risk Management and Control, attached as Appendix 1 of the report.

Internal Audit Quarterly Update Report

Submitted: Report of the Acting Chief Internal Auditor (previously circulated and a copy attached to the Official Minutes).

Members considered the report which provided Audit & Standards Committee with an update on progress against the 2019/20 Internal Audit Plan and relevant outcomes from work undertaken.

It was noted that the report is a final update and, the recommendations contained within the Financial Regulations Diagnostic Toolkit report, previously presented to Committee have mainly been fully implemented.

Further work was undertaken on the Assurance Framework and the Investment Fund to assess the adequacy and effectiveness of governance arrangements. Referring to the Adult Education Budget (AEB), the Acting Chief Internal Auditor advised that work has been diverted to support the Combined Authority in a project assurance role. The review was not part of the original Internal Audit Plan submitted in April 2019, however, as this is an essential part of the work being delivered by the Combined Authority it was appropriate for Internal Audit time to be diverted to support this area of work. A summary of audits previously approved by Committee was provided on page 23 of the report.

Questions/Comments from Members included:

- A member referred to outstanding actions in relation to the two remaining high priority recommendations. The first referred to updating Contract Standing Orders (contracting rules), and the second related to Financial Regulations and Financial Procedures Notes. A question was asked as to whether they had been presented to Cabinet in July. In response the Chief Finance Officer advised that the papers will be presented to a meeting of the Cabinet following today's meeting of Audit and Standards Committee.

- A question was asked in relation to the AEB (page 21 of the report) and the ten providers who are currently grant funded by the Education and Skills Funding Agency, and how the Combined Authority will a) measure the effects and delivery of benefits and b) if reports will be presented to future meetings of the Committee, demonstrating positive improvements as a result of the investments. In responding the Chief Finance Officer advised that work is in progress. She referred to a report presented to a meeting of the Overview and Scrutiny Committee with regards to how performance measures will be monitored, and to ensure that progression of the AEB is in line with the ambitions of the combined Authority.

Further information was provided by T Candlish, Internal Audit, who is supporting the project team looking at how to evidence the outcomes and develop performance management.

RESOLVED – that the Internal Audit report be noted.

Strategic Audit Plan

Submitted: Report of the Acting Chief Internal Auditor (previously circulated and a copy attached to the Official Minutes).

Consideration was given to the report the purpose of which was to outline the proposed Strategic Audit Plan for 2020/21 for consideration and endorsement by the Audit and Standards Committee. A copy of the plan is attached at Appendix A of the report.

It was noted that due to the Coronavirus Pandemic the risk profile of the Combined Authority was constantly changing; any changes will be reported back to the Committee. The Acting Chief Internal Auditor drew attention to the risk regarding 'Arrangements for ensuring and evidencing delivery of the Devolution Deal' a key risk which also include risks associated with the AEB.

Questions/Comments from Members included:

- Referring to the Devolution Deal a Member commented on the impact of the Pandemic and the way people work and whether the Audit plan is still deliverable. The Acting Chief Internal Auditor explained that a view will be taken, also, the Devolution Deal is included on the Strategic Risk Register, also included on the agenda. He confirmed that the Pandemic will impact on the delivery of programmes but will be monitored throughout the year.

RESOLVED – that the Audit and Standards Committee considered and endorsed the proposed Strategic Audit Plan 2020/21, attached as **Appendix A**, which is based on an assessment of audit risk and designed to focus on the North of Tyne Combined Authority's key objectives in the 2020/21 year.

Proposed Audit and Standards Committee Work Programme 2020/21

Submitted: Report of the Acting Chief Internal Auditor and the Interim Monitoring Officer (previously circulated and a copy attached to the Official Minutes).

The report set out a proposed programme of core business to be considered by the Audit and Standards Committee during the 2020/21 Municipal Year, in line with its Terms of Reference as set out in the Combined Authority's Constitution.

Members noted that the proposed Self-Assessment will now be undertaken in April 2021. The Chair suggested that following the self-assessment a report is presented to Cabinet on the work of the Committee and how it has discharged its duties.

RESOLVED that the Audit and Standards Committee –

- 1) Agreed the proposed core business work programme set out within the report for the 2020/21 Municipal Year.
- 2) Noted that the core business work programme set out within the report has been prepared in light of the Covid-19 pandemic.
- 3) Noted that it may be necessary to change or adapt the proposed reports to be considered, to ensure optimum timing of consideration of governance issues and to respond to emerging trends during the year.
- 4) Noted that the Committee will receive additional reports on any ad-hoc items of business arising during the year, as these relate to its responsibilities under its Terms of Reference.
- 5) Considered what initial support and/or training members of the Committee may require.

56 **STRATEGIC RISK AND OPPORTUNITIES REGISTER**

Submitted: Report of the Risk Advisor to the North of Tyne Combined Authority (NTCA).

The purpose of the report was to provide assurance to Audit and Standards Committee that the most significant risks and opportunities have been identified, are being monitored and measures are being taken to address them.

It was noted that the strategic risk register has been reviewed and updated to reflect the current and emerging situation as the Authority responds to the impact of the Covid-19 pandemic. This has resulted in the risk assessment for the Devolution risk increasing from Amber to Red. However, it was further noted that initial outcomes are positive, and it was anticipated that the risks would be downgraded to Amber.

Attention was drawn to a new opportunity which will monitor the developing partnership arrangements between NTCA and the North East LEP. . There is greater opportunity to maximise partnership arrangements, working together to coordinate and manage resources, embed effective governance arrangements and collectively respond to future opportunities and challenges.

Comment/ Questions from Members included:

- In responding to a question as to why the risks are improving and moving back to amber the Risk Advisor explained that discussions and meetings

have been held to discuss programmes and the points from these meetings are positive; there no indications that there will be any great impact on devolution.

- A member referred to the previous question and queried whether there were opportunities for devolution due to the Covid pandemic, with regards to funding for those areas who require additional assistance. The risk advisor agreed to discuss with the risk owners.
- A Member questioned why the Delivery of Devolution is presented as a single risk when there are various elements within it and why the risk owners have presented the risk arising from Covid within the Devolution risk only and not included it across other areas of the Combined Authority. In response the Risk Advisor clarified the position explaining that the Devolution risk was included on the register when the Combined Authority came into existence; at that time the Adult Education budget had not been devolved. However, if risks move at a different pace then it would be justified to separate them. With regards as to why Covid is only included in the Devolution risk, members were advised this is seen as a key challenge and could impact on the capacity of the Combined Authority to deliver Devolution and its objectives.
- The Risk Advisor and his team were thanked for the level of information provided including data in relation to the North East Local Enterprise Partnership and Covid.

RESOLVED that the Audit and Standards Committee –

- 1) Reviewed and where necessary challenged the outcomes of the strategic risk review.
- 2). Acknowledged the Devolution risk priority has increased from Amber to Red as a result of the uncertainties surrounding the outbreak of Covid-19.
- 3). Acknowledged the new opportunity which will monitor the developing arrangements between NTCA and the North East LEP.

57 **DRAFT STATEMENT OF ACCOUNTS**

Submitted: Report of the Chief Finance Officer (previously circulated and a copy attached to the Official Minutes)

Members considered the report the purpose of which was to present Committee with the draft Statement of Accounts for the year ended 31 March 2020.

It was noted that the accounts, as yet unpublished, were complex in that they included the Combined Authority's share of the Joint Transport Committee's expenditure, assets and liabilities and a group account in respect of Nexus. Performance management across the year is set out in Appendix B of the report.

Comment/ Questions from Members included:

A Member raised several questions regarding the accounts listed as follows:

- Services Transferred from NECA Transport – Tyne & Wear. Clarification was sought of the sums involved. K Laing advised that further discussion was required, and feedback will be provided to members.
- Expenditure ‘Other service expenses’ - 2019/20 – £72.870m. The Chief Finance Officer was requested to indicate where the breakdown details are for the ‘other expenses’ within the accounts. K Laing explained that this related to payments made to NECA and following the meeting a complete breakdown will be provided. The Chief Finance Officer further advised that another line can be added to the accounts but cautioned that there is a fine balance between transparency and the Code.
- Officers Remuneration. This presently shows the Elected Mayor within the same area as salaried Combined Authority Senior Officers. In response the Chief Finance Officer agreed that the position of Elected Mayor should be removed. In respect of the Managing Director of Transport Arrangements Committee were advised that this is a full percentage of the salary costs. Further feedback will be provided to members.
- Credit Risk. n/a - Investments with unrated building societies £1.797m. K Laing advised that this related to NECA and further clarification will be provided following the meeting to members.
- Short Term Debtors. The Chief Finance Officer was requested to list names of those under each of the sub-headings for transparency. K Laing advised that an explanation will be provided to members following the meeting.
- Capital Expenditure and Capital Financing. Property, Plant and Equipment - 2019 - £.5m/2020 £4.918m. Due to the size of the increase in this area, further information as to what this relates to was requested. K Laing advised that further information will be provided to members following the meeting.
- Reference was made to the Investment Fund Thematic Area and the allocation for Technical Support. The Chief Finance Officer was asked if the allocation was over budgeted. In response the Chief finance Officer explained that 2019/20 was the first full year of the Combined Authority’s existence.
- A request was made to change the sentence on page 175 (NTCA Order and Constitution) which currently reads as ‘Decisions by the Elected Mayor will be subject to scrutiny by the Overview and Scrutiny Committee and Cabinet’ This should read as ‘The Elected Mayor and Cabinet will be subject to Scrutiny’ It was agreed to amend the wording.
- A member referred to the current Coronavirus and asked the Chief Finance Officer what provisions have been made to allow the public to view the accounts. Committee were advised that the accounts will be published on the North of Tyne website and if anyone does request a paper copy provision will be made for a safe, socially distanced meeting.

RESOLVED – that the Audit and Standards Committee considered the draft Statement of Accounts 2019/20 and acknowledged minor changes since production

of the report. In addition, further information will be provided regarding the above bullet points.

58 **ANNUAL GOVERNANCE STATEMENT**

Submitted: Report of the Risk Advisor to North of Tyne Combined Authority (NTCA) (previously circulated and a copy attached to the Official Minutes).

Consideration was given to the report which provided details of the outcome of the annual review of the Authority's governance and internal control arrangements.

It was noted that the report did not identify any significant weaknesses and the draft report will be finalised following completion of the accounts. The outcome of the review and any learning from the Authority's response to the Coronavirus pandemic will be reflected in an updated Annual Governance Statement, before it is considered as part of the audit of the Council's financial statements.

RESOLVED that the Audit and Standards Committee -

- 1) Approved the attached draft 2019/20 Annual Governance Statement, recognising that it has been prepared during arrangements put in place to respond to the Coronavirus.
- 2) Acknowledged that the Statement will be revisited and updated as necessary to reflect the adequacy of the governance and internal control arrangements put in place during this period.

59 **STANDARDS**

The Interim Monitoring Officer provided a verbal update in respect of the Local Government Association (LGA) Model Member Code of Conduct presently out for consultation. Whilst this is for information only, Members will at some point need to decide if they wish to adopt the new code.

60 **EXTERNAL AUDITORS - AUDIT STRATEGY MEMORANDUM**

Submitted: Report of Mazars (External Auditors), (previously circulated and a copy attached to the Official Minutes).

C Waddell presented the Audit Strategy Memorandum for the Combined Authority and the Group for the year ending 31 March 2020.

The document summarised the audit approach, highlight significant audit risks and areas of key judgements and provided the details of the audit team, as it is a fundamental requirement that an auditor is, and is seen to be, independent of its clients.

During the presentation several key points were highlighted including:

The scope of the audit remains the same.

Mazars have not received any correspondence from electors.

Assurance is required from the Tyne and Wear Pension Fund; this will be provided before the next meeting.

Identified risks relevant to the audit of financial statements as detailed in section 4 of the report, in particular Revenue Recognition with regards to Tyne Tunnel tolls and grant income.

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

RESOLVED – that the Audit and Standards Committee considered and approved the report for presentation to Cabinet.

61 **DATE AND TIME OF NEXT MEETING**

22 September 2020 at 10.00am

Audit and Standards Committee

17 November 2020

Subject: Internal Audit Quarterly Update Report

Report of: Kevin McDonald, Acting Chief Internal Auditor

Report Summary

A quarterly update from Internal Audit is included within the Work Programme for the Audit & Standards Committee at each scheduled meeting during the year. This report provides Audit & Standards Committee with an update on progress against the 2020/21 Internal Audit Plan, agreed by the Audit and Standards Committee at its last meeting on 28 July 2020.

Recommendations

The Audit and Standards Committee is recommended to consider and note Internal Audit's report.

1. Background Information, Proposals and Timetable for Implementation

Completed work since the 28 July 2020 Audit and Standards Committee

National Fraud Initiative

- 1.1 The National Fraud Initiative (NFI) is the Cabinet Office's data matching exercise to prevent and detect fraud. Data matching involves comparing sets of data, such as the payroll or creditor records of an organisation, against other records held by the same or other organisations. Approximately 1,200 organisations from the public and private sectors participate in the NFI.
- 1.2 Where a match is found it may indicate that there is an inconsistency that requires further investigation. All bodies participating in the NFI receive reports of matches that they should investigate, so as to detect instances of fraud, over or under-payments, and other errors.
- 1.3 In October Internal Audit was advised that the Combined Authority was required to participate in the Cabinet Office's 2020/21 NFI data matching exercise. Internal Audit has co-ordinated this work, including preparation of data submissions and privacy notice compliance for the Combined Authority and the North East Local Enterprise Partnership (the LEP). The Combined Authority and the LEP's data, covering Payroll and Trade Creditors, was uploaded to the NFI web application by Internal Audit in accordance with the submission timetable. Results from this exercise will be available in January 2021 for investigation.

Devolved Adult Education Budget – Programme Assurance work

- 1.4 As has previously been reported to Audit and Standards Committee Internal Audit is continuing to support the Combined Authority in a project assurance role whilst the organisation develops its governance arrangements around the implementation and ongoing

management of the AEB. This role involves Internal Audit advising on, and challenging, the approach to internal control and methods of service delivery. By undertaking this role, the Internal Audit Service proactively acts as a partner to the Combined Authority, in order to assist the organisation achieve its objectives.

- 1.5 The Director of Economic Growth and the Head of Inclusive Growth are responsible for managing the implementation of the AEB within the Combined Authority. The AEB Operational Steering Group meets weekly to monitor and assess progress. The group is chaired by the Head of Inclusive Growth and is attended by key staff from the Inclusive Growth Team as well as support services such as Legal, Finance, Procurement, Marketing and Communications. Internal Audit attends the Steering Group in its project assurance role as described above.
- 1.6 There is a detailed project plan and risk register in place and the impact of Covid-19 is being closely monitored. Risks relating to the Covid-19 pandemic have been included on the project risk register covering the potential impact on provision and controls and mitigating actions identified. At a corporate level the AEB risks are reviewed and where necessary included within the strategic risks. The strategic risk 'Delivery of Devolution' includes the potential impact of the Covid-19 pandemic upon delivery of the devolved AEB and steps being taken to mitigate the risk.
- 1.7 In July 2020, the Department for Education confirmed an additional £959,064 would be devolved to the Combined Authority for the academic year 2020/21 to fund the Sector-based Work Academy programmes and High Value courses announced by the Chancellor to support young people into work and in response to the Covid-19 crisis. The Combined Authority have taken immediate steps to support the area's recovery through the allocation of additional funding.

Update on Other Work

- 1.8 The Internal Audit Plan approved by Audit and Standards Committee on 28 July 2020 set out a number of other assignments, in addition to those set out above. A summary of each of these audits is provided below.

Previously Completed and Reported Work

Area for Review	Description of Assignment and Current Status
Annual Opinion Report 2019/20	This report was presented to the Audit and Standards Committee on 28 July 2020. The opinion of the Chief Internal Auditor was that the framework of governance, risk management and control for 2019/20 was satisfactory overall, at that stage in the authority's development and given the range of responsibilities it is required to discharge.

Area for Review	Description of Assignment and Current Status
<p>Follow-up of Recommendations from the 2019/20 financial diagnostic toolkit work and Investment Fund audits</p>	<p>Evidence checking was undertaken of the implementation of all five high priority recommendations from the financial diagnostic tool and a sample of the 26 medium priority recommendations. The results of this work were reported to the 28 July Audit and Standards Committee. Three of the five high priority recommendations had been implemented and work was underway regarding the remaining two, relating to updating Financial Regulations and Contract Standing Orders. Internal Audit have confirmed that updates to these key financial governance documents were approved by Cabinet on 28 July 2020.</p> <p>Internal Audit will undertake further follow up work as the year progresses and report on progress to management and the Audit and Standards Committee.</p>

Work in Progress or Work Scheduled to Commence in the Current Quarter

Area for Review	Description of Assignment and Current Status
<p>Policy Framework – Governance and decision making</p>	<p>To review the suite of governance policies established by the Combined Authority, and to form an opinion on whether expected governance areas are reflected in the suite of policies, and the adequacy of arrangements for ensuring staff awareness and compliance. This audit is progressing well and is scheduled to be reported to the January 2021 meeting of the Audit and Standards Committee.</p>
<p>Risk Management</p>	<p>To review risk management arrangements and assess the extent to which appropriate risk assessment and identification systems are in place and operating effectively.</p> <p>An Internal Audit Project Brief has been issued in relation to this piece of work and it is expected that the work will be complete prior to the January 2021 meeting of the Audit and Standards Committee.</p>
<p>Information Systems and Technology</p>	<p>To undertake a programme of systematic reviews covering key risks associated with computerised deliver. Initial discussions have taken place between Internal Audit and Combined Authority staff and it was agreed to undertake the following two audits during 2020/21:</p> <ul style="list-style-type: none"> • Mapping of ICT arrangements in place and evaluation as to whether these are suitably robust. A draft Internal Audit Project Brief for this work has been prepared and

Area for Review	Description of Assignment and Current Status
	<p>discussions regarding the detailed scope of the audit are underway.</p> <ul style="list-style-type: none"> • Review of IT system controls in place within the OPS Project and Grant Management System. The system is still in development, and due to be in use from January 2021. We will offer advice and guidance on system controls during the development stage should this be requested and look to provide early assurance once the system is operational.

Work Scheduled for Quarter 4

Area for Review	Description of Assignment and Current Status
<p>Arrangements for ensuring and evidencing delivery of the Devolution Deal</p>	<p>This audit will evaluate the effectiveness of the arrangements established to ensure that the effective delivery of the Combined Authority's key outcomes and outputs, as enshrined in the Devolution Deal, can be clearly evidenced.</p> <p>Discussions with the Director of Policy and Performance have been held to establish the optimum timing for this audit. This audit is scheduled to take place in January 2021.</p>
<p>Monitoring of grant conditions (in respect of grant funding both received by NTCA and issued by NTCA)</p>	<p>This audit will examine and evaluate the arrangements established by NTCA to monitor grant conditions as a grant funding recipient and ensure that specified outcomes are delivered; and also to assess arrangements within NTCA as a grant funder to set appropriate grant conditions when issuing funding to other organisations and monitor and evidence compliance with those grant conditions.</p> <p>Discussions with the Director of Policy and Performance suggest that this audit would take place following completion of the Devolution Deal audit.</p>
<p>Governance Arrangements in relation to the North East Local Enterprise Partnership (NELEP)</p>	<p>This audit will review the financial management, decision-making and reporting arrangements established between the Combined Authority and NELEP to ensure these adequately serve the Combined Authority's role as accountable body for the NELEP.</p> <p>Discussions with the Director of Policy and Performance suggest that that this audit would take place following completion of the Devolution Deal and Monitoring of Grant Conditions Audits.</p>

2. Potential Impact on Objectives

- 2.1 The North of Tyne Combined Authority Vision document sets out the strategic objectives of the Authority, detailing the key priorities and the first steps in the journey around the six key pillars. The work of Internal Audit and Audit and Standards Committee contributes to the overall achievement of the Authority's objectives, vision, policies and priorities.

3. Key Risks

- 3.1 The Internal Audit coverage is based on an assessment of audit risk, both that inherent in organisational service delivery and also those risks and opportunities associated with the North of Tyne Combined Authority's main aims. As such, Internal Audit is a key strand in the governance arrangements of the North of Tyne Combined Authority and an integral tool in managing risk.

4. Financial and Other Resources Implications

- 4.1 There are no direct financial or other resource implications arising from the recommendations set out in this report. Through its review of a range of audit, accounting and governance related items, the Audit and Standards Committee assesses the Authority's use of financial resources and value for money.

5. Legal Implications

- 5.1 The Accounts and Audit Regulations 2015 are a statutory instrument and require the Authority to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.
- 5.2 The Public Sector Internal Audit Standards and related Local Government Application Note establish the professional standards Internal Audit must apply when planning the use of its resources. This report and the Internal Audit Strategic Plan 2020/21 have been prepared in accordance with both the Accounts and Audit Regulations 2015 and the Public Sector Internal Audit Standards.

6. Equalities and Implications

- 6.1 There are no direct equalities implications arising out of the recommendations in this report. The Audit and Standards Committee is mindful of its duty under the Public Sector Equality Duty and will always consider whether what is before them eliminates discrimination, harassment and victimisation; advances equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it; and fosters good relations between persons who share a relevant protected characteristic and persons who do not share it. The Committee also considers the implications for people from different socio-economic backgrounds/low pay as a protected characteristic.

7. Inclusive Economy Implications

- 7.1 There are no direct inclusive economy implications arising out of the recommendations in this report. The Audit and Standards Committee is mindful of the NTCA's inclusive economy ambitions and the five characteristics of an inclusive economy: participation; equity; growth; stability and sustainability

8. Climate Change Implications

- 8.1 There are no direct climate change implications arising out of the recommendations in this report. The Audit and Standards Committee is mindful that the NTCA and the three constituent Local Authorities have declared a Climate Emergency.

9. Consultation and Engagement

- 9.1 Interim Chief Executive, Chief Finance Officer, Director of Policy and Performance, and Director of Economic Growth were consulted in preparation of Internal Audit's 2020/21 coverage.

10. Appendices

None

11. Background Papers

[Internal Audit Strategic Audit Plan 2020/21](#)

12. Contact Officers

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Tony Candlish, Senior Auditor
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13. Glossary

Abbreviation	Description
NFI	National Fraud Initiative - The Cabinet Office's data matching exercise
the LEP	North East Local Enterprise Partnership
AEB	Refers to the devolved Adult Education Budget

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Subject: 2019/20 Annual Governance Statement

Report of: Risk Advisor to North of Tyne Combined Authority

Portfolio: All Portfolios

Report Summary

The purpose of this report is to present the Authority's 2019/20 Annual Governance Statement to Cabinet for approval.

The 2019/20 Annual Governance Statement is provided at Appendix A.

Recommendations

Cabinet is recommended to approve the Annual Governance Statement for inclusion in the Authority's 2019/20 annual accounts and recommend it for signature by the Mayor and Interim Head of Paid Service.

1. Background Information, Proposals and Timetable for Implementation

- 1.1 The Combined Authority has a statutory duty under the Accounts and Audit Regulations 2015 to do the following on an annual basis:
- Conduct a review of the effectiveness of its governance framework, including the system of internal control;
 - Prepare an Annual Governance Statement; and
 - Through a relevant committee review and approve the Annual Governance Statement
- 1.2 The Chartered Institute of Public Finance and Accountancy (CIPFAs) publication "Delivering Good Governance in Local Government" (2016 Edition), sets a framework, and the standard, for local authority governance in the UK. The Framework sets out a set of principles which we test our governance arrangements against:
- Ensuring openness and comprehensive stakeholder engagement
 - Developing the entity's capacity, including the capability of its leadership and the individuals within it
 - Behaving with integrity, demonstrating strong commitment to ethical values and respecting the rule of law
 - Determining the interventions necessary to optimise the achievement of the intended outcomes
 - Managing risks and performance through robust internal control and strong public financial management
 - Defining outcomes in terms of sustainable economic social and environmental benefits
 - Implementing good practices to transparency, reporting and audit to deliver effective accountability
- 1.3 The NTCA 2019/20 Annual Governance Statement fully complies with the CIPFA Framework and provides detailed evidence against each of the above principles to show how the Authority has adhered to its governance commitments as set out in the Constitution. The Statement includes hyperlinks to sources of further information detailed on the North of Tyne website, (for example the Authority's vision and its six pillars of ambition, our Freedom of Information Scheme and the Adult

Education Strategic Skills Plan), demonstrating how the Authority has implemented its commitments and complies with governance standards and principles.

1.4 The 2019/20 Annual Governance Statement has been prepared as the Authority responds to the Coronavirus outbreak. The impact of the Coronavirus outbreak on our governance and internal control environment continues to be closely monitored and as part of our next annual review we will consider any lessons learnt during the period of the pandemic to further improve our governance and internal control arrangements.

1.5 The Audit and Standards Committee will consider the 2019/20 Annual Governance Statement (Appendix A) at its meeting on 17 November 2020, recommending it for inclusion in the Authority's 2019/20 annual accounts and for signature by the Mayor and Interim Head of Paid Service.

2. Potential Impact on Objectives

2.1 No direct impact on objectives.

3. Key Risks

3.1 There are no specific risk implications directly arising from this report. Risk management has been considered as part of the production of the 2019/20 Annual Governance Statement.

4. Financial and Other Resources Implications

4.1 Production of the Annual Governance Statement has been carried out by Newcastle City Council's Risk Management Service under the Service Level Agreement for 2019/20.

5. Legal Implications

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

6. Equalities Implications

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

7. Inclusive Economy Implications

7.1 There are no direct inclusive economy implications arising from this report.

8. Climate Change Implications

8.1 There are no direct climate change implications arising from this report.

9. Consultation and Engagement

9.1 The Head of Paid Service, Monitoring Officer and Chief Finance Officer have been consulted on the 2019/20 Annual Governance Statement.

10. Appendices

Appendix A – 2019/20 Annual Governance Statement

11. Background Papers

None.

12. Contact Officers

Philip Slater – Chief Internal Auditor, Newcastle City Council (acting as Risk Advisor for NTCA)
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13. Glossary

None

ANNUAL GOVERNANCE STATEMENT 2019/20



Annual Governance Statement 2019/20

Section 1	Introduction
Section 2	Scope of Responsibility
Section 3	The Purpose of the Governance Framework
Section 4	The Governance Framework
Section 5	Annual Review of Effectiveness of Governance Framework
Section 6	North East Joint Transport Committee and North East Combined Authority
Section 7	Investment Fund Programme
Section 8	Significant Weaknesses in Governance and Internal Control
Section 9	Response to Coronavirus Pandemic
Section 10	Conclusion

Section 1: Introduction

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

This Statement has been prepared during the outbreak of the Coronavirus and will be revisited and updated to reflect changes in the assurance model and the adequacy of the governance and internal control arrangements put in place during this period, and to assess any impact upon the internal control environment.

Section 2: Scope Of Responsibility

NTCA was established on 2 November 2018 to give effect to a "minded to" devolution deal which was agreed between Newcastle, North Tyneside and Northumberland Councils, the North East Local Enterprise Partnership and Central Government. The devolution deal represents a significant shift of powers, funding and responsibility from central government to the local level. The deal enables the three councils to pursue through NTCA a shared ambition for an inclusive economy. NTCA does not replace the three constituent councils, nor does it take away any of their statutory powers.

Our vision is of a dynamic and more inclusive economy, one that brings together people and opportunities to create vibrant communities and a high quality of life, narrowing inequalities and ensure that all residents have a stake in our region's future.

We will work with the North East Combined Authority (NECA) on a number of areas to support the region, including transport. To oversee strategic transport functions a North East Joint Transport Committee has been established with members from both Combined Authorities.

All seven Local Authorities are members of the North East Local Enterprise Partnership (North East LEP) to support delivery of the objectives of the regions Strategic Economic Plan, which is the North East's plan for growing and developing a more productive, inclusive and sustainable regional economy.

On 1 April 2020 accountable body functions for the North East LEP were transferred to NTCA from NECA. As the accountable body or 'Host Authority' NTCA will support the North East LEP manage its resources with all funding decisions being held to account through the NTCA.

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

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

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

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

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

- a) identify and prioritise the risks to the achievement of our, aims and objectives; and
- b) evaluate the likelihood of those risks being realised, the impact should they be realised, and to manage them efficiently, effectively and economically.

The Combined Authority has developed a Risk Management Strategy and Strategic Risk Register which is reported regularly at meetings of the Authority's Audit and Standards Committee. This information can be found under the [Audit and Standards Committee on the Authority's web-site](#).

Section 3: Purpose Of The Governance Framework

Corporate governance is a phrase used to describe how organisations direct and control what they do. The Chartered Institute of Public Finance and Accountancy (CIPFAs) publication "Delivering Good Governance in Local Government" (2016 Edition), sets a framework, and the standard, for local authority governance in the UK. The Framework sets out a set of principles which we test our governance arrangements against to consider the extent to which the Authority complies with the principles of good governance as set out in the Framework. This is reported through the Annual Governance Statement. It also enables us to monitor the

achievement of the Authority's priorities and to consider whether those priorities have led to the delivery of appropriate services which represent value for money.

The Governance Framework has been in place for the year ended 31 March 2020 and up to the date of approval of the Authority's Annual Report and Accounts.

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

Section 4: The Governance Framework

The core principals and outcomes of our Governance Framework are set out below. This includes examples of how the Authority has adhered to its governance commitments set out in the Constitution and includes hyperlinks to sources of further information and through these we will aim to provide strong governance to achieve our objectives.

1. Ensuring openness and comprehensive stakeholder engagement

1.1 We are clear on delivering the objectives of the Combined Authority and intended outcomes of our [vision](#). Our six key pillars of ambition represent the most important groups, issues and goals that we will invest in to achieve a more prosperous and inclusive future.

1.2 The Elected Mayor chairs the Cabinet and Cabinet decisions will be subject to scrutiny by the Overview and Scrutiny Committee. The Elected Mayor has a number of specific powers and financial resources which Cabinet can make representations on and which can also be subject to scrutiny by the Overview and Scrutiny Committee.

1.3 Meetings, agendas and minutes are accessible via the [website](#). All meetings are held in public (other than where consideration of confidential or exempt information). However, during the ongoing and escalating situation regarding Coronavirus, Cabinet meetings and all other Committees were held virtually, in accordance with their usual timescales, and live streamed for the public to view.

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

1.5 Our [Freedom of Information Scheme](#) is published on our [website](#).

1.6 Transport is of strategic importance to the North East and together with the North East Combined Authority a [North East Joint Transport Committee](#) has been established bringing together members from across the seven local authorities, allowing effective decision making across the region to ensure that the local needs and transport priorities are delivered.

1.7 The appointment of a Mayoral Ambassador for the Voluntary, Community and Social Enterprise Sector (VCSE) and supporting [Accord](#), (Agenda item 4), which sets out a framework for a new relationship between NTCA and the VCSE to deliver our shared vision of an inclusive economy.

1.8 The NTCA [Adult Education Strategic Skills Plan](#) sets out our long-term priorities for a devolved Adult Education Budget (AEB), highlighting the Authority's strengths, opportunities and challenges across the region to ensure it supports our [Economic Vision](#).

1.9 We have set up a dedicated [Coronavirus webpage](#) which provides support for our businesses and communities, providing the latest government advice and available support.

1.10 We continue to use Facebook and Twitter as primary social media platforms to provide information on news and events for residents, businesses and visitors.

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

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

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

2.3 Values and behavior's workshops have been delivered to all staff, with staff appraisals undertaken with agreed targets and objectives linked to NTCA's work programme.

2.4 During the Coronavirus pandemic national updates and latest Government guidance for staff, including working from home arrangements, were communicated via the Authority's webpage.

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

3.1 Our Constitution defines our standing orders, standing financial instructions, and scheme of delegation. These clearly define how decisions are taken and the processes and controls required to manage risks. We will ensure compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful. The Monitoring Officer advises on compliance with our Constitution, ensuring that decision making is lawful, fair and ethical. Our financial management arrangements conform to the CIPFA Statement on the Role of the Chief Finance Officer and are the responsibility of the Chief Finance Officer.

3.2 Codes of conduct are set out in the Constitution, defining standards of behaviour for Members and Officers working on behalf of the Authority. Audit and Standards Committee will deal with issues of conduct and generally promote high standards among officers and members. The [Constitution](#) is available on the NTCA website.

3.3 We ensure that there are effective arrangements for "Whistle-blowing" and for receiving and investigating complaints from the public. Administration of the Authority's policies on anti-fraud and corruption is undertaken by Internal Audit. Whistleblowing policy and procedure is at Part 5.5 of our [Constitution](#)

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

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

3.6 Our [Freedom of Information Scheme](#) is published on our website

3.7 On 2 June 2020 the Authority agreed policies relating to: Data Protection and Confidentiality; Environmental; Equalities and Diversity; Modern Slavery; and Social Value

3.8 NTCA has measures to address breaches of its legal and regulatory powers. The Authority's Monitoring Officer has statutory reporting duties in respect of lawful decision and maladministration.

3.9 We review and update our standing orders, standing financial instructions, scheme of delegation and support procedure notes/manuals – these clearly define how decisions are taken and the processes and controls required to manage risks.

A revised scheme of officer delegations was approved by Cabinet on 29 September 2020. The proposed scheme identifies a number of officers as "designated officers" who can exercise the delegated functions allocated to them in the scheme. These designated officers are the Head of Paid Service, Chief Finance Officer, and Monitoring Officer, Director of Economic Growth and Director of Policy and Performance, as well as the Chief Executive of the North East LEP (whose delegation relates to North East LEP matters only).

3.10 Our financial management arrangements conform to the CIPFA Statement on the Role of the Chief Finance Officer. The Monitoring Officer is advised on compliance with our policy framework, ensuring that decision making is lawful and fair and ethical.

3.11 The Authority appoints Statutory Officers who have the skills, resources and support necessary to ensure statutory and regulatory requirements are complied with.

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

4.1 Our scrutiny arrangements enhance accountability and transparency of decision making. The Overview and Scrutiny Committee acts in accordance with the principles of decision making as set out in our [Constitution](#) (Part 1.2) and will call-in decisions where there is evidence which suggests that the decision was not taken in accordance with the principles.

4.2 A Cabinet Scrutiny Protocol (Agenda item 6) has been agreed which defines the relationship between Cabinet and Overview and Scrutiny Committee, providing a framework for disagreement and debate and a way to manage it when it happens.

Changes to the membership of Cabinet and Overview and Scrutiny Committee were approved by [Cabinet on 29 September 2020](#).

A [Scrutiny Annual Report](#) (Agenda item 7) was presented to Cabinet at its Annual Meeting in June 2020.

4.3 The Authority's procurement procedures are carried out in line with financial regulations set out in Part 4 of the Constitution.

4.4 The [Accounts](#) and [Transparency](#) pages of our website contains the most recent accounts of the Authority, including monthly spending reports.

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

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

5.2 A Data Protection Officer has been appointed and is responsible for overseeing the Authority's [Data Protection and Confidentiality Strategy](#) and its implementation to ensure compliance with the General Data Protection Regulations.

5.3 The Authority regularly reviews policies relating to records management, data quality, data protection and information security.

5.4 All staff must undertake data protection e-learning training annually. The programme of training and awareness for all staff and members continues during 2020/21.

5.5. The Audit and Standards Committee acts as principle advisory committee to NTCA, providing independent assurance on the adequacy of the risk management framework and internal control environment.

5.6 An assessment of the overall adequacy and effectiveness of the framework of governance, risk management and control is provided by the Authority's internal auditors. The Chief Internal Auditor will provide an annual opinion for 2019/20 to support this Annual Governance Statement.

5.7 A 2019/20 Strategic Audit Plan which was approved by Audit and Standards Committee, has been prepared to ensure Internal Audit resources are deployed in areas that will provide optimum benefit and value to the Authority. [Progress against the 2019/20 Audit Plan was reported to Audit and Standards Committee at its July 2020 meeting \(pages 17-25\).](#)

A copy of the [Strategic Audit Plan for 2020/21](#) can be found on pages 31-37 of the July 2020 Audit and Standards Committee agenda.

5.8 The control and financial management arrangements are reviewed by internal and external audit throughout the year. The outcomes for 2019/20 are noted in Section 5 of this Annual Governance Statement – Annual Review of Effectiveness of Governance Framework.

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

6.1 The North East LEP works with its partners, which includes NTCA and NECA, to deliver the [Strategic Economic Plan](#) (SEP). The SEP was updated and published in February 2019. The Plan reflects on recent changes to the global and national economy as well as the UK's departure from the European Union. It also looks at how the North East can maximise opportunities around the [UK's Industrial Strategy](#).

6.2 [The Authority's vision and its six key pillars of ambition](#) (priorities) represent the most important groups, issues and goals we will invest in, in order to achieve a more prosperous and inclusive future.

6.3 To build on the engagement that is already happening across the North of Tyne region regarding climate change, Cabinet has approved the creation of a Citizens' Assembly to look at a specific set of issues relating to climate change that will produce actionable recommendations for the North of Tyne Combined Authority to consider.

6.4 NTCA has developed a programme to understand what 'Good Work' should look like in the North of Tyne and how NTCA can promote and reward employers that are offering the elements of 'Good Work'. This has included the development of a [Good Work Pledge](#) (Agenda item 6), which will enable employers to understand the key elements of 'Good Work' what they can do to achieve this for their employees and what support is available to help them get there.

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

6.6 Adult Education Budget provision will support key elements of the North East Strategic Economic Plan, and the emerging Local Industrial Strategy and play a key role in NTCA's economic growth and reform agenda.

6.7 To support businesses during the Coronavirus pandemic we have made funding of £5m available with additional grant funding of around £1.5m to support businesses during the Coronavirus crisis.

6.8 We will continue to engage with adult education providers working to respond to the Coronavirus pandemic looking for provision, which is responsive to the challenges the crisis brings, helping residents get on in work and life around the terms of Covid-19 recovery.

6.9 We have established a digital equipment loan scheme to support residents across the region giving them access to digital services and opportunities. Encouraging digital inclusion for everyone will help our residents' access new opportunities and in turn support our inclusive economy.

6.10 NTCA is a member of the North East Covid-19 Economic Response Group - launched to provide maximum support for businesses in the immediate term and to plan for long-term economic recovery.

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

7.1 We publish details of [delegated decisions on our website](#).

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

7.3 The Assurance Framework explains the arrangements for NTCA to:

- Demonstrate that arrangements are in place to ensure accountable and transparent decision-making

- Appraise projects and allocate funding; and
- Monitor and evaluate projects to ensure that they achieve value for money and projected outcomes

The Assurance Framework has been designed to meet the National Guidance for Single Pot Assurance Frameworks, issued by MHCLG for localities in receipt of a Single Pot as part of their Devolution Deals.

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

7.5 Information on expenditure, performance and decision making is sited together on the Transparency page of the Authority's website and can be accessed quickly and easily.

Section 5: Annual Review Of Effectiveness Of Governance Framework

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

The review is informed by:

- (a) An assessment of the Authority's Constitution, including its committee structure.
- (b) The views of Internal Audit. The Acting Chief Internal Auditor's [report to the July Audit and Standards Committee \(page 8\)](#) gives the following opinion on the adequacy and effectiveness of the framework of governance, risk management and control in place for the North of Tyne Combined Authority for 2019/20: *The opinion of the Acting Chief Internal Auditor is that the framework of governance, risk management and control is satisfactory overall, at this stage in the authority's development and given the range of responsibilities it is required to discharge. This is a positive assessment of the control environment of the organisation.*
- (c) Assurance from Statutory Officers, including the Monitoring Officer, Chief Finance Officer and Senior Information Risk Owner, through written signed statements.
- (d) The views of External Auditors. The external auditors Annual Audit Letter and Audit Completion Report provides an unqualified opinion on the financial statements. The report confirms that NTCA has proper arrangements in place to secure economy, efficiency and effectiveness, in its use of resources for the year ended 31 March 2020 (to be updated accordingly)
- (e) Activity of the Audit and Standards Committee, including ethical governance
- (f) Partnerships, including the North East Joint Transport Committee
- (g) The Risk Management process, particularly the Strategic Risk Register

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

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

Regional transport is operated and governed by the North East Joint Transport Committee, bringing together the two Combined Authorities, which allows effective decision-making across the region to ensure that the local needs and transport priorities are delivered. The Committee receive regular updates on North East and Regional Transport Plans. The Committee also receive regular updates from the Managing Director, Transport North East, in respect of transport partnerships, including East Coast Mainline, HS2 and Northern Powerhouse Rail.

The Joint Transport Committee, Audit Committee is also a key component of the corporate governance arrangements and is an important source of assurance about the Joint Transport Committee's arrangements for managing risk, maintaining an effective control environment; and reporting on financial and performance matters.

The Joint Transport Committee also has an Overview and Scrutiny Committee to enable local councillors, on behalf of their communities, to scrutinise and challenge the Joint Transport Committee, its committees and Nexus, and to investigate matters of strategic importance to residents with a view to influencing and adding value to the decisions.

Section 7: Investment Fund Programme

Delivery of the Investment Fund Programme continues to develop, with programmes being approved and individual projects being delivered. Work continues at pace to operationalise the headline key sector strategies agreed by Cabinet. There are an increasing number of NTCA projects moving into the delivery phase, including those with a focus on early jobs creation, supporting people into work, raising aspiration/STEM and tackling the digital divide. Strong sectoral narratives have been developed and the first of these programmes are now approaching delivery, with a key focus on longer-term growth, productivity and improving resilience. The impact of the COVID-19 pandemic has been considered in terms of project delivery, and in addition specific local interventions have been put in place to support the regional economy, through working closely with the constituent authorities.

Regular performance management of the Investment fund is now in place and continues to evolve. During the later part of 2019/20 and into 2020/21 the authority will conclude its investment in a programme management system that will improve the efficiency of managing and monitoring the overall programme and will streamline the interface with delivery organisations through an on-line portal for claims and output reporting.

Section 8: Significant Weaknesses In Governance and Internal Control

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

The review highlighted no significant weaknesses in governance or internal control during 2019/20.

Section 9: Response to Coronavirus Pandemic

This Annual Governance Statement has been prepared as the Authority responds to the impact of the Coronavirus outbreak. NTCA and our constituent councils are working with our partner organisations across the region, including NECA and the North East LEP, to ensure a multi-agency approach to the pandemic as it evolves, supporting communities and businesses in the region.

The impact of the Coronavirus outbreak on our governance arrangements may not be fully known at this time and will therefore be closely monitored. The Statement will be revisited and updated to reflect changes in the assurance model and the adequacy of the governance and internal control arrangements put in place during this period to assess any impact upon the internal control environment.

The outcome of the review and any learning from the Authority's response will be reflected in an updated Statement before it is considered as part of the audit of the Council's financial statements which is expected at the end of November 2020.

Section 10: Conclusion

We consider the governance and internal control environment operating during 2019/20, prior to the outbreak of the Coronavirus, to provide reasonable and objective assurance that any significant risks impacting on the achievement of our principal objectives will be identified and actions taken to avoid or mitigate their impact.

The annual review has shown that the arrangements for 2019/20 are in place and operating as planned.

We propose over the coming year to improve our governance and internal control arrangements and consider any lessons learnt during the period of the Coronavirus pandemic, as part of our next annual review.

**Mayor of the North of Tyne
Combined Authority**

Interim Head of Paid Service

Full Name: Jamie Driscoll

Full Name: Paul Hanson

Signature:

Signature:

Date:

Date:

Audit and Standards Committee

17 November 2020

Subject: NTCA Audited Statement of Accounts for year ended 31 March 2020

Report of: Interim Chief Finance Officer

Portfolio: All

Subject: North of Tyne Combined Authority Audited Statement of Accounts for the year ended 31 March 2020

Report of: Chief Finance Officer

Report Summary

The purpose of this report is to present Audit and Standards with the Audited Statement of Accounts for the year ended 31 March 2020.

Recommendations

The Audit and Standards Committee is recommended to consider the Audited Statement of Accounts 2019/20 including the Narrative Report.

1. Background Information, Proposals and Timetable for Implementation

- 1.1 The Accounts and Audit (Coronavirus) Amendment Regulations 2020 (SI 2020/404) extended the statutory deadline for completion and publication of draft Statement of Accounts from 31 May to on or before the 1 September 2020, with the audit deadline for all local and combined authorities from 31 July to November 30 2020, in line with these regulations NTCA are presenting the NTCA Statement of Accounts to Audit and Standards Committee for consideration for recommendation to the NTCA Cabinet on the 24th November 2020.

The NTCA Statement of Accounts sets out the financial performance of the Authority for the year ending 31 March 2020 and its financial position at that date. They have been prepared in accordance with proper practices as set out in the Chartered Institute of Public Finance & Accountancy (CIPFA) Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

1.2 The Statement of Accounts includes:

- Narrative Report (Appendix A to this report)
- Single Entity Accounts (Appendix B to this report)
- Group Accounts consolidating the accounts of Nexus Group within the NTCA single entity accounts (Appendix B to this report)
- Annual Governance Statement (tabled in a separate report)

The NTCA Accounts reflect the Newcastle upon Tyne, North Tyneside and Northumberland Combined Authority (Establishment and Functions) Order 2018 (the Order), which established the North of Tyne Combined Authority (NTCA) on 2 November 2018. That order required the North East Combined Authority (NECA) and NTCA to appoint a Joint Transport Committee (JTC) through which the two combined authorities must exercise transport functions. The order also provided that the transport assets held by NECA should be held jointly with NTCA and managed through the JTC. The Constitution of the JTC is such that it meets the definition of Joint Control and is classified accordingly as a Joint Operation.

In order to comply with the requirements outlined above NECA as accountable body must split the revenue, expenditure, and assets and liabilities into those which relate to NTCA and NECA based on population.

- 1.3 Earlier on the agenda the External Auditors, Mazars, outlined their completion report providing their opinion in relation to the Financial Statements and Value for Money conclusion. At the time of writing this report the audit on the NTCA accounts is still not complete due to delays in the audit of the North East Combined Authority and Joint Transport Committee accounts. The auditors will provide an update on any findings since tabling their draft ACR.

2. Potential Impact on Objectives

- 2.1 There are no direct implications from this report in respect of NTCA's vision, policies and priorities.

3. Key Risks

- 3.1 The draft Statement of Accounts have been subject to review from an external audit prior to the final Statement of Accounts being brought back to Audit and Standards Committee in September.

4. Financial and Other Resources Implications

4.1 There are no financial or resource implications arising from this report.

5. Legal Implications

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

6. Consultation/Engagement

6.1 The draft Statement of Accounts were published for public inspection on the NTCA website for the period from 13 August 2020 to 24 September 2020.

7. Appendices

7.1 Appendix A Narrative Report
Appendix B Statement of Accounts for the year ended 31 March 2020.

8. Background Papers

8.1 None

9. Contact Officers

9.1 Janice Gillespie, Chief Finance Officer
Janice.gillespie@northoftyne-ca.gov.uk, 0191 6435701

10. Glossary

10.1 None

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**NORTH
OF TYNE**
~~~~~  
**COMBINED  
AUTHORITY**

**Narrative Report  
year ended 31 March 2020**

# Narrative Statement

## Introduction

The Narrative Report provides information about the North of Tyne Combined Authority (NTCA) and includes the key issues affecting the Combined Authority and its accounts. This report provides an explanatory narrative to key elements of the statements and sections in the accounts and also provides a summary of the Authority's financial performance for 2019/20 and its future financial prospects.

The report provides the reader with:

- A guide to the different financial statements within the Statement of Accounts.
- An overview of the activities and significant matters which have occurred during the year.
- A summary of the Combined Authority's financial performance during the year ending 31 March 2020.
- A look ahead to 2020/21 and beyond.
- Confidence in the Combined Authority's stewardship of public money and that it has been accounted for in an appropriate manner.

The Statement of Accounts contains all the financial statements and disclosure notes required by statute. Prepared in accordance with the proper practices as set out in the Chartered Institute of Public Finance & Accountancy (CIPFA) Code of Practice on Local Authority Accounting in the United Kingdom (the Code). The Code requires that the accounts give a true and fair view of the financial position of the Combined Authority. In line with the Code, suitable accounting policies have been applied and where necessary prudent judgements and estimates have been made.

The accounts feature four main financial statements:

- Movement in Reserves Statement
- Comprehensive Income and Expenditure Statement
- Balance Sheet
- Cashflow Statement

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

The purpose of this Annual Financial Report is to collectively provide a comprehensive view of the Combined Authority's financial position during the period to which they relate together with details of the non-financial performance of the Authority during 2019/20. The format of the accounts reflect the impact of the Newcastle upon Tyne, North Tyneside and Northumberland Combined Authority (Establishment and Functions) Order 2018 (the Order) which changed the boundaries of the former North East Combined Authority (NECA) on the 2<sup>nd</sup> November 2018 and established the North of Tyne Combined Authority (NTCA) as well as the North East Joint Transport Committee.

The report enables readers to focus on the key elements of the Statement of Accounts and contains the following sections:

- Annual Governance Statement;
- About North of Tyne Combined Authority;
- Key Facts about Governance Arrangements;
- Financial Performance of the Combined Authority 2019/20;
- Non-Financial Performance of the Combined Authority 2019/20;
- Significant Issues for 2020/21 and beyond;
- Explanation of Accounting Statements included within the Statement of Accounts;
- Implementation of the Devolution Order;
- Joint Transport Committee;
- Strategic Risks.

## **Annual Governance Statement**

The Combined Authority has approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Delivering Good Governance in Local Government Framework. Further information is available in the Annual Governance Statement which was presented to the Audit and Standards Committee on 28<sup>th</sup> July 2020. The Statement explains how the Authority has complied with the Code and meets the requirements of the Accounts and Audit Regulations 2015. The Statement can be found on the Authority's website: [Audit-and-Standards-Committee-Papers-2020](#)

## **About North of Tyne Combined Authority**

The North of Tyne Combined Authority (NTCA) was established on the 2 November 2018 as a new legal body led by an Elected Mayor. The new North of Tyne Combined Authority will manage a range of powers on housing, transport, infrastructure, skills and employment. Decisions will be made locally to benefit our local economy and the people who live, work, study and visit here.

NTCA's functions primarily relate to economic development, skills, housing and regeneration. NTCA will be responsible for inclusive economic growth and regeneration in an area stretching from the River Tyne to the Scottish borders, bounded by the Pennines and the North Sea.

NTCA was established to give effect to a 'minded to' devolution deal which was agreed between the three councils, the North East Local Enterprise Partnership (North East LEP) and central government. At the same time the North of Tyne Combined Authority was established, the North East Joint Transport Committee (JTC) was created, which continues to exercise the Transport functions. The JTC brings together members from both NTCA and NECA, to allow effective decision making across the region and to ensure that the local needs and transport priorities are delivered. NECA has retained the Accountable Body role for Transport on behalf of the North East Joint Transport Committee. NTCA became the Accountable Body for the North East LEP as of 1<sup>st</sup> April 2020.

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

The devolution deal represents a significant shift of powers, funding and responsibility from central government to the local level. The deal enables the three councils to pursue, through NTCA, a shared ambition for an inclusive economy. NTCA does not replace the three constituent councils, nor does it take away any of their statutory powers.

Key facts about NTCA include:

- North of Tyne describes the area covered by North Tyneside, Newcastle and Northumberland.
- It begins at the most southerly boundary of Newcastle and continues north to the border with Scotland, and spans from the North Sea on the east coast to the border with Cumbria in the west.
- The area has a population of 833,200, a local economy of £18.863million, over 370,000 jobs and it is home to 24,660 businesses.
- The North of Tyne is filled with stunning natural landscapes, great people and has a strong track record of creating jobs and supporting world-leading businesses.
- The bulk of expenditure is funded through devolved funding secured through the devolution deal, in conjunction with contributions from the three constituent authorities.

## The Potential of North of Tyne

The Combined Authority has the potential to deliver many benefits to the region, namely:



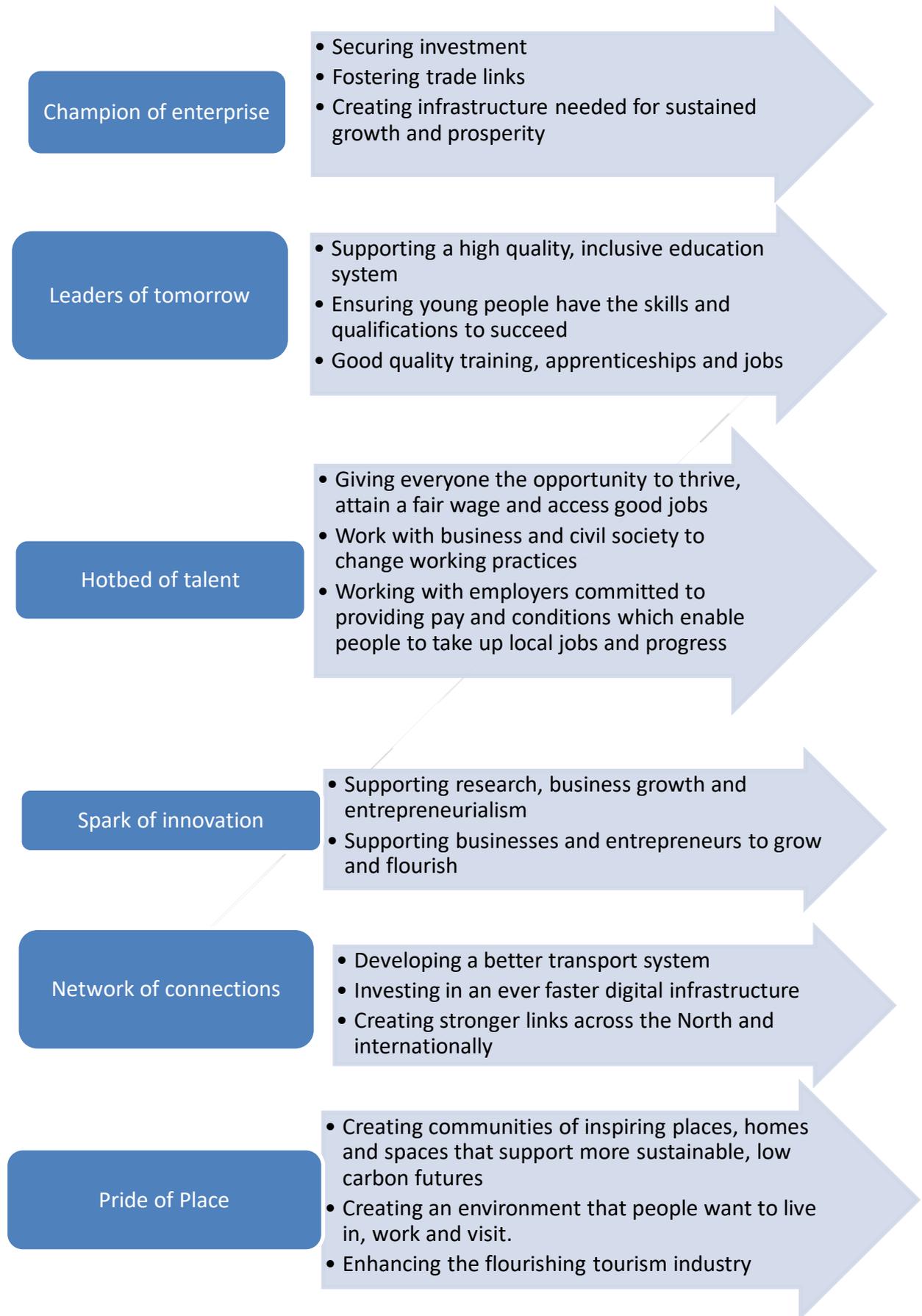
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## **North of Tyne's Vision**

The future focus is on positive change. The aim is to quickly and decisively make a real and positive impact on people's lives, businesses and communities.

The vision is of a dynamic and more inclusive economy, one that brings together people and opportunities to create vibrant communities and a high quality of life, narrowing inequalities and ensuring that all residents have a stake in the region's future.

The North of Tyne's Economic Vision is made up of six key pillars which represent the most important groups, issues and goals that are needed to be invested in and nurtured in order to achieve a more prosperous and inclusive future. Success for the Authority will mean:



## Key Facts about Governance Arrangements

NTCA is a mayoral combined authority. It has a range of functions some of which are identified as being Mayoral Functions. Decisions on these functions must be made by the Mayor. Decisions on all other functions must be taken by the Mayor and representatives of the constituent councils acting together as the Cabinet. All details of Governance arrangements pertaining to NTCA can be found within our Constitution which is available on our website:

### [NTCA Order and Constitution](#)

The first mayoral election was held on 2 May 2019. Jamie Driscoll was elected as the Mayor for the North of Tyne Combined Authority. The Elected Mayor chairs the Cabinet and has a number of specific powers and financial resources. Decisions by the Elected Mayor will be subject to scrutiny by the Overview and Scrutiny Committee and Cabinet.

### Management Structure

Chief Officers of NTCA consist of, the Head of Paid Service, the Chief Finance Officer and the Monitoring Officer. These officers are employees from the three local authorities within the North of Tyne. Two other designated posts, Director of Policy & Performance and Director of Economic Growth were appointed to during 2019/20.

The Combined Authority has grown to 34 employees during 2019/20 with support services being provided under Service Level Agreements with the three constituent North of Tyne authorities.

## Financial Performance of the Combined Authority 2019/20

The financial position of the NTCA as at 31 March 2020 is shown in the table 1 below.

**Table 1: 2019/20 Budget Outturn**

| Summary Outturn<br>2019/20 | 2019/20<br>Budget   | 2019/20<br>Outturn  | Variance           |
|----------------------------|---------------------|---------------------|--------------------|
|                            | £                   | £                   | £                  |
| Investment Fund Budget     | (15,625,000)        | (16,803,585)        | (1,178,585)        |
| Corporate Budget           | (0)                 | (285,000)           | (285,000)          |
| <b>Total</b>               | <b>(15,625,000)</b> | <b>(17,088,585)</b> | <b>(1,463,585)</b> |

## Corporate Budget Outturn

A more detailed outturn for 2019/20 Corporate Budget is set out below in Table 2.

**Table 2: Corporate Budget Outturn**

| Corporate Budget 2019/20                             | 2019/20 Budget      | 2019/20 Outturn     | Variance           |
|------------------------------------------------------|---------------------|---------------------|--------------------|
| Expenditure                                          | £                   | £                   | £                  |
| Staffing / Secondments                               | 1,772,345           | 1,646,939           | (125,406)          |
| Miscellaneous Expenditure (including Election costs) | 1,399,000           | 1,445,772           | 46,772             |
| Advisors External                                    | 305,000             | 341,574             | 36,574             |
| SLA with Constituent Authorities                     | 197,270             | 287,015             | 89,745             |
| JTC Levy                                             | 33,167,870          | 33,167,870          | 0                  |
| <b>Total Expenditure</b>                             | <b>36,841,485</b>   | <b>36,889,170</b>   | <b>47,685</b>      |
|                                                      |                     |                     |                    |
| Income                                               |                     |                     |                    |
| Contributions from the Constituent Authorities       | (120,000)           | (111,000)           | 9,000              |
| Mayoral Capacity Fund                                | (1,000,000)         | (1,000,000)         | 0                  |
| Investment Fund                                      | (2,400,000)         | (2,400,000)         | 0                  |
| IF Workstream Development Support                    | 0                   | (61,234)            | (61,234)           |
| AEB Implementation Funding                           | (153,615)           | (381,891)           | (228,276)          |
| JTC Levy                                             | (33,167,870)        | (33,167,870)        | 0                  |
| EU Exit Grant                                        | 0                   | (181,818)           | (181,818)          |
| Business Rates Pilot 2019/20                         | 0                   | (4,909,292)         | (4,909,292)        |
| ERDF Grant Income                                    | 0                   | (23,375)            | (23,375)           |
| Interest Receivable                                  | 0                   | (225,800)           | (225,800)          |
| Miscellaneous Income                                 | 0                   | (3,000)             | (3,000)            |
| <b>Total Income</b>                                  | <b>(36,841,485)</b> | <b>(42,465,280)</b> | <b>(5,623,795)</b> |
|                                                      |                     |                     |                    |
| <b>Net Income/Expenditure</b>                        | <b>0</b>            | <b>(5,576,110)</b>  | <b>(5,576,110)</b> |
| Preparing to Exit EU Reserve                         |                     | 181,818             | 181,818            |
| Business Rates Pilot 2019-20                         |                     | 4,909,292           | 4,909,292          |
| Commitment to future sector commissioning work       |                     | 200,000             | 200,000            |
| <b>2019/20 Outturn/Transfer to General Reserve</b>   | <b>0</b>            | <b>(285,000)</b>    | <b>(285,000)</b>   |

## Investment Fund Outturn

Table 3 below sets out the detailed outturn against the budget for the Investment Fund.

**Table 3 2019/20 Investment Fund Budget Outturn**

| Investment Fund 2019/20              | 2019/20 Budget      | 2019/20 Outturn     | Variance           |
|--------------------------------------|---------------------|---------------------|--------------------|
| <b>Expenditure</b>                   | £                   | £                   | £                  |
| Supporting Business Case Development | 750,000             | 61,234              | (688,766)          |
| Workstreams                          | 975,000             | 719,447             | (255,553)          |
| Technical Support                    | 250,000             | 15,735              | (234,265)          |
| Contribution to Corporate Costs      | 2,400,000           | 2,400,000           | 0                  |
| <b>Total Expenditure</b>             | <b>4,375,000</b>    | <b>3,196,416</b>    | <b>(1,178,584)</b> |
| <b>Income</b>                        |                     |                     |                    |
| Investment Fund                      | (20,000,000)        | (20,000,000)        | 0                  |
| <b>Net (Income) Expenditure</b>      | <b>(15,625,000)</b> | <b>(16,803,584)</b> | <b>(1,178,584)</b> |

In totality the Investment Fund has committed £27.840m against 34 projects, these projects will attract £99.510m of private sector leverage of which £57.000m is forecast to come from the Inward Investment Fund, with a forecast to deliver 2,571 jobs.

**Table 4 Commitment against Investment Fund Thematic Area**

|                                        | Committed    | Allocation   | % Allocated |
|----------------------------------------|--------------|--------------|-------------|
|                                        | £m           | £m           |             |
| Business                               | 12.06        | 38.00        | 32%         |
| People                                 | 7.23         | 16.30        | 44%         |
| Place                                  | 2.22         | 13.70        | 16%         |
| Major Strategic Economic Opportunities | 5.19         | 17.50        | 30%         |
| Business Case Development Fund         | 1.14         | 4.50         | 25%         |
|                                        | <b>27.84</b> | <b>90.00</b> | <b>31%</b>  |

Delivery against the Investment Fund Programme has been delayed in part due to the impact of the Covid-19 Pandemic impacting at the end of the financial year. This remains the highest programme risk, with pressure on resources as activity both on developing pipeline and contract management increases.

## Reserves Statement

Reserves held at 31 March 2020 are set out in Table 5 overleaf:

**Table 5 2019/20 Outturn Reserves Statement**

| <b>Reserves Statement</b>               | <b>2019/20</b>    |
|-----------------------------------------|-------------------|
|                                         | <b>£</b>          |
| Homeless Veteran Grant Reserve          | 90,909            |
| Preparing to Exit Europe Grant          | 271,909           |
| Business Rates Pilot 2019/20            | 4,909,292         |
| Strategic Reserve                       | 200,000           |
| Investment Fund Reserves                | 36,839,162        |
| <b>Total General (Useable) Reserves</b> | <b>42,311,272</b> |
| Pension Reserve                         | 285,000           |

Reserves have increased by £22.379m during the year 2019/20, being the uncommitted portion of the 2019/20 Devolution Grant monies (£17.289m) including the in-year outturn surplus (£0.285m), additional Preparing to Exit Grant monies received in year of (£0.181m). A new earmarked reserve has been set up of (£4.909m) in relation to the Business Rates Pilot undertaken in 2019-20, this includes Business Rates Pool monies from the three constituent authorities, figures in relation to this will be finalised post audit in July 2020 and proposals will be brought forward to Cabinet in due course.

In relation to the Homeless Veteran Grant received in 2018/19, all reporting requirements have been suspended by MHCLG. The project has not had any movement since the start of the year owing to Covid-19 work on homelessness by the three constituent authorities. The EU exit grant will be drawn down during 2020/21 in match with the North East Combined Authority's EU exit grant to fund Brexit work across the Region.

The budget for 2019/20 was agreed at the Cabinet meeting of March 12, 2019. Details of which can be found on the Authority's website link below or visit [northoftyne-ca.gov.uk/Transparency/Cabinet/Cabinet Committee Papers](http://northoftyne-ca.gov.uk/Transparency/Cabinet/Cabinet%20Committee%20Papers):

[Cabinet Report March 12, 2019 - 2019-2022 Financial Plan and Budget](#)

### **Borrowing Facilities**

Section 3 of the Local Government Act 2003 requires the Combined Authority to determine its own affordable borrowing requirement necessary to fund capital expenditure. The key objectives of the Prudential Code are to ensure that capital investment plans are affordable, prudent and sustainable and that treasury management decisions are taken in accordance with good professional practice.

## **Main points from Financial Statements**

### **Comprehensive Income & Expenditure Statement**

The Continuing Cost of Services line in the Comprehensive Income & Expenditure Statement represents the net expenditure incurred by the North of Tyne Combined Authority, and also includes the share of the costs contained within the North East Combined Authority (as relating to the Joint Transport Committee), in the direct provision of Services (Page 5 within the Statement of Accounts). The figure for 2019/20 shows a deficit of £17.851m. However, overall the Comprehensive Income & Expenditure Statement is showing a surplus of (£28.563m) for the year ended 31 March 2020.

### **Balance Sheet**

The Balance Sheet is set out on page 6 within the Statement of Accounts. The net assets of the Combined Authority are £108.487m for the year ended 31 March 2020 and are financed by Useable Reserves of £67.417m and Unusable Reserves of £41.070m. More details of the reserves contained on the Balance Sheet are shown in Notes 20 and 22. The Balance Sheet also includes the Authority's share of assets and liabilities contained within the North East Combined Authority in relation to the Joint Transport Committee

### **Group Results**

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

During the year Nexus invested £53.9m 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 £69.2m, adequate to cover both short-term fluctuations and future commitments from useable reserves.

The Nexus accounts are divided between NTCA and NECA accounts (after elimination of intra-group transactions), with the balance sheet information at 31 March 2020 allocated between the two Combined Authorities in proportion to their relative share of Tyne and Wear Population – 55.723% in the NECA accounts and 44.277% in the NTCA accounts.

### **Non-Financial Performance of the Authority**

The Investment Fund Programme continues to grow significantly as projects progress through the pipeline. With exciting funding proposals coming forward for consideration,

around innovation and supporting our key sectors. Work continues at pace to operationalise the headline sector strategies agreed by Cabinet. In addition, we are seeing an increasing number of NTCA projects, including those with a focus on early jobs creation, supporting people into work, raising aspiration/STEM and tackling the digital divide. Strong sectoral narratives have been developed and the first of these projects are now being brought through - with a key focus on longer-term growth, productivity and improving resilience.

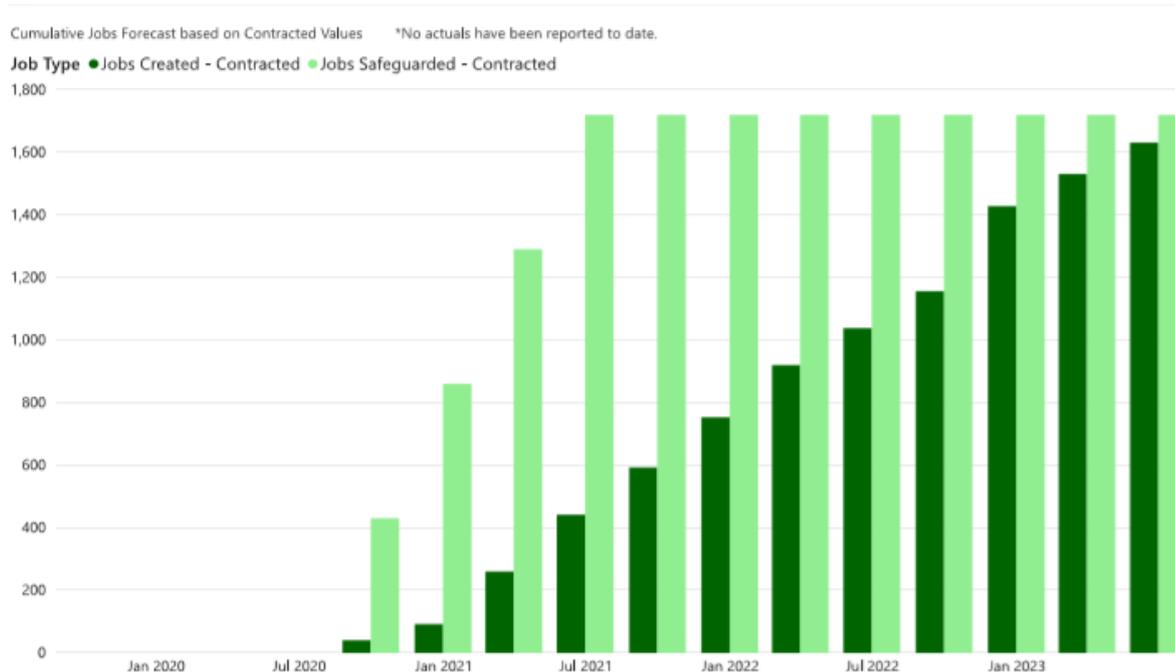
The three constituent Authorities have launched their NTCA-funded Covid-response support to individuals, businesses and third sector and in addition NTCA are working up a further wave of national Covid-response, including: Jobs bonus, Kickstart employment scheme, wage subsidies for apprenticeships, 'shovel-ready' stimulus for the construction sector, vouchers for retrofit, and crisis funding for Cultural, Arts and Heritage Organisations.

To date the Combined Authority has achieved:

A commitment of £27.82m against 34 projects and programmes

- Defrayal of £0.796m expenditure
- These projects will attract £99.51m of private sector leverage and are forecast to deliver 2571 jobs and 1,720 jobs safeguarded

The below bar chart shows the cumulative jobs forecast based on contracted values.



Early investment priorities included:

- Inspiring the development of STEM and digital skills in young people;

- Help residents into work – Returnship Project;
- Attracting new business to the North of Tyne; and,
- Enhancing rural business growth

In addition, Cabinet identified projects for early business case development funding, which include:

- Local fibre network;
- North Shields town centre redevelopment/Fish Quay;
- Energy central learning hub Blyth;
- Targeted employment support for areas of Newcastle with the highest unemployment levels; and
- The Northumberland, Newcastle and North of Tyne rail line

These proposed projects are now in development and progressing at pace.

### **Significant issues relating to 2020/21 and beyond**

As the Combined Authority was only established in November 2018, the budget for the financial year 2019/20 reflects a set up phase in which the organisation is both stabilising capacity to undertake its new responsibilities and beginning to deliver its priorities.

The Mayor and Cabinet continue to work with officers to maximise the opportunities of the three constituent authorities in order that they work together efficiently and effectively with the North of Tyne Combined Authority. Some of this is already in place through the development of the Service Level Agreements for support services. Other opportunities exist around the consideration of how best the Procurement Strategies across the constituent authorities can support the ambition and delivery of the Vision for North of Tyne.

In order to deliver the Authority's priorities and vision the social factors such as a consistently higher unemployment rate than the national average, a lower productivity than the national wage and social inequality with pockets of deprivation affecting the area will need to be considered.

The financial environment for local government is likely to remain challenging for the foreseeable future. The impact of Covid-19, uncertainties arising from Brexit and the delay in the publication of both the Comprehensive Spending Review and the outcomes of the Fair Funding Review mean the outlook continues to be extremely uncertain.

The North East LEP has been leading a 'Covid-19 Economic Response Group' made up of NTCA, NECA, local authorities, the Confederation of British Industry (CBI) on behalf of business, North East JTC and regional universities. NTCA will work with the LEP and other partners on the Covid-19 recovery. Data and intelligence about the economic impact of the pandemic is being gathered, which will be used to help shape the recovery plan that is being developed. The plan will need considerable financial support from Government and active support from public and private sector partners across the region, including the two combined authorities and the local authorities across the North East Region. Further rounds of LGF/Future prosperity/Economic Recovery funding will be required to support the capital investment and revenue support that is needed to help the region's economy to recover and grow. A summary report published in June 2020 references the completion of the regional Transport Plan and that setting down our transport infrastructure priorities of the future is an essential part of the regional recovery.

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

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

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

Work is underway in developing the 'Tyne Pass' project to introduce a fully automated payment system using Automatic Number Plate Recognition (ANPR) technology at the Tyne Tunnels, to replace the existing coin and permit systems.

The cross-partner North East Brexit Group continues to meet and provides a forum for sharing intelligence across sectors. This information and intelligence has informed action such as the Brexit Toolkit on the Growth Hub, as well as the Work Programme.

The focus of the group is now on opportunities post-Brexit and preparations in the light of potential trade deals with the EU and other nations/trading areas.

Activity continues to develop a proposal to government on the additional resources, powers and legislation needed to support the region.

## **Explanation of Accounting Statements included within the Accounts**

The Accounts and Audit Regulations 2015 require the Authority to produce a Statement of Accounts for each financial year. These statements contain a number of different elements and are required to be prepared under the Code of Practice.

The Statement of Accounts is set out in the accompanying document, and are explained below:

### Core Financial Statements

The Comprehensive Income & Expenditure Statement (CIES) (page 5) summarises the revenue costs of providing all services and the income and resources received in financing the expenditure.

The Movement in Reserves Statement (MIRS) (page 4) shows the movement from the start of the year to the end on the different reserves held by the Authority. This statement shows the movement in the year on the different reserves held by the Authority, analysed into Usable Reserves (i.e. those which can be applied to fund expenditure) and Unusable Reserves (which cannot). The surplus or deficit on the provision of services line shows the economic cost in accounting terms of providing NTCA's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance for the purposes of setting the levy. The net increase or decrease before transfers to earmarked reserves line shows the statutory General Fund Balance before any discretionary transfers to or from earmarked reserves undertaken by the Authority.

The Balance Sheet (page 6) shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Authority. The net assets of the Authority are matched by the reserves held by the Authority. Reserves are reported in two categories, Usable and Unusable as described above. Unusable Reserves include those which hold unrealised gains and losses (e.g. the Revaluation Reserve) where amounts only become available to provide services if the assets are sold; and

reserves that hold timing differences shown in the MiRS line “adjustments between accounting basis and funding basis under regulations”.

The Cash Flow Statement (page 7) shows the changes in cash and cash equivalents of the Authority during the reporting period. The Statement shows how the Authority generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Authority’s future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Authority.

### Notes to the Accounts

The notes aim to assist in the understanding of the Statement of the Accounts. They are fundamentally important in the presentation of a true and fair view. They provide information on the basis of the preparation of the financial statements and disclose information not presented directly in the key financial statements which is relevant to the understanding of the information contained elsewhere within the Statement of Accounts.

### Group Accounts and Associated Notes

The Authority is required by the Code to produce Group Accounts to include services paid to Council Taxpayers in the North of Tyne area by organisations other than the Authority itself in which the Authority has an interest.

It is recognised that the accounts of Nexus fall within the definition of a subsidiary. As such, group accounts have been prepared on the basis of a full consolidation of the financial transactions and balances of the Authority and Nexus. Nexus has been incorporated as a subsidiary, whereby the accounts of the two organisations are combined and any intra-group transactions are cancelled out.

These statements and accounts collectively provide a comprehensive view of the Authority’s financial position during the period to which they relate. The format of the accounts reflect the impact of the Newcastle upon Tyne, North Tyneside and Northumberland Combined Authority (Establishment and Functions) Order 2018 (the Order) which changed the boundaries of NECA on the 2nd November 2018. As a result of these governance changes, the boundaries of NECA now cover the Local Authorities of Durham, Gateshead, South Tyneside and Sunderland. On the same date, the North of Tyne Combined Authority (NTCA) was established as well as the

North East Joint Transport Committee (JTC), which continue to exercise the Transport functions over the area covered by the two Combined Authorities.

### **Implementation of the Devolution order.**

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

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

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

### **Dividing Assets and Liabilities between NECA and NTCA in the accounts.**

The new Orders require the Transport assets of the North East Joint Transport Committee to be accounted for separately in the accounts and balance sheets of the two Combined Authorities. As the Transport Assets and Liabilities are related to

Tyne and Wear activities, the transport accounting balances at the 2<sup>nd</sup> November 2018 and at 31<sup>st</sup> March 2019 are divided between the two Combined Authorities on the basis of relative population for the year. For the 2018/19 accounts the mid-year estimated population published by the Office of National Statistics as at June 2017 is used, which is the basis on which the Transport Levy payments for the year are required to be calculated. The calculation of the proportion used to allocate the figures in the accounts for the year ended 31 March 2020 are shown below in Table 6.

**Table 6 - Population used to allocate Transport Assets/Liabilities between NECA and NTCA**

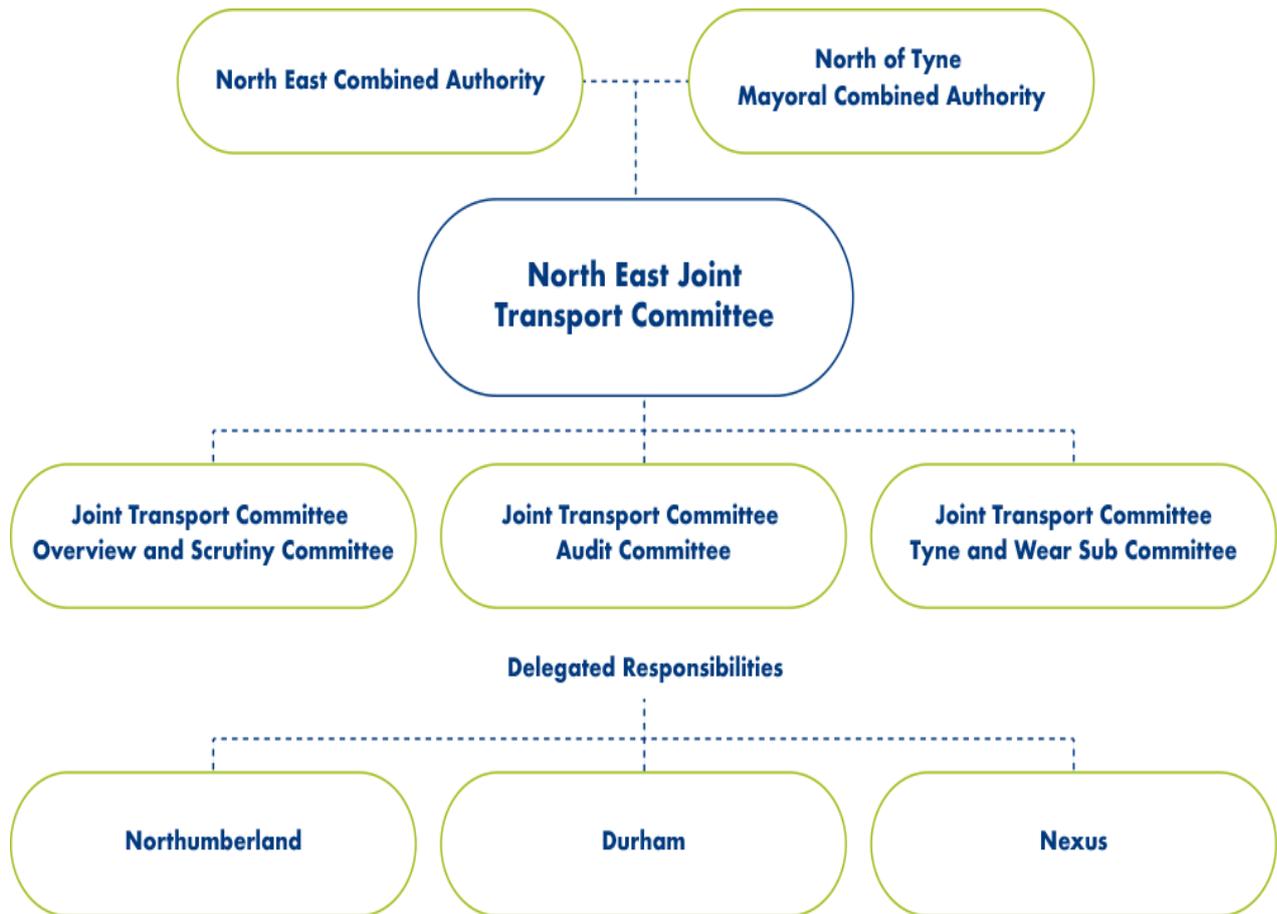
|                            | Mid-Year 2017<br>Population | Proportion |
|----------------------------|-----------------------------|------------|
|                            | People                      | Proportion |
| <b>NECA</b>                |                             |            |
| - Gateshead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

## The Joint Transport Committee

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

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

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



**Transport**

Tyne Tunnels, although owned by NECA, the accounting balances are reflected in the NTCA financial statements as part of the JTC. The Tyne Tunnels link the A19 under the River Tyne between Howdon and Jarrow. There are two tolled vehicle tunnels, and tunnels for both pedestrians and cyclists. The Tunnels are entirely self-financing from the toll’s income raised, i.e. there is no call on the Authority’s budget or local taxpayers to support them, and assets and liabilities associated with the tunnels are ringfenced to the Tyne and Wear constituent councils within the Authority. The Tyne Pedestrian and Cyclist Tunnels reopened to the public in August 2019 and have been well received and well used.

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

**Table 7 – Tyne Tunnel Traffic Flow data**

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

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

The tolls were increased in line with inflation on 13 May 2019 from £1.70 to £1.80 for class 2 vehicles without permits (now £1.62 with a pre-paid permit) and from £3.40 to £3.60 for class 3 vehicles (now £3.24 with a pre-paid permit).

### **Tyne and Wear Passenger Transport Executive – Nexus**

The North East Joint Transport Committee sets public transport policy for the region, which in Tyne and Wear is delivered operationally by Nexus. The following performance indicators describe the general performance of public transport in Tyne and Wear during 2019/20.

- The number of passenger journeys across Tyne and Wear was estimated at 154.5million; a 3.0% decline when compared to 159.3million in the previous year.
- Bus patronage reduced to 119.4 million in 2019/20; a 0.9% decline when compared to 120.4 million in the previous year.
- Metro patronage reduced to 33.1 million in 2019/20; a 9.2% decline when compared to 36.4 million in the previous year.
- Ferry patronage reduced to 352,900 passengers in 2019/20; a 19% decline when compared to 436,600 journeys in the previous year.
- Rail patronage increased to 1.68 million journeys in 2019/20; a 5.3% uplift when compared to 1.60 million journeys in the previous year.
- Metro reliability (operated mileage) was 95.7% during 2019/20, a decrease on the 97.9% achieved in the previous year.
- Metro reliability (Charter punctuality) was 80.8% during 2019/20, an increase on the 79.6% achieved in the previous year.

### Annual Governance Statement

To accompany the Narrative Report and Statement of Accounts, the leadership of the Authority prepares an Annual Governance Statement that sets out the principal

arrangements that operate to ensure proper governance of the Authority's affairs and the stewardship of resources at its disposal. It also outlines the principal arrangements that are in place to ensure that a sound system of internal control is maintained.

## **Strategic Risks**

### [Strategic risks of the NTCA are monitored by Audit and Standards Committee](#)

(agenda item 5). Lower level operational and project risks are managed at a project level. However, there are communication plans and escalation processes developed to ensure the biggest risks to individual programmes/projects are communicated and/or escalated to the strategic risk register.

A NTCA Staff Engagement Event was held in January 2019 where Officers were asked to identify the biggest threats and opportunities to the Combined Authority's aims and ambitions. This information along with comments from Members were used as the basis for identifying the biggest threats (risks) and potential opportunities.

## **Risk Title & Description**

### **1. Risk - Devolution**

#### **Delivery of Devolution**

Failure to deliver the Devolution agenda, and secure future negotiations with Government will restrict powers in future funding years.

#### **Response**

Activity on the Investment Fund Programme has increased significantly over recent months. Allocations to support key sectors, including clean growth, digital and culture and creative are progressing through the pipeline for consideration, with a commitment of £27.82m against 34 projects already achieved, which has attracted over £99.51m of private sector leverage.

Dialogue with NTCA adult education providers continues to ascertain the immediate impact of Covid-19 and their medium/long term mitigation strategies. Although it has already been recognised that income from other sources of funding is at risk for these providers and there is uncertainty about their financial resilience and longevity.

The North of Tyne Covid-19 Capacity Fund has pledged £5m to help businesses and communities respond to Covid-19, and work continues at pace on this.

## **2. Risk - Operational Capacity and Resources**

The Combined Authority is unable to demonstrate to Government and partners that it has the necessary capacity, skills and expertise to successfully deliver all projects and schemes, within the constraints of approved funding streams, timeframes, conditions and performance criteria.

### **Response**

A Covid-19 Contingency Plan is in place to support central government guidance, homeworking and officer deployment instructions. The Plan worked well and work is now underway on a return policy for the office and the 'new normal'.

Business Continuity Plan (BCP) – the formulation of a full BCP has begun with an information gathering exercise underway. Development has stalled due to the impact of Covid-19 with delays to the receipt of information sought from other organisations.

## **3. Opportunity - Partnerships**

The establishment of the Combined Authority provides us with an opportunity to strengthen the existing partnership arrangements in the region and across the public and private sector to drive forward change to meet our ambitions and successfully deliver the North East Strategic Economic Plan.

### **Response**

The NTCA, North East LEP, North East Combined Authority, Confederation of British Industry (CBI), and other partners in the region, are members of a North East Covid-19 Economic Response Group. The group has been launched to ensure the North East has strong and collaborative economic leadership, providing maximum support for businesses in the immediate term and to plan for long-term economic recovery following the Covid-19 outbreak.

The North East Combined Authority (NECA) was previously the accountable body for the North East LEP, however the role transferred to NTCA in April 2020. This has resulted in a new opportunity being added to the register to cover this position as follows:

“As the accountable body for the North East LEP there is greater opportunity to maximise partnership arrangements with NTCA through working together to coordinate and manage resources, embedding effective governance arrangements between the bodies, collectively responding to future opportunities and challenges.”

## NTCA Staffing

NTCA continues to develop to meet the requirements and delivery of the NTCA vision, while keeping costs to a minimum. The NTCA team grew to 34 employees during 2019/20, the first full year of operation, this included the appointment of two new Directors, Director of Economic Growth and Director of Policy and Performance. Many services are provided through Service Level Agreements with constituent local authorities.

**Table 8 – Change in Staffing numbers during 2019/20**

|         | <b>Total NTCA Employees at the year end</b> |
|---------|---------------------------------------------|
| 2019/20 | 34                                          |
| 2018/19 | 1                                           |

The Authority seeks to make the best possible use of resources available with regard to economy, efficiency and effectiveness. This is a responsibility shared by Members and Officers of the Authority, with the Chief Finance Officer having a specific role in ensuring the adequacy of resources and proper financial administration. Our budget proposals for 2020/21, available on the NTCA website [Cabinet 28 January NTCA Budget Proposals 2020-2024](#) sets out how we will do this looking forward. The Statement of Accounts accompanying this report looks back at our performance since establishment. Reviewed together they provide the reader with an understanding of the financial position of the Authority.

If you would like further information about these accounts, please contact Janice Gillespie, Chief Finance Officer, c/o North Tyneside Council, Quadrant, The Silverlink North, Cobalt Business Park, North Tyneside, NE27 0BY

**Janice Gillespie**  
**Chief Finance Officer**  
**Date**

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**North of Tyne Combined Authority**  
**Statement of Accounts 2019/20**  
**Draft - Subject to Audit**

| <b>Contents</b>                                                        | <b>Page</b> |
|------------------------------------------------------------------------|-------------|
| <b>1.0 Statement of Responsibilities for the Statement of Accounts</b> |             |
| 1.1 The Authority's Responsibilities                                   | 3           |
| <b>2.0 Core Financial Statements and Explanatory Notes</b>             |             |
| 2.1 Movement in Reserves Statement                                     | 4           |
| 2.2 Comprehensive Income and Expenditure Statement                     | 5           |
| 2.3 Balance Sheet                                                      | 6           |
| 2.4 Cash Flow Statement                                                | 7           |
| 2.5 Explanatory Notes to the Core Financial Statements                 | 8-63        |
| <b>3.0 Group Financial Statements and Explanatory Notes</b>            |             |
| 3.1 Group Movement in Reserves Statement                               | 66          |
| 3.2 Group Comprehensive Income and Expenditure Statement               | 67          |
| 3.3 Group Balance Sheet                                                | 68          |
| 3.4 Group Cash Flow Statement                                          | 69          |
| 3.5 Explanatory Notes to the Group Financial Statements                | 70          |
| <b>4.0 Supplemental Information</b>                                    |             |
| 4.1 Glossary of Terms                                                  | 97          |
| 4.2 Independent Auditor's Report                                       | 103         |

## 1.0 Statement of Responsibilities for the Statement of Accounts

### 1.1 The Authority's Responsibilities

**The Authority is required:**

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

**The Chief Finance Officer's Responsibilities:**

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

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

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

**The Chief Finance Officer has also:**

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

**Certification of the Accounts**

I hereby certify that the Statement of Accounts for the year ended 31 March 2020, required by the Accounts and Audit Regulations 2015 are set out in the following papers. I further certify that the Statement of Accounts give a true and fair view of the financial position of the Combined Authority and Group at 31 March 2020 and its income and expenditure for the year ended 31 March 2020.

Signed:

Janice Gillespie, Chief Finance  
Officer

## 2.1 Movement in Reserves Statement

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

|                                                                        | Usable Reserves |                      |                                  |                          |                          |                       | Unusable Reserves | Total Authority Reserves |
|------------------------------------------------------------------------|-----------------|----------------------|----------------------------------|--------------------------|--------------------------|-----------------------|-------------------|--------------------------|
|                                                                        | Note            | General Fund Balance | Earmarked General Fund Reserves* | Capital Receipts Reserve | Capital Grants Unapplied | Total Usable Reserves |                   |                          |
|                                                                        |                 | £000                 | £000                             | £000                     | £000                     | £000                  |                   |                          |
| <b>Transfer of Services from NECA at 2 November 2018</b>               |                 | (10,894)             | (5,513)                          | -                        | (544)                    | (16,951)              | (40,548)          | (57,499)                 |
| <b>Balance at 2 November 2018</b>                                      |                 | (10,894)             | (5,513)                          | -                        | (544)                    | (16,951)              | (40,548)          | (57,499)                 |
| Total Comprehensive Income and Expenditure                             |                 | (22,621)             | -                                | -                        | -                        | (22,621)              | -                 | (22,621)                 |
| Adjustments between accounting basis & funding basis under regulations | 3               | 3,939                | (1,526)                          | -                        | (3,623)                  | (1,210)               | 1,210             | -                        |
| Net (Increase)/Decrease before transfers to Earmarked Reserves         | 21              | (18,682)             | (1,526)                          | -                        | (3,623)                  | (23,831)              | 1,210             | (22,621)                 |
| Transfers (To)/From Earmarked Reserves                                 |                 | -                    | -                                | -                        | -                        | -                     | -                 | -                        |
| <b>(Increase)/Decrease in 2018/19</b>                                  |                 | (18,682)             | (1,526)                          | -                        | (3,623)                  | (23,831)              | 1,210             | (22,621)                 |
| <b>Balance at 31 March 2019 carried forward</b>                        | 2               | (29,576)             | (7,039)                          | -                        | (4,167)                  | (40,781)              | (39,338)          | (80,119)                 |
| Total Comprehensive Income and Expenditure                             |                 | (28,563)             | -                                | -                        | -                        | (28,563)              | 196               | (28,367)                 |
| Adjustments between accounting basis & funding basis under regulations | 3               | 3,611                | -                                | -                        | (1,683)                  | 1,928                 | (1,928)           | -                        |
| Net (Increase)/Decrease before transfers to Earmarked Reserves         | 21              | (24,952)             | -                                | -                        | (1,683)                  | (26,636)              | (1,732)           | (28,367)                 |
| Transfers (To)/From Earmarked Reserves                                 | 21              | 6,434                | (6,434)                          | -                        | -                        | -                     | -                 | -                        |
| <b>(Increase)/Decrease in 2019/20</b>                                  |                 | (18,518)             | (6,434)                          | -                        | (1,683)                  | (26,636)              | (1,732)           | (28,367)                 |
| <b>Balance at 31 March 2020 carried forward</b>                        | 2               | (48,094)             | (13,473)                         | -                        | (5,850)                  | (67,417)              | (41,070)          | (108,487)                |

\* The 2018/19 NTCA MIRS reflect the General Fund Balances and Earmarked Reserves combined, 2019/20 NTCA MIRS reflects the split of General Fund Balances and Earmarked Reserves with 2018/19 represented to show this split also.

## 2.2 Comprehensive Income and Expenditure Statement

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

As part of the creation of NTCA it was stated that a Joint Transport Committee (JTC) must be appointed which is endowed with the powers of the Integrated Transport Authority which were previously endowed upon the North East Combined Authority as the seven Local Authorities (NECA). NECA was appointed as the accountable body for the JTC.

NECA as the accountable body must split revenue, expenditure, assets and liabilities into those which relate to NECA and NTCA. The accounts for the Combined Authority thereby include a split of all income and expenditure relating to Transport activity associated with the constituent authorities of North of Tyne from 2nd November 2018, in 2018/19 accounts and full year in 2019/20 accounts.

| 2018/19           |                 |                 |                                                         | Note | 2019/20           |                 |                 |
|-------------------|-----------------|-----------------|---------------------------------------------------------|------|-------------------|-----------------|-----------------|
| Gross Expenditure | Gross Income    | Net Expenditure |                                                         |      | Gross Expenditure | Gross Income    | Net Expenditure |
| £000              | £000            | £000            |                                                         |      | £000              | £000            | £000            |
|                   |                 |                 | <b>Continuing NTCA Services</b>                         | 1    |                   |                 |                 |
| 3                 | -               | 3               | Investment                                              |      | 735               | -               | 735             |
| 528               | (371)           | 157             | Corporate Costs                                         |      | 2,422             | (6,044)         | (3,622)         |
| -                 | -               | -               | Mayors Office                                           |      | 207               | -               | 207             |
| -                 | -               | -               | Elections                                               |      | 1,048             | (3)             | 1,045           |
| -                 | -               | -               | Adult Education Budget                                  |      | 136               | (382)           | (246)           |
| -                 | -               | -               | Transport - Northumberland                              |      | 6,094             | -               | 6,094           |
| -                 | -               | -               | Transport - Retained Levy Budget                        |      | 114               | -               | 114             |
| -                 | -               | -               | Transport - Tyne and Wear                               |      | 24,657            | -               | 24,657          |
| -                 | -               | -               | Transport - Other                                       |      | 9,336             | (10,821)        | (1,485)         |
| -                 | -               | -               | Transport - Tyne Tunnels                                |      | 11,331            | (14,884)        | (3,553)         |
| 531               | (371)           | 160             | <b>Cost of Services from Continuing Services</b>        |      | <b>56,080</b>     | <b>(32,134)</b> | <b>23,946</b>   |
|                   |                 |                 | <b>Services transferred from NECA</b>                   | 1    |                   |                 |                 |
| 2,561             | -               | 2,561           | Transport - Northumberland                              |      | -                 | -               | -               |
| 44                | -               | 44              | Transport - Retained Levy Budget                        |      | -                 | -               | -               |
| 9,538             | -               | 9,538           | Transport - Tyne and Wear                               |      | -                 | -               | -               |
| 5,148             | (8,786)         | (3,638)         | Transport - Other                                       |      | -                 | -               | -               |
| 6,993             | (4,989)         | 2,004           | Transport - Tyne Tunnels                                |      | -                 | -               | -               |
| <b>24,815</b>     | <b>(14,146)</b> | <b>10,669</b>   | <b>Cost of services</b>                                 |      | <b>56,080</b>     | <b>(32,134)</b> | <b>23,946</b>   |
|                   |                 |                 | <b>Financing and Investment Income and Expenditure:</b> | 4    |                   |                 |                 |
| -                 | (2)             | (2)             | - From continuing services                              |      | 3,289             | (1,080)         | 2,209           |
| 1,598             | (717)           | 881             | - Transferred from NECA                                 |      | -                 | -               | -               |
|                   |                 |                 | <b>Taxation and Non-Specific Grant Income:</b>          | 5    |                   |                 |                 |
| -                 | (20,091)        | (20,091)        | - From continuing services                              |      | -                 | (54,718)        | (54,718)        |
| -                 | (13,964)        | (13,964)        | - Transferred from NECA - Levy                          |      | -                 | -               | -               |
| -                 | (114)           | (114)           | - Capital Grants (non-specific)                         |      | -                 | -               | -               |
| <b>26,413</b>     | <b>(49,034)</b> | <b>(22,621)</b> | <b>(Surplus)/Deficit on Provision of Services</b>       |      | <b>59,369</b>     | <b>(87,931)</b> | <b>(28,563)</b> |
|                   |                 |                 | <b>Other Comprehensive Income and Expenditure</b>       |      |                   |                 |                 |
|                   |                 | -               | Re-measurement of the defined benefit liability         | 19   |                   |                 | 196             |
|                   |                 | <b>(22,621)</b> | <b>Total Comprehensive Income and Expenditure</b>       |      |                   |                 | <b>(28,367)</b> |

## 2.3 Balance Sheet

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

| 31 March 2019<br>£000 |                               | Note | 31 March 2020<br>£000 |
|-----------------------|-------------------------------|------|-----------------------|
| 154,091               | Property, Plant and Equipment | 11   | 153,621               |
| 16,402                | Long Term Debtors             | 12   | 15,595                |
| <b>170,493</b>        | <b>Long Term Assets</b>       |      | <b>169,216</b>        |
| 27,720                | Short Term Investments        | 12   | 35,580                |
| 1,334                 | Short Term Debtors            | 14   | 6,532                 |
| 29,149                | Cash and Cash Equivalents     | 16   | 42,704                |
| <b>58,203</b>         | <b>Current Assets</b>         |      | <b>84,817</b>         |
| (1,024)               | Short Term Borrowing          | 12   | (1,032)               |
| (30,446)              | Short Term Creditors          | 17   | (27,606)              |
| (503)                 | Grants Receipts in Advance    | 6    | (427)                 |
| (2,255)               | Public Private Partnerships   | 18   | (2,256)               |
| (15)                  | Other Current Liabilities     |      | -                     |
| <b>(34,243)</b>       | <b>Current Liabilities</b>    |      | <b>(31,321)</b>       |
| (40,585)              | Public Private Partnerships   | 18   | (38,345)              |
| (73,648)              | Long Term Borrowing           | 12   | (75,595)              |
| (100)                 | Grants Receipts in Advance    | 6    |                       |
| -                     | Pension Liability             | 19   | (285)                 |
| <b>(114,333)</b>      | <b>Long Term Liabilities</b>  |      | <b>(114,225)</b>      |
| <b>80,120</b>         | <b>Net Assets</b>             |      | <b>108,487</b>        |
| (40,782)              | Usable Reserves               | 20   | (67,417)              |
| (39,338)              | Unusable Reserves             | 22   | (41,070)              |
| <b>(80,120)</b>       | <b>Total Reserves</b>         |      | <b>(108,487)</b>      |

### Chief Finance Officer Certificate

I certify that the accounts for the period ended 31 March 2020, required by the Accounts and Audit Regulations 2015, give a true and fair view of the financial position of the North of Tyne Combined Authority and its income and expenditure for the 31 March 2020.

Signed: Janice Gillespie, Chief Finance Officer Date:

## 2.4 Cash Flow Statement

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

| 2018/19<br>£000 |                                                                                                                                       | Note | 2019/20<br>£000 |
|-----------------|---------------------------------------------------------------------------------------------------------------------------------------|------|-----------------|
| 22,621          | Net Surplus/(Deficit) on the provision of services                                                                                    |      | 28,563          |
| 5,048           | Adjustments to net surplus or deficit on the provision of services for non-cash movements                                             | 24   | (7,587)         |
| (8,807)         | Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities | 24   | (11,034)        |
| <b>18,862</b>   | <b>Net cash flows from Operating Activities</b>                                                                                       |      | <b>9,942</b>    |
| 197             | Investing Activities                                                                                                                  |      | 1,651           |
| (147)           | Financing Activities                                                                                                                  |      | 1,963           |
| <b>18,912</b>   | <b>Net (Decrease)/Increase in cash and cash equivalents</b>                                                                           |      | <b>13,555</b>   |
| 10237*          | Cash and cash equivalents at the beginning of the reporting period                                                                    | 16   | 29,149          |
| <b>29,149</b>   | <b>Cash and cash equivalents at the end of the reporting period</b>                                                                   |      | <b>42,704</b>   |

\*This includes activities that are part of the services transferred from NECA and relates to the cash and cash equivalent position at the date of incorporation of the NTCA (2 November 2018).

## Index to the Notes to the Financial Statements

The values within the financial statements are disclosed with roundings which are appropriate to their individual presentation. Consequently, the tables in the Statement of Accounts may contain rounding differences.

| <b>Note</b> | <b>Title</b>                                                                                                                                   | <b>Page</b> |
|-------------|------------------------------------------------------------------------------------------------------------------------------------------------|-------------|
| 1           | Narrative Explanatory Note on Devolution                                                                                                       | 9           |
| 2           | Expenditure and Funding Analysis                                                                                                               | 10          |
| 2a          | Income and Expenditure Analysed by Nature                                                                                                      | 12          |
| 3           | Adjustments between Accounting Basis and Funding Basis under Regulations                                                                       | 13          |
| 4           | Financing and Investment Income and Expenditure                                                                                                | 14          |
| 5           | Taxation and Non-Specific Grant Income                                                                                                         | 14          |
| 6           | Grants and Contributions Income                                                                                                                | 15          |
| 7           | Members' Allowances and Expenses                                                                                                               | 16          |
| 8           | Officers' Remuneration                                                                                                                         | 16          |
| 9           | External Audit Costs                                                                                                                           | 18          |
| 10          | Related Parties                                                                                                                                | 19          |
| 11          | Property, Plant and Equipment                                                                                                                  | 21          |
| 12          | Financial Instruments                                                                                                                          | 23          |
| 13          | Nature and Extent of Risks arising from Financial Instruments                                                                                  | 26          |
| 14          | Short Term Debtors                                                                                                                             | 29          |
| 15          | Long Term Debtors                                                                                                                              | 29          |
| 16          | Cash and Cash Equivalents                                                                                                                      | 29          |
| 17          | Short Term Creditors                                                                                                                           | 29          |
| 18          | Private Finance Initiatives and Similar Contracts                                                                                              | 30          |
| 19          | Defined Benefit Pension Schemes                                                                                                                | 31          |
| 20          | Usable Reserves                                                                                                                                | 36          |
| 21          | Transfers (to)/From Earmarked Reserves                                                                                                         | 36          |
| 22          | Unusable Reserves                                                                                                                              | 38          |
| 23          | Capital Expenditure and Capital Financing                                                                                                      | 41          |
| 24          | Adjustments to net surplus or deficit on the provision of services for non cash movements and items that are Investing or Financing activities | 42          |
| 25          | Cash Flow - Investing Activities                                                                                                               | 42          |
| 26          | Cash Flow - Financing Activities                                                                                                               | 42          |
| 26a         | Reconciliation of liabilities arising from financial activities                                                                                | 43          |
| 27          | Accounting Standards Issued not yet Adopted                                                                                                    | 44          |
| 28          | Critical Judgements in Applying Accounting Policies                                                                                            | 45          |
| 29          | Assumptions made about the future and other major sources of estimation uncertainty                                                            | 46          |
| 30          | Accounting Policies                                                                                                                            | 48          |
| 31          | Events after the Balance Sheet Date                                                                                                            | 63          |

## **Note 1: Transfer of Services to the Newcastle upon Tyne, North Tyneside and Northumberland Combined Authority**

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

At this date:

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

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

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

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

From the 1st April 2020 the NTCA will become the Accountable body for the North East Local Enterprise Partnership (LEP) with staff TUPE across from NECA to NTCA and Transport staff in the Regional Transport Team, now known as the Transport Strategy Unit will be transferred to NECA.

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

**Note 2: Expenditure and Funding Analysis**

The Expenditure and Funding Analysis (EFA) shows how annual expenditure is used and funded from resources (e.g. government grant and levies) by local authorities in comparison with those resources consumed or earned by authorities in accordance with generally accepted accounting practices. It also shows how this expenditure is allocated for decision making purposes between the different areas of the NTCA (including JTC) budget. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

The EFA presented in the accounts reconciles between the amounts in the NTCA Movement in Reserves Statement and Comprehensive Income and Expenditure Statement.

|                                                   | 2019/20                                        |                                  |                     |                   |                             |
|---------------------------------------------------|------------------------------------------------|----------------------------------|---------------------|-------------------|-----------------------------|
|                                                   | Net Expenditure Chargeable to the General Fund | Adjustments for Capital Purposes | Pension Adjustments | Other Differences | Net Expenditure in the CIES |
|                                                   | £000                                           | £000                             | £000                | £000              | £000                        |
| <b>Continuing NTCA Services</b>                   |                                                |                                  |                     |                   |                             |
| Investment                                        | 735                                            | -                                | -                   | -                 | 735                         |
| Corporate Costs                                   | (3,713)                                        | -                                | 91                  | -                 | (3,622)                     |
| Mayors Office                                     | 207                                            | -                                | -                   | -                 | 207                         |
| Elections                                         | 1,045                                          | -                                | -                   | -                 | 1,045                       |
| Adult Education Budget                            | (246)                                          | -                                | -                   | -                 | (246)                       |
| <b>Services Transferred from NECA</b>             |                                                |                                  |                     |                   |                             |
| Transport - Northumberland                        | 6,094                                          | -                                | -                   | -                 | 6,094                       |
| Transport - Retained Levy Budget                  | 348                                            | (234)                            | -                   | -                 | 114                         |
| Transport - Tyne and Wear                         | 24,657                                         | -                                | -                   | -                 | 24,657                      |
| Transport - Other                                 | 326                                            | (1,811)                          | -                   | -                 | (1,485)                     |
| Transport - Tyne Tunnels                          | (2,570)                                        | (983)                            | -                   | -                 | (3,553)                     |
| <b>Net Cost of services</b>                       | <b>26,883</b>                                  | <b>(3,028)</b>                   | <b>91</b>           | <b>-</b>          | <b>23,946</b>               |
| <b>Other Income and Expenditure</b>               |                                                |                                  |                     |                   |                             |
| - From continuing services                        | (51,835)                                       | (309)                            | (2)                 | (363)             | (52,509)                    |
| - From services transferred from NECA             | -                                              | -                                | -                   | -                 | -                           |
| <b>(Surplus)/Deficit on Provision of Services</b> | <b>(24,952)</b>                                | <b>(3,337)</b>                   | <b>89</b>           | <b>(363)</b>      | <b>(28,563)</b>             |
| <b>Opening General Fund Balances</b>              | <b>(36,615)</b>                                |                                  |                     |                   |                             |
| Surplus on General Fund Balances in Year          | (24,952)                                       |                                  |                     |                   |                             |
| <b>Closing General Fund Balances</b>              | <b>(61,567)</b>                                |                                  |                     |                   |                             |

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

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

## North of Tyne Combined Authority Statement of Accounts 2019/20

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

### Net Change for the Pension Adjustments

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

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

### Other Differences

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

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

|                                                                                                      | 2018/19                                        |                                  |                     |                   |                             |
|------------------------------------------------------------------------------------------------------|------------------------------------------------|----------------------------------|---------------------|-------------------|-----------------------------|
|                                                                                                      | Net Expenditure Chargeable to the General Fund | Adjustments for Capital Purposes | Pension Adjustments | Other Differences | Net Expenditure in the CIES |
|                                                                                                      | £000                                           | £000                             | £000                | £000              | £000                        |
| <b>Continuing NTCA Services</b>                                                                      |                                                |                                  |                     |                   |                             |
| Investment                                                                                           | 3                                              | -                                | -                   | -                 | 3                           |
| Corporate Costs                                                                                      | 157                                            | -                                | -                   | -                 | 157                         |
| <b>Services Transferred from the NECA</b>                                                            |                                                |                                  |                     |                   |                             |
| Transport - Northumberland                                                                           | 2,561                                          | -                                | -                   | -                 | 2,561                       |
| Transport - Retained Levy Budget                                                                     | 161                                            | (117)                            | -                   | -                 | 44                          |
| Transport - Tyne and Wear                                                                            | 9,538                                          | -                                | -                   | -                 | 9,538                       |
| Transport - Other                                                                                    | 466                                            | (4,104)                          | -                   | -                 | (3,638)                     |
| Transport - Tyne Tunnels                                                                             | 49                                             | 1,955                            | -                   | -                 | 2,004                       |
| <b>Cost of services relating to continuing services excluding operations transferred to the NTCA</b> | <b>12,935</b>                                  | <b>(2,266)</b>                   | -                   | -                 | <b>10,669</b>               |
| <b>Other Income and Expenditure</b>                                                                  |                                                |                                  |                     |                   |                             |
| - From continuing services                                                                           | (20,093)                                       | -                                | -                   | -                 | (20,093)                    |
| - From services transferred from NECA                                                                | (13,050)                                       | -                                | -                   | (147)             | (13,197)                    |
| <b>(Surplus)/Deficit on Provision of Services</b>                                                    | <b>(20,208)</b>                                | <b>(2,266)</b>                   | -                   | <b>(147)</b>      | <b>(22,621)</b>             |

Balances transferred from NECA

(16,407)

Surplus on General Fund Balances in Year

(20,208)

**Closing General Fund Balances at 31 March 2019**

**(36,615)**

**Note 2a: Income and Expenditure Analysed by Nature**

|                                                                                             | 2018/19<br>£000 | 2019/20<br>£000 |
|---------------------------------------------------------------------------------------------|-----------------|-----------------|
| <b>Expenditure</b>                                                                          |                 |                 |
| Employee benefit expenses                                                                   | 40              | 1,723           |
| Other service expenses                                                                      | 16,774          | 43,335          |
| Support Service Recharges                                                                   | 84              | 298             |
| Depreciation, impairment and Revenue Expenditure Funded from Capital Under Statute (REFCUS) | 7,917           | 10,723          |
| Interest payments                                                                           | 1,598           | 3,289           |
| <b>Total expenditure</b>                                                                    | <b>26,413</b>   | <b>59,368</b>   |
| <b>Income</b>                                                                               |                 |                 |
| Fees, charges and other service income (Tyne Tunnels tolls)*                                | (4,191)         | (12,616)        |
| Interest and investment income                                                              | (719)           | (1,080)         |
| Income from transport levy                                                                  | (13,964)        | (33,168)        |
| Government grants and contributions                                                         | (29,321)        | (21,319)        |
| Other income                                                                                | (839)           | (19,748)        |
| <b>Total income</b>                                                                         | <b>(49,034)</b> | <b>(87,931)</b> |
| <b>Surplus/Deficit on the provision of services</b>                                         | <b>(22,621)</b> | <b>(28,563)</b> |

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

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

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

| 2018/19      |                          |                          |                   | Adjustments between Accounting Basis and Funding Basis Under Statute                                                                                | 2019/20      |                          |                          |                   |
|--------------|--------------------------|--------------------------|-------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------|--------------|--------------------------|--------------------------|-------------------|
| General Fund | Capital Receipts Reserve | Capital Grants Unapplied | Unusable Reserves |                                                                                                                                                     | General Fund | Capital Receipts Reserve | Capital Grants Unapplied | Unusable Reserves |
| £000         | £000                     | £000                     | £000              |                                                                                                                                                     | £000         | £000                     | £000                     | £000              |
|              |                          |                          |                   | <b>Adjustments primarily involving the Capital Adjustment Account</b>                                                                               |              |                          |                          |                   |
|              |                          |                          |                   | <b>Reversal of items debited or credited to the CIES</b>                                                                                            |              |                          |                          |                   |
| (3,213)      | -                        | -                        | 3,213             | Charges for depreciation and impairment of non current assets                                                                                       | (1,842)      |                          |                          | 1,842             |
| 946          | -                        | -                        | (946)             | Other income that cannot be credited to the General Fund                                                                                            | 2,256        |                          |                          | (2,256)           |
| 4,640        | -                        | -                        | (4,640)           | Capital grants and contributions applied                                                                                                            | 6,435        |                          |                          | (6,435)           |
| (4,704)      | -                        | -                        | 4,704             | Revenue expenditure funded from capital under statute                                                                                               | (8,881)      |                          |                          | 8,881             |
|              |                          |                          | -                 | <b>Insertion of items not debited or credited to the CIES</b>                                                                                       |              |                          |                          | -                 |
| 429          | -                        | -                        | (429)             | Statutory provision for the financing of capital investment                                                                                         | 766          |                          |                          | (766)             |
| -            | -                        | -                        | -                 | Capital expenditure charged against the General Fund                                                                                                | 4            |                          |                          | (4)               |
|              |                          |                          |                   | <b>Adjustments primarily involving the Capital Grants Unapplied</b>                                                                                 |              |                          |                          |                   |
| 4,168        | -                        | (4,168)                  | -                 | Grants and contributions unapplied credited to the CIES                                                                                             | 4,599        |                          | (4,599)                  | -                 |
| -            | -                        | 545                      | (545)             | Application of grants to capital financing transferred to the CAA                                                                                   |              |                          | 2,916                    | (2,916)           |
|              |                          |                          |                   | <b>Adjustments involving the Capital Receipts Reserve</b>                                                                                           |              |                          |                          |                   |
| -            | (724)                    | -                        | (724)             | Loan principal repayments                                                                                                                           |              | (698)                    |                          | 698               |
| -            | 724                      | -                        | 724               | Use of Capital Receipts Reserve to finance new capital expenditure                                                                                  |              |                          |                          | -                 |
| -            | -                        | -                        | -                 | Application of Capital Receipts to repayment of debt                                                                                                |              | 698                      |                          | (698)             |
|              |                          |                          |                   | <b>Adjustments involving the Financial Instruments</b>                                                                                              |              |                          |                          |                   |
| 147          | -                        | -                        | (147)             | Amount by which finance costs charged to the CIES are different from finance costs chargeable in the year in accordance with statutory requirements | 363          |                          |                          | (363)             |
|              |                          |                          |                   | <b>Adjustments involving the Pensions Reserve</b>                                                                                                   |              |                          |                          |                   |
| -            | -                        | -                        | -                 | Reversal of items relating to retirement benefits debited or                                                                                        | (269)        |                          |                          | 269               |
| -            | -                        | -                        | -                 | Employer's pension contributions and direct payments to pensioners payable in the year                                                              | 178          |                          |                          | (178)             |
|              |                          |                          |                   | Interest expense on net defined liability/(asset)                                                                                                   | 2            |                          |                          | (2)               |
| <b>2,413</b> | <b>-</b>                 | <b>(3,623)</b>           | <b>1,210</b>      | <b>Total Adjustments</b>                                                                                                                            | <b>3,611</b> | <b>-</b>                 | <b>(1,683)</b>           | <b>(1,928)</b>    |

**Note 4: Financing and Investment Income and Expenditure**

|                                               | Note | 2018/19             |                                                                    | 2019/20      |
|-----------------------------------------------|------|---------------------|--------------------------------------------------------------------|--------------|
|                                               |      | Continuing Services | Transport Services transferred to NTCA - 1 April 2018 - 1 November |              |
|                                               |      | £000                | £000                                                               | £000         |
| Interest Payable and Similar Charges          |      | 1,598               |                                                                    | 3,289        |
| Interest Payable on defined benefit liability | 19   |                     |                                                                    | (2)          |
| Interest Receivable and similar income        |      | (719)               |                                                                    | (1,078)      |
| <b>Total</b>                                  |      | <b>879</b>          | <b>-</b>                                                           | <b>2,209</b> |

**Note 5: Taxation and Non Specific Grant Income**

|                                  | 2018/19             |                                                                    | 2019/20         |
|----------------------------------|---------------------|--------------------------------------------------------------------|-----------------|
|                                  | Continuing Services | Transport Services transferred to NTCA - 1 April 2018 - 1 November |                 |
|                                  | £000                | £000                                                               | £000            |
| Transport Levy                   | -                   | (13,964)                                                           | (33,168)        |
| Non-Ringfenced Government Grants | (20,091)            | -                                                                  | (20,182)        |
| Non Specific Capital Grants      | -                   | (114)                                                              | (1,368)         |
| <b>Total</b>                     | <b>(20,091)</b>     | <b>(14,078)</b>                                                    | <b>(54,718)</b> |

**Note 6: Grant Income**

The following grants and contributions were credited to the Comprehensive Income and Expenditure Statement within the Cost of Services in 2019/20:

|                                                             | 2018/19             |                                        | 2019/20         |
|-------------------------------------------------------------|---------------------|----------------------------------------|-----------------|
|                                                             | Continuing Services | Transport Services transferred to NTCA |                 |
|                                                             | £000                | £000                                   | £000            |
| Homeless Veteran Grant                                      | (91)                | -                                      | -               |
| Mayoral Capacity Fund                                       | (250)               | -                                      | (1,000)         |
| Other Grants and Contributions (individually under £1.000m) | (4)                 | (435)                                  | (114)           |
| Local Transport Plan                                        | -                   | (3,860)                                | (6,179)         |
| European Grants                                             | -                   | -                                      | (220)           |
| North East Smart Ticketing Initiative                       | -                   | -                                      | (160)           |
| Transforming Cities Fund                                    | -                   | (4,450)                                | (4,386)         |
| Office for Low Emission Vehicles                            | -                   | -                                      | (240)           |
| Section 31 Grant                                            | -                   | -                                      | -               |
| Adult Education Implentation Fund                           | (26)                | -                                      | (382)           |
| <b>Total</b>                                                | <b>(371)</b>        | <b>(8,745)</b>                         | <b>(12,681)</b> |

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

| Grants Receipts in Advance                 | 31 March 2019<br>£000 | 31 March 2020<br>£000 |
|--------------------------------------------|-----------------------|-----------------------|
| NECA North East Smart Ticketing Initiative | (503)                 | (91)                  |
| NECA Office for Low Emission Vehicles      | (100)                 | (112)                 |
| Other Grants                               | -                     | (224)                 |
| <b>Total</b>                               | <b>(603)</b>          | <b>(427)</b>          |

|                                                    |              |              |
|----------------------------------------------------|--------------|--------------|
| Shown as Short-Term Liability on the Balance Sheet | (503)        | (427)        |
| Short as Long-Term Liability on the Balance Sheet  | (100)        | -            |
| <b>Total</b>                                       | <b>(603)</b> | <b>(427)</b> |

**Note 7: Members' Allowances**

The Authority paid the following amounts to independent members of its various committees during the financial year 2019/20:

|              | 2018/19<br>£000 | 2019/20<br>£000 |
|--------------|-----------------|-----------------|
| Allowances   | -               | 2               |
| <b>Total</b> | -               | <b>2</b>        |

During the financial year 2019/20 the following allowance was paid to the Elected Mayor:

|                                                        | 2018/19<br>£000 | 2019/20<br>£000 |
|--------------------------------------------------------|-----------------|-----------------|
| Elected Mayor Allowance                                | -               | 56              |
| Elected Mayor National Insurance Contributions Payable | -               | 10              |
| <b>Total</b>                                           | -               | <b>66</b>       |

**Note 8: Officers' Remuneration**

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

|                                              |         | Salary, Fees<br>and<br>Allowances<br>£000 | Pension<br>Contributions<br>£000 | Total<br>£000 |
|----------------------------------------------|---------|-------------------------------------------|----------------------------------|---------------|
| Director of Economic Growth                  | 2019/20 | 35                                        | 9                                | 44            |
|                                              | 2018/19 | -                                         | -                                | -             |
| Director of Policy and Performance           | 2019/20 | 127                                       | 0                                | 127           |
|                                              | 2018/19 | -                                         | -                                | -             |
| Managing Director of Transport Arrangements* | 2019/20 | 127                                       | -                                | 127           |
|                                              | 2018/19 | 125                                       | 21                               | 146           |

\*The Managing Director of Transport Arrangements is a NECA employee, working on behalf of the Joint Transport Committee, therefore under the Joint Transport Committee arrangements the remuneration paid to the Managing Director of Transport Operations is included in the table above, although NTCA are only responsible for their proportion of his salary costs based on the population

Five of the Authorities' statutory officers are not formal employees of the Combined Authority, and are not therefore included in the statutory disclosure above. Their services are based on agreed number of days per week and charged including expenses by their respective Local Authority employers, these are shown in the interests of transparency. The Director of Economic Growth and Director of Policy and Performance posts were appointed to permanently by the NTCA midway through 2019/20.

North of Tyne Combined Authority Statement of Accounts 2019/20

|                                                                                               |         | Payment<br>for agreed<br>Days<br>£000 | Expenses<br>£000 | Total<br>£000 |
|-----------------------------------------------------------------------------------------------|---------|---------------------------------------|------------------|---------------|
| Pat Ritchie, Head of Paid Service to Dec 31st 2019<br>(SLA Newcastle City Council)            | 2019/20 | 10                                    | -                | 10            |
| Pat Ritchie, Head of Paid Service<br>(SLA Newcastle City Council)                             | 2018/19 | -                                     | -                | -             |
| Paul Hanson, Head of Paid Service from January 1<br>2020 - March 31 2020 (SLA North Tyneside) | 2019/20 | 24                                    | -                | 24            |
| N/A                                                                                           | 2018/19 | -                                     | -                | -             |
| Janice Gillespie, Interim Chief Finance Officer, S.73<br>Officer (SLA North Tyneside)         | 2019/20 | 19                                    | -                | 19            |
| Janice Gillespie, Interim Chief Finance Officer, S.73<br>Officer (SLA North Tyneside)         | 2018/19 | 10                                    | -                | 10            |
| John Softly, Interim Monitoring Officer (SLA Newcastle<br>City Council)                       | 2019/20 | 115                                   | -                | 115           |
| John Softly, Interim Monitoring Officer (SLA Newcastle<br>City Council)                       | 2018/19 | 83                                    | -                | 83            |
| Interim Director of Economic Growth to 2 Dec 2019<br>(Newcastle City Council)                 | 2019/20 | 85                                    | -                | 85            |
| Interim, Director of Economic Growth<br>(Newcastle City Council)                              | 2018/19 | -                                     | -                | -             |
| Interim Director of Policy and Performance to 2 Dec 2019                                      | 2019/20 | -                                     | -                | -             |
| Interim Director of Policy and Performance                                                    | 2018/19 | -                                     | -                | -             |

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

|                 | 2018/19<br>£000 | 2019/20<br>£000 |
|-----------------|-----------------|-----------------|
| £50,000-£54,999 | 0               | 0               |
| £55,000-£59,999 | 1               | 0               |
| £60,000-£64,999 | 0               | 1               |
| £65,000-£69,999 | 0               | 0               |
| £70,000-£74,999 | 0               | 0               |
| £75,000-£79,999 | 0               | 0               |
| £80,000-£84,999 | 0               | 0               |
| £85,000-£89,999 | 0               | 0               |
| £90,000-£94,999 | 0               | 0               |
| £95,000-£99,999 | 0               | 0               |
| <b>Total</b>    | <b>1</b>        | <b>1</b>        |

**Note 9: External Audit Costs**

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

|                                                      | <b>2018/19<br/>£000</b> | <b>2019/20<br/>£000</b> |
|------------------------------------------------------|-------------------------|-------------------------|
| Scale fee for the audit of the Statement of Accounts | 30                      | 28                      |
| <b>Total</b>                                         | <b>30</b>               | <b>28</b>               |

## Note 10: Related Parties

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

In this context, related parties include:

- Central Government
- Members of the Cabinet
- Officers of the Combined Authority
- NTCA Constituent Authorities
- Joint Transport Committee Constituent Authorities
- Other Public Bodies
- Other Entities

### Central Government

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

### Elected Members of the Authority

Members of the Combined Authority have a direct control over the Combined Authority's financial and operating policies. The total of members allowances payable to elected members of the Combined Authority is shown in Note 7. During 2019/20 no works or services were commissioned from companies in which any members had an interest.

### Officers

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

### NTCA Constituent Authorities

The Leaders of the three constituent Authorities serve as members on the NTCA Cabinet. Details of material transactions with the seven Authorities are set out in the table below.

### Joint Transport Committee Constituent Authorities

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

### Other Public Bodies

The Combined Authority has a direct relationship with the Passenger Transport Executive for Tyne and Wear (Nexus) through the North East Combined Authority (NECA). Details of material transactions with Nexus are set out in the table below.

**Other Entities**

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

|                                     | 2018/19     |         |             |          | 2019/20     |         |             |          |
|-------------------------------------|-------------|---------|-------------|----------|-------------|---------|-------------|----------|
|                                     | Receivables | Income  | Expenditure | Payables | Receivables | Income  | Expenditure | Payables |
|                                     | £000        | £000    | £000        | £000     | £000        | £000    | £000        | £000     |
| <b>NTCA Constituent Authorities</b> |             |         |             |          |             |         |             |          |
| Newcastle                           | -           | (3,594) | 1,275       | 710      | (783)       | (7,871) | 1,519       | 1,189    |
| North Tyneside                      | -           | (1,983) | 279         | 143      | (1,918)     | (6,863) | 1,237       | 286      |
| Northumberland                      | -           | (1,135) | 1,376       | 54       | (2,359)     | (8,468) | 7,507       | 88       |
| <b>NECA Constituent Authorities</b> |             |         |             |          |             |         |             |          |
| Durham                              | -           | (2,896) | 3,204       | -        | -           | -       | 1,383       | 69       |
| Gateshead                           | -           | (2,036) | 162         | -        | -           | (4,850) | 853         | 21       |
| South Tyneside                      | -           | (1,509) | 180         | 86       | -           | (3,583) | 535         | 610      |
| Sunderland                          | -           | (2,808) | 196         | 19       | -           | (6,643) | 1,000       | 105      |
| <b>Other Public Bodies</b>          |             |         |             |          |             |         |             |          |
| North East Combined Authority       | -           | -       | -           | -        | -           | -       | 8           | 8        |
| Nexus                               | (698)       | (1,330) | 10,668      | 27,178   | (672)       | -       | 27,226      | 22,609   |

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

## Note 11: Property, Plant and Equipment

| 2019/20                                                                                                | Vehicles, Plant,<br>Furniture & Equipment<br>£000 | Infrastructure Assets<br>£000 | Assets Under<br>Construction<br>£000 | Total Property, Plant &<br>Equipment<br>£000 | Service Concession<br>Assets included in<br>Property, Plant and<br>Equipment<br>£000 |
|--------------------------------------------------------------------------------------------------------|---------------------------------------------------|-------------------------------|--------------------------------------|----------------------------------------------|--------------------------------------------------------------------------------------|
| <b>Cost or Valuation</b>                                                                               |                                                   |                               |                                      |                                              |                                                                                      |
| <b>At 1 April 2019</b>                                                                                 | 1,420                                             | 166,202                       | 7,999                                | <b>175,621</b>                               | 166,202                                                                              |
| Additions                                                                                              | -                                                 | -                             | 1,373                                | <b>1,373</b>                                 | -                                                                                    |
| Reclassification                                                                                       | 334                                               | 8,104                         | <b>(8,438)</b>                       | -                                            | 8,104                                                                                |
| Revaluation increases/(decreases)<br>recognised in the Surplus/Deficit on the<br>Provision of Services | -                                                 | -                             | -                                    | -                                            | -                                                                                    |
| Impairment recognised in the<br>Surplus/Deficit on the Provision of Services                           | -                                                 | -                             | -                                    | -                                            | -                                                                                    |
| <b>At 31 March 2020</b>                                                                                | <b>1,754</b>                                      | <b>174,306</b>                | <b>934</b>                           | <b>176,994</b>                               | <b>174,306</b>                                                                       |
| <b>Accumulated Depreciation and<br/>Impairment</b>                                                     |                                                   |                               |                                      |                                              |                                                                                      |
| <b>At 1 April 2019</b>                                                                                 | <b>(525)</b>                                      | <b>(21,005)</b>               | -                                    | <b>(21,530)</b>                              | <b>(21,005)</b>                                                                      |
| Depreciation charge for the Year                                                                       | <b>(74)</b>                                       | <b>(1,768)</b>                | -                                    | <b>(1,842)</b>                               | <b>(1,768)</b>                                                                       |
| <b>At 31 March 2020</b>                                                                                | <b>(599)</b>                                      | <b>(22,773)</b>               | -                                    | <b>(23,372)</b>                              | <b>(22,773)</b>                                                                      |
| <b>Net Book Value</b>                                                                                  |                                                   |                               |                                      |                                              |                                                                                      |
| <b>At 1 April 2019</b>                                                                                 | <b>895</b>                                        | <b>145,197</b>                | <b>7,999</b>                         | <b>154,091</b>                               | <b>145,197</b>                                                                       |
| <b>At 31 March 2020</b>                                                                                | <b>1,155</b>                                      | <b>151,533</b>                | <b>934</b>                           | <b>153,621</b>                               | <b>151,533</b>                                                                       |

2018/19

|                                                                                                  | Vehicles, Plant, Furniture & Equipment<br>£000 | Infrastructure Assets<br>£000 | Assets Under Construction<br>£000 | Total Property, Plant & Equipment<br>£000 | Service Concession Assets included in Property, Plant and Equipment<br>£000 |
|--------------------------------------------------------------------------------------------------|------------------------------------------------|-------------------------------|-----------------------------------|-------------------------------------------|-----------------------------------------------------------------------------|
| <b>Cost or Valuation</b>                                                                         |                                                |                               |                                   |                                           |                                                                             |
| Transferred from the NECA                                                                        | 1,420                                          | 168,729                       | 6,817                             | 176,966                                   | 168,729                                                                     |
| Additions                                                                                        | -                                              | 19                            | 1,182                             | 1,201                                     | 19                                                                          |
| Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services | -                                              | (19)                          | -                                 | (19)                                      | (19)                                                                        |
| Impairment recognised in the Surplus/Deficit on the Provision of Services                        | -                                              | (2,527)                       | -                                 | (2,527)                                   | (2,527)                                                                     |
| <b>At 31 March 2019</b>                                                                          | <b>1,420</b>                                   | <b>166,202</b>                | <b>7,999</b>                      | <b>175,621</b>                            | <b>166,202</b>                                                              |
| <b>Accumulated Depreciation and Impairment</b>                                                   |                                                |                               |                                   |                                           |                                                                             |
| Transfer from NECA                                                                               | (508)                                          | (20,355)                      | -                                 | (20,863)                                  | (20,355)                                                                    |
| Depreciation charge                                                                              | (17)                                           | (650)                         | -                                 | (667)                                     | (650)                                                                       |
| <b>At 31 March 2019</b>                                                                          | <b>(525)</b>                                   | <b>(21,005)</b>               | <b>-</b>                          | <b>(21,530)</b>                           | <b>(21,005)</b>                                                             |
| <b>Net Book Value</b>                                                                            |                                                |                               |                                   |                                           |                                                                             |
| Balances transferred from NECA                                                                   | 912                                            | 148,374                       | 6,817                             | 156,103                                   | 148,374                                                                     |
| <b>At 31 March 2019</b>                                                                          | <b>895</b>                                     | <b>145,197</b>                | <b>7,999</b>                      | <b>154,091</b>                            | <b>145,197</b>                                                              |

**Note 12: Financial Instruments****Financial Assets**

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

|                               | Non-current           |                       |                       |                       | Current               |                       |                       |                       |
|-------------------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
|                               | Investments           |                       | Debtors               |                       | Investments           |                       | Debtors               |                       |
|                               | 31 March 2019<br>£000 | 31 March 2020<br>£000 |
| Amortised cost                | -                     | -                     | 16,402                | 15,595                | 27,720                | 35,580                | 960                   | 1,376                 |
| <b>Total financial assets</b> | -                     | -                     | <b>16,402</b>         | <b>15,595</b>         | <b>27,720</b>         | <b>35,580</b>         | <b>960</b>            | <b>1,376</b>          |
| Non-financial assets          | -                     | -                     | -                     | -                     | -                     | -                     | -                     | 5,156                 |
| <b>Total</b>                  | -                     | -                     | <b>16,402</b>         | <b>15,595</b>         | <b>27,720</b>         | <b>35,580</b>         | <b>960</b>            | <b>6,532</b>          |

**Financial assets at amortised cost**

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

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

All of the financial assets fit these criteria and are classified at amortised cost.

**Trade receivables**

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

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

**Financial Liabilities held at amortised cost**

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

|                                    | Non-current           |                       |                       |                       | Current               |                       |                       |                       |
|------------------------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
|                                    | Borrowings            |                       | Creditors             |                       | Borrowings            |                       | Creditors             |                       |
|                                    | 31 March 2019<br>£000 | 31 March 2020<br>£000 |
| Amortised cost                     | (73,648)              | (75,595)              | -                     | -                     | (1,024)               | (1,032)               | (28,665)              | (25,416)              |
| <b>Total financial liabilities</b> | <b>(73,648)</b>       | <b>(75,595)</b>       | -                     | -                     | <b>(1,024)</b>        | <b>(1,032)</b>        | <b>(28,665)</b>       | <b>(25,416)</b>       |
| Non-financial liabilities          | -                     | -                     | -                     | -                     | -                     | -                     | (587)                 | (2,190)               |
| <b>Total</b>                       | <b>(73,648)</b>       | <b>(75,595)</b>       | -                     | -                     | <b>(1,024)</b>        | <b>(1,032)</b>        | <b>(29,252)</b>       | <b>(27,606)</b>       |

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

**Income, Expense, Gains and Losses**

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

| 31 March 2019                           |                                              |              |                                                          | 31 March 2020                           |                                              |              |
|-----------------------------------------|----------------------------------------------|--------------|----------------------------------------------------------|-----------------------------------------|----------------------------------------------|--------------|
| £000                                    | £000                                         | £000         |                                                          | £000                                    | £000                                         | £000         |
| Financial Liabilities at amortised cost | Financial assets: measured at amortised cost | Total        |                                                          | Financial Liabilities at amortised cost | Financial assets: measured at amortised cost | Total        |
| 1,598                                   | -                                            | 1,598        | Interest expense                                         | 3,289                                   |                                              | 3,289        |
| <b>1,598</b>                            | -                                            | <b>1,598</b> | <b>Total expense in Surplus on Provision of Services</b> | <b>3,289</b>                            | -                                            | <b>3,289</b> |
| -                                       | (717)                                        | (717)        | Investment income                                        |                                         | (1,080)                                      | (1,080)      |
| -                                       | -                                            | -            | Movement on soft loans                                   |                                         |                                              | -            |
| -                                       | (717)                                        | (717)        | <b>Total income in Surplus on Provision of Services</b>  | -                                       | (1,080)                                      | (1,080)      |
| <b>1,598</b>                            | <b>(717)</b>                                 | <b>881</b>   | <b>Net (gain)/loss for the</b>                           | <b>3,289</b>                            | <b>(1,080)</b>                               | <b>2,209</b> |

**Fair Value of Assets & Liabilities carried at Amortised Cost**

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

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

For 2019/20 the fair values are shown in the table below are split by their level in the fair value

- Level 1 – fair value is only derived from quoted prices in active markets for identical assets or

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

- Level 3 – fair value is determined using unobservable inputs: consideration of the estimated creditworthiness of the organisation receiving the loans based on their financial performance and track record of payment.

**The fair values calculated are as follows:**

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

|                                              | Level | 31/03/2019              |                    | 31 March 2020           |                    |
|----------------------------------------------|-------|-------------------------|--------------------|-------------------------|--------------------|
|                                              |       | Carrying amount<br>£000 | Fair value<br>£000 | Carrying amount<br>£000 | Fair value<br>£000 |
| Financial liabilities held at amortised cost | 2     | (74,672)                | (120,322)          | (76,627)                | (132,125)          |
| <b>Total</b>                                 |       | <b>(74,672)</b>         | <b>(120,322)</b>   | <b>(76,627)</b>         | <b>(132,125)</b>   |
| <b>Financial Assets at amortised cost</b>    |       |                         |                    |                         |                    |
| Held to maturity investments                 |       | 27,720                  | 27,720             | 35,580                  | 35,580             |
| Nexus loan debtor                            | 2     | 17,099                  | 26,979             | 15,595                  | 27,152             |
| Other loan debtors                           | 3     | -                       | -                  | -                       | -                  |
| <b>Total</b>                                 |       | <b>44,819</b>           | <b>54,699</b>      | <b>51,175</b>           | <b>62,732</b>      |

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

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

Credit risk - the possibility that other parties might fail to pay amounts due to the Authority.

Liquidity risk - the possibility that the Authority might not have funds available to meet its commitments to make payments.

Market risk - the possibility that financial loss might arise for the Authority as a result of changes in such measures as interest rates and financial market movements.

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

**Credit Risk**

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

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

| <b>Rating</b>                                                  | <b>2019/20<br/>£000</b> |
|----------------------------------------------------------------|-------------------------|
| A+                                                             | -                       |
| A-                                                             |                         |
| n/a - investments with UK local authorities                    | 33,784                  |
| n/a - investments with unrated building societies <sup>1</sup> | 1,797                   |
| <b>Total Short-Term Investments</b>                            | <b>35,581</b>           |

<sup>1</sup> In line with its agreed Investment Strategy, NTCA at the point of these accounts, did not place investments with Building Society. NECA (in regard of those Investments which relate to JTC Investments) place investments for up to 1 year and up to £5m each with UK building societies without credit ratings with assets greater than £250m.

The Combined Authority's maximum exposure to credit risk in relation to its investments in banks and building societies cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of non recovery applies to all of the Authority's deposits, but there was no evidence at the 31 March 2020 that this was likely to crystallise. Actions are taken immediately if an institution is downgraded and deposits withdrawn in line with Treasury Management Strategy.

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

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

**Liquidity Risk**

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

|                    | 31 March 2019<br>£000 | 31 March 2020<br>£000 |
|--------------------|-----------------------|-----------------------|
| Between 1-2 years  | (295)                 | (295)                 |
| Between 2-5 years  | (886)                 | (886)                 |
| Between 5-10 years | (738)                 | (443)                 |
| More than 10 years | (71,729)              | (73,971)              |
|                    | <b>(73,648)</b>       | <b>(75,595)</b>       |
| Less than 1 year   | (1,024)               | (1,032)               |
| Total borrowing    | <b>(74,672)</b>       | <b>(76,627)</b>       |

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

**Market Risk**

**Interest Rate Risk**

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

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

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

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

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

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

|                                                                 | 31 March 2019<br>£000 | 31 March 2020<br>£000 |
|-----------------------------------------------------------------|-----------------------|-----------------------|
| Increase in interest payable on variable rate borrowing         | -                     |                       |
| Increase in interest receivable on variable rate investments    | 543                   | 149                   |
| <b>Impact on the (Surplus)/Deficit on Provision of Services</b> | <b>543</b>            | <b>149</b>            |

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

If interest rates had been 1% higher with all other variables held constant, the financial effect would be a decrease of £24.650m in the fair value of fixed rate borrowings, although this would not impact on the Surplus/Deficit on the Provision of Services or Other Comprehensive Income and Expenditure.

**Note 14: Short Term Debtors**

|                                | 31 March 2019<br>£000 | 31 March 2020<br>£000 |
|--------------------------------|-----------------------|-----------------------|
| Central Government bodies      | 510                   | 790                   |
| Other local authorities        | -                     | 5,070                 |
| Other entities and individuals | 824                   | 672                   |
| <b>Total</b>                   | <b>1,334</b>          | <b>6,532</b>          |

**Note 15: Long Term Debtors**

|                 | 31 March 2019<br>£000 | 31 March 2020<br>£000 |
|-----------------|-----------------------|-----------------------|
| Nexus borrowing | 16,402                | 15,595                |
| <b>Total</b>    | <b>16,402</b>         | <b>15,595</b>         |

**Note 16: Cash and Cash Equivalents**

|                                       | 31 March 2019<br>£000 | 31 March 2020<br>£000 |
|---------------------------------------|-----------------------|-----------------------|
| Cash held in Authority's bank account | 6,160                 | 7,173                 |
| Cash equivalents                      | 22,989                | 35,531                |
| <b>Total</b>                          | <b>29,149</b>         | <b>42,704</b>         |

**Note 17: Short Term Creditors**

|                                | 31 March 2019<br>£000 | 31 March 2020<br>£000 |
|--------------------------------|-----------------------|-----------------------|
| Central government bodies      | (2)                   | (78)                  |
| Other local authorities        | (1,014)               | (2,386)               |
| Other entities and individuals | (29,430)              | (342)                 |
| - Nexus                        | -                     | (22,441)              |
| - TT2                          | -                     | (1,346)               |
| - Other                        | -                     | (1,013)               |
| <b>Total</b>                   | <b>(30,446)</b>       | <b>(27,606)</b>       |

**Note 18: Private Finance Initiatives and Similar Contracts**

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

In 2019/20 the total payment under the contract was £21.123m (2018/19 £20.256m) of which £17.367m is shown in the account of NECA and £3.756m shown in the accounts of NTCA.

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

|                               | Deferred Income Release |                 |
|-------------------------------|-------------------------|-----------------|
|                               | 2018/19<br>£000         | 2019/20<br>£000 |
| Payable in 2020/21            | (2,255)                 | (2,256)         |
| Payable within 2 to 5 years   | (9,019)                 | (9,022)         |
| Payable within 6 to 10 years  | (11,274)                | (11,278)        |
| Payable within 11 to 15 years | (11,274)                | (11,278)        |
| Payable within 16 to 20 years | (9,018)                 | (6,766)         |
| <b>Total</b>                  | <b>(42,840)</b>         | <b>(40,600)</b> |

**Payments**

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

**Note 19: Defined Benefit Pension Schemes**

The Combined Authority currently participates in one post-employment schemes:

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

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

**Amounts recognised in profit and loss and other comprehensive income**

|                                                                                                      | <b>Local Government Pension Scheme</b> |                |
|------------------------------------------------------------------------------------------------------|----------------------------------------|----------------|
|                                                                                                      | <b>2018/19</b>                         | <b>2019/20</b> |
|                                                                                                      | <b>£000</b>                            | <b>£000</b>    |
| <b>Comprehensive Income and Expenditure Statement</b>                                                |                                        |                |
| <b>Cost of Services:</b>                                                                             |                                        |                |
| Current service cost                                                                                 | -                                      | 250            |
| Past service cost                                                                                    | -                                      | 19             |
| <b>Financing and Investment Income and Expenditure</b>                                               |                                        |                |
| Interest on net defined benefit liability (asset)                                                    | -                                      | (2)            |
| <b>Pension expense recognised in profit and loss</b>                                                 | -                                      | <b>267</b>     |
| <b>Other Post Employment Benefits charged to the Comprehensive Income and Expenditure Statement:</b> |                                        |                |
| Return on plan assets (in excess of)/below that recognised in net interest                           | -                                      | (386)          |
| Actuarial (gains)/losses due to changes in financial assumptions                                     | -                                      | (12)           |
| Actuarial (gains)/losses due to changes in demographic assumptions                                   | -                                      | -              |
| Actuarial (gains)/losses due to changes in liability assumptions                                     | -                                      | 594            |
| Adjustment in respect of paragraph 58                                                                | -                                      | -              |
| <b>Total amount recognised in Other Comprehensive Income</b>                                         | -                                      | <b>196</b>     |
| <b>Total amount recognised</b>                                                                       | -                                      | <b>463</b>     |

Changes to the present value of net defined benefit obligation

|                                                                   | Local Government Pension Scheme |            |
|-------------------------------------------------------------------|---------------------------------|------------|
|                                                                   | 2018/19                         | 2019/20    |
|                                                                   | £000                            | £000       |
| <b>Opening defined benefit obligation at 1 April</b>              | -                               | <b>2</b>   |
| Current service cost                                              | -                               | 250        |
| Interest expense on defined benefit obligation                    | -                               | 1          |
| Contributions by participants                                     | -                               | 54         |
| Actuarial gains/(losses) on liabilities - financial assumptions   | -                               | (12)       |
| Actuarial gains/(losses) on liabilities - demographic assumptions | -                               | -          |
| Actuarial gains/(losses) on liabilities - experience              | -                               | 594        |
| Net benefits paid out                                             | -                               | 2          |
| Past service costs                                                | -                               | 19         |
| <b>Closing defined benefit obligation at 31 March</b>             | -                               | <b>910</b> |

Reconciliation of the fair value of the scheme assets:

|                                        | Local Government Pension Scheme |            |
|----------------------------------------|---------------------------------|------------|
|                                        | 2018/19                         | 2019/20    |
|                                        | £000                            | £000       |
| <b>Opening fair value of assets</b>    | -                               | <b>2</b>   |
| Interest income on assets              | -                               | 3          |
| Remeasurement gains/(losses) on assets | -                               | 386        |
| Employer contributions                 | -                               | 178        |
| Contributions by scheme participants   | -                               | 54         |
| Net benefits paid out                  | -                               | 2          |
| <b>Closing fair value of assets</b>    | -                               | <b>625</b> |

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

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

| Scheme History                                       | 2018/19<br>£000 | 2019/20<br>£000 |
|------------------------------------------------------|-----------------|-----------------|
| <b>Fair value of LGPS assets</b>                     | -               | 625             |
| Present value of liabilities:                        |                 |                 |
| - Funded Defined Benefit Obligation                  | -               | 910             |
| <b>Funding Status</b>                                | -               | <b>(285)</b>    |
| Unrecognised Asset                                   | -               | -               |
| <b>Asset/ (Liability) shown on the Balance Sheet</b> | -               | <b>(285)</b>    |

The split of the defined benefit obligation at the last valuation date between the various categories of members was as follows: active members 100%, deferred pensioners 0% and pensioners 0%.

The liabilities show the underlying commitments that the Authority has in the long run to pay post employment (retirement) benefits. The total liability of £0.910m has an impact on the net worth of the Authority recorded on the balance sheet, resulting in a negative pension balance of £0.285m. However, statutory arrangements for funding the deficit mean that the financial position of the Authority remains healthy:

- The deficit on the local government scheme will be made good by contributions over the remaining working life of employees (i.e. before payments fall due), as assessed by the scheme actuary.
- Finance is only required to be raised to cover discretionary benefits when the pensions are actually paid.
- The total contributions expected to be made to the Local Government Pension Scheme by the Authority in the year to 31 March 2021 is £0.071m. In addition, Strain on the Fund contributions may be required. Expected payments direct to beneficiaries in the year to 31 March 2021 are nil in relation to unfunded benefits.

#### **Basis for Estimating Assets and Liabilities**

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

The impact of the McCloud judgement has been allowed for in these figures. The approach taken was that where the employer accounted for a potential McCloud liability at the last accounting date (which would have been treated as a past service cost in last year), any change in the allowance over the period has been treated as an experience item through the Comprehensive Income. Where the employer chose not to account for a potential McCloud liability has been presented as a past service cost this year. As NTCA did not have a pension liability in the last financial year a past service cost has been calculated this year of £0.018m, which is recognised at 1 April 2019. Interest is added to this cost over the year within the past service cost line. The current service costs includes a prospective allowance for McCloud liabilities of 0.40% of Pensionable Pay over the period.

A small proportion (9%) of the Pension Fund's investments are in direct property valuations and pooled residential property funds. The impact of Covid 19 has resulted in a significant reduction in the number of transactions in the market and consequently the relevant observable data available upon which to base a valuation judgement. As such, the Pension Fund's property investment manager has included a material valuation uncertainty clause in some of their valuation reports due to the possible impact of Covid 19. Therefore, there is less certainty and a higher degree of caution should be attached to the valuations of these unquoted assets than would normally be the case. There is a risk that current valuations may be under or overstated in the accounts.

## North of Tyne Combined Authority Statement of Accounts 2019/20

The weighted average duration of the defined benefit obligation for scheme members is 29.3 years.

The principal assumptions used by the actuary have been:

|                                                      | Local Government |            |
|------------------------------------------------------|------------------|------------|
|                                                      | 31-Mar-19        | 31-Mar-20  |
| <b>Mortality assumptions:</b>                        |                  |            |
| Pensioner member aged 65 at accounting date (male)   | 21.8             | 21.8       |
| Pensioner member aged 65 at accounting date (female) | 24.9             | 25.0       |
| Active member aged 45 at accounting date (male)      | 23.4             | 23.5       |
| Active member aged 45 at accounting date (female)    | 26.7             | 26.8       |
| <b>Rate for discounting scheme liabilities</b>       | <b>% pa</b>      | <b>%pa</b> |
| Rate for inflation - Retail Price Index              | 2.50%            | 2.30%      |
| Rate of inflation - Consumer Price Index             | 2.10%            | 1.80%      |
| Rate of increase in pensions                         | 2.10%            | 1.80%      |
| Pension accounts revaluation rate                    | 2.10%            | 1.80%      |
| Rate of increase in salaries                         | 3.60%            | 3.30%      |

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

|                    | 31 March 2019 | 31 March 2020 |              |               |
|--------------------|---------------|---------------|--------------|---------------|
|                    | % Total       | % Quoted      | % Unquoted   | % Total       |
| Equity investments | 66.1%         | 48.0%         | 6.8%         | 54.8%         |
| Property           | 9.0%          | 0.0%          | 9.0%         | 9.0%          |
| Government bonds   | 3.9%          | 4.1%          | 0.0%         | 4.1%          |
| Corporate bonds    | 11.5%         | 15.3%         | 0.0%         | 15.3%         |
| Cash               | 3.9%          | 2.3%          | 0.0%         | 2.3%          |
| Other*             | 5.6%          | 8.5%          | 6.0%         | 14.5%         |
| <b>Total</b>       | <b>100.0%</b> | <b>78.2%</b>  | <b>21.8%</b> | <b>100.0%</b> |

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

### Actual Return on Assets

|                                     | Local Government |            |
|-------------------------------------|------------------|------------|
|                                     | 31-Mar-19        | 31-Mar-20  |
|                                     | £000             | £000       |
| Interest Income on Assets           | -                | 3          |
| Remeasurement gain/(loss) on assets | -                | 386        |
| <b>Actual Return on Assets</b>      | <b>-</b>         | <b>389</b> |

**Sensitivity Analysis**

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

| <b>Discount rate assumption</b>                | <b>+0.1% p.a.</b> | <b>Base Figure</b> | <b>-0.1% p.a.</b> |
|------------------------------------------------|-------------------|--------------------|-------------------|
| <b>Adjustment to discount rate</b>             |                   |                    |                   |
| Present value of total obligation (£M)         | 0.884             | 0.910              | 0.937             |
| % change in present value of total obligation  | -2.9%             |                    | 3.0%              |
| Projected service cost (£M)                    | 0.428             | 0.445              | 0.462             |
| Approximate % change in projected service cost | -3.8%             |                    | 3.9%              |

| <b>Rate of general increase in salaries</b>    | <b>+0.1% p.a.</b> | <b>Base Figure</b> | <b>-0.1% p.a.</b> |
|------------------------------------------------|-------------------|--------------------|-------------------|
| <b>Adjustment to salary increase rate</b>      |                   |                    |                   |
| Present value of total obligation (£M)         | 0.910             | 0.910              | 0.910             |
| % change in present value of total obligation  | 0.0%              |                    | 0.0%              |
| Projected service cost (£M)                    | 0.445             | 0.445              | 0.445             |
| Approximate % change in projected service cost | 0.0%              |                    | 0.0%              |

| <b>Rate of increase to pensions in payment and deferred pensions assumption, and rate of revaluation of pension accounts</b> | <b>+0.1% p.a.</b> | <b>Base Figure</b> | <b>-0.1% p.a.</b> |
|------------------------------------------------------------------------------------------------------------------------------|-------------------|--------------------|-------------------|
| <b>Adjustment to pension increase rate</b>                                                                                   |                   |                    |                   |
| Present value of total obligation                                                                                            | 0.937             | 0.910              | 0.884             |
| % change in present value of total obligation                                                                                | 3.0%              |                    | -2.9%             |
| Projected service cost (£M)                                                                                                  | 0.462             | 0.445              | 0.428             |
| Approximate % change in projected service cost                                                                               | 3.9%              |                    | -3.8%             |

| <b>Post retirement mortality assumption</b>           | <b>- 1 year</b> | <b>Base Figure</b> | <b>+ 1 year</b> |
|-------------------------------------------------------|-----------------|--------------------|-----------------|
| <b>Adjustment to mortality age rating assumption*</b> |                 |                    |                 |
| Present value of total obligation (£M)                | 0.938           | 0.910              | 0.882           |
| % change in present value of total obligation         | 3.1%            |                    | -3.1%           |
| Projected service cost (£M)                           | 0.463           | 0.445              | 0.427           |
| Approximate % change in projected service cost        | 4.0%            |                    | -4.0%           |

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

**Note 20: Usable Reserves**

|                                  | Note | 31 March<br>2019*<br>£000 | 31 March<br>2020<br>£000 |
|----------------------------------|------|---------------------------|--------------------------|
| General Fund Balance             |      | (29,576)                  | (48,094)                 |
| Earmarked Reserves               | 21   | (7,039)                   | (13,473)                 |
| Capital Receipts Reserve         |      | -                         | -                        |
| Capital Grants Unapplied Reserve |      | (4,167)                   | (5,850)                  |
| <b>Total</b>                     |      | <b>(40,782)</b>           | <b>(67,417)</b>          |

\* The 2018/19 NTCA MIRS reflect the General Fund Balances and Earmarked Reserves combined, 2019/20 NTCA MIRS reflects the split of General Fund Balances and Earmarked Reserves with 2018/19 represented to show this split also.

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

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

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

**Note 21: Transfers (to)/From Earmarked Reserves**

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

|                                      | Balances Transferred from NECA | Transfers Out 2018/19 | Transfers In 2018/19 | Balance at 31 March 2019 | Transfers Out 2019/20 | Transfers In 2019/20 | Balance at 31 March 2020 |
|--------------------------------------|--------------------------------|-----------------------|----------------------|--------------------------|-----------------------|----------------------|--------------------------|
|                                      | £000                           | £000                  | £000                 | £000                     | £000                  | £000                 | £000                     |
| <b>General Fund Balances</b>         |                                |                       |                      |                          |                       |                      |                          |
| General Fund                         | 10,894                         | (1,251)               | -                    | 9,643                    | -                     | 1,048                | 10,691                   |
| <b>Total General Fund Balances</b>   | 10,894                         | (1,251)               | -                    | 9,643                    | -                     | 1,048                | 10,691                   |
| <b>General Fund Reserves</b>         |                                |                       |                      |                          |                       |                      |                          |
| Investment Fund Reserve              | -                              | -                     | 19,551               | 19,551                   | -                     | 17,289               | 36,840                   |
| Business Rates Pool                  | -                              | -                     | -                    | -                        | -                     | 4,909                | 4,909                    |
| Metro Reinvigoration Reserve         | 4,037                          | -                     | 22                   | 4,059                    | -                     | 34                   | 4,093                    |
| Metro Fleet Replacement              | 1,476                          | -                     | 1,488                | 2,964                    | -                     | 1,507                | 4,471                    |
| Strategic Reserve                    | -                              | -                     | 200                  | 200                      | -                     | -                    | 200                      |
| Grant Reserves                       | -                              | -                     | 198                  | 198                      | (17)                  | 182                  | 363                      |
| <b>Total General Fund Reserves</b>   | 5,513                          | -                     | 21,459               | 26,972                   | (17)                  | 23,921               | 50,876                   |
|                                      |                                |                       |                      |                          |                       |                      |                          |
| <b>Total Balances &amp; Reserves</b> | 16,407                         | (1,251)               | 21,459               | 36,615                   | (17)                  | 24,969               | 61,567                   |

**Note 22: Unusable Reserves****Summary**

|                                          | <b>31 March<br/>2019<br/>£000</b> | <b>31 March<br/>2020<br/>£000</b> |
|------------------------------------------|-----------------------------------|-----------------------------------|
| Capital Adjustment Account               | (36,456)                          | (38,174)                          |
| Financial Instruments Adjustment Account | 788                               | 425                               |
| Revaluation Reserve                      | (3,670)                           | (3,606)                           |
| Pension Reserve                          | -                                 | 285                               |
| <b>Total</b>                             | <b>(39,338)</b>                   | <b>(41,070)</b>                   |

**Capital Adjustment Account**

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

The CAA is credited with the amounts set aside by the Combined Authority as finance for the costs of acquisition, construction and enhancement. The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains. The Adjustments between Accounting Basis and Funding Basis under Regulations Statement (Note 3) provides details of the source of all the transactions posted to the CAA, apart from those involving the Revaluation Reserve.

|                                                                                                   | <b>2018/19<br/>£000</b> | <b>2019/20<br/>£000</b> |
|---------------------------------------------------------------------------------------------------|-------------------------|-------------------------|
| <b>Transfer from NECA (2018/19)/ Opening Balance 1 April 2019</b>                                 | <b>(37,748)</b>         | <b>(36,456)</b>         |
| <b>Reversal of items relating to capital expenditure debited or credited to the CIES:</b>         |                         |                         |
| Charges for depreciation and impairment of non current assets                                     | 3,213                   | 1,842                   |
| Write down of New Tyne Crossing deferred income balance                                           | (927)                   | (2,256)                 |
| Revenue expenditure funded from capital under statute                                             | 4,704                   | 8,881                   |
| Write down of long term debtors                                                                   | 725                     | 698                     |
| Adjusting amounts written out of the Revaluation Reserve                                          | (65)                    | (64)                    |
| <b>Capital financing applied in the year:</b>                                                     |                         |                         |
| Capital grants and contributions credited to the CIES that have been applied to capital financing | (5,185)                 | (9,351)                 |
| Statutory provision for the financing of capital investment                                       | (429)                   | (766)                   |
| Capital expenditure charged against the General Fund                                              | (19)                    | (4)                     |
| Debt redeemed using capital receipts                                                              | (725)                   | (698)                   |
| <b>Balance at 31 March</b>                                                                        | <b>(36,456)</b>         | <b>(38,174)</b>         |

**Financial Instruments Adjustment Account**

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

|                                                                                                                                                      | 2018/19    | 2019/20    |
|------------------------------------------------------------------------------------------------------------------------------------------------------|------------|------------|
|                                                                                                                                                      | £000       | £000       |
| <b>Transferred from NECA/Opening Balance 1 April 2019</b>                                                                                            | <b>935</b> | <b>788</b> |
| Proportion of premiums incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements | (147)      | (363)      |
| finance costs chargeable in the year in accordance with statutory requirements                                                                       |            |            |
| <b>Balance at 31 March</b>                                                                                                                           | <b>788</b> | <b>425</b> |

**Revaluation Reserve**

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

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

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

|                                                                                                    | 2018/19        | 2019/20        |
|----------------------------------------------------------------------------------------------------|----------------|----------------|
|                                                                                                    | £000           | £000           |
| <b>Transferred from NECA/Opening Balance 1 April 2019</b>                                          | <b>(3,735)</b> | <b>(3,670)</b> |
| Difference between fair value depreciation and historical cost depreciation written off to the CAA | 65             | 64             |
| <b>Balance at 31 March</b>                                                                         | <b>(3,670)</b> | <b>(3,606)</b> |

**Pensions Reserve**

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

|                                                                                                                                          | 2018/19 | 2019/20    |
|------------------------------------------------------------------------------------------------------------------------------------------|---------|------------|
|                                                                                                                                          | £000    | £000       |
| <b>Opening Balance 1 April</b>                                                                                                           | -       | -          |
| Remeasurements of the net defined benefit liability (asset)                                                                              | -       | 196        |
| Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the CIES | -       | 269        |
| Employer's pension contributions and direct payments to pensioners payable in the year                                                   | -       | (178)      |
| Interest expense on net defined liability/ (asset)                                                                                       | -       | (2)        |
| <b>Balance at 31 March</b>                                                                                                               | -       | <b>285</b> |

**Note 23: Capital Expenditure and Capital Financing**

|                                                                                        | 2018/19<br>£000 | 2019/20<br>£000 |
|----------------------------------------------------------------------------------------|-----------------|-----------------|
| <b>Opening Capital Financing Requirement 1 April</b>                                   | <b>86,805</b>   | <b>86,352</b>   |
| <b>Capital Investment</b>                                                              |                 |                 |
| Property, Plant and Equipment                                                          | 1,201           | 1,373           |
| Revenue Expenditure Funded from Capital Under Statute                                  | 4,704           | 8,881           |
| <b>Sources of Finance</b>                                                              |                 |                 |
| Capital receipts - repayment of principal from long term debtors                       | (725)           | (698)           |
| Government Grants and other contributions                                              | (5,185)         | (9,351)         |
| <b>Sums set aside from revenue</b>                                                     |                 |                 |
| Direct revenue contributions                                                           | (19)            | (4)             |
| Minimum Revenue Provision                                                              | (307)           | (766)           |
| Additional Voluntary Provision                                                         | (122)           |                 |
| <b>Closing Capital Financing Requirement 31 March</b>                                  | <b>86,352</b>   | <b>85,787</b>   |
| Decrease in underlying need to borrow (unsupported by government financial assistance) | (453)           | (565)           |
| <b>Decrease in Capital Financing Requirement</b>                                       | <b>(453)</b>    | <b>(565)</b>    |

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

|                                                                                                                                              | 2018/19<br>£000 | 2019/20<br>£000 |
|----------------------------------------------------------------------------------------------------------------------------------------------|-----------------|-----------------|
| Surplus/(Deficit) on the provision of services                                                                                               | 22,621          | 28,563          |
| <b>Adjustments to Surplus/(Deficit) on Provision of Services for Non-Cash Movements</b>                                                      |                 |                 |
| Depreciation and Impairment                                                                                                                  | 3,213           | 1,842           |
| (Increase)/Decrease in Creditors                                                                                                             | 3,245           | (2,862)         |
| Increase/(Decrease) in Debtors                                                                                                               | (483)           | (4,418)         |
| Movement in Pension Liability                                                                                                                | -               | 89              |
| Other non-cash items charged to the net surplus or deficit on the provision of services                                                      | (927)           | (2,239)         |
|                                                                                                                                              | <b>5,048</b>    | <b>(7,587)</b>  |
| <b>Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities</b> |                 |                 |
| Capital grants credited to surplus/(deficit) on provision of services                                                                        | (8,807)         | (11,034)        |
| <b>Net cash flow from operating activities</b>                                                                                               | <b>18,862</b>   | <b>9,942</b>    |

The cash flows for operating activities include the following items:

|                   | 2018/19<br>£000 | 2019/20<br>£000 |
|-------------------|-----------------|-----------------|
| Interest received | 717             | 1,080           |
| Interest paid     | (1,598)         | (3,289)         |

**Note 25: Cash Flow Statement - Investing Activities**

|                                                                                      | 2018/19<br>£000 | 2019/20<br>£000 |
|--------------------------------------------------------------------------------------|-----------------|-----------------|
| Purchase of property, plant and equipment, investment property and intangible assets | (1,201)         | (1,371)         |
| Purchase of short-term and long-term investments                                     | (26,983)        | (80,393)        |
| Proceeds from short-term and long-term investments                                   | 20,074          | 80,393          |
| Other receipts from investing activities                                             | 8,307           | 3,022           |
| <b>Net cash flows from investing activities</b>                                      | <b>197</b>      | <b>1,651</b>    |

**Note 26: Cash Flow Statement - Financing Activities**

|                                                 | 2018/19<br>£000 | 2019/20<br>£000 |
|-------------------------------------------------|-----------------|-----------------|
| Repayments of short and long-term borrowing     | (147)           | 1,963           |
| <b>Net cash flows from financing activities</b> | <b>(147)</b>    | <b>1,963</b>    |

**Note 26a: Reconciliation of liabilities arising from Financing activities**

|                                                                | 1 April 2019<br>£000 | Financing<br>Cash Flows<br>£000 | Changes which are not<br>financing cash flows |               | 31 March<br>2020<br>£000 |
|----------------------------------------------------------------|----------------------|---------------------------------|-----------------------------------------------|---------------|--------------------------|
|                                                                |                      |                                 | Acquisition<br>£000                           | Other<br>£000 |                          |
| Long Term Borrowings                                           | (73,648)             | (1,947)                         | -                                             | -             | (75,595)                 |
| Short Term Borrowings                                          | (1,024)              | (0)                             | -                                             | (8)           | (1,032)                  |
| <b>Total Liabilities arising from<br/>Financing Activities</b> | <b>(74,672)</b>      | <b>(1,947)</b>                  | -                                             | <b>(8)</b>    | <b>(76,627)</b>          |

|                                                                | 1 April 2018<br>£000 | Financing<br>Cash Flows<br>£000 | Changes which are not<br>financing cash flows |                 | 31 March<br>2019<br>£000 |
|----------------------------------------------------------------|----------------------|---------------------------------|-----------------------------------------------|-----------------|--------------------------|
|                                                                |                      |                                 | Acquisition<br>£000                           | Other<br>£000   |                          |
| Long Term Borrowings                                           | -                    | (148)                           | -                                             | (73,501)        | (73,648)                 |
| Short Term Borrowings                                          | -                    | 6                               | -                                             | (1,030)         | (1,024)                  |
| <b>Total Liabilities arising from<br/>Financing Activities</b> | -                    | <b>(141)</b>                    | -                                             | <b>(74,531)</b> | <b>(74,672)</b>          |

## Note 27: Accounting Standards Issued, Not Yet Adopted

### Impact of the adoption of new accounting standards on the 2019/20 Financial Statements

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

**IFRS 16** Leases will require local authorities that are lessees to recognise most leases on their balance sheets as right-of-use assets with corresponding lease liabilities (there is recognition exemption for low-value and short-term leases). CIPFA/LASAAC have deferred implementation of IFRS 16 for local government to 1 April 2020. Work to date has shown that NECA leases identified will not have a material effect on the 2020/21 statements.

**IAS 19** Employee Benefits specifies how local authorities account for a defined benefit plan. When a change to a plan i.e. an amendment, curtailment or settlement, takes place, IAS 19 requires the local authority to remeasure its net defined liability or asset. The amendments require a company to use the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan.

**IAS 28** Investments in Associates and Joint Ventures requires an investor to account for its investment in associates and joint ventures using the equity method. This does not apply to the North East Combined Authority.

Annual Improvements to IFRS Standards 2015-2017 Cycle have been issued as part of the International Accounting Standards Board process for maintaining IFRS Standards. Amendments either clarify the wording of an IFRS Standard or correct oversights or conflicts between existing requirements of IFRS Standards.

#### **IFRS 3 Business Combinations**

Clarifies that when a local authority obtains control of a joint operation it remeasures interests that were previously held with that business.

#### **IFRS 11 Joint Arrangements**

Clarifies that when a local authority obtains joint control of a joint operation it does not remeasure interests that were previously held with that business.

#### **IAS 12 Income Taxes**

Clarifies that local authorities should account for all income tax consequences of dividend payments in the same way.

#### **IAS 23 Borrowing Costs**

Clarifies that local authorities should treat any borrowings originally made to develop an asset as part of general borrowings, when the asset is ready for its intended use or sale.

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

## Note 28: Critical Judgements in Applying Accounting Policies

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

### Service Concession Arrangements

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

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

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

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

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

### Accounting for the North East Joint Transport Committee

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

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

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

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

The items in the Authority's Balance Sheet at 31 March 2020 for which there is a risk of material adjustment in the forthcoming financial year are as follows:

| Item               | Uncertainties                                                                                                                                                                                                                                                                                                                                                                                           | Effect if Actual Results Differ from Assumptions                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
|--------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Pensions Liability | Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Authority with expert advice about the assumptions to be applied. | <p>The approximate impact of changing the key assumptions on the present value of the funded defined benefit obligation as at 31 March 2020 and the projected service cost for the year ending 31 March 2021 are set out below.</p> <p>Discount rate assumption, an adjustment to the discount rate of +0.1% p.a. would decrease the present value of the total obligation to <b>£0.884m</b>, a variance of <b>£0.026m</b>, whereas a decrease of (0.1%) p.a. results in an increase to <b>£0.937m</b>. The percentage change in the present value of the total obligation would be <b>(2.9%) and 3%</b> respectively.</p> |
|                    |                                                                                                                                                                                                                                                                                                                                                                                                         | <p>Rate of increase to pensions in payment and deferred pensions assumption, and rate of revaluation of pension accounts assumption: an adjustment to the pension increase rate of +0.1% p.a. would increase the present value of the total obligation to <b>£0.937m (variance of £0.27m)</b>, whereas a decrease of (0.1%) p.a. results in a decrease to <b>£0.884m, a variance of £0.26m</b>. The percentage change in the present value of the total obligation would be <b>3.0% and (2.9%)</b> respectively.</p>                                                                                                       |
|                    |                                                                                                                                                                                                                                                                                                                                                                                                         | <p>Post retirement mortality assumption: an adjustment to the mortality age rating assumption of 1 year would change the present value of the total obligation to <b>£0.938m, an increase of £0.028m</b>, whereas a adjustment of +1 year results in a reduction to <b>£0.882m, a variance of £0.028m</b>. The percentage change in the present value of the total obligation would be <b>3.1% and (3.1%)</b> respectively.</p>                                                                                                                                                                                            |

|                                                              |                                                                                                                                                                                                                                                                                                    |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
|--------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>Tyne and Wear Pension Fund Accounts - Covid 19 Impact</p> | <p>Tyne &amp; Wear Pension Fund's accounts reference a material uncertainty in respect to direct property valuations and pooled residential property funds</p>                                                                                                                                     | <p>Fund's investments are in direct property valuations and pooled residential property funds. The impact of Covid 19 has resulted in a significant reduction in the number of transactions in the market and consequently the relevant observable data available upon which to base a valuation judgement. As such, the Pension Fund's property investment manager has included a material valuation uncertainty clause in some of their valuation reports due to the possible impact of Covid 19. Therefore, there is less certainty and a higher degree of caution should be attached to the valuations of these unquoted assets than would normally be the case. There is a risk that current valuations may be under or</p> |
| <p>Brexit</p>                                                | <p>The outcome of Brexit negotiations has implications for each local authority in the sense that any subsequent volatility in stock markets, exchange rates, interest rates and future availability of funding could potentially impact on amounts disclosed within the financial statements.</p> | <p>Areas impacted could include:</p> <ul style="list-style-type: none"> <li>- The availability of grant funding and impact on other funding streams.</li> <li>- The fair value of long-term borrowing (but not the principal sum or interest payable).</li> <li>- The liability related to defined benefit pension schemes, which is dependent on a large number of factors including investment performance, bond yields and inflation.</li> <li>- Unusable reserves - any movement in the liability related to defined benefit pension schemes will be offset within unusable reserves.</li> </ul>                                                                                                                             |
| <p>Covid-19</p>                                              | <p>Covid-19 impacted on the Combined Authority from mid-March 2020. The implications for the Combined Authority are primarily in relation to reduced interest rates available on investment income.</p>                                                                                            | <p>Although interest rates with the Debt Management Office (DMO) reduced on average by 5 base points, the Combined Authority started to invest with other Local Authorities (within their Treasury Management Strategy guidelines) from March 2020, which provided higher interest rates to minimise loss of investment income.</p>                                                                                                                                                                                                                                                                                                                                                                                              |

## Note 30: Accounting Policies

### 1. General Principles

The Statement of Accounts summarises the Authority's transactions for the 2019/20 financial year and its position at the year-end of 31 March 2020. The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015, which those Regulations require to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20, supported by International Financial Reporting Standards (IFRS).

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

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

### 2. Accruals of Income and Expenditure

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

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

### 3. Cash and Cash Equivalents

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

### 4. Exceptional Items

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

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

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

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

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

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

## 6. Charges to Revenue for Non-Current Assets

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

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

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

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

## 7. Employee Benefits

### Benefits Payable during Employment

Short-term employee benefits are those due to be settled within 12 months of the year end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render service to the Authority. Due to the small number of employees the Authority has, the cost of holiday entitlements (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year end which employees can carry forward into the next financial year is immaterial and therefore an accrual will not be made. This approach will be reviewed each year to ensure it is still an appropriate treatment.

## Termination Benefits

Termination benefits are amounts which would be payable as a result of a decision by the Authority to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis to the Non Distributed Costs line in the Comprehensive Income and Expenditure Statement when the Authority is demonstrably committed to the termination of the employment of an officer or group of officers or making an offer to encourage voluntary redundancy.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Authority to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

No such amounts are payable in 2019/20.

## 8. Post-Employment Benefits

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

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

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

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

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

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

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

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

d) Remeasurements comprising:

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

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

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

Further details are provided in Note 19 to the accounts.

## **9. Events after the Balance Sheet Date**

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

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

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

## 10. Fair Value Measurement

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

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

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

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

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

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

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

## 11. Financial Instruments

### Financial Liabilities

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

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

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

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

## **Financial Assets**

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

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

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

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

## **Amortised Cost**

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

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

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

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

### **Expected Credit Loss Model**

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

### **Fair Value Through Other Comprehensive Income**

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

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

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

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

### **Fair Value through Profit and Loss (FVPL)**

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

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

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

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

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

## 12. Government Grants & Contributions

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

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

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

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

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

## 13. Property, Plant & Equipment

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

### Recognition

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

### Measurement

Assets are initially measured at cost, comprising:

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

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

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

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

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

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

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

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

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

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

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

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

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

### **De Minimis Levels**

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

### **Impairment**

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

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

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

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

### **Depreciation**

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

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

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

### Disposals

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

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

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

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

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

## 14. Public Private Partnership (PPP) Contracts

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

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

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

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

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

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

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

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

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

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

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

## 15. Provisions

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

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

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

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

### **16. Contingent Liabilities**

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

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

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

### **17. Reserves**

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

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

### **18. Revenue Expenditure Funded from Capital under Statute**

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

### **19. VAT**

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

## **20. Overheads**

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

## **21. Tyne Tunnels Income**

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

## **22. Group Accounts**

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

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

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

## **23. Joint Transport Committee**

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

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

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

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

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

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

- The revenues which relate to Tyne and Wear must then be divided into that which relates wholly to Newcastle and/or North Tyneside (allocated to NTCA), that which relates wholly to Gateshead, South Tyneside and/or Sunderland (allocated to NECA) and that which relates to activities not wholly attributable under the preceding two points which requires apportionment.

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

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

## **Note 31: Events After the Balance Sheet Date**

### **Adjusting events after the Balance Sheet date**

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

### **Non-adjusting Events after the Balance Sheet date**

Where events take place after 31 March which do not relate to conditions at 31 March but which provide information that is relevant to an understanding of the Authority's financial position, the financial statements and notes are not adjusted but the relevant information is disclosed. A key non-adjusting event after the balance sheet date is the transfer of the North East LEP across from NECA as accountable body to NTCA being the accountable body as of 1st April 2020. The 20220/21 NTCA Statement of Accounts will include all North East LEP income and expenditure and assets and liabilities consolidated within the NTCA accounts.

**3.0 Group Financial Statements and Explanatory Notes**

| Contents                                                                                                                                                 | Page |
|----------------------------------------------------------------------------------------------------------------------------------------------------------|------|
| <b>3.0 Group Financial Statements and Explanatory Notes</b>                                                                                              |      |
| 3.1 Group Movement in Reserves Statement                                                                                                                 | 66   |
| 3.2 Group Comprehensive Income and Expenditure Statement                                                                                                 | 67   |
| 3.3 Group Balance Sheet                                                                                                                                  | 68   |
| 3.4 Group Cash Flow Statement                                                                                                                            | 69   |
| 3.5 Explanatory Notes to the Group Financial Statements                                                                                                  |      |
| G1 Group Accounts                                                                                                                                        | 70   |
| G2 Expenditure and Funding Analysis                                                                                                                      | 71   |
| G2a Income and Expenditure Analysed by Nature                                                                                                            | 73   |
| G3 Financing and Investment Income and Expenditure                                                                                                       | 74   |
| G4 Taxation and Non-specific Grant Income                                                                                                                | 74   |
| G5 Grants and Contributions                                                                                                                              | 75   |
| G6 Property, Plant and Equipment                                                                                                                         | 78   |
| G7 Intangible Assets                                                                                                                                     | 77   |
| G8 Financial Instruments                                                                                                                                 | 79   |
| G9 Short Term Debtors                                                                                                                                    | 82   |
| G10 Cash and Cash Equivalents                                                                                                                            | 82   |
| G11 Short Term Creditors                                                                                                                                 | 82   |
| G12 Defined Benefit Pension Schemes                                                                                                                      | 83   |
| G13 Deferred Taxation                                                                                                                                    | 89   |
| G14 Useable Reserves                                                                                                                                     | 89   |
| G15 Unusable Reserves                                                                                                                                    | 90   |
| G16 Adjustments to net surplus or deficit on the provision<br>of services for non cash movements and items that<br>are Investing or Financing activities | 93   |
| G17 Notes to Cash Flow - Investing Activities                                                                                                            | 93   |
| G18 Notes to Cash Flow - Financing Activities                                                                                                            | 94   |
| G19 Capital Expenditure and Capital Financing                                                                                                            | 95   |
| G20 Prior Period Adjustments                                                                                                                             | 96   |

## 3.1 Group Movement in Reserves Statement

|                                                                                                              | NTCA/NECA<br>Usable<br>Reserves | NTCA/NECA<br>Unusable<br>Reserves | Total NECA<br>Reserves | Authority<br>Share of<br>Nexus | Total Group<br>Reserves |
|--------------------------------------------------------------------------------------------------------------|---------------------------------|-----------------------------------|------------------------|--------------------------------|-------------------------|
|                                                                                                              | £000                            | £000                              | £000                   | £000                           | £000                    |
| <b>Transfer of Services to the NTCA at<br/>2 November 2018</b>                                               | <b>(16,951)</b>                 | <b>(40,548)</b>                   | <b>(57,499)</b>        | <b>(195,896)</b>               | <b>(253,395)</b>        |
| <b>Balance at 2 November 2018</b>                                                                            | <b>(16,951)</b>                 | <b>(40,548)</b>                   | <b>(57,499)</b>        | <b>(195,896)</b>               | <b>(253,395)</b>        |
| Total Comprehensive Income and<br>Expenditure                                                                | (22,621)                        | -                                 | (22,621)               | 579                            | (22,042)                |
| Adjustments between accounting basis<br>& funding basis under regulations                                    | (1,210)                         | 1,210                             | -                      | -                              | -                       |
| Net (Increase)/Decrease before<br>transfers to Earmarked Reserves                                            | <b>(23,831)</b>                 | <b>1,210</b>                      | <b>(22,621)</b>        | <b>579</b>                     | <b>(22,042)</b>         |
| Transfers (To)/From Earmarked<br>Reserves                                                                    |                                 |                                   | -                      |                                | -                       |
| <b>(Increase)/Decrease in 2018/19</b>                                                                        | <b>(23,831)</b>                 | <b>1,210</b>                      | <b>(22,621)</b>        | <b>579</b>                     | <b>(22,042)</b>         |
| <b>Balance at 31 March 2019 carried<br/>forward</b>                                                          | <b>(40,782)</b>                 | <b>(39,338)</b>                   | <b>(80,120)</b>        | <b>(195,317)</b>               | <b>(275,437)</b>        |
| Total Comprehensive Income and<br>Expenditure                                                                | (28,563)                        | 196                               | (28,367)               | (14,031)                       | (42,398)                |
| Adjustments between accounting basis<br>& funding basis under regulations (prior<br>to transfer of services) | 1,928                           | (1,928)                           | -                      | -                              | -                       |
| Net (Increase)/Decrease before<br>transfers to Earmarked Reserves                                            | <b>(26,635)</b>                 | <b>(1,732)</b>                    | <b>(28,367)</b>        | <b>(14,031)</b>                | <b>(42,398)</b>         |
| <b>(Increase)/Decrease in 2019/20</b>                                                                        | <b>(26,636)</b>                 | <b>(1,732)</b>                    | <b>(28,368)</b>        | <b>(14,031)</b>                | <b>(42,398)</b>         |
| <b>Balance at 31 March 2020 carried<br/>forward</b>                                                          | <b>(67,417)</b>                 | <b>(41,070)</b>                   | <b>(108,487)</b>       | <b>(209,348)</b>               | <b>(317,835)</b>        |

## 3.2 Group Comprehensive Income and Expenditure Statement

| 2018/19           |                 |                 |                                                        | 2019/20 |                   |                  |                 |
|-------------------|-----------------|-----------------|--------------------------------------------------------|---------|-------------------|------------------|-----------------|
| Gross Expenditure | Gross Income    | Net Expenditure |                                                        | Note    | Gross Expenditure | Gross Income     | Net Expenditure |
| £000              | £000            | £000            |                                                        |         | £000              | £000             | £000            |
|                   |                 |                 | <b>Continuing NTCA Services</b>                        |         |                   |                  |                 |
| 3                 | -               | 3               | Investment                                             |         | 735               | -                | 735             |
| 528               | (371)           | 157             | Corporate Costs                                        |         | 3,813             | (6,429)          | (3,622)         |
| -                 | -               | -               | Mayors Office                                          |         |                   |                  | 207             |
| -                 | -               | -               | Elections                                              |         |                   |                  | 1,045           |
| -                 | -               | -               | Adult Education Budget                                 |         |                   |                  | (246)           |
| -                 | -               | -               | Transport - Retained Levy Budget                       |         | 114               | -                | 114             |
| -                 | -               | -               | Transport - Northumberland                             |         | 6,094             | -                | 6,094           |
| -                 | -               | -               | Transport - Tyne and Wear                              |         | 72,721            | (35,342)         | 37,378          |
| -                 | -               | -               | Transport - Other                                      |         | 9,336             | (10,821)         | (1,485)         |
| -                 | -               | -               | Transport - Tyne Tunnels                               |         | 11,331            | (14,884)         | (3,553)         |
| <b>531</b>        | <b>(371)</b>    | <b>160</b>      | <b>Cost of Services from Continuing Services</b>       |         | <b>104,143</b>    | <b>(67,476)</b>  | <b>36,667</b>   |
|                   |                 |                 | <b>Services transferred from NECA</b>                  |         |                   |                  |                 |
| 2,561             | -               | 2,561           | Transport - Northumberland                             |         | -                 | -                | -               |
| 44                | -               | 44              | Transport - Retained Levy Budget                       |         | -                 | -                | -               |
| 32,096            | (14,763)        | 17,333          | Transport - Tyne and Wear                              |         | -                 | -                | -               |
| 3,661             | (8,785)         | (5,124)         | Transport - Other                                      |         | -                 | -                | -               |
| 6,993             | (4,989)         | 2,004           | Transport - Tyne Tunnels                               |         | -                 | -                | -               |
| <b>45,886</b>     | <b>(28,908)</b> | <b>16,978</b>   |                                                        |         | <b>104,143</b>    | <b>(67,476)</b>  | <b>36,668</b>   |
|                   |                 |                 | <b>Financing and Investment Income and Expenditure</b> | G3      |                   |                  |                 |
| -                 | (2)             | (2)             | - From continuing services                             |         | 7,513             | (4,046)          | 3,467           |
| 1,984             | (565)           | 1,419           | - From services transferred from NECA                  |         | -                 | -                | -               |
|                   |                 |                 | <b>Taxation and Non-Specific Grant Income</b>          | G4      |                   |                  |                 |
| -                 | (20,091)        | (20,091)        | - From continuing services                             |         | -                 | (75,608)         | (75,608)        |
| -                 | (14,825)        | (14,825)        | - From services transferred from NECA - Levy           |         | -                 | -                | -               |
| -                 | (3,690)         | (3,690)         | Capital Grants (non-specific) - Nexus                  |         | -                 | -                | -               |
| <b>93,756</b>     | <b>(96,989)</b> | <b>(3,233)</b>  | <b>(Surplus)/Deficit on Provision of Services</b>      |         | <b>111,657</b>    | <b>(147,129)</b> | <b>(35,473)</b> |
|                   |                 | (95)            | Taxation of Group Entities                             |         |                   | 93               | 93              |
|                   |                 | <b>(3,328)</b>  | <b>Group (Surplus)/Deficit</b>                         |         |                   |                  | <b>(35,380)</b> |
|                   |                 | (1,736)         | Re-measurement of the defined benefit liability        | G12     |                   |                  | (6,233)         |
|                   |                 | -               | Gains on Revaluation of Property                       |         |                   |                  | (785)           |
|                   |                 | <b>(5,064)</b>  | <b>Total Comprehensive Income and Expenditure</b>      |         |                   |                  | <b>(42,398)</b> |

## 3.3 Group Balance Sheet

| 31 March 2019    |                                   | Note | 31 March 2020    |
|------------------|-----------------------------------|------|------------------|
| £000             |                                   |      | £000             |
| 370,855          | Property, Plant and Equipment     | G6   | 380,884          |
| 1,178            | Intangible Assets                 | G7   | 1,988            |
| -                | Long Term Debtors                 |      | -                |
| -                | Long Term Investments             |      | -                |
| <b>372,033</b>   | <b>Long Term Assets</b>           |      | <b>382,872</b>   |
| 27,720           | Short Term Investments            | G8   | 35,580           |
| 6,935            | Short Term Debtors                | G9   | 13,334           |
| 37,290           | Cash and Cash Equivalents         | G10  | 55,830           |
| 1,309            | Inventories                       |      | 1,596            |
| <b>73,254</b>    | <b>Current Assets</b>             |      | <b>106,340</b>   |
| (1,023)          | Short Term Borrowing              | G8   | (1,032)          |
| (14,315)         | Short Term Creditors              | G11  | (18,543)         |
| (503)            | Grants Receipts in Advance        | G5   | (427)            |
| (2,255)          | Public Private Partnerships       |      | (2,256)          |
| (15)             | Other Current Liabilities         |      | -                |
| <b>(18,111)</b>  | <b>Current Liabilities</b>        |      | <b>(22,258)</b>  |
| (40,585)         | New Tyne Crossing Deferred Income |      | (38,344)         |
| (73,508)         | Long Term Borrowing               | G8   | (75,595)         |
| (100)            | Grants Receipts in Advance        | G5   | -                |
| (33,461)         | Pension Liability                 | G12  | (30,826)         |
| (2,036)          | Provisions                        |      | (2,305)          |
| (2,049)          | Deferred Taxation                 | G13  | (2,049)          |
| <b>(151,739)</b> | <b>Long Term Liabilities</b>      |      | <b>(149,119)</b> |
| <b>275,437</b>   | <b>Net Assets</b>                 |      | <b>317,835</b>   |
| (49,877)         | Usable Reserves                   | G14  | (83,614)         |
| (225,560)        | Unusable Reserves                 | G15  | (234,221)        |
| <b>(275,437)</b> | <b>Total Reserves</b>             |      | <b>(317,835)</b> |

## Chief Finance Officer Certificate

I certify that the accounts set out on pages 65 to 96 give a true and fair view of the financial position of the North of Tyne Combined Authority Group as at the 31 March 2020.

Signed: Janice Gillespie, Chief Finance Officer

## 3.4 Group Cash Flow Statement

| 2018/19<br>£000 |                                                                                                                                       | Note | 2019/20<br>£000 |
|-----------------|---------------------------------------------------------------------------------------------------------------------------------------|------|-----------------|
| 20,307          | Surplus/(Deficit) on the provision of services                                                                                        | G16  | 35,380          |
| 12,973          | Adjustments to net surplus or deficit on the provision of services for non-cash movements                                             | G16  | 12,144          |
| (12,854)        | Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities | G16  | (33,258)        |
| 215             | Financing costs and investment                                                                                                        | G16  |                 |
| <b>20,641</b>   | <b>Net cash flows from Operating Activities</b>                                                                                       | G16  | <b>14,266</b>   |
| (593)           | Investing Activities                                                                                                                  | G17  | 2,311           |
| (999)           | Financing Activities                                                                                                                  | G18  | 1,963           |
| <b>19,049</b>   | <b>Net (Decrease)/Increase in cash and cash equivalents</b>                                                                           |      | <b>18,540</b>   |
| 18,241          | Cash and cash equivalents at the beginning of the reporting period                                                                    |      | 37,290          |
| <b>37,290</b>   | <b>Cash and cash equivalents at the end of the reporting period</b>                                                                   | G10  | <b>55,830</b>   |

## 3.5 Explanatory Notes to the Group Financial Statements

### G1 Group Accounts

Under 9.1.17 of the Code of Practice for Local Authority Accounting 2019/20, authorities with interests in subsidiaries, associates and/or joint ventures shall prepare Group Accounts in addition to their single entity financial statements, unless their interest is considered to be not material.

The Group Accounts include the accounts of NEXUS (in relation only to the proportion relating to the North of Tyne Combined Authority population basis), and have been prepared on a consolidation basis. The accounting policies adopted by Nexus are largely aligned with those of NECA and NTCA with the following minor differences:

#### Deferred Taxation

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

#### Property, Plant and Equipment and Intangible Assets

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

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

Details of NTCA depreciation policy can be found on page 57 of the single entity accounts.

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

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

Copies of the single entity accounts for Nexus are available at [www.nexus.org.uk](http://www.nexus.org.uk)

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

**Note 2: Expenditure and Funding Analysis**

|                                                     | 2019/20                                        |                                  |                     |                   |                             |
|-----------------------------------------------------|------------------------------------------------|----------------------------------|---------------------|-------------------|-----------------------------|
|                                                     | Net Expenditure Chargeable to the General Fund | Adjustments for Capital Purposes | Pension Adjustments | Other Differences | Net Expenditure in the CIES |
|                                                     | £000                                           | £000                             | £000                | £000              | £000                        |
| <b>Continuing NTCA Services</b>                     |                                                |                                  |                     |                   |                             |
| Investment                                          | 735                                            | -                                | -                   | -                 | 735                         |
| Corporate Costs                                     | (3,713)                                        | -                                | 91                  | -                 | (3,622)                     |
| Mayors Office                                       | 207                                            | -                                | -                   | -                 | 207                         |
| Elections                                           | 1,045                                          | -                                | -                   | -                 | 1,045                       |
| Adult Education Budget                              | (246)                                          | -                                | -                   | -                 | (246)                       |
| Transport - Northumberland                          | 6,094                                          | -                                | -                   | -                 | 6,094                       |
| Transport - Retained Levy Budget                    | 348                                            | (234)                            | -                   | -                 | 114                         |
| Transport - Tyne and Wear                           | 19,478                                         | 10,053                           | 7,847               | -                 | 37,378                      |
| Transport - Other                                   | 325                                            | (1,810)                          | -                   | -                 | (1,485)                     |
| Transport - Tyne Tunnels                            | (2,571)                                        | (982)                            | -                   | -                 | (3,554)                     |
| <b>Net Cost of services</b>                         | <b>21,702</b>                                  | <b>7,027</b>                     | <b>7,938</b>        | <b>-</b>          | <b>36,667</b>               |
| <b>Other Income and Expenditure</b>                 |                                                |                                  |                     |                   |                             |
| - From continuing services                          | (53,756)                                       | (22,533)                         | 3,819               | 422               | (72,048)                    |
| <b>(Surplus)/Deficit on Provision of Services</b>   | <b>(32,054)</b>                                | <b>(15,506)</b>                  | <b>11,757</b>       | <b>422</b>        | <b>(35,380)</b>             |
| <b>Opening General Fund Balances</b>                | <b>(45,710)</b>                                |                                  |                     |                   |                             |
| Surplus on General Fund Balances in Year            | (32,054)                                       |                                  |                     |                   |                             |
| <b>Closing General Fund Balances at 31 March 20</b> | <b>(77,764)</b>                                |                                  |                     |                   |                             |

**Adjustments for Capital Purposes**

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

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

**Net Change for the Pension Adjustments**

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

- For services this represents the removal of the employer pension contributions made by the authority as allowed by statute and the replacement with current service costs and past service costs.

## North of Tyne Combined Authority Statement of Accounts 2019/20

- For Financing and investment income and expenditure - the net interest on the defined benefit liability is charged to the CIES.

### Other Differences

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

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

|                                                                                                      | 2018/19                                        |                                  |                     |                   |                             |
|------------------------------------------------------------------------------------------------------|------------------------------------------------|----------------------------------|---------------------|-------------------|-----------------------------|
|                                                                                                      | Net Expenditure Chargeable to the General Fund | Adjustments for Capital Purposes | Pension Adjustments | Other Differences | Net Expenditure in the CIES |
|                                                                                                      | £000                                           | £000                             | £000                | £000              | £000                        |
| <b>Continuing NTCA Services</b>                                                                      |                                                |                                  |                     |                   |                             |
| Investment                                                                                           | 3                                              | -                                | -                   | -                 | 3                           |
| Corporate Costs                                                                                      | 157                                            | -                                | -                   | -                 | 157                         |
| <b>Services Transferred from the NECA</b>                                                            |                                                |                                  |                     |                   |                             |
| Transport - Northumberland                                                                           | 2,561                                          | -                                | -                   | -                 | 2,561                       |
| Transport - Retained Levy Budget                                                                     | 161                                            | (117)                            | -                   | -                 | 44                          |
| Transport - Tyne and Wear                                                                            | 9,538                                          | -                                | -                   | -                 | 9,538                       |
| Transport - Other                                                                                    | 466                                            | (4,104)                          | -                   | -                 | (3,638)                     |
| Transport - Tyne Tunnels                                                                             | 49                                             | 1,955                            | -                   | -                 | 2,004                       |
| <b>Cost of services relating to continuing services excluding operations transferred to the NTCA</b> | <b>12,935</b>                                  | <b>(2,266)</b>                   | -                   | -                 | <b>10,669</b>               |
| <b>Other Income and Expenditure</b>                                                                  |                                                |                                  |                     |                   |                             |
| - From continuing services                                                                           | (20,093)                                       | -                                | -                   | -                 | (20,093)                    |
| - From services transferred from NECA                                                                | (13,050)                                       | -                                | -                   | (147)             | (13,197)                    |
| <b>(Surplus)/Deficit on Provision of Services</b>                                                    | <b>(20,208)</b>                                | <b>(2,266)</b>                   | -                   | <b>(147)</b>      | <b>(22,621)</b>             |

Balances transferred from NECA

(16,407)

Surplus on General Fund Balances in Year

(20,208)

**Closing General Fund Balances at 31 March 2019**

**(36,615)**

**Note 2a: Income and Expenditure Analysed by Nature**

|                                                                                             | 2018/19<br>£000 | 2019/20<br>£000  |
|---------------------------------------------------------------------------------------------|-----------------|------------------|
| <b>Expenditure</b>                                                                          |                 |                  |
| Employee benefit expenses                                                                   |                 | 24,744           |
| Other service expenses                                                                      |                 | 54,951           |
| Support Service Recharges                                                                   |                 | 1,261            |
| Depreciation, impairment and Revenue Expenditure Funded from Capital Under Statute (REFCUS) |                 | 23,187           |
| Interest payments                                                                           |                 | 7,514            |
| <b>Total expenditure</b>                                                                    | -               | <b>111,657</b>   |
| <b>Income</b>                                                                               |                 |                  |
| Fees, charges and other service income (Tyne Tunnels tolls)*                                |                 | (34,459)         |
| Interest and investment income                                                              |                 | (4,046)          |
| Income from transport levy                                                                  |                 | (33,168)         |
| Government grants and contributions                                                         |                 | (68,006)         |
| Other income                                                                                |                 | (7,449)          |
| <b>Total income</b>                                                                         | -               | <b>(147,129)</b> |
| <b>Surplus/Deficit on the provision of services</b>                                         | -               | <b>(35,473)</b>  |

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

**Note G3: Financing and Investment Income and Expenditure**

|                                               | Note | 2018/19      | 2019/20      |
|-----------------------------------------------|------|--------------|--------------|
|                                               |      | £000         | £000         |
| Interest Payable and Similar Charges          |      | 1,661        | 3,436        |
| Interest Payable on defined benefit liability | G11  | 323          | 4,077        |
| Interest Receivable and similar income        |      | (565)        | (4,046)      |
| <b>Total</b>                                  |      | <b>1,419</b> | <b>3,467</b> |

**Note G4: Taxation and Non Specific Grant Income**

|                                                  | 2018/19         | 2019/20         |
|--------------------------------------------------|-----------------|-----------------|
|                                                  | £000            | £000            |
| Transport Levy                                   | (14,825)        | (33,168)        |
| Capital Grants, Contributions and Donated Assets | (3,690)         | (22,258)        |
| Non-Ringfenced Government Grants                 | (20,091)        | (20,182)        |
| <b>Total</b>                                     | <b>(38,606)</b> | <b>(75,608)</b> |

**Note G5: Grant Income**

The following grants and contributions were credited to the Group Comprehensive Income and Expenditure Statement within the Cost of Services in 2019/20:

|                                                         | 2018/19         | 2019/20         |
|---------------------------------------------------------|-----------------|-----------------|
|                                                         | £000            | £000            |
| Homeless Veteran Grant                                  | (91)            | 0               |
| Adult Education Budget - Devolution Implementation Fund | (26)            | (382)           |
| Mayoral Capacity Fund                                   | (250)           | (1,000)         |
| Other Grants & Contributions (individually under £1m)   | (765)           | (114)           |
| Local Transport Plan                                    | (3,860)         | (6,179)         |
| European Grants                                         | 0               | (220)           |
| North East Smart Ticketing Initiative                   | 0               | (160)           |
| Transforming Cities Fund                                | (4,450)         | (4,386)         |
| Office for Low Emission Vehicles                        | 0               | (240)           |
| Other Grants                                            | 0               | (1,215)         |
| Metro Rail Grant                                        | (4,827)         | (11,556)        |
| Heavy Rail Grant                                        | 0               | (114)           |
| <b>Total</b>                                            | <b>(14,269)</b> | <b>(25,566)</b> |

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

| <b>Grants Receipts in Advance</b>                            | <b>31 March<br/>2019<br/>£000</b> | <b>31 March<br/>2020<br/>£000</b> |
|--------------------------------------------------------------|-----------------------------------|-----------------------------------|
| Grants & Contributions (individually under £1m) - Short-Term | (503)                             | (427)                             |
| Grants & Contributions (individually under £1m) - Long-Term  | (100)                             |                                   |
| <b>Total</b>                                                 | <b>(603)</b>                      | <b>(427)</b>                      |

|                                                    |              |              |
|----------------------------------------------------|--------------|--------------|
| Shown as Short-Term Liability on the Balance Sheet | (503)        | (427)        |
| Short as Long-Term Liability on the Balance Sheet  | (100)        |              |
| <b>Total</b>                                       | <b>(603)</b> | <b>(427)</b> |

## Note G6: Property, Plant and Equipment

| 2019/20                                          | Vehicles, Plant,<br>Furniture &<br>Equipment<br>£000 | Infrastructure<br>Assets<br>£000 | Assets Under<br>Construction<br>£000 | Land and<br>Buildings<br>£000 | Total Property,<br>Plant & Equipment<br>£000 | Service<br>Concession Assets<br>included in PPE<br>£000 |
|--------------------------------------------------|------------------------------------------------------|----------------------------------|--------------------------------------|-------------------------------|----------------------------------------------|---------------------------------------------------------|
| <b>Cost or Valuation</b>                         |                                                      |                                  |                                      |                               |                                              |                                                         |
| At 1 April 2019                                  | 16,570                                               | 483,334                          | 18,851                               | 770                           | 519,525                                      | 166,202                                                 |
| Additions                                        | -                                                    | -                                | 24,996                               |                               | 24,996                                       | -                                                       |
| Transfers from Assets Under<br>Construction      | 334                                                  | 21,878                           | (22,212)                             |                               | -                                            | 8,104                                                   |
| Transfers to Tangibles                           |                                                      |                                  | (655)                                |                               | (655)                                        |                                                         |
| Derecognition - Disposals                        | (49)                                                 | (1,470)                          | (277)                                |                               | (1,796)                                      | -                                                       |
| Revaluation Recognised in<br>Revaluation Reserve |                                                      |                                  |                                      | 785                           | 785                                          |                                                         |
| <b>At 31 March 2020</b>                          | <b>16,855</b>                                        | <b>503,742</b>                   | <b>20,703</b>                        | <b>1,555</b>                  | <b>542,855</b>                               | <b>174,306</b>                                          |
| <b>Accumulated Depreciation and Impairment</b>   |                                                      |                                  |                                      |                               |                                              |                                                         |
| At 1 April 2019                                  | (10,382)                                             | (137,976)                        | -                                    | (312)                         | (148,670)                                    | (21,005)                                                |
| Depreciation charge                              | (852)                                                | (13,307)                         |                                      | (18)                          | (14,177)                                     | (1,768)                                                 |
| Derecognition - Disposals                        | 49                                                   | 827                              |                                      |                               | 876                                          |                                                         |
| <b>At 31 March 2020</b>                          | <b>(11,185)</b>                                      | <b>(150,456)</b>                 | <b>-</b>                             | <b>(330)</b>                  | <b>(161,971)</b>                             | <b>(22,773)</b>                                         |
| <b>Net Book Value</b>                            |                                                      |                                  |                                      |                               |                                              |                                                         |
| At 1 April 2019                                  | 6,188                                                | 345,358                          | 18,851                               | 457                           | 370,855                                      | 145,197                                                 |
| At 31 March 2020                                 | 5,670                                                | 353,286                          | 20,703                               | 1,225                         | 380,884                                      | 151,533                                                 |

2018/19

|                                                                                                       | Vehicles,<br>Plant,<br>Furniture &<br>Equipment<br>£000 | Infrastructure<br>Assets<br>£000 | Assets Under<br>Construction<br>£000 | Land and<br>Buildings<br>£000 | Total<br>Property, Plant<br>& Equipment<br>£000 | Service<br>Concession<br>Assets<br>included in<br>PPE<br>£000 |
|-------------------------------------------------------------------------------------------------------|---------------------------------------------------------|----------------------------------|--------------------------------------|-------------------------------|-------------------------------------------------|---------------------------------------------------------------|
| <b>Cost or Valuation</b>                                                                              |                                                         |                                  |                                      |                               |                                                 |                                                               |
| Transferred from Group                                                                                | 16,118                                                  | 481,108                          | 18,847                               | 770                           | 516,843                                         | 168,729                                                       |
| Additions                                                                                             | -                                                       | 19                               | 5,870                                | -                             | 5,889                                           | 19                                                            |
| Transfers from Assets Under<br>Construction                                                           | 470                                                     | 5,396                            | -                                    | (5,866)                       | -                                               | -                                                             |
| Revaluation<br>increases/(decreases)<br>recognised in Surplus/Deficit on<br>the Provision of Services | -                                                       | (19)                             | -                                    | -                             | (19)                                            | (19)                                                          |
| Impairment recognised in<br>Surplus/Deficit on Provision of<br>Services                               | -                                                       | (2,527)                          | -                                    | -                             | (2,527)                                         | (2,527)                                                       |
| Derecognition - Disposals                                                                             | (18)                                                    | (643)                            | -                                    | -                             | (661)                                           | -                                                             |
| <b>At 31 March 2019</b>                                                                               | <b>16,570</b>                                           | <b>483,334</b>                   | <b>24,717</b>                        | <b>(5,096)</b>                | <b>519,525</b>                                  | <b>166,202</b>                                                |
| <b>Accumulated Depreciation and Impairment</b>                                                        |                                                         |                                  |                                      |                               |                                                 |                                                               |
| Transferred from Group                                                                                | (9,902)                                                 | (133,489)                        | -                                    | (305)                         | (143,696)                                       | (20,355)                                                      |
| Depreciation charge for the<br>period 2/4/18-31/3/19                                                  | (498)                                                   | (5,096)                          | -                                    | (7)                           | (5,601)                                         | (650)                                                         |
| Derecognition - Disposals                                                                             | 18                                                      | 609                              | -                                    | -                             | 627                                             | -                                                             |
| <b>At 31 March 2019</b>                                                                               | <b>(10,382)</b>                                         | <b>(137,976)</b>                 | <b>-</b>                             | <b>(312)</b>                  | <b>(148,670)</b>                                | <b>(21,005)</b>                                               |
| <b>Net Book Value</b>                                                                                 |                                                         |                                  |                                      |                               |                                                 |                                                               |
| <b>At 31 March 2019</b>                                                                               | <b>6,188</b>                                            | <b>345,358</b>                   | <b>24,717</b>                        | <b>(5,408)</b>                | <b>370,855</b>                                  | <b>145,197</b>                                                |

**Note G7: Intangible Assets**

Intangible assets in the Group Accounts relate wholly to Nexus.

| 2019/20                                  | 2018/19<br>£000 | 2019/20<br>£000 |
|------------------------------------------|-----------------|-----------------|
| <b>Cost or Valuation</b>                 |                 |                 |
| Opening Balance                          |                 | 3,799           |
| Transferred from Group                   | 3,720           | -               |
| Additions                                | 78              | 316             |
| Transfers from assets under construction |                 | 655             |
| Derecognition - Disposals                |                 | (31)            |
| <b>Total</b>                             | <b>3,798</b>    | <b>4,739</b>    |
| <b>Amortisation</b>                      |                 |                 |
| Opening Balance                          |                 | (2,621)         |
| Transferred from Group                   | (2,506)         | -               |
| Amortisation provided during the period  | (114)           | (130)           |
| <b>Total</b>                             | <b>(2,620)</b>  | <b>(2,751)</b>  |
| <b>Net Book Value at 31 March</b>        | <b>1,178</b>    | <b>1,988</b>    |

**Note G8: Financial Instruments****Financial Assets**

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

|                               | Non-current              |                          |                          |                          | Current                  |                          |                          |                          |
|-------------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
|                               | Investments              |                          | Debtors                  |                          | Investments              |                          | Debtors                  |                          |
|                               | 31 March<br>2019<br>£000 | 31 March<br>2020<br>£000 |
| Amortised cost                | 1                        | 1                        |                          |                          | 27,720                   | 64,460                   | 7,657                    | 592                      |
| <b>Total financial assets</b> | <b>1</b>                 | <b>1</b>                 | <b>-</b>                 | <b>-</b>                 | <b>27,720</b>            | <b>64,460</b>            | <b>7,657</b>             | <b>592</b>               |
| Non-financial assets          | -                        | -                        |                          |                          | -                        | -                        |                          | 7,730                    |
| <b>Total</b>                  | <b>1</b>                 | <b>1</b>                 | <b>-</b>                 | <b>-</b>                 | <b>27,720</b>            | <b>64,460</b>            | <b>7,657</b>             | <b>8,322</b>             |

**Financial assets at amortised cost**

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

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

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

**Trade receivables**

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

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

**Financial Liabilities held at amortised cost**

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

|                                    | Non-current              |                          |                          |                          | Current                  |                          |                          |                          |
|------------------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
|                                    | Borrowings               |                          | Creditors                |                          | Borrowings               |                          | Creditors                |                          |
|                                    | 31 March<br>2019<br>£000 | 31 March<br>2020<br>£000 |
| Amortised cost                     | (73,508)                 | (75,595)                 | -                        | -                        | (1,023)                  | (1,032)                  | (15,101)                 | (4,155)                  |
| <b>Total financial liabilities</b> | <b>(73,508)</b>          | <b>(75,595)</b>          | <b>-</b>                 | <b>-</b>                 | <b>(1,023)</b>           | <b>(1,032)</b>           | <b>(15,101)</b>          | <b>(4,155)</b>           |
| Non-financial liabilities          | -                        | -                        | -                        | -                        | -                        | -                        |                          | (14,309)                 |
| <b>Total</b>                       | <b>(73,508)</b>          | <b>(75,595)</b>          | <b>-</b>                 | <b>-</b>                 | <b>(1,023)</b>           | <b>(1,032)</b>           | <b>(15,101)</b>          | <b>(18,464)</b>          |

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

**Income, Expense, Gains and Losses**

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

| 31 March 2019                           |                                              |              |                                                          | 31 March 2020                           |                                              |                |
|-----------------------------------------|----------------------------------------------|--------------|----------------------------------------------------------|-----------------------------------------|----------------------------------------------|----------------|
| £000                                    | £000                                         | £000         |                                                          | £000                                    | £000                                         | £000           |
| Financial Liabilities at amortised cost | Financial assets: measured at amortised cost | Total        |                                                          | Financial Liabilities at amortised cost | Financial assets: measured at amortised cost | Total          |
| 1,661                                   | -                                            | 1,661        | Interest expense                                         | 7,255                                   |                                              | 7,255          |
| <b>1,661</b>                            | <b>-</b>                                     | <b>1,661</b> | <b>Total expense in Surplus on Provision of Services</b> | <b>7,255</b>                            | <b>-</b>                                     | <b>7,255</b>   |
| -                                       | (565)                                        | (565)        | Investment income                                        |                                         | (3,787)                                      | (3,787)        |
| -                                       | -                                            | -            | Movement on soft loans adjustment                        |                                         |                                              | -              |
| -                                       | (565)                                        | (565)        | <b>Total income in Surplus on Provision of Services</b>  | <b>-</b>                                | <b>(3,787)</b>                               | <b>(3,787)</b> |
| <b>1,661</b>                            | <b>(565)</b>                                 | <b>1,096</b> | <b>Net (gain)/loss for the year</b>                      | <b>7,255</b>                            | <b>(3,787)</b>                               | <b>3,468</b>   |

**Fair Value of Assets & Liabilities carried at Amortised Cost**

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

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

For 2019/20 the fair values are shown in the table below are split by their level in the fair value hierarchy:

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

- Level 3 – fair value is determined using unobservable inputs: consideration of the estimated creditworthiness of the organisation receiving the loans based on their financial performance and track record of payment.

The fair values calculated are as follows:

|                                                     | Note | 31 March 2019           |                    | 31 March 2020           |                    |
|-----------------------------------------------------|------|-------------------------|--------------------|-------------------------|--------------------|
|                                                     |      | Carrying amount<br>£000 | Fair value<br>£000 | Carrying amount<br>£000 | Fair value<br>£000 |
| <b>Financial liabilities held at amortised cost</b> | 2    | (73,508)                | (120,323)          | (76,627)                | (131,383)          |
| <b>Total</b>                                        |      | <b>(73,508)</b>         | <b>(120,323)</b>   | <b>(76,627)</b>         | <b>(131,383)</b>   |
| <b>Financial Assets at amortised cost</b>           |      |                         |                    |                         |                    |
| Held to maturity investments                        |      | 27,720                  | 27,720             | 28,460                  |                    |
| <b>Total</b>                                        |      | <b>(45,788)</b>         | <b>(92,603)</b>    | <b>(48,167)</b>         | <b>(131,383)</b>   |

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

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

**Note G9: Short Term Debtors**

|                                | 31 March 2019<br>£000 | 31 March 2020<br>£000 |
|--------------------------------|-----------------------|-----------------------|
| Central Government bodies      | 4,923                 | 7,554                 |
| Other local authorities        | 2,082                 | 5,445                 |
| NHS bodies                     | 36                    | 2                     |
| Other entities and individuals | (106)                 | 333                   |
| <b>Total</b>                   | <b>6,935</b>          | <b>13,334</b>         |

**Note G10: Cash and Cash Equivalents**

|                                                 | 31 March 2019<br>£000 | 31 March 2020<br>£000 |
|-------------------------------------------------|-----------------------|-----------------------|
| Cash                                            | 8,823                 | 21,508                |
| Short-term deposits with financial institutions | 28,467                | 34,322                |
| <b>Total</b>                                    | <b>37,290</b>         | <b>55,830</b>         |

**Note G11: Short Term Creditors**

|                                | 31 March 2019<br>£000 | 31 March 2020<br>£000 |
|--------------------------------|-----------------------|-----------------------|
| Central government bodies      | (411)                 | (1,192)               |
| Other local authorities        | (1,258)               | (2,888)               |
| Other entities and individuals | (12,646)              | (12,104)              |
| - Nexus                        |                       | -                     |
| - TT2                          |                       | (1,346)               |
| - Other                        |                       | (1,013)               |
| <b>Total</b>                   | <b>(14,315)</b>       | <b>(18,543)</b>       |

**Note G12: Defined Benefit Pension Schemes**

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

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

**Consolidated Pension Liability**

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

**Transactions Relating to Post-employment Benefits**

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

**Comprehensive Income and Expenditure Statement**

|                                                                                                     | LGPS           |                | Discretionary Benefits |              |
|-----------------------------------------------------------------------------------------------------|----------------|----------------|------------------------|--------------|
|                                                                                                     | 2018/19        | 2019/20        | 2018/19                | 2019/20      |
|                                                                                                     | £000           | £000           | £000                   | £000         |
| <b>Cost of Services:</b>                                                                            |                |                |                        |              |
| Current service cost                                                                                | 2,136          | 6,119          | -                      |              |
| Past service cost                                                                                   | 1,421          | 71             | -                      |              |
| <b>Financing and Investment Income and Expenditure</b>                                              |                |                |                        |              |
| Interest cost                                                                                       | 305            | 4,042          | 18                     | 35           |
| Expected Return on Scheme Assets                                                                    |                | (3,289)        |                        |              |
| <b>Total Post-Employment benefit charged to the Surplus or Deficit on the Provision of Services</b> | <b>3,862</b>   | <b>6,943</b>   | <b>18</b>              | <b>35</b>    |
| Other Post Employment Benefits charged to the Comprehensive Income and Expenditure Statement:       |                |                |                        |              |
| Return on plan assets (in excess of)/below that recognised in net interest                          | (2,364)        | (14,355)       | -                      |              |
| Remeasurement of the net Defined Benefit Liability                                                  | 646            | 8,356          | (18)                   | (235)        |
| Adjustment in respect of paragraph 58                                                               |                |                | -                      |              |
| <b>Total amount recognised in Other Comprehensive Income and Expenditure</b>                        | <b>(1,718)</b> | <b>(5,999)</b> | <b>(18)</b>            | <b>(235)</b> |
| <b>Total amount recognised in CIES</b>                                                              | <b>2,144</b>   | <b>944</b>     | <b>-</b>               | <b>(200)</b> |

**Reconciliation of the Present Value of Scheme Liabilities:**

|                                             | LGPS             |                  | Discretionary Benefits |                |
|---------------------------------------------|------------------|------------------|------------------------|----------------|
|                                             | 2018/19          | 2019/20          | 2018/19                | 2019/20        |
|                                             | £000             | £000             | £000                   | £000           |
| Opening balance at 1 April                  | (164,057)        | (168,580)        | (1,637)                | (1,580)        |
| Current Service Cost                        | (2,136)          | (5,634)          | -                      |                |
| Interest Cost                               | (1,692)          | (4,043)          | (18)                   | (35)           |
| Contributions by participants               | (456)            | (1,146)          | -                      |                |
| Remeasurements of the Net Defined Liability | (646)            | (7,196)          | 18                     | 235            |
| Net benefits paid                           | 1,826            | 5,490            | 65                     | 151            |
| Past service costs                          | (1,421)          | (34)             | -                      |                |
| <b>Closing balance at 31 March</b>          | <b>(168,582)</b> | <b>(181,143)</b> | <b>(1,572)</b>         | <b>(1,229)</b> |

**Reconciliation of the Fair Value of the Scheme Assets:**

|                                             | LGPS           |                | Discretionary Benefits |         |
|---------------------------------------------|----------------|----------------|------------------------|---------|
|                                             | 2018/19        | 2019/20        | 2018/19                | 2019/20 |
|                                             | £000           | £000           | £000                   | £000    |
| <b>Opening fair value of scheme assets</b>  | <b>133,153</b> | <b>136,697</b> | -                      | -       |
| Interest income                             | 1,387          | 3,294          | -                      |         |
| Remeasurement gains/(losses) on plan assets | 2,364          | 14,356         | -                      |         |
| Employer contributions                      | 1,159          | 3,243          | 65                     | 155     |
| Contributions by scheme participants        | 456            | 1,254          | -                      |         |
| Net benefits paid out                       | (1,826)        | (5,486)        | (65)                   | (155)   |
| <b>Closing fair value of scheme assets</b>  | <b>136,693</b> | <b>153,358</b> | -                      | -       |

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

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

| <b>Scheme History</b>                           | <b>2018/19<br/>£000</b> | <b>2019/20<br/>£000</b> |
|-------------------------------------------------|-------------------------|-------------------------|
| <b>Fair value of LGPS assets</b>                | <b>136,693</b>          | <b>153,358</b>          |
| Present value of liabilities:                   |                         |                         |
| - LGPS liabilities                              | (168,582)               | (182,953)               |
| - Impact of minimum funding                     |                         |                         |
| <b>Deficit on funded defined benefit scheme</b> | <b>(31,889)</b>         | <b>(29,595)</b>         |
| Discretionary benefits                          | (1,572)                 | (1,230)                 |
| <b>Total (Deficit)</b>                          | <b>(33,461)</b>         | <b>(30,825)</b>         |

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

## North of Tyne Combined Authority Statement of Accounts 2019/20

|                     | <b>NTCA</b> | <b>NECA</b> | <b>Nexus</b> | <b>NEMOL</b> |
|---------------------|-------------|-------------|--------------|--------------|
| Active members      | 100%        | 5%          | 34%          | 100%         |
| Deferred pensioners | 0%          | 10%         | 10%          | 0%           |
| Pensioners          | 0%          | 85%         | 56%          | 0%           |

The weighted average duration of the defined benefit obligation for scheme members is 29.3 years for NTCA, 13.3 years for NECA, 17.8 years for Nexus and 22.4 years for NEMOL.

The liabilities show the underlying commitments that the Authority has in the long run to pay post employment (retirement) benefits. The total liability of £182.953m has an impact on the net worth of the Authority recorded on the balance sheet, resulting in a negative pension balance of £30.825m. However, statutory arrangements for funding the deficit mean that the financial position of the Authority remains healthy:

- The deficit on the local government scheme will be made good by contributions over the remaining working life of employees (i.e. before payments fall due), as assessed by the scheme actuary.

- Finance is only required to be raised to cover discretionary benefits when the pensions are actually paid.

- The total contributions expected to be made to the Local Government Pension Scheme by the Authority in the year to 31 March 2021 is £0.071m for NTCA, nil for NECA, £3.03m for Nexus and £0.38m for NEMOL (of which £1.340m and £0.17m respectively attributed to NECA) . In addition, Strain on the Fund contributions may be required. Expected payments direct to beneficiaries in the year to 31 March 2021 is Nil for NTCA, £0.350m in relation to unfunded benefits for Nexus (of which £0.16m attributed to NECA).

### Basis for Estimating Assets and Liabilities

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

The principal assumptions used by the actuary have been:

| <b>NTCA</b>                                          | <b>Local Government</b> |                  |
|------------------------------------------------------|-------------------------|------------------|
|                                                      | <b>31-Mar-19</b>        | <b>31-Mar-20</b> |
| <b>Mortality assumptions:</b>                        |                         |                  |
| Pensioner member aged 65 at accounting date (male)   | 21.8                    | 21.8             |
| Pensioner member aged 65 at accounting date (female) | 24.9                    | 25.0             |
| Active member aged 45 at accounting date (male)      | 23.4                    | 23.5             |
| Active member aged 45 at accounting date (female)    | 26.7                    | 26.8             |
| <b>Rate for discounting scheme liabilities</b>       | <b>% pa</b>             | <b>%pa</b>       |
| Rate for inflation - Retail Price Index              | 2.50%                   | 2.30%            |
| Rate of inflation - Consumer Price Index             | 2.10%                   | 1.80%            |
| Rate of increase in pensions                         | 2.10%                   | 1.80%            |
| Pension accounts revaluation rate                    | 2.10%                   | 1.80%            |
| Rate of increase in salaries                         | 3.60%                   | 3.30%            |

| NECA and Nexus                           | LGPS    |         | Discretionary Benefits |         |
|------------------------------------------|---------|---------|------------------------|---------|
|                                          | 2018/19 | 2019/20 | 2018/19                | 2019/20 |
| <b>Mortality assumptions:</b>            |         |         |                        |         |
| Longevity at 65 for current pensioners:  |         |         |                        |         |
| Men                                      | 22.2    | 21.8    | 22.2                   | 21.8    |
| Women                                    | 25.3    | 25.0    | 25.3                   | 25.0    |
| Active member at 45 (male)               | 23.4    | 23.5    |                        |         |
| Active member at 45 (female)             | 26.7    | 26.8    |                        |         |
| Rate for discounting scheme liabilities  | 2.4%    | 2.3%    | 2.4%                   | 2.3%    |
| Rate of inflation - Retail Price Index   | 3.3%    | n/a     | 3.3%                   | n/a     |
| Rate of inflation - Consumer Price Index | 2.2%    | 2.0%    | 2.2%                   | 2.0%    |
| Rate of increase in pensions             | 2.2%    | 2.0%    | 2.2%                   | 2.0%    |
| Pension accounts revaluation rate        | 2.2%    | 2.2%    | n/a                    | 2.2%    |
| Rate of increase in salaries             | 3.7%    | 3.5%    | n/a                    | 3.5%    |

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

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

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

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

**Actual Return on Assets**

|                                     | Local Government |               |
|-------------------------------------|------------------|---------------|
|                                     | 2018/19          | 2019/20       |
|                                     | £000             | £000          |
| Interest Income on Assets           | 1,387            | 3,294         |
| Remeasurement gain/(loss) on assets | 2,364            | 14,356        |
| <b>Actual Return on Assets</b>      | <b>3,751</b>     | <b>17,650</b> |

**Sensitivity Analysis**

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

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

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

|                                                | +0.1% per annum | Base Figure | -0.1% per annum |
|------------------------------------------------|-----------------|-------------|-----------------|
| <b>Discount rate assumption</b>                |                 |             |                 |
| <b>Adjustment to discount rate</b>             |                 |             |                 |
| Present value of total obligation (£M)         | 361.31          | 368.31      | 375.31          |
| % change in present value of total obligation  | -1.90%          |             | 1.90%           |
| Projected service cost (£M)                    | 11.02           | 11.43       | 11.85           |
| Approximate % change in projected service cost | -3.60%          |             | 3.70%           |

|                                                | +0.1% per annum | Base Figure | -0.1% per annum |
|------------------------------------------------|-----------------|-------------|-----------------|
| <b>Rate of general increase in salaries</b>    |                 |             |                 |
| <b>Adjustment to salary increase rate</b>      |                 |             |                 |
| Present value of total obligation (£M)         | 369.41          | 368.31      | 367.21          |
| % change in present value of total obligation  | 0.30%           |             | -0.30%          |
| Projected service cost (£M)                    | 11.43           | 11.43       | 11.43           |
| Approximate % change in projected service cost | 0.00%           |             | 0.00%           |

|                                                                                                                                         | +0.1% per annum | Base Figure | -0.1% per annum |
|-----------------------------------------------------------------------------------------------------------------------------------------|-----------------|-------------|-----------------|
| <b>Rate of increase to pensions in payment and deferred pensions assumption, and rate of revaluation of pension accounts assumption</b> |                 |             |                 |
| <b>Adjustment to pension increase rate</b>                                                                                              |                 |             |                 |
| Present value of total obligation                                                                                                       | 374.20          | 368.31      | 362.42          |
| % change in present value of total obligation                                                                                           | 1.60%           |             | -1.60%          |
| Projected service cost (£M)                                                                                                             | 11.85           | 11.43       | 11.02           |
| Approximate % change in projected service cost                                                                                          | 3.70%           |             | -3.60%          |

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

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

A small proportion (9%) of the Pension Fund's investments are in direct property valuations and pooled residential property funds. The impact of Covid 19 has resulted in a significant reduction in the number of transactions in the market and consequently the relevant observable data available upon which to base a valuation judgement. As such, the Pension Fund's property investment manager has included a material valuation uncertainty clause in some of their valuation reports due to the possible impact of Covid 19. Therefore, there is less certainty and a higher degree of caution should be attached to the valuations of these unquoted assets than would normally be the case. There is a risk that current valuations may be under or overstated in the accounts.

**Note G13: Deferred Taxation**

NB - Nexus have not yet received their tax figures for 2019/20

These are not usually available for the draft accounts

The movement for the year comprises:

|                                   | 2018/19<br>£000 | 2019/20<br>£000 |
|-----------------------------------|-----------------|-----------------|
| Capital Allowances                | 25              |                 |
| Roll over relief on capital gains | -               |                 |
| Other timing differences          | -               |                 |
| Transfer from Group               | (2,074)         |                 |
| <b>Total</b>                      | <b>(2,049)</b>  | -               |

The balance at the year end comprises:

|                                                | 31 March 2019<br>£000 | 31 March 2020<br>£000 |
|------------------------------------------------|-----------------------|-----------------------|
| Excess of capital allowances over depreciation | (1,504)               |                       |
| Roll over relief on capital gains              | (545)                 |                       |
| Other timing differences                       | -                     |                       |
| Tax effect of losses                           | -                     |                       |
| <b>Total</b>                                   | <b>(2,049)</b>        | -                     |

**Note G14: Usable Reserves**

|                                  | 31 March 2019<br>£000 | 31 March 2020<br>£000 |
|----------------------------------|-----------------------|-----------------------|
| General Fund Balance             | (29,575)              | (32,960)              |
| Earmarked Reserves               | (30,355)              | (50,872)              |
| Capital Receipts Reserve         |                       | -                     |
| Capital Grants Unapplied Reserve | (4,183)               | (5,851)               |
| Pensions (NEMOL)                 | 14,236                | 6,069                 |
| <b>Total</b>                     | <b>(49,877)</b>       | <b>(83,614)</b>       |

**Note G15: Unusable Reserves****Summary**

|                                          | <b>31 March<br/>2019<br/>£000</b> | <b>31 March<br/>2020<br/>£000</b> |
|------------------------------------------|-----------------------------------|-----------------------------------|
| Capital Adjustment Account               | (241,599)                         | (254,701)                         |
| Financial Instruments Adjustment Account | 788                               | 425                               |
| Revaluation Reserve                      | (3,974)                           | (4,695)                           |
| Pension Reserve                          | 19,225                            | 24,750                            |
| <b>Total</b>                             | <b>(225,560)</b>                  | <b>(234,221)</b>                  |

Details of movements on the Financial Instruments Adjustment Account is shown in Note 12 of the NTCA single entity accounts. This reserve relates to NECA only.

**Revaluation Reserve**

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

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

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

|                                                    | <b>£000</b>    |
|----------------------------------------------------|----------------|
| <b>Transferred from Group</b>                      | <b>(4,039)</b> |
| the CAA                                            | 65             |
| <b>Balance at 31 March 2019</b>                    | <b>(3,974)</b> |
| the CAA                                            | 64             |
| Revaluation Gain recognised in Revaluation Reserve | (785)          |
| <b>Balance at 31 March 2020</b>                    | <b>(4,695)</b> |

**Pensions Reserve**

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

|                                                                                                                                                                  | <b>£000</b>    |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------|
| <b>Transfer from the Group</b>                                                                                                                                   | <b>19,118</b>  |
| Remeasurements of the net defined benefit liability (asset)                                                                                                      | (1,360)        |
| Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the CIES to 2 November 2018 year | 2,122<br>(655) |
| <b>Balance as at 31 March 2019</b>                                                                                                                               | <b>19,225</b>  |
| Remeasurements of the net defined benefit liability to 31 March 2020                                                                                             | (6,232)        |
| Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the CIES to 31 March 2020        | 7,359          |
| Employer's pension contributions and direct payments to pensioners to 31 March 2020                                                                              | (2,054)        |
| Interest expense on net defined liability/(asset)                                                                                                                | 6,452          |
| <b>Balance at 31 March 2020</b>                                                                                                                                  | <b>24,750</b>  |

### Capital Adjustment Account

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

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

|                                                                                                     | <b>£000</b>      |
|-----------------------------------------------------------------------------------------------------|------------------|
| <b>Transferred from Group</b>                                                                       | <b>(243,433)</b> |
| Reversal of items relating to capital expenditure debited or credited to the CIES to 31 March 2019: |                  |
| Charges for depreciation and impairment of non current assets                                       | 7,932            |
| Amounts of non-current assets written off on disposal or sale                                       | 636              |
| Other income that cannot be credited to the General Fund                                            | 4,704            |
| Revenue expenditure funded from capital under statute                                               |                  |
| Write down of long term debtors                                                                     | (202)            |
| Nexus movement between usable and unusable reserves                                                 | 564              |
| Adjusting amounts written out of the Revaluation Reserve to 31 March 2019                           | (65)             |
| <b>Capital financing applied in the year to 31 March 2019</b>                                       |                  |
| financing                                                                                           | (10,246)         |
| Statutory provision for the financing of capital investment                                         | (429)            |
| Capital expenditure charged against the General Fund                                                | (335)            |
| Debt redeemed using capital receipts                                                                | (725)            |
| <b>Balance at 31 March 2019</b>                                                                     | <b>(241,599)</b> |
| <b>Reversal of items relating to capital expenditure debited or credited to the CIES:</b>           |                  |
| Charges for depreciation and impairment of non current assets                                       | 13,532           |
| Amounts of non-current assets written off on disposal or sale                                       | 785              |
| Other income that cannot be credited to the General Fund                                            | (2,256)          |
| Revenue expenditure funded from capital under statute                                               | 8,881            |

North of Tyne Combined Authority Statement of Accounts 2019/20

|                                                                                                   |                  |
|---------------------------------------------------------------------------------------------------|------------------|
| Write down of long term debtors                                                                   | 698              |
| <b>Adjusting amounts written out of the Revaluation Reserve</b>                                   | <b>(64)</b>      |
| <b>Capital financing applied in the year:</b>                                                     |                  |
| Capital grants and contributions credited to the CIES that have been applied to capital financing | (31,574)         |
| Statutory provision for the financing of capital investment                                       | (766)            |
| Capital expenditure charged against the General Fund                                              | (1,640)          |
| Debt redeemed using capital receipts                                                              | (698)            |
| <b>Balance at 31 March 2020</b>                                                                   | <b>(254,701)</b> |

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

|                                                                                                                                   | 2018/19<br>£000 | 2019/20<br>£000 |
|-----------------------------------------------------------------------------------------------------------------------------------|-----------------|-----------------|
| Surplus/(Deficit) on the provision of services                                                                                    |                 | 35,380          |
| <b>Adjustments to Surplus/(Deficit) on Provision of Services for Non-Cash Movements</b>                                           |                 |                 |
| Depreciation, Impairment and Amortisation                                                                                         | 8,262           | 13,532          |
| Loss on disposal of non-current assets                                                                                            | 31              |                 |
| (Increase)/Decrease in Creditors                                                                                                  | 4,561           | 2,708           |
| Increase/(Decrease) in Debtors                                                                                                    | (1,592)         | (4,952)         |
| Increase/(Decrease) in Inventories                                                                                                | (19)            |                 |
| Movement in Pension Liability                                                                                                     | 2,657           | 3,597           |
| Other non-cash items charged to the net surplus or deficit on the provision of services                                           | (927)           | (2,742)         |
|                                                                                                                                   | <b>12,973</b>   | <b>12,144</b>   |
| <b>Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing</b> |                 |                 |
| Capital grants credited to surplus/(deficit) on provision of services                                                             | (12,854)        | (33,258)        |
| Other adjustments for items that are financing or investing                                                                       | 215             |                 |
| <b>Net cash flow from operating activities</b>                                                                                    | <b>(12,639)</b> | <b>14,266</b>   |

The cash flows for operating activities include the following items:

|                   | 2018/19<br>£000 | 2019/20<br>£000 |
|-------------------|-----------------|-----------------|
| Interest received | 3,491           | 2,452           |
| Interest paid     | (7,915)         | (4,196)         |

**Note G17: Cash Flow Statement - Investing Activities**

|                                                                                                    | 2018/19<br>£000 | 2019/20<br>£000 |
|----------------------------------------------------------------------------------------------------|-----------------|-----------------|
| Purchase of property, plant and equipment, investment property and intangible assets               | (5,967)         | (23,100)        |
| Purchase of short-term and long-term investments                                                   | (26,983)        | (80,393)        |
| Other payments for investing activities                                                            |                 |                 |
| Proceeds from the sale of property, plant and equipment, investment property and intangible assets |                 | 80,393          |
| Proceeds from short-term and long-term investments                                                 | 20,074          | (10,000)        |
| Other receipts from investing activities                                                           | 12,283          | 35,411          |
| <b>Net cash flows from investing activities</b>                                                    | <b>(593)</b>    | <b>2,311</b>    |

**Note G18: Cash Flow Statement - Financing Activities**

|                                                 | <b>2018/19<br/>£000</b> | <b>2019/20<br/>£000</b> |
|-------------------------------------------------|-------------------------|-------------------------|
| Repayments of short and long-term borrowing     | (499)                   | 1,963                   |
| Other payments for financing activities         | (579)                   |                         |
| Other receipts for financing activities         | 79                      |                         |
| <b>Net cash flows from financing activities</b> | <b>(999)</b>            | <b>1,963</b>            |

**Note G19: Capital Expenditure and Capital Financing**

|                                                                            | £000          |
|----------------------------------------------------------------------------|---------------|
| <b>Transfer from Group</b>                                                 | <b>86,805</b> |
| <b>Capital Investment to 31 March 2019</b>                                 |               |
| Property, Plant and Equipment                                              | 6,500         |
| Intangible Assets                                                          | 78            |
| Revenue Expenditure Funded from Capital Under Statute                      | 4,704         |
| <b>Sources of Finance to 31 March 2019</b>                                 |               |
| Capital receipts - repayment of principal from long term debtors           | (10,246)      |
| Government Grants and other contributions                                  | (725)         |
| Direct revenue contributions                                               | (335)         |
| Minimum Revenue Provision                                                  | (307)         |
| Additional Voluntary Provision                                             | (122)         |
| <b>Closing Capital Financing Requirement 31 March 2019</b>                 | <b>86,352</b> |
| Decrease in underlying need to borrow (unsupported by government financial | <b>(453)</b>  |

|                                                                            | £000          |
|----------------------------------------------------------------------------|---------------|
| <b>Opening Capital Financing Requirement 1 April 2019</b>                  | <b>86,352</b> |
| <b>Capital Investment</b>                                                  |               |
| Property, Plant and Equipment                                              | 24,917        |
| Intangible Assets                                                          | 316           |
| Revenue Expenditure Funded from Capital Under Statute                      | 8,881         |
| <b>Sources of Finance</b>                                                  |               |
| Capital receipts - repayment of principal from long term debtors           | (698)         |
| Government Grants and other contributions                                  | (31,575)      |
| <b>Sums set aside from revenue</b>                                         |               |
| Direct revenue contributions                                               | (1,640)       |
| Minimum Revenue Provision                                                  | (766)         |
| Additional Voluntary Provision                                             |               |
| <b>Closing Capital Financing Requirement 31 March 2020</b>                 | <b>85,787</b> |
| Decrease in underlying need to borrow (unsupported by government financial | <b>(565)</b>  |

**Note G20: Prior Period Adjustments**

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

|  | <b>31 March 2019</b> | <b>Adjustment</b> | <b>31 March 2019</b>     |
|--|----------------------|-------------------|--------------------------|
|  | <b>£000</b>          | <b>£000</b>       | <b>Restated<br/>£000</b> |
|  |                      |                   | -                        |
|  |                      |                   | -                        |
|  | -                    | -                 | -                        |

|  | <b>1 April 2018</b> | <b>Adjustment</b> | <b>1 April 2018</b>      |
|--|---------------------|-------------------|--------------------------|
|  | <b>£000</b>         | <b>£000</b>       | <b>Restated<br/>£000</b> |
|  |                     |                   | -                        |
|  |                     |                   | -                        |
|  | -                   | -                 | -                        |

## 4.0 Supplemental Information

### 4.1 Glossary of Terms

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

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

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

|                                          |                                                                                                                                                                                                                                                              |
|------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Financial Instruments Adjustment Account | The reserve records the accumulated difference between the financing costs included in the Comprehensive Income & Expenditure Account and the accumulated financing costs required in accordance with regulations to be charged to the General Fund Balance. |
| General Fund                             | The total services of the Authority.                                                                                                                                                                                                                         |
| Going Concern                            | The concept that the Authority will remain in operational existence for the foreseeable future, in particular that the revenue accounts and balance sheet assume no intention to curtail significantly the scale of operations.                              |
| Impairment                               | A reduction in the value of a fixed asset below its carrying amount on the balance sheet resulting from causes such as obsolescence or physical damage.                                                                                                      |
| Intangible Assets                        | An asset that is not physical in nature, e.g. software licences.                                                                                                                                                                                             |
| Interest Cost (Pensions)                 | For a defined benefit scheme, the expected increase during the period in the present value of the scheme liabilities because the benefits are one period closer to settlement.                                                                               |
| Investment Properties                    | Interest in land and buildings where construction work and development has been completed and the asset is held for its investment potential, any rental income being negotiated at arms length.                                                             |
| Liabilities                              | Any amounts owed to individuals or organisations which will have to be paid at some time in the future.                                                                                                                                                      |
| Liquid Resources                         | Current asset investments that are readily disposable by the Authority without disrupting its business and are either readily convertible to known amounts of cash at or close to the carrying amount. or traded in an active market.                        |
| Materiality                              | An item is material if its omission, non-disclosure or misstatement in the financial statements could be expected to lead to a distortion of the view given by the financial statements.                                                                     |
| Minimum Revenue Provision (MRP)          | An amount charged by the Authority to the Comprehensive Income & Expenditure Account, for debt redemption or for the discharge of other credit liabilities.                                                                                                  |

|                                   |                                                                                                                                                                                                                                                                              |
|-----------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Movement in Reserves Statement    | The statement shows the movement in the year on the different reserves held by the Authority.                                                                                                                                                                                |
| Net Book Value                    | The amount at which fixed assets are included in the balance sheet being the historical cost or current value less the cumulative amounts provided for depreciation.                                                                                                         |
| Net Debt                          | The Authority's borrowings less cash and liquid resources.                                                                                                                                                                                                                   |
| Operating Leases                  | Leases other than a finance lease.                                                                                                                                                                                                                                           |
| Property, Plant & Equipment (PPE) | Assets that yield benefits to the Authority and the services that it provides for a period of more than one year. Examples include land, buildings and vehicles.                                                                                                             |
| Provisions                        | These are sums set aside to meet liabilities or losses which have been incurred but where the amount and/or timing of such costs are uncertain.                                                                                                                              |
| Prudence                          | This accounting concept requires that revenue is not anticipated until realisation can be assessed with reasonable certainty. Provision is made for all known liabilities whether the amount is certain or can only be estimated in the light of information available.      |
| Public Works Loan Board           | This is a Government agency which provides loans to local authorities at favourable rates.                                                                                                                                                                                   |
| Related Party Transactions        | A related party transaction is the transfer of assets or liabilities or the performance of services by, to or for a related party irrespective of whether a charge is made. An example could be the purchase, sale, lease, rental or hire of assets between related parties. |
| Reserves                          | These are sums set aside to meet possible future liabilities where there is no certainty about whether or not these liabilities will be incurred.                                                                                                                            |
| Residual Value                    | The net realisable value of an asset at the end of its useful life. Residual values are based on prices prevailing at the date of the acquisition (or revaluation) of the asset and do not take account of expected future price changes.                                    |
| Revaluation Reserve               | The reserve records the accumulated gains on the fixed assets held by the Authority arising from increases in value as a result of inflation or other factors.                                                                                                               |

|                                                       |                                                                                                                                                                                                                                                                                                                                                                                                                         |
|-------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Revenue Expenditure                                   | Expenditure on providing day-to-day services, for example employee costs and premises costs.                                                                                                                                                                                                                                                                                                                            |
| Revenue Expenditure Funded from Capital under Statute | Expenditure which may be properly incurred, but which does not result in an asset owned by the Authority e.g. grants to other organisations for capital purposes.                                                                                                                                                                                                                                                       |
| Unusable Reserves                                     | The Authority cannot use this category of reserves to provide services. Includes reserves that hold unrealised gains and losses (e.g. revaluation reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'adjustments between accounting basis and funding basis under regulation'. |
| Usable Reserves                                       | Those reserves that the Authority may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use.                                                                                                                                                                                                                                                  |
| Useful Life                                           | The period over which the Authority will derive benefits from the use of a fixed asset.                                                                                                                                                                                                                                                                                                                                 |

**Independent Auditor's Report to the Members of the North of Tyne Combined Authority**





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