Tyne and Wear Integrated Transport Authority - Audit Committee

Meeting to be held at 2.00 pm on Wednesday 18 September 2013 in a Committee Room, Civic Centre, Newcastle upon Tyne, NE99 2BN

Membership:
Independent Chair: Mr Scrimshaw
Independent Members: Mr Clark, Mr O'Doherty and Mr Winter
Councillors: Curran, Lambert, Maughan, Miller and Smith

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This agenda is available at www.twita.gov.uk

AGENDA

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1.	**Apologies for absence**	
2.	**Declarations of interest of members or officers in any matter to be discussed at the meeting** Please remember to declare any personal interest where appropriate both verbally and by recording it on the relevant form (to be handed to the Democratic Services Officer). Please also remember to leave the meeting where any personal interest requires this.	
3.	**Minutes of the Previous Meeting**	**1 - 8**
4.	**Annual Report and Accounts 2012/13**	**9 - 152**
5.	**Deloitte's Final Report on the financial statement audit of Tyne and Wear Integrated Transport Authority for the year ended 31 March 2013**	**153 - 172**
6.	**Strategic Risk Register Update**	**173 - 188**
7.	**Work Programme** For reference	**189 - 190**
8.	**Date and time of next meeting** Friday, 21 February 2014 at 2pm.	

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Tyne and Wear Integrated Transport Authority - Audit Committee

5 July 2013
(2.00 - 3.07 pm)

Present:

Independent Member: Mr Scrimshaw (Chair)
Independent Member: Mr Clark
Councillors: Curran, Lambert, Maughan and Smith

IN ATTENDANCE:

Newcastle City Council:

A Lewis	- Assistant Chief Executive
P Slater	- Head of Audit and Strategic Risk
E Goodman	- Senior Accountant (ITA)
R Elliott	- Head of Strategy, Planning and Performance
V Miller	- Democratic Services

Deloitte:
D Wilkinson

1. **APPOINTMENT OF CHAIR**

RESOLVED – That Mr Mark Scrimshaw be appointed as Chair of the Audit Committee for the Municipal Year 2013/14.

2. **APPOINTMENT OF VICE-CHAIR**

RESOLVED – That Mr George Clark be appointed as Vice-Chair of the Audit Committee for the Municipal Year 2013/14.

3. **APOLOGIES FOR ABSENCE**

There were no apologies for absence received from members.

4. **DECLARATIONS OF INTEREST OF MEMBERS OR OFFICERS IN ANY MATTER TO BE DISCUSSED AT THE MEETING**

There were no declarations of interest.

5. **MINUTES OF THE PREVIOUS MEETING**

The minutes of the previous meeting subject to a minor amendment of the second paragraph of Minute 33 to read "The report presented the audit *fee* for 2012/13 audit" were approved as a correct record and signed by the Chair.

Matters arising

(a) Accounting Policies 2012/13

(Minute 30 refers)

In response to the Chair's question about the progress of the action to provide members with clarification as to whether there was a scientific rationale behind the existing calculation of the depreciation for the Tyne Tunnel, which currently way 120 years, it was noted that E Goodman would provide members with this information.

(b) ITA Budget and Treasury Management Strategy 2013/14

(Minute 31 refers)

On request from the Chair, E Goodman provided an update on the possibility of instigating a legal process to challenge the Government's funding for the Tyne and Wear concessionary travel scheme. She explained that the legal advice was that it was unlikely that the challenge would be successful. As an alternative option, the Authority would continue to lobby the Government through local MPs.

6. **IMPROVED ECONOMIC GOVERNANCE FOR THE NORTH EAST**

Submitted: A report by the Clerk (previously circulated and copy attached to Official Minutes).

The Chair explained that he had requested this report because of a potentially significant impact of the formation of a Combined Authority on the ITA and its committees.

A Lewis introduced the report which had provided information on the proposed establishment of a Combined Authority for the seven councils' area comprising of Durham, Gateshead, Newcastle, North Tyneside, Northumberland, South Tyneside and Sunderland. The report included a report to the Cabinets of the seven councils who had met simultaneously on 24 June 2013 and approved the high level proposals for the creation of a Combined Authority as set out in that report.

The following points were highlighted:

- The existing powers of the ITA would be vested in the new Combined Authority. During the transition process, arrangements would be put in place to ensure the continuation of the existing functions.

- At this stage, the proposals were high level proposals only. The detail was still to be determined, but would need to be established quickly in order to ensure the target start date.

- A Combined Authority would need to come into existence on 1 April 2014. Other areas in the country were on a similar timetable and had similar issues to address before the deadline.

- Creation of a Combined Authority should bring substantial benefit to the North East, and missing out on the first opportunity to establish a Combined Authority could miss the opportunity for devolved funding from the Government.

- A team of officers were working on the creation of a Combined Authority, across the seven councils. The transport workstream was being coordinated by the Chief Executive of Newcastle City Council, on behalf of the Chief Executives' group.

- An update on the creation of a Combined Authority would be brought to future meetings of the Committee.

The Chair asked whether consideration had been given to setting an audit committee and a standards committee for the new Combined Authority. The Chair also asked whether the process for the appointment of independent members would be commenced as a new process and would incorporate adverting for independent members or whether consideration would be given to inviting the existing independent members to serve on the committees. The Chair indicated that the two independent members of the ITA Audit Committee and Standards Committee would want to consider any opportunities to continue their role in transition to the Combined Authority. The Chair asked that this message should be communicated to the officers who were working on the formation of a Combined Authority. He also indicated that the existing Independent members would be pleased to receive any relevant information.

A Lewis responded that, as an entirely new authority, the Combined Authority would need to establish audit and standards arrangements, and these would be different to the current ITA arrangements. Nevertheless, there would be important matters of transition which he would expect members to want to be assured on, and consider at future meetings.

The Chair asked that all members of the ITA Audit Committee and Standards Committee should be invited to relevant meetings in relation to the establishment of a Combined Authority.

RESOLVED – That:

(i) the report be noted;

(ii) members' comments be noted and communicated to the relevant officers who were working on the establishment of a Combined Authority;

(iii) further updates be provided to the Committee as and when available.

7. APPOINTMENT OF INDEPENDENT MEMBERS - VERBAL UPDATE

The Chair provided a brief update for members on the appointment of independent members. It was noted that an informal panel consisting of Mr Scrimshaw and Councillor Curran supported by Legal Services, Finance and Resource and Democratic Services had a discussion with the two candidates for the two vacancies and recommended their appointment. V Miller confirmed that this recommendation would be submitted to the 25 July meeting of the ITA.

RESOLVED – That the update be noted.

8. COMMITTEE TERMS OF REFERENCE - ANNUAL REVIEW

Submitted: A report of the Legal Adviser and Monitoring Officer (previously circulated and copy attached to Official Minutes).

Members considered the report which invited them to review the Terms of Reference of the Committee.

RESOLVED – That:

(i) The report be noted;

(ii) When appropriate, the Authority be recommended to amend the reference to the frequency of meetings of the Committee to read "meet *at least* 3 times a year";

(iii) The current Terms of Reference of the Committee be provided to officers who were working on the establishment of a Combined Authority.

9. DELOITTE - OUR PLANNING REPORT TO THE AUDIT COMMITTEE ON THE 2012/13 AUDIT

Submitted: A report of Deloitte, the External Auditor of the Authority (previously circulated and copy attached to Official Minutes).

Members considered Deloitte's planning report on the 2012/13 audit. During the discussion of the report, the following points were noted:

- There had been no changes made to the accounting treatments since the last financial year.

- Deloitte would provide members with an update on any additional risks that had transpired during the year.

- In response to D Wilkinson's question as to whether there were any additional risks that members thought should be identified and flagged up, the Chair referred to the transition arrangements in respect of the potential Combined Authority.

  In response to the Chair's question whether transition to the Combined Authority would be a smooth process, P Slater explained that although a relatively smooth

transition was envisaged, the main risk was the governance. However, at this point in time it was too early to consider any specific detail.

The Chair then asked whether there were any risks that Northumberland and Durham would bring to the Combined Authority. In response, it was noted that there could be risks associated with the subsidy of rural bus services. The Chair also referred to the potential risks associated with the A1 western bypass and the port of Blyth.

RESOLVED – That the report and comments made be noted.

10. **OUTTURN AND DRAFT FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR 2012/13**

Submitted: A report of the Treasurer (previously circulated and copy attached to Official Minutes).

Members considered the report which provided them with a summary of the ITA's financial results for 2012/13, presented the key accounting statements and provided an overview of significant financial matters which had occurred during the year. As a point of correction, it was noted that the reserve position set out in table 6.1 referred to 2012/13.

It was also noted that:

- Appendix 3 provided an enhanced level of information on the movement in reserves, in line with the previous request from members.
- The balance sheet in Appendix 4 included short-term loans to Nexus.
- Appendix 5 had shown an increase in cash flow due to the receipt of small grants.

The ensuing discussion included the following matters:

- the increase in the New Tyne Crossing tolls;
- the work on the pension fund; and
- the work on the potential use of non-earmarked reserves. A proposal on this would be submitted to the ITA for approval at a future date.

RESOLVED – That the report be noted.

11. **ANNUAL GOVERNANCE STATEMENT 2012/13**

Submitted: ITA Officer Working Group (previously circulated and copy attached to Official Minutes).

Members noted the report on the Annual Governance Statement 2012/13, which had tested the effectiveness of the systems of internal control. The report was introduced by R Elliott.

It was noted that there had been no significant weaknesses or improvements in 2012/13.

RESOLVED – That:

(i) the draft Annual Governance Statement provided in Appendix A be noted and recommended to the ITA for approval in September 2013, as part of the draft Annual Report and Accounts 2012/13.

(ii) members note that the AGS must be up to date at the time of final publication which would not take place until the Accounts had been audited and finalised in September 2013. The AGS would therefore be updated (if necessary) and submitted to the Committee for final consideration in September 2013.

(iii) the updated Local Code of Corporate Governance provided in Appendix B be noted and recommended to the ITA for approval in September 2013.

12. **INTERNAL AUDIT PROGRESS REPORT**

Submitted: A report of the Head of Audit and Strategic Risk (previously circulated and copy attached to Official Minutes).

Members considered the report which provided a statement on the progress achieved against the Annual internal Audit Plan 2012/13 and the position on the implementation of the audit recommendations, in line with the CIPFA Internal Audit Code of Practice 2006. The report was introduced by P Slater.

As an update, it was noted that some progress had been achieved on the implementation of the audit recommendations in relation to the Local Transport Plan and the Local Sustainable Transport Fund. The Authority had agreed the Terms of Reference of the Joint Transport Steering Group which would be the mechanism for addressing the issues. Full implementation of the audit recommendations was imminent.

In response to the Chair's question about the restructuring of the Newcastle City Council and the resultant changes in the officer structure of the ITA, it was noted that P Woods would remain the Treasure of the Authority until March 2014. It was likely that the new Director of Resources would become the Treasurer of the ITA. The Chair expressed concern about the potential loss of P Woods. In response to the Chair's question about whether this was a high or low level risk for the ITA, D Wilkinson confirmed that the risk was manageable.

RESOLVED – That:

(i) the progress against the 2012/13 Audit Plan be noted;

(ii) the position on the implementation of audit recommendations be noted.

13. **INTERNAL AUDIT ANNUAL REPORT AND OPINION OF THE HEAD OF AUDIT AND STRATEGIC RISK**

Submitted: A report of the Head of Audit and Strategic Risk (previously circulated and copy attached to Official Minutes).

Members considered the report which had set out the Internal Audit Annual Report and Opinion of the Head of Audit and Strategic Risk as required by the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006. The report was introduced by P Slater.

In response to the Chair's question, P Slater confirmed that officers in the constituent councils had a good understanding of how the audit recommendations in relation to the Local Transport Plan and the Local Sustainable Transport Fund should be implemented. It was expected that this implementation would be achieved through the Joint Transport Steering Group and the associated reporting structure.

P Slater would provide more information on the external review of the Internal Audit section for a future meeting.

RESOLVED – That the Internal Audit Annual Report and Opinion of the Head of Audit and Strategic Risk be noted.

14. WORK PROGRAMME

Submitted: The Committee's Work Programme 2013/14 (previously circulated and copy attached to Official Minutes).

RESOLVED – That the Committee's Work Programme 2013/14 be noted.

15. DATE AND TIME OF NEXT MEETING

Wednesday, 18 September 2013 at 2pm.

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Tyne and Wear
Integrated Transport Authority
AUDIT COMMITTEE

REPORT FOR INFORMATION

DATE: **18 September 2013**

SUBJECT: **Annual Report and Accounts 2012/13**

REPORT OF: **ITA Treasurer**

Not confidential

PURPOSE OF REPORT

The 2012/13 audit programme is now largely completed and Deloitte as the external auditor expect to issue their opinion before the end of September. As a result of the audit, the amended Annual Report and Accounts for 2012/13 are now presented for Audit Committee to comment on, prior to consideration by the ITA. This report summarises agreed audit changes made to the draft accounts.

RECOMMENDATIONS

Audit Committee is recommended to receive, comment on and recommend to the ITA the Annual Report and Accounts for 2012/13.

BACKGROUND DOCUMENTS

Held by the contact officer.

CONTACT OFFICERS

name	*email*	*phone*
Eleanor Goodman	*eleanor.goodman@twita.gov.uk*	*0191 277 7518*

IMPACT ON OBJECTIVES

To support economic development and regeneration	Neutral
To address climate change	Neutral
To support safe and sustainable communities	Neutral

1	**Executive Summary**
1.1	At the meeting of 5 July, Audit Committee reviewed the draft key financial statements and a report highlighting key points from the draft 2012/13 accounts.
1.2	This report highlights adjustments to the financial statements which have been made during the course of the audit, and the adjusted accounts are appended to the report. Should there be any significant changes after the publication of this report, amended figures will be circulated and explained at the meeting (but this is not anticipated).

2	**Introduction and Background**
2.1	The 2012/13 audit programme is now largely complete and Deloitte as the external auditor expect to issue their opinion in advance of the statutory deadline of 30 September. As a result of the audit, the amended Annual Report and Accounts for 2012/13 is now presented for Audit Committee to comment on, prior to consideration by the ITA.

3	**Independent Auditors' Opinion**
3.1	The external auditors anticipate issuing an unmodified audit opinion, dependent on the successful completion of some outstanding items which are set out in their report.

4	**Adjustments to the financial statements**
	We have agreed the following amendments to the accounts with Deloitte:
4.1	**Offset of additional depreciation following revaluation**
4.1.1	A release from the Revaluation Reserve is required to match depreciation attributable to the amounts held in that reserve in relation to previously revalued assets. The Revaluation Reserve decreases by £877k and the Capital Adjustment Account (both within Unusable Reserves on the Balance Sheet) increases by the same amount. This adjustment can be seen in Note 16 to the accounts, which details all transactions relating to unusable reserves. No further changes to the accounts have been required as a result of this adjustment.

4.2	**Cash Flow Statement adjustments**
4.2.1	An adjustment of £1,273k was required between the increase/decrease in creditors and debtors lines in Note 18. There was no impact on the overall cash movement for the year. An amount of £2,057k was included within Financing Activity on the Cash Flow Statement when it should have been classed as Investing Activity. This has been corrected in Notes 19 and 20 and on the face of the Cash Flow Statement.
4.3	**Disclosure relating to NESTI expenditure**
4.3.1	A presentational amendment has been made to Note 32 (which is an additional disclosure not required by the Code but provided to give additional information to Members and user of the accounts). A £2,822k credit and corresponding £2,822 debit has been moved between amounts shown against the ITA and the Tyne Tunnels Reserves in relation to NESTI expenditure funded from grants held on the Balance Sheet. This change has no impact on the overall totals for each Reserve. No further changes to the accounts have been required as a result of this adjustment.

5	**Arrangements to secure economy, efficiency and effectiveness in the use of resources**
5.1	As part of the audit of the Authority's accounts, the external auditors are required to assess the Authority's arrangements to secure economy, efficiency and effectiveness in the use of resources, commonly referred to as the Value for Money (or VFM) assessment.
5.2	Under the New Approach to VFM Audit document issued by the Audit Commission, the VFM audit work in relation to the ITA consists of a review of the Annual Governance Statement (AGS), review of the result of work by the Audit Commission or other relevant regulatory bodies or inspectorates, and other local risk-based work as appropriate.
5.3	At the time of writing their report, the external auditors have assessed the ITA as having proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources, and anticipate issuing an unqualified VFM opinion.

6	**Financial Standing of the Authority**
6.1	External audit have considered the financial standing of the Authority through review of the 2012/13 outturn and 2013/14 budgets and, while acknowledging that the Authority faces significant challenges, have raised no specific concerns over the financial standing of the Authority.

7	**Annual Governance Statement**
7.1	Audit Committee approved the draft Annual Governance Statement (AGS) on 5 July 2013. Since that point, there have been no additional governance and control issues arising from the host authority, either through internal audit work or from the audit of the host authority's accounts. The external auditors of the ITA have indicated that there are no issues emerging from the audit of the ITA's accounts that would need to be reflected in the AGS. The ITA Officer Working Group is not aware of any issues arising since 5 July that need to be reflected in the AGS.
7.2	It is therefore recommended that the AGS as approved in draft on 5 July be approved for inclusion with the ITA's final accounts for 2012/13.

8	**Next Steps**
8.1	The Final Accounts and Audit Report will be presented to the ITA at the meeting on 26 September 2013. Any comments or issues raised by Audit Committee will be reported to the ITA at this point.
8.2	The Accounts must be signed by the Chair of the ITA and the Treasurer to the Authority by 30 September 2013, and published on the ITA's website by this deadline.
8.3	The Annual Audit letter from Deloitte will be reported to the next meeting of Audit Committee, marking the end of the reporting process in relation to the 2012/13 accounts. The letter will also be circulated electronically to Audit Committee members for information as soon as it is received.

9	**Potential impact on objectives**
9.1	There is no impact on ITA objectives as a result of the recommendations in this report.

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Tyne & Wear Integrated Transport Authority

Annual Report & Accounts for the Financial Year ended 31 March 2013

Prepared by: Eleanor Goodman — ITA Senior Accountant
Paul Woods — ITA Treasurer

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Section 1

Tyne & Wear Integrated Transport Authority

Annual Report 2012/13

What is the Tyne and Wear Integrated Transport Authority?

We are a joint authority consisting of 16 elected members appointed by the five Tyne and Wear District Councils, established by the Local Government Act 1985. From 9 February 2009, under the Local Transport Act, the former Passenger Transport Authority became the Integrated Transport Authority.

We act as a strategic and policy making authority on local transport issues within Tyne and Wear, and have responsibility for the Tyne Tunnels and delivery of the New Tyne Crossing project.

Our vision for transport in Tyne and Wear

Our vision is that Tyne and Wear will have a fully integrated and sustainable transport network, allowing everyone the opportunity to achieve their full potential and have a high quality of life. Our strategic networks will support the efficient movement of people and goods within and beyond Tyne and Wear, and a comprehensive network of pedestrian, cycle and passenger transport links will ensure that everyone has access to employment, training, community services and facilities.

The five goals of the transport strategy we have adopted to meet this vision are:

- To support the economic development, regeneration and competitiveness of Tyne and Wear, improving the efficiency, reliability and integration of transport networks across all modes
- To reduce carbon emissions produced by local transport movements, and to strengthen our networks against the effects of climate change and extreme weather events
- To contribute to healthier and safer communities in Tyne and Wear, with higher levels of physical activity and personal security
- To create a fairer Tyne and Wear, providing everyone with the opportunity to achieve their full potential and access a wide range of employment, training, facilities and services
- To protect, preserve and enhance our natural and built environments, improving quality of life and creating high quality public places

Chairman's Foreword and Introduction 2012/13

As we approach the new financial year, I would like to take time to reflect on the early years of our delivery of the ITA's ten year strategy up to 2021. Despite financial pressures and tightening budgets, we have been able to deliver major projects and smaller scale improvements to the transport network in Tyne and Wear through focused financial and project management.

The New Tyne Crossing (NTC) has improved connectivity on both sides of the Tyne and greatly improved journey times for the travelling public and businesses. I have been particularly delighted to see that the hard work of the ITA and its partners has been recognised with awards that reinforce the benefits of a project funded by the ITA and its partners. The NTC continues to win awards and commendations including Project of the Year accolade at the Royal Institution of Chartered Surveyors North East Renaissance Awards and Institute of Civil Engineering Robert Stephenson Award 2012. We have also started work to improve the experience of cyclists and pedestrians with a £4.9m refurbishment of the Grade II listed Tyne Pedestrian and Cyclist Tunnels.

The reinvigoration of the Metro system continues with pace. Up to the end of the financial year 2012/13 we have:

- repaired or replaced 18.5km of track;
- refurbished 21 Metro-cars;
- refurbished and modernised 10 stations; and
- replaced 8 escalators and 4 lifts.

Nexus, the ITA's Passenger Transport Executive, has sustained and created hundreds of jobs in the local economy through this investment, including 60 new positions within the organisation. The renewal of the Metro system is high profile, and we are all under pressure to deliver the programme to time and budget from the public, our partners and stakeholders, yet satisfaction scores from the public still remain very good (80% satisfied with condition of stations, 87% satisfied with punctuality and 87% satisfied with reliability in 2012/13).

We have consistently met the targets set by the Government and have proven our ability to deliver challenging and complicated engineering projects within forecast budgets. The Government's confirmation of funding in full for the £93m we sought to continue modernisation from 2013 to 2016 is based on an appraisal of our performance to date. It is a clear indication of the performance of Nexus in delivering this project on the ITA's behalf.

2012/13 has also seen the public transport network in Tyne and Wear make significant progress towards becoming fully 'smart'. Smartcard validators and 225 new ticket machines have been installed across all 60 Metro stations. Thirteen Metro stations will have been fitted with ticket gates by the end of 2013.

Chairman's Foreword and Introduction

The change to use of our 'Pop' transport smartcard is gathering pace and Nexus has now issued more than 15,000 smartcards to passengers. The introduction of smart ticketing makes it easier and more convenient for passengers to use public transport in Tyne and Wear and it is excellent to know that uptake is increasing rapidly.

In 2012/13 we have worked with our partners to secure investment from the Government for schemes which aim to reduce congestion, boost economic growth and improve safety. These include:

- the A1 Western Bypass, Lobley Hill Improvements;
- A1/A1231 (Wessington Way) scheme in Sunderland; and
- A1/A19 Seaton Burn improvements.

We have also been delivering behaviour change programmes across Tyne and Wear (with links into Northumberland) as part of our Go Smarter campaign. The Schools Go Smarter programme of walking, cycling, road safety and public transport initiatives has been developed from funding secured as part of a competitive bidding process. The programme continues to be delivered at schools across Tyne and Wear, helping to reduce road congestion and carbon dioxide emissions, while helping to improve peoples' health.

In September 2012 we secured a further £5m to deliver the Go Smarter to Work programme. We are currently in the process of implementing this delivery, which involves targeting individuals who work at key employment sites across four areas, in order to reduce congestion on the A1 Western Bypass. This will focus on enabling people to access the employment areas by sustainable travel. In future years Go Smarter to Work will also include improvements to cycle parking at Metro Stations across Tyne and Wear, and other planned interventions.

Further 'Better Bus Area' funding of £4.9m, has allowed us to take forward other projects that help ensure buses remain an attractive mode of travel for the public. Working in partnership with bus operators and our local authority partners we have introduced infrastructure improvements and also maximised campaigns on ticketing offers such as the Day Rover, which saw an associated 169% rise in sales. Other investment in buses has included supporting a bid to government for an extra hybrid vehicle to improve frequency on the successful Sunderland Connect city centre service.

Finally, the range of investment we have been managing and securing for the present does not stop us considering the needs of the future. There are changes taking place regarding the future funding of Major Schemes which will be devolved to Local Transport Bodies (LTBs), from 2015. The LTBs will have the power to determine which investments are funded. TWITA is well placed to help prioritise transport investments and, as full voting members of the North East Local Transport Body (NELTB), we look forward to making a significant contribution to the process in the coming months.

As we move forward, I am confident that the work we have undertaken in this year will lead to future successes in developing an integrated and accessible transport network for all who live, visit, and work in Tyne and Wear.

Councillor David Wood
Chair of Tyne & Wear Integrated Transport Authority

Members of the Authority during 2012/13

J. McElroy
(Vice Chair)

S. Green

P. Maughan

Gateshead Council

D. Wood
(Chairman)

H. Murison

G. Stone

J. Stokel-Walker

Newcastle City Council

F. Lott
(Vice Chair)

E. Hodson

J. O'Shea

North Tyneside Council

A. Smith

G. Hobson
(Vice Chair)

South Tyneside Council

J. Black-burn
(Statutory Vice Chair)

B. Curran

A. Lawson

P. Wood
(Leader of Opposition)

Sunderland City Council

Explanatory Foreword by the Treasurer

The Tyne and Wear Integrated Transport Authority (ITA) manages its affairs to ensure the economic, efficient and effective use of its resources and to safeguard its assets. This is vital if the ITA is to continue to play a leading role in the provision of quality public transport services throughout the Tyne and Wear area.

This task is shared by all members and officers of the Authority. The Treasurer has a particular role in ensuring sound financial stewardship.

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

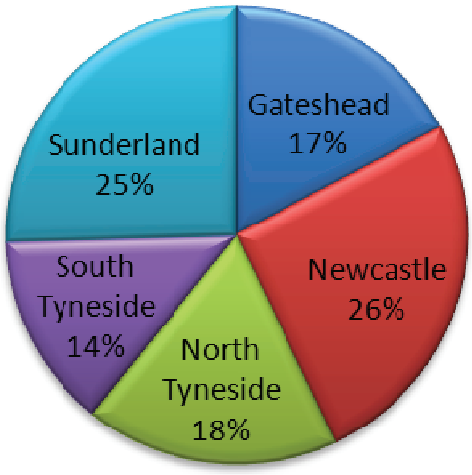
The purpose of this foreword is to provide the reader with:

- An understanding of the accounting statements;
- A review of the Authority's financial results in 2012/13 and its financial position; and
- An overview of activities and significant matters which occurred during the year.

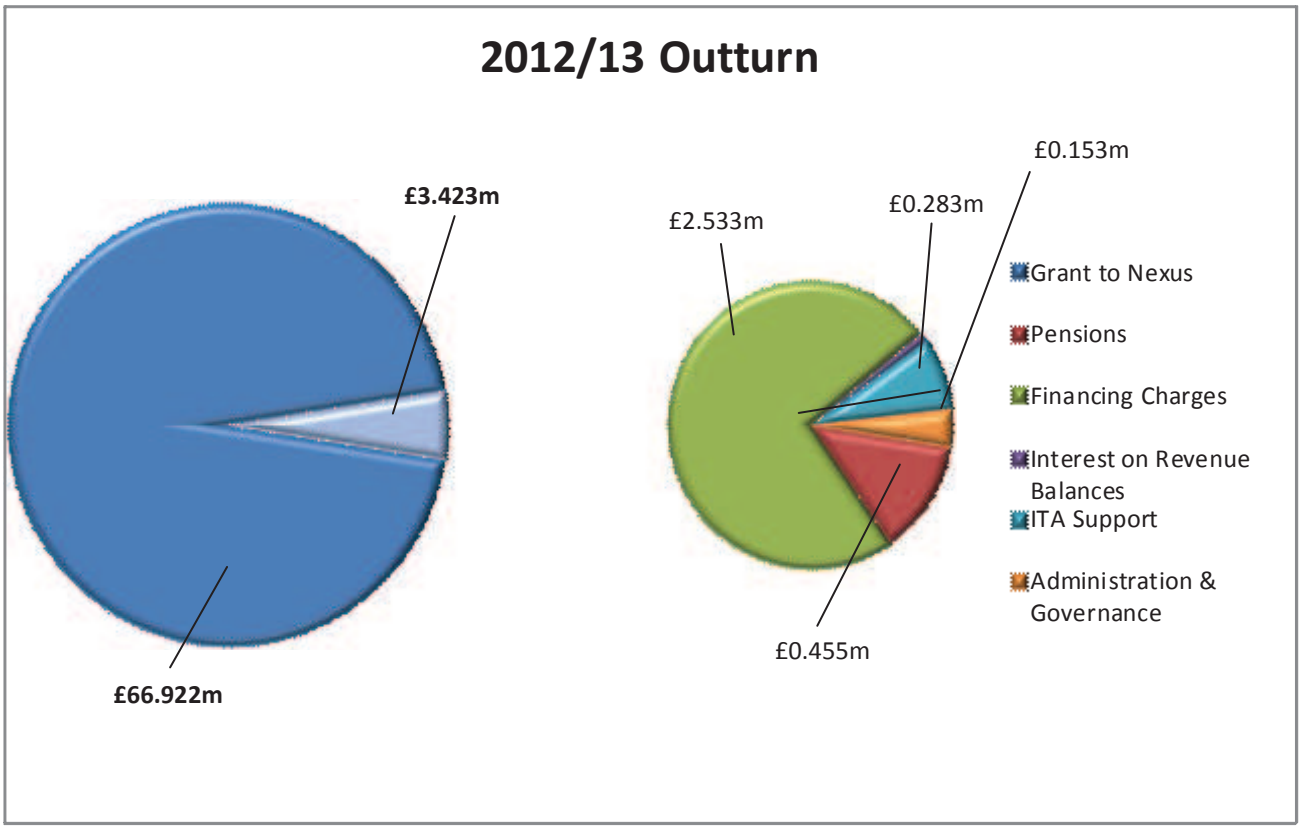
Background to the Tyne and Wear Integrated Transport Authority's Finances

The Authority's main source of income is the levy applied to the five constituent local authorities of the ITA based upon population. The other major source of income is tolls paid by users of the Tyne Tunnels, which are used to fund the operation of the Tunnels and the financing of the New Tyne Crossing project.

The levy for 2012/13 amounted to £70.207m, distributed between the Districts as set out in the chart below:



District	Levy 2012/13 (£m)
Gateshead	£12.021
Newcastle	£18.323
North Tyneside	£12.447
South Tyneside	£9.638
Sunderland	£17.778
Total	**£70.207**



The major item of ITA expenditure is a revenue grant paid to Nexus, the Passenger Transport Executive. This supports concessionary travel, the Metro, other bus and rail services, bus infrastructure and the Tyne Ferry. Expenditure for the year on the ITA's retained element of the levy was £3.422m against a budget of £3.448m.

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

The ITA owns the Tyne Tunnels which link the A19 under the River Tyne between Howdon and Jarrow. There are two tolled vehicle tunnels, and tunnels for both pedestrians and cyclists. The Tunnels are entirely self-financing from the tolls, i.e. there is no call on the levy to support them. The Tunnels are operated under a contract to a concessionaire company TT2 Ltd and appear within the accounts as a trading function. Tolls on vehicles are also used to fund the works required for the New Tyne Crossing.

The New Tyne Crossing is a major construction project that began in 2008, to provide a new tunnel alongside the existing one. The new tunnel was completed and opened in February 2011, and the old tunnel was closed for refurbishment. The newly refurbished tunnel opened ahead of schedule in November 2011, so for the first time there are two vehicle tunnels available. The new tunnel carries two lanes of southbound traffic and the existing tunnel carries two lanes of northbound traffic. Further information about the project is given in the New Tyne Crossing review on pages 19 to 23.

Analysis of Revenue Expenditure Against Budget - ITA

The table below compares actual spend against the revised budget for 2012/13 agreed in January 2013, and shows actual figures for 2011/12 to provide comparison across years.

Budget Heading	2011/12 Actual £000	2012/13 Budget £000	2012/13 Actual £000	Variance £000
Service Level Agreement and staffing charges	284	286	281	(5)
Audit Fees	30	20	18	(2)
Members Allowances and Expenses	80	86	82	(4)
Local Government Association Subscription	31	30	30	-
Conferences and Travel Expenses	7	4	3	(1)
Website Costs	22	10	12	2
Supplies and Services	14	19	8	(11)
Payments to Pension Fund	432	455	455	-
Financing Charges	2,733	2,568	2,568	-
Interest on investments and revenue balances	(83)	(30)	(35)	(5)
Total ITA Operating Expenses	**3,550**	**3,448**	**3,422**	**(26)**
Grant to Nexus	70,323	66,922	66,922	-
Total ITA Expenditure	**73,873**	**70,370**	**70,344**	**(26)**
Levy Income	**(73,792)**	**(70,207)**	**(70,207)**	-
Transfer from ITA General Fund Reserve	**81**	**163**	**137**	**(26)**

Overall spending for 2012/13 was within budget, with small variations on some individual budget lines. Savings were made on controllable budgets such as supplies and services. A saving was made on the SLA with the lead authority as a result of staffing changes, with the ITA Treasurer serving as Acting Clerk from September 2012. This saving was ringfenced and used to fund additional policy support to the ITA for work on major schemes devolution.

The final position is a use of ITA General reserve of £0.137m, compared with the revised budget of £0.163m. This is also considerably lower than the original budget for the year which estimated use of reserves of £0.191m. The underspend for 2012/13 will be added to the 2013/14 budget and used to fund additional professional support for issues such as the potential move to Combined Authority arrangements and the Bus Strategy Delivery Project.

Analysis of Revenue Expenditure against Budget - Tyne Tunnels

The vehicle tunnel has been open for more than forty years, with traffic numbers having increased substantially since then. In 2012/13 the traffic level was 14.4m vehicles, corresponding to a total toll income of £19.869m after adjusting for prepayments (compared with £14.886m in 2011/12). In line with the financing strategy for the New Tyne Crossing, tolls were increased on 1 January 2013 to £1.60 for cars and small vans and £2.50 for lorries and large vans (with a ten percent discount for permit holders). The toll increase did not have an adverse effect on traffic levels which showed a 14% increase compared to 2011/12.

In February 2008, the Tunnels were passed over to TT2 Ltd who will operate them as concessionaire until 2037. TT2 Ltd also managed the construction of the new Tunnel completed in February 2011 and the refurbishment of the existing Tunnel, completed in November 2011.

The table below details expenditure within the ringfenced Tyne Tunnels trading account and compares it against actual outturn for 2011/12 and the budget for 2012/13.

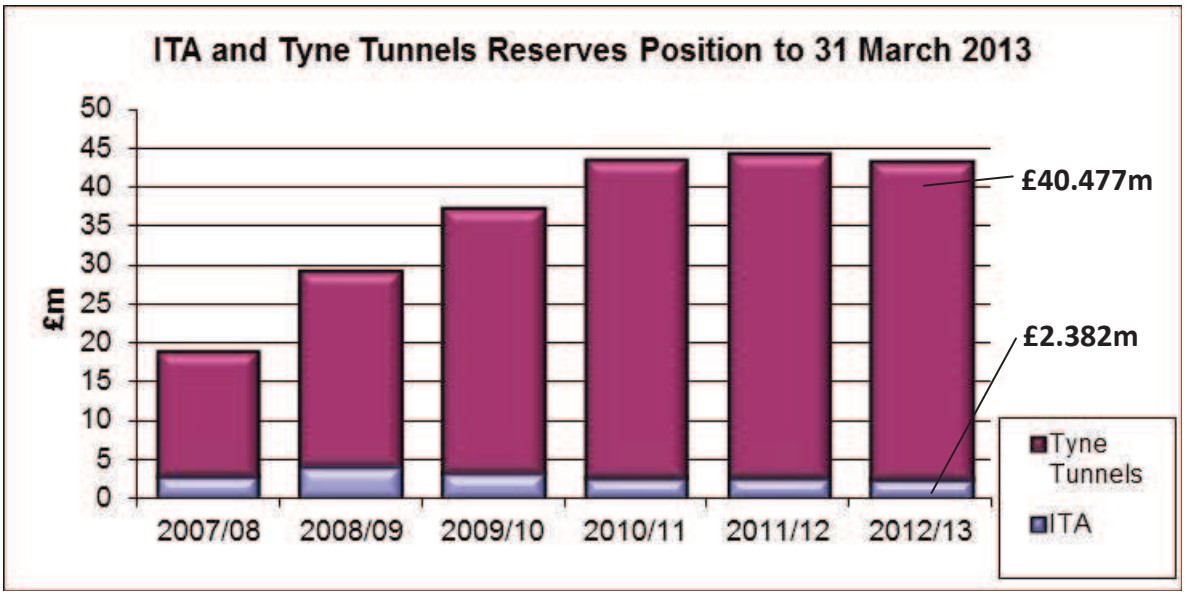
	2011/12 Actual £000	2012/13 Budget £000	2012/13 Actual £000	Variance £000
Employees	34	33	31	(2)
Pensions	499	525	526	1
Supplies and Services and Other Expenses	45	50	34	(16)
Support Services	145	130	108	(22)
Cost of Official Opening Ceremony	-	50	49	(1)
Community Fund	18	10	8	(2)
Financing Charges	5,530	6,637	6,622	(15)
Toll Income	(14,886)	(19,700)	(19,869)	(169)
Usage Payments	6,522	14,130	13,986	(144)
Other Income	(4)	-	(110)	(110)
Interest on Investments and Tunnel Balances	(774)	(460)	(517)	(57)
Total Tunnels Operating Costs	**(2,871)**	**1,405**	**868**	**(537)**
NESTI Expenditure financed from Tunnel Reserves	1,886	-	413	413
(Surplus) / Deficit transferred to Tyne Tunnels General Fund Reserve	**(985)**	**1,405**	**1,281**	(124)

Although there were variances on some individual items, the overall surplus was largely in line with the budgeted position. The net deficit on Tunnels Operating costs was £0.868m, against the revised budget agreed in January 2013 of £1.405m deficit. £0.413m of expenditure on NESTI has been financed in year from Tunnel Reserves. This reflects the fact that in 2009/10, grant was received by the twelve North East Local Authorities, Nexus and the ITA and this grant was applied to finance capital expenditure on the New Tyne Crossing in that year. An equivalent total amount (£7.178m in total) of capital and revenue expenditure was therefore to be funded from Tunnel Reserves.

Reserves

	2011/12 £000	2012/13 £000	Movement £000
General Fund			
ITA	(2,519)	(2,382)	137
Tyne Tunnels	(41,757)	(40,477)	1,281
Earmarked Reserves			
Metro Reinvigoration	(14,357)	(12,325)	2,032
Total	**(58,633)**	**(55,182)**	

The chart below shows the level of ITA and Tyne Tunnels reserves from 2007/08 to 2012/13.



In line with the three-year Medium Term Financial Strategy, some use of reserves has been made to support ITA expenditure while significant reductions have been made to the levy.

Tyne Tunnel reserves which increased significantly during the construction period are now beginning to be reduced as payments to the concessionaire have stepped up following final completion and provisions for the repayment of prudential borrowing are increasing.

Treasury Management

At 31 March 2013, the ITA had £18m of investments with external financial institutions, which are held on behalf of Nexus. There is a further £10m debtor with Newcastle City Council for monies held at the year end in the lead authority's name which are owed to the ITA and repayable to Nexus. The ITA's own cash balances are invested with the lead authority, Newcastle City Council, providing an extremely low-risk return on balances. The average rate of interest paid on loans in the year was 4.25% and the average interest received on balances was 1.20%.

The ITA has £202.89m of long term borrowing and £4.69m short term borrowing carried on its balance sheet. This is made up of loans taken out to finance the New Tyne Crossing Construction, plus historic capital supported borrowing, where the Districts receive government funding but the debt is held by the ITA.

Capital Expenditure

Capital Expenditure has been incurred in 2012/13 in relation to the New Tyne Crossing Project and the refurbishment of the Tyne Pedestrian and Cycle Tunnel. There has been further capital expenditure on payment of capital grants to the Tyne and Wear Districts and Nexus.

In addition to the capital expenditure shown within the ITA's own accounts, Nexus have also invested £47.3m in the Metro Asset Renewal Plan (ARP) and Metro Ticketing and Gating programmes. A summary of expenditure against the ITA's (non-Nexus) capital programme is set out in the table below:

	2011/12	2012/13	2012/13	2012/13
	Actual £000	Budget £000	Actual £000	Variance £000
New Tyne Crossing	48,132	600	682	82
Tyne Pedestrian and Cycle Tunnel Refurbishment	423	750	402	(348)
Total Tunnels Capital Programme	**48,555**	**1,350**	**1,084**	**(266)**
Local Transport Plan				
Integrated Transport Block Grant to Districts	9,452	8,509	8,509	-
ARP/Public Transport Schemes Allocation	1,610	6,593	6,292	(301)
Total LTP	**11,062**	**15,102**	**14,801**	**(301)**
Other Capital Grants				
Local Sustainable Transport Fund	198	747	302	(445)
Better Bus Area Fund	-	2,600	2,262	(338)
North East Smart Ticketing Initiative				
Capital Payments to Nexus	1,776	4,416	3,235	(1,181)

New Tyne Crossing

Following the completion of the construction works on the New Tyne Crossing, the capital programme is significantly lower than in recent years. Final completion of the construction programme was signed off by the Independent Certifier on 31 January 2013. Expenditure in 2012/13 related to remaining environmental works and environmental monitoring, professional fees for work towards achieving final completion and setting the final concession toll, and costs associated with land transfer work.

In addition, expenditure was incurred on preliminary works and professional fees on the Tyne Pedestrian and Cycle Tunnels refurbishment project. The majority of the works on this project will take place in 2013/14 when the Tunnels will be temporarily closed to the public to allow for the removal of two escalators, installation of two inclined lifts and the complete replacement of all Mechanical and Electrical systems.

Local Transport Plan (LTP) Integrated Transport Block
LTP Integrated Transport Block funding is capital grant awarded to the ITA by DfT. The ITA allocates this funding between the five Tyne and Wear Districts and Nexus, with a proportion being ringfenced to provide support to the Metro Asset Renewal Programme (ARP) and other public transport related schemes. ITA-funded expenditure on Metro ARP was significantly higher than in 2011/12, since the works were funded 100% by DfT last year, with an increased local contribution required in 2012/13.

Local Sustainable Transport Fund
2012/13 was the second year of the Schools Go Smarter programme, which commenced in autumn 2011. The 2012/13 capital budget of £0.477m related primarily to the purchase of vehicles for parking enforcement, and the school links and school grants workstreams. School grants provides funding for bike sheds, to provide safe places for pupils to store their bicycles, and other works including new paths, pool bikes and tools. School links funds infrastructure work in the Districts making it easier to cycle or walk to school, such as upgrading cycle paths or installing new pedestrian crossings.

In September 2012, the ITA was informed that it had been successful in its revised bid for further Local Sustainable Transport Fund grant to support the 'Go Smarter to Work' programme. The grant was received from DfT in December 2012. Capital works are focused around infrastructure investments, implementing the physical infrastructure work necessary to make cycle, walking and public transport trips a more attractive alternative to car use; and improved information including use of open data sources and Real Time Passenger Information (RTPI) to enable the transport user to access more reliable and up-to-date details of transport services.

Better Bus Area Fund
In April 2012, the ITA received notice that it had been successful in its application for DfT Better Bus Area funding, including £3.889m capital grant. The project is aimed at improving journey times on key bus routes, to improve the attractiveness of buses to the travelling public. The capital grant will be used primarily for the procurement and installation of equipment including CCTV, Automatic Number Plate Recognition and co-ordination of traffic signal installations. In addition, infrastructure works are taking place on a number of key bus routes. Works will be completed and the remaining grant paid out to districts in 2013/14.

North East Smart Ticketing Initiative (NESTI)
The ITA acts as accountable body for NESTI which is a programme of investment in smart ticketing infrastructure across the north east. The programme is governed via a collaboration agreement which was entered into by all 12 local authorities in the region plus the ITA and Nexus. The ITA holds the funding on behalf of the authorities, and the remaining budget of £4.879m is shown on the ITA's balance sheet as Grants Received in Advance (see Note 14 to the accounts, p. 54).

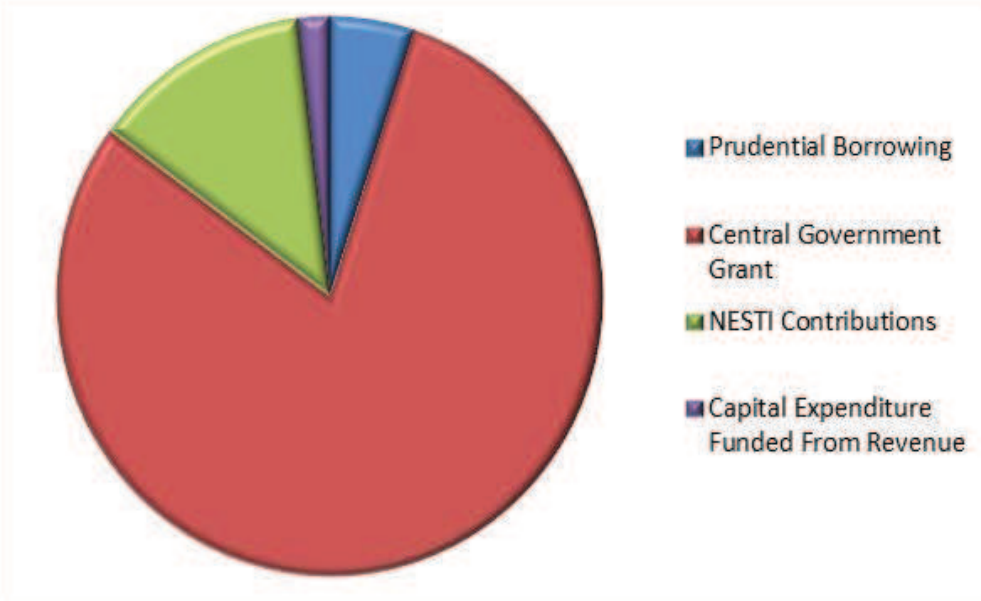
The outturn for 2012/13 was £3.325m, with main highlights during the year being the beginning of the implementation of solutions to enable remote uploading of stored travel rights, the contribution towards the Ticketing and Gating platform validator installations and a back-office upgrade required to support the scheme.

Financing of Capital Expenditure 2012/13

The vast majority of the Capital Programme is now funded by government grant awarded to the ITA by DfT. Expenditure on NESTI was funded through contributions held by the ITA on behalf of the 12 North East Local Authorities, and revenue contributions from Tyne Tunnels reserves. Expenditure on the New Tyne Crossing was funded by Prudential Borrowing in line with the long term financing strategy for this project.

The table and chart below show the financing of the ITA's capital programme in 2012/13.

Funding	**2012/13 (£000)**	**2012/13 (%)**
Prudential Borrowing	1,084	5%
Central Government Grants	17,365	80%
NESTI Contributions	2,822	13%
Capital Expenditure Funded from Revenue	413	2%
Total	**21,684**	**100%**



Pension Liabilities

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

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

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

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

At 31 March 2013, actuaries have estimated that the IAS 19 deficit is £8.250m. This compares with an equivalent figure in the 2011/12 accounts of £6.730m. The main reason for the increase is a reduction in the discount rate used in the calculation of the present value of the future payments required, from 4.6% at 31 March 2012 to 4.1% at 31 March 2013. The discount rate is required for IAS 19 purposes to be based on the yield on high quality long term corporate bonds, which have fallen since 31 March 2012. A lower discount rate results in a higher present value being placed on the future cashflows, and the liability has therefore increased.

The IAS 19 deficit has to be disclosed in the accounts, but there will be no change to the actual contributions due to be paid to the Pension Fund in 2013/14. These contributions are calculated following the detailed triennial Pension Fund valuation, the next valuation date being 31 March 2013 and the results to be announced during the next year. The IAS 19 valuation is only a snapshot at a given point in time, whereas the detailed triennial valuation assesses the ongoing position of the Pension Fund, and is used to review contribution rates to the Fund from employers to ensure that existing assets and future contributions will be sufficient to meet future pension payments.

The ITA Treasurer is currently considering strategies for the reduction of the pension deficit, which could include using Tyne Tunnels reserves to pay off some or all of the deficit, since these reserves are not currently attracting significant levels of interest income. This would give an annual saving on the revenue budget. However, key to this will be the timing of any such payment since the pension liabilities are sensitive to movements in the markets and will fluctuate during the year. Work on this will continue during 2013/14 with the advice of the pension fund and professional actuaries.

Explanatory Foreword by the Treasurer

Looking ahead to 2013/14 and beyond

The public sector financial environment remains extremely challenging, and this affects the ITA and Nexus along with all local authorities in the region. 2013/14 marked the final year of the medium term financial strategy agreed in January 2011 which has seen a significant reduction in the levy with savings passed to the local authorities. A cash freeze position was agreed for 2013/14, in recognition of the need to establish a firm funding base pending a decision on most appropriate means of delivering the ITA's ambitions for the Bus Strategy Delivery Project. Work will be continuing during the year to identify further savings and efficiencies wherever possible.

The issue of Concessionary Travel Funding continues to be extremely challenging for the Tyne and Wear region. Cuts to the overall level of funding available nationally combined with a system of apportionment that does not recognise the high level of pass take up and usage in our region means that the funding gap is significant and growing. The ITA and Nexus will continue to work with PTEG and other areas of the country to lobby strongly for these issues to be addressed, in order that we can continue to provide valuable public transport services which are essential to the wellbeing of the people who live and work in Tyne and Wear.

In early 2013, the leaders of Durham, Gateshead, Newcastle, Northumberland, North Tyneside, South Tyneside and Sunderland Councils expressed their intention to launch a governance review process to consider options for working more closely as a region on economic growth, skills and transport. The governance review process is now nearing conclusion and the leadership board anticipate issuing a draft scheme to central government in July for the establishment of a formal Combined Authority across the seven authority footprint. Under the legislation, the existing Tyne and Wear ITA would be dissolved, with its functions and responsibilities transferring to the new body. Since the rights, assets and liabilities of the ITA will transfer to the new authority, it is appropriate for these accounts to be prepared on a going concern basis.

ITA members and officers and officers from Nexus will be closely involved with the work to establish a potential new Combined Authority, to ensure that the ambitions and objectives of the ITA are at the heart of the new arrangements.

ITA Accounts

The ITA Accounts for 2012/13 are set out in section 2. These consist of the following statements, along with notes to each:

Movement in Reserves Statement
This statement shows the movement in year on the different reserves held by the Authority, analysed into Usable Reserves (i.e. those that can be applied to fund expenditure or reduce the levy) and Unusable Reserves. The surplus or deficit on the provision of services line shows the true economic cost in accounting terms of providing the ITA's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance for the purposes of setting the levy. The net increase or decrease before transfers to earmarked reserves line shows the statutory General Fund Balance before any discretionary transfers to or from earmarked reserves undertaken by the Authority.

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

Balance Sheet
The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Authority. The net assets of the Authority (assets less liabilities) are matched by the reserves held by the Authority. Reserves are reported in two categories: Usable Reserves (i.e. those which the Authority may use to provide services, subject to the need to maintain a prudent level) and Unusable Reserves (i.e. those which the Authority is not able to use to provide services). This category of reserves includes those that hold unrealised gains and losses (e.g. the Revaluation Reserve) where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line "adjustments between accounting basis and funding basis under regulation".

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

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

New Tyne Crossing Project Review of 2012/13

Project Director's Review of Progress in 2012/13

The concession contract was signed on 23 November 2007, and the staff and operation of the Tunnels transferred to the concessionaire, TT2 Ltd. on 1 February 2008. The financial year 2012/13 was the fifth full year of the contract with TT2, which has a thirty year term.

Operations

The average weekday traffic volume through the tunnels rose from 45,00 vehicles per day to 48,000 vehicles per day over the financial year 2012/13. Journey times have remained consistent and delay free. The toll plazas and other systems are automated and are overseen by the Control Room.

On 28th June, the North East of England experienced exceptional rainfall conditions which led to widespread disruption to the Region's transport infrastructure network. The intensity of the rainfall was such that the north-bound tunnel had to be completely closed and the south-bound tunnel was restricted to one lane. It took TT2 three hours to pump out the water from the north-bound tunnel sufficiently to be able to open it again to traffic. TT2 have since reviewed the drainage systems in the catchment area near the north-bound portal and toll plaza and modified the drainage systems in the catchment area near the north-bound portal and toll plaza and modified the ditch and drainage configurations to help prevent any repetition. This proved to be effective in the subsequent heavy rainfalls in August, September and December 2012.

The performance of TT2 is monitored on a daily basis by TWITA's Monitoring Officer who is based at the Tyne Tunnels. There was no requirement to apply any penalty deductions and TT2 Ltd's operational performance for the year is classed as 'very good'. This is the fifth consecutive year TT2 has achieved this rating.

There was a modification to the toll charge regime using the Transitional Tolling powers in the River Tyne (Tunnels) Order 2005. The tolls for cars were raised from £1.40 to £1.60 and for HGVs from £2.00 to £2.50. The change came into effect on 1 January 2013 and was the second increase using these powers since the New Tyne Crossing became full operational on 21 November 2011. The 10% discount for permit holders remains and take-up of the permit accounts has risen significantly since 2011 in response to the transitional toll increases.

Construction

With the commissioning of the New Tyne Crossing on 21 November 2011, there was relatively little activity in 2012/13. There were a small number of items outstanding, however, and these included:

1. Landscaping—particularly in Jarrow;
2. Outfall to the River Tyne through the Howdon Yard;

3. Resurfacing to the approach roads on the North Bank between the A193 junction and the Metro Bridge;
4. Minor modification work to the Variable Message Sign gantries on the A19 approaches both north and south;
5. Installation of a small number of grout screens in the Howdon Yard to the new tunnel's west side wall.

Environmental Monitoring

All monitoring associated with the construction of the New Tyne Crossing ceased in 2012. Development of a fish-pass at Hexham—an obligation on TWITA arising from the 2003 Agreement with the Tyne Riparian Owners and Occupiers Association—is continuing. This development work is being done by the Tyne River Trust in liaison with the Environment Agency and the Hexham Community Hydro Project. No programme for the fish-pass works has been published, pending the submission of an application for, and the granting of, the appropriate Planning Permission either as an independent scheme or as part of the Hexham Community Hydro Project.

Land

All areas of land occupied temporarily for the construction works have now been handed back. Way-leaves and easements for public utility apparatus lying in Tyne Tunnel land have been drafted and have been executed. Bilton Hall Bridge is yet to be formally handed back to the Highways Agency—the report of the independent technical consultant who has been commissioned to review the efficacy of the works carried out to the bridge by the NTC main contractor is awaited. TWITA has received over 200 claims under Part 1 of the Land Compensation Act 1973. These claims are now being processed with the assistance of TT2 as required by the Project Agreement.

Communications

The major event in 2012/13 was the formal opening of the New Tyne Crossing by HM The Queen accompanied by HRH The Duke of Edinburgh on 18 July 2012. The Queen delivered a short speech in which she commented how delighted she was to return to the Tyne Tunnel and noted that the second tunnel had transformed the lives of motorists in the region for the better. This event attracted widespread coverage in the local media.

The New Tyne Crossing website was re-modelled to act as a historical record of the planning, development and construction of the New Tyne Crossing.

A book on the development and construction of the Tyne Tunnels was published in December 2012, and is available for purchase by the general public.

The project was the recipient of the following prestigious awards in 2012/13:

- Constructing Excellence in the North East: Value Award
- Institution of Civil Engineers: Robert Stephenson Award (Special)
- British Construction Industry Awards: Major Civil Engineering Project for the Year 2012 (over £50m)
- Constructing Excellence: National Award for Value
- Royal Institution of Chartered Surveyors: North East Renaissance Award for Infrastructure
- Royal Institution of Chartered Surveyors: North East Project of the Year

Tyne Pedestrian and Cyclist Tunnels (TPCT)

Tenders for the major refurbishment of these tunnels were returned to TWITA on 3 September 2012. The tenders were evaluated and reported to TWITA on 12 October 2012. Following detailed clarifications relating to technical and insurance issues the Letter of Award for the contract for the Phase 3 Improvement Works was issued to GB Building Solutions Ltd on 28 March 2013. Site set-up activities started on 7 May 2013 and the works started on 20 May with the Tunnels closing to the public on this date. A Shuttle Bus service contract has been awarded to Priory Coaches Ltd to effectively maintain the link for Pedestrians and Cyclists across the River Tyne between 0600 and 2000, 7 days per week. Outside these hours, TWITA was aware of the difficulties that the closure of the Tunnels would have on a small number of commuters and have therefore made arrangements with TT2 for them to supply a night service for people who pre-register for the service. The works to the TPCT are expected to take 13 months: the contractor's programme indicates that the TPCT will open again in late June 2014. A communication plan has been activated to bring these events and services to the attention of users and the public generally. Also the website www.tynepedestrianandcyclisttunnels.co.uk is constantly updated.

Paul Fenwick
New Tyne Crossing Project Director

Virtual reality image of the inclined lifts to be installed in the refurbished Tyne Pedestrian and Cyclist Tunnels.

The full model can be viewed at http://www.tynepedestrianandcyclisttunnels.co.uk/

Scrutiny Advisory Group - A Review of 2012/13

The Scrutiny Advisory Committee was established by TWITA in 2003, as its independent advisory body consisting of elected members outside the ITA structure whose purpose is to review and scrutinise decisions made in connection with the discharge of the Authority's functions and make reports or recommendations to the Authority on matters which affect Tyne and Wear and its inhabitants, and which relate to the ITA's functions.

The Committee and its members are appointed annually by the five Tyne & Wear Districts. Each District appoints two Councillors, with the option that up to 2 additional members from minority parties can be appointed, if not represented in the initial 10 nominations. To ensure independent advice—and visible separation between scrutiny and those being scrutinised—Councillors are not members of the ITA. Scrutiny appoints its own Chair and Vice Chair and agrees its own work programme.

In May 2012 the Authority amended the title of the ITA Scrutiny Committee to the ITA Scrutiny Advisory Group. The terms of reference were also adapted and are now as follows:

1. To consider and give advice or make recommendations to the ITA on the discharge of its functions.
2. To review or scrutinise decisions made, or other action taken, in connection with the discharge of the ITA's functions.
3. To consider, and give advice or make recommendations to the ITA, on matters which affect Tyne and Wear or those who work, live or visit there and which relate to the ITA's functions.

In 2012/13 the Scrutiny Advisory Group met three times, in July, October and February. The meeting in April was cancelled due to work programming difficulties arising from the Easter break falling early. It is proposed that information relevant to the current policy topic will be circulated to the Group members during May to ensure continuity of communication until the next meeting in July 2013. Attendance at meetings during 2012/13 averaged 61%.

Work Programme

The work programme for 2012/13 was discussed and agreed by the Group at their July 2012 meeting. In developing the work programme, the group considered the following key questions:

- Will topics provide timely and purposeful challenge to the ITA?
- Will topics address known resident concerns and feedback?
- Will topics be strategic and focussed on Tyne and Wear issues?
- Will topics enable meaningful involvement with partners, stakeholders and the public?
- Will topics provide evidence of good scrutiny outcomes based on the Centre for Public Scrutiny four principles:

...provide critical friend challenge to executive policy-makers and decision-makers

...enable to voice and concerns of the public and its communities to be heard

...carry out scrutiny by 'independent minded governors' who lead and own the scrutiny process

...drive improvement in public services

Set out below is a summary of the work of the Scrutiny Advisory Group in 2012/13:

Principle	Evidence
To provide critical friend challenge to executive policy-makers and decision-makers	• The Group continued to base agenda items on the ITA's forward plan providing, where possible, pre-decision scrutiny. • The Group received a Transport policy update to ensure meaningful and current policy topics are reviewed. • The Group discussed the Bus Strategy Delivery Project and the potential options of Quality Contracts or Voluntary Partnerships, and received a presentation from Nexus. • The Group will continue with this topic and intend to invite representatives from NEBOA (North East Bus Operators Association)
To enable the voice and concerns of the public and its communities to be heard	• The Group visited the Tyne Pedestrian and Cycle Tunnels to review the public provisions during closure whilst the planned refurbishment works take place. • The Group received an information report on Cycling in Tyne and Wear, which informed members of the work being undertaken by partners across Tyne and Wear to support and promote cycling.
To carry out scrutiny by 'independent minded governors' who lead and own the scrutiny process	• The Group agreed meeting times and venues to make arrangement convenient for all members. • The Group continued to have single item agendas to support more in-depth scrutiny of key issues.
To drive improvement in public services	• The Group received a presentation from Nexus which outlined recent developments across the rail industry, and Nexus role. • The Group discussed the Government's command paper "Reforming our Railways" and invited a representative from the RMT Union to hear their views on the reforms.

Membership of the Scrutiny Advisory Group 2012/13

David Tate (Chair)
Sunderland

Muriel Green
North Tyneside

Tom Graham
Gateshead

Richard Porterhouse
South Tyneside

George Pattison
Newcastle

Neville Padgett
(Vice Chair)
Sunderland

David Ord
North Tyneside

Malcolm Graham
Gateshead

Bob Watters
South Tyneside

Stephen Fairlie
Newcastle

David Sarin
North Tyneside

ITA Audit Committee and Standards Committee - A Review of 2012/13

Standards Committee

As reported in last year's review, the Localism Act 2011 required fundamental changes to the Authority's Standards regime.

At the Authority's Annual Meeting in May 2012, it agreed that the existing Standards and Audit committee would be replaced with two separate committees: a Standards Committee and an Audit Committee. Both committees comprise the same five elected members of the Authority, appointed on a politically balanced basis, and four independent members.

In May 2012, the Authority also agreed some of the essential elements of the new standards regime to operate from July 2012. However, it deferred adopting a final version of a new Code of Conduct, pending Government regulations. After publication of those regulations, the Standards Committee considered and was then able to recommend adoption of a new Member's Code of Conduct. The Code was subsequently adopted by the Authority on 26 July 2012.

The Standards Committee has also considered and approved the Authority's written arrangements for dealing with standards complaints. Those Arrangements can be found on the Authority's website.

Current terms of reference for Standards Committee

The terms of reference of the Standards Committee are as follows:

1. Promoting and maintaining high standards of conduct by councillors and co-opted members;
2. Assisting the councillors and co-opted members to observe the Members' Code of Conduct;
3. Advising the Authority on the adoption or revision of the Members' Code of Conduct;
4. Monitoring the operation of the Members' Code of Conduct;
5. Advising, training or arranging to train councillors and co-opted members on matters relating to the Members' Code of Conduct;
6. Granting dispensations to councillors and co-opted members from requirements relating to interests set out in the Members' Code of Conduct so far as not delegated to the Monitoring Officer;
7. Dealing with written allegations that a councillor or co-opted member (or former councillor or co-opted member) of the Authority has failed, or may have failed, to comply with the Members' Code of Conduct;

8. Dealing with complaints that a councillor or co-opted member of the Authority has failed, or may have failed, to comply with one of the Authority's local protocols.

Meetings in 2012/13
The Committee met three times:
- July 2012
- September 2012
- February 2013

Looking ahead:
The main focus of our work next year will be:
- To consider any general conduct issues which arise, and
- To consider and determine allegations of Members' misconduct (if any).

Audit Committee

Following changes to the Standards regime required as a result of the Localism Act 2011, from July 2012 the ITA Audit Committee was established as a separate committee with its own work programme (having previously formed part of the combined Standards and Audit Committee).

In 2012/13 the independent membership of the Committee remained unchanged, but there were a number of new members appointed at the 2012 Annual Meeting of the ITA. New members received training on the roles and responsibilities of an Audit Committee from the ITA Senior Accountant and the Head of Audit and Strategic Risk in July 2012.

During the year the Committee also monitored the work of Deloitte, the ITA's external auditors. This included reviewing their proposed audit plan, and the results of the annual audit and the Annual Audit Letter. The results of the audit were positive and Deloitte did not identify any significant concerns over the Authority's financial reporting.

Audit Committee reviewed the ITA's Annual Report and Accounts and recommended it to the Authority for final sign-off. The Committee also considered the Annual Governance Statement and Local Code of Corporate Governance, which did not identify any significant weaknesses or areas for improvement.

As in previous years, the Committee monitored the performance of the Internal Audit function and in particular, the outcome of individual audits as well as the annual report of the Head of Audit and Strategic Risk, which had concluded that the Authority's control systems were good.

Other items on the Committee's work programme during 2012/13 included considering the Authority's Budget report and Treasury Management Strategy, Accounting Policies, Revenue Budget Monitoring reports, the Strategic Risk Register and a report on funding and financing arrangement for the Tyne Tunnels. Members also received a presentation from Nexus on the North East Smart Ticketing Initiative (NESTI) in September 2012.

Standards Committee and Audit Committee

Purpose of the Audit Committee:

The purpose of the Committee can be summarised as follows:

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

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

Focus for 2013/14

Key areas of the Audit Committee's work in the forthcoming year will be:

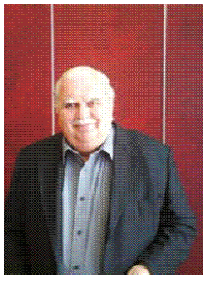
- To consider the Annual Report and Accounts for 2012/13 and the work of the external auditor, making recommendations to the ITA as appropriate;
- To consider the work of Internal Audit including the appropriateness and coverage of the Audit Plan for 2013/14;
- To consider the Authority's budget and Treasury Management strategy, as well as receiving reports on performance against the revenue budget;
- To consider the Authority's arrangements for risk management and control.

Members of Standards Committee and Audit Committee in 2012/13

Independent Members

M Scrimshaw (Chair)

T. Atkinson



G. Clark

E. Green

ITA Members

B. Curran (Sunderland)

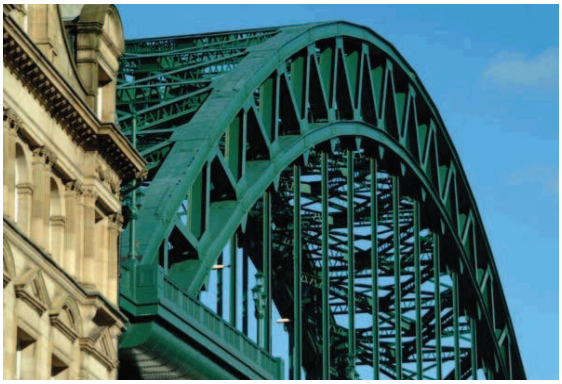
A. Lawson (Sunderland)

P. Maughan (Gateshead)

J. O'Shea (North Tyneside)

A. Smith (South Tyneside)

Statement of Responsibilities for the Statement of Accounts



The Authority's Responsibilities

The Authority is required:

- To make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Authority, that officer is the Treasurer & Deputy Clerk.
- To manage its affairs to secure economic, efficient and effective use of resources, and to safeguard its assets.
- To approve the statement of accounts by 30 September 2013.

Signed …….
Councillor D. Wood, Chair of the Tyne & Wear ITA
Date:

The Treasurer's Responsibilities

The Treasurer is responsible for the preparation of the Authority's Statement of Accounts which, in terms of the CIPFA / LASAAC Code of Practice on Local Authority Accounting in Great Britain ('the Code'), is required to give a true and fair view of the financial position of the Authority at the accounting date and its income and expenditure for the year ended 31 March 2013.

In preparing this statement of accounts, the Treasurer has:

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

The Treasurer has also:

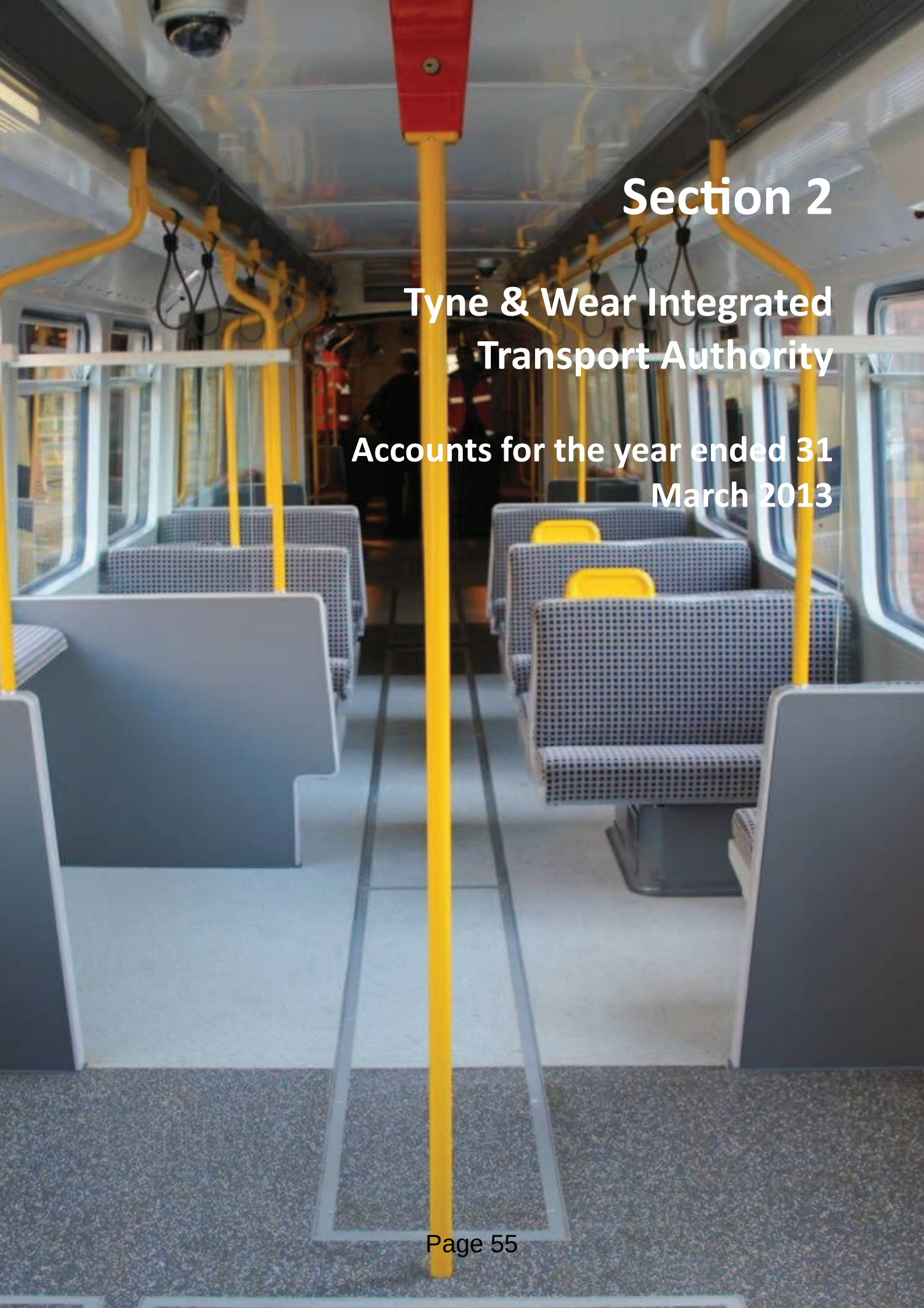
- Kept proper accounting records which were up to date
- Taken reasonable steps for the prevention and detection of fraud and other irregularities

Treasurer's Certificate

I hereby certify that the Statement of Accounts for the year ended 31 March 2013, required by the Accounts and Audit Regulations 2011 are set out in the following pages.

I further certify that the Statement of Accounts gives a true and fair view of the financial position of the Authority at 31 March 2013 and its income and expenditure for the year ended 31 March 2013.

Signed …….
P. V. Woods, Treasurer
Date:



Section 2

Tyne & Wear Integrated Transport Authority

Accounts for the year ended 31 March 2013

Movement in Reserves Statement

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

	General Fund	Earmarked Reserves	Capital Grants Unapplied	**Total Usable Reserves**	Unusable Reserves	**Total Reserves**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Balance at 1 April 2012	(44,277)	(14,357)	-	**(58,634)**	(59,862)	**(118,496)**
Movement in Reserves During 2012/13						
(Surplus) / Deficit on Provision of Services	(1,704)	-	-	**(1,704)**	-	**(1,704)**
Other Comprehensive Income and Expenditure	-	-	-	**-**	2,750	**2,750**
Total Comprehensive Income and Expenditure	(1,704)	-	-	**(1,704)**	2,750	**1,046**
Adjustments between Accounting Basis and Funding Basis Under Regulations (Note 4)	5,154	-	-	**5,154**	(5,154)	**-**
Net (Increase) / Decrease before transfers to Earmarked Reserves	3,450	-	-	**3,450**	(2,404)	**1,046**
Transfers (to) / from Earmarked Reserves (Note 5)	(2,032)	2,032	-	-	-	**-**
(Increase) / Decrease in 2012/13	1,418	2,032	-	**3,450**	(2,404)	**1,046**
Balance at 31 March 2013 carried forward	**(42,859)**	**(12,325)**	**-**	**(55,184)**	**(62,266)**	**(117,450)**

Movement in Reserves Statement

Comparative Figures for 2011/12

	General Fund	Earmarked Reserves	Capital Grants Unapplied	**Total Usable Reserves**	Unusable Reserves	**Total Reserves**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Balance at 1 April 2011	(43,372)	(12,438)	(288)	**(56,098)**	(60,329)	**(116,427)**
Movement in Reserves During 2011/12						
(Surplus) / Deficit on Provision of Services	(5,132)	-	-	**(5,132)**	-	**(5,132)**
Other Comprehensive Income and Expenditure		-	-	**-**	3,063	**3,063**
Total Comprehensive Income and Expenditure	(5,132)	-	-	**(5,132)**	3,063	**(2,069)**
Adjustments between Accounting Basis and Funding Basis Under Regulations (Note 4)	2,308	-	288	**2,596**	(2,596)	**-**
Net (Increase) / Decrease before transfers to Earmarked Reserves	(2,824)	-	288	**(2,536)**	467	**(2,069)**
Transfers (to) / from Earmarked Reserves (Note 5)	1,919	(1,919)	-	-	-	**-**
(Increase) / Decrease in 2011/12	(905)	(1,919)	288	**(2,536)**	467	**(2,069)**
Balance at 31 March 2012 carried forward	**(44,277)**	**(14,357)**	**-**	**(58,634)**	**(59,862)**	**(118,496)**

Comprehensive Income and Expenditure Statement

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

← 2011/12 →				← 2012/13 →		
Gross Expenditure	Gross Income	Net Expenditure		Gross Expenditure	Gross Income	Net Expenditure
£000	**£000**	**£000**		**£000**	**£000**	**£000**
453	-	453	Corporate and Democratic	435	-	435
			Highways and Transport			
13,328	(20,519)	(7,191)	- Tyne Tunnels	18,079	(25,088)	(7,009)
82,028	(11,453)	70,575	- Other Highways and Transport Services	91,209	(22,083)	69,126
-	-	-	Non-Distributed Costs	10	-	10
95,809	**(31,972)**	**63,837**	**Cost of Services**	**109,733**	**(47,171)**	**62,562**
8,412	(3,588)	4,824	Financing and Investment Income and Expenditure (note 6)	9,101	(3,160)	5,941
-	(73,792)	(73,792)	Taxation and Non-Specific Grant Income (note 7)	-	(70,207)	(70,207)
		(5,131)	**(Surplus) / Deficit on Provision of Services**			**(1,704)**
		(597)	Surplus / (Deficit) on Revaluation of Fixed Assets (Note 8)			-
		3,660	Actuarial (Gains) / Losses on Pension Fund Assets and Liabilities (note 29)			2,750
		3,063	**Other Comprehensive Income and Expenditure**			**2,750**
		(2,068)	**Total Comprehensive Income and Expenditure**			**1,046**

Balance Sheet

The Balance Sheet shows the value at the Balance Sheet date of the assets and liabilities of the Authority. The Net Assets (Assets less Liabilities) are matched by Reserves. Reserves are reported in two categories: Usable (i.e. those the Authority may use to provide services subject to any statutory limitations on their use) and Unusable (those the Authority may not use to provide services). This category includes reserve that hold unrealised gains and losses (e.g. the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line "adjustments between accounting basis and funding basis under regulation".

31 March 2012 £000		Notes	31 March 2013 £000
368,344	Property, Plant and Equipment	8	365,566
49,104	Long Term Debtors	9, 10	47,141
417,448	**Long Term Assets**		**412,707**
23,000	Short Term Investments	9	18,000
11,842	Short Term Debtors	9, 11	16,858
66,454	Cash and Cash Equivalents	12	74,084
101,296	**Current Assets**		**108,942**
(4,726)	Short Term Borrowing	9	(4,694)
(35,030)	Short Term Creditors	9, 13	(44,684)
(5,501)	New Tyne Crossing - Deferred Income	28	(5,501)
(8,637)	Grants and Contributions Receipts in Advance	14	(10,125)
(53,894)	**Current Liabilities**		**(65,004)**
(127,331)	New Tyne Crossing - Deferred Income	28	(122,222)
(6,734)	Grants and Contributions Receipts in Advance	14	(5,830)
(205,560)	Long Term Borrowing	9	(202,893)
(6,730)	Other Long Term Liabilities	9, 29	(8,250)
(346,355)	**Long Term Liabilities**		**(339,195)**
118,495	**Net Assets**		**117,450**
(58,633)	Usable Reserves	15	(55,184)
(59,863)	Unusable Reserves	16	(62,266)
(118,496)			**(117,450)**

Treasurer's Certificate

I certify that the accounts set out on pages 37 to 90 present a true and fair view of the financial position of the Tyne and Wear Integrated Transport Authority as at 31 March 2013.

Signed

Treasurer
Date:

Cash Flow Statement

The Cash Flow Statement shows the changes in cash and cash equivalents of the Authority during the reporting period. The statement shows how the Authority generates and uses cash and cash equivalents by classifying cash flows from operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Authority are funded by way of levy and grant income or from the recipients of services provided to the Authority. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Authority's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Authority.

2011/12 £000		Notes	2012/13 £000
(5,132)	Net surplus on the provision of services		(1,704)
(2,181)	Adjustments to net surplus or deficit on the provision of services for non cash movements	18	(2,214)
11,236	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	18	20,671
3,923	Net cash flows from Operating Activities		16,753
28,183	Investing activities	19	(27,082)
(52,728)	Financing activities	20	2,699
(20,622)	Net increase in cash and cash equivalents		(7,630)
(45,832)	Cash and cash equivalents at the beginning of the reporting period		(66,454)
(66,454)	Cash and cash equivalents at the end of the reporting period	12	**(74,084)**

Note 1: Accounting Standards Issued but Not Yet Adopted

Changes from the 2012/13 Code

The Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 (the Code) has introduced a change in accounting policy in relation to the treatment of IFRS 7 Financial Instruments Disclosures Offsetting Financial Assets and Liabilities. The change in accounting policy has been reviewed and it has been concluded that this change does not impact on the ITA as transactions of this nature have not been entered into.

A revised IAS19 (International Accounting Standard) will come into force for accounting periods beginning on or after 1 January 2013. This standard deals with accounting for pension costs. If this revised IAS19 were adopted for the accounting period ending 31 March 2013 then this will increase the expenses recognised for funded benefits from a credit of £0.29m to an expense of £0.26m. There is no effect on the balance sheet.

The 2013/14 Code has also introduced a change in respect of IAS12 Deferred Tax: Recovery of Underlying Assets (December 2010 Amendments). Such transactions are not common for local authorities and the ITA has not entered into any transactions covered by the changes in the 2012/13 financial year.

Note 2: Critical Judgements in Applying Accounting Policies

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

Leases
Judgements have been made about whether leases are classified as operating or finance leases. This has an impact on the way they are accounted for: where a lease is classified as a finance lease, an asset and a finance lease liability must be recognised. Under an operating lease, payments are charged to the Comprehensive Income and Expenditure Statement and no liability is recognised. The Authority has a number of leases, which have all been reviewed by Property Surveyors against the criteria for determining their classification. All have been classified as operating leases.

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:

Note 2 (Continued)

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

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

Note 3: Assumptions Made About the Future and Other Sources of Estimation Uncertainty

The Statement of Accounts contains estimated figures that are based on assumptions made by the Authority about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates. The items in the Authority's Balance Sheet at 31 March 2013 for which there is a risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainty	Effect if Actual Results Differ From Assumptions
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Authority with expert advice about the assumptions to be applied.	The effects on the net pension liability for funded LGPS benefits of changes in individual assumptions can be measured. For instance, a 0.5% increase in the discount rate assumptions would result in a decrease in the pension liability of £2.06m. However, the assumptions interact in complex ways. During 2012/13, the Authority's actuaries advised that the net pensions liability for funded LGPS benefits had increased by £0.02m as a result of estimates being corrected as a result of experience and increased by £3.78m attributable to updating of the assumptions.

Note 4: Adjustments between Accounting Basis and Funding Basis under Regulations

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

2012/13

	Usable Reserves		
	General Fund Balance	Capital Grants Unapplied	Movement in Unusable Reserves
	£000	£000	£000
Adjustments involving the Capital Adjustment Account:			
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:			
Charges for depreciation and impairment of non current assets	(3,862)	-	3,862
Write down of New Tyne Crossing deferred income balance	5,109	-	(5,109)
Capital grants and contributions applied	-	-	-
Revenue expenditure funded from capital under statute	(20,258)	-	20,258
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:			
Statutory provision for the financing of capital investment	2,192	-	(2,192)
Capital expenditure charged against the General Fund	-	-	-

Note 4 (Continued)

	Usable Reserves		
	General Fund Balance	Capital Grants Unapplied	Movement in Unusable Reserves
	£000	£000	£000
Adjustments involving the Capital Grants Unapplied Account:			
Application of grants to capital financing transferred to the Capital Adjustment Account	20,671	-	(20,671)
Adjustments involving the Financial Instruments Adjustment Account:			
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	72	-	(72)
Adjustments involving the Pensions Reserve:			
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 29)	250	-	(250)
Employer's pensions contributions and direct payments to pensioners payable in the year	980	-	(980)
Total Adjustments	**5,154**	**-**	**(5,154)**

Comparative Figures for 2011/12

	Usable Reserves		
	General Fund Balance	Capital Grants Unapplied	Movement in Unusable Reserves
	£000	£000	£000
Adjustments involving the Capital Adjustment Account:			
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:			
Charges for depreciation and impairment of non current assets	(6,481)	-	6,481
Write down of New Tyne Crossing deferred income balance	5,628	-	(5,628)
Capital grants and contributions applied	11,175	-	(11,175)
Revenue expenditure funded from capital under statute	(13,119)	-	13,119
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:			
Statutory provision for the financing of capital investment	2,061	-	(2,061)
Capital expenditure charged against the General Fund	1,776	-	(1,776)

Note 4 (Continued)

	Usable Reserves		
	General Fund Balance	Capital Grants Unapplied	Movement in Unusable Reserves
	£000	£000	£000
Adjustments involving the Capital Grants Unapplied Account:			
Application of grants to capital financing transferred to the Capital Adjustment Account		288	(288)
Adjustments involving the Financial Instruments Adjustment Account:			
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	61	-	(61)
Adjustments involving the Pensions Reserve:			
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 29)	260	-	(260)
Employer's pensions contributions and direct payments to pensioners payable in the year	947	-	(947)
Total Adjustments	**2,308**	**288**	**(2,596)**

Note 5: Transfers to / from Earmarked Reserves

This note sets out the balances in earmarked reserves set aside to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund expenditure in 2012/13, with comparative figures for 2011/12.

	Balance at 01/04/11 £000	Transfers Out 2011/12 £000	Transfers In 2011/12 £000	Balance at 31/03/12 £000	Transfers Out 2012/13 £000	Transfers In 2012/13 £000	Balance at 31/03/13 £000
Metro Reinvigoration Reserve	(12,438)	-	(1,919)	(14,357)	2,204	(172)	(12,325)
Total	**(12,438)**	**-**	**(1,919)**	**(14,357)**	**2,204**	**(172)**	**(12,325)**

Note 6: Financing and Investment Income and Expenditure

2011/12 £000		2012/13 £000
8,412	Interest payable and similar charges	9,101
(260)	Pensions interest cost and expected return on pensions assets	(260)
(3,328)	Interest receivable and similar income	(2,900)
4,824		**5,941**

Note 7: Taxation and non-specific Grant Income

2011/12 £000		2012/13 £000
(73,792)	Levy on Tyne and Wear Authorities	(70,207)
(73,792)		**(70,207)**

Note 8: Property, Plant and Equipment

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

Note 8 (Continued)

Comparative Figures for 2011/12

	Land	Vehicles, Plant, Furniture & Equipment	Infrastructure Assets	Assets Under Construction / Work in Progress	Total Property, Plant and Equipment
	£000	£000	£000	£000	£000
Cost or Valuation					
At 1 April 2011	12,135	3,074	353,895	-	**369,104**
Additions	-	-	21,499	423	**21,922**
Revaluation increases/(decreases) recognised in the Revaluation Reserve	-	597	-	-	**597**
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	-	-	(2,627)	-	**(2,627)**
Other movements in Cost or Valuation	-	(466)	-	-	(466)
At 31 March 2012	12,135	3,205	372,767	423	**388,530**
Accumulated Depreciation and Impairment					
At 1 April 2011	-	(450)	(15,882)	-	**(16,332)**
Depreciation charge	-	(92)	(3,762)	-	**(3,854)**
At 31 March 2012	-	(542)	(19,644)	-	**(20,186)**
Net Book Value					
At 31 March 2012	**12,135**	**2,663**	**353,123**	**423**	**368,344**
At 31 March 2011	12,135	2,624	338,013	-	352,772

Note 8 (Continued)

Depreciation

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

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

Revaluations

The Authority carries out a rolling programme that ensures that all Property, Plant and Equipment required to be measured at fair value is revalued at least every five years. All valuations were carried out by surveyors from the Lead Authority, Newcastle City Council. Valuations of land and buildings and Infrastructure were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. Valuations of Vehicles, Plant and Equipment relate to assets transferred to the use of TT2 Ltd as described above. The valuations are based on records held by TT2 Ltd.

The significant assumptions applied in estimating the fair values are:

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

Note 9: Financial Instruments

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

31 March 2012 £000		31 March 2013 £000
	Short Term Investments:	
23,000	Bank deposits	18,000
	Long Term Debtors:	
49,104	Loans to Nexus	47,141
	Short Term Debtors:	
11,842	Short term debtors:	16,858

31 March 2012 £000	**Borrowings:**	31 March 2012 £000
(4,726)	Short term borrowing	(4,694)
(205,560)	Financial liabilities at amortised cost - long term borrowing	(202,893)
(210,286)		**(207,587)**
	Other Long Term Liabilities:	
(6,730)	Pensions Liability	(8,250)
	Short Term Creditors:	
(35,030)	Short Term Creditors	(44,684)

The £18m short-term investment shown relates to investments placed on behalf of Nexus by the ITA. The increase in short term debtors is largely due to an increase from £5m to £10m of the debtor with Newcastle City Council for monies invested on behalf of Nexus at the balance sheet date. A corresponding creditor is shown under short-term creditors to recognise the fact that the total investment of £28m must be repaid to Nexus on their request.

Income, Expense, Gains and Losses

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

- Public Works Loan Board (PWLB) interest rates for new fixed borrowing in the appropriate maturity bands as at 31 March 2013
- No early repayment or impairment is recognised
- Where an instrument will mature in the next 12 months, carrying amount is assumed to approximate to fair value
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.
- Estimated ranges of interest rates at 31 March 2013 of 0.62% to 10.125% for loans from the PWLB and 4.07% to 4.94% for other loans receivable and payable, based on new lending rates for equivalent loans at that date

Note 9 (Continued)

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

Financial Liabilities (amortised cost) £000	Financial Assets: Loans and Receivables £000	2011/12 Total £000		Financial Liabilities (amortised cost) £000	Financial Assets: Loans and Receivables £000	2012/13 Total £000
8,412		**8,412**	Interest expense	9,101		**9,101**
8,412	-	**8,412**	Total expense in Surplus/Deficit on Provision of Services	**9,101**	-	**9,101**
-	(3,328)	**(3,328)**	Interest income	-	(2,900)	**(2,900)**
-	**(3,328)**	**(3,328)**	Total income in Surplus/Deficit on Provision of Services	**-**	**(2,900)**	**(2,900)**
8,412	**(3,328)**	**5,084**	**Net (gain)/loss for the year**	**9,101**	**(2,900)**	**6,201**

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

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

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

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

Note 9 (Continued)

Financial Liabilities

31 March 2012			31 March 2013	
Carrying amount £000	Fair value £000		Carrying amount £000	Fair value £000
		Short Term Borrowing		
(3,700)	(3,700)	Public Works Loan Board	(3,677)	(3,677)
(1,026)	(1,026)	Market Loans	(1,017)	(1,017)
(4,726)	**(4,726)**		**(4,694)**	**(4,694)**
		Long Term Borrowing		
(116,560)	(141,249)	Public Works Loan Board	(113,893)	(142,041)
(89,000)	(117,094)	Market Loans	(89,000)	(133,343)
(205,560)	**(258,343)**		**(202,893)**	**(275,384)**
(210,286)	**(263,069)**	**Total Borrowing**	**(207,587)**	**(280,078)**

Financial Assets

31 March 2012			31 March 2013	
Carrying amount £000	Fair value £000		Carrying amount £000	Fair value £000
49,104	49,104	Long-term debtors	47,141	47,141
49,104	**49,104**	**Total**	**47,141**	**47,141**

Note 10: Long Term Debtors

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

31 March 2012 £000		31 March 2013 £000
49,104	Loans to Nexus	47,141
49,104	**Closing Balance 31 March**	**47,141**

Note 11: Short Term Debtors

31 March 2012 £000		31 March 2013 £000
454	Central Government Bodies	907
5,289	Other Local Authorities	10,056
6,099	Other entities and individuals	5,895
11,842	**Total**	**16,858**

Within 'Other entities and individuals', £6,043k relates to Nexus at 31/03/12 and £5,798k relates to Nexus at 31/03/13.

Note 12: Cash and Cash Equivalents

31 March 2012 £000		31 March 2013 £000
66,454	Bank current accounts	74,084
66,454	**Total Cash and Cash Equivalents**	**74,084**

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

Note 13: Short Term Creditors

31 March 2012 £000		31 March 2013 £000
(50)	Central government bodies	-
(883)	Other local authorities	(1,963)
(34,097)	Other bodies	(42,721)
(35,030)	**Total**	**(44,684)**
	'Other bodies' can be broken down as follows:	
(30,573)	Nexus	(39,257)
(2,599)	TT2 Ltd	(2,517)
(653)	Prepaid Tunnels Permits	(705)
(78)	Accrued payments to pension fund	(5)
(137)	New Tyne Crossing Professional Advisors	(145)
(57)	Other entities and individuals	(92)
(34,097)		**(42,721)**

The significant level of short term creditors due to Nexus reflects the fact that the ITA is holding £18m of investments on Nexus' behalf, which are shown as short term investments, and an additional £10m debtor with Newcastle City Council for Nexus funds placed in their name. The creditor is shown to recognise that the total £28m must be repaid to Nexus on their request.

Note 14: Grants and Contributions Received in Advance

2011/12 £000		2012/13 £000
(8,114)	NESTI Contributions from Local Authorities	(4,879)
(4,478)	Local Sustainable Transport Fund - Schools Go Smarter	(3,331)
-	Local Sustainable Transport Fund - Go Smarter to Work	(4,888)
-	Better Bus Area Fund	(2,554)
(2,779)	Local Transport Plan	(303)
(15,371)	**Balance at 31 March**	**(15,955)**
(8,637)	Shown as Short-Term Liability on Balance Sheet	(10,125)
(6,734)	Shown as Long-Term Liability on Balance Sheet	(5,830)
(15,371)		**(15,955)**

Grants and Contributions Received in Advance have been split between long term and short term liabilities based on the budget for 2012/13.

Note 15: Usable Reserves

Summary

31 March 2012 £000		31 March 2013 £000
	General Fund Reserves	
(2,519)	- ITA General Fund	(2,382)
(41,757)	- Tyne Tunnels General Fund	(40,477)
(44,276)	Total General Fund Reserves	(42,859)
(14,357)	Earmarked Metro Reinvigoration Reserve	(12,325)
(58,633)	**Total Usable Reserves**	**(55,184)**

ITA General Fund

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

2011/12 £000		2012/13 £000
(2,600)	Balance at 1 April	(2,519)
81	Drawn down to support expenditure in year	137
(2,519)	**Balance at 31 March**	**(2,382)**

Tyne Tunnels General Fund

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

Note 15 (Continued)

2011/12 £000		2012/13 £000
(40,772)	Balance at 1 April	(41,757)
(2,871)	(Surplus)/Deficit on Tyne Tunnels trading account	867
1,886	NESTI expenditure funded by Tyne Tunnels reserves	413
(41,757)	**Balance at 31 March**	**(40,477)**

Earmarked Metro Reinvigoration Reserve

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

2011/12 £000		2012/13 £000
(12,438)	Balance at 1 April	(14,357)
(199)	Interest on reserve	(172)
-	Draw down to support expenditure in year	2,204
(1,720)	Funds set aside to be used for future years	-
(14,357)	**Balance at 31 March**	**(12,325)**

Note 16: Unusable Reserves

31 March 2012 £000		31 March 2013 £000
(11,167)	Revaluation Reserve	(10,290)
(55,669)	Capital Adjustment Account	(60,397)
243	Financial Instruments Adjustment Account	171
6,730	Pensions Reserve	8,250
(59,863)	**Total Unusable Reserves**	**(62,266)**

Note 16 (Continued)

Revaluation Reserve

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

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

The Reserve contains only revaluation gains accumulated since 1 April 2007, the date that the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

2011/12		2012/13
£000		£000
(10,570)	Balance at 1 April	(11,167)
(597)	Upward revaluation of assets	-
-	Difference between fair value depreciation and historical cost depreciation	877
-	Amount written off to the Capital Adjustment Account	877
(11,167)	**Balance at 31 March**	**(10,290)**

Capital Adjustment Account

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

The Account also contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the Authority. The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

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

Note 16 (Continued)

2011/12 £000		2012/13 £000
(54,340)	Balance at 1 April	(55,669)
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:	
6,481	Charges for depreciation and impairment of non current assets	3,862
(5,628)	Write down New Tyne Crossing deferred income balance	(5,109)
13,119	Revenue expenditure funded from capital under statute	20,258
-	Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	-
(40,368)		**(37,535)**
-	Adjusting amounts written out of the Revaluation Reserve	(877)
	Capital financing applied in the year:	
(11,175)	Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	(20,671)
(288)	Application of grants to capital financing from the Capital Grants Unapplied Account	-
(2,062)	Statutory provision for the financing of capital investment charged against the General Fund	(2,192)
(1,776)	Capital expenditure charged against the General Fund	-
(55,669)	**Balance at 31 March**	**(60,397)**

Financial Instruments Adjustment Account

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

2011/12 £000		2012/13 £000
304	Balance at 1 April	243
(61)	Proportion of premiums incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements	(72)
243	**Balance at 31 March**	**171**

Note 16 (Continued)

Pensions Reserve

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

2011/12 £000		2012/13 £000
4,277	Balance at 1 April	6,730
3,660	Actuarial (gains) or losses on pensions assets and liabilities	2,750
(260)	Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	(250)
(947)	Employer's pensions contributions and direct payments to pensioners payable in the year	(980)
6,730	**Balance at 31 March**	**8,250**

Note 17: Cash Flow Statement: Operating Activities

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

2011/12 £000		2012/13 £000
3,328	Interest received	2,900
(8,412)	Interest paid	(9,101)

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

2011/12 £000		2012/13 £000
(5,132)	Surplus or deficit on the provision of services	(1,704)
	Adjustments to Surplus or Deficit on Provision of Services for Non-Cash Movements	
(3,854)	Depreciation	(3,862)
(2,627)	Impairment and Downward Valuations	-
(2,855)	(Increase) / Decrease in Creditors	(9,801)
320	Increase / (Decrease) in Debtors	5,110
1,207	Movement in Pension Liability	1,230
5,628	Other non-cash items charged to the net surplus or deficit on the provision of services	5,109
(2,181)		**(2,214)**
	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	
11,175	Capital grants credited to surplus / deficit on provision of services	20,671
-	Proceeds from the sale of long term and short term investments	-
61	Other adjustments for items that are financing or investing activities	-
11,236		**20,671**
3,923	**Net cash flow from operating activities**	**16,753**

Note 19: Cash Flow Statement: Investing Activities

2011/12 £000		2012/13 £000
48,555	Purchase of property, plant and equipment, investment property and intangible assets	1,230
30,000	Purchase of short-term and long-term investments	65,000
(18,192)	Other payments for investing activities	-
(30,106)	Proceeds from short-term and long-term investments	(70,000)
(2,074)	Other receipts from investing activities	(23,312)
28,183	**Net cash flows from investing activities**	**(27,082)**

Note 20: Cash Flows from Financing Activities

2011/12 £000		2012/13 £000
(89,000)	Cash receipts of short and long-term borrowing	-
-	Other receipts from financing activities	-
36,333	Repayments of short and long-term borrowing	2,699
(61)	Other payments for financing activities	-
(52,728)	**Net cash flows from financing activities**	**2,699**

Note 21: Members' Allowances

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

2011/12 £000		2012/13 £000
80	Allowances	82
80	**Total**	**82**

Note 22: External Audit Costs

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

2011/12 £000		2012/13 £000
33	Fees payable with regard to external audit services carried out by the appointed auditor for the year	20
(3)	Rebate on audit fee received from Audit Commission	(2)
30	**Total**	**18**

Note 23: Amounts Reported for Resource Allocation

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

Income and Expenditure reported to Management

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

Reconciliation of Income and Expenditure to Cost of Services

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

Note 23 (Continued)

	2012/13 £000
Net Expenditure in the Analysis reported to Management	1,418
Amounts in the Comprehensive Income and Expenditure Statement not reported to Management in the Analysis	626
Amounts included in the Analysis not included in the Comprehensive Income and Expenditure Statement Cost of Services	60,518
Cost of Services in Comprehensive Income and Expenditure Statement	**62,562**

Reconciliation to Subjective Analysis

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

	Analysis by function	Amounts not reported to management for decision making	Amounts not included in CIES Cost of Services	**Cost of Services**	Corporate Amounts	**Total**
2012/13	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Fees, charges & other service income	(19,979)	-	-	**(19,979)**	-	(19,979)
New Tyne Crossing Deferred Income Release	-	(5,109)	-	**(5,109)**	-	(5,109)
Interest and investment income	(552)	-	552	**-**	(3,160)	(3,160)
Levy income	(70,207)	-	70,207	**-**	(70,207)	(70,207)
Government grants and contributions	-	(22,083)	-	**(22,083)**	-	(22,083)
Total Income	**(90,738)**	**(27,192)**	**70,759**	**(47,171)**	**(73,367)**	**(120,538)**
Employee expenses	1,012	10	(980)	**42**	-	42
Other service expenses	14,241	-	-	**14,241**	-	14,241
Support Service	378	-	-	**378**	-	378
Capital Payments	2,192	27,808	(2,263)	**27,737**	-	27,737
Interest Payments	6,998	-	(6,998)	**-**	9,101	9,101
Public Transport Revenue Grant to Nexus	66,922	-	-	**66,922**	-	66,922
NESTI Expenditure met from Tyne Tunnels	413	-	-	**413**	-	413
Total expenditure	**92,156**	**27,818**	**(10,241)**	**109,733**	**9,101**	**118,834**
Surplus or deficit on the provision of services	**1,418**	**626**	**60,518**	**62,562**	**(64,266)**	**(1,704)**

Note 23 (Continued)

Comparative Figures for 2011/12

Income and Expenditure reported to Management

	ITA	Tyne Tunnels	Total
	£000	£000	£000
Fees, charges & other service income	-	(14,890)	(14,890)
Interest	(83)	(775)	(858)
Levy income	(73,792)	-	(73,792)
Total Income	**(73,875)**	**(15,665)**	**(89,540)**
Employee expenses (including pensions)	432	533	965
Other service expenses	183	6,585	6,769
Support service recharges	284	146	430
Capital Payments	1,351	711	2,062
Interest Payments	1,382	4,819	6,201
Public Transport Revenue Grant to Nexus	70,323	-	70,323
NESTI Expenditure met from Tyne Tunnels reserves	-	1,886	1,886
Total Expenditure	**73,956**	**14,680**	**88,636**
Net Expenditure	**81**	**(985)**	**(904)**

Reconciliation of Income and Expenditure to Cost of Services

	2011/12
	£000
Net Expenditure in the Analysis reported to Management	(904)
Amounts in the Comprehensive Income and Expenditure Statement not reported to Management in the Analysis	1,077
Amounts included in the Analysis not included in the Comprehensive Income and Expenditure Statement Cost of Services	63,664
Cost of Services in Comprehensive Income and Expenditure Statement	**63,837**

Reconciliation to Subjective Analysis

Note 23 (Continued)

	Analysis by function	Amounts not reported to management for decision making	Amounts not included in CIES Cost of Services	**Cost of Services**	Corporate Amounts	**Total**
2011/12	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Fees, charges & other service income	(14,890)	-	-	**(14,890)**	-	(14,890)
New Tyne Crossing Deferred Income Release	-	(5,628)	-	(5,628)	-	(5,628)
Interest and investment income	(858)	-	858	**-**	(3,588)	(3,588)
Levy income	(73,792)	-	73,792	**-**	(73,792)	(73,792)
Government grants and contributions	-	(11,453)	-	**(11,453)**	-	(11,453)
Total Income	**(89,540)**	**(17,081)**	**74,650**	**(31,971)**	**(77,380)**	**(109,351)**
Employee expenses	965	-	(947)	**18**	-	18
Other service expenses	8,655	-	-	**8,655**	-	8,655
Support Service	430	-	-	**430**	-	430
Capital Payments	2,062	18,158	(3,838)	**16,382**	-	16,382
Interest Payments	6,201	-	(6,201)	**-**	8,412	8,412
Public Transport Revenue Grant to Nexus	70,323	-	-	**70,323**	-	70,323
Total expenditure	**88,636**	**18,158**	**(10,986)**	**95,808**	**8,412**	**104,220**
Surplus or deficit on the provision of services	**(904)**	**1,077**	**63,664**	**63,837**	**(68,968)**	**(5,131)**

Note 24: Grant Income

The Authority credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2012/13:

2011/12		**2012/13**
£000		**£000**
	Credited to Services	
(10,774)	Local Transport Plan	(14,867)
(426)	Local Sustainable Transport Fund	(1,254)
(50)	Supporting Community Transport Fund	-
(202)	NESTI	(3,235)
-	Better Bus Area Fund	(2,418)
-	Local Contributions to Go Smarter Programme	(309)
(11,452)		(22,083)

Note 25: Related Parties

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

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

Members of the Authority have direct control over the Authority's financial and operating policies and are required to disclose all pecuniary and non-financial interests which could conflict with those of the Authority. No such disclosures were made in 2012/13.

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

Other Public Bodies (subject to common control by central government)
The Authority has a direct relationship with the Passenger Transport Executive (Nexus). The ITA sets the policy, which is then delivered by Nexus.

The Clerk to the ITA, Treasurer & Deputy Clerk and the Director of Housing, Planning and Transportation are non-Executive Directors of Nexus and also officers of Newcastle City Council.

The table below sets out all expenditure paid to and income received from any related parties in 2012/13, including amounts accrued at the year end.

	2011/12	2012/13	
	£000	£000	£000
		Paid / Received in year	Accrued at year end
Receipts			
Levy on Tyne and Wear Councils			
Gateshead Council	(12,726)	(12,021)	-
Newcastle City Council	(18,962)	(18,323)	-
North Tyneside Council	(13,152)	(12,447)	-
South Tyneside Council	(10,164)	(9,638)	-
Sunderland City Council	(18,788)	(17,778)	-
	(73,792)	**(70,207)**	-
Newcastle City Council (NCC)			
Interest on Revenue Balances	(931)	(725)	-
Investments held on behalf of Nexus by NCC	(5,000)		(10,000)

Note 25 (Continued)

	2011/12 £000	2012/13 £000 Paid / Received in year	2012/13 £000 Accrued at year end
Receipts			
Nexus			
Loans from ITA - Principal	(2,138)	-	(2,057)
Loans from ITA - Interest	(1,817)	-	(1,740)
	(3,955)	**-**	**(3,797)**

The amount paid / received in year is shown as nil since these receipts are paid following the year end (i.e. the 2011/12 invoice was paid in April 2012).

Contributions to NESTI held as Contributions Received*			
Darlington Borough Council	(358)	-	(215)
Durham County Council	(1,214)	-	(731)
Gateshead Council	(624)	-	(375)
Hartlepool Borough Council	(247)	-	(148)
Middlesbrough Borough Council	(413)	-	(248)
Newcastle City Council	(750)	-	(451)
North Tyneside Council	(482)	-	(290)
Northumberland County Council	(734)	-	(441)
Redcar & Cleveland Borough Council	(324)	-	(195)
South Tyneside Council	(383)	-	(231)
Stockton-on-Tees Borough Council	(466)	-	(280)
Sunderland City Council	(753)	-	(453)
	(6,748)	**-**	**(4,057)**

* A pro-rata allocation according to original contributions has been used to split the NESTI contributions held on the ITA's Balance Sheet at the year end (excluding TWITA's own allocation).

	2011/12 £000	2012/13 £000 Paid / Received in year	2012/13 £000 Accrued at year end
Payments			
Specific Grants			
Gateshead Council	2,132	1,787	562
Newcastle City Council	2,727	2,133	143
North Tyneside Council	1,740	1,376	404
South Tyneside Council	1,317	1,124	229
Sunderland City Council	2,674	2,141	498
	10,590	**8,561**	**1,836**
Newcastle City Council			
Provision of Support Services	874	668	-

Note 25 (Continued)

	2011/12 £000	2012/13 £000 Paid / Received in year	£000 Accrued at year end
Nexus			
Revenue Support Grant	70,323	66,922	-
Specific Grants	2,666	309	9,025
Grant from Metro Reinvigoration Reserve	-	-	2,204
	72,989	**67,231**	**11,229**
Tyne & Wear Superannuation Fund			
Employers Contributions	940	980	-

Note 26: Capital Expenditure and Capital Financing

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

2011/12 £000		2012/13 £000
170,150	Opening Capital Financing Requirement	214,385
	Capital investment:	
48,555	- Property, Plant and Equipment	1,084
-	- Investment Properties	-
-	- Non Operational assets	-
13,119	- Revenue Expenditure Funded from Capital under Statute	20,258
-	- Loans to Other Public Bodies	-
	Sources of finance:	
(2,138)	- Capital receipts (Nexus borrowing repayments)	(2,057)
(11,463)	- Government grants and other contributions	(20,258)
	Sums set aside from revenue:	
(1,776)	- Direct revenue contributions	-
(2,062)	- Minimum revenue provision	(2,192)
214,385	**Closing Capital Financing Requirement**	**211,220**
	Explanation of movements in year:	
44,236	- Increase/(Decrease) in underlying need to borrow (unsupported by government financial assistance)	(3,165)
44,236	**Increase/(decrease) in Capital Financing Requirement**	**(3,165)**

Note 27: Leases

Operating Leases

In recent years, the Authority has held a number of operating leases of land and buildings for the New Tyne Tunnel construction. Now that construction works are complete, these leases have ended so there are no payments due in future years.

The future minimum lease payments due under non-cancellable leases in future years are:

31 March 2012 £000		31 March 2013 £000
25	Not later than one year	-
-	Later than one year and not later than five years	-
-	Later than five years	-
25		**-**

The expenditure charged to the accounts during the year in relation to these leases was:

2011/12 £000		2012/13 £000
120	Minimum lease payments	26
120		**26**

Note 28: Private Finance Initiatives and Similar Contracts

In November 2007 the ITA entered into a 30 year contract with TT2 Ltd to construct a second vehicle tunnel, refurbish the existing tunnel and operate both vehicle tunnels alongside the pedestrian and cycle tunnels. Usage payments are driven by the level of tolls collected in each year. In 2012/13 the payment under the contract was £13.986m all relating to usage payments. In 2011/12 this was £53.149m (£6.522m for usage payments and capital payments of £46.627m).
The payment under the contract in 2013/14 is estimated to be £17.200m, all related to usage payments. The second tunnel was opened on 25 February 2011, with the refurbished original tunnel opened on 21 November 2011. Both are included on the ITA's balance sheet.

The contribution by TT2 is recognised as a deferred income balance (with a 2012/13 value of £127.723m) which is written down over the remaining life of the contract.

	31 March 2012 £000	31 March 2013 £000
Shown as Short Term Liability on Balance Sheet	(5,501)	(5,501)
Shown as Long Term Liability on Balance Sheet	(127,331)	(122,222)
Total New Tyne Crossing Deferred Income Balance	**(132,832)**	**(127,723)**
Released to CIES in year	(5,628)	(5,109)

The amount released to CIES in year does not match the short term figure at 31 March 2012 due to a change in the timing of the final capital contribution due to be released to the operator.

Note 28 (Continued)

	Estimated TT2 Payment of Toll Income	Deferred Income release
	£000	£000
Payable in 2013/14	17,200	(5,501)
Payable within two to five years	84,758	(20,370)
Payable within six to ten years	135,340	(25,463)
Payable within eleven to fifteen years	170,901	(25,463)
Payable within sixteen to twenty years	201,859	(25,463)
Payable within twenty-one to twenty-five years	213,352	(25,463)
Total	**823,409**	**(127,723)**

Note 29: Defined Benefit Pension Schemes

The Authority participates in two post employment schemes:

- The Tyne and Wear Pension Fund, administered locally by South Tyneside Council - this is a funded defined benefit final salary scheme, meaning that the Authority and employees pay contributions into a fund, calculated at a level intended to balance the pension liabilities with investment assets.
- 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 are they eventually fall due.

The table below summarises the net position on the pension liabilities shown on the Balance Sheet over the past five years:

Financial Year	**2008/09**	**2009/10**	**2010/11**	**2011/12**	**2012/13**
Total assets	15,440	21,690	22,650	22,800	24,990
Total liabilities	(29,280)	(37,080)	(26,920)	(29,530)	(33,240)
Net Pension Liability	**(13,840)**	**(15,390)**	**(4,270)**	**(6,730)**	**(8,250)**

The main reason for the increase in the liability shown on the Balance Sheet in 2012/13 is the reduction in the discount rate used by the actuaries in the calculation of the present value of the future payments required, from 4.6% at 31 March 2012 to 4.1% at 31 March 2013. This discount rate is required for IAS 19 purposes to be based on the yield on high quality long term corporate bonds, which have fallen since 31 March 2012. A lower discount rate results in a higher present value being placed on the future cashflows, and the liability has therefore increased.

Note 29 (Continued)

Transactions Relating to Post-Employment Benefits

The cost of retirement benefits must be recognised in the reported cost of services when they are earned, rather than when the benefits are eventually paid as pensions. However, the charge the Authority is required to make against the levy is based on the cash payable in the year, so the real cost of post employment / retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and General Fund Balance via the Movement in Reserves Statement during the year:

	Local Government Pension Scheme		Discretionary Benefits Arrangements	
	£000	£000	£000	£000
	2011/12	2012/13	2011/12	2012/13
Comprehensive Income and Expenditure Cost of Services:				
- Current service cost	-	10	-	-
Financing and Investment Income and				
- Interest cost	1,410	1,290	40	40
- Expected return on scheme assets	(1,710)	(1,590)	-	-
Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	**(300)**	**(290)**	**40**	**40**
Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure				
- Actuarial (gains) and losses	3,540	2,670	120	80
Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure	**3,240**	**2,380**	**160**	**120**

	Local Government Pension Scheme		Discretionary Benefits	
	£000	£000	£000	£000
	2011/12	2012/13	2011/12	2012/13
Movement in Reserves Statement:				
- Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post employment benefits in accordance with the	300	290	(40)	(40)
Actual amount charged against the General Fund Balance for pensions in the year:				
- Employers' contributions payable to scheme	890	930	-	-
- Retirement benefits payable to pensioners	-	-	50	50

The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement to 31 March 2013 is a loss of £10.15m.

Note 29 (Continued)

Assets and Liabilities in Relation to Post-employment Benefits

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

	Local Government Pension Scheme		Discretionary Benefits	
	£000	£000	£000	£000
	2011/12	2012/13	2011/12	2012/13
Opening balance at 1 April	26,130	28,630	790	900
Current service cost	-	10	-	-
Interest cost	1,410	1,290	40	40
Actuarial (gains) and losses	2,220	3,800	120	80
Benefits paid	(1,130)	(1,460)	(50)	(50)
Closing balance at 31 March	**28,630**	**32,270**	**900**	**970**

Reconciliation of fair value of the scheme (plan) assets:

	Local Government Pension Scheme	
	£000	£000
	2011/12	2012/13
Opening balance at 1 April	22,650	22,800
Expected return on assets	1,710	1,590
Actuarial gains and (losses)	(1,320)	1,130
Employer contributions	890	930
Contributions by scheme participants	-	-
Benefits paid	(1,130)	(1,460)
Entity combinations	-	-
Settlements	-	-
Closing balance at 31 March	**22,800**	**24,990**

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.

Note 29 (Continued)

Scheme History

	2008/09 £000	2009/10 £000	2010/11 £000	2011/12 £000	2012/13 £000
Present value of liabilities:					
Local Government Pension Scheme	(28,520)	(36,170)	(26,130)	(28,630)	(32,270)
Discretionary Benefits	(760)	(910)	(790)	(900)	(970)
Fair value of assets in the LGPS	15,440	21,690	22,650	22,800	24,990
Surplus/(deficit) in the scheme:	**(13,840)**	**(15,390)**	**(4,270)**	**(6,730)**	**(8,250)**
Local Government Pension Scheme	(13,080)	(14,480)	(3,480)	(5,830)	(7,280)
Discretionary Benefits	(760)	(910)	(790)	(900)	(970)
Total	**(13,840)**	**(15,390)**	**(4,270)**	**(6,730)**	**(8,250)**

The liabilities show the underlying commitment that the Authority has in the long run to pay post-employment (retirement) benefits. The total liability of £33.24m and net deficit of £8.25m has a substantial impact on the net worth of the Authority as recorded in the Balance Sheet, resulting in an overall net worth of £117.45m. 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 increased 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 contribution expected to be made to the Local Government Pension Scheme by the Authority in the year to 31 March 2014 is £0.98m. Expected contributions for the Discretionary Benefits scheme in the year to 31 March 2014 are £0.05m.

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 Hewitt, an independent firm of actuaries, estimates for the pension fund being based on the latest full valuation of the scheme as at 31 March 2010.

The principal assumptions used by the actuary have been:

Note 29 (Continued)

	Local Government Pension Scheme		Discretionary Benefits	
	2011/12	2012/13	2011/12	2012/13
Mortality assumptions:				
Longevity at 65 for current pensioners:				
Men	21.6	21.7	21.6	21.7
Women	23.8	23.9	23.8	23.9
RPI Inflation	3.15%	3.25%	3.15%	3.25%
CPI Inflation	2.15%	2.35%	2.15%	2.35%
Rate of increase in salaries	3.65%	3.75%	n/a	n/a
Rate of increase in pensions	2.15%	2.35%	2.15%	2.35%
Rate for discounting scheme liabilities	4.60%	4.10%	4.60%	4.10%

The Discretionary Benefits arrangements have no assets to cover the liabilities. The Local Government Pension Scheme's assets consist of the following categories, by proportion of the total assets held:

	31 March 2012		31 March 2013	
	Long-term expected rate of return (% p.a.)	Asset split (%)	Long-term expected rate of return (% p.a.)	Asset split (%)
Equities	8.1	68.5	7.8	68.0
Property	7.6	9.2	7.3	9.0
Government Bonds	3.1	7.1	2.8	7.0
Corporate Bonds	3.7	11.6	3.8	11.0
Cash	1.8	1.9	0.9	1.6
Other	8.1	1.7	7.8	3.4
Total	**7.1**	**100.0**	**6.9**	**100.0**

History of Experience Gains and Losses

The actuarial gains identified as movements on the Pensions Reserve in 2012/13 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31 March 2013:

	2009/10 %	2010/11 %	2011/12 %	2012/13 %
Differences between the expected and actual return on asset	22.2	(2.3)	(5.8)	4.5
Experience gains and losses on liabilities	1.6	18.3	(2.9)	-

Note 30: Contingent Liabilities

The ITA has a contingent liability in relation to any gains or losses in the Local Government Pension Scheme transferred assets and liabilities that were transferred to TT2 Ltd on 1 February 2008 and relate to membership accrued before that date. The project agreement provides that should there be a shortfall in the TT2 fund at the actuarial valuation, which can be attributed to pre-2008 benefits, the ITA will be required to reimburse the shortfall. At the most recent valuation the TT2 fund was found to be in surplus, therefore no reimbursement is currently due. The next valuation will be in 2014.

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

Note 31: Nature and Extent of Risks Arising from Financial Instruments

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

- Credit risk - the possibility that other parties might fail to pay amounts due to the Authority
- Liquidity risk - the possibility that the Authority might not have funds available to meet its commitments to make payments
- Market risk - the possibility that financial loss might arise for the Authority as a result of changes in such measures as interest rates and stock market movements

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

Credit Risk

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

Note 31 (Continued)

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

The Authority's maximum exposure to credit risk in relation to its investments in banks and building societies cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of recoverability applied to all of the Authority's deposits, but there was no evidence at 31 March 2013 that this was likely to crystallise.

Liquidity Risk

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

	31 March 2012 £000	31 March 2013 £000
Less than one year	(4,726)	(4,694)
Between one and two years	(7,260)	(7,260)
Between two and five years	(5,333)	(3,667)
More than five years	(192,967)	(191,966)
	(210,286)	**(207,587)**

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

Market Risk

Interest Rate Risk

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

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

Note 31 (Continued)

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

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

The Authority has a number of strategies for managing interest rate risk. Policy is to ensure that the level of its borrowings in variable rate loans does not expose the portfolio to excessive movements in interest rates. During periods of falling interest rates, and where economic circumstances make it favourable, fixed rate loans will be repaid early to limit exposure to losses. The risk of loss is ameliorated by the fact that a proportion of government grant payable on financing costs will normally move with prevailing interest rates or the Authority's cost of borrowing and provide compensation for a proportion of any higher costs.

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

According to this investment strategy, at 31 March 2013 if interest rates had been 1% higher with all other variables held constant, the financial effect would be:

	£000
Increase in interest payable on variable rate borrowings*	60
Increase in interest receivable on variable rate investments	(604)
Impact on Surplus or Deficit on the Provision of Services	(544)

*The majority of the ITA's borrowings are at fixed rates

A decrease in the fair value of fixed rate borrowings liabilities would have no impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure.

The impact of a 1% fall in interest rates would be as above, but with the movements being reversed.

Foreign Exchange Risk

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

Note 32: Reconciliation between Explanatory Foreword and Comprehensive Income and Expenditure Statement

This note provides a reconciliation between the expenditure against budget for 2012/13 reported in the Explanatory Foreword and the Cost of Services and Surplus or Deficit on the Provision of Services reported in the Comprehensive Income and Expenditure Statement. The reconciliation is split between the amounts attributable to the ringfenced Tyne Tunnels General Fund reserves and the unearmarked ITA General Fund reserve.

2012/13	ITA	Tyne Tunnels	Total
	£000	£000	£000
Net Cost of Services	69,571	(7,009)	**62,562**
Financing and Investment Income & Expenditure	806	5,135	**5,941**
Taxation & Non-specific Grant Income	(70,207)	-	**(70,207)**
Surplus/Deficit on Provision of Services	**170**	**(1,874)**	**(1,704)**
Depreciation and Impairment	-	(3,862)	**(3,862)**
Write down of New Tyne Crossing Deferred Income	-	5,109	**5,109**
Capital Grants applied to finance Capital Expenditure	20,672	-	**20,672**
Revenue Expenditure Funded from Capital Under Statute	(20,672)	-	**(20,672)**
Reversal of items relating to retirement benefits in CIES	250	-	**250**
Employers' pension contributions and direct payments to pensioners payable in year	455	525	**980**
Statutory provision for financing of capital investment	1,222	970	**2,192**
Capital expenditure charged against the General Fund	-	-	**-**
Transfer to/from Earmarked reserves	(2,032)	-	**(2,032)**
Financial Instruments Adjustment	72	-	**72**
NESTI expenditure funded from Tyne Tunnels	-	413	
Movement in Reserves / Explanatory Foreword basis	**137**	**1,281**	**1,418**

Note 33: Accounting Policies

1. General Principles

The Statement of Accounts summarises the Authority's transactions for the 2012/13 financial year and its position at the year-end of 31 March 2013. The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit (England) Regulations, which those Regulations require to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 (the Code) and the Service Reporting Code of Practice for Local Authorities 2012/13, supported by International Financial Reporting Standards (IFRS).

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

2. Accruals of Income and Expenditure

The financial statements, other than the cash flow statement, are prepared on an accruals basis. This means that transactions are reflected in the accounts of the period in which they take place, as opposed to the period in which payments are made or received.

3. Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in no more than three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value. In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Authority's cash management.

4. Exceptional Items

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

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

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

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

Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting

opening balances and comparative amounts for the prior period as if the new policy had always been applied.

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

6. Charges to Revenue for Non-Current Assets

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

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

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

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

7. Employee Costs

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

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

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

8. Pensions

The ITA participates in the Local Government Pension Scheme, which provides members with defined benefits relating to pay and service. Its pension obligations relate primarily to former employees.

The relevant fund is the Tyne and Wear Pension Fund administered by South Tyneside

Metropolitan Borough Council, from whom a copy of the annual report may be obtained. The Fund website may be visited at www.twpf.info.

The liabilities of the pension fund attributable to the ITA are included in the
Balance Sheet on an actuarial basis using the projected unit method, i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of projected earnings for current employees;

The assets of the pension fund attributable to the Authority are included in the Balance Sheet at their fair value:

- Quoted securities at current bid price
- Unquoted securities based on professional estimate
- Unitised securities at current bid price
- Property at market value

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

a. **Current service cost** - the increase in liabilities as a result of years of service earned this year - allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked;
b. **Past service cost** - the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years - debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non-Distributed Costs;
c. **Interest cost** - the expected increase in the present value of liabilities during the year as they move one year closer to being paid - debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;
d. **Expected return on assets** - the annual investment return on the fund assets attributable to the Authority, based on an average of the expected long-term return - credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;
e. **Gains or losses on settlements and curtailments** - the result of actions to relieve the Authority of liabilities or events that reduce the expected future service or accrual of benefits of employees - debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non-Distributed Costs;
f. **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 - debited to the Pensions Reserve; and
g. **Contributions paid to the pension fund** - cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Authority to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts

payable by unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

Further details are provided in Note 29.

9. Events After the Balance Sheet Date

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

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

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

10. Financial Instruments

Financial Liabilities

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

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

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

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread

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

Financial Assets

Financial assets are classified into two types:

- Loans and receivables - assets that have fixed or determinable payments but are not quoted in an active market; and
- Available for sale assets - assets that have a quoted market price and / or do not have fixed or determinable payments.

Loans and Receivables

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

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

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

Available for Sale Assets

Available-for-sale assets are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income (e.g. dividends) is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the Authority. Assets are maintained in the Balance Sheet at fair value. Values are based on the following principles:

- Instruments with quoted market prices - the market price;
- Other instruments with fixed and determinable payments - discounted cash flow analysis; and
- Equity shares with no quoted market prices - independent appraisal of company valuations.

Changes in fair value are balanced by an entry in the Available-for-Sale Reserve and the gain/loss is recognised in the Surplus or Deficit on Revaluation of Available-for-Sale Financial Assets. The exception is where impairment losses have been incurred – these are debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any net gain or loss for the asset accumulated in the Available-for-Sale Reserve.
Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made (fixed or determinable payments) or fair value falls below cost, the asset is written down and a charge made to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. If the asset has fixed or determinable payments, the impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate. Otherwise, the impairment loss is measured as any shortfall of fair value against the acquisition cost of the instrument (net of any principal repayment and amortisation).

Any gains and losses that arise on the derecognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any accumulated gains or losses previously recognised in the Available-for-Sale Reserve.

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

11. Government Grants and Contributions

The provisions relating to Grants and Contributions apply to both revenue and capital grants and contributions. Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Authority when there is reasonable assurance that:

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

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

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation

and Non-Specific Grant Income (non-ringfenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

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

12. Leases

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

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

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

All ITA leases have been reviewed and are classified as operating leases.

(a) The Authority as Lessee

Operating Leases

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

(b) The Authority as Lessor

Operating Leases

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

13. Property, Plant and Equipment

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

Recognition

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

Measurement

Assets are initially measured at cost, comprising:

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

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

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

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

- Infrastructure, community assets and assets under construction – depreciated historical cost;
- All other assets – fair value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

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

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

Assets included in the Balance Sheet at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum every five years. This work is carried out on behalf of the Authority by the Property Services Division of the lead authority. The first such revaluation took place in 1999/00, with the most recent revaluation completed during 2011/12. 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 by:

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

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

De Minimis Levels

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

Impairment

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

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

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

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

Depreciation

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

Depreciation on all Property, Plant and Equipment assets is calculated by taking the asset value at 31 March 2013, divided by remaining life expectancy. Depreciation is therefore charged in the year of acquisition, but not the year of disposal.
Depreciation on vehicles and plant is based on a thirty year useful economic life, since this class of asset relates to assets which were transferred to the concessionaire, TT2 Ltd at the commencement of the thirty year contract. These assets (or their equivalent replacements) are to be returned to the ITA at the end of the contract.

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

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historic cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

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

Disposals

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

14. Public Private Partnership (PPP) Contracts

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

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

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

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

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

In most arrangements within the scope of the Application, the grantor will account for the arrangement's financing by recording and measuring a long term liability in accordance with IAS17. This treatment reflects an obligation to pay the operator for the full value of the asset along with the operator's cost of finance. However in the New Tyne Crossing Project, TT2 Ltd. (the Operator) receives a defined proportion of the total toll revenue and uses this to meet its cost of constructing and operating the new tunnel and the existing tunnel. The ITA may therefore have no long term obligation to transfer economic resources to TT2 Ltd. and hence should not recognise a liability.

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

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

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

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

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

15. Provisions

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

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

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year - where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.
Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the Authority settles the obligation.

16. Contingent Liabilities

A contingent liability arises where an event has taken place that gives the Authority a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Authority. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

17. Reserves

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

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

18. Revenue Expenditure Funded from Capital Under Statute

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

19. VAT

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

20. Overheads

The costs of central support services e.g. Finance and Legal Services have been allocated to the ITA on the basis of Service Level Agreements in accordance with guidance given by the Chartered Institute of Public Finance and Accountancy (CIPFA). A percentage is allocated to the ITA, Tyne Tunnels and the New Tyne Crossing project in accordance with estimated work done on each area.

21. Tyne Tunnel Income

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

22. Group Accounts

The ITA is required by the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 to produce Group Accounts to include services provided to Council Tax payers in Tyne and Wear by organisations other than the Authority itself in which the Authority has an interest.

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

For the 2012/13 accounts, the ITA has fully complied with the requirements of the Code, providing Group figures for the 2012/13 accounts and comparators for 2011/12. From 2010/11, Passenger Transport Executives have been required to produce their accounts under International Financial Reporting Standards, and as if the proper practices in relation to accounts applicable to a local authority were, so far as appropriate, applicable to an Executive. The group financial statements are prepared in accordance with the policies set out in the Statement of Accounting Policies above.

Section 3

Tyne & Wear Integrated Transport Authority

Group Accounts for the year ended 31 March 2013

Group Movement in Reserves Statement

	ITA Usable Reserves £000	ITA Unusable Reserves £000	Total ITA Reserves £000	Authority Share of Nexus £000	Total Group Reserves £000
Balance at 1 April 2012	**(58,634)**	**(59,862)**	**(118,496)**	**(366,388)**	**(484,884)**
Movement in reserves during 2012/13					
Surplus or (deficit) on provision of services	**(1,704)**	-	(1,704)	(35,683)	**(37,387)**
Other Comprehensive Income and Expenditure	**-**	2,750	2,750	8,495	**11,245**
Total Comprehensive Income and Expenditure	**(1,704)**	**2,750**	**1,046**	**(27,188)**	**(26,142)**
Adjustments between accounting basis and funding basis under regulations	**5,154**	(5,154)	**-**	-	**-**
Net Increase/Decrease before Transfers to Earmarked Reserves	**3,450**	**(2,404)**	**1,046**	**(27,188)**	**(26,142)**
Transfer to/from Earmarked Reserves	**-**	-	-	-	**-**
Increase/Decrease in 2012/13	**3,450**	**(2,404)**	**1,046**	**(27,188)**	**(26,142)**
Balance at 31 March 2013 carried forward	**(55,184)**	**(62,266)**	**(117,450)**	**(393,576)**	**(511,026)**

Analysis of Usable and Unusable Reserves

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

Group Movement in Reserves Statement

Comparative Figures for 2011/12

	ITA Usable Reserves £000	ITA Unusable Reserves £000	Total ITA Reserves £000	Authority Share of Nexus £000	Total Group Reserves £000
Balance at 1 April 2011	**(56,098)**	**(60,329)**	**(116,427)**	**(353,211)**	**(469,638)**
Movement in reserves during 2011/12					
Surplus or (deficit) on provision of services	(5,132)	-	(5,132)	(36,825)	**(41,957)**
Other Comprehensive Income and Expenditure	-	3,063	3,063	23,648	**26,711**
Total Comprehensive Income and Expenditure	**(5,132)**	**3,063**	**(2,069)**	**(13,177)**	**(15,246)**
Adjustments between accounting basis and funding basis under regulations	2,596	(2,596)	**-**	-	**-**
Net Increase/Decrease before Transfers to Earmarked Reserves	**(2,536)**	**467**	**(2,069)**	**(13,177)**	**(15,246)**
Transfer to/from Earmarked Reserves	-		-	-	**-**
Increase/Decrease in 2011/12	**(2,536)**	**467**	**(2,069)**	**(13,177)**	**(15,246)**
Balance at 31 March 2012 carried forward	**(58,634)**	**(59,862)**	**(118,496)**	**(366,388)**	**(484,884)**

Analysis of Usable and Unusable Reserves

	Balance at 31 March 2012 carried forward		
	Usable Reserves £000	Unusable Reserves £000	Total Group Reserves £000
ITA	(58,634)	(59,862)	**(118,496)**
Nexus	(35,497)	(330,891)	**(366,388)**
Total	**(94,131)**	**(390,753)**	**(484,884)**

Group Comprehensive Income and Expenditure Statement

2011/12 Gross Expenditure	2011/12 Gross Income	2011/12 Net Expenditure		2012/13 Gross Expenditure	2012/13 Gross Income	2012/13 Net Expenditure
£000	**£000**	**£000**		**£000**	**£000**	**£000**
2,442	-	2,442	Corporate and Democratic Core	2,732	-	2,732
			Highways and Transport			-
13,328	(20,519)	(7,191)	- Tyne Tunnels	18,079	(25,088)	(7,009)
165,608	(94,394)	71,214	- Other Highways and Transport Services	172,554	(105,527)	67,027
147	-	147	Non-Distributed Costs	133	-	133
181,525	**(114,913)**	**66,612**	**Cost of Services**	**193,498**	**(130,615)**	**62,883**
8,830	(3,061)	5,769	Financing and Investment Income and Expenditure (Note 3)	9,502	(2,964)	6,538
		(114,338)	Non-Specific Grant Income (Note 5)			(107,382)
		-	Loss on disposal of non-current assets			574
		(41,957)	**(Surplus) / Deficit on Provision of Services**			**(37,387)**
		608	Taxation Charge for the Year			95
		(597)	Surplus / (Deficit) on Revaluation of Fixed Assets (Note 6)			-
		26,700	Actuarial (Gains) / Losses on Pension Fund Assets and Liabilities (Note 14)			11,150
		26,711	**Other Comprehensive Income and Expenditure**			**11,245**
		(15,246)	**Total Comprehensive Income and Expenditure**			**(26,142)**

Group Balance Sheet

31 March 2012 £000		Notes	31 March 2013 £000
790,800	Property, Plant and Equipment	6	815,139
2,190	Intangible Assets	7	2,338
1	Long Term Investments	8	1
792,991	**Long Term Assets**		**817,478**
23,000	Short Term Investments	8	18,000
1,432	Inventories		1,136
26,664	Short Term Debtors	9	30,303
95,772	Cash and Cash Equivalents	10	101,728
146,868	**Current Assets**		**151,167**
(4,726)	Short Term Borrowing	8	(4,694)
(27,608)	Short Term Creditors	11	(32,754)
(5,501)	New Tyne Crossing - Deferred Income		(5,501)
(8,637)	Grants and Contributions Receipts in Advance	12	(10,125)
(46,472)	**Current Liabilities**		**(53,074)**
(127,331)	New Tyne Crossing - Deferred Income		(122,222)
(845)	Provisions	13	(1,049)
(7,670)	Grants and Contributions Receipts in Advance	12	(6,379)
(205,560)	Long Term Borrowing	8	(202,893)
(61,920)	Other Long Term Liabilities	14	(66,730)
(5,177)	Deferred Tax Liability	15	(5,272)
(408,503)	**Long Term Liabilities**		**(404,545)**
484,884	**Net Assets**		**511,026**
(94,131)	Usable Reserves	16	(91,231)
(390,753)	Unusable Reserves	17	(419,795)
(484,884)			**(511,026)**

Treasurer's Certificate

I certify that the accounts set out on pages 93 to 113 present a true and fair view of the financial position of the Tyne and Wear Integrated Transport Authority as at 31 March 2013

Signed

Treasurer
Date:

Group Cash Flow Statement

2011/12 £000		Notes	2012/13 £000
(41,957)	Net (surplus) or deficit on the provision of services		(37,387)
(1,688)	Adjustments to net surplus or deficit on the provision of services for non cash movements	19	(19,456)
50,017	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	19	56,539
6,372	Net cash flows from Operating Activities		(304)
50,252	Investing activities	20	(9,723)
(50,760)	Financing activities	21	4,071
5,864	Net increase or decrease in cash and cash equivalents		(5,956)
(101,636)	Cash and cash equivalents at the beginning of the reporting period		(95,772)
(95,772)	Cash and cash equivalents at the end of the reporting period	10	**(101,728)**

Group Notes to the Accounts

Group Note 1: Group Accounts

Under the Code of Practice for Local Authority Accounting 2012/13, authorities with interests in subsidiaries, associates and/or joint ventures (jointly controlled entities) shall prepare Group Accounts in addition to their single entity financial statements, unless their interest is considered not material.

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

Deferred Tax

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

Property, Plant and Equipment and Intangible Assets

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

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

Useful lives used by the ITA can be found on p. 49 of the single entity accounts.
Nexus' policy is to commence depreciation on assets with effect from the month following capitalisation, whereas the ITA charges a full year of depreciation in the year of acquisition.

Nexus carries out annual reviews of the estimated remaining life and current carrying amount of assets, ensuring that significant assets with a life greater than five years are reviewed annually. The ITA has a rolling five year programme of revaluations, as set out on p. 49.

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

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

Group Notes to the Accounts

Group Note 2: Integrated Transport Authority Lead Officers

The ITA is principally advised by three senior officers employed by the lead Authority. These officers are also non-executive directors of Nexus:

Responsibility	Title	Officer
Policy / Legal / Administration	Clerk Acting Clerk Acting Deputy Clerk	Barry Rowland (to 31/08/12) Paul Woods (from 01/09/12) David Slater (from 01/09/12)
Financial Advice	Treasurer	Paul Woods
Lead Policy Advisor	Director of Housing, Planning and Transport	Harvey Emms

The Nexus Board comprises the above officers and the following Nexus Directors:

Director General	Bernard Garner
Director of Finance and Resources	John Fenwick
Director of Rail and Infrastructure	Ken Mackay
Director of Customer Services	Tobyn Hughes
Non-Executive Director	Peter Wignall

Group Note 3: Financing and Investment Income and Expenditure

2011/12 £000		2012/13 £000
8,830	Interest payable and similar charges	9,502
(1,080)	Pensions interest cost and expected return on pensions assets	(970)
(1,981)	Interest receivable and similar income	(1,994)
5,769		**6,538**

Group Note 4: Grant Income Credited to Services

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

2011/12 £000		2012/13 £000
(426)	Local Sustainable Transport Fund	(1,254)
(10,774)	Local Transport Plan	(14,867)
(202)	North East Smart Ticketing Initiative	(3,235)
(24,746)	Metro Rail Grant	(24,674)
-	Better Bus Area Fund	(2,418)
(4,637)	Heavy Rail Grant	(3,455)
(70)	Other Grants and Contributions	(347)
(40,855)	**Total**	**(50,250)**

Group Note 5: Non-Specific Grant Income

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

2011/12 £000		2012/13 £000
(73,792)	Levy on Tyne and Wear Authorities	(70,207)
(40,546)	Nexus Capital Grants	(37,175)
(114,338)		**(107,382)**

Group Note 6: Property, Plant and Equipment

Movements in 2012/13:

	Other Land and Buildings	Vehicles, Plant, Furniture & Equipment	Infrastructure Assets	Assets Under Construction	Total Property, Plant and Equipment
	£000	**£000**	**£000**	**£000**	**£000**
Cost or Valuation					
At 1 April 2012	12,971	28,264	915,050	56,482	**1,012,767**
Additions	-	-	683	48,820	**49,503**
Disposals	-	(23)	(759)	-	**(782)**
Transfers from assets under construction	-	2,560	67,946	(71,066)	**(560)**
At 31 March 2013	12,971	30,801	982,920	34,236	1,060,928
Accumulated Depreciation and Impairment					
At 1 April 2012	(431)	(20,282)	(201,255)	-	**(221,968)**
Depreciation charge	(37)	(1,374)	(22,615)	-	**(24,026)**
Derecognition - disposals	-	23	182	-	**205**
At 31 March 2013	(468)	(21,633)	(223,688)	-	**(245,789)**
Net Book Value					
At 31 March 2013	**12,503**	**9,168**	**759,232**	**34,236**	**815,139**
At 31 March 2012	12,540	7,982	713,795	56,482	**790,799**

Group Note 6 (Continued)

Movements in 2011/12:

	Other Land and Buildings	Vehicles, Plant, Furniture & Equipment	Infrastructure Assets	Assets Under Construction	Total Property, Plant and Equipment
	£000	**£000**	**£000**	**£000**	**£000**
Cost or Valuation					
At 1 April 2011	16,965	32,455	865,822	40,083	**955,325**
Additions	-	-	21,499	42,188	**63,687**
Revaluation increases/(decreases) recognised in the Revaluation Reserve	-	597	-	-	**597**
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	-	-	(2,627)	-	**(2,627)**
Disposals	-	(147)	(58)	-	**(205)**
Derecognition - Other	(222)	(1,968)	(10)	-	**(2,200)**
Transfers from assets under construction	-	901	24,166	(25,067)	**-**
Assets reclassified	(3,772)	(3,108)	6,258	(722)	**(1,344)**
Other movements in cost or valuation	-	(466)	-	-	**(466)**
At 31 March 2012	12,971	28,264	915,050	56,482	1,012,767
Accumulated Depreciation and Impairment					
At 1 April 2011	(2,556)	(22,415)	(177,772)	-	**(202,743)**
Depreciation charge	(140)	(1,241)	(20,349)	-	**(21,730)**
Derecognition - disposals	-	100	35	-	**135**
Derecognition - other	222	1,968	10	-	**2,200**
Assets reclassified	2,044	1,306	(3,179)	-	**171**
At 31 March 2012	(430)	(20,282)	(201,255)	-	**(221,967)**
Net Book Value					
At 31 March 2012	**12,541**	**7,982**	**713,795**	**56,482**	**790,800**
At 31 March 2011	14,409	10,040	688,050	40,083	**752,582**

Group Notes to the Accounts

Group Note 7: Intangible Assets

2011/12 £000		2012/13 £000
	Cost or Valuation	
1,954	At 1 April	**3,015**
	Additions:	
722	Transfers from assets under construction	560
622	Assets reclassified	-
(283)	Derecognition - other	-
3,015	**At 31 March**	**3,575**
	Depreciation and Impairment	
682	Accumulated at 1 April	825
256	Depreciation provided during the period	412
170	Assets reclassified	-
(283)	Derecognition - other	-
825	**Accumulated at 31 March**	**1,237**
	Net Book Value	
1,129	At 31 March 2012	2,190
2,190	At 31 March 2013	**2,338**

Group Note 8: Financial Instruments

31 March 2012 £000		31 March 2013 £000
	Long Term Investments:	
1	Unquoted Equity Investment at cost	**1**
	Short Term Investments:	
23,000	Bank deposits	**18,000**
	Short Term Debtors:	
26,664	Short Term Debtors	**30,303**
	Borrowing:	
(4,726)	Short term borrowing	(4,694)
(205,560)	Financial liabilities at amortised cost - long term borrowing	(202,893)
(210,286)		**(207,587)**
	Other Long Term Liabilities:	
(61,920)	Pensions Liability	**(66,730)**
	Short Term Creditors:	
(27,608)	Short Term Creditors	**(32,754)**

Group Notes to the Accounts

Group Note 9: Short Term Debtors

31 March 2012 £000		31 March 2013 £000
20,058	Central government bodies	17,036
5,829	Other local authorities	7,768
-	NHS bodies	5
73	Public corporations and trading funds	113
704	Other entities and individuals	5,381
26,664	**Total**	**30,303**

Group Note 10: Cash and Cash Equivalents

31 March 2012 £000		31 March 2013 £000
67,312	Cash at bank and in hand	74,778
28,460	Short-term deposits with building societies	26,950
95,772	**Total Cash and Cash Equivalents**	**101,728**

Group Note 11: Short Term Creditors

31 March 2012 £000		31 March 2013 £000
(1,076)	Central government bodies	(1,139)
(4,115)	Other local authorities	(3,130)
(3)	NHS Bodies	(4)
(7)	Public Corporations	(16)
(22,407)	Other entities and individuals	(28,466)
(27,608)	**Total**	**(32,754)**

Group Notes to the Accounts

Group Note 12: Grants and Contributions Receipts in Advance

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

The balances at the year end are as follows:

31 March 2012		31 March 2013
£000		£000
(2,779)	Local Transport Plan	(303)
(4,478)	Local Sustainable Transport Fund - Schools Go Smarter	(3,331)
-	Local Sustainable Transport Fund - Go Smarter to Work	(4,888)
(8,114)	North East Smart Ticketing Initiative	(4,879)
-	Better Bus Area Fund	(2,554)
(936)	Other	(549)
(16,307)	**Total**	**(16,504)**
(8,637)	Shown as Short Term Liability on Balance Sheet	(10,125)
(7,670)	Shown as Long Term Liability on Balance Sheet	(6,379)
(16,307)		**(16,504)**

Group Note 13: Provisions

	Insurance Excess (1)	Employment Related (2)	Capital Expenditure (3)	Total
	£000	£000	£000	£000
At 31 March 2012	**(264)**	**-**	**(581)**	**(845)**
Additional Provisions Made	(106)	(1,066)	-	**(1,172)**
Utilised during the year	121	647	197	**965**
Unused amounts reversed	3	-	-	**3**
At 31 March 2013	**(246)**	**(419)**	**(384)**	**(1,049)**

Provisions in the Group Accounts relate wholly to Nexus.

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

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

Group Note 14: Defined Benefit Pension Scheme

Participation in the Pension Scheme

The ITA and Nexus both participate in the Tyne and Wear Pension Fund (the Fund) administered locally by South Tyneside Council, which is part of the Local Government Pension Scheme (LGPS). This is a funded defined benefit final salary 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.

In 2012/13, the pension deficits for both the ITA and Nexus have increased as a result of a change in the discount rates used by the actuaries in the calculation of the present value of the future payments required, from 4.6% at 31 March 2012 to 4.1% at 31 March 2013. A lower discount rate results in a higher present value being placed on the future cashflows, and therefore a higher liability overall.

Principal Mortality and Financial Assumptions

The principal assumptions used by the actuary are:

	Local Government Pension Scheme				Discretionary Benefits			
	2011/12		2012/13		2011/12		2012/13	
	ITA	Nexus	ITA	Nexus	ITA	Nexus	ITA	Nexus
Mortality assumptions:								
Longevity at 65 for current pensioners:								
Men (years)	21.6	21.6	21.7	21.7	21.6	21.6	21.7	21.7
Women (years)	23.8	23.8	23.9	23.9	23.8	23.8	23.9	23.9
Financial assumptions:								
RPI Inflation	3.2%	3.5%	3.3%	3.6%	3.2%	3.4%	3.3%	3.6%
CPI Inflation	2.2%	2.5%	2.4%	2.7%	2.2%	2.4%	2.4%	2.7%
Rate of increase in salaries	3.7%	5.0%	3.8%	4.6%	n/a	n/a	n/a	n/a
Rate of increase in pensions	2.2%	2.5%	2.4%	2.7%	2.2%	2.4%	2.4%	2.7%
Rate for discounting scheme liabilities	4.6%	4.7%	4.1%	4.3%	4.6%	4.6%	4.1%	4.3%

Group Note 14 (Continued)

Expected Return on Assets

The approximate split of assets for the Fund as a whole (based on data supplied by the Fund Administering Authority) is shown in the table below. Also shown are the assumed rates of return adopted by the Employer for the purposes of IAS 19.

	31 March 2012		31 March 2013	
	Long-term expected rate of return (% p.a.)	Asset split (%)	Long-term expected rate of return (% p.a.)	Asset split (%)
Equities	8.1	68.5	7.8	68.0
Property	7.6	9.2	7.3	9.0
Government Bonds	3.1	7.1	2.8	7.0
Corporate Bonds	3.7	11.6	3.8	11.0
Cash	1.8	1.9	0.9	1.6
Other	8.1	1.7	7.8	3.4
Total	**7.1**	**100.0**	**6.9**	**100.0**

Summary of Funded and Unfunded Liabilities

	31 March 2013			31 March 2012		
	ITA £000	Nexus £000	Group £000	ITA £000	Nexus £000	Group £000
Funded Benefits	(7,280)	(53,340)	(60,620)	(5,830)	(49,960)	(55,790)
Unfunded Benefits	(970)	(5,140)	(6,110)	(900)	(5,230)	(6,130)
Net pension liability	**(8,250)**	**(58,480)**	**(66,730)**	**(6,730)**	**(55,190)**	**(61,920)**

Reconciliation of Funded Status to Balance Sheet

31 March 2012				31 March 2013		
ITA £000	Nexus £000	Group £000		ITA £000	Nexus £000	Group £000
22,800	136,240	159,040	Fair value of assets	24,990	154,540	179,530
(28,630)	(186,200)	(214,830)	Present value of funded defined benefit obligation	(32,270)	(207,880)	(240,150)
(5,830)	**(49,960)**	**(55,790)**	**Pension liability recognised on Balance Sheet**	**(7,280)**	**(53,340)**	**(60,620)**

Group Note 14 (Continued)

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

2011/12				2012/13		
ITA	Nexus	Group		ITA	Nexus	Group
£000	£000	£000		£000	£000	£000
(26,130)	(165,140)	**(191,270)**	Opening defined benefit obligation	(28,630)	(186,200)	**(214,830)**
-	(2,980)	**(2,980)**	Current service cost	(10)	(3,510)	**(3,520)**
(1,410)	(9,000)	**(10,410)**	Interest cost	(1,290)	(8,700)	**(9,990)**
-	(1,040)	**(1,040)**	Contribution by participants	-	(1,060)	**(1,060)**
(2,220)	(15,040)	**(17,260)**	Actuarial gains /(losses) on liabilities	(3,800)	(15,040)	**(18,840)**
1,130	7,110	**8,240**	Net benefits paid out	1,460	6,630	**8,090**
-	(110)	**(110)**	Past service cost	-	-	**-**
(28,630)	**(186,200)**	**(214,830)**	Closing defined benefit obligation	**(32,270)**	**(207,880)**	**(240,150)**

Charges to the Surplus or Deficit on the Provision of Services

2011/12				2012/13		
ITA	Nexus	Group		ITA	Nexus	Group
£000	£000	£000		£000	£000	£000
-	2,980	**2,980**	Current service cost	-	3,510	**3,510**
-	110	**110**	Past service cost	10	-	**10**
1,410	9,000	**10,410**	Interest cost	1,290	8,700	**9,990**
(1,710)	(10,100)	**(11,810)**	Expected return on assets	(1,590)	(9,640)	**(11,230)**
(300)	**1,990**	**1,690**	**Expense recognised**	**(290)**	**2,570**	**2,280**

Analysis of Amounts Recognised in Other Comprehensive Income and Expenditure

2011/12				2012/13		
ITA	Nexus	Group		ITA	Nexus	Group
£000	£000	£000		£000	£000	£000
(3,540)	(22,880)	**(26,420)**	Total actuarial losses	(2,670)	(8,240)	**(10,910)**
-	-	**-**	Adjustment in respect of paragraph 58	-	-	**-**
(3,540)	**(22,880)**	**(26,420)**	**Total gains losses**	**(2,670)**	**(8,240)**	**(10,910)**

Group Note 14 (Continued)

Changes to the fair value of assets during the accounting period

2011/12				2012/13		
ITA	Nexus	Group		ITA	Nexus	Group
£000	£000	£000		£000	£000	£000
22,650	132,800	**155,450**	Opening fair value of assets	22,800	136,240	**159,040**
1,710	10,100	**11,810**	Expected return on assets	1,590	9,640	**11,230**
(1,320)	(7,840)	**(9,160)**	Actuarial gains / (losses) on assets	1,130	6,800	**7,930**
890	7,250	**8,140**	Contributions by the employer	930	7,430	**8,360**
-	1,040	**1,040**	Contributions by the participants	-	1,060	**1,060**
(1,130)	(7,110)	**(8,240)**	Net benefits paid out	(1,460)	(6,630)	**(8,090)**
22,800	**136,240**	**159,040**	**Closing fair value of assets**	**24,990**	**154,540**	**179,530**

Actual return on assets

2011/12				2012/13		
ITA	Nexus	Group		ITA	Nexus	Group
£000	£000	£000		£000	£000	£000
1,710	10,100	**11,810**	Expected return on assets	1,590	9,640	**11,230**
(1,320)	(7,840)	**(9,160)**	Actuarial gain / (loss) on assets	1,130	6,800	**7,930**
390	2,260	**2,650**	**Actual return on assets**	2,720	16,440	**19,160**

History of asset values, present value of defined benefit obligation and surplus/deficit

	31 March 2013 Group £000	31 March 2012 Group £000	31 March 2011 Group £000	31 March 2010 Group £000	31 March 2009 Group £000
Fair value of assets	179,530	159,040	155,450	188,130	132,700
Present value of liabilities	(240,150)	(214,830)	(191,270)	(275,390)	(201,800)
Deficit	**(60,620)**	**(55,790)**	**(35,820)**	**(87,260)**	**(69,100)**

Group Note 14 (Continued) - Unfunded Benefits

Reconciliation of Balance Sheet

31 March 2012				31 March 2013		
ITA	Nexus	Group		ITA	Nexus	Group
£000	£000	£000		£000	£000	£000
(900)	(5,230)	(6,130)	Present value of unfunded defined benefit obligation	(970)	(5,140)	(6,110)
(900)	**(5,230)**	**(6,130)**	**Pension liability recognised on Balance Sheet**	**(970)**	**(5,140)**	**(6,110)**

Charges to the Surplus or Deficit on the Provision of Services

2011/12				2012/13		
ITA	Nexus	Group		ITA	Nexus	Group
£000	£000	£000		£000	£000	£000
-	-	**-**	Current service cost	-	-	**-**
40	280	**320**	Interest cost	40	230	**270**
40	**280**	**320**	**Expense recognised**	**40**	**230**	**270**

Analysis of amounts recognised in Other Comprehensive Income and Expenditure

2011/12				2012/13		
ITA	Nexus	Group		ITA	Nexus	Group
£000	£000	£000		£000	£000	£000
(120)	(160)	**(280)**	Total actuarial gains / (losses)	(80)	(160)	**(240)**
(120)	**(160)**	**(280)**	**Total gains / (losses)**	**(80)**	**(160)**	**(240)**

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

2011/12				2012/13		
ITA	Nexus	Group		ITA	Nexus	Group
£000	£000	£000		£000	£000	£000
(790)	(5,270)	**(6,060)**	Opening defined benefit obligation	(900)	(5,230)	**(6,130)**
(40)	(280)	**(320)**	Interest cost	(40)	(230)	**(270)**
(120)	(160)	**(280)**	Actuarial gains / (losses) on liabilities	(80)	(160)	**(240)**
50	480	**530**	Net benefits paid out	50	480	**530**
(900)	**(5,230)**	**(6,130)**	Closing defined benefit obligation	**(970)**	**(5,140)**	**(6,110)**

Group Note 14 (Continued) - Unfunded Benefits

History of present value of liabilities and deficit

	31 March 2013 Group £000	31 March 2012 Group £000	31 March 2011 Group £000	31 March 2010 Group £000	31 March 2009 Group £000
Present value of liabilities	(6,110)	(6,130)	(6,060)	(6,680)	(7,770)
Deficit	**(6,110)**	**(6,130)**	**(6,060)**	**(6,680)**	**(7,770)**

Group Note 15: Deferred Tax Liability

Deferred Taxation in the Group Accounts relates wholly to Nexus.

The Balance Sheet figure comprises:

31 March 2012 £000		31 March 2013 £000
(5,312)	Excess of Capital Allowances over depreciation	(5,049)
(1,557)	Roll over relief on capital gains	(1,492)
127	Other timing differences	127
1,565	Tax effect of losses	1,142
(5,177)		**(5,272)**

Group Note 16: Usable Reserves

31 March 2012 £000		31 March 2013 £000
(2,519)	ITA General Fund	(2,382)
(41,757)	Tyne Tunnels General Fund	(40,477)
(14,357)	Metro Reinvigoration Reserve	(12,325)
(17,737)	Nexus Revenue Reserves	(15,838)
(17,761)	Nexus Capital Reserves	(20,209)
(94,131)	**Total Usable Reserves**	**(91,231)**

Group Note 17: Unusable Reserves

Details of movements on the Revaluation Reserve, Capital Adjustment Account and Financial Instruments Adjustment Account are shown on p.55-57 of the ITA single entity accounts. These reserves relate to the ITA only.

Group Note 17 (Continued)

31 March 2012 £000		31 March 2013 £000
(11,167)	Revaluation Reserve	(10,290)
(55,669)	Capital Adjustment Account	(60,397)
243	Financial Instruments Adjustment Account	171
61,920	Pensions Reserve	66,730
(343,074)	Nexus Grant Deferred Account	(375,452)
(43,006)	Nexus Unusable Capital Reserve	(40,557)
(390,753)	**Total Unusable Reserves**	**(419,795)**

Pensions Reserve:

2011/12 £000		2012/13 £000
41,887	Balance at 1 April	61,920
26,700	Actuarial (gains) or losses on pensions assets and liabilities	11,150
(1,080)	Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	2,550
(5,587)	Employer's pensions contributions and direct payments to pensioners payable in the year	(8,890)
61,920	**Balance at 31 March**	**66,730**

Nexus Grant Deferred Account:

2011/12 £000		2012/13 £000
(314,638)	Balance at 1 April	(343,075)
12,829	Capital Grants Released	15,700
(41,266)	Capital Grants Applied	(48,077)
(343,075)	**Balance at 31 March**	**(375,452)**

Nexus Unusable Capital Reserve:

2011/12 £000		2012/13 £000
(45,070)	Balance at 1 April	(43,006)
(1,053)	Additions	-
3,117	Depreciation	2,449
(43,006)	**Balance at 31 March**	**(40,557)**

Group Notes to the Accounts

Group Note 18: Cash Flow Statement - Operating Activities

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

2011/12 £000		2012/13 £000
1,981	Interest received	1,994
(8,830)	Interest paid	(9,502)

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

2011/12 £000		2012/13 £000
(41,957)	Surplus or deficit on the provision of services	(37,387)
	Adjustments to Surplus or Deficit on Provision of Services for Non-Cash Movements	
(21,986)	Depreciation	(24,438)
(2,626)	Impairment and Downward Valuations	
5	Gain on disposal of non-current assets	(574)
4,300	(Increase) / Decrease in Creditors	(12,079)
1,328	Increase / (Decrease) in Debtors	6,482
(3)	Increase / Decrease in Inventories	(296)
6,667	Movement in Pension Liability	6,340
-	Carrying amount of long term and short term investments sold	
5,627	Other non-cash items charged to the net surplus or deficit on the provision of services	5,109
(6,688)		**(19,456)**
	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	
51,721	Capital grants credited to surplus / deficit on provision of services	57,846
(1,704)	Other adjustments for items that are financing or investing activities	(1,307)
50,017		**56,539**
1,372	**Net cash flow from operating activities**	**(304)**

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

Total 2011/12 £000		Total 2012/13 £000
88,152	Purchase of property, plant and equipment, investment property and intangible assets	49,649
58,000	Purchase of short-term and long-term investments	65,000
101	Other payments for investing activities	-
-	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(3)
(30,106)	Proceeds from short-term and long-term investments	(70,000)
(60,895)	Other receipts from investing activities	(54,369)
55,252	**Net cash flows from investing activities**	**(9,723)**

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

2011/12 £000		2012/13 £000
(89,000)	Cash receipts of short and long-term borrowing	-
(2,277)	Other receipts from financing activities	-
52,728	Repayments of short and long-term borrowing	2,701
-	Other payments for financing activities	1,370
(38,549)	**Net cash flows from financing activities**	**4,071**

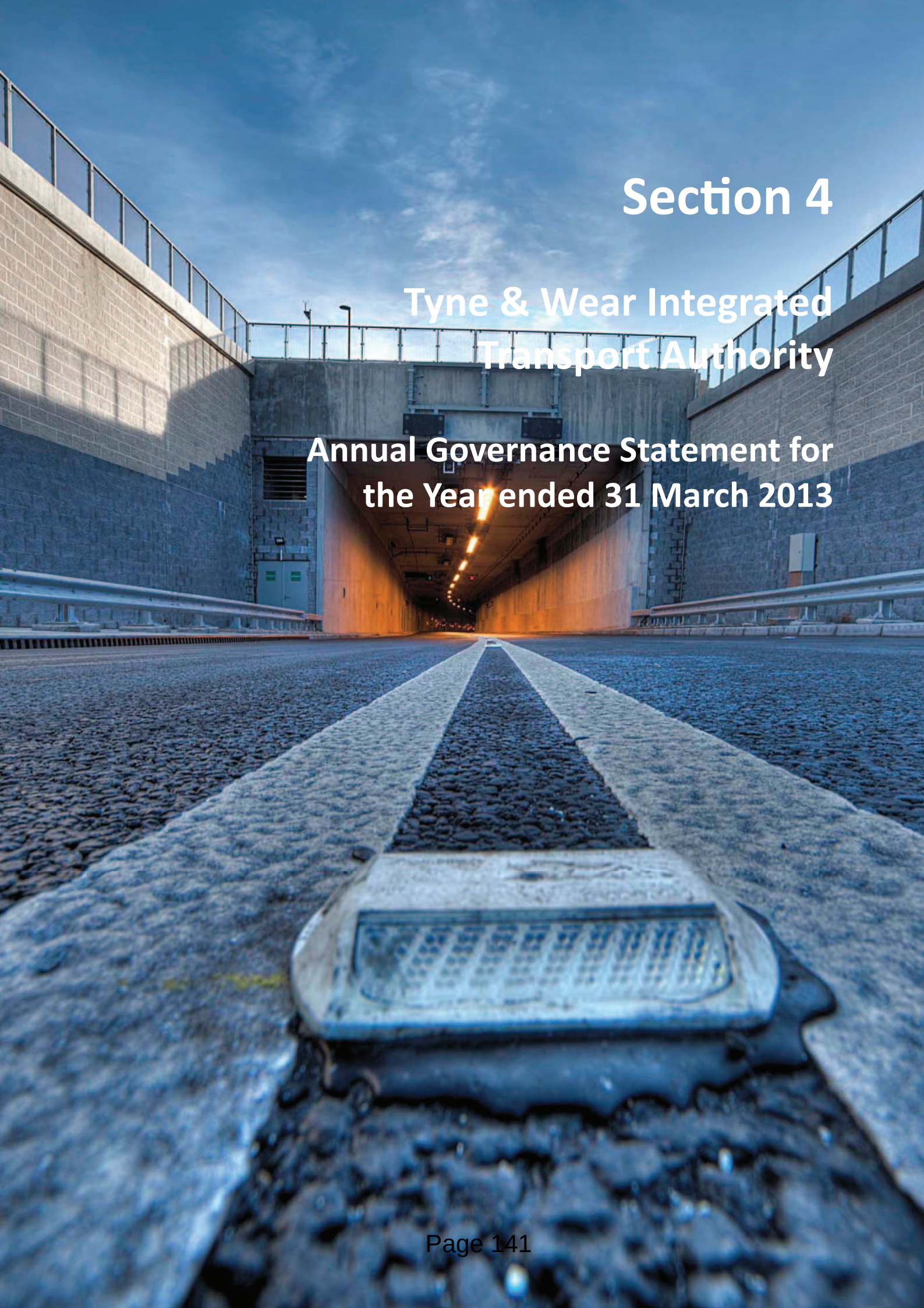
Abbreviations	The symbol “k” following a figure represents £ thousand. The symbol “m” following a figure represents £ million.
Accruals	Income and expenditure are recognised as they are earned or incurred, not as money is received or paid.
Actuarial gains or losses (pensions)	For a defined benefit pension scheme, the changes in actuarial deficits or surpluses that arise either because events have not coincided with the actuarial assumptions made for the last valuation (experience gains or losses) or the actuarial assumptions themselves have changed.
Amortise	To write off gradually and systematically a given amount of money within a specific number of time periods.
Assets	Items of worth which are measurable in terms of money.
Assets Held for Sale	Those assets, primarily long-term assets, that the Authority wishes to dispose of through sale to others.
Balances	The total level of surplus funds the Authority has accumulated over the years.
Budgets	A statement of the Authority’s forecast expenditure, that is, net revenue expenditure for the year.
Capital Expenditure	Expenditure on the acquisition of a fixed asset or expenditure which adds to and not merely maintains the value of an existing fixed asset.
Capital Adjustment Account	The account accumulates (on the debit side) the write down of the historical cost of fixed assets as they are consumed by depreciation and impairments or written off on disposal. It accumulates (on the credit side) the resources that have been set aside to finance capital expenditure. The same process applies to capital expenditure that is only capital by statutory definition (revenue expenditure funded from capital under statute). The balance on the account represents timing differences between the amount of the historical cost of fixed assets that has been consumed and the amount that has been financed in accordance with statutory requirements.
Capital Receipts	Monies received from the disposal of land and other fixed assets, and from the repayment of grants and loans made by the Authority.
Code of Practice on Local Authority Accounting in the UK	The Code specifies the principles and practices of accounting to give a “true and fair” view of the financial position and transactions of a local authority
Comprehensive Income and Expenditure Account	This account summarises the resources that have been generated and consumed in providing services and managing the Authority during the financial year.

Consistency	The principle that the accounting treatment of like items within an accounting period and from one period to the next is the same.
Contingent Asset	A contingent asset is a possible asset arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Authority's control.
Contingent Liability	A contingent liability is either (i) a possible obligation arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Authority's control, or (ii) a present obligation from past events where it is not probable that a transfer of economic benefits will be required or the amount of the obligation cannot be measured with sufficient reliability.
Contingent Rent	The portion of the lease payments that is not fixed in amount but is based on the future amount of a factor that changes other than with the passage of time, e.g. future price indices, future market rates of interest.
Corporate and Democratic Core	The corporate and democratic core comprises all activities which local authorities engage in specifically because they are elected, multi-purpose authorities.
Creditors	An amount owed by the Authority for work done, goods received or services rendered, but for which payment has not been made.
Current Service Cost (Pensions)	The increase in the present value of a defined benefit scheme's liabilities expected to arise from employee service in the current period.
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.
Earmarked Reserve	The measure of the wearing out, consumption or other reduction in the useful economic life of an asset.
Emoluments	Payments received in cash and benefits for employment.

Events after the Balance Sheet Date	Events after the balance sheet date are those events, favourable and unfavourable, that occur between the balance sheet date and the date when the Statement of Accounts is authorised for issue.
Expected Rate of Return on Pension Assets	This is an actuarially calculated estimate of the return on the scheme's investment assets during the year.
Fair Value	The fair value of an asset is the price at which it could be exchanged in an arm's length transaction less, where applicable, any grants receivable towards the purchase or use of the assets.
Fees and Charges	Income arising from the provision of services.
Finance Lease	A lease that transfers substantially all of the risks and rewards of ownership of a fixed asset to the lessee. The payments usually cover the full cost of the asset together with a return for the cost of finance.
Financial Instrument	Document (such as a cheque, draft, bond, share, bill of exchange, futures or options contract) that has a monetary value or evidences a legally enforceable (binding) agreement between two or more parties regarding a right to payment of money.
Financial Instruments Adjustment Account	The reserve records the accumulated difference between the financing costs included in the Comprehensive Income and Expenditure Account and the accumulated financing costs required in accordance with regulations to be charged to the General Fund Balance.
General Fund	The total services of the Authority, the net cost of which is met by the levy, Government Grants and toll income.
Going Concern	The concept that the Authority will remain in operational existence for the foreseeable future, in particular that the revenue accounts and balance sheet assume no intention to curtail significantly the scale of operations.
Impairment	A reduction in the value of a fixed asset below its carrying amount on the balance sheet resulting from causes such as obsolescence or physical damage.
Intangible Assets	An asset that is not physical in nature, e.g. software licenses.
Interest Cost (Pensions)	For a defined benefit scheme, the expected increase during the period in the present value of the scheme liabilities because the benefits are one period closer to settlement.
Investment Properties	Interest in land and buildings where construction work and development has been completed and the asset is held for its investment potential, any rental income being negotiated at arms length.
Liabilities	Any amounts owed to individuals or organisations which will have to be paid at some time in the future.

Liquid Resources	Current asset investments that are readily disposable by the Authority without disrupting its business and are either readily convertible to known amounts of cash at or close to the carrying amount or traded in an active market.
Materiality	An item is material if its omission, non-disclosure or misstatement in the financial statements could be expected to lead to a distortion of the view given by the financial statements.
Minimum Revenue Provision (MRP)	An amount charged by the Authority to the Comprehensive Income and Expenditure Account, for debt redemption or for the discharge of other credit liabilities.
Movement in Reserves Statement	The statement shows the movement in the year on the different reserves held by the Authority.
Net Book Value	The amount at which fixed assets are included in the balance sheet being the historical cost or current value less the cumulative amounts provided for depreciation.
Net Debt	The Authority's borrowings less cash and liquid resources.
Operating Leases	Leases other than a finance lease.
Property, Plant and Equipment (PPE)	Assets that yield benefits to the Authority and the services it provides for a period of more than one year. Examples include land, buildings and vehicles.
Provisions	These are sums set aside to meet liabilities or losses which have been incurred but where the amount and/or timing of such costs are uncertain.
Prudence	This accounting concept requires that revenue is not anticipated until realisation can be assessed with reasonable certainty. Provision is made for all known liabilities whether the amount is certain or can only be estimated in the light of information available.
Public Works Loan Board	This is a Government agency which provides loans to local authorities at favourable rates.
Related Party Transactions	A related party transaction is the transfer of assets or liabilities or the performance of service by, to or for a related party irrespective of whether a charge is made. An example could be the purchase, sale, lease, rental or hire of assets between related parties.
Reserves	These are sums set aside to meet future possible liabilities where there is no certainty about whether or not these liabilities will be incurred.
Residual Value	The net realisable value of an asset at the end of its useful life. Residual values are based on prices prevailing at the date of the acquisition (or revaluation) of the asset and do not take account of expected future price changes.

Revaluation Reserve	The reserve records the accumulated gains on the fixed assets held by the Authority arising from increases in value as a result of inflation or other factors.
Revenue Expenditure	Expenditure on providing day-to-day services, for example employee cost and premises costs.
Revenue Expenditure Funded from Capital Under Statute	Expenditure which may be properly incurred, but which does not result in an asset owned by the Authority.
Unusable Reserves	The Authority cannot use this category of reserves to provide services. Includes reserves that hold unrealised gains and losses (e.g. revaluation reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line “adjustments between accounting basis and funding basis under regulation”.
Usable Reserves	Those reserves that the Authority may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use.
Useful Life	The period over which the Authority will derive benefits from the use of a fixed asset.



Section 4

Tyne & Wear Integrated Transport Authority

Annual Governance Statement for the Year ended 31 March 2013

SECTION 1: SCOPE OF RESPONSIBILITY

The Tyne and Wear Integrated Transport Authority (ITA) is responsible for ensuring that its business is conducted in accordance with the law and proper standards and that public money is safeguarded and properly accounted for and used economically, efficiently and effectively. The TIA also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness. The ITA also has a general power of promoting well-being within its area that was introduced by the Local Transport Act 2008.

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

(i) The governance of our affairs and

(ii) Facilitating the effective exercise of our functions, including arrangements for the management of risk.

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

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

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

In relation to (ii) the ITA has put in place a system of internal control designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an on-going process designed to:

(a) Identify and prioritise the risks to the achievement of our policies, aims and objectives; and

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

SECTION 2: THE PURPOSE OF THE GOVERNANCE FRAMEWORK

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

The governance framework has been in place at the ITA for the year ended 31 March 2013, and up

to the date of the approval of the Annual Report and Accounts.

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

SECTION 3: THE GOVERNANCE FRAMEWORK

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

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

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

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

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

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

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

We have been working with colleagues in Nexus and across Tyne and Wear to implement the opportunities presented by the Local Transport Act 2008 and the transition to the Integrated Transport Authority.

We continued to support the ITA informal working groups to help the ITA to discharge its broader remit. These are the LTP Working Group, the Equality and Diversity Working Group, the Bus Strategy Working Group and the Tyne Tunnels Working Group. We also continued to support the Metro Sub Committee, Standards Committee, Audit Committee and Scrutiny Advisory Group.

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

onwards.

The roles of Standards Committee and Audit Committee have been further embedded over the last year.

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

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

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

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

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

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

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

Service level agreements with the Lead Authority (Newcastle City Council) are in place, and regularly monitored to ensure value for money is being achieved. These are reviewed and updated annually.

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

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

The LTP3 Delivery Plan Chapter 5 (Monitoring) sets out the Performance Management Framework, based on monitoring the 12 main policies identified in the LTP3 strategy. Updated baseline

measurements and targets were reported to the ITA in May 2012 and are reviewed and monitored on a regular basis, with performance reported to the ITA and the ITA LTP Working Group.

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

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

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

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

There is a clear scheme of delegation to officers.

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

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

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

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

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

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

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

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

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

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

The ITA has developed and maintains an effective scrutiny function which encourages constructive

challenge and enhances overall performance. The Scrutiny Advisory Group consists of members who are not ITA Members, so are able to provide independent scrutiny.

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

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

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

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

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

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

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

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

Whistle-blowing and for receiving and investigating complaints from the public

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

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

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

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

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

ITA members also undertake site visits where they are able to see progress in action at first hand. For example, site visits have taken place to see the Tyne Tunnel, Haymarket Metro development,

Sunderland Station development, the fitting of new Metrocars as part of the reinvigoration programme, and London Docklands Light Railway, to examine future generation light trains.

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

CORE PRINCIPLE 6: ENGAGING WITH LOCAL PEOPLE AND STAKEHOLDERS

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

Meetings are held in public, and committee papers are available on the ITA's website which is reviewed regularly. The ITA reviewed and refreshed its website during 2011/12 to ensure it was easier to use and with more up-to-date information and has continued these improvements during 2012/13. A feedback mechanism has been incorporated into the website to encourage users to get in touch on any subject.

In line with the guidance on Local Transparency issued by the Department for Communities and Local Government, details of all external payments over £500 are published on the ITA's website on a regular basis. Details of the members allowances scheme and amounts paid to members are also published.

The consultation and involvement strategy sets out how Nexus on behalf of the ITA is engaging with its partners and stakeholders. The Nexus website encourages people to submit questions and offer feedback.

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

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

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

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

transport in the north east.

Partnership arrangements are in place for the Local Sustainable Transport Fund Schools Go Smarter and Go Smarter to Work programmes, which includes a Programme Board made up of representatives from each of the Tyne and Wear Districts, Nexus, the ITA and other delivery partners. A task-and-finish group has been set up for the delivery of the Better Bus Areas programme, made up of officers from the ITA, Districts, Nexus and the major bus operators.

Nexus establishes and monitors its objectives and performance through the Passenger Transport Policy Statement and its Annual Performance Plan and 3 year business plan.

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

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

SECTION 4: ANNUAL REVIEW OF EFFECTIVENESS OF GOVERNANCE FRAMEWORK

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

(a) The executive managers within the ITA who have responsibility for the development and maintenance of the governance environment

(b) The views of our internal auditors which are reported to Audit Committee through regular progress reports and through the Annual Internal Audit Opinion

(c) An annual review of the effectiveness of our Internal Audit arrangements (as required by Regulation 6 of the Accounts and Audit (Amendment) (England) Regulations 2006)

(d) The views of our external auditors, regularly reported to Audit Committee through regular progress reports and through the Annual Audit and Inspection Letter, Annual Governance Report and through regular meetings with officers

(e) The independent views of inspection agencies

(f) The governance and internal control arrangements of our significant partnerships, contractors and group arrangements:
- The Local Transport Plan Partnership (responsible for delivering the Local Transport Plan)
- Nexus (the passenger transport executive responsible for the planning, provision and promotion of public transport). The ITA has appropriate representation within Nexus which provides an on-going source of assurance
- TT2 Ltd (responsible for the construction and effective operation of the Tyne Tunnels and the New Tyne Crossing) and internal arrangements in place to support and monitor the contract

(g) The ITA's Strategic Risk Register, which captures the most significant risks associated with the delivery of the ITA's objectives

(h) The Lead Authority's own annual review of its Governance Framework
(i) The views of members through the on-going work of Audit Committee and the ITA
(j) The work of the ITA Officer Working Group—this group consists of Lead Authority officers who meet monthly for agenda setting purposes, to share information and to monitor performance issues and governance arrangements

SECTION 5: SIGNIFICANT GOVERNANCE ISSUES

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

The review did not highlight any issues as serious weaknesses in governance or internal control during 2012/13.

SECTION 6: SIGNIFICANT IMPROVEMENTS NEEDED TO GOVERNANCE AND INTERNAL CONTROL

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

The review did not highlight any governance or internal control issues as requiring significant improvement during 2012/13.

SECTION 7: CONCLUSION

We consider the governance and internal control environment operating during 2012/13 to provide reasonable and objective assurance that any significant risks impacting on the achievement of our principal objectives will be identified and actions taken to avoid or mitigate their impact.

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

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

We have been advised on the implications of the review by the ITA Officer Working Group.

Pat Ritchie	**Councillor David Wood**	**Paul Woods**
Clerk to the ITA	**Chair of the ITA**	**Treasurer to the ITA**
Date:	**Date:**	**Date:**

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Deloitte.

Tyne & Wear Integrated Transport Authority

Report on the financial statement audit for the year ended 31 March 2013

Final report

September 2013

Deloitte.

Deloitte LLP
One Trinity Gardens
Broad Chare
Newcastle upon Tyne
NE1 2HF

Audit Committee
Tyne and Wear Integrated Transport Authority
Civic Centre
Newcastle upon Tyne
NE1 8PD

5 September 2013

Dear Sirs

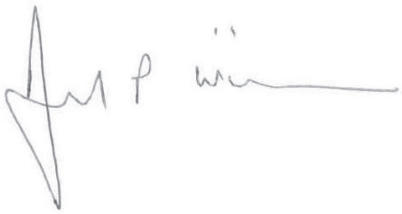
We have pleasure in setting out in this document our report to the Audit Committee ("the Committee") of Tyne & Wear Integrated Transport Authority ("the Authority") for the year ended 31 March 2013, for discussion at the meeting scheduled for 18 September 2013. This report covers the principal matters that have arisen from our audit for the year ended 31 March 2013.

In summary:

- the major issues, which are summarised in the Executive Summary, have now been largely addressed and our conclusions are set out in our report.
- there are a number of judgemental areas to which we draw your attention in our report which you should consider carefully.
- in the absence of unforeseen difficulties, management and we expect to meet the agreed audit and financial reporting timetable.

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

Yours faithfully



David Wilkinson

For Deloitte LLP
Chartered Accountants
Newcastle-upon-Tyne

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Executive summary

Status	Description	Detail
Completion of the audit		
Our audit is largely complete	The status of the audit is as expected at this stage of the timetable agreed in our audit plan. Key items outstanding: • review of fair value of LOBO loans; • receipt of Bond Dickinson and Herbert Smith legal letters; • completion of NESTI income and expenditure testing; • receipt of letter of representation; • receipt of assurance over plan assets from Tyne and Wear Pension Fund auditors; • completion of the Whole of Government Accounts review;and • final review and close down procedures, including the subsequent events review.	N/A
Overall view		
We anticipate issuing an unmodified financial statement audit opinion	On satisfactory completion of the outstanding matters, we anticipate issuing an unmodified audit opinion on the truth and fairness of the financial statements of the Authority and the Group. The matters that we have taken into account in forming our overall view are described in the following sections.	N/A

Executive summary (continued)

Status	Description	Detail

Green: risk appropriately addressed	**Amber:** risk satisfactorily addressed but unadjusted errors identified	**Red:** material unresolved matter

Significant audit risks			
Testing on all audit risks was substantially completed with no issues arising	The key audit risks which we have identified as part of our overall audit strategy are: 1. **Accounting treatment of the Tyne Tunnel Crossing** We have reviewed the accounting treatment of the Tyne Tunnel and it is in line with the prior year treatment and requirement of the code. 2. **Accounting for the North East Smart Ticketing Initiative (NESTI) funding** The release of NESTI funding is in line with our understanding of the funding requirements. 3. **Revenue recognition** Testing of the completeness of the Tyne tunnel toll income has not identified any issues. 4. **Management override of controls** No instances of management override of controls were noted from our testing. 5. **Combined Authority** We understand that if the plans for a combined authority proceeds all assets, liabilities and activities of the Tyne and Wear Integrated Transport Authority (TWITA) will transfer to the successor body and per the Code a transfer of services does not negate the presumption of going concern.	 G G G G G	Section 1

Accounting and internal control systems		
We have not identified any significant control deficiencies	As set out in the Annual Governance Statement, management assessed the accounting and internal control systems to be satisfactory. Our audit findings did not identify any significant deficiencies in the financial reporting systems. In the prior year we identified two findings: • Lack of updated NESTI legal documentation; and • Lack of segregation of duties in relation to the posting of some journals. In the current year updated legal documentation has been obtained from the constituent councils in relation to NESTI and a new journal authorisation process has been introduced such that there is an appropriate segregation of duties between the preparer and the authoriser.	Section 4

Executive summary (continued)

Status	Description	Detail
Our observations on your financial statements		
No issues have been noted in relation to the accounting policies or financial reporting	Accounting policies and financial reporting As part of our audit, we consider the quality and acceptability of the Authority's accounting policies and financial reporting. The 2012/13 accounts have been prepared under the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 based on International Financial Reporting Standards. There are no matters to bring to your attention from our review of the Authority's accounting policies. Financial Standing We have considered the financial standing of the Authority through review of the outturn in 2012/13, budgets for 2013/14 and the Local Transport Plan. The Authority is clearly facing significant financial challenges but we have no specific concerns over the response to those challenges or the financial standing of the Authority.	Section 3
Value for money conclusion		
Work completed to date supports an unqualified VFM conclusion	Under the Audit Commission Code of Audit Practice, as appointed auditors, we are required to draw a conclusion regarding the organisation's arrangements to secure economy, efficiency and effectiveness of its use of resources (the value for money (VFM) conclusion). Our work completed to date supports the issue of an unqualified VFM conclusion.	Section 2
Liaison with internal audit		
No issues were noted from the findings of Internal Audit	The audit team, following an assessment of the independence and competence of internal audit, reviewed the findings of internal audit and considered the potential impact on our audit approach. No issues of concern were noted and no change to our audit approach was required.	N/A
Independence		
We are compliant with the relevant independence requirements	We confirm we are independent of the Tyne & Wear Integrated Transport Authority. Our reporting requirements in respect of independence matters, including fees, are covered in Section 5.	Section 5

Executive summary (continued)

Status	Description	Detail
Our observations on your Annual Report		
The Annual Report is consistent with our knowledge	We have obtained the draft financial statements and reviewed the information published alongside the accounts, namely the contents of the 2012/13 Annual Report & Accounts, for consistency with the accounts and our knowledge from performing the audit. We noted no issues from this review.	N/A
Identified misstatements and disclosure misstatements		
There were no uncorrected misstatements or disclosure deficiencies	Audit materiality for the Authority is £3,523,000 (2011/12: £3,687,300) and materiality applied by the auditors of Nexus was £3,228,000 (2011/12: £3,100,000). There were no identified uncorrected misstatements or disclosure deficiencies. We have nothing to note in regards to the presentation of the financial statements. Details of recorded audit adjustments are included in Appendix 1.	Appendix 1
Management representations		
We request that the Authority approve the signing of the management representation letter	A draft of the representation letter to be signed on behalf of the Authority has been included at Appendix 3.	Appendix 3

1. Significant audit risks

The results of our audit work on significant audit risks are set out below.

Accounting for Tyne Tunnel Crossing

Based on our review of the model the accounting treatment is appropriate

Risk

The new Tyne Tunnel crossing requires complex accounting arrangements similar to a PFI scheme to be put in place. There is therefore a risk that errors in accounting treatment may be made which would cause the accounts to be materially misstated.

Deloitte response

We have reviewed the accounting model and advice provided by PricewaterhouseCoopers and obtained explanations for the any changes from the model which has previously been reviewed by our internal PFI specialists. Consistent with our expectation the accounting treatment is unchanged from prior year and our testing has not identified any issues or errors in relation to the accounting treatment for the Tyne Tunnel.

Accounting for North East Smart Ticketing Funding (NESTI)

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

Risk

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

Deloitte response

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

Revenue recognition

Based on our testing income has been recognised correctly

Risk

International Standards on Auditing (UK and Ireland) 240 – "The auditor's responsibility to consider fraud in an audit of financial statements" requires the auditors to perform certain audit procedures related specifically to fraud risk, and requires a presumption that revenue recognition is a key audit risk.

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

Deloitte response

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

1. Significant audit risks (continued)

Management override of controls

No instances of override of controls by management have been noted

Risk

Auditing standards require that, in every audit, the auditor assumes that there is a risk of material misstatement connected to management's ability to fraudulently manipulate the reported position by overriding controls. This would typically occur through either the manipulation of judgements and assumptions by management to achieve a predetermined result or through circumventing controls, such as through using management journals.

Deloitte response

We have performed the following work:

- understood and evaluated the financial reporting process and the controls over journal entries and other adjustments made in the preparation of the financial statements, and tested the appropriateness of a sample of such entries and adjustments;and
- reviewed accounting estimates for biases that could result in material misstatement due to fraud, including whether any differences between estimates best supported by evidence and those in the financial statements, even if individually reasonable, indicate a possible bias on the part of management.

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

Combined Authority

Per the Code it is appropriate for the accounts to be prepared on a going concern basis

Risk

We are aware of the local authorities' intention to form a combined authority in the near future. The authorities will combine around economic growth, with transport and skills as areas of immediate priority. Durham, Gateshead, Newcastle, North Tyneside, Northumberland, South Tyneside and Sunderland councils will work together through a governance model tailored to the issues, challenges and opportunities that are particular to the North East, but enshrined within the national legal framework.

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

Deloitte response

From discussions with management we understand that the function of TWITA will continue in existence for the foreseeable future. The 2012-2013 accounts have been prepared on the assumption that the rights, assets and liabilities of the ITA will transfer to the new authority and per the Code 'Transfer of services under combinations of public sector bodies (such as local government reorganisation) do not negate the presumption of going conern. Therefore it is appropriate for these accounts to be prepared on a going concern basis.

We have confirmed that the additional disclosures required within the 2012-2013 accounts to disclose the formation of the combined authority and the impact on TWITA are appropriate and inline with the Code.

2. Value for Money Conclusion

Value for money (VFM) conclusion	
The requirement	Under the Audit Commission Code of Audit Practice, as appointed auditors, we are required to draw a positive conclusion regarding the organisation's arrangements to secure economy, efficiency and effectiveness of its use of resources (the value for money (VFM) conclusion).
Work completed	In 2012/13 as set out in the *Work Programme and Scales of Fees 2012/13: Local Government*, the approach to local VFM audit work at specified bodies, including the Authority, is not based on criteria specified by the Commission. For 2012/13, auditors of these bodies will continue to meet their VFM duty by: • reviewing the Annual Governance Statement; • reviewing the results of the work of the Commission and other relevant regulatory bodies or inspectorates, to consider whether there is any impact on the auditor's responsibilities at the audited body; and • undertaking other local risk-based work as appropriate, or any work mandated by the Commission. We have not identified any work undertaken by other regulatory bodies or the need to undertake any local risk-based work, nor was there any additional work mandated by the Commission.
Conclusion	No issues impacting our VFM conclusion have been identified and we intend to issue an unqualified conclusion.

3. Our observations on your financial statements

In the course of our audit on the financial statements, we consider the qualitative aspects of the financial reporting process, including items that have a significant impact on the relevance, reliability, comparability, understandability and materiality of the information provided by the financial statements. Our comments on the quality and acceptability of the Authority's accounting policies and estimates are discussed below.

We have considered the accounting policies as set out in the financial statements and consider them to be in line with the Local Authority Accounting Code of Practice. In addition, we are required to consider going concern. However, in the context of the Authority this takes the form of consideration of financial standing.

We have considered the financial standing of the Authority through a review of the outturn in 2012/13 and budgets for 2013/14 as well as consideration of the impact that the creation of a combined authority would have. We have no specific concerns over the financial standing of the Authority.

Annual Governance Statement

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

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

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

Our review is directed at:

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

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

4. Accounting and internal control systems

The identified significant audit risks are detailed in Section 1. For each of these significant audit risks we have assessed the design and implementation of internal controls in each of those areas. No issues have been identified during the course of this work.

5. Independence

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

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

Non-audit services	
No non-audit services have been provided	In our opinion there has been no breach of the APB Revised Ethical Standards for Auditors. We have not provided any non-audit services to the Authority.

Fees	
Audit fees received in 2012/13 were in line with fee set by the Audit Commission	The fees payable to the auditors, Deloitte, for the audit of the annual accounts (excluding VAT) was £19,599 (2011/12: £32,599). No non-audit fees were received.

6. Responsibility statement

The Audit Commission published a 'Statement of responsibilities of auditors and of audited bodies' alongside the Code of Audit Practice. The purpose of this statement is to assist auditors and audited bodies by summarising where, in the context of the usual conduct of the audit, the different responsibilities of auditors and of the audited body begin and end, and what is expected of the audited body in certain areas. The statement also highlights the limits on what the auditor can reasonably be expected to do.

Our audit plan has been prepared on the basis of, and our audit work carried out in accordance with the Code and the Statement of Responsibilities, copies of which have been provided to the Authority by the Audit Commission.

The audit may include the performance of national studies developed by the Audit Commission, where the auditors are required to follow the methodologies and use the comparative data provided by the Commission. Responsibilities for the adequacy and appropriateness of these methodologies and the data rests with the Audit Commission.

While our reports may include suggestions for improving accounting procedures, internal controls and other aspects of your business arising out of our audit, we emphasise that our consideration of the Authority's system of internal control was conducted solely for the purpose of our audit having regard to our responsibilities under Auditing Standards and the Code of Audit Practice. We make these suggestions in the context of our audit but they do not in any way modify our audit opinion which relates to the financial statements as a whole. Equally, we would need to perform a more extensive study if you wanted us to make a comprehensive review for weaknesses in existing systems and present detailed recommendations to improve them.

Any conclusion, opinion or comments expressed herein are provided within the context of our opinion on the financial statements and our conclusion on value for money as a whole, which was expressed in our auditors' report.

We view this report as part of our service to you for use as the Audit Committee of Tyne and Wear Integrated Transport Authority for Corporate Governance purposes and it is to you alone that we owe a responsibility for its contents. We accept no duty, responsibility or liability to any other person as the report has not been prepared, and is not intended, for any other purpose. It should not be made available to any other parties without our prior written consent

If you intend to publish or distribute financial information electronically, or in other documents, you are responsible for ensuring that any such publication properly presents the financial information and any report by us thereon and for controls over, and security of the website. You are also responsible for establishing and controlling the process for electronic distributing accounts and other information.

Deloitte LLP

Chartered Accountants
Newcastle-upon-Tyne
September 2013

Appendix 1: Audit adjustments

Uncorrected misstatements

There are no uncorrected misstatements which exceeded our clearly trivial reporting threshold identified during our 2012/13 audit. For 2012/13 this threshold was £176,000 (2011/12: £204,850).

Disclosure deficiencies

Auditing standards require us to highlight significant disclosure deficiencies to enable Audit Committees to evaluate the impact of those matters on the financial statements. Except for minor presentation errors the only disclosure deficiency noted was in relation to the drawdown of the NESTI funding from reserves, this has now been corrected by management.

Recorded audit adjustments

We report all individual identified recorded audit adjustments in excess of the clearly trivial threshold set out above and other identified misstatements in aggregate adjusted by management.

Recorded audit adjustments	(Credit)/ charge to current year income statement £'000	Increase/ (decrease) in net assets £'000	(Increase)/ decrease in other reserves £'000
Balance Sheet Adjustment			
Offset of additional depreciation following revalution			
Dr Revaluation Reserve			877
Cr Capital Adjustment Account			(877)
Total			0

Cashflow statement adjustments	Operating activities £'000	Investing activities £'000	Financing activities £'000
Cashflow Statement Adjustments			
Debtors/Creditors error			
Movement in debtors	1,283		
Movement in creditors	(1,283)		
Interest received on Nexus loan			
Long term debtors	2,057		
Proceeds from long term investments		(2,057)	
Total	2,057	(2,057)	

Appendix 2: Additional resources available to you

Additional information on current and future technical developments	
IASPlus	The IAS Plus website, maintained by Deloitte, provides the most comprehensive information on the Internet about international financial reporting. It is aimed at accounting professionals, businesses, financial analysts, standard-setters and regulators, and accounting educators and students. The site, which is totally free of charge, has a broad array of resources about the International Accounting Standards Board, International Financial Reporting Standards, and international accounting and auditing in general. It includes: • summaries of all IASB standards and interpretations; • background on all IASB and IFRIC agenda projects plus summaries of all IASB and IFRIC meetings; • comparisons of IFRSs and various local GAAPs; • updates on national accounting standards development in around 80 countries and regions throughout the world; and • free e-learning modules for each IAS and IFRS – made available at no charge in the public interest. The site is available to browse at any time; alternatively you can subscribe to e-mail alerts and newsletters by going to http://www.iasplus.com/subscribe.htm.
Our range of publications	Our iGAAP books are available to our clients electronically and in hard copy. These include our major manuals providing comprehensive, practical guidance; model annual report and financial statements; and our major text on financial instruments providing in depth support to preparers and auditors in this challenging area. Our range also includes quarterly iGAAP newsletters providing a round up of recent developments. iGAAP and ukGAAP alerts are issued whenever a new exposure draft or standard is issued.
Stay tuned online: Internet-based corporate reporting updates	The Deloitte UK Technical Team run a series of internet-based financial reporting updates, aimed at helping finance teams keep up to speed with IFRS, UK GAAP and other reporting issues. Each update lasts no more than one hour, and sessions are held three times a year, at the end of March, July and November. Recordings of past sessions are available via www.deloitte.co.uk/audit.
Audit podcasts	Our leading experts provide you with a short discussion of new IFRS standards and practical insights. These can be accessed via our website, www.deloitte.co.uk/audit. Alternatively, you can subscribe to our podcasts via iTunes – just search for Deloitte IFRS.

Appendix 3: Draft management representation letter

Tyne & Wear Integrated Transport Authority – Audit of the financial statements and group financial statements for the year ended 31 March 2013

This representation letter is provided in connection with your audit of the annual financial statements of Tyne & Wear Integrated Transport Authority and its Group accounts for the year ended 31 March 2013 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view of the financial position of Tyne & Wear Integrated Transport Authority and its Group as of 31 March 2013 and of the results of its operations, other recognised gains and losses and its cash flows for the year then ended in accordance with the applicable accounting framework.

We acknowledge our responsibilities for preparing financial statements for the Authority and Group which present a true and fair view and for making accurate representations to you.

We confirm, to the best of our knowledge and belief, the following representations.

Financial statements

1. We understand and have fulfilled our responsibilities for the preparation of the financial statements in accordance with the applicable financial reporting framework which give a true and fair view, as set out in the terms of the audit engagement letter.
2. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
3. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of IAS24 “Related party disclosures”.
4. The effects of uncorrected misstatements and disclosure deficiencies are immaterial, both individually and in aggregate, to the financial statements as a whole. The uncorrected misstatements and disclosure deficiencies are detailed in Appendix 1 to the Report to the Authority.
5. We confirm that the financial statements have been prepared on the going concern basis. We are not aware of any material uncertainties related to events or conditions that may cast significant doubt upon the Authority’s or Group’s ability to continue as a going concern. We confirm the completeness of the information provided regarding events and conditions relating to going concern at the date of approval of the financial statements, including our plans for future actions.
6. The financial statements are free from material misstatement.
7. All events subsequent to the date of the financial statements and for which the applicable financial reporting framework requires adjustment of or disclosure have been adjusted or disclosed.

Information provided

8. We have provided you with:
   - access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
   - additional information that you have requested from us for the purpose of the audit; and
   - unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
9. All transactions have been recorded and are reflected in the financial statements and the underlying accounting records.
10. We acknowledge our responsibilities for the design, implementation and maintenance of internal control to prevent and detect fraud and error.
11. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

Appendix 3: Draft management representation letter (continued)

12. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Authority and involves:
    (i). management;
    (ii). Members of the Authority
    (iii). employees who have significant roles in internal control; or
    (iv). others where the fraud could have a material effect on the financial statements.

13. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

14. We are not aware of any instances of non-compliance, or suspected non-compliance, with laws, regulations and contractual agreements whose effects should be considered when preparing financial statements.

15. We have disclosed to you the identity of the Authority's related parties and all the related party relationships and transactions of which we are aware.

16. All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to you and accounted for and disclosed in accordance with the applicable financial reporting framework. On the basis of legal advice we have set them out in the attachment with our estimates of their potential effect. No other claims in connection with litigation have been or are expected to be received..

17. We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities reflected in the financial statements.

18. Where required, the value at which assets and liabilities are recorded in the balance sheet is, in the opinion of the Members, the fair value. We are responsible for the reasonableness of any significant assumptions underlying the valuation, including consideration of whether they appropriately reflect our intent and ability to carry out specific courses of action on behalf of the Authority. Any significant changes in those values since the balance sheet date have been disclosed to you.

19. There have been no irregularities involving members or employees who have a significant role in the accounting and internal control systems or that could have a material effect on the financial statements.

20. There have been no events since the balance sheet date which require adjustment of or a disclosure in the financial statements or notes thereto. Should further material events occur, which may necessitate revision of the figures included in the annual accounts or inclusion of a note thereto, we will advise you accordingly.

21. The Authority has satisfactory title to all assets and there are no liens or encumbrances on the Authority's assets.

22. We recognise that we are responsible for ensuring that the statement of accounts as published on the website properly presents the financial information and your auditor's report and for the controls over, and security of, the website. We also recognise that we are responsible for establishing and controlling the process for electronically distributing annual reports and other information.

23. We confirm that:
    - all retirement benefits and schemes, including UK, foreign, funded or unfunded, approved or unapproved, contractual or implicit have been identified and properly accounted for;
    - all settlements and curtailments have been identified and properly accounted for;
    - all events which relate to the determination of pension liabilities have been brought to the actuary's attention;
    - the actuarial assumptions underlying the valuation of the scheme liabilities accord with the Members' best estimates of the future events that will affect the cost of retirement benefits and are consistent with our knowledge of the business;

Appendix 3: Draft management representation letter (continued)

- the actuary's calculations have been based on complete and up to date member data as far as appropriate regarding the adopted methodology; and
- the amounts included in the financial statements derived from the work of the actuary are appropriate.

24. All known material liabilities have been properly included in the annual accounts and all material contingent liabilities have been disclosed.

25. We are not aware of any potential clawback by grant payers of grants that have been released to income.

26. Our Annual Report will be consistent with and include the financial statements as audited.

We confirm that the above representations are made on the basis of adequate enquiries of management and staff (and where appropriate, inspection of evidence) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

Yours faithfully

Signed on behalf of the Tyne & Wear Integrated Transport Authority

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Member of Deloitte Touche Tohmatsu Limited

Tyne and Wear Integrated Transport Authority

REPORT FOR INFORMATION

DATE: **18 SEPTEMBER 2013**

SUBJECT: **STRATEGIC RISK REGISTER UPDATE**

REPORT OF: **DEPUTY CLERK AND TREASURER TO THE ITA**

PURPOSE OF REPORT

This report provides an update on the ITA's strategic risks and opportunities. It is provided to the ITA Audit Committee for comment in advance of forthcoming ITA Committees.

RECOMMENDATIONS

Members of the Committee are asked to:

- Review and comment on the strategic risk register, including the appropriateness of the amendments to those areas specifically highlighted in this covering report; and
- Identify any further significant risks, mitigating actions or opportunities for consideration.

BACKGROUND DOCUMENTS

Strategic Risk Update paper to Audit Committee, 22/02/2013

CONTACT OFFICERS

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IMPACT ON OBJECTIVES

To support economic development and regeneration	Neutral
To address climate change	Neutral
To support safe and sustainable communities	Neutral

1 Executive Summary

1.1 This report provides an update on ITA strategic risks and opportunities, incorporating mitigating actions. The formal risk process adopted by the ITA aims to provide assurance that significant risks and opportunities associated with the delivery of ITA business are identified, monitored and managed.

2 Introduction and background

2.1 The ITA Strategic Risk and Opportunity Register is regularly monitored and reported to ITA Audit Committee twice per annum to ensure risk ratings reflect emerging risks and opportunities and that progress is being made in reducing current risks and maximising opportunities.

2.2 The risks and opportunities register has been reviewed by officers of the ITA taking into account similar registers from partner organisations such as Nexus and the Tyne Tunnel Concessionaire (TT2). Significant changes / issues for consideration that have occurred since the last review are summarised within this covering report. Risks and opportunities are merged within the register to present a coherent overview.

3 Strategic risk update

3.1 This report provides all strategic risks and opportunities (presented in **Appendix A**).

3.2 The last review of the Strategic Risk Register was reported to the ITA Audit Committee in February 2013. Since this time amendments have been made – these are summarised in section 4 onwards.

3.3 For this review of the register officers have maintained the format adopted at the last review. This reflects changes made by coalition government to the way transport business cases must be outlined – it seems sensible to consider our risks in the same ways. Therefore the register continues to outline risks and opportunities within five broad areas, that will show whether our ongoing work:

- Fits with wider public policy objectives – ‘strategic’ risks and opportunities;
- Demonstrates value for money – ‘economic’ risks and opportunities;
- Is financially affordable – ‘financial’ risks and opportunities;

- Is commercially viable – 'commercial' risks and opportunities; and
- Is achievable – 'management' risks and opportunities.

4 Summary of changes to last risk register

4.1 Strategic section

4.1.1 Risk reference 1 – Clear Strategic Direction

This risk is maintained with no change to its likelihood or impact. The control mechanisms have been amended to reflect the additional governance structures emerging in the North East Local Enterprise Partnership area including the commitment expressed by the 7 local authorities in the north east (LA7) to form a Combined Authority that will incorporate transport, effectively subsuming the ITA (Audit Committee received a report on the creation of the Combined Authority at their last meeting). **The ITA has been involved in discussions with partners at a wider level for considerable time around these emerging changes so the likelihood and impact of this risk has not changed.**

Other changes to the control mechanisms reflect engagement with the ITA in emerging transitional governance arrangements (including the ITA taking up its position on the Local Transport Body) and the role of ITA and Nexus officers in the supporting structures. Further, a required output of the new Combined Authority will be a Transport Plan across an LA7 geographic area. This will replace the existing Local Transport Plan for Tyne and Wear (at an appropriate point in time given the first Delivery Plan for the LTP ends in March 2015) – however Tyne and Wear's LTP and existing Delivery Plan will ensure a clear transition.

The actions to reduce this risk have been amended to reflect the implementation of recommendations from the ITA's internal audit. Some of which, following consideration at the Annual General Meeting of the ITA (including a clarified officer reporting structure with revised roles and responsibilities to take into account changes to officer resource and successful funding bids for new projects) have been introduced. Other recommendations from the audit are continuing to be developed and will be introduced by the ITA / be adopted by the Combined Authority.

Additionally – an implementation plan for transition to the Combined Authority will be completed in liaison with independent external auditors.

4.1.2 **Risk reference 2 – Equalities issues**

The only modification to this risk is the alteration of the risk manager for Nexus, to better reflect the governance of the project and changes to positions within Nexus. The changes made in preparation for the last review (overseen by the ITA's Equality and Diversity Working Group) to incorporate and address necessary changes to the business of the ITA and the delivery of its objectives following the Equalities Act 2010 legislation are still considered to be appropriate.

4.1.3 **Risk reference 3 – Reputational and financial opportunities and threats associated with the Bus Strategy Delivery Project**

The risk manager for Nexus has been altered to better reflect the governance of the project and changes to positions within Nexus. The review of governance of the project overseen by the ITA Clerk has been maintained as an action but deferred given the current timescales for the BSDP (now out to consultation) and its potential inclusion within wider governance reviews (including the emergence of a Combined Authority). The ITA Clerk's regular meetings with the bus companies have been maintained with future meetings being calendared. The risk score and target have not been changed.

4.1.4 **Risk reference 4 – Reputational and financial opportunities and threats associated with the Go Smarter behaviour change programme**

This reference has been added since the last update to incorporate the ITA-led sustainable travel behaviour change campaign 'Go Smarter'.

4.2 Economic section

4.2.1 **Risk Reference 5 – Metro Reinvigoration**

Nexus hold an individual risk register for the asset renewal programme. The likelihood of this risk has been increased from low to medium following problems associated with performance of the Metro. The importance of further consideration about the match funding contributions in the context of public spending reductions has been highlighted.

4.2.2 **Risk Reference 6A – New Tyne Crossing**

This likelihood rating of this overall risk has been maintained at the previous level of 'low'. Performance by TT2 remains good and monitoring processes are working well. Feedback from tunnels users continues to be positive and traffic levels are

continuing to increase.

At its meeting on 26 July 2013, the ITA agreed that the Authority would set the Concession Toll at the Tyne Tunnels, which would become effective from 1 January 2014, in line with the toll strategy that had been agreed by the Authority on 27 September 2007, i.e. at £1.60 for cars and £3.20 for HGVs. Further updating of the financial model has taken place during 2013 which indicates that this level is affordable over the life of the contract.

Monitoring of the water ingress in the southbound tunnel is continuing, with Mott MacDonald appointed to carry out this analysis. A date of March 2014 has been indicated in the risk register for the next review of this action – this ties in with the commission of Mott MacDonald which ends in January 2014. Their final report will include recommendations for a course of action to pursue in relation to water ingress.

4.2.3 **Risk Reference 6B: Tyne Pedestrian and Cyclist Tunnels (TPCT)**

The likelihood rating on this risk of cost overspend or project slippage has been increased to 'medium' as a result of delays in the programme which mean that the TPCT are likely to remain closed to the public for longer than originally planned.

The contractor has been instructed to remove and replace the lining material on the underside of the rotunda roof because of the presence of asbestos and the risk of it being dislodged during the works. This was not identified in the tender documents but, at this time, it is considered that the cost implications of this can be accommodated within the contingencies built into the contract price, but this means there is less contingency available to meet any other unexpected costs. There are programming implications which mean that the completion of the Phase 3 is now expected to be in August 2014, later than originally planned.

Monitoring of the shuttle bus and night-time taxi service indicate that these services are working well, and feedback from users has been positive.

4.2.4 **Risk Reference 7 – Opportunities presented by NESTI**

An individual risk register relating to this project is held by Nexus. The 'touch-in' day implementing the use of smart ticketing on Metro is due to occur in the Autumn of 2013.

4.3 Financial and commercial section

4.3.1 Risk Reference 8 – Reduction in public sector finance

The likelihood and severity rating of this risk have been maintained at the current level of 'high'. The funding outlook for local government remains extremely negative, with a further 10% reduction in the local government resource budget announced in the 2013 spending review, on top of the reductions already met by this sector. Changes to capital funding from 2015 onwards seem to point to a 44% reduction in the Integrated Transport Block funding, which will be transferred to the new Single Local Growth Fund, where the funding will be in competition with other priorities such as economic development or skills, and not necessarily available to meet transport objectives. There is the potential for more funding to be devolved to the region once the Combined Authority has been established, but this is not certain at this point.

Recent lobbying of government in relation to the funding gap on the statutory Concessionary Travel Scheme was unsuccessful, however this has been maintained as an on-going action and is an issue on which the ITA will continue to press for change.

4.3.2 Risk Reference 9 – Pressure on Levy from Tyne & Wear Districts

The likelihood and severity rating of this risk have been maintained at the previous level. A cash freeze position on the levy for 2014/15 was agreed in principle in January 2013, but this is not formally agreed at this point, and there is uncertainty around future levels of reduction which may be requested by constituent authorities.

Financial modelling on the Bus Strategy Delivery Project included the baselining of a £2m 'rebate' on the levy which was awarded for 2013/14 and 2014/15. If achieved, this should go some way to mitigate the pressure for reductions on the levy in future years.

A piece of work is under way examining the possibility of using some reserves to pay down the pension deficit, which would achieve an annual saving on the revenue budget in excess of the interest income currently being received on these balances. The ITA is currently awaiting the results of the triennial actuarial valuation by the Tyne & Wear Pension Fund to progress this work.

4.4 Management section

4.4.1 **Risk Reference 10 – Ineffective performance management**

This cross references the audit identified in Ref 1 and previously reported to the Audit Committee. The completion of the Nexus Review is referenced as a Control Mechanism. There has been no change to the risk profile and target.

4.4.2 **Risk Reference 11 – Scrutiny processes**

This risk has not been changed following the annual review of the scrutiny forward plan, more closely aligning the work programme with the outputs of the ITA and its constituent authorities. Additionally – the link to scrutiny processes in the emerging Combined Authority has been highlighted.

Tyne and Wear Integrated Transport Authority

REPORT FOR INFORMATION

Tyne and Wear ITA Strategic Risk Register – September 2013

Purpose - To enable all risks and opportunities to be recorded, evaluated and further actions planned in order to inform resource management and budget allocation.

Identification				Analysis					Control measures		
Ref	**Opportunity / Risk description**	**Owner**	**Manager**	**Control mechanisms**	**Likelihood**	**Impact**	**Risk priority**	**Target risk priority**	**Actions to reduce risk**	**Target deadline**	**Action manager**
Strategic											
1	The importance of ITA policies providing partners with a clear strategic direction while also being integrated in any new governance arrangements for transport delivery. In order to do so the ITA must ensure its policies (wherever possible) consider emerging government policies and consultations across various themes, to include: - different modes of transport, - wider geographical areas, - integration with wider policy areas such as the economy, health and wellbeing, climate change and skills.	ITA Clerk	ITA Policy	Effective governance and reporting mechanisms to ensure officers are aware of (and regularly inform Members of) opportunities and risks across different geographical areas that have the potential to impact on the delivery of Tyne and Wear ITA's core aims and objectives – including links to the newly established North East Local Enterprise Partnership (NELEP) and the governance associated with the commitment to form a Combined Authority across the north east (Tyne and Wear + Durham and Northumberland). Newly formed Local Transport Body (responsible for prioritising local major schemes for delivery between 2015 and 2019) includes the ITA as a voting member (along with the LA7 authorities). Regular ITA Policy seminars bring together the Members of ITA with a number of officers to discuss future and emerging policy changes / consultations. An 'Induction' day takes place for all members in the month following the Annual General Meeting – in 2013 the ITA also invited the Portfolio holders for Durham and Northumberland and the chair of the Audit Committee for the first time. Bi-annual 'General Policy Update'	Med	Med	Amber (9)	Green (6)	The audit of existing structures to ensure ITA continues to set the strategic direction for Tyne and Wear transport through LTP3 delivery – for example, officer working groups have now implemented new terms of reference and clarified structures following ITA approval in May 2013. Additional findings of the audit will be incorporated into the proposition for the governance arrangements for the Combined Authority. Clerk of the ITA to take lead in continuing effective engagement with Local Enterprise Partnership and LTP partners (through meetings, forums and workshops/events). Monitor emerging developments around regional/local transport policy, governance and investment planning. Continue to review and refresh ITA Policy statement to reflect new roles defined by Local Transport Act and set new strategic direction (via new vision and objectives) and coincide with the end of the first LTP3 Delivery Period. Representation on wider bodies for promotion and implementation of transport policies and lobbying: including, but not exclusively, Core Cities and the Eastern Network Partnership (rail). A detailed implementation plan on the transition from the ITA to a Combined Authority will be undertaken with advice from the ITA's independent external auditors – Deloitte.	Achieved, May 2013 April 2014 Ongoing Ongoing March 2014 Ongoing April 2014	ITA Policy ITA Policy ITA Policy ITA Policy ITA Policy ITA Policy ITA Treasurer

				papers outlining relevant emerging / confirmed policies /consultations across various modes and geographic areas. Strengthened dialogue between Tyne and Wear Leadership Group and ITA facilitated by the ITA Clerk leading on senior / director level discussions. Clerk of the ITA leading on engagement with the NELEP. ITA working-groups (LTP, Bus Strategy, E&D, Metro). ITA and its Executive leading on High Speed Rail and classic rail network on behalf of LTP partners, in liaison with wider geographic area such as NELEP. This incorporates negotiations on the devolution of rail powers. Co-ordinated discussion between Leadership and Govt. through all means, including Core Cities, PTEG, etc							
2	Equalities issues not fully considered in policy formulation and other activities of the ITA, resulting in potential reputational damage, legal challenge and/or failure to deliver ITA vision and objectives.	ITA Deputy Clerk	Nexus Deputy Director General	Existing equalities Codes of Nexus and Metro. Complaints System. No claims successfully lodged. Establishment of Equalities and Diversity ITA Working Group. Revision of website to ensure easier access in line with best standards. Implemented necessary changes following a review of the implications of the Equality Act 2010.	Low	Med	Green (6)	Green (6)	Equalities assessments for ITA and Nexus Policy and Strategies: • ITA Policies and objectives • Nexus Strategies Review of ITA / Nexus Equalities Scheme(s) Continue to monitor changes to equalities obligations as outlined in Equalities Act 2010 – this involved the ITA adopting an existing PTE (Nexus) responsibility.	Ongoing Ongoing As required by govt.	ITA Policy Nexus Head of Customer Service ITA Policy and Nexus lead on equalities
3	Reputational and financial opportunities and threats	ITA Clerk	Nexus Deputy Director	An individual risk register has been created for this project held by	Med	High	Red (12)	Amber (9)	Ensure risk registers for this project are kept updated and acted upon to maximise the	Ongoing	Nexus Deputy

	associated with 'Delivering the Bus Strategy' project.	Nexus Director General	General	Nexus and overseen by their Executive Board. Detail of relationship is handled by Nexus through regular meetings with Bus Operators. Bi-lateral meetings between operators and districts occur periodically. Ongoing dialogue with other PTEs and ITAs (through PTEG, ITA etc). ITA Bus Strategy Working Group established. ITA Clerk holds regular meetings with bus operators.					opportunities presented by this work and mitigate against the potential threats. Review governance of project with ITA overseeing this review.	Deferred	Director General ITA Policy
4	Reputational and financial opportunities and threats associated with the Go Smarter behaviour change programme. - DfT have indicated that while there is no current expectation of a national under-spend on this national funding programme, that they are interested in receiving suggestions and outlines of projects that are proving value for money and may be eligible for additional funding; and - Additional funding nationally (£70m revenue, £100m capital) has been announced for this funding programme in 2015-16 to be allocated as part of the Local Growth Deals that will be agreed by LEP areas following the creation of Strategic Economic Plans.	ITA Clerk	Senior Responsible Owner (SRO), Gateshead Council	Two distinct projects make up the programme: 'Schools Go Smarter', and 'Go Smarter to Work'. Go Smarter Programme Board meetings take place monthly (chaired by the risk owner). Full time Programme Manager in post. Individual risk registers and issue logs for each project and their component parts are maintained by the Go Smarter Programme Manager and reported and reviewed at every Programme Board. Funding for Tyne and Wear's projects has been secured and is in the ITA accounts. A process has been introduced to enable new components to be added to the project plan if they have proved successful in other areas. A process has been introduced to enable components to be reviewed and amended if found to not be delivering value for money.	Med	Med	Amber (9)	Green (6)	Following the most recent Go Smarter Programme Board – at which the slow rate of capital spend by Local Authorities was highlighted by the Senior Accountant to the ITA – all scheme promoters of component parts to the project have been asked to fully review and report back on all aspects of their project parts. The findings of the LTP and LSTF audit undertaken by ITA Audit to be fully implemented. The DfT 'Application Form' for potential extension of the Programme will be completed to ensure Tyne and Wear expresses an interest in any potential national under-spend which may become available	September 2013 March 2014 November 2013 ?	SRO SRO SRO

				Monthly Project Managers / District meetings have been established where delivery, risks and issues are discussed for all project managers of the component parts of both Schools Go Smarter and Go Smarter to Work.							
Economic											
5	Project: Metro Reinvigoration Failure to provide effective challenge and governance to the Metro Re-invigoration Project. Clear understanding of the match funding requirements associated with the Project in the context of reduced public sector funding.	ITA Clerk Nexus Director General	ITA Deputy Clerk Nexus Director of Rail and Infrastructure	Governance process approved within Outline Business Case is being followed. Ongoing dialogue with DfT Phase 1 and 2 approval received (including the approval of the full amount for the next three years of funding for the programme) Expansion of capital programme reporting to illustrate key performance / project milestones to the ITA and ITA Scrutiny Committee Regular reports by Nexus to the ITA on Metro reinvigoration activity	Med	Med	Green (6)	Green (6)	Phase 2 ongoing. Regular reviews of programme to ensure best value for money for passengers. Regular updates at Policy Seminars and ITA Metro sub-committees.	Phase 2 – 2010 - 2021	Nexus Director of Rail and Infrastructure ITA Policy
6A	Project: New Tyne Crossing Impacts of NTC construction and operation of Tunnels that could result in damage to community relations and reputation damage to the ITA / risk of not associating the reputational benefits from delivery to the ITA. Concession Toll set at incorrect level resulting in future financial shortfalls.	NTC Project Director	NTC Project Manager	Full Risk Assessment completed of all key phases of project – influenced negotiations of terms (regular reporting to NTC Project Board and ITA as required) Dedicated NTC Project Manager and Project Director as part of Project Governance, based onsite. Project Agreement protects ITA from financial liability for late delivery of construction or performance failures.	Low	Med	Green (6)	Green (6)	Construction phase of New Tyne Crossing programme has been delivered successfully and final completion achieved. Concession Toll comes into effect at £1.60 for cars, £3.20 for HGVs Annual review of financial model to determine RPI tolls increase	Ongoing – legacy Jan 2014 Annual (next July 2014)	ITA Policy NTC Project Director ITA Treasurer

				Extensive financial modelling has taken place to determine the correct level of concession toll.					Water ingress monitoring is continuing – Mott MacDonald's consulting engineers have been engaged to complete this work.	Mar 2014	NTC Project Director
6B	Project: Tyne Pedestrian and Cycle Tunnel refurbishment Risk of impact of renovation works and tunnel closure on users – failure to meet ITA objective to grow TPCT usage Risk of overspend against allocated project budget	NTC Project Director	NTC Project Manager	Full Risk Assessment of project completed, regular reporting to NTC Project Board, ITA Tyne Tunnels Working Group and ITA. NTC Project Director leading. Ongoing involvement of PR support and successful community engagement as used during NTC construction Shuttle bus provision to maintain link, taxi provision for night-time shift workers. Both services have been well received by regular tunnel users.	Med	Med	Amber (9)	Green (6)	Regular monitoring of project costs to ensure does not exceed budget provision Ongoing monitoring of shuttle bus and taxi provision	Quarterly Review Dec 2013	ITA Accountant and NTC Project Director NTC Project Director
7	Risk of missing the opportunities presented by regional Smart Ticketing initiative (NESTI) to deliver ITA policy objectives around transport goals such as modal shift and network integration – and wider applications.	ITA Clerk Nexus Director General	ITA Policy Nexus Director of Finance and Resources	Update to ITA members at ITA Policy Seminar Regular updates at ITA meetings Funding secured from local authority partners and continued updates and liaison with wider partners as part of Association of North East Councils (ANEC) governance Collaboration Agreement confirmed and governance (overseen by ITA) found to be 'good'. NESTI and potential for smart ticketing is highlighted within the Independent Economic Review	Med	Med	Amber (9)	Green (6)	Continue to deliver North East Smart Ticketing Initiative (NESTI) in partnership with Local Authorities, operators and other stakeholders. Undertake pilot programmes to illustrate potential benefits from wider use of NESTI outputs and enable partners to come forward with additional uses. Deliver the 'touch-in' day on Metro services successfully.	Ongoing (review progress in November 2013) Ongoing By end 2013	ITA Policy Nexus Director of Finance and Resources Nexus Nexus
Financial and commercial											

8	Reduction in public sector finance to include: Future public spending restrictions by Central Government, impacting on key ITA projects and ability to deliver policy objectives. Insufficient funding for Concessionary Fares resulting in restricted ITA ability to fund other transport services, reduction in some services and adverse publicity.	ITA Clerk Nexus Director General	ITA Treasurer Nexus Director of Finance and Resources	Funding secured for Metro Reinvigoration Phase 2. Earmarked reserves held to fund Tyne Tunnels and Metro Reinvigoration work. Construction phase of NTC project now complete. Budget agreed for TPCT refurbishment works and built into NTC financial model £10m funding secured for NESTI project to deliver Smart Ticketing across the North East. Effective Capital programme monitoring to ensure schemes are delivered on budget and provide demonstrable value for money. Nexus FD involved in PTEG Working Groups Future opportunities for devolved funding to Combined Authority	High	High	Red (16)	Amber (8)	Continue to champion business case for Tyne and Wear schemes through member and officer structures. Continue to lobby & influence Department for Transport and other Government Departments on issues of Tyne and Wear transport challenges and opportunities, local transport funding and other funding mechanisms/opportunities. Deliver improvements to Tyne Pedestrian and Cycle Tunnels (inclined lift and other improvements) within allocated budget (see 5B) Tyne Tunnels setting of Concession toll – analysis/modelling to ensure toll set at appropriate level to enable Tunnels to be self-financing over the life of the TT2 contract and beyond (see 5A). Lobbying Government in relation to the funding gap on the Statutory Concessionary Travel Scheme.	Ongoing – review Dec 2013 Ongoing – review Dec 2013 Ongoing – review Dec 2013 Major Works now scheduled to be delivered in 2013/14	ITA Clerk, Nexus DG ITA Clerk, Nexus DG NTC Project Director NTC Project Director and ITA Treasurer
9	Pressure on Levy from Tyne & Wear Districts Pressures on Tyne and Wear Districts' budgets leading to severe reductions in levy awarded to ITA.	ITA Treasurer	ITA Treasurer	Cash freeze in levy for 2014/15 agreed in principle in Jan 2013 Bus Strategy Delivery Project financial modelling included making permanent a £2m rebate on the levy which was already agreed for 2013/14 and 2014/15. Significant efficiency savings successfully delivered on both ITA and Nexus budgets in recent years without major service impacts.	High	Med	Red (12)	Amber (8)	Agree levy for 2014/15 taking into account results of Bus Strategy Delivery Project. Explore further efficiency savings in ITA, Tyne Tunnels and Nexus budgets, e.g. use of reserves to pay down pension deficit. Work on loans portfolio to take advantage of low rates and reduce financing costs. Consider investments portfolio and use of reserves/cash balances to maximise interest income.	Jan 2014 Mar 2014 Mar 2014	ITA Treasurer, Nexus DoFR ITA Treasurer, Nexus DoFR ITA Treasurer
Management											

10	Ineffective Performance Management leading to ineffective decision making and inappropriate use of resources.	ITA Clerk	ITA Policy	Local Transport Plan and annual progress reports align policies and targets. Nexus Business Intelligence Annual Report of public transport and socio-economic trends Monitoring of LTP3 performance indicators. Outcomes of audit outlined as action in risk 1 a control mechanism to guard against ineffective performance management. Independent Nexus Review undertaken.	Low	Med	Green (6)	Green (4)	Resource planning to ensure the best delivery and integration of ITA Policy within the context of the new Combined Authority. As part of the move toward the Combined Authority, ensure all recommendations associated with delivering improvements identified as part of the LTP / LSTF audit (see Ref 1) are incorporated in planning for future governance	July 2014 April 2014	ITA Policy ITA Policy
11	Opportunity to further develop processes and arrangements for scrutiny to ensure that the ITA remains democratically accountable and transparent, and that the best possible outcomes are delivered for Tyne and Wear.	ITA Clerk	NCC Head of Democratic Services	Scrutiny processes managed and supported through NCC Scrutiny Management Team Budget allocated by the ITA to support and develop the Committee's working methods. Scrutiny work programme reviewed and aligned against key LTP3 policy areas. Scrutiny Advisory Committee evaluates its work annually and prepares an annual report for the ITA. Regular reporting of ITA decisions to scrutiny committee, and feedback of scrutiny minutes to ITA for consideration. Scrutiny forward programme developed in parallel with ITA forward programme to ensure relevant items and issues are considered by scrutiny committee, and that value is added to the ITA process.	Med	Med	Green (6)	Green (4)	Continue to review scrutiny forward programme in parallel with ITA forward programme to ensure relevant items and issues are considered by scrutiny committee, and that value is added to the ITA process. Ensure scrutiny and political balance is considered in the development of the Combined Authority proposals.	Annually in May April 2014	ITA Scrutiny ITA Policy

REPORT FOR INFORMATION

ITA STRATEGIC RISK AND OPPORTUNITY MATRIX

		Impact			
		Nil	Low	Medium	High
Likelihood	High			• Pressure on Levy from Tyne & Wear Districts	• Reduction in public sector finance including future public spending restrictions and insufficient funding for Concessionary Fares
	Medium			• ITA policies providing partners with a clear strategic direction while also being integrated in any new governance arrangements for transport delivery • Reputational and financial opportunities and threats associated with the Go Smarter behaviour change programme • Failure to provide effective challenge and governance to the Metro Re-invigoration Project • Tyne Pedestrian and Cycle Tunnel refurbishment • Opportunities presented by regional Smart Ticketing initiative (NESTI) • Opportunity to further develop process and arrangements for scrutiny.	• Reputational and financial opportunities and threats associated with 'Delivering the Bus Strategy' project.
	Low			• Equalities issues not fully considered in policy formulation and other activities • Impacts of NTC construction • Ineffective Performance Management	
	Nil				

		Impact			
		Nil	Low	Medium	High
Likelihood	High	**4**	**8**	**12**	**16**
	Medium	**3**	**6**	**9**	**12**
	Low	**2**	**4**	**6**	**8**
	Nil	**1**	**2**	**3**	**4**

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Tyne and Wear Integrated Transport Authority Audit Committee

Work Programme

		2013/14		
	Details	**5 July 2013**	**18 Sept 2013**	**21 Feb 2014**
	Governance			
1	Review the risk update report		Scheduled	Scheduled
2	Review the Authority's anti-fraud and anti-corruption arrangements			Scheduled
3	Review the draft and final Annual Governance Statement and recommend its adoption to the Authority	✓	Scheduled	
4	Progress Update on the Annual Governance Statement		Scheduled	
5	Review Annual budget and budget monitoring reports for the Authority.			Scheduled
	Audit			
6	Approve Three Year Strategic Internal Audit Plan, including Annual Internal Audit Plan for the following financial year.			Scheduled
7	Consider Internal Audit progress reports covering audits undertaken, recommendations follow up, performance and investigations (if any).	✓		Scheduled
8	Consider Internal Audit Annual Report and Opinion of the Head of Internal Audit	✓		
9	Consider External Audit Annual Plan	✓		
10	Consider External Audit Progress Report		Scheduled	Scheduled
11	Consider External Audit Inspection Letter			Scheduled

Tyne and Wear Integrated Transport Authority Audit Committee

Work Programme

12	Consider External Audit report on the Annual Accounts – draft and final versions		Scheduled	
	Accounts			
13	Approve the Authority's accounting policies			Scheduled
14	Review the draft Annual Report and Accounts and then recommend adoption of the final Annual Report and Accounts by the ITA.		Scheduled	
	Governance and Risk Management			
15	Annual Review of the Terms of Reference	✓		Scheduled
16	Agree Annual Report to the Authority			Scheduled