Tyne and Wear Integrated Transport Authority - Audit Committee

Meeting to be held on Monday 24 March 2014 at 10.00 am in a Committee Room, Civic Centre, NE1 8QH

Membership:
Independent Chair: Mr M 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 also available at www.twita.gov.uk

AGENDA

		Page
1.	**Apologies for absence**	
2.	**Declarations of interest**	
	Please remember to declare any personal interest where appropriate both verbally and by recording it on the relevant form (to be handed to the Democratic Services Officer). Please also remember to leave the meeting where any personal interest requires this.	
3.	**Minutes of the Previous Meeting**	**1 - 6**
4.	**Accounting Policies and Accounts Update 2013/14**	**7 - 26**
5.	**Planning Report on the 2013/14 Audit**	
	Members are requested to note the intention to circulate the above report on a supplemental agenda in accordance with the Provisions of the Local Government (Access to Information) Act 1985.	
6.	**Internal Audit Progress Report**	
	Members are requested to note the intention to circulate the above report on a supplemental agenda in accordance with the Provisions of the Local Government (Access to Information) Act 1985.	
7.	**Internal Audit Annual Report and Opinion of the Head of Internal Audit**	
	Members are requested to note the intention to circulate the above report on a supplemental agenda in accordance with the Provisions of the Local Government (Access to Information) Act 1985.	

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Tyne and Wear Integrated Transport Authority - Audit Committee

18 September 2013
(2.00 - 3.25 pm)

Present:

Councillor: Mr Clark (Chair)

Councillors: Mr Clark (ITA), Curran, Lambert, Maughan and Smith

In attendance:

Newcastle City Council:
P Woods - Treasurer (ITA)
E Goodman - Senior Accountant (ITA)
I Pattison - Principal Internal Auditor
V Miller - Democratic Services Officer

Deloitte:
D Wilkinson
E Cook

The Chair, on behalf of the Committee, welcomed the new independent members Mr O'Doherty and Mr Winter to the Committee.

16. **APOLOGIES FOR ABSENCE**

Apologies for absence were received from Mr Scrimshaw and Councillors Curran and Miller.

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

Councillor Maughan declared a personal interest in all agenda items due to holding a concessionary travel pass.

18. **MINUTES OF THE PREVIOUS MEETING**

The minutes of the previous meeting held on 5 July 2013 were approved as a correct record and signed by the Chair.

Matters Arising

(a) Minutes of the previous meeting - Matters arising - (a) Accounting Policies 2012/13

(Minute 5 refers)

It was confirmed that information on the scientific rationale behind the existing calculation of the depreciation for the Tyne Tunnels would be circulated to members in due course.

(b) Improved economic governance for the North East

(Minute 6 refers)

Members received an update from P Woods on the creation of a Combined Authority.
It was noted that:

- The 7 Councils had agreed to work towards the creation of a combined authority on economic development, skills and transport.
- The combined authority would need to come into existence on 1 April 2014.
- There was a lot of detail that needed to be determined and this work was in progress.
- A draft Order was expected to be made in October 2013. This would be followed by a consultation process. Once the draft Order had been prepared, members would be provided with relevant information.
- The Tyne and Wear Integrated Transport Authority (ITA) and the equivalent bodies in Durham and Northumberland would be superseded by the combined authority.
- All rights and liabilities of the ITA would be transferred into the combined authority.
- There were different options being considered on the possible structure of the combined authority, including in relation to its responsibility for transport.
- A combined authority would need to have its own scrutiny arrangements.
- A combined authority would need to have an audit and standards committee that would work on a wide range of functions, including economic development, skills and transport.
- Work was in progress to determine audit arrangements for the proposed combined authority.
- The Treasurers of the 7 Councils shared the responsibility for setting up financial arrangements in relation to the proposed combined authority.
- The work on the creation of a combined authority included developing effective governance arrangements.

In appreciating the amount of work that was being undertaken on the creation of a combined authority, the Chair said that he hoped that the transfer to the combined authority would be a smooth process and that this Committee would play a part in that process.

A discussion took place on the best way of sharing further information on the formation of a combined authority with members of this Committee, in particular the independent members. Options included sharing the agenda of a relevant meeting of the ITA, inviting independent members to that meeting or inviting them to a relevant Policy Seminar. The Chair suggested that a decision on this should be taken in consultation with Mr Scrimshaw who was the appointed Chair of the Committee. P Woods reassured members that they would be kept informed of the progress in relation to the creation of a combined authority.

(c) Annual Governance Statement 2012/13

(Minute 11 refers)

It was confirmed that there had been no updates that needed be reported on the draft Annual Governance Statement that had been submitted to the July meeting.

(d) Internal Audit progress report

(Minute 12 refers)

I Pattison provided a verbal update on the work of the Internal Audit. The Chair asked that a report on this be prepared for a future meeting.

19. **ANNUAL REPORT AND ACCOUNTS 2012/13**

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

Members considered the Annual Report and Accounts for 2012/13.

During the ensuing discussion the following points were raised:

- A member queried why the figures for the RPI inflation and CPI inflation in Note 29 were different to those in Group Note 14. In response, it was confirmed that the figures should be the same. It was explained that the figures seemed different because those set out in Note 29 had not been rounded, whilst those in Group Note 14 had been rounded up to a decimal point.

- Members particularly noted the position in relation to the ITA's pension liability, as in the report.

- Members congratulated officers on the quality of the report.

RESOLVED – That the Annual Report and Accounts for 2013/14 be received and recommended to the ITA.

20. **DELOITTE'S FINAL REPORT ON THE FINANCIAL STATEMENT AUDIT OF TYNE AND WEAR INTEGRATED TRANSPORT AUTHORITY FOR THE YEAR ENDED 31 MARCH 2013**

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

D Wilkinson and E Cook introduced the report which outlined the outcomes of the financial statement audit for the year ended 31 March 2013.

During the ensuing discussion the following points were noted:

- A member referred to the Completion of the Audit section of the Executive Summary and asked for more information on the legal letters from Bond Dickinson and Herbert Smith. In response, E Cook explained that, as part of audit, Deloitte had written to the legal representatives of the ITA to ask whether they had been aware of any issues that needed to be flagged up. Both companies had provided letters with a response. Whilst Herbert Smith had nothing to report, Bond Dickinson had reported a compensation claim. E Goodman explained that there had been several compulsory land purchase orders for the New Tyne Crossing and these had resulted in a claim for compensation. Members were reassured that this matter did not cause a significant concern, there was budget provision available to meet the potential liability, and that the sum claimed was below the threshold for reporting.

- Members particularly noted the position in relation to risks, as in the report.

- It was confirmed that Deloitte liaised with Internal Audit to ensure there was no duplication of work.

- Members thanked Deloitte for their work.

RESOLVED – That the report be received and noted.

21. **STRATEGIC RISK REGISTER UPDATE**

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

Members considered the report which provided an update on the ITA's strategic risks and opportunities. P Wood drew members' attention to Risk 8 which referred to a reduction in public sector finance, in particular in relation to the insufficient funding for concessionary fares. He explained the resultant pressures on the ITA and its constituent Councils and the actions planned to reduce this risk.

The Chair commented that it was particularly important that members continued to review the risk register. He also made the new members aware of the relevant training opportunities.

A member asked whether there was a system in place for monitoring the performance of the contractual relationships between the ITA and TT2 and flagging up and reporting risks that arose from the governance of TT2 and that could impact on the ITA. A member also asked why there were no ITA's representatives on the TT2 Board of Directors. He indicated that it was important that the ITA closely monitored TT2, including its structure, performance and shareholding position. A member also asked whether the existing contractual relationships were sufficiently robust to enable a smooth transfer to the Combined Authority. In response, P Woods confirmed that a report on this matter would be provided to a future meeting. He went on to explain the origins of the contractual relationships between the ITA and TT2 and outlined the following points:

- Whilst TT2 had won the tender to operate the Tyne Tunnels for a period of 30 years, the ITA held the ownership of the tunnels.
- TT2 were delivering their services under an existing contract.
- Finance Officers of the ITA met regularly with the finance directors of TT2.
- The Authority had a good knowledge of the TT2 business plan. The Authority received information on its financial arrangements with TT2, including in respect of income.
- The Authority had a working group that met regularly and considered a variety of issues such as the operations and performance of the Tyne Tunnels.

He concluded that whilst the TT2 income, business plan and operations were monitored by the Authority, their internal structure and governance were not currently part of the ITA audit. Consideration would be given to looking at what arrangements could be put in place in relation to this matter.

RESOLVED – That:

(i) the strategic register be noted;

(ii) a report on the contractual relationships between the ITA and TT2 and the ITA control mechanisms over TT2 be provided to a future meeting; and

(iii) consideration be given to looking into whether there was a case for developing a system to monitor risks arising from the TT2 operations, structure and governance and tighten relevant control mechanisms.

22. WORK PROGRAMME

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

The Chair commented that it was important that the Work Programme remained flexible.

RESOLVED – That the following item be added to the Work Programme:

The creation of a combined authority, including the transfer of responsibilities for transport from the ITA to the combined authority and the audit arrangements for the combined authority.

23. DATE AND TIME OF NEXT MEETING

Friday, 21 February 2013 at 2pm.

If necessary, a special meeting be organised on the formation of a Combined Authority.

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Tyne and Wear Integrated Transport Authority
Audit Committee

REPORT FOR DECISION

DATE:	**24 March 2014**
SUBJECT:	**Accounting Policies and Accounts Update 2013/14**
REPORT OF:	**Treasurer, ITA**

PURPOSE OF REPORT

The purpose of this report is to present the accounting policies for use in the preparation of the 2013/14 accounts, provide an update on work towards the 2013/14 closure of accounts and how this will fit with the transition to Combined Authority arrangements.

RECOMMENDATIONS

The Audit Committee is recommended to review and approve the accounting policies attached for use in the preparation of the Authority's accounts for 2013/14.

BACKGROUND DOCUMENTS

2031/14 Code of Practice on Local Authority Accounting

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

REPORT FOR DECISION

1 Executive Summary

1.1 The purpose of this report is to present the accounting policies for use in the preparation of the 2013/14 accounts, provide an update on work towards the 2013/14 closure of accounts and how this will fit with the transition to Combined Authority arrangements.

2 Background information

2.1 It is a requirement of the Local Government Act 2003 and the Accounts and Audit (England) Regulations 2011 for the Statement of Accounts to be produced in accordance with proper accounting practices.

2.2 The accounting policies are reviewed annually to ensure they are in line with the Code of Practice on Local Authority Accounting ('Code');

3 Accounting Policies

3.1 There has been one change to the Code in 2013/14 which requires a change of accounting policy: this is in relation to disclosure of post-employment benefits (i.e. pensions) under International Accounting Standard 19. The Code has introduced a change to the way in which the pension liability is calculated. The expected return on assets is now calculated using the discount rate based on actual plan assets held.

3.2 Based on information provided by the actuaries in 2012/13, it is not expected that this will result in a material difference for the ITA, however should this be material, restatement of the 2012/13 figures on this basis will be presented with the 2013/14 accounts.

3.3 The draft accounting policies for 2013/14 are attached at Appendix 1.

4 Closure of Accounts 2013/14 and Combined Authority Transition

4.1 At the time of preparing this report there is a level of uncertainty around whether the parliamentary process will be complete in time for the Combined Authority to be established from 1 April 2014. This would have a significant impact on the level of accounts and audit work required regarding the closure of the ITA accounts.

4.2 Two possible options are currently being explored with our external auditors and DCLG:

1. If the implementation date is delayed by less than one week, approval will be sought for an extension of the year-end date so that one set of final ITA accounts can be produced. Figures will be presented separately within these accounts to 31 March and for the period from 1 April to the implementation date of the Combined Authority, and these accounts will be produced and audited as one Statement of Accounts and signed off by the relevant 2013/14 accounting deadlines.

2. If the implementation date is delayed by more than one week, the ITA's accounts will be prepared to the 31 March 2014 as normal. A separate final set of part-year ITA accounts will be prepared for the period from 1 April to the implementation date, with this work taking place during the 2014/15 financial year, and these will be audited and signed off by the relevant 2014/15 accounting deadlines. Accounts will also be produced for the Combined Authority for 2014/15 to reflect the period from its establishment to 31 March 2015.

4.3 A verbal update on the latest position and proposed approach will be provided at the meeting.

5 Next steps

5.1 The approved accounting policies will be applied in the production of the 2013/14 Statement of Accounts.

6 Potential impact on objectives

6.1 This report has no impact on ITA objectives.

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1. General Principles

The Statement of Accounts summarises the Authority’s transactions for the 2013/14 financial year and its position at the year-end of 31 March 2014. The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit (England) Regulations, which those Regulations require to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14, 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 Local Government Pension Scheme

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

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

- Liabilities are discounted to their value at current prices, using a discount rate determined annually, based on the indicative rate of return on high quality corporate bonds.

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

    - Quoted securities at current bid price.

    - Unquoted securities based on professional estimate.

    - Unitised securities at current bid price.

    - Property at market value.

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

a) Current service cost - the increase in liabilities as a result of years of service earned this year - allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked.

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

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

d) Remeasurements comprising:

- the return on plan assets, excluding amounts included in net interest on the net defined benefit liability, charged to the Pensions Reserve as Other Comprehensive Income & Expenditure

- actuarial gains and losses, changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions, charged to the Pensions Reserve as Other Comprehensive Income and Expenditure

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

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

Further details are provided in a Note to the Accounts.

9. Events After the Balance Sheet Date

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

- Those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events; 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 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 measures 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, 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 and capital grants used to fund Revenue Expenditure Financed from Capital Under Statute) or Taxation and Non-Specific Grant Income (non-ringfenced revenue grants and all capital grants except for those used to fund Revenue Expenditure Financed from Capital Under Statute) 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 and 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 long 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 fain 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. The work is carried out on behalf of the Authority by the Property Services Division of the lead authority. These revaluations are detailed within the Notes to the Core Financial Statements.

Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.

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

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains); 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-minimus 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 as follows:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains); 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.

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

Where an item of Property, Plant and Equipment assets has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately. In the most recent valuations of the Tyne Tunnels, it was assessed that, although Mechanical and Electrical Services and the Toll 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 executor contract to transfer the Operator’s share of total revenues to the operator as it is collected.

It therefore follows from this conclusion that 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 probably 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 the 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 probably than 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 has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Authority has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then 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 2013/14 to produce Group Accounts to include services provided to Council Tax payers in Tyne and Wear by organisations other than the Authority itself in which the Authority has an interest.

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

For the 2013/14 accounts, the ITA has fully complied with the requirements of the Code, providing Group figures for the 2013/14 accounts and comparators for 2012/13. From 2010/11, Passenger Transport Executives have been required to produce their accounts under International Financial Reporting Standards, and as if the proper practices in relation to accounts applicable to a local authority were, so far as appropriate, applicable to an Executive. The group financial statements are prepared in accordance with the policies set out in the Statement of Accounting Policies above.

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