



North East Combined Authority, Governance Committee

Friday 11th September, 2015 at 2.00 pm

Meeting to be held in a Durham County Council, County Hall, Durham, DH1 5UZ

SUPPLEMENTAL AGENDA

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To All Members

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North East Combined Authority

Governance Committee

Date: 11 September 2015

Subject: Annual Report and Accounts

Report of: Chief Finance Officer

Executive Summary

The purpose of this report is to present the final accounts for approval and summarise the findings of the audit. The 2014/15 audit programme is now largely complete and Deloitte, as the external auditor, expect to issue their opinion before the end of September. No significant issues have been identified during the audit and their report indicates that they are likely to issue an unqualified opinion on the accounts and an unqualified value for money opinion. The final Annual Report and Accounts are now presented for review by Governance Committee. The NECA Leadership Board is meeting on 15th September and will receive the Annual Report and Accounts for approval, taking into account any comments of the Governance Committee.

Recommendations

It is recommended that the Committee review and comment on the Annual Report and Accounts 2014/15, and recommend them to the Leadership Board for approval and sign-off.

North East Combined Authority

Governance Committee

1 Background Information

- 1.1 The full Annual Report and Accounts was completed and signed off by the Chief Finance Officer on 30 June 2015, in line with the statutory deadline. A report on the **Outturn and Draft Financial Statements** was considered at the last meeting of the Governance Committee on 10th July.
- 1.2 The Statement of Accounts has been subject to a period of public inspection and external audit and the final Annual Report and Accounts is now presented for detailed review by Governance Committee. Feedback and recommendations from Governance Committee will be reported to the Leadership Board meeting on 15 September.
- 1.3 The Statement of Accounts must be signed off by the Chair of the Leadership Board and the Chief Finance Officer on behalf of the Authority and published online by 30 September 2015.

2 Proposals

2.1 Independent Auditor's Opinion

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

2.2 Adjustments to the financial statements

- 2.2.1 There have been no material adjustments required to the financial statements which were published in draft form in June. A number of minor adjustments and updates have been made to disclosures. A minor and de minimis adjustment in relation to the recovery of additional VAT on a Tyne Pedestrian Tunnel contract of £56k will be made in the 2015/16 accounts, where it will have a positive impact on the Tunnels reserves. The final Annual Report and Accounts is attached as Appendix 1.

2.3 Arrangements to secure economy, efficiency and effectiveness in the use of resources

- 2.3.1 As part of the audit of the Authority's accounts, the External Auditor is 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 (VFM) assessment.

North East Combined Authority

Governance Committee

2.3.2 At the time of writing their report, the external auditors have assessed that NECA had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources, and anticipate issuing an unqualified VFM opinion.

2.4 Annual Governance Statement

2.4.1 Governance Committee reviewed the draft Annual Governance Statement (AGS) at its meeting on 10 July 2015. Since that point, there have been no additional governance and control issues arising either through internal audit work or from the audit of the accounts. Deloitte have indicated that there are no issues emerging from the external audit of the NECA accounts that would need to be reflected in the AGS. NECA officers are not aware of any other issues arising since 10 July that would need to be reflected in the AGS.

2.4.2 It is therefore recommended that the AGS be approved for inclusion with NECA's final accounts for 2014/15, and recommended for sign off by the Chair of the North East Combined Authority, the Head of Paid Service and the Chief Finance Officer.

3 Next Steps

3.1 The Accounts and AGS will be presented to the Leadership Board on 15 September, and the views of Governance Committee will be reported to this meeting for the Leadership Board to take into consideration. The Accounts must be signed by the Chair of the North East Combined Authority and Chief Finance Officer by 30 September 2015, and published online by this date.

4 Potential Impact on Objectives

4.1 There is no direct impact on objectives as a result of this report. Sound financial stewardship improves the ability of the Authority to meet all of its objectives.

5 Finance and Other Resources

5.1 Financial and other resource implications are set out in the body of the report.

6 Legal

6.1 There are no legal implications directly arising from this report. The Accounts and Audit (England) Regulations 2011 set out the responsibilities of bodies such as NECA in relation to the production of statutory accounts and their audit. Under the NECA Constitution, it is the responsibility of Governance

North East Combined Authority

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Committee to review key information relating to the NECA's Statement of Accounts, but the approval of the Accounts is a responsibility for the Leadership Board.

7 Other Considerations

7.1 Consultation/Community Engagement

The accounts have been subject to a period of public inspection from 1 July to 31 July 2015.

7.2 Human Rights

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

7.3 Equalities and Diversity

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

7.4 Risk Management

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

7.5 Crime and Disorder

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

7.6 Environment and Sustainability

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

8 Background Documents

8.1 North East Combined Authority Annual Report and Accounts 2014/15.

9 Links to the Local Transport Plans

9.1 There are no links to plans in the policy framework

10 Appendices

10.1 Appendix 1 – Annual Report and Accounts 2014/15

11 Contact Officers

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North East Combined Authority

Governance Committee

12 Sign off

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

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Statement of Accounts for the Financial Year ended 31 March 2015

Principal Office: Quadrant, The Silverlink North, Cobalt Business Park, North Tyneside, NE27 0BY

Seven Councils Working Together

Durham County Council • Gateshead Council • Newcastle City Council • North Tyneside Council
Northumberland County Council • South Tyneside Council • Sunderland City Council

North East Combined Authority Annual Report & Statement of Accounts 2014/15

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Part 1: Explanatory Foreword and Statement of Responsibilities

Comprising:

- Explanatory Foreword
- Statement of Responsibilities for the
Statement of Accounts

Explanatory Foreword by the Chief Finance Officer (continued)

Introduction

This is the first set of accounts to be produced for the North East Combined Authority, which was established on 15 April 2014 by the Durham, Gateshead, Newcastle upon Tyne, North Tyneside, Northumberland, South Tyneside and Sunderland Combined Authority Order which came into effect on that date. On the same date, the former Tyne and Wear Integrated Transport Authority was dissolved and its assets and liabilities transferred to the new Authority.

These accounts contain figures for the full period 1 April 2014 to 31 March 2015, therefore including the final two weeks of the Integrated Transport Authority and the operations of the North East Local Enterprise Partnership up to 29 April before NECA was formally made the Accountable Body (this role previously being fulfilled by Sunderland City Council). This is to aid transparency and to provide meaningful comparatives for future years' accounts.

The information contained within these accounts is presented as simply as possible. However, the accounts are by their nature technical and complex and so this foreword explains some of the statements and sections in this document and provides a summary of the Authority's financial performance for 2014/15 and its financial prospects.

This foreword aims to provide the reader with:

- A guide to the different financial statements;
- An overview of the activities and significant matters which occurred during the year;
- A summary of the Authority's financial performance during the year ended 31 March 2015 and its financial position at that date;
- A look ahead to 2015/16 and beyond.

The accounts set out the financial performance of the Authority for the year ended 31 March 2015 and its financial position at that date, and have been prepared in accordance with proper practices as set out in the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Local Authority Accounting in the United Kingdom (the Code). The Code requires that the accounts give a true and fair view of the position of the Authority. In line with the Code, suitable accounting policies have been applied and where necessary prudent judgements and estimates have been made.

The accounts feature four main financial statements:

- Movement in Reserves Statement
- Comprehensive Income and Expenditure Statement
- Balance Sheet
- Cash Flow Statement

The purpose of each of the above statements is described at the end of the foreword and the actual statements are followed by notes that give further details about specific amounts and balances.

These statements are supplemented by two further sections:

- Group Accounts (which consolidate the accounts of Nexus with those of NECA)
- Annual Governance Statement

Explanatory Foreword by the Chief Finance Officer (continued)

Revenue spending

Revenue expenditure covers the costs of the Authority's day to day operations and contributions to and from reserves.

The Comprehensive Income and Expenditure Statement (CIES) on p. 24 sets out the Authority's financial position for the year before taking account of statutory adjustments required to be made to the accounts. The Movement in Reserves Statement (MIRS) on page 23 reflects these statutory adjustments and shows how the financial performance for the year has impacted on the Authority's reserves.

The gross cost of services during the year was £129.513m. After deducting specific grants and income from fees and charges, the net cost of services was £59.966m. The net cost of service of £59.966m was funded from a range of sources including the Transport Levy, other grants and contributions and Tyne Tunnels tolls.

The Authority kept its overall revenue spending for the year within budget. The CIES shows a net surplus on the provision of services for the year of £3.616m. This includes a range of accounting adjustments including charges for depreciation, impairment and the impact of accounting for pensions under International Accounting Standard (IAS) 19 and technical accounting entries in relation to grants and financial instruments. These charges are reversed out through the Movement in Reserves Statement (MIRS) so they do not have an impact on the underlying level of usable resources available to the Authority.

Transport

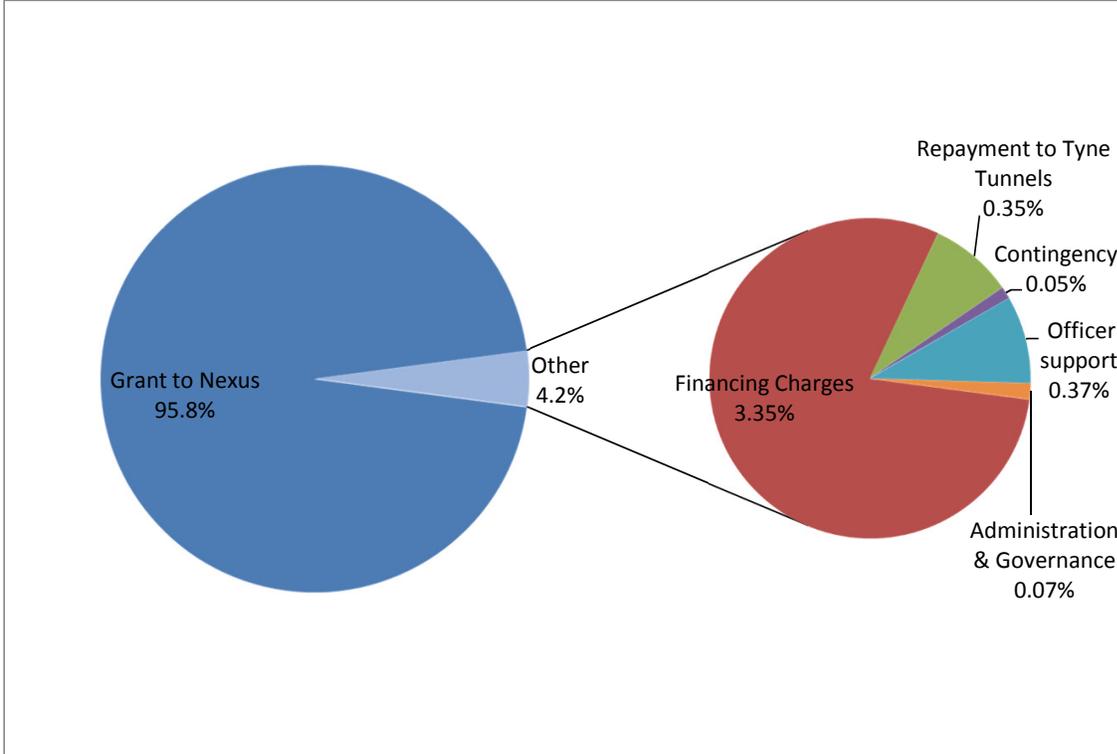
This being a transitional year, the majority of NECA's operational activity and therefore its costs relate to Transport activity. Costs within the Transport budget are ringfenced between those relating to Tyne and Wear, Durham and Northumberland, reflecting the different funding arrangements in place in each area during 2014/15. The levy for 2014/15 was set by the Tyne and Wear ITA in January 2014, and covers the five Tyne and Wear Districts (Gateshead, Newcastle upon Tyne, North Tyneside, South Tyneside and Sunderland). For Durham and Northumberland, notional grant arrangements were in place during 2014/15 in lieu of the formal levy which has been set for 2015/16 for these areas. This was reported to the North East Combined Authority throughout the year.

Relevant transport expenditure in Durham amounted to £15.224m and relevant transport expenditure in Northumberland amounted to £6.536m in 2014/15. This is for information only and does not form part of the income and expenditure set out in these accounts. For 2015/16, transport levies covering all seven authorities have been agreed.

Within Tyne and Wear, the vast majority of the levy is used to fund a grant to Nexus for the delivery of public transport services, as set out in the chart below. An element of the levy is retained to fund costs associated with the operation of transport activity, mainly historic capital financing costs.

Explanatory Foreword by the Chief Finance Officer (continued)

Breakdown of Tyne and Wear Transport Expenditure 2014/15



Analysis of Revenue Expenditure against Budget – Tyne & Wear Transport Levy

| Budget Heading | 2014/15 | 2014/15 | Variance |
|---|---------------|---------------|--------------|
| | Budget | Actual | |
| | £000 | £000 | £000 |
| Service Level Agreement and staffing charges | 250 | 251 | 1 |
| Audit Fees | 18 | 18 | - |
| Members Allowances and Expenses | 5 | 5 | - |
| Conferences, Travel and Subsistence | 4 | 2 | (2) |
| Supplies and Services | 30 | 21 | (9) |
| Financing Charges | 2,328 | 2,269 | (59) |
| Repayment to Tyne Tunnels | 240 | 240 | - |
| Interest on investments and revenue balances | (3) | (10) | (7) |
| Contingency / Bus Strategy costs | 70 | 35 | (35) |
| Total Tyne & Wear Transport Operating Expenses | 2,942 | 2,831 | (111) |
| Grant to Nexus | 64,920 | 64,920 | - |
| Total Tyne & Wear Transport Expenditure | 67,862 | 67,751 | (111) |
| Levy Income | (68,207) | (68,207) | - |
| Transfer (to)/from TW Transport General Reserve | (345) | (456) | (111) |
| TW Transport General Fund Reserve | | | |
| Reserves brought forward | (574) | (574) | - |
| Reserves refunded to TW Districts | 440 | 440 | - |
| Reserves contribution in year | (345) | (456) | (111) |
| Reserves carried forward | (479) | (590) | (111) |

Explanatory Foreword by the Chief Finance Officer (continued)

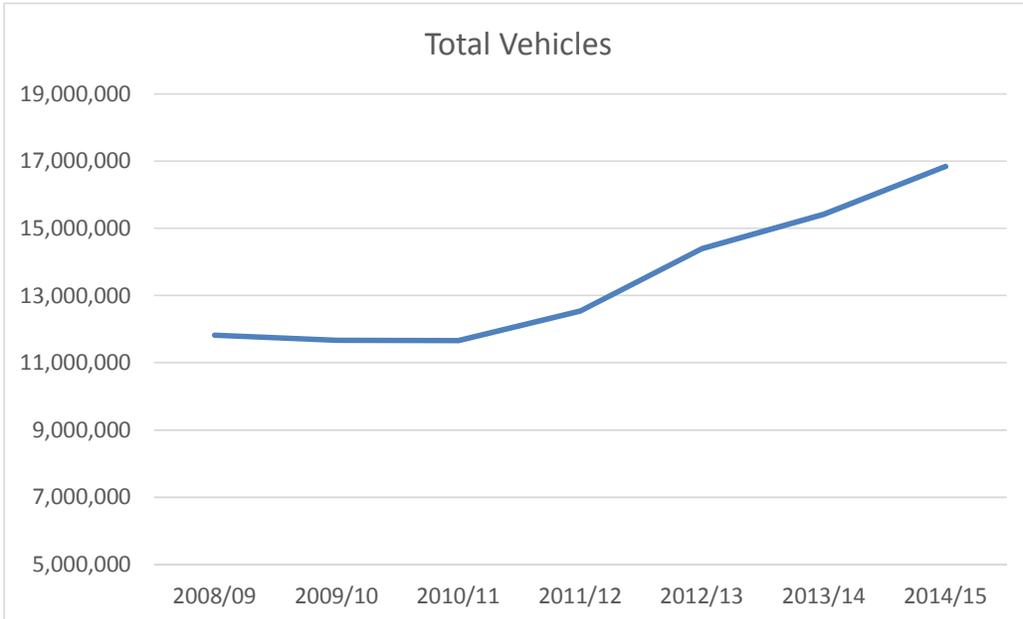
Expenditure during 2014/15 was well within the revised budget for the year, primarily due to savings on financing charges as a result of external borrowing reducing. This has enabled a higher than anticipated level of Tyne and Wear transport reserves to be carried forward to fund activity in 2015/16.

Analysis of Revenue Expenditure against Budget – Tyne Tunnels

NECA 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, and assets and liabilities associated with the tunnels are ringfenced to the Tyne and Wear constituent councils within the Authority. The Tunnels are operated under a contract to a concessionaire company, TT2 Ltd. Toll on vehicles are used to fund all operational costs and the costs of borrowing undertaken for the completion of the New Tyne Crossing, a major construction project which 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 then closed for refurbishment. The newly refurbished tunnel opened ahead of schedule in November 2011, to carry two lanes of northbound traffic while the new tunnel carries two lanes of southbound traffic. The Pedestrian and Cycle tunnels are free to users. They are currently undergoing major refurbishment works which are due to be completed during 2016/17.

In 2014/15 the traffic level was 16.843m vehicles (an increase of 9% compared with 2013/14). This corresponded to a total toll income of £26.116m after adjusting for prepayments (compared with £23.744m in 2013/14). There was no increase in tolls during the year; they were maintained at £1.60 for cars and small vans and £3.20 for lorries and large vans (with a ten percent discount for permit holders).

Traffic has increased significantly since the opening of the second tunnel, as demonstrated by the chart below:



Explanatory Foreword by the Chief Finance Officer (continued)

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

| | 2014/15 Budget £000 | 2014/15 Actual £000 | Variance £000 |
|---|------------------------------------|------------------------------------|--------------------------|
| Employees | 35 | 35 | - |
| Pensions | 50 | 54 | 4 |
| Supplies and Services and Other Expenses | 50 | 39 | (11) |
| Support Services | 130 | 98 | (32) |
| Community Fund | 10 | 1 | (9) |
| Financing Charges | 6,812 | 6,447 | (365) |
| Toll Income | (25,315) | (26,116) | (801) |
| Usage Payments | 19,040 | 19,643 | 603 |
| Other Income | (240) | (243) | (3) |
| Interest on Investments and Tunnel Balances | (150) | (155) | (5) |
| Total Tunnels Operating Costs | 422 | (197) | (619) |

The increase in income and the reduction in financing costs means that the Tunnels produced an operational surplus, which was better than the potential £0.422m deficit that had been budgeted for.

Capital Programme

Total capital expenditure for the year for both NECA and Nexus amounted to £58.883m, which amounted to 91.4% of the programme for the year, which is a good outcome in terms of national performance of 82%. The unspent resource has been carried over into the new year.

In addition to the £27.947m capital expenditure shown within the NECA single entity accounts, Nexus have also invested £30.936m in the Metro Asset Renewal Plan (ARP) resulting in total transport capital investment of £58.883m. A summary of expenditure against the capital programme is set out in the table below:

| | 2014/15 Budget £000 | 2014/15 Outturn £000 | Variance £000 |
|--------------------------|------------------------------------|-------------------------------------|--------------------------|
| Metro Asset Renewal Plan | 34,650 | 30,936 | (3,714) |
| Tyne Tunnels | 4,500 | 3,891 | (609) |
| Grants | 25,278 | 24,056 | (1,222) |
| Total | 64,428 | 58,883 | (5,545) |

Capital Expenditure of £3.891m has been incurred in relation to the New Tyne Crossing and the refurbishment of the Tyne Pedestrian and Cycle Tunnels. There has been £24.056m further capital expenditure on payment of capital grants to the Tyne and Wear Districts and Nexus, and expenditure by NELEP on Regional Growth Fund and Growing Places Fund grants and loans to organisations as part of the North East Investment Fund.

Explanatory Foreword by the Chief Finance Officer (continued)

North East Local Enterprise Partnership

The North East Local Enterprise Partnership (NELEP) brings together business leaders, universities and elected members of the North East Leadership Board. It is the fourth largest local enterprise partnership in the UK, a business-led, strategic partnership responsible for promoting and developing economic growth in the area. NECA is the accountable body for the public funding allocated to the NECA and NELEP area, where the use of funding is approved by the NELEP. Figures for income and expenditure as a result of NELEP activity therefore appear within these accounts, the first year that this expenditure has been visibly and transparently reported to the public.

NELEP is responsible for the delivery of the North East Strategic Economic Plan (SEP), providing support for business growth, encouraging innovation, improving skills and employability and delivering better infrastructure across the North East. In July 2014, £290m of funding was announced under the North East Growth Deal, with a further £40.6m announced in January 2015 and this funding will be received and spent over a five year period, with the majority of spend in the next two to three years.

North East Investment Fund

The 2014/15 financial year provided the continuation of North East Investment Fund activity, confirmation of the North East Growth Deal and significant work in preparation for the delivery of the SEP in 2015/16. The North East Investment Fund is a Capital Loan Fund supporting projects that specifically encourage local economic growth and creates jobs in the area. During 2014/2015 the North East Investment Fund provided capital investment of £19.9m to the region, bringing the total investment from the fund to £27.9m.

The £55m investment fund, made up of £25m Growing Places and £30m Regional Growth Funding is now fully allocated, with some projects supported through loans commencing their repayments. As money is repaid, it will provide the funds for new loans and investments.

Projects supported during the financial year included; development of light industrial units at Portobello Trade Park Birtley, test tank facilities on the North Bank of the Tyne to enhance the NE Enterprise Zone, Centre for Innovation and Growth at Durham University, site infrastructure works at the former Swan Hunters site and SME office accommodation in Jesmond. Further details of activity can be found in the information provided by NELEP on their website: www.nelep.co.uk

A summary of the North East Investment Fund (NEIF) position to the 31st March 2015 is shown below:

Explanatory Foreword by the Chief Finance Officer (continued)

| | Growing Places Fund £m | Regional Growth Fund £m | NEIF Total £m |
|---|---------------------------------------|--|--------------------------|
| Capital Allocation | 24.75 | 29.30 * | 54.05 |
| Prior Year Drawdown | (6.12) | (1.90) | (8.02) |
| 2014/15 Drawdown | (7.95) | (11.92) | (19.87) |
| Balance to Drawdown by Approved Projects | 10.68 | 15.48 * | 26.16 |
| Repayments Received | 1.88 | 1.15 | 3.03 |
| Interest on Balances | 0.35 | 0.04 | 0.39 |
| Total | 12.91 | 16.67 * | 29.58 |

* £8m of the Regional Growth Fund allocation is to be received in 2015/2016.

To date four fund beneficiaries have commenced repayments; these are Mecaplast (Peterlee) Ltd, Durham County Cricket Club, Sunderland City Council and Hellens Developments, the latter repaying in full on their Teal Farm Park Starter Units development. Repayments to 31st March 2015 totalled £3.03m comprising £2.778 principal and £0.248m interest. In addition interest generated from the holding of cash balances in 2014/2015 totalled £0.107m, bringing the total to £0.39m.

NELEP Revenue Budgets

The LEP core budget covers mainstream LEP operational activity and activity in preparation for the Strategic Economic plan delivery phase, which began in April 2015. The table below provides a summary of the budget against actual spend.

| Area | Budget £000 | Actual £000 | Variance £000 |
|---|------------------------|------------------------|--------------------------|
| Expenditure | | | |
| - Employees | 506 | 399 | (107) |
| - Supplies and Expenses | 75 | 127 | 52 |
| - External Support | 194 | 269 | 75 |
| Gross Expenditure Budget | 775 | 794 | 19 |
| Income | | | |
| - Local Authority Contributions | (250) | (250) | - |
| - DCLG LEP Grant Funding | (250) | (250) | - |
| - DCLG SEP Grant | (250) | (250) | - |
| - BIS Capacity Grant Funding | (25) | (25) | - |
| - Other Misc. Income | - | (10) | (10) |
| Gross Income Budget | (775) | (785) | (10) |
| 2014/15 Net Budget (Surplus) / Deficit | - | 9 | 9 |
| Prior Years Balances | (249) | 9 | (240) |

Explanatory Foreword by the Chief Finance Officer (continued)

North East Investment Fund (NEIF) - Programme Delivery Budget

The NEIF comprises the NELEP Growing Places Fund (GPF) allocation and also the Regional Growth Fund (RGF). This revenue delivery budget provides the resource to support the NEIF programme.

| Budget Area | Budget £ | Actual £ | Variance £ |
|---------------------------------------|---------------------|---------------------|-----------------------|
| Expenditure | | | |
| - Employees | 47,025 | 47,209 | 184 |
| - Accountable Body Costs | 78,031 | 67,793 | (10,238) |
| - External Support | 237,108 | 270,545 | 33,437 |
| - Appropriation to Capital Fund | 21,710 | 107,303 | 85,593 |
| Gross Expenditure Budget | 383,874 | 492,850 | 108,976 |
| Income | | | |
| - GPF Programme Management | (68,306) | (62,783) | 5,523 |
| - RGF Programme Management | (293,858) | (322,764) | (28,906) |
| - Interest on GPF Balances | (21,710) | (82,679) | (60,969) |
| - Interest on RGF Balances | - | (24,624) | (24,624) |
| Gross Income Budget | (383,874) | (492,850) | (108,976) |
| Net Budget (Surplus) / Deficit | - | - | - |

The expenditure budget provides for an additional full time post within the core LEP team to support and develop NEIF activity. Support provided by Sunderland City Council includes programme coordination, finance, legal, internal audit, procurement and meeting minuting services.

Due to the diverse and sometimes specialist nature of the projects applying for support from the NEIF the appraisal, due diligence and loan documentation has been supported by extensive external support from property, assurance and legal external advisors. In addition, a project to develop a NELEP investment appraisal and prioritising model tool and also an North East Ex-ante evaluation are funded from this budget area.

All NEIF expenditure is externally funded through the revenue grant allocations provided with the Growing Places Fund and Regional Growth Fund.

North East Enterprise Zone

The NE Low Carbon Enterprise Zone is located across four local authority areas; Newcastle, North Tyneside, Northumberland and Sunderland. Business rates growth generated on these designated sites accrues to the benefit of the NELEP for a 25 year period, 2014/2015 was the second year of the zone's life.

Explanatory Foreword by the Chief Finance Officer (continued)

Analysis of the business rates generated to date is shown in the table below. This funding is available to support future NELEP activity; primarily additional Enterprise Zone site development works to future enhance this income stream in the coming years.

| Local Authority Area | 2013/14 Business Rate Growth £ | 2014/15 Business Rates Growth £ | TOTAL to Date £ |
|-----------------------------|---|--|--------------------------------|
| Newcastle | 311,765 | 330,041 | 641,806 |
| North Tyneside | 14,316 | 54,942 | 69,258 |
| Northumberland | 11,913 | 26,307 | 38,220 |
| Sunderland | 695,693 | 652,913 | 1,348,606 |
| Sub Total | 1,033,687 | 1,064,203 | 2,097,890 |
| EZ Costs | - | (8,950) | (8,950) |
| Interest on Bal. | n/a | 3,425 | 3,425 |
| TOTAL | 1,033,687 | 1,058,678 | 2,092,365 |

Treasury Management

The Balance Sheet on page 25 shows external borrowing of £198.824m at the end of the year which is split between short term borrowing (due to be repaid in less than one year - £28.824m) and long term borrowing (£170m). This compares to £204.907m for 2013/14 for TWITA, with the decrease due to repayment of Public Works Loans Board (PWLB) loans which had reached maturity and regular principal repayments made on Equal Instalment of Principal (EIP) loans. The average rate of interest on external borrowing for the year was 4.28%. External borrowing was kept well within the Authorised Limit for the year of £240m, partly due to the use of internal funds as opposed to external borrowing.

The Balance Sheet also shows short term external investments of £28m at the end of the year. These are investments which the Authority holds on behalf of Nexus, for whom it provides Treasury Management services, and are matched by a corresponding creditor on the Balance Sheet to represent the fact that these investments must be repaid to Nexus on request. The average rate of interest income on investments and cash balances for the year was 0.45%.

Pensions Costs

The Authority is a member of the Tyne and Wear Pension Fund (the pension fund) which is part of the Local Government Pension Scheme, which provides defined benefits based on members' salary and years of service. In accordance with IAS19, the Authority is required to value all pension liabilities that have accumulated at the end of the year consisting of:

- Pension benefits that are being paid out to former employees who have retired
- Pension benefits earned to date by current employees but not yet paid out.

Explanatory Foreword by the Chief Finance Officer (continued)

The standard also requires all investment (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, called the IAS 19 surplus or deficit.

All pension liabilities of NECA relate to former TWITA employees. In December 2013, the TWITA took the decision to make a payment to the Tyne and Wear Pension Fund to clear the vast majority of the deficit in its scheme. The purpose of this strategy was to reduce the historic deficit before the pension liabilities were transferred to NECA, and also to give a saving on the regular deficit contribution payments which was far in excess of the lost potential investment income that would have been achieved by holding the cash in reserves.

As a result, the deficit decreased from £8.25m in March 2013 to £0.96m at 31 March 2014. This has slightly increased to £1.02m at 31 March 2015, which entirely relates to unfunded defined benefit arrangements for the award of discretionary post-employment benefits upon early retirement. Under this type of scheme liabilities are recognised when awards are made, however there are no investment assets built up to meet these and cash has to be generated to meet actual payments as they eventually fall due. These liabilities relate to former Tyne Tunnels employees and as such the payments are charged against the Tyne Tunnels account (approximately £54k in 2014/15).

Further disclosures relating to the pension fund are included in Note 26 on pages 52 to 57.

Reserves

The Authority has Usable Reserves totalling £57.4m as set out in Note 14 on p. 38. The vast majority of these are ringfenced for specific purposes, with an unearmarked NECA Corporate Reserve of £279k.

The majority of the General Fund balance is made up of the Tyne Tunnels reserves (£28m), and the Tyne and Wear Transport Reserve (£0.574m) with balances of contributions in relation to Inward Investment and other Transport activity which have been carried forward to fund expenditure previously agreed. There are also balances held in relation to NELEP activity.

Earmarked reserves include £10m in relation to the Metro Asset Renewal programme, where funds are earmarked for future local contribution requirements to match DfT grant provided directly to Nexus.

The Capital Receipts Reserve of £1.05m holds repayments of loans which will be recycled as part of the NEIF.

Capital Grants Unapplied represents grant funding received by the Authority without conditions attached, which has not yet been used to finance capital expenditure.

Looking ahead

Local government as a sector is facing significant government funding cuts as well as cost pressures arising from increased demand for services and the economic downturn. Given this pressure on the constituent councils which make up the North East Combined Authority, it is likely that further savings in the transport levy will be required and work is underway to identify additional savings for 2016/17 over and above those already identified for 2015/16.

The Authority's net revenue budget for 2015/16 has been set at £90.095m, which includes an increase in the levels of budget for economic development and inward investment activity.

The Authority's agreed capital programme for 2015/16 is in excess £119m – a significant increase on 2014/15, due to the inclusion of capital schemes making up the Local Growth Deal.

A significant area of focus for the North East Combined Authority during 2015/16 will be the devolution agenda. NECA has outlined initial proposals to secure a significant programme of devolution of power, funding and responsibilities to the North East to meet the needs of our diverse communities.

Explanatory Foreword by the Chief Finance Officer (continued)

Description of the purposes of the main financial statements

Movement in Reserves Statement (page 23)

This statement shows the movement during the year on the different reserves held by the Authority, analysed into usable reserves (those that can be applied to fund expenditure or reduce the levy) and unusable reserves. The surplus or deficit on the provision of services shows the full cost of providing services during the year, more detail of which is shown in the Comprehensive Income and Expenditure Statement. This amount is different from the amount required to be charged to the General Fund on a statutory basis. The statement also shows discretionary transfers to and from earmarked reserves.

Comprehensive Income and Expenditure Statement (Page 24)

This statement shows the full cost of providing services (as defined by the CIPFA Service Reporting Code of Practice) during the year in accordance with generally accepted accounting practices. Combined Authorities raise levies to cover expenditure in accordance with regulations, which may be different from the cost of services in accounting terms.

Balance Sheet (page 25)

The Balance Sheet shows the value of all assets and liabilities at the start and end of the year. The net assets of the Authority (i.e. assets less liabilities) are matched by the Authority's reserves. Reserves are categorised in two ways – usable and unusable reserves. Usable reserves may be used to fund expenditure or reduce the levy or other contributions required to meet the running costs of the Authority subject to the need to maintain a prudent level of reserves and any statutory limitation on their use (e.g. the Capital Receipts Reserve may only be used to fund capital expenditure or repay debt). Unusable reserves usually have a specific legislative or accounting purpose and generally consist of timing differences between accounting requirements and the underlying resource position of the Authority.

Cash Flow Statement (page 26)

This statement shows the changes in cash and cash equivalents of the Authority during the year. The statement shows how the Authority generates and uses cash by classifying cash flows as operating, investing and financing activities. The 'net cash flow from Operating Activities' is a reflection of the extent to which the operations of the Authority are funded from levies, grant income and/or fees and charges. 'Investing activities' reflects the extent to which the Authority has invested in assets that will be used to deliver services over a number of years. 'Financing Activities' reflects the extent to which the Authority has sought additional funding to support its capital investment plans and can be useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Authority.

Group Accounts (pages 79 to 96)

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

Annual Governance Statement (Pages 99 to 103)

This statement sets out the Authority's approach to corporate governance and internal control.

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

The Chief Finance Officer's Responsibilities

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

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

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

The Chief Finance Officer has also:

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

Certification of the Accounts

I certify that the Statement of Accounts gives a true and fair view of the financial position of the North East Combined Authority at 31 March 2015 and its income and expenditure for the year ended 31 March 2015.

Signed:

Paul Woods, Chief Finance Officer

Approval of the Accounts

Signed:

Simon Henig, Chair of North East Leadership Board

Part 2: Core Financial Statements

Comprising:

- Movement in Reserves Statement
- Comprehensive Income and Expenditure Statement
- Balance Sheet
- Cash Flow Statement
- Notes to the Financial Statements

Movement in Reserves Statement

| | General Fund | Earmarked Reserves | Capital Grants Unapplied | Capital Receipts | Total Usable Reserves | Unusable Reserves | Total Reserves |
|---|-----------------|--------------------|--------------------------|------------------|-----------------------|-------------------|------------------|
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| Balance at 1 April 2014 | - | - | - | - | - | - | - |
| Balances transferred in | (34,946) | (11,753) | (18,639) | (150) | (65,488) | (80,754) | (146,242) |
| Adjusted opening balance | (34,946) | (11,753) | (18,639) | (150) | (65,488) | (80,754) | (146,242) |
| Movement in reserves during 2014/15: | | | | | | | |
| (Surplus) on Provision of Services | (3,616) | - | - | - | (3,616) | | (3,616) |
| Other Comprehensive Income and Expenditure | - | - | - | - | - | 1,149 | 1,149 |
| Total Comprehensive Income and Expenditure | (3,616) | - | - | - | (3,616) | 1,149 | (2,467) |
| Adjustments between Accounting Basis and Funding Basis under Regulations (Note 5) | 6,257 | - | 7,951 | (2,528) | 11,680 | (11,680) | - |
| Net (Increase) / Decrease before transfers to Earmarked Reserves | 2,641 | - | 7,951 | (2,528) | 8,064 | (10,531) | (2,467) |
| Transfers (to)/from Earmarked Reserves (Note 6) | (397) | (1,231) | - | 1,628 | - | - | - |
| (Increase) / Decrease in 2014/15 | 2,244 | (1,231) | 7,951 | (900) | 8,064 | (10,531) | (2,467) |
| Balance at 31 March 2015 Carried Forward | (32,702) | (12,984) | (10,688) | (1,050) | (57,424) | (91,285) | (148,709) |

Comprehensive Income and Expenditure Statement

| | Gross Expenditure £000 | Gross Income £000 | Net Expenditure £000 |
|--|---------------------------|----------------------|-------------------------|
| Corporate and Democratic Core | 209 | (490) | (281) |
| Highways and Transport Planning and Development | 115,558 | (55,929) | 59,629 |
| | 13,746 | (13,128) | 618 |
| Cost of Services | 129,513 | (69,547) | 59,966 |
| Financing and Investment Income and Expenditure (Note 7) | 8,528 | (2,839) | 5,689 |
| Taxation and Non-Specific Grant Income (Note 8) | - | (69,271) | (69,271) |
| (Surplus) on Provision of Services | | | (3,616) |
| Re-measurements of the defined benefit liability (Note 26) | | | 70 |
| Deficit on Revaluation of Non-Current Assets (Note 9) | | | 1,079 |
| Other Comprehensive Income and Expenditure | | | 1,149 |
| Total Comprehensive Income and Expenditure | | | (2,467) |

Balance Sheet

| | Notes | 31 March 2015 £000 |
|--|-------|--------------------------|
| Property, Plant and Equipment | 9 | 361,625 |
| Long Term Debtors | 10 | 52,669 |
| Long Term Assets | | 414,294 |
| Short Term Investments | 10 | 28,000 |
| Short Term Debtors | 11 | 11,243 |
| Cash and Cash Equivalents | 12 | 68,531 |
| Current Assets | | 107,774 |
| Short Term Borrowing | 10 | (28,824) |
| Short Term Creditors | 13 | (43,697) |
| New Tyne Crossing - Deferred Income | 25 | (5,092) |
| Grants and Contributions Receipts in Advance | 22 | (10,898) |
| Current Liabilities | | (88,511) |
| New Tyne Crossing - Deferred Income | 25 | (112,030) |
| Grants and Contributions Receipts in Advance | 22 | (1,798) |
| Long Term Borrowing | 10 | (170,000) |
| Other Long Term Liabilities | 26 | (1,020) |
| Long Term Liabilities | | (284,848) |
| Net Assets | | 148,709 |
| Usable Reserves | 14 | (57,425) |
| Unusable Reserves | 15 | (91,284) |
| | | (148,709) |

Chief Finance Officer's Certificate

I certify that the accounts set out on pages 23 to 74 present a true and fair view of the financial position of the North East Combined Authority as at 31 March 2015

Signed

Paul Woods

Chief Finance Officer, North East Combined Authority

Date:

Cash Flow Statement

| | Notes | 31 March 2015 £000 |
|--|-------|--------------------------|
| Net surplus/(deficit) on the provision of services | | 3,616 |
| Adjustments to the net surplus or deficit on the provision of services for non-cash movements | 17 | 4,128 |
| Adjustments for items included in the net surplus or deficit on the provision of services that are investing or financing activities | 17 | <u>(18,669)</u> |
| Net cash flows from Operating Activities | | <u>(10,925)</u> |
| Investing Activities | | 16,288 |
| Cash flows relating to business combinations (establishment of NECA) | | <u>78,388</u> |
| Net Investing Activities | 18 | 94,676 |
| Financing Activities | 19 | <u>(15,220)</u> |
| Net increase in cash and cash equivalents | | <u>68,531</u> |
| Cash and cash equivalents at the beginning of the reporting period | | <u>-</u> |
| Cash and cash equivalents at the end of the reporting period | 12 | <u>68,531</u> |

Notes to the Financial Statements

Note 1: Establishment of the North East Combined Authority

The Durham, Gateshead, Newcastle upon Tyne, North Tyneside, Northumberland, South Tyneside and Sunderland Combined Authority was established by the Order of the same name, on 15 April 2014. At this point, the Tyne and Wear Integrated Transport Authority was dissolved and all of its assets, liabilities, rights and responsibilities were transferred to the newly established body.

On 29 April 2014, the North East Combined Authority legally became the Accountable Body for the North East Local Enterprise Partnership. Prior to this date, the Accountable Body was Sunderland City Council.

For transparency, and to aid comparison in future years, figures presented in these accounts represent the full year of activity, including Transport activity during the period 1 to 14 April 2014 and Local Enterprise Partnership activity from 1 to 29 April 2014. The note below shows income and expenditure attributable to the relevant periods.

| | 1 April - 14 April 2014 | 1 April - 29 April 2014 | 15 April - 31 March 2015 | 2014/15 Full Year |
|---|----------------------------|--|-------------------------------------|----------------------|
| | Tyne and Wear ITA | North East Local Enterprise Partnership | North East Combined Authority | Total |
| | £000 | £000 | £000 | £000 |
| Gross Expenditure | | | | |
| Corporate and Democratic Core | - | - | 209 | 209 |
| Planning and Development Activity | - | 31 | 13,715 | 13,746 |
| Highways and Transport | 2,611 | - | 112,947 | 115,558 |
| | 2,611 | 31 | 126,871 | 129,513 |
| Gross Income | | | | |
| Corporate and Democratic Core | - | - | (490) | (490) |
| Planning and Development Activity | - | - | (13,128) | (13,128) |
| Highways and Transport | (331) | - | (55,598) | (55,929) |
| | (331) | - | (69,216) | (69,547) |
| Taxation and Non-Specific Grant Income | (2,616) | - | (66,655) | (69,271) |
| Financing and Investment Income and Expenditure | - | - | 5,689 | 5,689 |
| Surplus/Deficit on Provision of Services | (336) | 31 | (3,311) | (3,616) |
| Other Comprehensive Income and Expenditure | - | - | 1,149 | 1,149 |
| Total Comprehensive Income and Expenditure | (336) | 31 | (2,162) | (2,467) |

Notes to the Financial Statements

Note 2: Accounting Standards Issued, Not Yet Adopted

The Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 (the Code) has introduced changes in accounting policy in relation to the following International Financial Reporting Standard (IFRS) statements:

- IFRS 13 Fair Value Measurement
- Annual Improvements to IFRS 2011-13 Cycle
- IFRIC 21 Levies

An assessment of the impact of all three updates has been made which determined no additional impacts for the North East Combined Authority's statements.

Note 3: Critical Judgements in Applying Accounting Policies

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

Service Concession Arrangements

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

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

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

Notes to the Financial Statements

Note 4: 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 2015 for which there is a risk of material adjustment in the forthcoming financial year are as follows:

| Item | Uncertainty | Effect if actual results differ from assumptions |
|--------------------|---|--|
| Pensions Liability | Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Authority with expert advice about the assumptions to be applied. | The effects on the pension liability for funded LGPS benefits of changes in individual assumptions can be measured, e.g. a 0.1% increase in the discount rate assumptions would result in a decrease in the gross pension liability of 1.6%. Further sensitivity analysis is set out within Note 26 to the accounts. |

Notes to the Financial Statements

Note 5: 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

| | General Fund | Capital Receipts Reserve | Capital Grants Unapplied | Movement in Unusable Reserves |
|--|--------------|--------------------------|--------------------------|-------------------------------|
| | £000 | £000 | £000 | £000 |
| Adjustments primarily involving the Capital Adjustment Account: | | | | |
| <u>Reversal of items debited or credited to the CIES:</u> | | | | |
| Charges for depreciation and impairment of non-current assets | (5,020) | - | - | 5,020 |
| Write down of New Tyne Crossing deferred income balance | 5,092 | - | - | (5,092) |
| Capital grants and contributions applied | 31,781 | - | - | (31,781) |
| Revenue expenditure funded from capital under statute | (29,989) | - | - | 29,989 |
| 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 | 1 | - | - | (1) |
| <u>Insertion of items not debited or credited to the CIES:</u> | | | | |
| Statutory provision for the financing of capital investment | 2,160 | - | - | (2,160) |
| Capital expenditure charged against the General Fund balance | 3,808 | - | - | (3,808) |
| Adjustments primarily involving the Capital Grants Unapplied Account | | | | |
| Application of grants to capital financing transferred to the Capital Adjustment Account | - | - | 7,951 | (7,951) |

Notes to the Financial Statements

Adjustments primarily involving the

Capital Receipts Reserve

| | | | | |
|--|---|---------|---|---------|
| Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement | - | (82) | - | 82 |
| Loan principal repayments received | - | (4,433) | - | 4,433 |
| Use of the Capital Receipts Reserve to finance new Capital Expenditure | - | 82 | - | (82) |
| Application of Capital Receipts to repayment of debt | - | 1,905 | - | (1,905) |

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 year in accordance with statutory requirements | (1,587) | - | - | 1,587 |
|---|---------|---|---|-------|

Adjustments involving the Pensions

Reserve:

| | | | | |
|---|------|---|---|------|
| Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement | (40) | - | - | 40 |
| Employers' pension contributions and direct payments to pensioners payable in the year | 50 | - | - | (50) |

Total adjustments

| | | | |
|-------|---------|-------|----------|
| 6,257 | (2,528) | 7,951 | (11,680) |
|-------|---------|-------|----------|

Notes to the Financial Statements

Note 6: Transfers to and from Earmarked Reserves

This note sets out amounts set aside from the General Fund in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund expenditure in 2014/15.

| Reserve | Opening Balance at 1 April 2014 | Balances Transferred in | Revised Opening Balance | Transfers To Reserve in Year | Transfers From Reserve in Year | Closing Balance at 31 March 2015 |
|--|------------------------------------|----------------------------|----------------------------|---------------------------------|-----------------------------------|-------------------------------------|
| | £000 | £000 | £000 | £000 | £000 | £000 |
| Metro Reinvigoration Reserve | - | (11,425) | (11,425) | (51) | 488 | (10,988) |
| NELEP Restricted cashable reserve - RGF Interest | - | (39) | (39) | (97) | - | (136) |
| NELEP Restricted cashable reserve - RGF Loan Repayments | - | (100) | (100) | (1,628) | - | (1,728) |
| NELEP GPF Revenue Grant | - | (189) | (189) | - | 57 | (132) |
| Unapplied | - | (11,753) | (11,753) | (1,776) | 545 | (12,984) |

Note 7: Financing and Investment Income and Expenditure

| | 31 March 2015 £000 |
|---|-----------------------|
| Interest payable and similar charges | 8,488 |
| Interest on net defined benefit liability | 40 |
| Interest receivable and similar income | (2,839) |
| | <u>5,689</u> |

Note 8: Taxation and Non Specific Grant Income

| | 31 March 2015 £000 |
|-----------------------------------|-----------------------|
| Levy on Tyne and Wear Authorities | (68,207) |
| Enterprise Zone income | (1,064) |
| | <u>(69,271)</u> |

Notes to the Financial Statements

Note 9: Property, Plant and Equipment

| | Land | Vehicles, Plant, Equipment | Infrastructure | Assets under Construction | Total Property, Plant and Equipment |
|---|---------------|-------------------------------|-----------------|------------------------------|---|
| | £000 | £000 | £000 | £000 | £000 |
| Cost or Valuation | | | | | |
| At 1 April 2014 | - | - | - | - | - |
| Balances Transferred in | 12,230 | 3,205 | 374,439 | 2,880 | 392,754 |
| Revised Opening Balance | 12,230 | 3,205 | 374,439 | 2,880 | 392,754 |
| Additions | - | - | 425 | 3,466 | 3,891 |
| Disposals | (83) | - | - | - | (83) |
| Revaluation decreases recognised in Revaluation Reserve | - | - | (1,079) | - | (1,079) |
| Revaluation decreases recognised in Surplus on Provision of Services | - | - | (1,185) | - | (1,185) |
| At 31 March 2015 | 12,147 | 3,205 | 372,600 | 6,346 | 394,298 |
| Accumulated Depreciation and Impairment | | | | | |
| At 1 April 2014 | - | - | - | - | - |
| Balances Transferred in | - | (726) | (28,113) | - | (28,839) |
| Revised Opening Balance | - | (726) | (28,113) | - | (28,839) |
| Depreciation Charge for the Year | - | (92) | (3,742) | - | (3,834) |
| At 31 March 2015 | - | (818) | (31,855) | - | (32,673) |
| Net Book Value | | | | | |
| At 1 April 2014 | - | - | - | - | - |
| Balances Transferred in | 12,230 | 2,479 | 346,326 | 2,880 | 363,915 |
| Revised Opening Balance | 12,230 | 2,479 | 346,326 | 2,880 | 363,915 |
| At 31 March 2015 | 12,147 | 2,387 | 340,745 | 6,346 | 361,625 |

Depreciation

The following useful lives 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 Authority at the end of the contract
- Vehicle Tunnels (Infrastructure) - 120 years
- Pedestrian and Cycle Tunnels (Infrastructure) - 40-120 years
- Land - This category is not depreciated as it has no finite useful life

Notes to the Financial Statements

Revaluation

The Authority carries out a rolling programme that ensures that all Property, Plant and Equipment assets required to be measured at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, and as a minimum every five years. All valuations were carried out by surveyors from Newcastle City Council on behalf of NECA. 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. The carrying value is based on records held by TT2 Ltd.

The significant assumptions applied in estimating the fair values are:

- That no high alumina cement, concrete or calcium chloride additive or other potentially deleterious material was used in the construction of the property and that none has been subsequently incorporated
- The property is not subject to any unusual or especially onerous restrictions, encumbrances or outgoing 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 North East Combined Authority continues to maintain and repair all buildings and structures in a proper manner

Notes to the Financial Statements

Note 10: Financial Instruments

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

| | 31 March 2015 |
|--|----------------------|
| | £000 |
| Short Term Investments | |
| Short Term Investments | 28,000 |
| Long Term Debtors - Loans and advances treated as capital expenditure | |
| Loans to Nexus | 43,403 |
| North East Investment Fund Loans | 9,266 |
| | <u>52,669</u> |
| Short Term Debtors | |
| Short Term Debtors | 11,243 |
| Borrowings | |
| Short Term Borrowing | (28,824) |
| Financial Liabilities at amortised cost - long term borrowing | (170,000) |
| Other Long Term Liabilities | |
| Pension Liability | (1,020) |
| Short Term Creditors | |
| Short Term Creditors | (43,697) |

Income, Expense, Gains and Losses

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

| | Financial Liabilities at amortised cost | Financial assets: loans and receivables | Total |
|--|--|--|---------------------|
| | £000 | £000 | £000 |
| Interest expense | 8,488 | - | 8,488 |
| Total expense in Surplus/Deficit on the Provision of Services | <u>8,488</u> | <u>-</u> | <u>8,488</u> |
| Investment income | - | (2,811) | (2,811) |
| Total income in Surplus/Deficit on the Provision of Services | <u>-</u> | <u>(2,811)</u> | <u>(2,811)</u> |
| Net (Gain)/Loss for the Year | <u>8,488</u> | <u>(2,811)</u> | <u>5,677</u> |

Notes to the Financial Statements

Fair Value of Assets and Liabilities

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

- PWLB (Public Works Loans Board) interest rates for new fixed rate borrowing in the appropriate maturity bands as at 31 March 2015
- 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

The fair values calculated are as follows:

| | 31 March 2015 | |
|---|-------------------------|--------------------|
| | Carrying amount £000 | Fair value £000 |
| Financial Liabilities: | | |
| PWLB Maturity Loans | (97,300) | (142,508) |
| PWLB Equal Instalment of Principal (EIP) Loans | (10,666) | (11,856) |
| Lenders Option Borrowers Option (LOBO) Market Loans | (89,000) | (149,469) |
| | (196,966) | (303,833) |
| Financial Assets | | |
| Long-term debtors | 52,669 | 52,669 |

The fair value differs from the carrying value as fair value is assessed according to market rates relating to the outstanding life of the loan. Carrying amount relates to the actual interest rate applicable to the loan outstanding. The fair value differences for financial instruments relates to the fact that the Authority has loans at fixed rates that result in it paying a higher interest charge than if it had taken out variable rate loans.

Notes to the Financial Statements

Soft Loans

Soft Loans are loans made to third parties at a preferential rate of interest, i.e. below market rate. The Authority has issued a small number of soft loans as part of its North East Investment Fund activity to encourage economic development in the region. Details of soft loans are set out in the table below:

| Description | Term (Years) | Contracted Rate | Fair Value Rate | Opening Balance | New Advances in Year | Fair Value adjustment on initial recognition | Loans Repaid | Increase in discounted amount | Closing Balance (fair value) | Closing Balance (Nominal) |
|-------------------------------------|--------------|-----------------|-----------------|-----------------|----------------------|--|--------------|-------------------------------|------------------------------|---------------------------|
| Sunderland City Council - Vaux Loan | 3 | 0.00% | 0.95% | 2,500 | - | (26) | (1,250) | (30) | 1,234 | 1,250 |
| Durham University | 12 | 1.90% | 4.95% | - | 5,796 | (982) | - | - | 4,815 | 5,796 |
| Neptune Test Centre | 9 | 0.00% | 4.99% | - | 2,430 | (706) | - | - | 1,725 | 2,430 |

Valuation Assumptions

The interest rate at which the fair value of soft loans has been made is arrived from either the prevailing market rate of interest for a similar instrument.

Notes to the Financial Statements

Note 11: Short Term Debtors

| | 31 March 2015 |
|--------------------------------|----------------------|
| | £000 |
| Central Government Bodies | 506 |
| Other Local Authorities | 2,747 |
| Other entities and individuals | 7,990 |
| | <u>11,243</u> |

Note 12: Cash and Cash Equivalents

| | 31 March 2015 |
|---|----------------------|
| | £000 |
| Cash Balances held by Newcastle City Council | 45,097 |
| Cash Balances held by Sunderland City Council | 23,434 |
| | <u>68,531</u> |

Note 13: Short Term Creditors

| | 31 March 2015 |
|--------------------------------|----------------------|
| | £000 |
| Central Government Bodies | (38) |
| Other Local Authorities | (4,724) |
| Other entities and individuals | |
| - Nexus | (33,368) |
| - TT2 Ltd | (3,100) |
| - Prepaid Tyne Tunnels Permits | (946) |
| - Other | (1,521) |
| | <u>(43,697)</u> |

Note 14: Usable Reserves

| | 31 March 2015 |
|----------------------------------|----------------------|
| | £000 |
| General Fund | |
| - Tyne and Wear Transport | (590) |
| - Tyne Tunnels | (28,174) |
| - NECA Corporate | (269) |
| - NECA Inward Investment | (63) |
| - NECA Transport | (207) |
| - NELEP General Fund | (3,400) |
| Other Earmarked NECA Reserves | (10,988) |
| Other Earmarked NELEP Reserves | (1,996) |
| Capital Receipts Reserve | (1,050) |
| Capital Grants Unapplied Reserve | (10,688) |
| | <u>(57,425)</u> |

Notes to the Financial Statements

Note 15: Unusable Reserves

| | 31 March 2015 |
|--|----------------------|
| | £000 |
| Capital Adjustment Account | (85,147) |
| Financial Instruments Adjustment Account | 1,730 |
| Revaluation Reserve | (8,887) |
| Pension Reserve | 1,020 |
| | <u>(91,284)</u> |

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 of assets.

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

| | 2014/15 |
|---|------------------------|
| | £000 |
| Balance at 1 April | - |
| Balances transferred in | (71,728) |
| Revised opening Balance | <u>(71,728)</u> |
| Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement: | |
| Charges for depreciation and impairment of non current assets | 5,020 |
| Write down New Tyne Crossing deferred income balance | (5,092) |
| Revenue expenditure funded from capital under statute | 29,989 |
| Write down of long term debtors | 4,432 |
| | <u>34,348</u> |
| Adjusting amounts written out of the Revaluation Reserve | <u>(162)</u> |
| Capital financing applied in the year: | |
| Capital grants and contributions credited to the CIES that have been applied to capital financing | (39,732) |
| Statutory provision for the financing of capital investment charged against the General Fund | (2,160) |
| Capital expenditure charged against the General Fund | (3,808) |
| Debt redeemed using capital receipts | (1,905) |
| Balance at 31 March | <u>(85,147)</u> |

Notes to the Financial Statements

Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenditure 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.

| | 2014/15 |
|--|---------------------|
| | £000 |
| Balance at 1 April | - |
| Balances transferred in | 143 |
| Revised Opening Balance | <u>143</u> |
| Proportion of premiums incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements | (72) |
| Amount by which finance costs charged to the CIES are different from finance costs chargeable in the year in accordance with statutory requirements | 1,659 |
| Balance at 31 March | <u>1,730</u> |

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
- 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.

| | 2014/15 |
|--|-----------------------|
| | £000 |
| Balance at 1 April | - |
| Balances transferred in | (10,128) |
| Revised Opening Balance | <u>(10,128)</u> |
| Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services | 1,079 |
| Difference between fair value depreciation and historical cost depreciation | |
| Amount written off to the Capital Adjustment Account | 162 |
| Balance at 31 March | <u>(8,887)</u> |

Notes to the Financial Statements

Pension Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions. The Authority accounts for post-employment benefits in the CIES as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on 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.

| | 2014/15 |
|--|----------------|
| | £000 |
| Balance at 1 April | - |
| Balances transferred in | 960 |
| Revised Opening Balance | 960 |
| Remeasurements of the net defined benefit liability/asset | 70 |
| Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services | 40 |
| Employer's pension contributions and direct payments to pensioners payable in the year | (50) |
| Balance at 31 March | 1,020 |

Notes to the Financial Statements

Note 16: Cash Flow Statement - Operating Activities

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

| | 31 March 2015 |
|-------------------|----------------------|
| | £000 |
| Interest received | 2,811 |
| Interest paid | (8,488) |

Note 17: 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

| | 2014/15 |
|---|----------------|
| | £000 |
| Surplus or deficit on the provision of services | 3,616 |

Adjustments to Surplus or Deficit on Provision of Services for Non-Cash Movements

| | |
|---|--------------------|
| Depreciation and impairment | (5,020) |
| (Increase)/Decrease in Creditors | 4,816 |
| Increase/(Decrease) in Debtors | 7,691 |
| Movement in Pension Liability | (10) |
| Other non-cash items charged to the net surplus or deficit on the provision of services | (3,349) |
| | <hr/> 4,128 |

Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities

| | |
|---|-----------------|
| Capital grants credited to surplus/deficit on provision of services | (18,669) |
|---|-----------------|

| | |
|--|-----------------------------|
| Net cash flow from operating activities | <hr/> (10,925) <hr/> |
|--|-----------------------------|

Note 18: Cash Flow Statement - Investing Activities

| | 2014/15 |
|--|---------------------------|
| | £000 |
| Purchase of property, plant and equipment, investment property and intangible assets | 6,149 |
| Purchase of short-term and long-term investments | (32,000) |
| Other payments for investing activities | 13,123 |
| Proceeds from short-term and long-term investments | 24,500 |
| Other receipts from investing activities | 4,516 |
| | <hr/> 16,288 |
| Cash flows relating to business combinations (establishment of NECA) | 78,388 |
| Total Net cash flows from investing activities | <hr/> 94,676 <hr/> |

Notes to the Financial Statements

Note 19: Cash Flow Statement - Financing Activities

| | 31 March 2015 |
|---|------------------------|
| | £000 |
| Repayments of short and long-term borrowing | (5,926) |
| Other payments for financing activities | (9,294) |
| Net cash flows from financing activities | <u>(15,220)</u> |

Note 20: 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.

| | 2014/15 |
|---|------------------|
| | £000 |
| Fees payable with regard to external audit services carried out by the appointed auditor for the year | 32 |
| Rebate on audit fee received from Audit Commission | (2) |
| Total | <u>30</u> |

Note 21: Amounts Reported for Resource Allocation

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

Notes to the Financial Statements

| | NECA | NELEP | TW Levy | Tyne Tunnels | Total |
|--|--------------|----------------|-----------------|-------------------------|-----------------|
| Fees, charges and other service income | - | - | - | (26,116) | (26,116) |
| Levy income | - | - | (68,207) | - | (68,207) |
| Interest income | - | (111) | (10) | (155) | (276) |
| Other grants and contributions | (590) | (1,161) | - | - | (1,751) |
| Other income | - | (1,077) | - | (243) | (1,320) |
| Total income | (590) | (2,349) | (68,217) | (26,514) | (97,670) |
| Employee expenses | - | 446 | - | 89 | 535 |
| Other service expenses | 12 | 306 | 321 | 19,683 | 20,322 |
| Support services | 261 | 540 | 251 | 98 | 1,150 |
| Provision for Debt repayment | - | - | 1,139 | 1,093 | 2,232 |
| Interest payments | - | - | 1,131 | 5,354 | 6,485 |
| Grant to Nexus | - | - | 64,920 | - | 64,920 |
| | - | 107 | - | 4,415 | 4,522 |
| Other amounts charged against Reserves | | | | | |
| Total Expenditure | 273 | 1,399 | 67,762 | 30,732 | 100,166 |
| Net Expenditure | (317) | (950) | (455) | 4,218 | 2,496 |

Reconciliation of Income and Expenditure to Cost of Services in the Comprehensive Income and Expenditure Statement

| | |
|---|---------------|
| Net Expenditure in the Analysis reported to Management | 2,496 |
| Amounts in the CIES not reported to Management in the Analysis | 448 |
| Amounts in the Analysis not included in the CIES Cost of Services | 57,022 |
| Cost of Services in CIES | 59,966 |

Notes to the Financial Statements

| | Analysis by Function | Amounts not Reported for Decision Making | Amounts not included in CIES Cost of Services | Cost of Services | Corporate Amounts | Total |
|--|-------------------------|--|---|------------------|-------------------|------------------|
| | £000 | £000 | £000 | £000 | £000 | £000 |
| Fees, Charges and Other Service Income | (26,116) | - | - | (26,116) | - | (26,116) |
| Interest and Investment Income | (276) | - | 276 | - | (2,839) | (2,839) |
| Levy Income | (68,207) | - | 68,207 | - | (68,207) | (68,207) |
| Grants and Contributions | (1,751) | (36,332) | - | (38,083) | - | (38,083) |
| Other Income | (1,320) | (5,092) | 1,064 | (5,348) | (1,064) | (6,412) |
| Total Income | (97,670) | (41,424) | 69,547 | (69,547) | (72,110) | (141,657) |
| Employee Expenses | 535 | - | - | 535 | - | 535 |
| Other Service Expenses | 20,322 | 8,595 | - | 28,917 | - | 28,917 |
| Support Services | 1,149 | - | - | 1,149 | - | 1,149 |
| Provision for Repayment of Debt | 2,232 | - | (2,232) | - | - | - |
| Interest Payments | 6,485 | - | (6,485) | - | 8,528 | 8,528 |
| Depreciation and REFCUS | - | 33,277 | - | 33,277 | - | 33,277 |
| Grant to Nexus | 64,920 | - | - | 64,920 | - | 64,920 |
| | 4,523 | - | (3,808) | 715 | - | 715 |
| Other amounts charged against Reserves | | | | | | |
| Total Expenditure | 100,166 | 41,872 | (12,525) | 129,513 | 8,528 | 138,041 |
| Surplus or Deficit on the Provision of Services | 2,496 | 448 | 57,022 | 59,966 | (63,582) | (3,616) |

Notes to the Financial Statements

Note 22: Grant Income and Other Contributions

Credited to Services

The Authority credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2014/15:

| | 2014/15 |
|--|-----------------------------|
| | £000 |
| DCLG Capacity Grant | (529) |
| Local Transport Plan Grant | (17,038) |
| Local Sustainable Transport Fund | (6,310) |
| Local Authority Contributions to NELEP | (250) |
| Local Authority Contributions to NECA | (590) |
| North East Smart Ticketing Initiative | (607) |
| Regional Growth Fund Revenue | (328) |
| Regional Growth Fund Capital | (11,917) |
| Other Grants and Contributions | (757) |
| | <hr/> (38,326) <hr/> |

The Authority has received a number of grants and contributions that have yet to be recognised as income as they have conditions attached to them. The balances at the year-end are as follows:

| | 2014/15 |
|--|-----------------------------|
| | £000 |
| Local Transport Plan | (775) |
| North East Smart Ticketing Initiative | (3,614) |
| Regional Growth Fund Capital | (7,480) |
| Regional Growth Fund Revenue | (205) |
| Other Transport Grants | (622) |
| | <hr/> (12,696) <hr/> |
| Shown as Short-Term Liability on Balance Sheet | (10,898) |
| Shown as Long-Term Liability on Balance Sheet | (1,798) |
| | <hr/> (12,696) <hr/> |

Notes to the Financial Statements

Note 23: 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 - 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).

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.

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

The Authority has a direct relationship with the Passenger Transport Executive (Nexus). NECA sets the policy which is delivered by Nexus and agrees an annual revenue grant.

The tables below and overleaf set out expenditure paid to and income received from any related parties in 2014/15, including amounts accrued at the year end.

| | Paid in year | Accrued at | Total |
|--|--------------|------------|----------|
| | £000 | year-end | £000 |
| | £000 | £000 | £000 |
| Receipts | | | |
| <u>Levy on Tyne and Wear Councils</u> | | | |
| Gateshead Council | (12,319) | - | (12,319) |
| Newcastle City Council | (17,384) | - | (17,384) |
| North Tyneside Council | (12,398) | - | (12,398) |
| South Tyneside Council | (9,135) | - | (9,135) |
| Sunderland City Council | (16,971) | - | (16,971) |
| <u>Contributions to NECA and NELEP (including one-off contribution to set up NECA Corporate Reserve)</u> | | | |
| Durham County Council | (36) | (82) | (118) |
| Gateshead Council | (36) | (82) | (118) |
| Newcastle City Council | (56) | (62) | (118) |
| North Tyneside Council | (56) | (62) | (118) |
| Northumberland County Council | (56) | (62) | (118) |
| South Tyneside Council | (56) | (62) | (118) |
| Sunderland City Council | (56) | (62) | (118) |
| <u>Sunderland City Council</u> | | | |
| Growing Places Fund Loan repayments to NELEP | (1,250) | - | (1,250) |

Notes to the Financial Statements

Newcastle City Council

| | | | |
|------------------------------|-------|---|-------|
| Interest on Revenue Balances | (217) | - | (217) |
|------------------------------|-------|---|-------|

Enterprise Zone Business Rates Receipts

| | | | |
|-------------------------------|---|-------|-------|
| Newcastle City Council | - | (330) | (330) |
| North Tyneside Council | - | (55) | (55) |
| Northumberland County Council | - | (26) | (26) |
| Sunderland City Council | - | (653) | (653) |

Nexus

| | | | |
|-----------------------------|---|---------|---------|
| Loans from NECA - Principal | - | (1,905) | (1,905) |
| Loans from NECA - Interest | - | (1,614) | (1,614) |

Contributions to NESTI held as Contributions Received in Advance*

| | | | |
|------------------------------------|---|-------|-------|
| Darlington Borough Council | - | (159) | (159) |
| Durham County Council | - | (541) | (541) |
| Gateshead Council | - | (278) | (278) |
| Hartlepool Borough Council | - | (110) | (110) |
| Middlesbrough Borough Council | - | (184) | (184) |
| Newcastle City Council | - | (334) | (334) |
| North Tyneside Council | - | (215) | (215) |
| Northumberland County Council | - | (327) | (327) |
| Redcar & Cleveland Borough Council | - | (144) | (144) |
| South Tyneside Council | - | (171) | (171) |
| Stockton-on-Tees Borough Council | - | (208) | (208) |
| Sunderland City Council | - | (335) | (335) |

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

Payments

Specific Grants

| | | | |
|--|-------|-------|-------|
| Gateshead Council | 2,419 | 1,178 | 3,597 |
| Newcastle City Council | 3,001 | 275 | 3,276 |
| North Tyneside Council | 3,172 | 824 | 3,996 |
| South Tyneside Council | 1,229 | 518 | 1,747 |
| Sunderland City Council | 5,694 | 1,514 | 7,208 |
| ARCH (Wholly owned by Northumberland County Council) | 1,215 | - | 1,215 |

Former TWITA reserves refund

| | | | |
|-------------------------|-----|---|-----|
| Gateshead Council | 109 | - | 109 |
| Newcastle City Council | 59 | - | 59 |
| North Tyneside Council | 80 | - | 80 |
| South Tyneside Council | 79 | - | 79 |
| Sunderland City Council | 112 | - | 112 |

Notes to the Financial Statements

Other Local Authority Payments

| | | | |
|-------------------------------|-----|----|------------|
| Durham County Council | 29 | 54 | 83 |
| Gateshead Council | 1 | 35 | 36 |
| Newcastle City Council | 665 | - | 665 |
| North Tyneside Council | 38 | - | 38 |
| Northumberland County Council | 51 | - | 51 |
| Sunderland City Council | 86 | 5 | 91 |

Nexus

| | | | |
|---|--------|-------|---------------|
| Revenue Support Grant | 64,920 | - | 64,920 |
| Specific Grants | 460 | 4,396 | 4,856 |
| Grant from Metro Reinvigoration Reserve | - | 489 | 489 |
| Other Payments | 74 | - | 74 |

Newcastle International Airport

| | | | |
|-----------------------------|-------|---|--------------|
| Purchase of marketing space | 1,588 | - | 1,588 |
|-----------------------------|-------|---|--------------|

Notes to the Financial Statements

Note 24: 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 for the Authority reduced during the year, as in-year capital expenditure was financed from grants and contributions from reserves, and revenue provision for the repayment of debt was set aside.

| | 2014/15 £000 |
|--|-------------------------------|
| Opening Capital Financing Requirement | 210,418 |
| Capital Investment: | |
| - Property, Plant and Equipment | 3,891 |
| - Revenue Expenditure Funded from Capital under Statute | 29,989 |
| - Loans to Other Public Bodies | 9,022 |
| Sources of finance: | |
| - Capital receipts including repayment of principal from long term debtors | (1,988) |
| - Government Grants and other contributions | (39,618) |
| Sums set aside from revenue: | |
| - Direct revenue contributions | (3,808) |
| - Minimum revenue provision | (2,160) |
| Closing Capital Financing Requirement | <u>205,746</u> |
| Explanation of movements in year: | |
| - Increase/(Decrease) in underlying need to borrow | <u>(4,672)</u> |
| Increase/(Decrease) in Capital Financing Requirement | <u>(4,672)</u> |

Notes to the Financial Statements

Note 25: Private Finance Initiatives and Similar Contracts

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

In 2014/15 the payment under the contract was £19.643m (2013/14 £16.929m). The payment under the contract in 2015/16 is estimated to be £20.752m.

The contribution to the capital works by the private sector partner is recognised as a deferred income balance (2014/15 value of £117.122m) which is written down over the remaining life of the contract.

| | Estimated TT2 Payment of Toll Income £000 | Deferred Income release £000 |
|---|--|---|
| Payable in 2015/16 | 20,752 | (5,092) |
| Payable within two to five years | 95,582 | (20,369) |
| Payable within six to ten years | 154,381 | (25,461) |
| Payable within eleven to fifteen years | 185,289 | (25,461) |
| Payable within sixteen to twenty years | 216,857 | (25,461) |
| Payable within twenty-one to twenty-five years | 124,508 | (15,277) |
| Total | 797,368 | (117,122) |
| | | 31 March 2015 |
| | | £000 |
| Shown as Short Term liability on Balance Sheet | | (5,092) |
| Shown as Long Term liability on Balance Sheet | | (112,030) |
| Total New Tyne Crossing Deferred Income Balance | | (117,122) |
| Released to CIES in year | | (5,092) |

Notes to the Financial Statements

Note 26 : Defined Benefit Pension Schemes

The Authority participates in two post-employment schemes:

- (i) The Tyne and Wear Pension Fund, administered locally by South Tyneside Council - this is a funded defined benefit scheme, meaning that the Authority and employees pay contributions into a fund, calculated at a level intended to balance the pension liabilities with investment.
- (ii) Unfunded defined benefit arrangements for the award of discretionary post employment benefits upon early retirement. Under this type of scheme liabilities are recognised when awards are made. However there are no investment assets built up to meet these liabilities and cash has to be generated to meet actual pension payments as they eventually fall due.

Results under IAS 19 (LGPS funded benefits)

The figures below relate to the funded liabilities within the fund which is part of the Local Government Pension Scheme.

| | |
|--|---------------|
| Date of the last full actuarial valuation of the employer's LGPS funded benefits | 31 March 2013 |
| Expected employer contributions next year (£m) | 0.01 |
| Duration of liabilities | 12.3 years |

Basis for Estimating Assets and Liabilities

The latest actuarial valuation of the Authority's liabilities took place as at 31 March 2013. Liabilities have been estimated by the independent qualified actuary on an actuarial basis using the projected credit method. The principal assumptions used by the actuary in updating the latest valuation of the Fund for IAS19 purposes are shown below.

| | |
|-----------------------------------|----------------------|
| Key assumptions | 31 March 2015 |
| | % p.a. |
| Discount rate | 3.10% |
| Pension increases | 1.80% |
| Pension accounts revaluation rate | 1.80% |
| Salary increases | 3.30% |

Mortality assumption

The mortality assumptions are based on the recent actual mortality experience of members within the Fund and allow for expected future mortality improvements. Sample life expectancies resulting from these mortality assumptions are shown below:

| | |
|-------------------------------------|----------------------|
| Assumed life expectancy at age 65 | 31 March 2015 |
| Males | |
| - Member aged 65 at accounting date | 23.1 |
| - Member aged 45 at accounting date | 25.1 |
| Females | |
| - Member aged 65 at accounting date | 24.7 |
| - Member aged 45 at accounting date | 27.0 |

Asset allocation

| | Value at 31 March 2015 | | |
|------------------|------------------------|--------------|---------------|
| | Quoted | Unquoted | Total |
| Equities | 58.2% | 8.2% | 66.4% |
| Property | 0.0% | 9.5% | 9.5% |
| Government bonds | 3.7% | 0.0% | 3.7% |
| Corporate bonds | 11.7% | 0.0% | 11.7% |
| Cash | 2.4% | 0.0% | 2.4% |
| Other | 4.2% | 2.1% | 6.3% |
| Total | 80.2% | 19.8% | 100.0% |

Notes to the Financial Statements

| Reconciliation of funded status to balance sheet | Value at 31 March 2015 |
|--|-------------------------------|
| | £000 |
| Fair value of assets | 37,770 |
| Present value of funded defined benefit obligation | 34,520 |
| Funded status | 3,250 |
| Impact of minimum funding requirement / asset ceiling | (3,250) |
| Asset / (liability) recognised on the balance sheet | - |

The split of the liabilities at the last valuation between the various categories of members is as follows:

| | |
|---------------------|-----|
| Active members | 26% |
| Deferred Pensioners | 13% |
| Pensioners | 61% |

Transactions Relating to Post-employment benefits

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

Breakdown of amounts recognised in surplus or deficit on the provision of services and other comprehensive income (OCI)

| | Period ending 31 March 2015 |
|---|------------------------------------|
| | £000 |
| Operating cost | |
| Current service cost* | 10 |
| Past service costs (inc. curtailments) | - |
| Settlement cost | - |
| Financing cost | |
| Interest on net defined benefit liability / (asset) | - |
| | 10 |

Pension expense recognised in surplus or deficit on the provision of services

Remeasurements in OCI

| | |
|--|--------------|
| Return on plan assets (in excess of) / below that recognised in net interest | (2,750) |
| Actuarial (gains) / losses due to changes in financial assumptions | 2,340 |
| Actuarial (gains) / losses due to changes in demographic assumptions | - |
| Actuarial (gains) / losses due to liability experience | (460) |
| Total Actuarial (gains) / losses | (870) |
| Adjustment in respect of paragraph 58 | 870 |
| Total amount recognised in OCI | - |
| | 10 |

Total amount recognised in surplus or deficit on provision of services and OCI

-

*Allowance for administration expenses included in current service cost (£m)

Notes to the Financial Statements

Changes to the present value of the defined benefit obligation

| | Period ending 31 March 2015 |
|--|-----------------------------|
| | £000 |
| Opening defined benefit obligation | - |
| Balances transferred in | 32,640 |
| Revised opening balance | 32,640 |
| Current service cost | 10 |
| Interest expense on defined benefit obligation | 1,340 |
| Contributions by participants | - |
| Actuarial (gains) / losses due to changes in financial assumptions | 2,340 |
| Actuarial (gains) / losses due to changes in demographic assumptions | - |
| Actuarial (gains) / losses due to liability experience | (460) |
| Net benefits paid out | (1,350) |
| Past service cost (inc. curtailments) | - |
| Net increase in liabilities from disposals / acquisitions | - |
| Settlements | - |
| Closing defined benefit obligation | 34,520 |

Changes to the fair value of assets

| | Period ending 31 March 2015 |
|--|-----------------------------|
| | £000 |
| Opening fair value of assets | - |
| Balances transferred in | 34,920 |
| Revised opening balance | 34,920 |
| Interest income on assets | 1,440 |
| Remeasurement gains / (losses) on assets | 2,750 |
| Contributions by the employer | 10 |
| Contributions by participants | - |
| Net benefits paid out | (1,350) |
| Net increase in assets from disposals / acquisitions | - |
| Settlements | - |
| Closing fair value of assets | 72,690 |

Actual return on assets

| | Period ending 31 March 2015 |
|--|-----------------------------|
| | £000 |
| Interest income on assets | 1,440 |
| Remeasurement gains / (losses) on assets | 2,750 |
| Actual return on assets | 4,190 |

Results under IAS 19 (LGPS unfunded benefits)

The results below relate to unfunded pension arrangements established by the Employer. These are termination benefits made on a discretionary basis upon early retirement in respect of members of the LGPS.

No pension fund exists to meet these benefits.

| | |
|--|---------------|
| Date of the last full actuarial valuation of the employer's LGPS unfunded benefits | 31 March 2013 |
| Expected Employer payments directly to beneficiaries next year (£m) | 0.05 |

Key assumptions

| | 31 March 2015 |
|-------------------|---------------|
| | % p.a. |
| Discount rate | 3.10% |
| Pension increases | 1.80% |

Notes to the Financial Statements

Mortality assumption

The mortality assumptions are based on the recent actual mortality experience of members within the Fund and allow for expected future mortality improvements. Sample life expectancies resulting from these mortality assumptions are shown below:

| | |
|-------------------------------------|----------------------|
| Assumed life expectancy at age 65 | 31 March 2015 |
| Males | |
| - Member aged 65 at accounting date | 23.1 |
| Females | |
| - Member aged 65 at accounting date | 24.7 |

| | |
|---|----------------------|
| Reconciliation of unfunded defined benefit obligation to balance sheet | 31 March 2015 |
| | £000 |
| Present value of unfunded defined benefit obligation | 1,020 |
| Asset/(liability) recognised on the balance sheet | (1,020) |

Breakdown of amounts recognised in surplus or deficit on the provision of services and other comprehensive income (OCI)

| | |
|---|------------------------------------|
| | Period ending 31 March 2015 |
| | £000 |
| Operating cost | |
| Current service cost | - |
| Past service cost (inc. curtailments) | - |
| Settlement cost | - |
| Financing cost | |
| Interest on net defined benefit liability/(asset) | 40 |
| Expense recognised in surplus or deficit on the provision of services | 40 |
| Remeasurements in OCI | |
| Return on plan assets (in excess of)/below that recognised in net interest | - |
| Actuarial (gains)/losses due to changes in financial assumptions | 80 |
| Actuarial (gains)/losses due to changes in demographic assumptions | - |
| Actuarial (gains)/losses due to liability experience | (10) |
| Total amount recognised in OCI | 70 |
| | 110 |
| Total amount recognised in surplus or deficit on the provision of services and OCI | |

Changes to the present value of the defined benefit obligation

| | |
|--|------------------------------------|
| | Period ending 31 March 2015 |
| | £000 |
| Opening defined benefit obligation | - |
| Balances transferred in | 960 |
| Revised opening balance | 960 |
| Current service cost | - |
| Interest expense on defined benefit obligation | 40 |
| Contributions by participants | - |
| Actuarial (gains)/losses due to changes in financial assumptions | 80 |
| Actuarial (gains)/losses due to changes in demographic assumptions | - |
| Actuarial (gains)/losses due to liability experience | (10) |
| Net benefits paid out | (50) |
| Past service cost (inc. curtailments) | - |
| Net increase in liabilities from disposals/acquisitions | - |
| Settlements | - |
| Closing defined benefit obligation | 1,020 |

Notes to the Financial Statements

Changes to the fair value of assets

| | Period ending 31 March 2015 |
|--|-----------------------------|
| | £000 |
| Opening fair value of assets | - |
| Balances transferred in | - |
| Revised opening balance | - |
| Interest income on assets | - |
| Remeasurement gains/(losses) on assets | - |
| Contributions by the employer | 50 |
| Contributions by participants | - |
| Net benefits paid out | (50) |
| Net increase in assets from disposals/acquisitions | - |
| Settlements | - |
| Closing fair value of assets | - |

Scheme History

| | 2010/11 | 2011/12 | 2012/13 | 2013/14 | 2014/15 |
|---|----------------|----------------|----------------|--------------|----------------|
| Fair value of LGPS assets | 22,650 | 22,800 | 24,990 | 34,920 | 37,770 |
| Present value of liabilities | | | | | |
| LGPS liabilities | (26,130) | (28,630) | (32,270) | (32,640) | (34,520) |
| | - | - | - | (2,280) | (3,250) |
| Impact of minimum funding requirement/asset ceiling | | | | | |
| Surplus/(deficit) on funded defined benefit | (3,480) | - | (7,280) | - | - |
| Discretionary benefits | (790) | (900) | (970) | (960) | (1,020) |
| Total surplus/(deficit) | (4,270) | (6,730) | (8,250) | (960) | (1,020) |

Sensitivity Analysis

The approximate impact of changing the key assumptions on the present value of the funded defined benefit obligations as at 31 March 2015 and the projected service cost for the period ending 31 March 2016 is set out below.

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

Funded LGPS benefits

Discount rate assumption

| Adjustments to discount rate | +0.1% p.a. | Base figure | -0.1% p.a. |
|--|-------------------|--------------------|-------------------|
| Present value of total obligation | 34,040 | 34,520 | 35,070 |
| % change in present value of total obligation | -1.4% | | 1.6% |
| Projected service cost (£000) | 10 | 10 | 10 |
| Approximate % change in projected service cost | -3.7% | | 3.6% |

Rate of general increase in salaries

Adjustment to salary increase rate

| | +0.1% p.a. | Base figure | -0.1% p.a. |
|--|-------------------|--------------------|-------------------|
| Present value of total obligation (£000) | 34,520 | 34,520 | 34,520 |
| % change in present value of total obligation | 0.0% | | 0.0% |
| Projected service cost (£000) | 10 | 10 | 10 |
| Approximate % change in projected service cost | 0.0% | | 0.0% |

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

| Adjustment to pension increase rate | +0.1% p.a. | Base figure | -0.1% p.a. |
|--|-------------------|--------------------|-------------------|
| Present value of total obligation (£000) | 35,380 | 34,520 | 33,730 |
| % change in present value of total obligation | 2.5% | | -2.3% |
| Projected service cost (£000) | 10 | 10 | 10 |
| Approximate % change in projected service cost | 3.8% | | -3.7% |

Notes to the Financial Statements

Post retirement mortality assumption

Adjustment mortality age rating assumption*

| | +0.1% p.a. | Base figure | -0.1% p.a. |
|--|------------|-------------|------------|
| Present value of total obligation (£000) | 35,480 | 34,520 | 33,560 |
| % change in present value of total obligation | 2.8% | | -2.8% |
| Projected service cost (£000) | 10 | | 10 |
| Approximate % change in projected service cost | 3.5% | | -3.5% |

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

Notes to the Financial Statements

Note 27 Contingent Liabilities

The Authority 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 Authority will be required to reimburse the shortfall. As a result of the most recent triennial valuation, there is currently no reimbursement due.

Note 28 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 agreed annually with the budget. 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 Authority.

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 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.

Notes to the Financial Statements

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 it is rare for such entities that are invested with in line with the Authority's limits 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 2014 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:

| | |
|----------------------------|-------------------------|
| Less than one year | (28,824) |
| Between one and two years | (2,333) |
| Between two and five years | (2,000) |
| More than five years | <u>(165,667)</u> |
| | <u>(198,824)</u> |

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 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
- 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.

Notes to the Financial Statements

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 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 2015 if interest rates had been 1% higher with all other variables held constant, the financial effect would be:

| | |
|--|-------|
| Increase in interest payable on variable rate borrowings | - |
| Increase in interest receivable on variable rate investments | (482) |
| Impact on Surplus or Deficit on the Provision of Services | (482) |

The increase in interest payable on variable rate borrowings is nil, because all NECA'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.

Statement of Accounting Policies (continued)

Note 29 Accounting Policies

1. General Principles

The Statement of Accounts summarises the North East Combined Authority's transactions for the 2014/15 financial year and its position at the year-end of 31 March 2015. 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 2014/15, 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.

Statement of Accounting Policies (continued)

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

The North East Combined Authority has one formal employee, with other staff being provided through Service Level Agreement (SLA) and secondment arrangements. 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 constituent authorities. Their costs are charged to NECA, together with a proportion of overhead costs, on the basis of estimated time spent on NECA 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 NECA only has one employee, this amount is not material and so an accrual will not be made.

8. Pensions

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

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

Statement of Accounting Policies (continued)

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

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.

Statement of Accounting Policies (continued)

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Authority to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees. Further details are provided in Note 26 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

Statement of Accounting Policies (continued)

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.

Statement of Accounting Policies (continued)

Soft Loans

A Soft Loan is a loan made to a third party at a preferential rate of interest, i.e. below market rate. In accordance with the Code of Practice on Local Authority Accounting, the difference between the interest payable to the Authority by the recipient of the loan and the amount they would have paid if they had acquired a loan for the same amount is charged to the income and expenditure account under the relevant net cost of service heading. This charged is then reversed out through the Movement in Reserves Statement to mitigate any effect on usable reserves.

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. 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.
- 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, 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.

Statement of Accounting Policies (continued)

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

Government grants and third party contributions and donations are recognised as due to the Authority (whether they are paid on account, by instalment or in arrears) 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.

Statement of Accounting Policies (continued)

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.

NECA's contractual arrangements have been reviewed and it is not currently party to any lease arrangements.

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.

Statement of Accounting Policies (continued)

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. The work is carried out on behalf of the Authority by the Property Services Division of Newcastle City Council. These revaluations are detailed within the Notes to the Core Financial Statements.

Statement of Accounting Policies (continued)

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.

Statement of Accounting Policies (continued)

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 2015, 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 and Non-Current Assets Held for Sale

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

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

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

Statement of Accounting Policies (continued)

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

In most arrangements within the scope of the Application, the grantor will account for the arrangement's financing by recording and measuring a long term liability in accordance with 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.

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

Statement of Accounting Policies (continued)

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

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

In relation to such an arrangement, the Code and the accompanying 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. NECA has therefore recognised a deferred credit balance, added to as each of Phase 1 and Phase 2 were completed, and equal to the fair value of the asset addition under each Phase. This balance is then released to the Comprehensive Income and Expenditure Statement over the life of the contract.

15. Provisions

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

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

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

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

Statement of Accounting Policies (continued)

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

Statement of Accounting Policies (continued)

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

NECA is required by the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 to produce Group Accounts to include services provided to Council Tax payers in the North East by organisations other than the Authority itself in which the Authority has an interest.

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

For the 2014/15 accounts, NECA has fully complied with the requirements of the Code, providing Group figures for the 2014/15 accounts (Section 3) in addition to the core financial statements which represent the Authority only and do not include Nexus (Section 2). 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.

Part 3: Group Financial Statements

Comprising:

- Group Movement in Reserves Statement
- Group Comprehensive Income and Expenditure Statement
- Group Balance Sheet
- Group Cash Flow Statement
- Notes to the Group Financial Statements

Group Movement in Reserves Statement

| | NECA Usable Reserves | NECA Unusable Reserves | Total NECA Reserves | Authority Share of Nexus | Total Group Reserves |
|--|----------------------|------------------------|---------------------|--------------------------|----------------------|
| | £000 | £000 | £000 | £000 | £000 |
| Balance at 1 April 2014 | - | - | - | - | - |
| Balances transferred in | (65,488) | (80,754) | (146,242) | (429,845) | (576,087) |
| Revised Opening Balance | (65,488) | (80,754) | (146,242) | (429,845) | (576,087) |
| Movement in reserves during 2014/15: | | | | | |
| (Surplus)/Deficit on Provision of Services | (3,616) | - | (3,616) | 491 | (3,125) |
| Other Comprehensive Income and Expenditure | - | 1,149 | 1,149 | 7,674 | 8,823 |
| Total Comprehensive Income and Expenditure | (3,616) | 1,149 | (2,467) | 8,165 | 5,698 |
| Adjustments between Accounting Basis and Funding Basis under Regulations | 11,680 | (11,680) | - | - | - |
| Net (Increase)/Decrease before transfers to Earmarked Reserves | 8,064 | (10,531) | (2,467) | 8,165 | 5,698 |
| Transfers (to)/from Earmarked Reserves | - | - | - | - | - |
| (Increase)/Decrease in 2014/15 | 8,064 | (10,531) | (2,467) | 8,165 | 5,698 |
| Balance at 31 March 2015 Carried Forward | (57,424) | (91,285) | (148,709) | (421,680) | (570,389) |

Group Comprehensive Income and Expenditure Statement

| | Gross Expenditure | Gross Income | Net Expenditure |
|--|-------------------|------------------|-----------------|
| | £000 | | £000 |
| Corporate and Democratic Core | 2,218 | (490) | 1,728 |
| Highways and Transport | 213,685 | (141,463) | 72,222 |
| Planning and Development | 13,746 | (13,128) | 618 |
| Non-Distributed Costs | 652 | | 652 |
| Cost of Services | 230,301 | (155,081) | 75,220 |
| Financing and Investment | 10,552 | (1,584) | 8,968 |
| Income and Expenditure (Note 2) | | | |
| Taxation and Non-Specific Grant Income (Note 4) | - | (98,417) | (98,417) |
| Loss on disposal of non-current assets | 11,104 | - | 11,104 |
| (Surplus)/Deficit on Provision of Services | | | (3,125) |
| Re-measurements of the defined benefit liability (Note 12) | | | 8,900 |
| (Surplus)/Deficit on Revaluation of Fixed Assets | | | 392 |
| Other Comprehensive Income and Expenditure | | | 9,292 |
| Total Comprehensive Income and Expenditure | | | 6,167 |

Group Balance Sheet

| | Notes | 31 March 2015 £000 |
|--|-------|--------------------------|
| Property, Plant and Equipment | 5 | 820,100 |
| Intangible Assets | 6 | 3,428 |
| Long Term Debtors | 7 | 9,266 |
| Long Term Investments | 7 | 1 |
| Long Term Assets | | 832,795 |
| Short Term Investments | 7 | 28,000 |
| Short Term Debtors | 8 | 21,166 |
| Cash and Cash Equivalents | 9 | 100,835 |
| Inventories | | 627 |
| Current Assets | | 150,628 |
| Short Term Borrowing | 7 | (28,824) |
| Short Term Creditors | 10 | (30,640) |
| New Tyne Crossing - Deferred Income | | (5,092) |
| Grants and Contributions Receipts in Advance | | (10,898) |
| Current Liabilities | | (75,454) |
| Provisions | 11 | (771) |
| Deferred Taxation | 13 | (4,101) |
| New Tyne Crossing - Deferred Income | | (112,030) |
| Grants and Contributions Receipts in Advance | | (1,798) |
| Long Term Borrowing | 7 | (170,000) |
| Other Long Term Liabilities | 12 | (48,880) |
| Long Term Liabilities | | (337,580) |
| Net Assets | | 570,389 |
| Usable Reserves | 14 | (95,002) |
| Unusable Reserves | 15 | (475,387) |
| | | (570,389) |

Chief Finance Officer's Certificate

I certify that the Group accounts set out on pages 79 to 96 present a true and fair view of the financial position of the North East Combined Authority as at 31 March 2015

Signed

Paul Woods

Chief Finance Officer, North East Combined Authority

Date:

Group Cash Flow Statement

| | Notes | 31 March 2015 £000 |
|--|-------|--------------------------|
| Net surplus/(deficit) on the provision of services | | 3,125 |
| Adjustments to the net surplus or deficit on the provision of services for non-cash movements | 17 | 41,136 |
| Adjustments for items included in the net surplus or deficit on the provision of services that are investing or financing activities | 17 | (45,696) |
| Net cash flows from Operating Activities | | <u>(1,435)</u> |
| Investing Activities | | 6,041 |
| Cash flows relating to business combinations (establishment of NECA) | | 113,288 |
| Net Investing Activities | 18 | <u>119,329</u> |
| Financing Activities | 19 | <u>(17,059)</u> |
| Net increase in cash and cash equivalents | | <u>100,835</u> |
| Cash and cash equivalents at the beginning of the reporting period | | - |
| Cash and cash equivalents at the end of the reporting period | 9 | <u>100,835</u> |

Notes to the Group Financial Statements

Group Note 1 - Group Accounts

Under the Code of Practice for Local Authority Accounting 2014/15, authorities with interests in subsidiaries, associates and/or joint ventures shall prepare Group Accounts in addition to their single entity financial statements, unless their interest is considered not material.

Nexus is the only subsidiary for the North East Combined Authority, and the Group Accounts have been prepared on a consolidation basis. Since 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 NECA with the following minor differences:

Deferred Taxation

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

Property, Plant and Equipment and Intangible Assets

Nexus uses the following estimated useful lives for each class of 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 NECA can be found on p.33 of the single entity accounts.

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

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

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

Notes to the Group Financial Statements

Group Note 2 - Financing and Investment Income and Expenditure

| | 2014/15 |
|---|---------------------|
| | £000 |
| Interest payable and similar charges | 8,882 |
| Interest on net defined benefit liability | 1,670 |
| Interest receivable and similar income | <u>(1,584)</u> |
| | <u>8,968</u> |

Group Note 3 - Grant Income Credited to Services

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

| | 2014/15 |
|--|------------------------|
| | £000 |
| DCLG Capacity Grant | (529) |
| Local Transport Plan Grant | (17,038) |
| Local Sustainable Transport Fund | (6,310) |
| Local Authority Contributions to NELEP | (250) |
| Local Authority Contributions to NECA | (590) |
| North East Smart Ticketing Initiative | (607) |
| Regional Growth Fund Revenue | (328) |
| Regional Growth Fund Capital | (11,917) |
| Metro Rail Grant | (24,582) |
| Heavy Rail Grant | (2,997) |
| Other Grants and Contributions | <u>(757)</u> |
| | <u>(65,905)</u> |

Group Note 4 - Non-Specific Grant Income

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

| | 2014/15 |
|------------------------|------------------------|
| | £000 |
| Transport Levy | (68,207) |
| Enterprise Zone Income | (1,064) |
| Nexus Capital Grants | <u>(29,146)</u> |
| | <u>(98,417)</u> |

Notes to the Group Financial Statements

Group Note 5: Property, Plant and Equipment

| | Other Land and Buildings | Vehicles, Plant, Equipment | Infrastructure | Assets under Construction | Total Property, Plant and Equipment |
|---|--------------------------|----------------------------|------------------|---------------------------|-------------------------------------|
| | £000 | £000 | £000 | £000 | £000 |
| Cost or Valuation | | | | | |
| At 1 April 2014 | - | - | - | - | - |
| Balances transferred in | 13,066 | 31,173 | 1,028,388 | 28,828 | 1,101,455 |
| Revised Opening Balance | 13,066 | 31,173 | 1,028,388 | 28,828 | 1,101,455 |
| Reclassification | 390 | 15,183 | (18,987) | - | (3,414) |
| Transfers from assets under construction | - | 2,897 | 35,885 | (38,782) | - |
| Derecognition - Disposals | (257) | (14,623) | (47,563) | - | (62,443) |
| Additions | - | - | 425 | 37,590 | 38,015 |
| Revaluation increases/(decreases) recognised in Revaluation Reserve | 687 | - | (1,079) | - | (392) |
| Revaluation decreases recognised in Surplus or Deficit on provision of services | - | - | (1,185) | - | (1,185) |
| At 31 March 2015 | 13,886 | 34,630 | 995,884 | 27,636 | 1,072,036 |
| Accumulated Depreciation and Impairment | | | | | |
| At 1 April 2014 | - | - | - | - | - |
| Balances transferred in | (506) | (22,656) | (248,107) | - | (271,269) |
| Revised Opening Balance | (506) | (22,656) | (248,107) | - | (271,269) |
| Reclassification | (96) | (2,983) | 3,769 | - | 690 |
| Depreciation Adjustment | - | 87 | (5,221) | - | (5,134) |
| Depreciation Charge for the Year | (55) | (2,802) | (24,174) | - | (27,031) |
| Derecognition - Disposals | 119 | 14,436 | 36,253 | - | 50,808 |
| At 31 March 2015 | (538) | (13,918) | (237,480) | - | (251,936) |
| Net Book Value | | | | | |
| At 1 April 2014 | - | - | - | - | - |
| Balances Transferred in | 12,560 | 8,517 | 780,281 | 28,828 | 830,186 |
| Revised Opening Balance | 12,560 | 8,517 | 780,281 | 28,828 | 830,186 |

Notes to the Group Financial Statements

Group Note 6 - Intangible Assets

Intangible assets in the Group Accounts relate wholly to Nexus.

| | £000 |
|--|--------------|
| Cost or Valuation | |
| At 1 April 2014 | - |
| Balances transferred in | 3,676 |
| Revised opening balance | 3,676 |
| Reclassification | 3,414 |
| Derecognition - disposals | (153) |
| Transfers from assets under construction | - |
| At 31 March 2015 | 6,937 |
| Depreciation and Impairment | |
| At 1 April 2014 | - |
| Balances transferred in | 1,767 |
| Revised opening balance | 1,767 |
| Reclassification | 690 |
| Amortisation correction | (118) |
| Amortisation provided during the period | 1,306 |
| Derecognition - disposals | (136) |
| Accumulated at 31 March 2015 | 3,509 |
| Net Book Value at 31 March 2015 | 3,428 |

Group Note 7 - Financial Instruments

| | 31 March 2015 |
|-------------------------------------|----------------------|
| | £000 |
| Long Term Investments: | |
| Unquoted Equity Investment at Cost | 1 |
| Long Term Debtors: | |
| Loans made to third parties | 9,266 |
| Short Term Investments: | |
| Bank Deposits | 28,000 |
| Short Term Debtors: | |
| Short Term Debtors | 21,166 |
| Borrowing: | |
| Short Term Borrowing | (28,824) |
| Long Term Borrowing | (170,000) |
| Other Long Term Liabilities: | |
| Pensions Liability | (48,880) |
| Short Term Creditors: | |
| Short Term Creditors | (30,640) |

Notes to the Group Financial Statements

Group Note 8 - Short Term Debtors

| | 31 March 2015 |
|---------------------------------------|----------------------|
| | £000 |
| Central Government bodies | 12,393 |
| Other Local Authorities | 3,576 |
| NHS Bodies | 3 |
| Public Corporations and Trading Funds | 134 |
| Other Entities and Individuals | 5,060 |
| | <u>21,166</u> |

Group Note 9 - Cash and Cash Equivalents

| | 31 March 2015 |
|---|-----------------------|
| | £000 |
| Cash at bank and in hand | 69,495 |
| Short-term deposits with building societies | 31,340 |
| | <u>100,835</u> |

Group Note 10 - Short Term Creditors

| | 31 March 2015 |
|---------------------------------------|------------------------|
| | £000 |
| Central Government bodies | (1,245) |
| Other Local Authorities | (4,236) |
| NHS Bodies | - |
| Public Corporations and Trading Funds | (248) |
| Other Entities and Individuals | (24,911) |
| | <u>(30,640)</u> |

Group Note 11 - Provisions

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

| | Insurance Excess £000 | Employment Related £000 | Capital Expenditure £000 | Total £000 |
|----------------------------|-----------------------------|-------------------------------|--------------------------------|---------------------|
| At 1 April 2014 | - | - | - | - |
| Balances transferred in | (306) | (45) | (384) | (735) |
| Revised opening balance | (306) | (45) | (384) | (735) |
| Additional Provisions Made | (69) | (250) | - | (319) |
| Utilised during the year | 38 | 45 | 200 | 283 |
| At 31 March 2015 | <u>(337)</u> | <u>(250)</u> | <u>(184)</u> | <u>(771)</u> |

(1) Public liability claims for minor accidents to the public, and Employers' liability claims for work related illnesses received 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.

Notes to the Group Financial Statements

Group Note 12 - Defined Benefit Pension Scheme

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

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

Results under IAS 19 (LGPS funded benefits)

The figures below relate to the funded liabilities within the fund which is part of the Local Government Pension Scheme.

| | NECA | Nexus |
|--|---------------|-------|
| Date of the last full actuarial valuation of the employer's LGPS funded benefits | 31 March 2013 | |
| Expected employer contributions next year (£m) | 0.01 | 7.35 |

Basis for Estimating Assets and Liabilities

The latest actuarial valuation of the Authority's liabilities took place as at 31 March 2013. Liabilities have been estimated by the independent qualified actuary on an actuarial basis using the projected credit method. The principal assumptions used by the actuary in updating the latest valuation of the Fund for IAS19 purposes are shown below.

Principal Mortality and Financial Assumptions

The principal assumptions used by the actuary in 2014/15 are:

| | NECA | Nexus |
|---|------|-------|
| Mortality assumptions: | | |
| Longevity at 65 for current pensioners: | | |
| Men | 23.1 | 23.1 |
| Women | 24.7 | 24.7 |
| Rate for discounting scheme liabilities | 3.1% | 3.2% |
| Rate of increase in pensions | 1.8% | 1.8% |
| Rate of increase to deferred pensions | 1.8% | 1.8% |
| Rate of increase in salaries | 3.3% | 3.3% |

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

| Asset allocation | Value at 31 March 2015 | | |
|------------------|------------------------|--------------|---------------|
| | Quoted | Unquoted | Total |
| Equities | 58.2% | 8.2% | 66.4% |
| Property | 0.0% | 9.5% | 9.5% |
| Government bonds | 3.7% | 0.0% | 3.7% |
| Corporate bonds | 11.7% | 0.0% | 11.7% |
| Cash | 2.4% | 0.0% | 2.4% |
| Other | 4.2% | 2.1% | 6.3% |
| Total | 80.2% | 19.8% | 100.0% |

Notes to the Group Financial Statements

| Reconciliation of funded status to balance sheet | NECA | Nexus |
|--|---------------|-----------------|
| | 31 March 2015 | |
| | £000 | £000 |
| Fair value of assets | 37,770 | 181,010 |
| Present value of funded defined benefit obligation | 34,520 | 224,210 |
| Funded status | 3,250 | (43,200) |
| Impact of minimum funding requirement / asset ceiling | (3,250) | - |
| Asset / (liability) recognised on the balance sheet | - | (43,200) |

The split of the liabilities at the last valuation between the various categories of members is as follows:

| | NECA | Nexus |
|---------------------|------|-------|
| Active members | 26% | 35% |
| Deferred Pensioners | 13% | 11% |
| Pensioners | 61% | 54% |

Transactions Relating to Post-employment benefits

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

Breakdown of amounts recognised in surplus or deficit on the provision of services and other comprehensive income (OCI)

| | Period ending 31 March 2015 | |
|---|-----------------------------|---------------|
| | NECA £000 | Nexus £000 |
| Operating cost | | |
| Current service cost* | 10 | 3,680 |
| Past service costs (inc. curtailments) | - | 90 |
| Settlement cost | - | - |
| Financing cost | | |
| Interest on net defined benefit liability / (asset) | - | 1,440 |
| | 10 | 5,210 |

Pension expense recognised in surplus or deficit on the provision of services

Remeasurements in OCI

| | | |
|--|--------------|---------------|
| Return on plan assets (in excess of) / below that recognised in net interest | (2,750) | (12,720) |
| Actuarial (gains) / losses due to changes in financial assumptions | 2,340 | 22,510 |
| | - | - |
| Actuarial (gains) / losses due to changes in demographic assumptions | | |
| Actuarial (gains) / losses due to liability experience | (460) | (1,120) |
| Total Actuarial (gains) / losses | (870) | 8,670 |
| Adjustment in respect of paragraph 58 | 870 | - |
| Total amount recognised in OCI | - | 8,670 |
| | 10 | 13,880 |

Total amount recognised in surplus or deficit on provision of services and OCI

*Allowance for administration expenses included in current service cost (£0.015m)

Changes to the present value of the defined benefit obligation

Notes to the Group Financial Statements

| | Period ending 31 March 2015 | |
|--|-----------------------------|----------------|
| | NECA £000 | Nexus £000 |
| Opening defined benefit obligation | - | 197,010 |
| Balances transferred in | 32,640 | - |
| Revised Opening Balance | 32,640 | 197,010 |
| Current service cost | 10 | 3,680 |
| Interest expense on defined benefit obligation | 1,340 | 8,340 |
| Contributions by participants | - | 1,250 |
| Actuarial (gains) / losses due to changes in financial assumptions | 2,340 | 22,510 |
| | - | - |
| Actuarial (gains) / losses due to changes in demographic assumptions | | |
| Actuarial (gains) / losses due to liability experience | (460) | (1,120) |
| Net benefits paid out | (1,350) | (7,550) |
| Past service cost (inc. curtailments) | - | 90 |
| Net increase in liabilities from disposals / acquisitions | - | - |
| Settlements | - | - |
| Closing defined benefit obligation | 34,520 | 224,210 |

Changes to the fair value of assets

| | Period ending 31 March 2015 | |
|--|-----------------------------|----------------|
| | NECA £000 | Nexus £000 |
| Opening fair value of assets | - | 159,410 |
| Balances transferred in | 34,920 | - |
| Revised Opening Balance | 34,920 | 159,410 |
| Interest income on assets | 1,440 | 6,900 |
| Remeasurement gains / (losses) on assets | 2,750 | 12,720 |
| Contributions by the employer | 10 | 8,280 |
| Contributions by participants | - | 1,250 |
| Net benefits paid out | (1,350) | (7,550) |
| Net increase in assets from disposals / acquisitions | - | - |
| Settlements | - | - |
| Closing fair value of assets | 37,770 | 181,010 |

Actual return on assets

| | Period ending 31 March 2015 | |
|--|-----------------------------|---------------|
| | NECA £000 | Nexus £000 |
| Interest income on assets | 1,440 | 6,900 |
| Remeasurement gains / (losses) on assets | 2,750 | 12,720 |
| Actual return on assets | 4,190 | 19,620 |

Results under IAS 19 (LGPS unfunded benefits)

The results below relate to unfunded pension arrangements established by the Employer. These are termination benefits made on a discretionary basis upon early retirement in respect of members of the LGPS. No pension fund exists to meet these benefits.

| | 31/03/2013 | |
|--|------------|-------|
| | NECA | Nexus |
| Date of the last full actuarial valuation of the employer's LGPS unfunded benefits | | |
| Expected Employer payments directly to beneficiaries next year (£m) | 0.05 | 0.48 |

Notes to the Group Financial Statements

Reconciliation of unfunded defined benefit obligation to balance sheet

| | Value at 31 March 2015 | |
|--|------------------------|----------------|
| | NECA £000 | Nexus £000 |
| Present value of unfunded defined benefit obligation | 1,020 | 4,660 |
| Asset/(liability) recognised on the balance sheet | (1,020) | (4,660) |

Breakdown of amounts recognised in surplus or deficit on the provision of services and other comprehensive income (OCI)

| | Period ending 31 March 2015 | |
|---|-----------------------------|---------------|
| | NECA £000 | Nexus £000 |
| Operating cost | | |
| Current service cost | - | - |
| Past service cost (inc curtailments) | - | - |
| Settlement cost | - | - |
| Financing cost | | |
| Interest on net defined benefit liability/(asset) | 40 | 190 |
| | 40 | 190 |
| Expense recognised in surplus or deficit on the provision of services | | |
| Remeasurements in OCI | | |
| Return on plan assets (in excess of)/below that recognised in net interest | - | - |
| Actuarial (gains)/losses due to changes in financial assumptions | 80 | 200 |
| Actuarial (gains)/losses due to changes in demographic assumptions | - | - |
| Actuarial (gains)/losses due to liability experience | (10) | (40) |
| Total amount recognised in OCI | 70 | 160 |
| Total amount recognised in surplus or deficit on the provision of services and OCI | 110 | 350 |

Changes to the present value of the defined benefit obligation

| | Period ending 31 March 2015 | |
|--|-----------------------------|---------------|
| | NECA £000 | Nexus £000 |
| Opening defined benefit obligation | - | 4,780 |
| Balances transferred in | 960 | - |
| Revised Opening Balance | 960 | 4,780 |
| Current service cost | - | - |
| Interest expense on defined benefit obligation | 40 | 190 |
| Contributions by participants | - | - |
| Actuarial (gains)/losses due to changes in financial assumptions | 80 | 200 |
| Actuarial (gains)/losses due to changes in demographic assumptions | - | - |
| Actuarial (gains)/losses due to liability experience | (10) | (40) |
| Net benefits paid out | (50) | (470) |
| Past service cost (inc. curtailments) | - | - |
| Net increase in liabilities from disposals/acquisitions | - | - |
| Settlements | - | - |
| Closing defined benefit obligation | 1,020 | 4,660 |

Notes to the Group Financial Statements

Changes to the fair value of assets

| | Period ending 31 March 2015 | |
|--|-----------------------------|---------------|
| | NECA £000 | Nexus £000 |
| Opening fair value of assets | - | - |
| Balances transferred in | - | - |
| Revised Opening Balance | - | - |
| Interest income on assets | - | - |
| Remeasurement gains/(losses) on assets | - | - |
| Contributions by the employer | 50 | 470 |
| Contributions by participants | - | - |
| Net benefits paid out | (50) | (470) |
| Net increase in assets from disposals/acquisitions | - | - |
| Settlements | - | - |
| Closing fair value of assets | - | - |

Notes to the Group Financial Statements

Group Note 13 - Deferred Tax Liability

Deferred Tax in the Group Accounts relates wholly to Nexus.

The movement for the year comprises:

| | 2014/15 |
|-----------------------------------|----------------|
| | £000 |
| Capital Allowances | 476 |
| Roll over relief on capital gains | 130 |
| Other timing differences | (3) |
| Tax effect of losses | 99 |
| | <u>702</u> |

The balance at the year-end comprises:

| | 31 March 2015 |
|--|----------------------|
| | £000 |
| Excess of Capital Allowances over depreciation | (4,573) |
| Roll over relief on capital gains | (1,362) |
| Other timing differences | 124 |
| Tax effect of losses | 1,241 |
| | <u>(4,570)</u> |

Group Note 14 - Usable Reserves

| | 31 March 2015 |
|----------------------------------|------------------------|
| | £000 |
| General Fund | (32,704) |
| Metro Reinvigoration Reserve | (10,988) |
| NELEP Earmarked Reserves | (1,996) |
| Capital Receipts Reserve | (1,050) |
| Capital Grants Unapplied Reserve | (10,688) |
| Nexus Revenue Reserves | (13,507) |
| Nexus Capital Reserves | (24,070) |
| Total Usable Reserves | <u>(95,004)</u> |

Notes to the Group Financial Statements

Group Note 15 - Unusable Reserves

Details of movements on the Capital Adjustment Account and Financial Instruments Adjustment Account are shown on pages 39 to 40 of the NECA single entity accounts. These reserves relate to NECA only.

| | 31 March 2015 |
|--|-------------------------|
| | £000 |
| Capital Adjustment Account | (85,147) |
| Financial Instruments Adjustment Account | 1,730 |
| Revaluation Reserve | (9,574) |
| Pensions Reserve | 48,880 |
| Nexus Grant Deferred Account | (396,730) |
| Nexus Unusable Capital Reserve | (34,546) |
| Total Unusable Reserves | <u>(475,387)</u> |
| | |
| Revaluation Reserve | |
| Balance at 1 April | - |
| Balances transferred in | (10,128) |
| Revised Opening Balance | (10,128) |
| Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services | 392 |
| Difference between fair value depreciation and historical cost depreciation | |
| Amount written off to the Capital Adjustment Account | 162 |
| Balance at 31 March | <u>(9,574)</u> |
| | |
| Pensions Reserve | |
| Balance at 1 April | - |
| Balances transferred in | 43,340 |
| Revised Opening Balance | 43,340 |
| Remeasurement of the net Defined Benefit Liability | 8,900 |
| Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services | 5,440 |
| Employer's pension contributions and direct payments to pensioners payable in the year | (8,800) |
| Balance at 31 March | <u>48,880</u> |
| | |
| Nexus Grant Deferred Account | |
| Balance at 1 April | (396,194) |
| Capital Grants Released | 33,834 |
| Capital Grants Applied | (34,370) |
| Balance at 31 March | <u>(396,730)</u> |
| | |
| Nexus Unusable Capital Reserve | |
| Balance at 1 April | (37,906) |
| Depreciation | 3,360 |
| Balance At 31 March | <u>(34,546)</u> |

Notes to the Group Financial Statements

Group Note 16 - Cash Flow Statement - Operating Activities

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

| | 2014/15 £000 |
|-------------------|-----------------|
| Interest received | (1,584) |
| Interest paid | 8,882 |

Group Note 17 - 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

| | 2014/15 £000 |
|--|-----------------|
| Surplus or (deficit) on the provision of services | 3,125 |
| Adjustments to Surplus or Deficit on Provision of Services for Non-Cash Movements | |
| Depreciation and impairment | 24,499 |
| (Gain)/Loss on disposal of non-current assets | 11,104 |
| (Increase)/Decrease in Creditors | 2,476 |
| Increase/(Decrease) in Debtors | 9,480 |
| Increase/(Decrease) in Inventories | 286 |
| Movement in Pension Liability | (3,360) |
| Other non-cash items charged to the net surplus or deficit on the provision of services | (3,349) |
| | <u>41,136</u> |
| Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities | |
| Capital grants credited to Surplus or Deficit on Provision of Services | (47,814) |
| Other adjustments for items that are financing or investing activities | 2,118 |
| | <u>(45,696)</u> |
| Net cash flow from operating activities | <u>(1,435)</u> |

Group Note 18 - Cash Flow Statement - Cash Flows from Investing Activities

| | 2014/15 £000 |
|--|-----------------|
| Purchase of property, plant and equipment, investment property and intangible | (27,975) |
| Purchase of short-term and long-term investments | (32,000) |
| Other payments for investing activities | - |
| Proceeds from the sale of property, plant and equipment, investment property and intangible assets | 465 |
| Proceeds from short-term and long-term investments | 24,500 |
| Other receipts from investing activities | 41,052 |
| Net cash flows from investing activities | <u>6,041</u> |

Notes to the Group Financial Statements

Group Note 19 - Cash Flow Statement - Cash Flows from Financing Activities

| | 2014/15 |
|---|------------------------|
| | £000 |
| Cash receipts of short and long-term borrowing | - |
| Other receipts from financing activities | - |
| Repayments of short and long-term borrowing | (6,000) |
| Other payments for financing activities | (11,059) |
| Net cash flows from financing activities | <u>(17,059)</u> |

Part 4: Accompanying Documents

Comprising:

- Annual Governance Statement
- Glossary of Terms
- External Audit Opinion

Annual Governance Statement

North East Combined Authority

Annual Governance Statement 2014/15

| | |
|------------------|---|
| Section 1 | Scope of Responsibility |
| Section 2 | The Purpose of the Governance Framework |
| Section 3 | The Governance Framework |
| Section 4 | Annual Review of Effectiveness of Governance Framework |
| Section 5 | Significant Weaknesses in Governance and Internal Control |
| Section 6 | Conclusion |

Section 1: Scope Of Responsibility

The seven local authorities of Durham, Gateshead, Newcastle Upon Tyne, North Tyneside, Northumberland, South Tyneside and Sunderland, as the already established North East Leadership Board came together in April 2014 to establish a Combined Authority for the area. Building on the successful track record of joint working we now have an accountable, stable and enabling platform which reinforces and strengthens existing partnership arrangements to collectively drive forward change and enable economic growth. We are able to bring together a democratic mandate with a strong business voice which will enable us to plan for growth in the long-term in a global context.

We (the North East Combined Authority) are responsible for ensuring that our 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. We also have a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which we exercise our functions, having regard to a combination of economy, efficiency and effectiveness.

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

(i) the governance of our affairs; and

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

Annual Governance Statement

In relation to (ii) the Authority 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 aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to:

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

Section 2: Purpose Of The Governance Framework

In addition to the above the Authority's Governance Framework comprises the systems, processes, culture, values and activities through which we are directed and controlled and through which we account to, engage with, and lead the community. It enables us to monitor the achievement of the Authority's objectives and to consider whether those objectives have led to the delivery of appropriate services which represent value for money.

The Governance Framework has been in place for the year ended 31 March 2015 and up to the date of approval of the Authority's Annual Report and Accounts.

This Annual Governance Statement meets the requirements of Regulation 4(3) of the Accounts and Audit (England) Regulations 2011 which requires all relevant public bodies to prepare an annual governance statement.

Section 3: The Governance Framework

Our Governance Framework is developing, following the formation of the North East Combined Authority in April 2014, and is maturing with the organisation. As such systems, processes and controls are developing and adapting to meet the needs of the Combined Authority going forward, to ensure we are in the best position to achieve our objectives. In this early stage of the development of the organisation there continues to be a challenge to understand the resources available and therefore to fully utilise them to support the Leadership Board.

The core principles and outcomes of our Governance framework are set out below and through these we will aim to provide strong governance to support our objectives:

Annual Governance Statement

Focusing on our objectives and outcomes

1.1 We ensure that we are clear on our objectives and the intended outcomes for residents and service users, ensuring these are effectively communicated internally and externally.

1.2 We ensure we assess and review our vision and the implications for our governance arrangements through the budget and performance management framework.

Members and officers have clearly defined roles and responsibilities

2.1 We have defined and documented in our constitution the roles and responsibilities of the Board, Scrutiny and officer functions, with clear delegation arrangements and protocols for effective communication. The collective and individual roles and responsibilities of the Leadership Board, Members and officers have been agreed by the Combined Authority.

We promote high standards of conduct and behavior

3.1 We develop, communicate and embed codes of conduct as set out in the Constitution, defining standards of behaviour for members and officers working on behalf of the Authority. Governance Committee deals with issues of conduct and promotes high standards among officers and members, reporting annually to Leadership Board.

Transparent decision making subject to scrutiny and risk management

4.1 We review and update our standing orders, standing financial instructions, scheme of delegation and supporting procedure notes/manuals - these clearly define how decisions are taken and the processes and controls required to manage risks. We ensure compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful. The interim Monitoring Officer (Head of Law and Governance and Technical Support, North Tyneside Council) advises on compliance with our policy framework, ensuring that decision making is lawful and fair. Our financial management arrangements conform to the CIPFA Statement on the Role of the Chief Finance Officer and are the responsibility of the interim Chief Finance Officer.

4.2 We ensure that our Governance Committee undertakes the core functions identified in CIPFA's Audit Committees – Practical Guidance for Local Authorities 2013.

4.3 We ensure that there are effective arrangements for “Whistle-blowing” and for receiving and investigating complaints from the public.

Annual Governance Statement

Developing the capacity of members and officers to be effective

5.1 We identify and aim to address the development needs of members and officers in relation to their strategic roles, and support these with appropriate training.

Engaging with local people and stakeholders

6.1 We have established channels of communication with the community and other stakeholders, ensuring accountability and encouraging open consultation. Meetings are held in public unless there are good reasons for confidentiality.

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

Section 4: Annual Review Of Effectiveness Of Governance Framework

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

The review is informed by:

(a) The views of our internal auditor, reported to Governance Committee through regular progress reports, and the Annual Internal Audit Opinion.

(b) An annual review of the effectiveness of internal audit (as required by Regulation 6(3) of the Accounts and Audit Regulations (England) 2011).

(c) The views of our external auditor, regularly reported to Governance Committee through regular progress reports and the final report to the Leadership Board.

(d) The activities and operations of the themes (economic development and regeneration, employability and inclusion, and transport) and significant partnerships through written assurance statements.

(e) The views of the Authority's Monitoring Officer, Chief Finance Officer and Senior Information Risk Owner.

(f) The views of Members through the ongoing activities of Governance Committee (Governance Committee includes the activity of an Audit Committee providing independent assurance on the effectiveness of the governance and internal control environment and a Standards Committee which ensures that effective arrangements are in place to maintain high standards of conduct and behaviour).

Annual Governance Statement

(g) The Risk Management Process, particularly the Strategic Risk Register

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

Section 5: Significant Weaknesses In Governance and Internal Control

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

The review highlighted no significant weaknesses in governance or internal control during 2014/15.

Section 6: Conclusion

We consider the governance and internal control environment operating during 2014/15 to provide reasonable and objective assurance that any significant risks impacting on the achievement of our principal objectives will be identified and actions taken to avoid or mitigate their impact.

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

We have been advised on the implications of the review by the Governance Committee. We propose over the coming year to continue to improve our governance and internal control arrangements. We will monitor the implementation and operation of the improvements, as part of our next annual review.

Glossary of Terms

| | |
|--------------------------------------|--|
| Abbreviations | The symbol 'k' following a figure represents £ thousand. The symbol 'm' following a figure represents £ million.' |
| Accruals | Income and expenditure are recognised as they are earned or incurred, not as money is received or paid. |
| Accounting policies | Those principles, bases, conventions, rules and practices applied by an entity that specify how the effects of transactions and other events are to be reflected in its financial statements. |
| Actuarial gains or losses (Pensions) | For a defined benefit pension scheme, the changes in actuarial deficits or surpluses that arise either because events have not coincided with the actuarial assumptions made for the last valuation (experience gains or losses), or the actuarial assumptions themselves have changed. |
| Amortise | To write off gradually and systematically a given amount of money within a specific number of time periods. |
| Assets | Items of worth which are measurable in terms of money. |
| Assets Held for Sale | Those assets, primarily long-term assets, that the Authority wishes to dispose of through sale to others. |
| Balances | The total level of surplus funds the Authority has accumulated over the years. |
| Budgets | A statement of the Authority's forecast expenditure, that is, net revenue expenditure for the year. |
| Capital Expenditure | Expenditure on the acquisition of a fixed asset or expenditure which adds to and not merely maintains the value of an existing fixed asset. |
| Capital Adjustment Account | The account accumulates (on the debit side) the write down of the historical cost of fixed assets as they are consumed by depreciation and impairments or written off on disposal. It accumulates (on the credit side) the resources that have been set aside to finance capital expenditure. The same process applies to capital expenditure that is only capital by statutory definition (revenue expenditure funded from capital under statute). The balance on the account represents timing differences between the amount of the historical cost of fixed assets that has been consumed and the amount that has been financed in accordance with statutory requirements. |

Glossary of Terms

| | |
|--|---|
| Capital Receipts | Monies received from the disposal of land and other fixed assets, and from the repayment of grants and loans made by the Authority |
| Code of Practice on Local Authority Accounting in the UK | The Code specifies the principles and practices of accounting to give a 'true and fair' view of the financial position and transactions of a local authority. |
| Comprehensive Income & Expenditure Statement | This account summarises the resources that have been generated and consumed in providing services and managing the Authority during the financial year. |
| Consistency | The principle that the accounting treatment of like items within an accounting period and from one period to the next is the same. |
| Contingent Asset | A contingent asset is a possible asset arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Authority's control. |
| Contingent Liability | A contingent liability is either (i) a possible obligation arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Authority's control, or (ii) a present obligation from past events where it is not probable that a transfer of economic benefits will be required or the amount of the obligation cannot be measured with sufficient reliability. |
| 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. |
| Corporate & Democratic Core | The corporate & democratic core comprises all activities which local authorities engage in specifically because they are elected, multipurpose authorities. |
| Creditors | An amount owed by the Authority for work done, goods received or services rendered, but for which payment has not been made. |
| Current Service Cost (Pensions) | The increase in the present value of a defined benefit scheme's liabilities expected to arise from employee service in the current period. |

Glossary of Terms

| | |
|--|---|
| Curtailment (Pensions) | For a defined benefit pension scheme an event that reduces the expected years of future service of present employees or reduces for a number of employees the accrual of defined benefits for some or all of their future service. Examples include termination of employee's service through redundancy or amendment of the terms affecting future benefits. |
| Debtors | Monies owed to the Authority but not received at the balance sheet date. |
| Defined Benefit Scheme (Pensions) | A pension or other retirement scheme other than a defined contribution scheme. Usually, the scheme rules define the benefits independently of the contributions payable, and the benefits are not directly related to the investments of the scheme. The scheme may be funded or unfunded. |
| Depreciation | The measure of the wearing out, consumption or other reduction in the useful economic life of an asset. |
| Earmarked Reserve | A sum set aside for a specific purpose. |
| Emoluments | Payments received in cash and benefits for employment. |
| Events after the Balance Sheet Date | Events after the balance sheet date are those events, favourable and unfavourable, that occur between the balance sheet date and the date when the statement of Accounts is authorised for issue. |
| Expected Rate of Return on Pensions Assets | This is an actuarially calculated estimate of the return on the scheme's investment assets during the year. |
| Fair Value | The fair value of an asset is the price at which it could be exchanged in an arm's length transaction less, where applicable, any grants receivable towards the purchase or use of the assets. |
| Fees and Charges | Income arising from the provision of services, for example, charges for the use of leisure facilities. |
| Finance Lease | A lease that transfers substantially all of the risks and rewards of ownership of a fixed asset to the lessee. The payments usually cover the full cost of the asset together with a return for the cost of finance. |
| Financial Instrument | Document (such as a cheque, draft, bond, share, bill of exchange, futures or options contract) that has a monetary value or evidences a legally enforceable (binding) agreement between two or more parties regarding a right to payment of money. |

Glossary of Terms

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|--|--|
| Financial Instruments Adjustment Account | The reserve records the accumulated difference between the financing costs included in the Comprehensive Income & Expenditure Account and the accumulated financing costs required in accordance with regulations to be charged to the General Fund Balance. |
| General Fund | The total services of the Authority, the net cost of which is met by the Levy, Government Grants and other Contributions. |
| Going Concern | The concept that the Authority will remain in operational existence for the foreseeable future, in particular that the revenue accounts and balance sheet assume no intention to curtail significantly the scale of operations. |
| Impairment | A reduction in the value of a fixed asset below its carrying amount on the balance sheet resulting from causes such as obsolescence or physical damage. |
| Intangible Assets | An asset that is not physical in nature, e.g. software licences. |
| Interest Cost (Pensions) | For a defined benefit scheme, the expected increase during the period in the present value of the scheme liabilities because the benefits are one period closer to settlement. |
| Investment Properties | Interest in land and buildings where construction work and development has been completed and the asset is held for its investment potential, any rental income being negotiated at arms length. |
| Liabilities | Any amounts owed to individuals or organisations which will have to be paid at some time in the future. |
| Liquid Resources | Current asset investments that are readily disposable by the Authority without disrupting its business and are either readily convertible to known amounts of cash at or close to the carrying amount or traded in an active market. |
| Materiality | An item is material if its omission, non-disclosure or misstatement in the financial statements could be expected to lead to a distortion of the view given by the financial statements. |
| Minimum Revenue Provision (MRP) | An amount charged by the Authority against its reserves 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. |

Glossary of Terms

| | |
|-----------------------------------|--|
| Non-Domestic Rates (NDR) | Rates which are levied on business properties. |
| Net Book Value | The amount at which fixed assets are included in the balance sheet being the historical cost or current value less the cumulative amounts provided for depreciation. |
| Net Debt | The Authority's borrowings less cash and liquid resources. |
| Operating Leases | Leases other than a finance lease. |
| Property, Plant & Equipment (PPE) | Assets that yield benefits to the Authority and the services that it provides for a period of more than one year. Examples include land, buildings and vehicles. |
| Provisions | These are sums set aside to meet liabilities or losses which have been incurred but where the amount and/or timing of such costs are uncertain. |
| Prudence | This accounting concept requires that revenue is not anticipated until realisation can be assessed with reasonable certainty. Provision is made for all known liabilities whether the amount is certain or can only be estimated in the light of information available. |
| Public Works Loan Board | This is a Government agency which provides loans to local authorities at favourable rates. |
| Related Party Transactions | A related party transaction is the transfer of assets or liabilities or the performance of services by, to or for a related party irrespective of whether a charge is made. An example could be the purchase, sale, lease, rental or hire of assets between related parties. |
| Reserves | These are sums set aside to meet possible future liabilities where there is no certainty about whether or not these liabilities will be incurred. |
| Residual Value | The net realisable value of an asset at the end of its useful life. Residual values are based on prices prevailing at the date of the acquisition (or revaluation) of the asset and do not take account of expected future price changes. |
| Revaluation Reserve | The reserve records the accumulated gains on the fixed assets held by the Authority arising from increases in value as a result of inflation or other factors. |

Glossary of Terms

| | |
|---|---|
| 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, e.g. improvement grants. |
| 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. |

North East Combined Authority

Governance Committee

Date: 11 September 2015

Subject: External Auditor's report to the Leadership Board of the North East Combined Authority

Report of: External Audit

Executive Summary

The purpose of this report is to present the report of the External Auditor which summarises the findings of the 2014/15 Audit.

Recommendations

It is recommended that the Committee consider and comment of the report of the External Auditor which is attached as Appendix 1 to this report.

North East Combined Authority

Governance Committee

1 Background Information

- 1.1 The draft accounts of North East Combined Authority for 2014/15 were completed in advance of the statutory deadline of 30 June 2015. They have since been subject to audit by the Authority's independent external auditor, Deloitte, whose report is attached at Appendix 1. This audit is now largely complete and the report sets out the findings and recommendations arising from Deloitte's work.

2 Proposals

- 2.1 Details of the audit opinion and findings are set out in Deloitte's report at Appendix 1. The External Auditor anticipates issuing an unqualified opinion on the Statement of Accounts and an unqualified opinion on the Annual Governance Statement.

3 Next Steps

- 3.1 External Audit will attend the meeting on 11 September to provide an update on the audit at that point. Any points which the Governance Committee wish to be brought to the attention of the Leadership Board will be reported to their meeting on 15 September.
- 3.2 The Accounts must be signed by the Chair of the North East Combined Authority and the Chief Finance Officer by 30 September 2015, and published online by this date.

4 Potential Impact on Objectives

- 4.1 There are no direct impacts on objectives as a result of this report. Sound financial stewardship improves the ability of the Authority to meet all of its objectives.

5 Finance and Other Resources

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

6 Legal

- 6.1 The Accounts and Audit (England) Regulations 2011 set out the responsibilities of bodies such as NECA in relation to the production of statutory accounts and their audit. Under the NECA Constitution, it is the

North East Combined Authority

Governance Committee

responsibility of Governance Committee to review key information relating to the NECA's Statement of Accounts, but the approval of the Accounts is a responsibility for the Leadership Board.

7 Other Considerations

7.1 Consultation/Community Engagement

The accounts have been subject to a period of public inspection from 1 July to 31 July 2015.

7.2 Human Rights

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

7.3 Equalities and Diversity

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

7.4 Risk Management

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

7.5 Crime and Disorder

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

7.6 Environment and Sustainability

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

8 Background Documents

8.1 North East Combined Authority Annual Report and Accounts 2014/15.

9 Links to the Local Transport Plans

9.1 There are no links to plans in the policy framework

10 Appendices

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

11 Contact Officers

11.1 Eleanor Goodman, Senior Accountant NECA,
eleanor.goodman@newcastle.gov.uk, 0191 277 7518

North East Combined Authority

Governance Committee

12 Sign off

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

North East Combined Authority

Report to the Governance Committee of the North East
Combined Authority

31 March 2015

Governance Committee
North East Combined Authority
Quadrant
Cobalt Business Park
The Silverlink North
North Tyneside
NE27 0BY

4 September 2015

Dear Sirs,

We have pleasure in setting out in this document our report to the Governance Committee with regard to the North East Combined Authority (NECA) for the year ended 31st March 2015. This report covers the principal matters that have arisen from our audit for the year ended 31st March 2015.

In summary:

Our audit work is substantially complete. The outstanding areas which remain are detailed in our report. We will be in attendance at the Committee meeting on the 11th September 2015 and will present an update on our audit at that time.

- There are a number of judgemental areas to which we draw your attention in our report.
- In the absence of unforeseen difficulties, management and we expect to meet the agreed audit and financial reporting timetable.

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



Paul Thomson

Senior Statutory Auditor

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Member of Deloitte Touche Tohmatsu Limited

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A reminder of our audit plan:

- We determined materiality as £4.5m and a reporting threshold of £223k.
- We identified 4 significant risks in our Audit Plan and have not made any changes from the scope set out in the Audit Plan.
- We have taken a substantive approach to testing the financial statements as the control based audit approach has not been considered appropriate for the current year.



The big picture

The Big Picture

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

Audit work

- We have discussed our initial comments on the draft financial statements with management.
- From our audit work on the financial statements we have not identified any material misstatements or significant deficiencies in internal controls at the Combined Authority. We identified one adjustment which was below our reporting threshold and a number of minor disclosure deficiencies were identified which have been corrected by management.
- Our work completed to date supports an unqualified Value for Money conclusion.
- We have assessed the adequacy of the Annual Governance Statement and have noted no issues with its content or presentation.

A representation letter will be circulated separately for consideration by management.

From our work undertaken to date we expect to issue an unmodified opinion in line with your specified deadlines.

We have the following principal matters to complete:

- receipt of the Lloyds bank confirmation letters;
- completion of the recoverability of debtors testing;
- responses in relation to LEP related party questions;
- completion of the Whole of Government Accounts review and cashflow and group accounts testing;
- receipt of assurance over pension assets from Tyne and Wear Pension Fund auditors;
- receipt of outstanding investment and loan letters;
- review of revised financial statements and consolidation of the group accounts; and
- final review and close down procedures including subsequent events review and receipt of letter of representation.

Significant audit risks

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

1. Revenue Recognition

We identified a significant risk in relation to Tyne Tunnel toll income and grant income.

Nature of risk

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

The key considerations in relation to the risk

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

- Considerations resulting from the cash nature of the receipts and the fraud risk factors related to this, including cut-off.

We have identified recognition of grant income as a significant risk due to:

Grant income being recognised only once any conditions attached to the grant income have been met;

Significant management judgement around determining if there are any conditions attached to a grant, and if so whether the conditions have been met.

- Complex accounting for grant income as the basis for revenue recognition in the accounts will depend on the scheme rules for each grant.

Audit work completed to address the significant risk

- We tested the design and implementation of controls management has put in place to provide assurance that income is recognised in the correct period.
- We performed detailed testing around the cut-off of Tyne Tunnel income and the reconciliations between information received from TT2, cash banked, and revenue recognised.
- We carried out detailed testing of grant income to check that recognition of income properly reflects the grant scheme rules, that entitlement is in agreement with the interim or final grant claim and that the grant control account balance has been properly reconciled.
- We have reviewed correspondence attached to specific grants and used this to assess the Authority's accounting treatment.

Deloitte view

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

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

2. Management override of controls

In accordance with International Standards on Auditing (ISA 240), we presume that there is a risk of fraud as a result of management override of controls.

Nature of risk

Management occupy a unique position within the NECA in that their financial success, standing among their peers, and future career prospects can be heavily influenced by the financial results achieved by the NECA. They are able, through the exercise of management judgement, bias and posting of journals, to override the normal operational controls within NECA and fraudulently manipulate the financial results.

The key considerations in relation to the risk

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

Management may override controls through:

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

Audit work completed to address the significant risk

We have performed the following audit procedures:

- We have gained an understanding of the financial reporting process and the controls over journal entries and other adjustments made in the preparation of the financial statements.
- We used our "Audit Analytics" software to test a sample of journals to assess the appropriateness of the entries and adjustments made.
- We reviewed accounting estimates for bias that could result in material misstatement due to fraud.
- We were vigilant in looking for related party transactions whilst performing our audit testing.

Deloitte view

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

For the journals posted in relation to the LEP we identified one internal control deficiency in that there was no requirement for journals to be authorised before being posted. Management have performed a retrospective review of all journals and from the sample we tested we did not identify any issues with the actual journals posted.

3. Transfer of the Local Enterprise Partnership

We consider a significant risk exists in relation to the transfer of the opening balances of the LEP to the NECA.

Nature of risk

We conclude that there is a significant risk in relation to accounting for the transfer of opening balances of the LEP to the NECA, and the completeness of the balances transferred.

The key considerations in relation to the risk

This is the first year of integration of the LEP and thus there are consolidation considerations that are associated with this. Moreover, as the LEP has not been subject to a focused audit in prior years, by either ourselves or the previous auditors, we do not have assurance over the opening balances.

An added complication is the timing difference between the prior year end and the date of the transfer of the LEP.

Audit work completed to address the significant risk

We tested the design and implementation of controls put in place to provide assurance that the LEP balances were appropriately consolidated into the accounts of the NECA.

- We performed detailed testing on the opening balances transferred with the LEP.
- We reviewed the display of the new LEP entries against the CIPFA Code to verify that they are being appropriately presented.

Deloitte view

From our testing undertaken we have not identified any issues with the completeness of the LEP balances which transferred or the consolidation of these balances into the NECA financial statements.

Note 1 of the financial statements sets out the Authority's accounting treatment for the differences between the prior year end and the date of the transfer of the LEP, Given the immaterial size of the balances and in the interests of comparability and understandability we consider this treatment to be reasonable.

4. Recoverability of Loans

We consider there to be a significant risk around the recoverability of loans.

Nature of risk

We consider there to be a significant risk around the recoverability of loans.

The key considerations in relation to the risk

The LEP provides funding to local businesses through the North East Investment Fund.

The following factors have influenced our assessment:

- These operations are relatively new, with a significant amount of loans in their early stages.
- The LEP lacks significant historical data to use as a basis for calculating a general provision.
- The LEP will often be approached due to the applicants' inability to gain funding from other sources.

The LEP will always sit behind commercial banks in any Deed of Priorities in the case of a default.

The loans are cumulatively high in value.

As such, we consider the recoverability of these loans to be a significant risk.

Audit work completed to address the significant risk

- We tested the design and implementation of controls put in place to provide assurance that the process for evaluating and granting loans is sufficiently robust, and provides adequate assurance over the likelihood of recovery.
- We reviewed NECA's arrangements for monitoring and reporting compliance with loan terms.
- We are in the process of performing detailed testing on a sample of loans including assessing the security provided against the loan, repayments made and interest charged.

Deloitte view

Our work in relation to the recoverability of loans is on going and we will provide an update on our testing at the committee meeting.

From our review of the loan documentation we identified that in a small number of cases changes to the way in which the funding was to be provided to an applicant i.e. as a grant rather than a loan, was not fully updated in the signed documentation.

Value for money and the Annual Governance Statement

Value for Money Conclusion

Requirement

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

Area of Focus

In 2014/15 as set out in the *2014/15 Work Programme and Scales of Fees: Local Government*, the approach to local VFM audit work at the larger relevant bodies, including the Authority, is not based on criteria specified by the Commission. For 2014/15, auditors of these bodies will continue to meet their VFM duty by:

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

Audit work completed

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

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

Annual Governance Statement

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

Area of Focus

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

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

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

Our review is directed at:

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

Audit work completed

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

- reviewed compliance with the requirements as set out in the Code of Practice on Local Authority Accounting in the United Kingdom 2014-15.
- reviewed the Governance Statement to confirm that it is consistent with internal audit reports, board minutes, the Internal Audit Annual Report and Opinion and our work on the financial statements.

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

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

Insight - Internal control and risk management

Internal control and risk management



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

| Significant Risk | Internal Controls | Current position |
|--|---|------------------|
| Fraudulent manipulation of revenue recognition | <ul style="list-style-type: none"> Regular finance report to the Authority. Grant documentation reviewed for conditions and retained on file to provide assurance that the release is inline with conditions. Weekly reconciliation provided by TT2 between the level of traffic and the payment amount. Treasury management service provided by Newcastle City Council. | G |
| Management override of controls | <ul style="list-style-type: none"> Regular financial reporting to the Authority including progress against budget. Budget holders responsible for monitoring progress against budget. Manual approval process for journals with journals posted by the finance team reviewed by senior accountant. | A |
| Transfer of the LEP | <ul style="list-style-type: none"> A full reconciliation was performed for the LEP balances which transferred. All LEP cost centres are in a specific range within Sunderland's ledger and there are regular budget monitoring meetings held with the LEP officers. | G |
| Recoverability of loans | <ul style="list-style-type: none"> An internal team at Sunderland City Council perform background checks on applicants. An Investment Panel, comprising of appropriately qualified and experienced members, make recommendations to the LEP Board on which applications should be accepted or rejected. Applicants must sign a Statement of Good Standing. Business plans are evaluated by appropriately qualified and experienced consultants. Contracts are written up by an appropriately qualified and experienced lawyer or firm of lawyers. Loan recipients must deliver Quarterly Monitoring Reports to the LEP. The NECA have guidelines in place for the setting of interest rate and lending levels to mitigate any potential breach of State Aid regulations. The applicant's Quantity Surveyor must sign a Duty of Care to the LEP. The LEP will always seek maximum security against its loans. | G |

G No issues noted
 A Acceptable but could be improved
 R Requires significant improvement

Liaison with internal audit

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

Control insights identified

Authorisation of LEP journals



Description

While undertaking our journal testing it was identified that journals posted to the financial system for the LEP did not require authorisation by someone other than the preparer.

Impact

If there is no review of the journals being posted it increases the likelihood that errors will be made that will then require time and effort to correct and it also leaves the system open to fraudulent journals being posted.

Recommendation

We recommend that a control is implemented to ensure that journals are reviewed and authorised by an individual more senior than the preparer before they are posted to the system.

Management Response

Management have undertaken a retrospective review of journals posted during the year and identified no errors or cause for concern within these. However, a review and authorisation process, subject to de-minimus levels, will be put into place to bring the process for LEP journals into line with processes for other areas of NECA activity.

Control insights identified (continued)

Formal documentation of loans



Description

From our review of the documentation for the loans and grants issued by the LEP in a small number of cases we identified discrepancies between the intended way in which the funding was understood by both parties as having being provided and the way in which it has been documented in the formal contract. i.e. the contract implied that the funding was given as a loan when a change had been made and approved by the Investment Panel / LEP Board and the funding was given as a grant.

Impact

If the formal documentation does not set out the correct terms it may cause problems if one party sought to strictly enforce the terms of the contract.

Recommendation

We recommend that when any changes are made to the way in which funding is to be provided to another party by the LEP that all documentation is reviewed to ensure that it properly reflects the new situation.

Management Response

Documentation will be updated where there have been changes agreed by the Investment Panel / LEP Board to ensure records reflect the most recently agreed position.

Responsibility Statement

Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

What we report

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

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

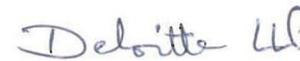
What we don't report

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

The scope of our work

- Our observations are developed in the context of our audit of the financial statements.
- We described the scope of our work in our audit plan dated 1 July 2015 and the supplementary "Briefing on audit matters" which was circulated as an appendix to the Audit Plan.

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



Deloitte LLP

Chartered Accountants

Newcastle-Upon-Tyne

4 September 2015

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

Appendices

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Appendix 1: Audit adjustments

Unadjusted misstatements detail

Uncorrected misstatements

From our testing to date we have not identified any uncorrected misstatements above our reporting threshold. We identified a number of minor disclosure deficiencies in the financial statements which have been corrected by management.

Appendix 2: Fraud: responsibilities and representations

Required representations



We have asked the Members to confirm in writing that you have disclosed to us the results of your own assessment of the risk that the financial statements may be materially misstated as a result of fraud and that you are not aware of any fraud or suspected fraud that affects the entity or group.

Concerns



No concerns have been identified from whistle blowing procedures from the work noted above and our audit procedures.

Audit work performed



In our planning we identified the risk of fraud in revenue recognition and management override of controls as key audit risks for your organisation.

During the course of our audit, we have had discussions with management and those charged with governance. We have made direct enquiries in relation to any fraud risk factors and instances of fraud during the year. Our testing of journals provides comfort over the risk of management override of controls which was raised as a fraud risk.

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The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.

Appendix 3: Independence and fees

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

Independence confirmation

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

Fees

We have not provided any non-audit services in the period from 1 April 2014 to 31 March 2015.

Non-audit services

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

Relationships

There are no other relationships with the North East Combined Authority which would impact on our objectivity and independence.

The professional fees earned by Deloitte in the period from 1 April 2014 to 31 March 2015 are as follows:

| | 2014/15 £ |
|--|---------------|
| Audit of North East Combined Authority | 32,397 |
| Total | 32,397 |

Appendix 4: Our approach to audit quality

AQR team report and findings

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

In May 2015 the Financial Reporting Council (“FRC”) issued its Annual Report on Audit Quality Inspections which provides an overview of its activities of its Audit Quality Review (“AQR”) team for the year ended 31 March 2015. It also issued individual reports on each of the four largest firms, including Deloitte. We adopt an open and communicative approach with the regulator and their contribution to audit quality is respected and supported at all levels of our firm. We consider that the AQR’s report provides a balanced view of the focus and results of its inspections and its recognition of the emphasis we place on our overall systems of quality control is welcome.

We value the regulator’s inspection and comments, and the review performed by the AQR forms an important part of our overall inspection process. We perform causal factor analysis on each significant finding arising from both our own internal quality review and those of our regulators to fully identify the underlying cause. This then drives our careful consideration of each of the FRC’s comments and recommendations, as well as findings arising from our own review to provide further impetus to our quality agenda.

The AQR’s conclusion on Deloitte

“The firm places considerable emphasis on its overall systems of quality control and, in most areas, has appropriate policies and procedures in place for its size and the nature of its client base. Nevertheless, we have identified certain areas where improvements are required to those policies and procedures. These are set out in this report. Our findings relating to reviews of individual audits largely relate to the application of the firm’s procedures by audit personnel, whose work and judgments ultimately determine the quality of individual audits. The firm took a number of steps in response to our prior year findings to achieve improvements in audit quality. This included enhanced guidance, technical communications and audit training on the recurring themes. Certain aspects of the guidance could, however, have been issued on a more timely basis.”

2014/15 Audit Quality Inspection Report on Deloitte LLP

Fifteen of the audits reviewed by the AQR were performed to a good standard with limited improvements required and five audits required improvements. No audits were assessed as requiring significant improvements. The overall analysis of the AQR file reviews by grade for the last five years evidences that, among the largest firms, Deloitte remains at the forefront of audit quality with 68% of audits reviewed by the AQR assessed as good with limited improvements required and, at 5%, the lowest level of audits being assessed as significant improvement required, with none in this category in 2014/15.

We have already taken action to respond to the key themes of the report and will continue to undertake further activities to embed the changes into our practice.

Appendix 4: Our approach to audit quality (continued)

AQR team report and findings

| Areas identified for particular attention | How addressed in our audit |
|--|---|
| Ensure that audit teams focus more on the audit of valuations and accounting estimates, including appropriate challenge of management and enhancing the quality of audit evidence relating to the key assumptions. | This area is covered by our significant audit risk around management override of control and is addressed in the Significant audit risks section of this report. |
| Improve the testing of management reports and other system generated information to obtain assurance on its reliability for audit purposes. | Where we have relied upon management reports or other system generated reports as part of our audit testing we have tested a sample to the underlying documentation to confirm that it is sufficient and reliable for audit purposes. |
| Improve the testing of controls, including the assessment of the effectiveness of monitoring controls and how identified weaknesses in IT controls are addressed. | In relation to our audit of the Combined Authority we have taken a substantive approach to testing the financial statements as the control based audit approach has not been considered appropriate for the current year. However we have undertaken design and implementation work on the controls the Authority has in place in relation to the significant risks identified above. |
| Ensure that audit planning discussions are held with Audit Committees on a more timely basis to enable their input to be reflected appropriately in the audit plan. | Our audit plan was presented to the Governance Committee in July which allowed sufficient time for any amendments to be incorporated into our audit approach. |
| Ensure more timely development of enhanced guidance when addressing internal and external quality review findings. | While this does not directly affect our audit plan, we have ensured that our engagement team has always utilised the most recent expert advice and guidance. |

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