



Chief Finance Officer's Narrative Report for the Year ended 31 March 2017

1. Introduction

This Narrative Report provides information about the North East Combined Authority, including the key issues affecting the Authority and its accounts. This report provides an explanatory narrative to key elements of the statements and sections in the accounts and also provides a summary of the Authority's financial performance for 2016/17 and its future financial prospects.

This report provides the reader with:

- A guide to the different financial statements within the Statement of Accounts.
- An overview of the activities and significant matters which occurred during the year.
- A summary of the Authority's financial performance during the year ending 31 March 2017 and its financial position at that date.
- A look ahead to 2017/18 and beyond.

The Statement of Accounts sets out the financial performance of the Authority for the year ending 31 March 2017 and its financial position at that date. They have been prepared in accordance with proper practices as set out in the Chartered Institute of Public Finance & Accountancy (CIPFA) Code of Practice on Local Authority Accounting in the United Kingdom (the Code). The Code requires that the accounts give a true and fair view of the financial 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 this report and the actual statements are contained within the accompanying Statement of Accounts document, which also includes detailed notes providing further backup relating to specific amounts and balances.

The main statements are supplemented by a further section which presents the Group Accounts, consolidating the figures of Nexus with those of the Authority. NECA is also the Accountable Body for the North East Local Enterprise Partnership (NELEP). Our accounts include all transactions relating to the NELEP and summary information is highlighted in this report.

These statements and accounts collectively provide a comprehensive view of the Authority's financial position during the period to which they relate.

The Authority seeks to make the best possible use of resources available with regard to economy, efficiency and effectiveness. This is a responsibility shared by Members and Officers of the Authority, with the Chief Finance Officer having a specific role in ensuring the adequacy of resources and proper financial administration. Our budget proposals for 2017/18, available on the NECA website (www.northeastca.gov.uk) sets out how we will do this looking forward. The Statement of Accounts accompanying this report looks back at our performance over the past year. Reviewed together they provide the reader with a complete understanding of the financial position of the Authority.

2. What is the North East Combined Authority?

The North East Combined Authority (NECA) was established in April 2014 as a new legal body that brings together the seven councils which serve Durham, Gateshead, Newcastle upon Tyne, North Tyneside, Northumberland, South Tyneside and Sunderland. Its ambition is to create the best possible conditions for growth in jobs, investment and living standards, making the North East an excellent location for business and enabling residents to develop high-level skills so they can benefit long into the future.

The Authority was established in April 2014 in order to enable more effective collaboration on the key regeneration and transport issues which cut across council boundaries.

NECA is working closely with the North East Local Enterprise Partnership (NELEP) and the wider business community to deliver the Strategic Economic Plan for the North East and capitalise on these opportunities. NECA is the Accountable Body for the NELEP and all of the financial information relating to the NELEP is included in the accounts of NECA. This has a significant impact on the accounts in 2016/17 because NECA received significantly more Local Growth Fund (LGF) grant in 2016/17 than was spent on projects in the year, which means an increased surplus in the CIES and an equivalent increase in capital grants unapplied which increases the useable reserves of the Authority. Ten new Enterprise Zone sites have been approved to start in April 2017 and NECA and the LEP is working jointly to secure a £120m North East extension to the JEREMIE access to finance for business fund, which is due to start in 2017. In the absence of a devolution deal for the North East, the authority will continue to seek external funding such as Local Growth funding; infrastructure funding for major transport projects; and will seek to maximise European funding and the replacement of Europe regional funding following Brexit for the North East.

3. Revenue Financial Summary 2016/17

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

A summary of NECA expenditure against the budget is set out in the table overleaf (Table 1). Expenditure totalling £119.328m was managed within the approved revenue budget and income, with an underspend of around £0.570m at the year end which means the requirement to fund activity from reserves is less than originally budgeted for.

This statement provides a comparison with the NECA revenue budget for 2016/17 and does not include the Corporate budget of the NELEP, which is shown in detail in Table 4 (page 6).

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Table 1: Summary of Revenue Expenditure Against Budget

	2016/17 Revised Budget	2016/17 Actual	Variance
	£000	£000	£000
Expenditure			
Transport Levy Budget			
- NECA retained (less contributions to other NECA activity)	2,333	2,262	(71)
- Grant to Durham	15,414	15,414	-
- Grant to Nexus	62,500	62,500	-
- Grant to Northumberland	6,293	6,293	-
Tyne Tunnels			
- Contract Payments	22,049	21,201	(848)
- NECA costs	224	206	(18)
- Financing Costs	7,002	6,824	(178)
Other Transport Activity			
- Regional Transport Team	1,153	997	(156)
- Go Smarter Programme	2,343	2,343	-
Inward Investment	439	337	(102)
Corporate/Central Budget	450	461	11
North East Technical Assistance match funding contribution	-	16	16
Devolution Activity	474	474	-
Skills - Mental Health Trailblazer Project	-	-	-
Total Expenditure	120,674	119,328	(1,346)
Income			
External Grant Funding	(3,243)	(3,295)	(52)
Transport Levies	(86,894)	(86,894)	-
Tolls Income	(28,775)	(27,795)	980
Interest/Investment Income	(251)	(272)	(21)
Contributions from Constituent Authorities	(440)	(440)	-
Contributions from NELEP	(166)	(146)	20
Tyne Tunnels Miscellaneous Income	-	(146)	(146)
Other Income	(10)	(15)	(5)
Total Income	(119,779)	(119,003)	776
Net Revenue Expenditure to fund from Reserves	895	325	(570)

Within the accompanying Statement of Accounts document the **Comprehensive Income & Expenditure Statement** (CIES, page 12) 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, page 11) reflects these statutory adjustments and shows how the financial performance for the year has impacted on the Authority's reserves. The figures presented in these statements are different from the budgeted revenue expenditure as they

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include accounting adjustments for costs such as Depreciation, and Revenue Expenditure Funded by Capital Under Statute and other grant-funded expenditure not included in the revenue budget.

The gross cost of services during the year including capital grants to third parties as well as revenue expenditure was £200.352m (£200.453m in 2015/16). This includes all areas of the NECA's and NELEP's activity. This includes 'Revenue Expenditure Funded by Capital Under Statute' – representing investment in capital assets owned by third parties, not by the Authority itself.

After deducting specific grants and income from fees and charges, the net cost of services was £66.703m, funded from a range of sources including the Transport Levy, other contributions from Constituent Authorities, Government Grants, Fees and Charges, and Enterprise Zones Business Rates Growth.

The CIES shows a net surplus for the year on the Provision of Services of £19.940m. This largely reflects Local Growth Fund (LGF) grant income being credited to the CIES where grant conditions have been met but it has not yet been used to fund expenditure. This is carried forward in the 'Capital Grants Unapplied Reserve' to fund expenditure in future years.

The General Fund balance at the year end was £34.897m. However, this is made up of a number of amounts which are held for specific purposes and the true unringfenced balance available to the Authority (the NECA Corporate reserve) is relatively low. Table 2 below sets out a breakdown of the General Fund balance.

Table 2: Breakdown of the General Fund Balance

	2016/17
	£000
NECA Corporate General Fund	(283)
Tyne and Wear Transport General Fund	(475)
Tyne Tunnels	(25,993)
Inward Investment Budget	(110)
Revenue Grants Unapplied	(1,434)
NELEP General Fund	(592)
Enterprise Zones reserve	(2,602)
North East Investment Fund	(3,408)
Total	(34,897)

4. North East Local Enterprise Partnership

NECA is the Accountable Body for the North East Local Enterprise Partnership (NELEP) and, as such, these accounts include details of its income and expenditure during 2016/17, fully consolidated with the figures for NECA itself.

The NELEP brings together business leaders, universities and members of the NECA Leadership Board. It is the fourth largest LEP in the country and covers the seven local authority areas which also make up NECA. It is responsible for promoting and developing economic growth in the area and works together with NECA to ensure there is co-ordination across a range of activities.

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One of the NELEP's major areas of activity is the North East Investment Fund (NEIF), a capital loans fund supporting projects that specifically encourage local economic growth and create jobs in the area. Table 3 below shows a summary of the NEIF activity in 2016/2017.

Table 3: Summary of North East Investment Fund Activity 2016/17

	Grants Paid	Loans Advanced	Total Payments 2016/17	Interest Repayments 2016/17	Principal Repayments 2016/17	Total Repayments 2016/17
	£000	£000	£000	£000	£000	£000
Growing Places Fund	1,306	734	2,040	(59)	(271)	(330)
Regional Growth Fund	-	125	125	(347)	(213)	(560)
Contribution to North East Property Fund	3,000	-	3,000	-	-	-
Total	4,306	859	5,165	(406)	(484)	(890)

Table 4 overleaf summarises the LEP's revenue expenditure in 2016/17.

Table 4: North East LEP Revenue Expenditure

The LEP core budget covers LEP operational activity and also management of the Local Growth Fund (LGF) programme. Table 3 below provides a summary of actual spend against the revised budget for the year. Total revenue expenditure amounted to £2.999m, which was £0.053m lower than the revised budget for the year. Income was £3.181m, resulted in a net surplus of £0.182m carried over into 2017/18.

The main underspend in the year was on the recharge from the regional transport team for LGF transport project support, which was £127k below the budget set at the beginning of the year. This underspend was primarily due to delays in procuring two studies, which commenced in March and will be completed in the current year, and also reduced independent scheme assessment work for LGF transport schemes in the year. An underspend on the Inward Investment Budget means that the one off earmarked contribution of £0.020m carried over from 2015/16 will no longer be required. Income received, was in line with the revised budget for the majority of the funding streams.

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Table 4: North East LEP Revenue Expenditure

	2016/17 Original Budget	2016/17 Revised Budget	2016/17 Actual Spend	2016/17 Variance
	£000	£000	£000	£000
Expenditure				
Employees	1,550	1,234	1,285	51
Premises	95	95	95	-
Communications	247	251	216	(35)
Transport LGF Monitoring and Evaluation	400	385	258	(127)
Gatsby and Growth Hub Operational Costs	106	377	389	12
Other Operational Costs	615	570	616	46
Inward Investment Contribution	160	140	140	-
Gross Expenditure	3,173	3,052	2,999	(53)
Income				
LEP Core Grant	(250)	(250)	(250)	-
Local Authority Match Contributions	(250)	(250)	(250)	-
LEP Strategy Grant	-	(250)	(250)	-
Local Growth Fund (2.5% Top-Slice)	(1,985)	(1,250)	(1,192)	58
NEIF/EZ Business Rate Receipts	(50)	(100)	(100)	-
Gatsby and Growth Hub Grants	(168)	(606)	(646)	(40)
Other Grants / Enterprise Advisor	(175)	(31)	(69)	(38)
NECA contribution to Head of Paid Service	-	(36)	(36)	-
Interest on Balances	(295)	(305)	(349)	(44)
Other Income	-	-	(39)	(39)
Gross Income	(3,173)	(3,078)	(3,181)	(103)
Net (Surplus)/Deficit	-	(26)	(182)	(156)

Table 5 below shows the North East LEP revenue balances as at the 31 March 2017. The general reserve has increased by £112k over the year to £548k. This is £86k higher than anticipated in the revised budget.

Table 5: North East LEP Revenue Balances

	Opening Balance	Movement in 2016/17	Closing Balance
	£000	£000	£000
General Reserve	436	112	548
LGF Revenue Allocation	-	44	44
GPF Revenue Allocation	66	(66)	-
Total	502	90	592

Further details of the activities of the NELEP are available at www.nelep.co.uk.

5. Capital Investment

Capital investment during the year totalled £116.8m, less than the 2015/16 figure of £127m. This consisted of capital expenditure on the Authority's own assets, capital expenditure via capital

grants to third parties and long-term capital loans to third parties. An analysis of capital investment by programme and by thematic area are shown in the following table and charts.

Table 6: Capital Expenditure by Programme

	2015/16	2016/17
	£000	£000
Local Growth Fund Programme	51,472	61,794
Metro Asset Renewal Plan	39,747	37,817
Transport Grants	11,070	11,877
North East Investment Fund	22,820	5,165
Other	2,111	129
Total	127,220	116,782

Included within the Local Growth Fund Programme (LGF) is £1.826m expenditure on the refurbishment of the Tyne Pedestrian and Cycle Tunnels, which was temporarily funded from grant as part of a funding swap, with an equivalent amount to be repaid to the LGF Programme from Tyne Tunnels reserves in future years.

Chart 1: Capital Expenditure by Programme

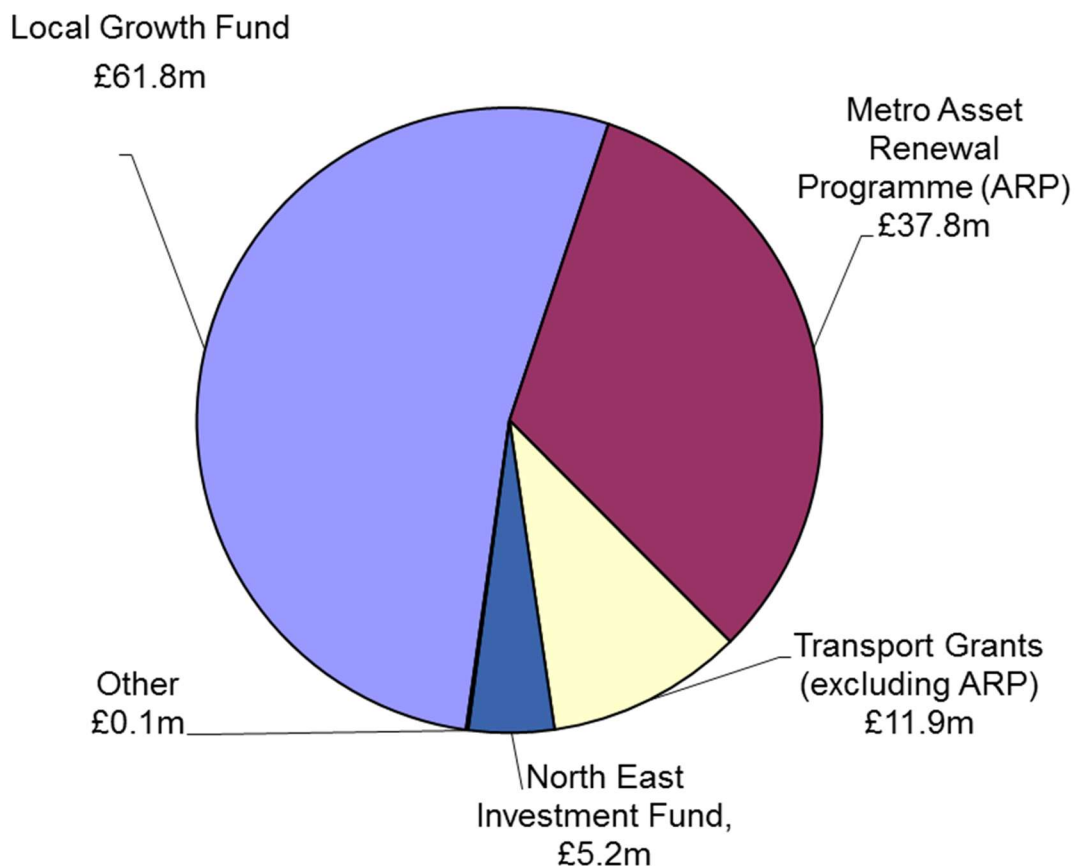
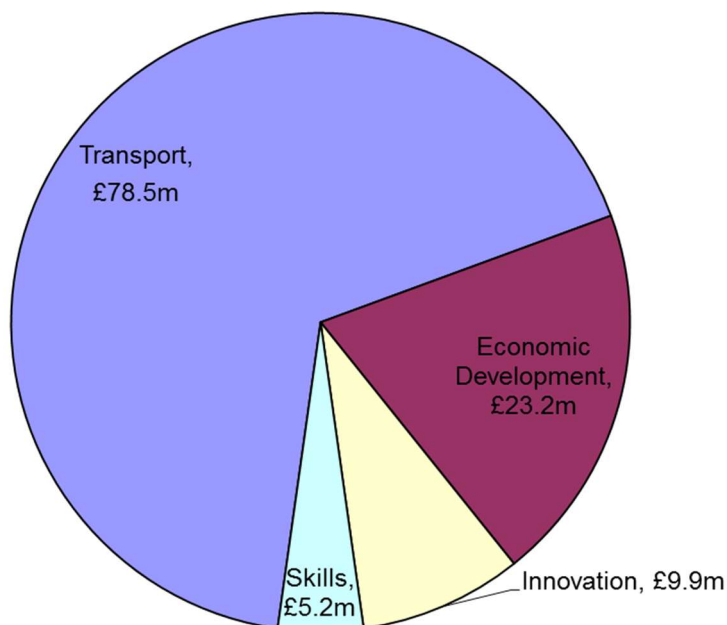


Chart 2: Capital Expenditure by Thematic Area



The largest area of capital expenditure is in relation to Transport and Digital Connectivity, reflecting the NECA's responsibilities as a Transport Authority, which it inherited from the former Tyne and Wear Integrated Transport Authority. Activity on Economic Assets and Infrastructure and Economic Development continues to grow, building on strong performance in 2015/16, and includes the North East Investment Fund. Skills and Innovation were new areas of activity for NECA in 2015/16 and have continued to be supported in 2016/17.

A selection of the significant by value capital projects / programmes under each thematic area are set out below (figures in brackets represent capital investment in the year funded by NECA sources).

Economic Assets and Infrastructure

- North East Investment Fund – Loans and grants including the contribution to the North East Property Fund (£5.1m)
- LGF – Infrastructure for Forrest Park (£2.1m) (Durham County Council)
- LGF – Sunderland Central Business District (£1.5m) (Sunderland City Council)
- LGF – Rural Growth Network (£0.757) (Northumberland County Council)

Innovation

- LGF – Centre for Innovation in Formulation (£1.0m)
- LGF – Newcastle Laboratory and Life Science Incubation Hub (£1.0m) (Newcastle City Council)
- LGF – Northern Centre for Emerging Technologies (£0.9m) (Gateshead Council)

LGF – NetPark Infrastructure Phase 3 (£0.8m) Transport and Digital Connectivity

- Metro Asset Renewal Programme (£37.8m) (Tyne & Wear – Nexus)

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- LGF – A19 Employment Corridor Improvements (£2.0m) (North Tyneside Council)
- LGF – South Shields Transport Hub (£1.8m) (South Tyneside Council)
- Tyne Tunnels Capital Programme (£1.9m)

Skills

- LGF – Rural Skills Development East Durham College (£2.5m)
- LGF – Beacon of Light World of Work (£1.8m)
- LGF – Northumberland College STEM centre (£0.9m)

A summary of how this capital investment was financed is shown in the following table:

Table 7: Capital Funding 2016/17

	2016/17	2016/17
	£000	%
Local Growth Fund Grant	(61,794)	52.9%
Local Transport Plan Grant	(14,460)	12.4%
Metro Capital Grant	(34,252)	29.3%
North East Investment Fund	(2,864)	2.5%
Growing Places Fund Capital Grant	(2,358)	2.0%
Revenue/Reserves	(1,054)	0.9%
Total Funding	(116,782)	100.0%

6. Enterprise Zones

The North East Low Carbon Enterprise Zone is located across four Local Authority areas: Newcastle upon Tyne, North Tyneside, Northumberland and Sunderland. Business rates growth generated on these designated sites accrues to the benefit of the North East LEP for a 25 year period. 2016/17 was the fourth year of the zone's life.

Analysis of the business rates generated to date is shown in Table 8 overleaf. 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.

Table 8: North East Enterprise Zone Business Rates Growth 2016/17

	2013/14	2014/15	2015/16	2016/17
	£000	£000	£000	£000
Local Authority Area				
Newcastle upon Tyne	(312)	(330)	(262)	(614)
North Tyneside	(14)	(55)	(100)	(165)
Northumberland	(12)	(28)	(96)	(173)
Sunderland	(696)	(653)	(745)	(743)
Gross Expenditure	(1,034)	(1,066)	(1,203)	(1,695)
NEIF Repayment	-	-	542	1,306
Financing Costs	-	-	424	-
EZ Costs	-	9	9	121
Interest	-	(3)	(7)	(5)
Total Surplus	(1,034)	(1,060)	(235)	(273)
Cumulative Surplus	(1,034)	(2,094)	(2,329)	(2,602)

Business Rate Income for 2016/17 amounted to £1.695m and Expenditure, including accelerated repayments back to the NEIF, amounted to £1.422m. The surplus for the year was £0.273m, resulting in a cumulative surplus of £2.602m being held. This is higher than the cumulative surplus forecast set out in the 2014 Financial Model of £1.727m.

7. Treasury Management

The Balance Sheet on page 13 of the accounts shows external borrowing of £169.999m at the end of the year, which is split between short term borrowing (£2.332 and long term borrowing (£167.667m). This compares to £171.690 for 2015/16. The decrease is due to the regular principal repayments made on Equal Instalment of Principal (EIP) loans. The average rate of interest on external borrowing for the year was 4.3%, which is comparable with the previous year.

The Balance Sheet also shows short term external investments of £104m at the end of the year compared to £89m at the end of the previous year, consisting of £66m NECA's own investments and £38m of investments held on behalf of Nexus. The increase in NECA investments in 2016/17 compared to the previous year is primarily due to receipt of a greater level of LGF grant income in advance of payments being made to projects and the need to achieve better investment returns leading to deposits being placed for longer time periods where it is considered safe to do so.

8. Debtors

The Balance Sheet on page 13 shows short term debtors of £10.904m at the end of the year compared to £9.965m at the end of the previous year. These balances are analysed in more detail in Note 13 on page 38.

9. Creditors

The Balance Sheet on page 13 shows short term creditors of £88.624m at the end of the year compared to £113.252m at the end of the previous year. These balances are analysed in more detail in Note 15 on page 38. The main reason for the significant reduction compared to the previous year is a reduction in the balance of cash owed to Newcastle City Council which was £43.015m in 2015/16 but had reduced to £8.896m at 31 March 2017. This balance exists because NECA receives the majority of its income into its own bank account but payments are made from Newcastle City Council's account as NECA uses its financial systems. This balance was reconciled following the year end and settled during April 2017, with monthly settlements ongoing during 2017/18.

10. Pensions Costs

The Authority is an employer in the Tyne and Wear Pension Fund (the pension fund), which is part of the Local Government Pension Scheme (LGPS), which provides defined benefits based on members' final pensionable 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.

IAS19 also requires the Authority to value all investments held by the pension fund at market value at the end of the year.

When assets and liabilities at year-end are compared this results in a surplus or deficit.

NECA has two types of pension liabilities – described as funded and unfunded. Funded pension liabilities are within the LGPS and are backed by assets attributable to the Authority. For the funded element of the scheme, NECA is in a surplus position amounting to £7.46m, reflecting the decision of the former Tyne and Wear ITA to make a lump sum payment to clear its pension deficit in December 2013, and the high employers' contribution rate on employee costs paid in recent years. This approach has given significant increases in the value of assets in the fund, well above the levels of return that could have been achieved by the Authority itself, and also significant savings in the revenue budget.

For accounting purposes this surplus is limited to nil on the NECA balance sheet because, under Pension Fund arrangements, the Authority is not able to "withdraw" the surplus from the Fund. It gets a benefit from the surplus in the form of savings on employers' pension contributions for current employees, which has enabled significant savings on the revenue budget particularly in relation to the LEP.

Unfunded or discretionary benefits e.g. early retirement awards sit outside the Authority's funded part of the scheme and are therefore not backed by assets, but must be paid as incurred on a monthly basis. These costs all relate to former Tyne Tunnels employees and are paid from the Tyne Tunnels revenue account, at a cost of approximately £51k in 2016/17. At the end of the year there was a pension fund deficit of £0.980m and this is disclosed on the Balance Sheet on page 13. This compares with a deficit of £0.890m at the end of the previous year. The main reason for the small increase is due to the assumptions made by the pension fund actuary, particularly a reduction in the discount rate used to revalue liabilities from 3.3% to 2.5%. A decrease in the discount rate increases the current value of the liability outstanding.

Further disclosures related to the pension fund are included in Note 18 from pages 41-46 of the Statement of Accounts.

11. Net Assets

The Authority's total net assets have increased from £150.878m at 31 March 2016 to £170.698m at 31 March 2017, matched by a corresponding increase in Reserves. This increase is primarily due to the slippage against the LGF Programme during the year and is therefore expected to be a short-term increase only, with the grant not yet used to fund up expenditure being held in the Capital Grants Unapplied Account. It is anticipated that this will be drawn down in full during 2017/18 and 2018/19.

12. Group Results

The Group Accounts included as part of the Statement of Accounts fully incorporate the results of Nexus (the Tyne and Wear Passenger Transport Executive). More details can be found in Group Note 1 on page 83.

The Group results show a surplus for the year of £33.097m (2015/16 £29.328m). The net assets of the Group stood at £632.811m at 31 March 2017 (£599.718m at 31 March 2016). The increase is due to the increase in LGF grant carried forward to 2017/18 in the single entity accounts, as described above, and an increase in non-current assets held by Nexus.

13. Accounting Developments

The main changes in the current year are as follows:

- **Faster Closure of Accounts** – the deadline for faster closure of accounts from 2017/18 will be for draft accounts to be prepared and signed by the Chief Finance Officer by 31st May (currently 30th June) and for approval and publication of financial statements with audit opinion by 31st July (currently 30th September). Many of the procedures implemented during 2016/17 are designed to ensure these revised reporting deadlines are met.
- **Highways Network Assets** – on 8th March 2017 the CIPFA / Local Authority Accounting Code Board announced the decision not to proceed with the introduction of the Highways Network Asset Code into the financial reporting requirements for Local Authorities.
- **Telling the Story review of the presentation of Local Authority financial statements** – Following the Telling the Story review of the presentation of Local Authority financial statements, the 2016/17 Code changed the segmental reporting arrangements for the Comprehensive Income and Expenditure Statement and introduced the Expenditure and Funding Analysis.

The new Expenditure and Funding Analysis seeks to bring together Local Authority performance reported on the basis of expenditure measured under proper accounting practices with statutorily defined charges to the General Fund.

Both the Comprehensive Income and Expenditure Statement and the Expenditure and Funding Analysis now require Local Authorities to report performance on the basis of how they are structured and how they operate, monitor and manage financial performance.

Additional accounting developments have been reviewed and determined to have no significant impact on the Authority, see Note 26 (page 55) within the Statement of Accounts.

14. Looking Ahead

In the absence of a Devolution Agreement at the current time, the focus for 2017/18 and beyond is on supporting the existing objectives of the NECA and delivering the objectives of the North East Strategic Economic Plan (SEP). The 2017/18 net revenue budget was agreed by the Leadership Board in January 2017, was made up of several elements and amounted to £85.5m, excluding grant funded elements of the LEP budget. Total Gross Revenue Expenditure before applying income and funding from external grants is forecast to be in excess of £231m. A capital programme for the year totalling £148.9m (including overprogramming) was set, covering a wide range of transport improvements and economic and regeneration initiatives.

NECA activity for the year ahead falls into three key themes:

Transport

Transport is seen as a key driver of growth and the strategic alignment of transport within economic growth strategies emphasises a clear link between transport and skills, housing and economic prosperity. NECA has ensured political leadership at the highest level on strategic transport planning, set within the context of the wider economic strategy for the area.

Since its establishment, NECA has facilitated greater co-operation amongst regional and local partners which has resulted in improvements to the region's public transport network, increased opportunity to address congestion on the local road network, and a step change in information and ticketing provision for the travelling public. Since the publication of the SEP in 2014, NECA and NELEP have continued to develop collaborative working arrangements across the region and provide a single approach to transport.

NECA transport activity is focused on providing leadership and a united voice on key strategic transport issues; representing the North East on transport issues of national significance; coordinating the area's public transport network; and managing the transport investment programme. NECA has produced and consulted on the Transport Manifesto setting out the vision and objectives for transport in the area. This will feed into the Transport Plan which will be developed in 2017/18.

During 2016/17, NECA also agreed outline business cases for the replacement of the Metrocar fleet and the continuation of the programme of essential renewals across the Metro network. The funding required for these business cases will be pursued with Department for Transport (DfT) next year and Nexus' budget for 2017/18 provides the necessary provision to take the Metrocar replacement project forward through procurement.

NECA has also recently approved the Metro and Local Rail Strategy which in addition to the need for investment to replace the Metrocar fleet and continue the programme of essential renewals, sets out an ambitious vision which will potentially bring the planning of all local rail services within the

region's scope for the first time; essential building blocks for route expansion plans, service enhancements and improved network capacity.

Specifically, in terms of Metro, during 2017/18, 400+ employees will transfer into Nexus from DB Regio Tyne and Wear Limited, whose concession for operating the Metro system will expire on 1 April 2017. The re-introduction of a vertically integrated model where operations, maintenance and renewals are undertaken by the same organisation is expected to help improve reliability, notwithstanding the need to replace the life expired fleet of Metrocars.

Nexus' overall budget proposal for 2017/18 will allow it to maintain frontline services despite a £1.610m reduction in the grant it receives from the NECA. This is possible because of a combination of permanent savings being achieved in the current year, further planned efficiency savings next year and the application of reserves which will be augmented this financial year-end as a result of the outturn for 2016/17.

NECA Transport Team activity for 2017/18 includes strategy development, the coordination of bids and regional initiatives, continuous development of the transport pipeline and programme management of the transport investment programme. The team will continue to represent the North East at an interregional and national level including engagement with Transport for the North, liaison with Government and other national agencies and NECA representation on strategic rail partnerships.

Employment and Skills

NECA and its constituent authorities, in partnership with NELEP, and local education organisations deliver against the Employability and Inclusion and Skills themes of the Strategic Economic Plan (SEP) for the North East. NECA's and NELEP's objective is to ensure that economic growth benefits the whole of the North East, delivering an increase in the economic participation rate and closing the gap in performance with the national average. Key themes of work revolve around raising attainment; implementing a responsive skills system; tackling social exclusion and improving employment prospects.

NECA wide initiatives currently being delivered, and will continue in 2017/18, include the Mental Health Trailblazer and Generation North East. NECA has successfully developed a Mental Health Trailblazer project, which will support 1,500 Employment Support Allowance (ESA) claimants. This was one of four projects nationally to secure support through the Cabinet Office Transformation Challenge Award in December 2014. The North East model supports ESA claimants with common mental health conditions into employment through integrating employment support with psychological therapy.

Generation North East is delivering a significant part of the support offer available to young unemployed people in the NECA area. The NECA area was awarded a £4.5m grant in April 2014 under the Cabinet Office's Youth Contract for Cities initiative to test locally devolved approaches to tackling youth unemployment. The programme has now been operational for two years and to date over 2200 young people have benefited from support with over 800 moving into employment to date.

NECA employment and skills activity for 2017/18 includes maintaining effective and efficient delivery of pan-NECA initiatives, supporting the development and implementation of the Area Based Review, maximising European Social Fund investment for employment and skills interventions and options development for the future implementation of a devolved Adult Education Budget.

Economic Development and Regeneration

The Economic Development and Regeneration Portfolio focuses on overseeing the coordination of inward investment activity and providing the right environment and infrastructure for attracting and embedding investment.

NECA sees a strong housing, employment and urban core offer as critical in securing the North East's sustained economic growth. NECA's role is to create the conditions to enable an appropriate quantity, of good quality developments in the right places to meet the North East's demands and aspirations and build on well-connected infrastructure to support economic growth.

The North East Enterprise Zone sites provide specific additional benefits to businesses and room to grow and are central to NECA's and NELEP's plans to create 'more and better jobs'. The targeted investment and benefits to businesses provided through the scheme have already supported over 27 businesses and brought in over £116m private investment which has resulted in over 1,700 jobs by enabling employers to grow. An additional round of Enterprise Zone sites (10 new sites) have also been secured, which will be available from April 2017.

Co-operation between NELEP, NECA and its constituent authorities has secured the £120m European funded JEREMIE 2 financial support for Business fund, which will be operational in 2017. There will be continued activity next year to support the new Special Purpose Vehicle (SPV) company that has been established to deliver JEREMIE 2 and to explore options for further support for Business. It is estimated that JEREMIE 2 could provide financial support for 600 businesses; help create around 3,500 jobs over the next five years and deliver a legacy fund of up to £80m over the next decade for further financial support to businesses.

Key areas of work for the NECA Economic Development and Regeneration Theme in 2017/18, includes continuing to oversee activity relating to inward investment, providing strategic advice and intelligence relating to key drivers of and barriers to investment and growth, supporting the development of enterprise zones secured for the area and developing regional priorities for investment and maintaining a robust project pipeline to respond to funding calls.

15. The Statement of Accounts

The Statement of Accounts is set out in the accompanying document, they consist of the following statements that are required to be prepared under the Code of Practice:

Movement in Reserves Statement (Statement of Accounts page 11)

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

Comprehensive Income and Expenditure Statement (Statement of Accounts page 12)

The Comprehensive Income and Expenditure Statement shows the accounting cost in year of providing services in accordance with generally accepted accounting practice, rather than the amount to be funded from the levy and other sources of income which is set out in the MiRS, as described above.

Balance Sheet (Statement of Accounts page 13)

The Balance Sheet summarises the Authority's financial position at 31 March each year. The net assets of the Authority (total assets less total liabilities) are matched by the reserves held by the Authority. Reserves are reported in two categories, Usable and Unusable as described above. Unusable Reserves include those which hold unrealised gains and losses (e.g. the Revaluation Reserve) where amounts only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the MiRS line "adjustments between accounting basis and funding basis under regulations".

Cash Flow Statement (Statement of Accounts page 14)

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

Group Financial Statements and Notes (Statement of Accounts pages 83-101)

Reports the financial picture of all activities conducted by the Authority, including those delivered through partnership and separate undertakings controlled by the Authority.

16. Annual Governance Statement

To accompany the Narrative Report and Statement of Accounts, the leadership of the Authority prepares an Annual Governance Statement that sets out the principal arrangements that operate to ensure proper governance of the Authority's affairs and the stewardship of resources at its disposal. It also outlines the principal arrangements that are in place to ensure that a sound system of internal control is maintained.

17. Non-Financial Performance

The Statement of Accounts is focused on the Financial Performance of the Authority. NECA also monitors and reports its non-financial Performance, particularly in the following areas:

Economic Development and Regeneration

- Inward Investment – in the financial year 2016/17, in total there were 84 inward investments into the NECA area which will lead to the creation of 6,126 jobs. This contrasts with 2015/16 of 107 inward investments leading to 3,368 jobs.
 - Foreign Direct Investment – 64 investments leading to the creation of 4,257 new jobs and many thousands safeguarded.
 - Investments by UK-owned Companies from Outside of the Region – 20 investments leading to the creation of 1,869 jobs.
- Strategic Economic Plan Update – the NELEP has worked with the local authorities, the business community and partners across the region to refresh the SEP for 2017. Headlines are:
 - The North East is ahead of schedule to reach its 100,000 more and better jobs target before 2024 – over 53,000 jobs created since 2014, with 63% of these classed as higher skilled jobs.
 - Job growth added at a rate of 6.6% over the past two years eclipsing the national rate of 5.4% in England.

Employability and Inclusion

- DWP European Social Fund Opt-In for the North East – the programme is still at a relatively early stage of delivery (the first referrals began in January). 210 participants are being supported by the programme, 12 people to date have moved into work.
- North East Mental Health Trailblazer – the programme began to take referrals in mid-January, 99 people are currently being supported and 13 participants have moved into work.
- Generation NE – the scheme has been operational since July 2014 and the programme has supported 3250 young people of which 1600 have moved into employment (914 of those sustaining employment for 6 months or more).

Transport

- 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 Authority's budget or

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local tax payers 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.

Traffic Indicators:

	Class 1	Class 2	Class 3	Exempt	Total
2016/17	197,688	15,705,319	951,785	605,670	17,460,462
2015/16	204,751	16,218,493	989,451	581,377	17,994,072
2014/15	195,798	15,265,379	873,270	508,444	16,842,891
2013/14	185,471	13,970,360	804,147	464,529	15,424,507
2012/13	160,889	13,066,933	775,757	396,412	14,399,991

- Tyne and Wear Passenger Transport Executive – Nexus

NECA sets public transport policy for the region, which in Tyne and Wear is delivered operationally by Nexus. The following indicators describe the general performance of public transport in Tyne and Wear during 2016/17.

- The number of passenger journeys across Tyne and Wear was estimated at 168 million; a reduction when compared to 170 million in the previous year.
- Patronage increased slightly on Bus, with the number of journeys rising by 0.4% in 2016/17 to 128.8 million.
- Metro patronage declined by over 2 million in 2016/17 to 37.7 million journeys.
- Ferry carried 441,000 passengers in 2016/17, down slightly from 442,000 the year before.
- Rail passengers in Tyne and Wear made 1.5 million journeys on local services, an increase on the previous year's total which was 1.3 million.
- Metro reliability (operated mileage) was 97.9% during 2016/17, a small decrease on the 98.0% achieved in the previous year.
- Metro Charter punctuality was 82.8% during 2016/17, an increase compared to the 80.4% achieved in the previous year.

NECA Structure

- Still a relatively new organisation, NECA continues to adapt and grow to meet the requirements of the region, while keeping costs to a minimum. Movement in employee numbers, which mainly relates to staff supporting the North East LEP, is set out in table below:

	Employees at the year end
2016/17	21
2015/16	15
2014/15	2

18. Further Information Available

Access to this report, the accounts and the Annual Governance Statement will be made available to the general public via the Authority's website. If this information is needed in another format or language please use the contact below.

If you have any problems understanding this publication, any general enquiries on the accounts or have any suggestions on how it may be improved, please contact:

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