



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

Contents	Page
Part 1: Explanatory Foreword and Statement of Responsibilities	
Explanatory Foreword	7-18
Statement of Responsibilities for the Statement of Accounts	19
Part 2: Core Financial Statements and Notes	
Movement in Reserves Statement	23
Comprehensive Income & Expenditure Statement	24
Balance Sheet	25
Cash Flow Statement	26
Notes to the Financial Statements	27-60
Statement of Accounting Policies	61-74
Part 3: Group Financial Statements and Notes	
Group Movement in Reserves Statement	79
Group Comprehensive Income & Expenditure Statement	80
Group Balance Sheet	81
Group Cash Flow Statement	82
Notes to the Group Financial Statements	83-96
Part 4: Accompanying Documents	
Annual Governance Statement	99-103
Glossary of Terms	105-110
External Audit Opinion	111-112

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

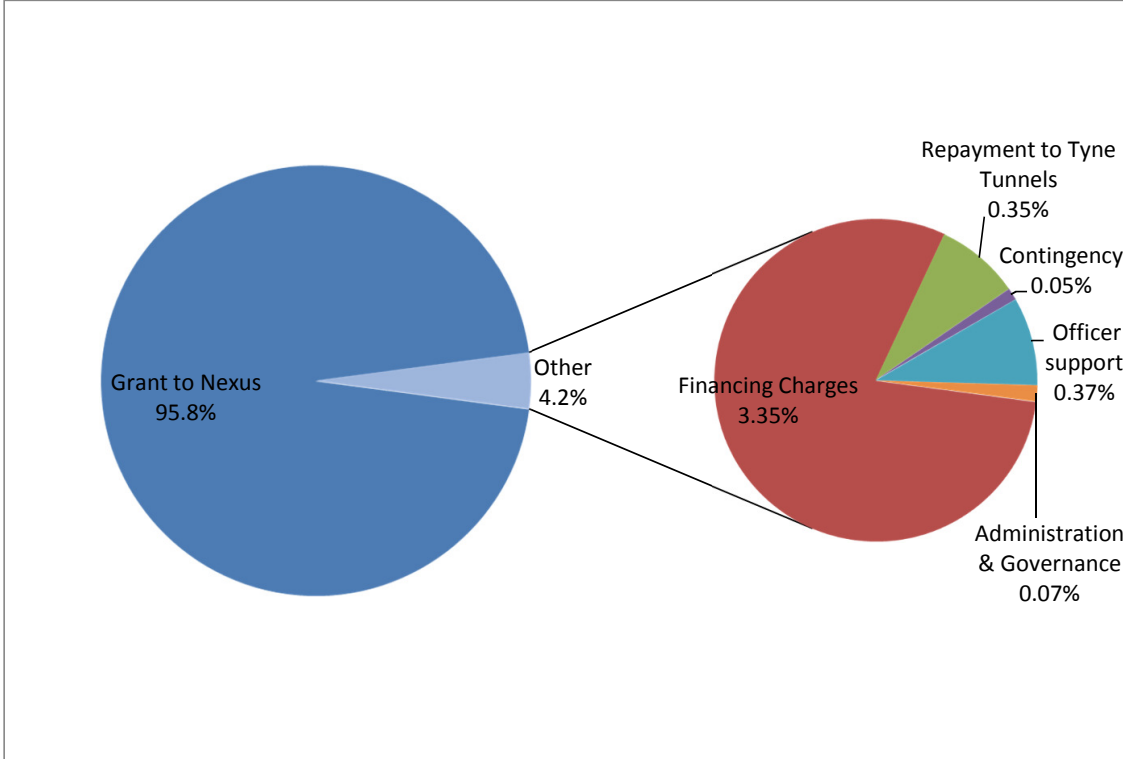
This being a transitional year, the majority of NECA's operational activity and therefore its costs relate to Transport activity. Costs within the Transport budget are ringfenced between those relating to Tyne and Wear, Durham and Northumberland, reflecting the different funding arrangements in place 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)

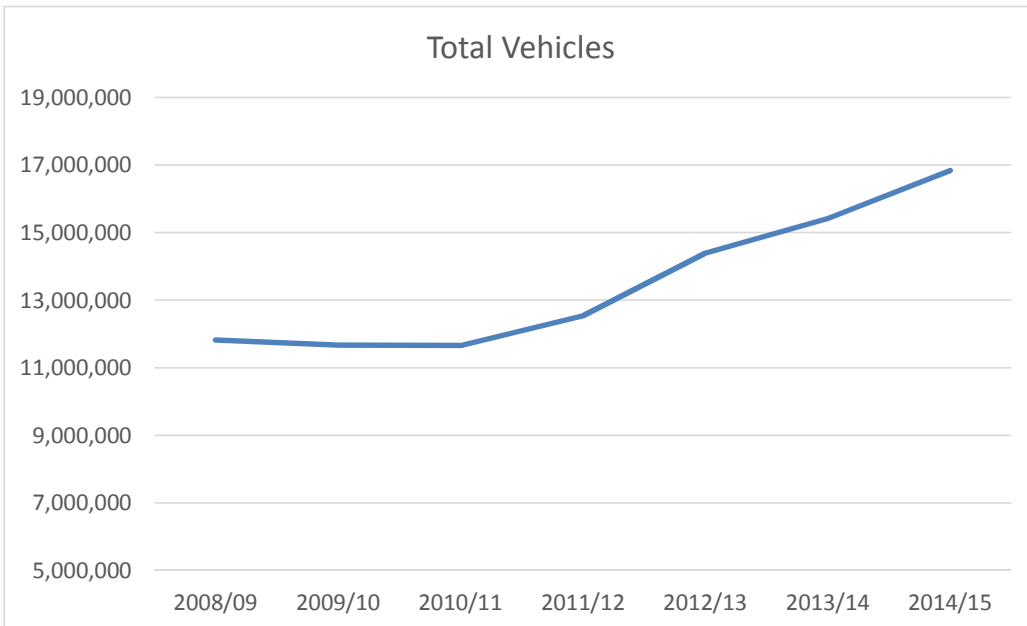
Expenditure during 2014/15 was well within the revised budget for the year, primarily due to savings on financing charges as a result of external borrowing reducing. This has enabled a higher than anticipated level of Tyne and Wear transport reserves to be carried forward to fund activity in 2015/16.

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. Tolls 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 53 to 58.

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.

Explanatory Foreword by the Chief Finance Officer (continued)

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	115,558	(55,929)	59,629
Planning and Development	13,746	(13,128)	618
Cost of Services	129,513	(69,547)	59,966
Financing and Investment	8,528	(2,839)	5,689
Income and Expenditure (Note 7)			
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	13,952
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>(1,101)</u>
Investing Activities		6,464
Cash flows relating to business combinations (establishment of NECA)		<u>78,388</u>
Net Investing Activities	18	84,852
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

The following table shows balances that were transferred into the North East Combined Authority from the Tyne and Wear Integrated Transport Authority and the North East Local Enterprise Partnership, effectively making up the opening Balance Sheet position.

	TWITA balances transferred in	NELEP balances transferred in	NECA opening position
Property, Plant & Equipment	363,916	-	363,916
Long Term Debtors	45,236	5,048	50,284
Long Term Assets	409,152	5,048	414,200
Short Term Investments	20,500	-	20,500
Short Term Debtors	14,475	3,800	18,275
Cash and Cash Equivalents	52,004	26,384	78,388
Current Assets	86,979	30,184	117,163
Short Term Borrowing	(7,941)	-	(7,941)
Short Term Creditors	(38,735)	(146)	(38,881)
New Tyne Crossing - Deferred Income (Short Term)	(5,092)	-	(5,092)
Grants and Contributions Receipts in Advance (Short Term)	(8,404)	(6,407)	(14,811)
Current Liabilities	(60,172)	(6,553)	(66,725)
New Tyne Crossing - Deferred Income (Long Term)	(117,122)	-	(117,122)
Grants and Contributions Receipts in Advance (Long Term)	(3,347)	-	(3,347)
Long Term Borrowing	(196,967)	-	(196,967)
Other Long Term Liabilities	(960)	-	(960)
Total Long Term Liabilities	(318,396)	-	(318,396)
Net Assets	117,563	28,679	146,242
Usable Reserves	(44,391)	(21,097)	(65,488)
Unusable Reserves	(73,172)	(7,582)	(80,754)
Total Reserves	(117,563)	(28,679)	(146,242)

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 £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Movement in Unusable Reserves £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 outgoings and that good title can be shown
- The property and its value are unaffected by any matters which would be revealed by a local search or inspection of any register and the use and occupation are both lawful
- Inspection of those parts which have not been inspected would not cause the Appointed Valuer to alter the opinion of value
- The land and properties are not contaminated
- The 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	Financial	Total
	Liabilities at	assets: loans	
	amortised	and	
	cost	receivables	
	£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	2,248
Interest paid	(8,644)

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	4,600
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/> 13,952
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/> (1,101) <hr/>

Note 18: Cash Flow Statement - Investing Activities

	2014/15
	£000
Purchase of property, plant and equipment, investment property and intangible assets	(3,675)
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/> 6,464
Cash flows relating to business combinations (establishment of NECA)	78,388
Total Net cash flows from investing activities	<hr/> 84,852 <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)
	<u>(38,326)</u>

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)
	<u>(12,696)</u>
Shown as Short-Term Liability on Balance Sheet	(10,898)
Shown as Long-Term Liability on Balance Sheet	<u>(1,798)</u>
	<u>(12,696)</u>

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 £000	Accrued at year-end £000	Total £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	79	-	79
Newcastle City Council	112	-	112
North Tyneside Council	80	-	80
South Tyneside Council	59	-	59
Sunderland City Council	109	-	109

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	37,770

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

Impairment

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

Where impairment losses are identified, they are accounted for 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 probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably. Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

17. Reserves

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

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

18. Revenue Expenditure Funded from Capital Under Statute

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset 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 Planning and Development	213,685	(141,463)	72,222
Non-Distributed Costs	13,746	(13,128)	618
	652		652
Cost of Services	230,301	(155,081)	75,220
Financing and Investment Income and Expenditure (Note 2)	10,552	(1,584)	8,968
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	50,960
Adjustments for items included in the net surplus or deficit on the provision of services that are investing or financing activities	17	(45,697)
Net cash flows from Operating Activities		<u>8,388</u>
Investing Activities		(3,782)
Cash flows relating to business combinations (establishment of NECA)		113,288
Net Investing Activities	18	<u>109,506</u>
Financing Activities	19	(17,059)
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
Cost or Valuation	£000	£000	£000	£000	£000
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
	687	-	(1,079)	-	(392)
Revaluation increases/(decreases) recognised in Revaluation Reserve	-	-	(1,185)	-	(1,185)
Revaluation decreases recognised in Surplus or Deficit on provision of services	-	-	-	-	-
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)
	(55)	(2,802)	(24,174)	-	(27,031)
Depreciation Charge for the Year	-	-	-	-	-
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
At 31 March 2015	13,348	20,712	758,404	27,636	820,100

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

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	Nexus
	£000	£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	Nexus
	£000	£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	Nexus
	£000	£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	667
Roll over relief on capital gains	65
Other timing differences	(255)
Tax effect of losses	(8)
	<u>469</u>

The balance at the year-end comprises:

	31 March 2015
	£000
Excess of Capital Allowances over depreciation	(3,906)
Roll over relief on capital gains	(1,297)
Other timing differences	116
Tax effect of losses	986
	<u>(4,101)</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 40 to 41 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	982
Interest paid	(9,027)

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	34,539
(Gain)/Loss on disposal of non-current assets	11,104
(Increase)/Decrease in Creditors	2,260
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>50,960</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	(47,815)
Other adjustments for items that are financing or investing activities	2,118
	<u>(45,697)</u>
Net cash flow from operating activities	<u>8,388</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	(37,799)
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>(3,782)</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.

Chair of the NECA

Date:

Head of Paid Service

Date:

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

Curtailement (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

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.