



Audit and Standards Committee

Monday 30th July, 2018 at 10.00 am

Meeting to be held: North Tyneside Council, Quadrant, The Silverlink, Cobalt Business Park, NE27 0BY

www.northeastca.gov.uk

SUPPLEMENTAL AGENDA

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6.	Statement of Accounts 2017/18	1 - 138
7.	External Audit Progress Update	139 - 162

Contact Officer: Christine Patterson Tel: 0191 211 6156 E-mail: christine.patterson@northeastca.gov.uk

To: All Members

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Audit and Standards

Date: 30 July 2018

Subject: Statement of Accounts 2017/18

Report of: Interim Chief Finance Officer

Summary

A covering report was circulated with the main agenda papers.

Attached to this note are the following appendices:

1. Narrative Report
2. Statement of Accounts

Now that we have received the final Nexus accounts we have been able to incorporate the changes to their accounts into our group accounts. We have also been able to update our accounts for adjustments made since the draft accounts were prepared on 31 May 2018.

The latest version of the Narrative Report and Accounts is attached. The main changes that have been included in the attached accounts and highlighted in the Audit Completion Report are explained in more detail below.

The external audit work is not yet complete and any further changes or issues will be reported to the meeting, together with any comments from the Audit and Standards Committee meeting.

Adjustments to the financial statements

The External Audit report sets out three 'adjusted Misstatements' as at 24 July. These are set out below in more detail.

1. The first change involves a movement between two lines in our Balance sheet entries for Current Assets. This does not change the total of Current Assets.

Comprehensive Income and Expenditure Statement		Balance Sheet	
	Dr (£'000)	Cr (£'000)	
1 Dr: Cash and cash equivalent		6,000	
Cr: Short term investments			6,000
Mis-classification of Goldman Sachs Liquidity funds as short term investments instead of cash/cash equivalents			

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We had originally included £6,000k invested with Goldman Sachs Liquidity funds as part of a Short Term Investments total of £78,000k. As technically these deposits are in a money market fund, they have been moved into the line for Cash and Cash Equivalents. This adjustment reduces the total for Short Term Investments by £6,000k to £72,000k and increases the total for Cash and Cash equivalents from £16,231k to £22,231k.

- The second adjustment is an accounting change to our Balance Sheet and to the Comprehensive Income and Expenditure Statement (CIES). This accounting adjustment does not change the cash backed reserves available to NECA.

2	Dr: Debtors - Long term	846	
	Cr: Debtors – Short term		211
	Cr: Cost of services	635	

Amendment to prepayment for advertising space at Newcastle Airport to ensure it was in line with treatment from the prior year.

In previous years there were two prepayments made to Newcastle International Airport for advertising and marketing with the prepayment funded from LEP resources. As there was a prepayment for services received in future years this required an accounting adjustment to be made to show the annualised cost of this service.

The adjustment in the draft 2017/18 accounts had been based on a five-year allocation of both instalments, but this was not fully consistent with the treatment in previous years where the first instalment had been accepted as being written off in full.

This was found not to be consistent with the treatment in prior years and an adjustment has been made to the CIES to reduce the annual charge by £635k to £423k. Which is considered to be more reflective of the annual benefit received. The figure for Long Term debtors is reduced by £846k to £53,769k and the short term debtor is increased by £211k to £15,575k.

- The third adjustment is a presentational correction of the reduction in the annual Transport Grant to Nexus of £3,333k in order to set this aside as a provision to provide the match funding for the Metro Car fleet renewal. It has no net impact.

Comprehensive Income and
Expenditure Statement

Balance Sheet

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3	Dr North East LEP Income	3,333	
	Cr Transport – Tyne and Wear Expenditure		3,333

Being misclassification of funds returned by Nexus following an agree reduction in grant to Nexus

The reduction in Grant to Nexus was approved in March 2018 by the NECA Leadership Board. As the final monthly grant payment to Nexus had already been arranged in full, the adjustment was made by way of an income refund from Nexus to NECA. Although the grant change was correctly presented in the Narrative Report, the draft accounts showed the original grant approval of £60,890k as Gross Expenditure in the 'Transport - Tyne and Wear' line and the Gross Income of £3,333k in the 'Transport - Retained Levy Budget'. The above adjustment correctly shows the reduced Gross Expenditure in the 'Transport - Tyne and Wear' of £57,557k.

Adjustment to the Group Accounts

Adjustments have been made to the Group accounts, reflecting the changes outlined above. In addition there are additional recent changes in relation to the Nexus accounts, which are not yet recognised in the draft Audit Completion report.

Nexus have included a correction in their final accounts, which has increased their reported revenue and surplus by £1,489k. This represents the recognition of third party revenue that had been building up in a control account over a few years. Its correct recognition now, results in an increase in gross income and a reduction in net expenditure in the Group Accounts Income and Expenditure Statement on the line relating to 'Transport – Tyne and Wear'. It also results in changes to the Movement in Reserves Statement and the Group Balance sheet. Further details of the accounting entries will be given at the meeting.

Nexus will be able to reflect this backdated income amount and a smaller ongoing income stream in its medium term plan, as part of measures needed to set a balanced budget in future years.

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Chief Finance Officer's Narrative Report for the Year ended 31 March 2018

Chief Finance Officer's Narrative Report 2017/18

1. Introduction

This Narrative Report provides information about the North East Combined Authority, including the key issues affecting the Authority and its accounts. This report provides an explanatory narrative to key elements of the statements and sections in the accounts and also provides a summary of the Authority's financial performance for 2017/18 and its future financial prospects.

This report provides the reader with:

- A guide to the different financial statements within the Statement of Accounts.
- An overview of the activities and significant matters which occurred during the year.
- A summary of the Authority's financial performance during the year ending 31 March 2018 and its financial position at that date.
- A look ahead to 2018/19 and beyond.

The Statement of Accounts sets out the financial performance of the Authority for the year ending 31 March 2018 and its financial position at that date. They have been prepared in accordance with proper practices as set out in the Chartered Institute of Public Finance & Accountancy (CIPFA) Code of Practice on Local Authority Accounting in the United Kingdom (the Code). The Code requires that the accounts give a true and fair view of the financial position of the Authority. In line with the Code, suitable accounting policies have been applied and where necessary prudent judgements and estimates have been made.

The accounts feature four main financial statements:

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

The purpose of each of the above statements is described at the end of this report and the actual statements are contained within the accompanying Statement of Accounts document, which also includes detailed notes providing further backup relating to specific amounts and balances.

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

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

The Authority seeks to make the best possible use of resources available with regard to economy, efficiency and effectiveness. This is a responsibility shared by Members and Officers of the Authority, with the Chief Finance Officer having a specific role in ensuring the adequacy of resources and proper financial administration. Our budget proposals for 2018/19, available on the NECA website (www.northeastca.gov.uk) sets out how we will do this looking forward. The Statement of Accounts accompanying this report looks back at our performance over the past year. Reviewed together they provide the reader with a complete understanding of the financial position of the Authority.

2. What is the North East Combined Authority?

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

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

NECA is working closely with the North East Local Enterprise Partnership (NELEP) and the wider business community to deliver the Strategic Economic Plan for the North East and capitalise on these opportunities. NECA is the Accountable Body for the NELEP and all of the financial information relating to the NELEP is included in the accounts of NECA. This has a significant impact on the accounts in 2016/17 and 2017/18 because NECA received significantly more Local Growth Fund (LGF) grant in 2016/17 than was spent on projects in the year, which means an increased surplus in the CIES and an equivalent increase in capital grants unapplied which increases the useable reserves of the Authority. In 2017/18 the LGF funding that had been allocated to the region was fully applied to projects, including the LGF funding that was carried over from 2016/17. This was a significant achievement for the region and the North East LEP, and means that it is one of the top performing LEPs in the Country. The North East LEP received Good ratings from the Government in all three categories in its last annual review.

Ten new Enterprise Zone sites started in April 2017 and the final round 2 IAMP Enterprise Zone commenced on 1 April 2018. NECA, the seven local authorities and the LEP worked jointly to secure a £120m North East extension to the JEREMIE access to finance for business fund, which is called the North East Fund and had its European funding agreed in March 2018 and was Launched in April 2018. This Fund is owned jointly by the seven local authorities though a completely separate company in which NECA has no interest and the Fund is not therefore part of these accounts.

The North of Tyne authorities secured a devolution deal with devolution funding for the North of Tyne area, which will require the establishment of a separate North of Tyne Mayoral Combined Authority during 2018/19. This will involve a change in the membership of NECA during 2018/19. It is proposed that NECA will continue to be the accountable body for Transport activity across the current LA7 geography, with governance exercised through a new Joint Transport Committee, which will replicate the current Transport for the North East Committee. The North East LEP will determine in the next few months who its accountable body will be in the future. NECA is not expected to continue to hold this accountable body role and the change is likely to take place on or before 1 April 2019. In the absence of a devolution deal for the south of the region the authority will continue to seek external funding such as Local Growth funding; infrastructure funding for major transport projects; and will seek to maximise European funding and the replacement of Europe regional funding following Brexit for the North East.

3. Revenue Financial Summary 2017/18

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

Chief Finance Officer's Narrative Report 2017/18

A summary of NECA expenditure against the budget is set out in the Table 1 below. Expenditure totalling £110.86m was managed within the approved revenue budget and income of £114.358m, which resulted in a net surplus of £3.498m. This surplus and contribution was higher than previously expected and was mainly due to a £3.333m reduction in the transport grant to Nexus, with this money being kept in a reserve to provide match funding for the Metro Fleet replacement.

This statement provides a comparison with the NECA Revised Revenue Budget for 2017/18. It does not include the Corporate budget of the NELEP, which is shown in detail in Table 4 (page 6).

Table 1: Summary of Revenue Expenditure Against Budget

	2017/18 Revised Budget	2017/18 Actual	Variance
	£000	£000	£000
Expenditure			
Transport Levy Budget			
- NECA retained (less contributions to other NECA activity)	2,160	2,122	(38)
- Grant to Durham	15,477	15,477	0
- Grant to Nexus	60,890	57,557	(3,333)
- Grant to Northumberland	6,217	6,217	0
Tyne Tunnels			-
- Contract Payments	19,290	19,487	197
- NECA costs	221	620	399
- Financing Costs	6,996	6,996	-
Other Transport Activity			-
- Regional Transport Team	880	672	(208)
- Go Smarter Programme	370	370	(0)
Inward Investment	460	438	(22)
Corporate/Central Budget	351	284	(67)
North East Technical Assistance match funding contribution	11	11	-
Devolution Activity	-	39	39
Skills - Mental Health Trailblazer Project and NETA	569	569	(0)
Total Expenditure	113,892	110,860	(3,032)
Income			
External Grant Funding	(1,739)	(1,644)	95
Transport Levies	(84,744)	(84,744)	-
Tolls Income	(26,536)	(27,014)	(478)
Interest/Investment Income	(252)	(361)	(109)
Contributions from Constituent Authorities	(440)	(440)	-
Contributions from NELEP	(148)	(148)	-
Tyne Tunnels Miscellaneous Income	-	-	-
Other Income	(112)	(8)	104
Total Income	(113,971)	(114,358)	(387)
Net Revenue Expenditure to fund from Reserves	(79)	(3,498)	(3,419)

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Within the accompanying Statement of Accounts document the **Comprehensive Income & Expenditure Statement** (CIES, page 12) sets out the Authority's financial position for the year before taking account of statutory adjustments required to be made to the accounts.

The **Movement in Reserves Statement** (MIRS, page 11) reflects these statutory adjustments and shows how the financial performance for the year has impacted on the Authority's reserves.

The figures presented in these statements are different from the budgeted revenue expenditure as they include accounting adjustments for costs such as Depreciation, and Revenue Expenditure Funded by Capital Under Statute and other grant-funded expenditure not included in the revenue budget.

The gross cost of services during the year including capital grants to third parties as well as revenue expenditure was £194.053m (£200.352m in 2016/17). This includes all areas of the NECA's and NELEP's activity. This includes 'Revenue Expenditure Funded by Capital Under Statute' – representing investment in capital assets owned by third parties, not by the Authority itself.

After deducting specific grants and income from fees and charges, the net cost of services was £90.754m, funded from a range of sources including the Transport Levy, other contributions from Constituent Authorities, Government Grants, Fees and Charges, and Enterprise Zones Business Rates Growth.

The CIES shows a net cost for the year on the Provision of Services of £7.100m. This largely reflects Local Growth Fund (LGF) expenditure charged to the CIES funded from the 'Capital Grants Unapplied Reserve' set aside in the previous year to fund expenditure in the current year.

The General Fund balance at the year-end was £32.808m. However, this is made up of a number of amounts of money which are held for specific purposes and the true un-ringfenced balance available to the Authority (the NECA Corporate reserve) is relatively low. Table 2 below sets out a breakdown of the General Fund balance.

Table 2: Breakdown of the General Fund Balance

	2016/17	2017/18
	£000	£000
NECA Corporate General Fund	(283)	(311)
Tyne and Wear Transport General Fund	(475)	(513)
Tyne Tunnels	(25,993)	(22,302)
Inward Investment Budget	(110)	(110)
Revenue Grants Unapplied	(1,434)	(486)
NELEP General Fund	(592)	(574)
Enterprise Zones reserve	(2,602)	(2,707)
North East Investment Fund	(3,408)	(5,805)
Total	(34,897)	(32,808)

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4. North East Local Enterprise Partnership

NECA is the Accountable Body for the North East Local Enterprise Partnership (NELEP) and, as such, these accounts include details of its income and expenditure during 2017/18, fully consolidated with the figures for NECA itself.

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

One of the NELEP's major areas of activity is the North East Investment Fund (NEIF), a capital loans fund supporting projects that specifically encourage local economic growth and create jobs in the area. Table 3 below shows a summary of the NEIF activity in 2017/2018.

Table 3: Summary of North East Investment Fund Activity 2017/18

	Grants Paid	Loans Advanced	Total Payments 2017/18	Interest Repayments 2017/18	Principal Repayments 2017/18	Total Repayments 2017/18
	£000	£000	£000	£000	£000	£000
Growing Places Fund	-	-	-	(14)	(114)	(128)
Regional Growth Fund	-	-	-	(239)	(574)	(813)
Contribution to North East Property Fund		-	-	-	-	-
Total	-	-	-	(253)	(688)	(941)

Table 4 overleaf summarises the LEP's revenue expenditure in 2017/18.

Table 4: North East LEP Revenue Expenditure

The LEP core budget covers LEP operational activity and also management of the Local Growth Fund (LGF) programme. Table 4 below provides a summary of actual spend against the revised budget for the year. Total revenue expenditure amounted to £3.050m, which was £0.092m higher than the revised budget for the year. Income was £3.032m, resulted in a net surplus of £0.018m carried over into 2018/19.

The main underspend in the year was on the recharge from the regional transport team for LGF transport project support, which was £0.95k below the revised budget for the year. This underspend was primarily due to delays in procuring two studies, which commenced in March and will be completed in the current year, and also reduced independent scheme assessment work for LGF transport schemes in the year.

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Table 4: North East LEP Revenue Expenditure

	2017/18 Original Budget	2017/18 Revised Budget	2017/18 Actual Spend	2017/18 Variance
	£000	£000	£000	£000
Expenditure				
Employees	1,429	1,256	1,309	53
Premises	95	93	95	2
Communications	247	247	248	1
Transport LGF Monitoring and Evaluation	200	300	205	(95)
Gatsby and Growth Hub Operational Costs	249	249	355	106
Other Operational Costs	673	623	646	23
NECA LGF/NEIF Operating Costs		50	52	2
Inward Investment Contribution	140	140	140	-
Gross Expenditure	3,033	2,958	3,050	92
Income				
LEP Core Grant	(250)	(250)	(250)	-
Local Authority Match Contributions	(250)	(250)	(250)	-
LEP Strategy Grant	(250)	(250)	(250)	-
Local Growth Fund (2.5% Top-Slice)	(1,200)	(1,200)	(1,135)	65
NEIF/EZ Business Rate Receipts	(100)	(100)	(107)	(7)
Gatsby and Growth Hub Grants	(504)	(504)	(591)	(87)
Other Grants / Enterprise Advisor	(78)	(78)	(107)	(29)
NECA contribution to Head of Paid Service	(75)	(75)	(63)	12
Interest on Balances	(140)	(140)	(200)	(60)
Other Income	(74)	(74)	(79)	(5)
Gross Income	(2,921)	(2,921)	(3,032)	(111)
Net (Surplus)/Deficit	112	37	18	(19)

Table 5 below shows the North East LEP revenue balances as at the 31 March 2018. The total LEP reserve balance has reduced by £18k over the year to £574k. The use of reserves is £19k lower than anticipated in the revised budget. The general reserve has increased by £26k.

Table 5: North East LEP Revenue Balances

	Opening Balance	Movement in 2017/18	Closing Balance
	£000	£000	£000
General Reserve	548	26	574
LGF Revenue Allocation	44	(44)	-
Total	592	(18)	574

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

5. Capital Investment

Capital investment during the year totalled £111.4m, less than the 2016/17 figure of £116.7m.

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This consisted of capital expenditure on the Authority's own assets, capital expenditure via capital grants to third parties and long-term capital loans to third parties. An analysis of capital investment by programme and by thematic area are shown in the following table and charts.

Table 6: Capital Expenditure by Programme

	2016/17	2017/18
	£000	£000
Local Growth Fund Programme	61,794	60,285
Metro Asset Renewal Plan	37,817	26,890
Transport Grants	11,877	22,889
North East Investment Fund	5,165	-
Other	129	1,302
Total	116,782	111,366

Included within the Local Growth Fund Programme (LGF) is £0.838m expenditure on the refurbishment of the Tyne Pedestrian and Cycle Tunnels, which was temporarily funded from grant as part of a funding swap, with an equivalent amount to be repaid to the LGF Programme from Tyne Tunnels reserves in future years.

Chart 1: Capital Expenditure by Programme

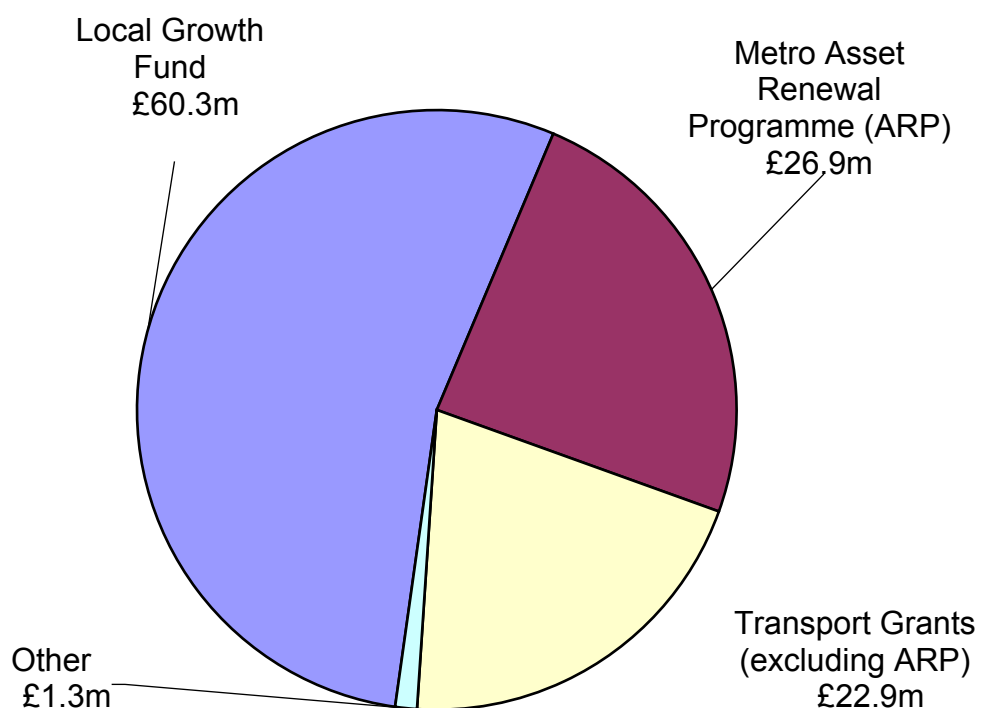
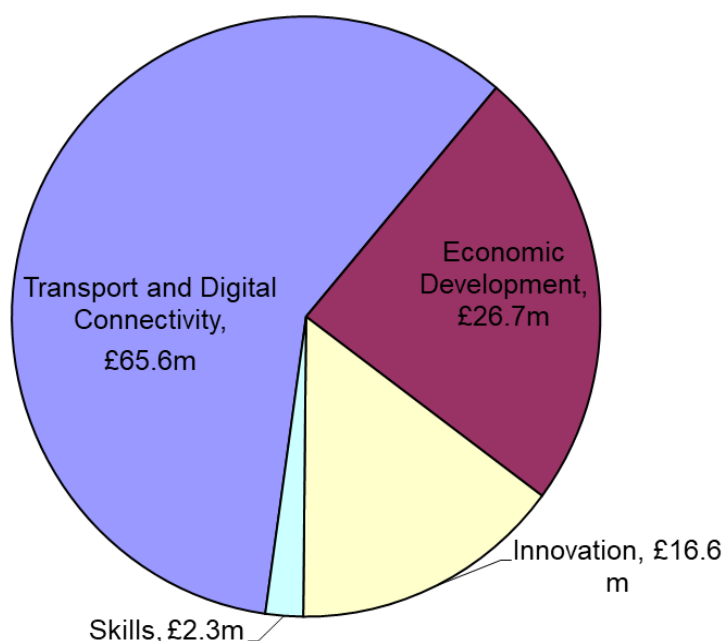


Chart 2: Capital Expenditure by Thematic Area



The largest area of capital expenditure is in relation to Transport and Digital Connectivity, reflecting the NECA's responsibilities as a Transport Authority, which it inherited from the former Tyne and Wear Integrated Transport Authority. Activity on Economic Assets and Infrastructure and Economic Development continues to grow, building on strong performance in 2016/17, and includes the North East Investment Fund. Skills and Innovation were new areas of activity for NECA in 2015/16 and have continued to be supported in 2017/18.

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

Economic Assets and Infrastructure

- North East Investment Fund – Loans and grants including the contribution to the North East Property Fund (£5.1m)
- LGF – International Advanced Manufacturing Park (IAMP) (£7.9m)
- LGF – Infrastructure for Forrest Park (£3.2m)
- LGF – Sunderland Central Business District (£7.15m)
- LGF – Explorer Netpark (£2m)

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Innovation

- LGF – Newcastle Laboratory and Life Science Incubation Hub (£6.5m)
- LGF – Centre for Innovation (£5.92m)
- LGF – National Centre for Healthcare Photonics (Stage 2) (£1.4m)
- LGF – Netpark Infrastructure Phase 3 (£3m)

Transport and Digital Connectivity

- Metro Asset Renewal Programme (£26m) (Tyne & Wear – Nexus)
- LGF – A19 Employment Corridor Access Improvements £2.6m)
- LGF – A19 North Bank of Tyne Stage 2 (£1m)
- LGF – Six Majors – A1058 Coast Road (2.3m)
- Tyne Tunnels Capital Programme (£2.9m)

Skills

- LGF – Development of STEM Specialist Centre (£1.08m)
- LGF – Eagles Community Area (£1.1m)

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

Table 7: Capital Funding 2017/18

	2017/18	2017/18
	£000	%
Local Growth Fund Grant	(61,124)	54.9%
Local Transport Plan Grant (incl. NPIF)	(22,889)	20.6%
Metro Capital Grant	(26,841)	24.1%
North East Investment Fund	-	0.0%
Growing Places Fund Capital Grant	-	0.0%
Revenue/Reserves	(512)	0.5%
Total Funding	(111,366)	100.0%

6. Enterprise Zones

The original round 1 North East Low Carbon Enterprise Zone is located across four Local Authority areas: Newcastle upon Tyne, North Tyneside, Northumberland and Sunderland. Business rates growth generated on these designated sites accrues to the benefit of the North East LEP for a 25 year period. 2017/18 was the fifth year of the zone's life.

Analysis of the business rates generated to date is shown in Table 8 overleaf. This funding is available to support future NELEP activity; primarily additional Enterprise Zone site development works to further enhance this income stream in the coming years.

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Table 8: North East Enterprise Zone Business Rates Growth 2017/18

	2013/14	2014/15	2015/16	2016/17	2017/18
	£000	£000	£000	£000	£000
Business Rate Income EZ Areas					
- Newcastle	(312)	(330)	(262)	(614)	(437)
- North Tyneside	(14)	(55)	(100)	(165)	(160)
- Northumberland	(12)	(28)	(96)	(173)	(321)
- Sunderland	(696)	(653)	(745)	(743)	(708)
	(1,034)	(1,066)	(1,203)	(1,694)	(1,626)
Interest	-	(3)	(7)	(5)	(10)
EZ Commercial Advice Grant					(30)
Gross Income	(1,034)	(1,069)	(1,210)	(1,699)	(1,666)
NEIF Loan Repayment	-	-	542	1,306	1,301
Financing Costs	-	-	424	-	
Contribution to Inward Investment Team				6	148
EZ Operating Costs	-	9	9	115	112
Gross Expenditure	-	9	975	1,427	1,561
Annual Surplus	(1,034)	(1,060)	(235)	(272)	(105)
Cumulative Surplus	(1,034)	(2,094)	(2,329)	(2,601)	(2,707)

Business Rate Income, interest and grants for 2017/18 amounted to £1.666m and Expenditure, including accelerated repayments back to the NEIF, amounted to £1.561m. The surplus for the year was £0.105m, resulting in a cumulative surplus of £2.7m being held in reserve at the year end. This is higher than the cumulative surplus forecast set out in the 2014 Financial Model and the revised estimate for the year of £2.2m.

7. Treasury Management

The Balance Sheet on page 13 of the accounts shows external borrowing of £169.326m at the end of the year, which is split between short term borrowing (£2.326m and long term borrowing (£167.000m). This compares to £169.999m for 2016/17. The decrease is due to the regular principal repayments made on Equal Instalment of Principal (EIP) loans. The average rate of interest on external borrowing for the year was 4.3%, which is comparable with the previous year.

The Balance Sheet also shows short term external investments of £72m at the end of the year compared to £104m at the end of the previous year, consisting of £35m of NECA's own investments and £37m of investments held on behalf of Nexus. The reduction in NECA investments in 2017/18 compared to the previous year is primarily due to the use of LGF grant income received in advance of payments being made to fund project expenditure this year.

8. Debtors

The Balance Sheet on page 13 shows short term debtors of £16.575m at the end of the year compared to £10.904m at the end of the previous year. These balances are analysed in more detail in Note 13 on page 39.

9. Creditors

The Balance Sheet on page 13 shows short term creditors of £77.867m at the end of the year compared to £88.624m at the end of the previous year. These balances are analysed in more detail in Note 15 on page 38. The main reason for the reduction compared to the previous year is a reduction in the balance of cash owed in respect of specific payments due to other entities in respect of LGF payments which was £10m in 2016/17 but had reduced to £1.9m at 31 March 2018.

10. Pensions Costs

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

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

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

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

NECA has two types of pension liabilities – described as funded and unfunded. Funded pension liabilities are within the LGPS and are backed by assets attributable to the Authority. For the funded element of the scheme, NECA is in a notional surplus position amounting to £7.03m, reflecting the decision of the former Tyne and Wear ITA to make a lump sum payment to clear its pension deficit in December 2013, and the high employers' contribution rate on employee costs paid in recent years. This approach has given significant increases in the value of assets in the fund, well above the levels of return that could have been achieved by the Authority itself, and also significant savings in the revenue budget.

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

Unfunded or discretionary benefits e.g. early retirement awards sit outside the Authority's funded part of the scheme and are therefore not backed by assets, but must be paid as incurred on a monthly basis. These costs all relate to former Tyne Tunnels employees and are paid from the Tyne Tunnels revenue account, at a cost of approximately £50k in 2017/18. At the end of the year there was a pension fund deficit of £0.960m and this is disclosed on the Balance Sheet on page 13. This compares with a deficit of £0.980m at the end of the previous year.

Further disclosures related to the pension fund are included in Note 18 from pages 40-45 of the Statement of Accounts.

11. Net Assets

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The Authority's total net assets have reduced from £170.698m at 31 March 2017 to £163.598m at 31 March 2018, matched by a corresponding reduction in Reserves. This reduction is primarily due to the planned use of LGF Grant carried over from the previous year to fund expenditure on LGF projects during 2017/18.

12. Group Results

The Group Accounts included as part of the Statement of Accounts fully incorporate the results of Nexus (the Tyne and Wear Passenger Transport Executive). More details can be found in Group Note 1 on page 84.

The Group results show a deficit for the year of £24.96m (2016/17 £33.1m). The net assets of the Group stood at £608m at 31 March 2018 (£633m at 31 March 2017). The reduction in relation to NECA is due to the use of LGF grant carried forward from previous years in the single entity accounts, as described above. More significantly the NEXUS Group now includes North East Metro Operations Limited, a fully owned subsidiary which commenced trading on 1st April, 2017. As such NEXUS inherited a £27m pension liability.

13. Accounting Developments

The main changes in the current year are as follows:

- **Faster Closure of Accounts** – the deadline for faster closure of accounts was brought forward for 2017/18 to the 31st May (previously 30th June) for preparation and sign off by the Chief Finance Officer, and for approval and publication of financial statements with audit opinion by 31st July (previously 30th September).
- **Highways Network Assets** – on 8th March 2017 the CIPFA / Local Authority Accounting Code Board announced the decision not to proceed with the introduction of the Highways Network Asset Code into the financial reporting requirements for Local Authorities. The Tyne Tunnels assets will therefore continue to be valued at Depreciated Historic Cost as per the current requirements.

14. Looking Ahead

As a result of the Devolution Agreement for the North of Tyne authorities, an Order is expected to be made by the Secretary of State in September 2018 which would change the membership of NECA to the four authorities located south of the Tyne; establish a new North of Tyne Mayoral Combined Authority and a new Transport Joint Committee covering the current geography of NECA.

NECA will continue to be the accountable body for the Joint Transport Committee, but is unlikely to be the accountable body for the LEP in 2019/20. NECA will continue as a going concern and the effect of these changes is likely to reduce the scale of revenue and capital transactions reported in the accounts in future years.

The focus for 2018/19 and beyond is on supporting the existing objectives of the NECA, in particular the Transport objectives, and delivering the objectives of the North East Strategic Economic Plan (SEP); while putting in place effective transitional arrangements. The 2018/19 net revenue budget was agreed by the Leadership Board in January 2018, was made up of several elements and amounted to £85.5m, excluding grant funded elements of the LEP budget. Total Gross Revenue Expenditure before applying income and funding from external grants is forecast to be in excess of £231m. A capital programme for the year totalling £148.9m (including overprogramming) was set, covering a wide range of transport improvements and economic and regeneration initiatives.

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

Transport

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

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

NECA transport activity is focused on providing leadership and a united voice on key strategic transport issues; representing the North East on transport issues of national significance; coordinating the area's public transport network; and managing the transport investment programme. NECA has produced and consulted on the Transport Manifesto setting out the vision and objectives for transport in the area. This will feed into the Transport Plan, which will be developed in 2018/19, under the Governance of a new Transport Joint Committee, which will have delegated powers from NECA and the new North of Tyne Mayoral Combined Authority. NECA is proposed to be the accountable body for the Transport Joint Committee.

During 2017/18, NECA also agreed outline business cases for the replacement of the Metrocar fleet and the continuation of the programme of essential renewals across the Metro network. The funding required for these business cases was successfully secured by Nexus as grant from the Department for Transport (DfT). During 2017/18 transport funding of £3.333m was earmarked to form part of the £25m local match funding required to help fund the Metro fleet replacement.

NECA has also approved the Metro and Local Rail Strategy which in addition to the investment to replace the Metrocar fleet and continue the programme of essential renewals, sets out an ambitious vision which will potentially bring the planning of all local rail services within the region's scope for the first time; essential building blocks for route expansion plans, service enhancements and improved network capacity.

Nexus' overall budget proposal for 2018/19 will allow it to maintain frontline services despite a £1m reduction in the grant it receives from the NECA. This is possible because of a combination of permanent savings being achieved in the current year, further planned efficiency savings next year and the application of reserves which will be augmented this financial year-end as a result of the positive outturn for 2017/18.

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NECA Transport Team activity for 2018/19 includes strategy development, the coordination of bids and regional initiatives, continuous development of the transport pipeline and programme management of the transport investment programme. The team will continue to represent the North East at an interregional and national level including engagement with Transport for the North, liaison with Government and other national agencies and NECA representation on strategic rail partnerships.

Employment and Skills

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

NECA wide initiatives currently being delivered will continue in 2018/19, include the Mental Health Trailblazer and Generation North East. NECA has successfully developed a Mental Health Trailblazer project, which will support 1,500 Employment Support Allowance (ESA) claimants. This was one of four projects nationally to secure support through the Cabinet Office Transformation Challenge Award in December 2014. The North East model supports ESA claimants with common mental health conditions into employment through integrating employment support with psychological therapy.

NECA employment and skills activity for 2018/19 includes maintaining effective and efficient delivery of pan-NECA initiatives, supporting the development and implementation of the Area Based Review, maximising European Social Fund investment for employment and skills interventions. NECA and the North East LEP have submitted a substantial bid for European Social Fund Grant for a three year North East Ambition project. This builds on the successful outcomes from the Gatsby Foundation pilot project, and will put the needs of the North East's SME-based economy at the centre of education and ensure that pupils complete their studies "industry-ready" and equipped to understand the labour market, job opportunities and career pathways open to them in the North East.

Economic Development and Regeneration

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

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

The North East Enterprise Zone sites provide specific additional benefits to businesses and room to grow and are central to NECA's and NELEP's plans to create 'more and better jobs'. A

key focus is on completing the infrastructure works that will enable the development of the 21 Enterprise Zone sites that are now live will provide opportunities for business growth and inward investment aimed at increasing employment in the region.

Co-operation between NELEP, NECA and its constituent authorities has secured the £120m European funded JEREMIE 2 financial support for Business fund, which is now operational. There will be continued activity next year to support the new Special Purpose Vehicle (SPV) company that has been established to deliver JEREMIE 2 and to explore options for further support for Business.

Key areas of work for the NECA Economic Development and Regeneration Theme in 2018/19, includes continuing to oversee activity relating to inward investment, providing strategic advice and intelligence relating to key drivers of and barriers to investment and growth, supporting the development of enterprise zones secured for the area and developing regional priorities for investment and maintaining a robust project pipeline to respond to funding calls.

15. The Statement of Accounts

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

Movement in Reserves Statement (Statement of Accounts page 11)

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

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

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

Balance Sheet (Statement of Accounts page 13)

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

Cash Flow Statement (Statement of Accounts page 14)

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

Group Financial Statements and Notes (Statement of Accounts pages 78-101)

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

16. Annual Governance Statement

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

17. Non-Financial Performance

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

Economic Development and Regeneration

- Inward Investment – in the financial year 2017/18, there were more inward investments than in 2016/17 into the NECA area which will lead to the creation of additional jobs.
- Strategic Economic Plan Update – the NELEP has worked with the local authorities, the business community and partners across the region to refresh the SEP for 2017. Headlines are:
 - The North East is ahead of schedule to reach its 100,000 more and better jobs target before 2024 – over 53,000 jobs created since 2014, with 63% of these classed as higher skilled jobs.
 - Job growth added at a rate of 6.6% over the past two years eclipsing the national rate of 5.4% in England.

Employability and Inclusion

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

Transport

- Tyne Tunnels

NECA owns the Tyne Tunnels, which link the A19 under the River Tyne between Howdon and Jarrow. There are two tolled vehicle tunnels, and tunnels for both pedestrians and cyclists. The Tunnels are entirely self-financing from the tolls, i.e. there is no call on the Authority's budget or local tax payers to support them, and assets and liabilities associated with the tunnels are ringfenced to the Tyne and Wear constituent councils within the Authority. The refurbishment of the Tyne and Pedestrian Cycle Tunnel is expected to be completed and the tunnels reopened during 2018.

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The Tunnels are operated under a contract to a concessionaire company, TT2 Ltd.

Traffic Indicators:

	Class 1	Class 2	Class 3	Exempt	Total
2017/18	172,655	14,802,233	855,656	584,809	16,415,353
2016/17	197,688	15,705,319	951,785	605,670	17,460,462
2015/16	204,751	16,218,493	989,451	581,377	17,994,072
2014/15	195,798	15,265,379	873,270	508,444	16,842,891
2013/14	185,471	13,970,360	804,147	464,529	15,424,507

Tyne and Wear Passenger Transport Executive – Nexus

NECA sets public transport policy for the region, which in Tyne and Wear is delivered operationally by Nexus. The following indicators describe the general performance of public transport in Tyne and Wear during 2017/18.

- The number of passenger journeys across Tyne and Wear was estimated at 159 million; a 5% reduction when compared to 168 million in the previous year.
- Patronage increased slightly on Bus, with the number of journeys falling by 0.4% in 2017/18 to 120.3 million.
- Metro patronage declined by over 1 million in 2017/18 to 36.4 million journeys.
- Ferry carried 422,000 passengers in 2017/18, down slightly from 441,000 the year before.
- Rail passengers in Tyne and Wear made 1.4 million journeys on local services, an increase on the previous year's total which was 0.1 million.
- Metro reliability (operated mileage) was 97.9% during 2017/18, a small decrease on the 98.0% achieved in the previous year.
- Metro Charter punctuality was 85.09% during 2017/18, an increase compared to the 82.8% achieved in the previous year.

NECA Structure

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

	Employees at the year end
2017/18	29
2016/17	21
2015/16	15

18. Further Information Available

Chief Finance Officer's Narrative Report 2017/18

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

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

Katherine Laing
Principal Accountant
Civic Centre
Barras Bridge
Newcastle upon Tyne
NE1 8QH

Tel: (0191) 211 6065
Fax: (0191) 211 4901
e-mail: katherine.laing@northeastca.gov.uk



Paul Woods
Interim Chief Finance Officer, North East Combined Authority

North East Combined Authority

Statement of Accounts 2017/18



www.northeastca.gov.uk

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1.0 Statement of Responsibilities for the Statement of Accounts

1.0 Statement of Responsibilities for the Statement of Accounts

1.1 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 and safeguard its assets.
- 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 2018 and its income and expenditure for the year ended 31 March 2018.

Signed:

Paul Woods, Interim Chief Finance Officer

Signed:

Councillor Norma Redfearn, Chair, North
East Leadership Board

2.0 Core Financial Statements and Explanatory Notes

2.0 Core Financial Statements and Explanatory Notes

2.1 Movement in Reserves Statement

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

	Note	Usable Reserves					Unusable Reserves £000	Total Authority Reserves £000
		General Fund Balance £000	Earmarked General Fund Reserves £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Total Usable Reserves £000		
Balance at 1 April 2016		(35,007)	(11,982)	-	(10,988)	(57,977)	(92,901)	(150,878)
Movement in reserves during 2016/17								
Total Comprehensive Income & Expenditure		(19,940)	-	-	-	(19,940)	120	(19,820)
Adjustments between accounting basis & funding basis under regulations	2	22,638	-	(439)	(14,738)	7,461	(7,461)	-
Net (Increase)/Decrease before transfers to Earmarked Reserves		2,698	-	(439)	(14,738)	(12,479)	(7,341)	(19,820)
Transfers (To)/From Earmarked Reserves	20	(2,588)	2,317	271	-	-	-	-
(Increase)/Decrease in 2016/17		110	2,317	(168)	(14,738)	(12,479)	(7,341)	(19,820)
Balance at 31 March 2017 carried forward		(34,898)	(9,663)	(168)	(25,726)	(70,455)	(100,242)	(170,698)
Movement in reserves during 2017/18								
Total Comprehensive Income & Expenditure		7,380	-	-	-	7,380	(280)	7,100
Adjustments between accounting basis & funding basis under regulations	2	(10,161)	-	(638)	17,998	7,200	(7,200)	-
Net (Increase)/Decrease before transfers to Earmarked Reserves		(2,781)	-	(638)	17,998	14,578	(7,480)	7,100
Transfers (To)/From Earmarked Reserves	20	4,871	(4,986)	114	-	-	-	-
(Increase)/Decrease in 2017/18		2,090	(4,986)	(524)	17,998	14,578	(7,480)	7,100
Balance at 31 March 2018 carried forward		(32,808)	(14,649)	(692)	(7,728)	(55,877)	(107,722)	(163,598)

2.2 Comprehensive Income and Expenditure Statement

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

2016/17					2017/18		
Gross Expenditure £000	Gross Income £000	Net Expenditure £000		Note	Gross Expenditure £000	Gross Income £000	Net Expenditure £000
1,318	(656)	662	Corporate		549	(543)	6
344	(169)	175	Inward Investment		609	(432)	177
61,268	(77,575)	(16,307)	Local Growth Fund Programme		60,292	(41,673)	18,619
6,348	(2,658)	3,690	North East LEP		4,898	(3,954)	944
1,148	(1,148)	-	Skills		326	(326)	-
461	-	461	Transport - Retained Levy Budget		452	-	452
15,414	-	15,414	Transport - Durham		15,477	-	15,477
6,293	-	6,293	Transport - Northumberland		6,217	-	6,217
62,500	-	62,500	Transport - Tyne and Wear		57,557	-	57,557
19,320	(18,160)	1,160	Transport - Other		24,134	(24,232)	(98)
25,938	(33,283)	(7,345)	Transport - Tyne Tunnels		23,542	(32,139)	(8,597)
200,352	(133,649)	66,703	Cost of Services		194,053	(103,299)	90,754
-	-	-	Other Operating Expenditure		-	-	-
7,450	(3,677)	3,773	Financing & Investment Income & Expenditure	3	7,134	(3,299)	3,835
-	(90,416)	(90,416)	Taxation & Non-Specific Grant Income	4	-	(87,209)	(87,209)
		(19,940)	(Surplus)/Deficit on Provision of Services				7,380
		120	Re-measurements of the defined benefit liability	18			(280)
		120	Other Comprehensive Income & Expenditure				(280)
		(19,820)	Total Comprehensive Income & Expenditure (Surplus)				7,100

2.3 Balance Sheet

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

31 March 2017 £000		Note	31 March 2018 £000
353,056	Property, Plant & Equipment	10	352,143
56,521	Long Term Debtors		53,769
409,577	Long Term Assets		405,912
104,000	Short Term Investments	11	72,000
10,904	Short Term Debtors	13	16,575
16,212	Cash and Cash Equivalents	14	22,231
131,116	Current Assets		110,807
(2,332)	Short Term Borrowing	11	(2,326)
(88,624)	Short Term Creditors	11, 15	(77,867)
(2,483)	Grants Receipts in Advance	5	(2,328)
(5,093)	New Tyne Crossing - Deferred Income	16	(5,092)
(98,532)	Current Liabilities		(87,613)
(101,845)	New Tyne Crossing - Deferred Income	16	(96,753)
(167,667)	Long Term Borrowing	11	(167,000)
(971)	Grants Receipts in Advance	5	(793)
(980)	Pension Liability	11, 18	(960)
(271,463)	Long Term Liabilities		(265,506)
170,698	Net Assets		163,598
(70,456)	Usable Reserves	19	(55,877)
(100,242)	Unusable Reserves	21	(107,722)
(170,698)	Total Reserves		(163,598)

Chief Finance Officer Certificate

I certify that the accounts set out on pages 11 to 74 give a true and fair view of the financial position of the North East Combined Authority as at the 31 March 2018.

Signed: Paul Woods, Interim Chief Finance Officer

2.4 Cash Flow Statement

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

2016/17 £000		Note	2017/18 £000
19,940	Net Surplus/(Deficit) on the provision of services	23	(7,380)
(26,395)	Adjustments to net surplus or deficit on the provision of services for non cash movements	23	(25,449)
(94,332)	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	23	(65,301)
(100,788)	Net cash flows from Operating Activities		(98,130)
76,977	Investing Activities	24	104,827
(1,717)	Financing Activities	25	(677)
(25,527)	Net (Decrease)/Increase in cash and cash equivalents		6,020
41,739	Cash and cash equivalents at the beginning of the reporting period	14	16,212
16,212	Cash and cash equivalents at the end of the reporting period	14	22,231

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North East Combined Authority Statement of Accounts 2017/18

1 Expenditure and Funding Analysis

The Expenditure and Funding Analysis shows how annual expenditure is used and funded from resources (transport levy, government grants, constituent authority contributions) by local authorities in comparison with those resources consumed or earned by authorities in accordance with generally accepted accounting practices. It also shows how this expenditure is allocated for decision making between the Authority's services/thematic areas. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

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2016/17						2017/18				
	Adjustments between the Funding and Accounting Basis						Adjustments between the Funding and Accounting Basis			
Net Expenditure Chargeable to the General Fund	Adjustments for Capital Purposes	Pension Adjustments	Other Differences	Net Expenditure in the CIES		Net Expenditure Chargeable to the General Fund	Adjustments for Capital Purposes	Pension Adjustments	Other Differences	Net Expenditure in the CIES
£000	£000	£000	£000	£000		£000	£000	£000	£000	£000
662	-	-	-	662	Corporate	6	-	-	-	6
175	-	(1)	-	175	Inward Investment	177	-	-	-	177
1,898	(18,205)	-	-	(16,307)	Local Growth Fund	341	18,278	-	-	18,619
3,455	243	(9)	-	3,690	North East LEP	844	50	50	-	944
-	-	-	-	-	Skills	-	-	-	-	-
1,500	(1,038)	-	-	461	Transport - Retained Levy	1,449	(997)	-	-	452
15,414	-	-	-	15,414	Transport - Durham	15,477	-	-	-	15,477
6,293	-	-	-	6,293	Transport - Northumberland	6,217	-	-	-	6,217
62,500	-	-	-	62,500	Transport - Tyne and Wear	57,557	-	-	-	57,557
1,549	(389)	-	-	1,159	Transport - Other	1,050	(1,147)	-	-	(98)
(5,159)	(2,135)	(50)	-	(7,344)	Transport - Tyne Tunnels	(3,655)	(4,892)	(50)	-	(8,597)
88,287	(21,524)	(60)	-	66,703	Net Cost of Services	79,462	11,292	-	-	90,754
(85,589)	-	30	(1,084)	(86,643)	Other Income and Expenditure	(82,243)	-	260	(1,392)	(83,375)
2,698	(21,524)	(30)	(1,084)	(19,940)	Surplus or Deficit	(2,781)	11,292	260	(1,392)	7,380

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2016/17				
	Adjustments between the Funding and Accounting Basis			
Net Expenditure Chargeable to the General Fund	Adjustments for Capital Purposes	Pension Adjustments	Other Differences	Net Expenditure in the CIES
£000	£000	£000	£000	£000
(46,989)				Opening General Fund Balances
(271)				Transfer from Capital Receipts Reserve
2,698				Less Surplus on General Fund Balances in Year
(44,562)				Closing General Fund Balances at 31 March 2018

2017/18				
	Adjustments between the Funding and Accounting Basis			
Net Expenditure Chargeable to the General Fund	Adjustments for Capital Purposes	Pension Adjustments	Other Differences	Net Expenditure in the CIES
£000	£000	£000	£000	£000
(44,562)				
(114)				
(2,781)				
(47,458)				

Adjustments for Capital Purposes

Adjustments for Capital Purposes - this column adds in depreciation and impairment and revaluation gains and losses in the services line, and adjusts for:

- **Other operating expenditure** - adjusts for capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets.
- **Financing and investment income and expenditure** - the statutory charges for capital financing i.e. Minimum Revenue Provision and other revenue contributions are deducted from other income and expenditure as these are not chargeable under generally accepted accounting practices.
- **Taxation and non-specific grant income and expenditure** - capital grants are adjusted for income not chargeable under generally accepted accounting practices.

Net Change for the Pension Adjustments

Net change for the removal of pension contributions and the addition of IAS 19 Employee Benefits pension related expenditure and income:

- **For services** this represents the removal of the employer pension contributions made by the authority as allowed by statute and the replacement with current service costs and past service costs.
- **For Financing and Investment Income and Expenditure** - the net interest on the defined benefit liability is charged to the CIES.

Other Differences

Other differences between amounts debited/credited to the Comprehensive Income and Expenditure Statement and amounts payable/receivable to be recognised under

- **For Financing and Investment Income and Expenditure** - the Other Differences column recognises adjustments to the General Fund for the timing differences for premiums and discounts.

1a Expenditure and Income Analysed by Nature

	2016/17	2017/18
	£000	£000
Expenditure		
Employee benefit expenses	1,088	1,485
Other service expenses	118,358	105,966
Depreciation, impairment and Revenue Expenditure Funded from Capital Under Statute (REFCUS)	80,905	86,322
Interest payments	7,451	7,134
Loss/gain on disposal of non-current assets	-	-
Total expenditure	207,802	200,907
Income		
Fees, charges and other service income (Tyne Tunnels tolls)*	(27,804)	(27,389)
Interest and investment income	(3,677)	(3,299)
Income from business rates on enterprise zones	(1,696)	(1,626)
Income from transport levy	(86,894)	(84,744)
Government grants and contributions	(101,413)	(71,657)
Other income	(6,258)	(5,092)
Total income	(227,742)	(193,807)
Surplus / Deficit on the provision of services	(19,940)	7,100

* Fees, charges and other service income relates wholly to tolls charged on the Tyne Tunnels, which is reported as income in the Tyne Tunnels line of the CIES.

2 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.

2016/17				Adjustments between Accounting Basis and Funding Basis Under Statute	2017/18			
General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied	Unusable Reserves		General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied	Unusable Reserves
£000	£000	£000	£000		£000	£000	£000	£000
				Adjustments primarily involving the Capital Adjustment Account:				
(4,572)	-	-	4,572	Reversal of items debited or credited to the CIES	(3,890)	-	-	3,890
5,092	-	-	(5,092)	Charges for depreciation and impairment of non current assets	5,092	-	-	(5,092)
74,216	-	-	(74,216)	Other Income that cannot be credited to the General Fund	63,183	-	-	(63,183)
(75,981)	-	-	75,981	Capital grants and contributions applied	(82,432)	-	-	82,432
-	-	-	-	Revenue expenditure funded from capital under statute	-	-	-	-
				Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES				
				Insertion of items not debited or credited to the CIES				
2,523	-	-	(2,523)	Statutory provision for the financing of capital investment	2,557	-	-	(2,557)
130	-	-	(130)	Capital expenditure charged against the General Fund	2,129	-	-	(2,129)
				Adjustments primarily involving the Capital Grants Unapplied Account:				
20,116	-	(20,116)	-	Grants & contributions unapplied credited to CIES	2,118	-	(2,118)	-
-	-	5,378	(5,378)	Application of grants to capital financing transferred to Capital Adjustment Account	-	-	20,116	(20,116)
				Adjustments involving the Capital Receipts Reserve:				
-	(2,250)	-	2,250	Loan principal repayments	-	(2,387)	-	2,387
-	46	-	(46)	Use of Capital Receipts Reserve to finance new Capital Expenditure	(50)	-	-	50
-	1,765	-	(1,765)	Application of Capital Receipts to repayment of debt	-	1,749	-	(1,749)
				Adjustments involving the Financial Instruments Adjustment Account:				
1,084	-	-	(1,084)	Amount by which finance costs charged to the CIES are different from finance costs chargeable in the year in accordance with statutory requirements	1,392	-	-	(1,392)
				Adjustments involving the Pensions Reserve:				
(150)	-	-	150	Reversal of items relating to retirement benefits debited or credited to the CIES	(310)	-	-	310
180	-	-	(180)	Employer's pensions contributions and direct payments to pensioners payable in the year	50	-	-	(50)
22,638	(439)	(14,738)	(7,461)	Total Adjustments	(10,160)	(638)	17,998	(7,200)

3 Financing and Investment Income and Expenditure

	Note	2016/17 £000	2017/18 £000
Interest payable and similar charges		7,420	7,114
Interest on defined benefit liability	18	30	20
Interest receivable and similar income		(3,677)	(3,299)
Total		3,773	3,835

4 Taxation and Non Specific Grant Income

	Note	2016/17 £000	2017/18 £000
Transport Levy		(86,894)	(84,744)
Enterprise Zone income		(1,696)	(1,626)
Non-specific Capital Grant (LGF grant applied to Tyne Tunnels capital expenditure)		(1,826)	(838)
Total		(90,416)	(87,209)

5 Grant Income and Other Contributions

The Authority credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2017/18

Credited to Services	2016/17 £000	2017/18 £000
DCLG Capacity Grant	(500)	(500)
Growth Hub	(556)	(410)
Local Authority Contributions to NECA	(440)	(440)
Local Authority Contributions to NELEP	(250)	(250)
Local Growth Fund	(77,576)	(42,506)
Local Sustainable Transport Fund	-	-
Local Transport Plan	(13,949)	(22,889)
Mental Health Trailblazer	(1,148)	(326)
North East Smart Ticketing Initiative	(901)	(527)
North East Technical Assistance	(356)	(243)
Other Grants	(510)	(444)
Regional Growth Fund Capital	(80)	-
Regional Growth Fund Revenue	-	-
Sustainable Travel Transition Year	(2,343)	-
Total	(98,609)	(68,535)

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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 that if not met will require the monies or property to be returned to the giver. The balances at the year-end are as follows:

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Grants Receipts in Advance	2016/17 £000	2017/18 £000
<u>Revenue Grants</u>		
Growth Hub	-	-
Mental Health Trailblazer	-	-
North East Smart Ticketing Initiative	(1,924)	(1,397)
Office for Low Emission Vehicles - Revenue	(30)	-
Other Grants	-	(225)
<u>Capital Grants</u>		
Office for Low Emission Vehicles - Capital	(1,500)	(1,500)
Regional Growth Fund Capital	-	-
Total	(3,454)	(3,122)
Shown as Short-Term Liability on Balance Sheet	(2,483)	(2,328)
Shown as Long-Term Liability on Balance Sheet	(971)	(793)
Total	(3,454)	(3,122)

6 Members' Allowances

The Authority paid the following amounts to Independent Members of its various Committees during the year. Representatives from constituent authorities receive no allowances from NECA.

	2016/17 £000	2017/18 £000
Allowances	4	4
Total	4	4

7 Officers' Remuneration

The remuneration paid to the Authority's Senior Officers was as follows:

		Salary Fees and Allowances	Pension Contribution	Total
		£000	£000	£000
Managing Director of Transport Operations	2017/18	127	22	149
	2016/17	116	19	135
Monitoring Officer	2017/18	30	-	30
	2016/17	-	-	-

Two of the Authority's interim statutory officers are not formal employees of the authority (and therefore are not included in the statutory disclosure above), but their services have been provided via agency arrangements, details of which are set out below in the interests of transparency:

		Payment for days worked	Expenses	Total
		£000	£000	£000
Interim Chief Executive Helen Golightly (wef October 2016) Adam Wilkinson (June 2015 - July 2016)	2017/18	63	-	63
	2016/17	68	1	69
Interim Chief Finance Officer	2017/18	117	2	119
	2016/17	120	3	123

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The number of other officers who received remuneration greater than £50,000 (excluding employer's pension contributions) was as follows:

	2016/17	2017/18
£50,000 - £54,999	1	2
£55,000 - £59,999	-	-
£60,000 - £64,999	1	3
£65,000 - £69,999	-	-
£70,000 - £74,999	-	-
£75,000 - £79,999	-	-
£80,000 - £84,999	-	-
£85,000 - £89,999	-	-
£90,000 - £94,999	-	-
£95,000 - £99,999	-	-
Total	2	5

The increase in 2017/18 is due to officers formerly employed by other organisations and seconded to NECA being transferred into the employment of NECA during the year.

8 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.

	2016/17 £000	2017/18 £000
Fees payable with regard to external audit services carried out by the appointed auditor for the year	24	24
Total	24	24

9 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 to 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.

In this context, related parties include:

- Central Government
- Members of the Authority
- Officers of the Authority
- NECA Constituent Authorities
- Other Public Bodies
- Other Entities

Central Government

Central government is responsible for providing the statutory framework within which the Authority operates, provides much of its funding in the form of grants and prescribes the terms of some of the transactions that the Authority has with other parties (e.g. Concessionary Fares Reimbursement). Grants received from government departments are set out in Note 4.

Elected Members of the Authority

Members of the Authority have a direct control over the Authority's financial and operating policies. No members allowances are payable to elected members of the Authority. During 2017/18 no works or services were commissioned from companies in which any members had an interest.

Officers

There have been no pecuniary interests involving the Head of Paid Service, the Chief Finance Officer or the Monitoring Officer to the Authority.

NECA Constituent Authorities

The Leaders and Elected Mayor of the seven NECA constituent Authorities serve as members of the NECA Leadership Board. Details of income and expenditure with the seven Authorities are set out in the table below.

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Other Public Bodies

The Authority has a direct relationship with the Passenger Transport Executive for Tyne and Wear (Nexus). NECA sets the policy which is delivered by Nexus, and agrees its budget and revenue grant. Income and expenditure with Nexus is set out in the table below.

Other Entities

Newcastle International Airport Ltd - the seven Constituent Authorities of NECA are shareholders in Newcastle Airport.

Arch - a wholly owned subsidiary of Northumberland County Council, and was awarded grant funding through the Regional Growth Fund and Local Growth Fund during the year.

University of Sunderland - a disclosable related party which was awarded grant funding through the Local Growth Fund during the year.

Income and expenditure and debtors/creditors at the year end with these entities is set out in the table below.

	2016/17 Receivables	2016/17 Income	2016/17 Expenditure	2016/17 Payables	2017/18 Receivables	2017/18 Income	2017/18 Expenditure	2017/18 Payables
	£000	£000	£000	£000	£000	£000	£000	£000
NECA Constituent Authorities								
Durham	-	(15,539)	21,498	6,167	-	(15,538)	30,151	774
Gateshead	-	(11,778)	1,517	1,037	-	(11,390)	2,740	838
Newcastle	(614)	(16,970)	7,098	13,386	(437)	(16,509)	18,093	1,095
North Tyneside	(165)	(11,907)	7,312	3,875	(160)	(11,474)	10,546	4,347
North'land	(173)	(6,420)	9,742	1,366	(321)	(6,430)	13,584	445
South Tyneside	(2)	(8,757)	3,528	4,512	-	(8,450)	4,911	685
Sunderland	(748)	(16,220)	6,767	2,207	(708)	(16,367)	11,536	8,040
Other Public Bodies								
Nexus	(3,251)	(3,378)	62,787	42,419	(3,129)	(3,251)	60,892	4,190
Other Entities								
Newcastle International Airport Ltd	-	-	-	-	-	-	-	-
Arch	-	(21)	126	4,345	-	(20)	84	-
University of Sunderland	-	-	484	-	-	-	-	-
	(4,953)	(90,990)	120,859	79,314	(4,755)	(89,429)	152,537	20,412

10 Property, Plant and Equipment

2017/18	Other Land and Buildings £000	Vehicles, Plant, Furniture & Equipment £000	Infrastructure Assets £000	Assets Under Construction £000	Total Property, Plant and Equipment £000
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Cost or Valuation

At 1 April 2017	-	3,205	381,075	9,726	394,006
Additions	-	-	8	2,969	2,976
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	-	-	(8)	-	(8)
At 31 March 2018	-	3,205	381,074	12,695	396,974

Accumulated Depreciation and Impairment

At 1 April 2017	-	(1,002)	(39,947)	-	(40,949)
Depreciation Charge for the Year	-	(92)	(3,763)	-	(3,855)
Depreciation Adjustment	-	-	(27)	-	(27)
At 31 March 2018	-	(1,094)	(43,737)	-	(44,831)

Net Book Value

2017/18	Other Land and Buildings £000	Vehicles, Plant, Furniture & Equipment £000	Infrastructure Assets £000	Assets Under Construction £000	Total Property, Plant and Equipment £000
At 1 April 2017	-	2,203	341,128	9,726	353,057
At 31 March 2018	-	2,111	337,337	12,695	352,143

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Comparative information 2016/17	Other Land and Buildings* £000	Vehicles, Plant, Furniture & Equipment £000	Infrastructure Assets £000	Assets Under Construction £000	Total Property, Plant and Equipment £000
Cost or Valuation					
At 1 April 2016	-	3,205	381,075	7,900	392,180
Additions	-	-	130	1,826	1,956
Derecognition - other	-	-	-	-	-
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	-	-	(130)	-	(130)
At 31 March 2017		3,205	381,075	9,726	394,006

Comparative information 2016/17	Other Land and Buildings £000	Vehicles, Plant, Furniture & Equipment £000	Infrastructure Assets £000	Assets Under Construction £000	Total Property, Plant and Equipment £000
Accumulated Depreciation and Impairment					
At 1 April 2016	-	(910)	(35,597)	-	(36,507)
Depreciation Charge for the Year	-	(92)	(3,742)	-	(3,834)
Derecognition - Adjustment	-	-	(608)	-	(608)
At 31 March 2017	-	(1,002)	(39,947)	-	(40,949)

Costs of land intrinsically linked to the original Tyne Tunnel has now been included within the valuation of that Tunnel and therefore is shown as part of the Infrastructure Assets balance within this note.

11 Financial Instruments

Categories of Financial Instruments

The investments and borrowing disclosed in the Balances Sheet are made up of the following categories of financial instrument:

Long Term 31 March 2017 £000	Short Term 31 March 2017 £000		Long Term 31 March 2018 £000	Short Term 31 March 2018 £000
		Investments		
-	104,000	Fixed term deposits	-	72,000
-	104,000	Total Investments	-	72,000
		Debtors		
55,780	-	Long term debtors - Loans and advances treated as capital expenditure	51,816	1,636
741	10,904	Other debtors	-	11,178
56,521	10,904	Total Debtors	51,816	12,814
		Borrowings		
(167,667)	(667)	Financial liabilities at amortised cost - Loans (Principal)	(167,000)	(667)
-	(1,665)	Financial liabilities at amortised cost - Loans (Interest)	-	(1,659)
(167,667)	(2,332)	Total included in Borrowings	(167,000)	(2,326)
		Other Long Term Liabilities		
(980)	-	Pension Liability	(960)	-
(980)	-	Total Other Long Term Liabilities	(960)	-
		Creditors		
-	(88,624)	Short Term Creditors	-	(77,867)
-	(88,624)	Total Creditors	-	(77,867)

Income, Expense, Gains and Losses

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

31 March 2017				31 March 2018		
Financial Liabilities at amortised cost	Financial assets: loans and receivables	Total		Financial Liabilities at amortised cost	Financial assets: loans and receivables	Total
£000	£000	£000		£000	£000	£000
7,421	-	7,421	Interest expense	7,114	-	7,114
7,421	-	7,421	Total expense in Surplus on Provision of Services	7,114	-	7,114
-	(3,677)	(3,677)	Investment income	-	(3,299)	(3,299)
-	(3,677)	(3,677)	Total income in Surplus on Provision of Services	-	(3,299)	(3,299)
7,421	(3,677)	3,744	Net (gain)/loss for the year	7,114	(3,299)	3,815

The Fair Values of Financial Assets and Financial Liabilities that are not measured at Fair Value (but for which Fair Value disclosures are required)

Financial assets classified as loans and receivables and all non-derivative financial liabilities are carried in the Balance Sheet at amortised cost. Their fair values have been estimated by calculating the net present value of the remaining contractual cash flows at 31st March 2018, using the following methods and assumptions:

- Loans borrowed by the Authority have been valued by discounting the contractual cash flows over the whole life of the instrument at the appropriate market rate for local authority loans.
- The value of "Lender's Option Borrower's Option" (LOBO) loans have been increased by the value of the embedded options. Lenders' options to propose an increase to the interest rate on the loan have been valued according to a proprietary model for Bermudan cancellable swaps. Borrower's contingent options to accept the increased rate or repay the loan have been valued at zero, on the assumption that lenders will only exercise their options when market rates have risen above the contractual loan rate.
- No early repayment or impairment is recognised for any financial instrument.
- The fair value of short-term instruments, including trade payables and receivables, is assumed to approximate to the carrying amount.

For 2017/18 the fair values shown in the table below are split by their level in the fair value hierarchy:

- Level 1 - fair value is only derived from quoted prices in active markets for identical assets or liabilities, e.g. bond prices.
- Level 2 - fair value is calculated from inputs other than quoted prices that are observable for the asset or liability e.g. interest rates or yields for similar instruments.
- Level 3 - fair value is determined using unobservable inputs, e.g. non-market data such as cash flow forecasts or estimated creditworthiness.

31 March 2017			31 March 2018	
Carrying Amount	Fair Value		Carrying Amount	Fair Value
£000	£000		£000	£000
		Financial Liabilities		
(73,000)	(111,326)	PWLB - Maturity Loans	(73,000)	(107,028)
(6,333)	(7,156)	PWLB - EIP Loans	(5,667)	(6,181)
(89,000)	(168,411)	LOBOs	(89,000)	(165,863)
(168,333)	(286,893)		(167,667)	(279,071)

31 March 2017			31 March 2018	
Carrying Amount	Fair Value		Carrying Amount	Fair Value
£000	£000		£000	£000
		Loans and receivables		
104,000	104,000	Fixed Term Investments	73,000	73,000
56,521	84,650	Long-Term debtors	52,133	78,815
160,521	188,650		125,133	151,815

The fair value of short-term financial liabilities including trade payables and short term financial assets including trade receivables is assumed to approximate to the carrying amount.

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.

Previously, for loans between NECA and Nexus the fair value had been assumed to be the same as the carrying value. Now a proportion of the Authority's overall fair value of borrowing has been used to give an approximation of fair value for the Nexus loans.

Soft Loans

Soft Loans are loans made to third parties at a preferential rate of interest, i.e. below the market rate. In previous years the LEP 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. The term of two of the loans has been extended.

Valuation Assumptions

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

2017/18

Description	Term (Years)	Contracted Rate	Fair Value Rate	Opening Balance (Nominal)	Advances in Year	FV adjustment on initial recognition	Loans Repaid	Increase in discounted amount	Closing Balance (fair value)	Closing Balance (Nominal)
				£000	£000	£000	£000	£000	£000	£000
Durham University	12	1.90%	4.95%	10,000	-	(1,192)	-	-	8,808	10,000
Neptune Test Centre	9	0.00%	4.99%	5,094	-	(1,378)	-	-	3,716	5,094
Cobalt Data Centre	6	6.00%	7.00%	2,384	-	(26)	(477)	-	1,881	1,907
Boiler Shop	3	4.50%	5.02%	1,545	-	96	-	-	1,641	1,545
The Jesmond	2	7.30%	11.02%	1,269	-	87	-	-	1,356	1,269

2016/17

Description	Term (Years)	Contracted Rate	Fair Value Rate	Opening Balance (Nominal)	Advances in Year	FV adjustment on initial recognition	Loans Repaid	Increase in discounted amount	Closing Balance (fair value)	Closing Balance (Nominal)
				£000	£000	£000	£000	£000	£000	£000
Durham University	12	1.90%	4.95%	10,000	-	(1,607)	-	-	8,393	10,000
Neptune Test Centre	9	0.00%	4.99%	5,094	-	(1,555)	-	-	3,539	5,094
Cobalt Data Centre	4	6.00%	7.00%	2,375	125	(106)	(116)	-	2,278	2,384
Boiler Shop	3	4.50%	5.02%	811	734	18	-	-	1,563	1,545
The Jesmond	2	11.00%	11.02%	1,269	-	50	-	-	1,319	1,269

12 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 financial 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 a central treasury team, under policies approved by the Authority in the Annual Treasury Management Strategy Statement. The statement 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 deposit risk is minimised through the Treasury Management Statement, which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria. The Treasury Management Statement 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.

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. A provision for bad debt on the outstanding NEIF loans balance has been made in year, calculated at 5% of loans outstanding at 31 March 2018, although all loans are expected to be repaid.

The Authority's maximum exposure to credit risk in relation to its investments in banks and building societies cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of non recovery applies to all of the Authority's deposits, but there was no evidence at the 31 March 2018 that this was likely to crystallise. Actions are taken immediately if an institution is downgraded and deposits withdrawn in line with Treasury Management Strategy.

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 maturing loans may be replaced through a combination of careful planning of new loans taken out and (where it is economic to do so) making early repayments. The maturity analysis of financial liabilities is as follows:

	31 March 2017 £000	31 March 2018 £000
Between 1-2 years	(667)	(667)
Between 2-5 years	(2,000)	(2,000)
Between 5-10 years	(3,000)	(2,333)
More than 10 years	(162,000)	(162,000)
	(167,667)	(167,000)
Less than 1 year	(2,332)	(2,326)
Total borrowing	(169,999)	(169,326)

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

Market Risk

Interest Rate Risk

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

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

The Authority has a number of strategies for managing interest rate risk. The 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 quarterly 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.

The table below shows the impact on the debt portfolio at 31st March 2018 if interest rates had been 1% higher with all other variables held constant. The only loans affected by such a movement would be new loans taken during 2017/18 and variable interest rate loans. Existing fixed rate loans, which make up the greatest proportion of the portfolio, would not be affected. According to this strategy, at 31 March, if interest rates had been 1% higher with all other variables held constant, the financial effect would be:

	£000
Increase in interest payable on borrowings	-
Increase in interest receivable on investments	(759)
Impact on Surplus on the Provision of Services	(759)

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.

13 Debtors

	31 Mar 2017 £000	31 Mar 2018 £000
Central government bodies	1,256	6,203
Other local authorities	1,800	3,277
Other entities and individuals	7,848	7,095
Total	10,904	16,575

14 Cash and Cash Equivalents

	31 Mar 2017 £000	31 Mar 2018 £000
Cash balances held by Sunderland City Council	368	863
Cash held in Authority's bank account	15,844	21,368
Total Cash and Cash Equivalents	16,212	22,231

15 Short Term Creditors

	31 Mar 2017 £000	31 Mar 2018 £000
Central government bodies	(63)	(63)
Other local authorities	(32,629)	(29,036)
Other entities and individuals		
- Nexus	(42,418)	(42,239)
- TT2 Ltd	(3,458)	(3,208)
- Other	(10,056)	(3,321)
Total	(88,624)	(77,867)

16 Private Finance Initiatives & 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 2017/18 the payment under the contract was £19.487m (2016/17 £21.201m).

The contribution to the capital works by the private sector partner is recognised as a deferred income balance with a 2017/18 value of £101.845m (2016/17 £106.938m) which is written down over the remaining life of the contract, as shown in the table below.

	Deferred Income Release	
	2016/17 £000	2017/18 £000
Payable in 2018/19	(5,093)	(5,092)
Payable within 2 to 5 years	(20,369)	(20,370)
Payable within 6 to 10 years	(25,461)	(25,461)
Payable within 11 to 15 years	(25,461)	(25,461)
Payable within 16 to 20 years	(25,461)	(25,461)
Payable within 21 to 25 years	(5,093)	-
Total	(106,938)	(101,845)

	2016/17 £000	2017/18 £000
Shown as Short Term Liability on Balance Sheet	(5,093)	(5,092)
Shown as Long Term Liability on Balance Sheet	(101,845)	(96,753)
Balance outstanding at year-end	(106,938)	(101,845)

Payments

Payments made by the Authority to TT2 Ltd are based on actual traffic volumes using the tunnel, and so will vary from year to year.

17 Contingent Liabilities

The Local Government Pension Scheme transferred to TT2 Ltd on 1 February 2008 and relates to membership accrued before that date was previously shown as a contingent liability and is now referred to within Note 27 Critical Judgements.

18 Defined Benefit Pension Schemes

The Authority participates in two post-employment schemes:

(i) The largest of the two, Tyne and Wear Pension Fund is 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.

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 levy is based on the cash payable in the year, so the real cost of post employment/retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year:

	Local Government Pension Scheme		Discretionary Benefits Arrangements	
	2016/17 £000	2017/18 £000	2016/17 £000	2017/18 £000
Comprehensive Income and Expenditure Statement				
Cost of Services:				
Current service cost	120	290	-	-
Past service costs	-	-	-	-
Financing and Investment Income and Expenditure:				
Interest on net defined benefit liability/(asset)	-	-	30	20
Pension expense recognised in profit and loss	120	290	30	20

North East Combined Authority Statement of Accounts 2017/18

	Local Government Pension Scheme		Discretionary Benefits Arrangements	
	2016/17 £000	2017/18 £000	2016/17 £000	2017/18 £000
Other Post Employment Benefit charged to the Comprehensive Income and Expenditure Statement:				
Return on plan assets (in excess of)/ below that recognised in net interest	(7,640)	(570)	-	-
Actuarial (gains)/losses due to changes in financial assumptions	6,300	330	140	-
Actuarial (gains)/losses due to changes in demographic assumptions	510	-	(20)	-
Actuarial (gains)/losses due to changes in liability assumptions	(920)	570	(10)	10
Adjustment in respect of paragraph 58	1,760	(620)	-	-
Total amount recognised in Other Comprehensive Income	10	(290)	110	10
Total amount recognised	130	-	140	30

Assets and Liabilities in Relation to Post-employment Benefits

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

	Funded liabilities: Local Government Pension Scheme		Unfunded liabilities: Discretionary Benefits	
	2016/17 £000	2017/18 £000	2016/17 £000	2017/18 £000
Opening balance at 1 April	(31,630)	(37,590)	(890)	(980)
Current service cost	(120)	(290)	-	-
Interest cost	(1,030)	(930)	(30)	(20)
Contributions by participants	(50)	(70)	-	-
Actuarial gains/(losses) on liabilities - financial assumptions	(6,300)	330	(140)	-
Actuarial gains/(losses) on liabilities - demographic assumptions	(510)	-	20	-
Actuarial gains/(losses) on liabilities - experience	920	(570)	10	(10)
Net benefits paid out	1,130	830	50	50
Past service costs	-	-	-	-
Closing balance at 31 March	(37,590)	(38,290)	(980)	(960)

Reconciliation of fair value of the scheme assets:

	Local Government Pension Scheme		Discretionary Benefits	
	2016/17 £000	2017/18 £000	2016/17 £000	2017/18 £000
Opening balance at 1 April	37,150	45,050	-	-
Interest income on assets	1,210	1,210	-	-
Remeasurement gains/(losses) on assets	7,640	570	-	-
Employer contributions	130	-	50	50
Contributions by scheme participants	50	70	-	-
Net benefits paid out	(1,130)	830	(50)	(50)
Closing balance at 31 March	45,050	47,730	-	-

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the balance sheet date.

Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets.

Scheme History	2013/14 £000	2014/15 £000	2015/16 £000	2016/17 £000	2017/18 £000
Fair value of LGPS assets	34,920	37,770	37,150	45,050	45,980
Present value of liabilities:					
LGPS liabilities	(32,640)	(34,520)	(31,630)	(37,590)	(38,950)
Impact of minimum funding	(2,280)	(3,250)	(5,520)	(7,460)	(7,030)
(Deficit) on funded defined benefit scheme	-	-	-	-	-
Discretionary benefits	(960)	(1,020)	(890)	(980)	(960)
Total (Deficit)	(960)	(1,020)	(890)	(980)	(960)

The split of the defined benefit obligation at the last valuation date between the various categories of members was as follows; active members 5%, deferred pensioners 10% and pensioners 85%.

The liabilities show the underlying commitments that the Authority has in the long run to pay post employment (retirement) benefits. The total liability of £39.91m has an impact on the net worth of the Authority as recorded in the balance sheet, resulting in a negative pension balance of £0.96m. However, statutory arrangements for funding the deficit mean that the financial position of the Authority remains healthy:

The deficit on the local government scheme will be made good by contributions over the remaining working life of employees (i.e. before payments fall due), as assessed by the scheme actuary.

Finance is only required to be raised to cover discretionary benefits when the pensions are actually paid.

The total contributions expected to be made to the Local Government Pension Scheme by the Authority in the year to 31 March 2018 is £0.13m. In addition, Strain on the Fund contributions may be required. Expected payments direct to beneficiaries in the year to 31 March 2018 are £0.05m in relation to unfunded benefits.

Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. Both the Local Government Pension Scheme and Discretionary Benefits liabilities have been assessed by Aon, an independent firm of actuaries, estimates for the pension fund being based on the latest full valuation of the scheme as at 31 March 2017.

The principal assumptions used by the actuary have been:

	Local Government Pension Scheme		Discretionary Benefits	
	2016/17	2017/18	2016/17	2017/18
Mortality assumptions:-				
Longevity at 65 for current pensioners:				
Men	22.8	22.9	22.8	22.9
Women	26.3	26.4	26.3	26.4
Rate for discounting scheme liabilities	2.5%	2.6%	2.5%	2.6%
Rate of inflation - Retail Price Index	3.1%	3.2%	3.1%	3.2%
Rate of inflation - Consumer Price Index	2.0%	2.1%	2.0%	2.1%
Rate of increase in pensions	2.0%	2.1%	2.0%	2.1%
Pension accounts revaluation rate	2.0%	2.1%	n/a	n/a
Rate of increase in salaries	3.5%	3.6%	n/a	n/a

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

	31 March 2017	31 March 2018		
	% Total	% Quoted	% Unquoted	% Total
Equity investments	66.9	60.7	6.3	67.0
Property	9.2	0.0	8.5	8.5
Government bonds	3.9	4.0	0.0	4.0
Corporate bonds	11.5	11.7	0.0	11.7
Cash	2.6	3.7	0.0	3.7
Other*	5.9	3.5	1.6	5.1
Total	100.0	83.6	16.4	100.0

* Other holdings may include hedge funds, currency holdings, asset allocation futures and other financial instruments. It is assumed that these will generate a return in line with equities.

	Funded 2016/17 £000	Funded 2017/18 £000
Actual Return on Assets		
Interest income on assets	1,210	1,120
Remeasurement gain/(loss) on assets	7,640	570
Actual return on assets	8,850	1,690

Sensitivity Analysis

The approximate impact of changing the key assumptions on the present value of the funded defined benefit obligation as at 31 March 2018 and the projected service cost for the period ending 31 March 2019 is set out below.

Sensitivity analysis of unfunded benefits (where applicable) has not been included on materiality grounds.

Funded LGPS Benefits

Discount Rate assumption

Adjustment to Discount rate	+0.1% per annum	Base Figure	-0.1% per annum
Present value of total obligation (£m)	38.44	38.95	39.46
% change in present value of total obligation	-1.30%		1.30%
Projected service cost (£m)	0.29	0.30	0.31
Approximate % change in projected service cost	-4.00%		4.10%

Rate of general increase in salaries

Adjustment to salary increase rate	+0.1% per annum	Base Figure	-0.1% per annum
Present value of total obligation (£m)	38.97	38.95	38.93
% change in present value of total obligation	0.00%	0.00%	-0.10%
Projected service cost (£m)	0.30	0.30	0.30
Approximate % change in projected service cost	0.00%	0.00%	0.00%

Rate of increase to pensions in payment and deferred pensions

Adjustment to pension increase rate	+0.1% per annum	Base Figure	-0.1% per annum
Present value of total obligation (£m)	39.94	38.95	37.97
% change in present value of total obligation	2.50%		-2.50%
Projected service cost (£m)	0.31	0.30	0.29
Approximate % change in projected service cost	4.10%		-4.00%

Post retirement mortality assumption

Adjustment to mortality age rating assumption *	+ 1 year	Base Figure	- 1 year
Present value of total obligation (£m)	40.41	38.95	37.56
% change in present value of total obligation	3.80%	0.00%	-3.60%
Projected service cost (£m)	0.31	0.30	0.29
Approximate % change in projected service cost	3.70%	0.00%	-3.70%

* 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.

19 Usable Reserves

	31 Mar 2017 £000	31 Mar 2018 £000
General Fund Balance	(34,897)	(32,808)
Metro Reinvigoration Reserve	(9,126)	(9,117)
North East LEP Earmarked Reserves	(539)	(5,532)
Capital Receipts Reserve	(168)	(692)
Capital Grants Unapplied Reserve	(25,726)	(7,728)
Total Usable Reserves	(70,456)	(55,877)

20 Transfers (to)/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.

	Opening Balance 1 April 2016 £000	Transfers Out 2016/17 £000	Transfers In 2016/17 £000	Balance at 31 March 2017 £000	Transfers Out 2017/18 £000	Transfers In 2017/18 £000	Balance at 31 March 2018 £000
Metro Reinvigoration Reserve	(10,005)	924	(45)	(9,126)	49	(41)	(9,117)
North East LEP Restricted cashable reserve - RGF Interest	(181)	-	(358)	(539)	-	(253)	(791)
North East LEP Restricted cashable reserve - GPF Loan	(1,729)	2,000	(271)	-	8	(1,416)	(1,408)
North East LEP GPF Revenue Grant Unapplied	(66)	66	-	-	-	-	-
Nexus Metro Fleet Renewal	-	-	-	-	-	(3,333)	(3,333)
	(11,981)	2,990	(674)	(9,665)	57	(5,043)	(14,650)

21 Unusable Reserves

	31 Mar 2017 £000	31 Mar 2018 £000
Capital Adjustment Account	(99,672)	(105,886)
Financial Instruments Adjustment Account	7,029	5,637
Revaluation Reserve	(8,579)	(8,433)
Pension Reserve	980	960
Total Unusable Reserves	(100,242)	(107,722)

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 on 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 1 provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

	2016/17 £000	2017/18 £000
Opening Balance 1 April	(93,180)	(99,672)
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	4,572	3,890
Other income that cannot be credited to the General Fund	(5,092)	(5,092)
Revenue expenditure funded from capital under statute	75,981	82,432
Amounts of non current assets written off on disposal	-	-
Write down of long term debtors	2,250	2,387

Adjusting amounts written out of the Revaluation Reserve	(146)	(146)
Capital financing applied in the year:		
Capital grants and contributions credited to the CIES that have been applied to capital financing	(79,594)	(83,299)
Statutory provision for the financing of capital investment	(2,523)	(2,557)
Capital expenditure charged against the General Fund	(130)	(2,129)
Debt redeemed using capital receipts	(1,810)	(1,699)
Balance at 31 March	(99,672)	(105,886)

Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefitting 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.

	2016/17 £000	2017/18 £000
Opening Balance 1 April	8,113	7,030
Premiums incurred in the year and charged to the Comprehensive Income and Expenditure Statement	-	-
Proportion of premiums incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements	(728)	(803)
Amount by which finance costs charged to the CIES are different from finance costs chargeable in the year in accordance with statutory requirements	(356)	(589)
Balance at 31 March	7,029	5,638

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.

	2016/17 £000	2017/18 £000
Opening Balance 1 April	(8,725)	(8,579)
Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	-	-
Difference between fair value depreciation and historical cost depreciation Amount written off to the Capital Adjustment Account	146	146
Balance at 31 March	(8,579)	(8,433)

Pensions Reserve

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

Pensions Reserve

	2016/17 £000	2017/18 £000
Opening Balance 1 April	890	980
Remeasurements of the net defined benefit liability/(asset)	120	10
Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	150	20
Employer's pensions contributions and direct payments to pensioners payable in the year	(180)	(50)
Balance at 31 March	980	960

22 Capital Expenditure & 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 the 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.

	2016/17 £000	2017/18 £000
Opening Capital Financing Requirement	202,438	199,660
<u>Capital investment:</u>		
Property, Plant and Equipment	1,956	2,976
Revenue Expenditure Funded from Capital under Statute	75,981	82,432
Loans issued	859	-
<u>Sources of finance:</u>		
Capital receipts	-	-
Capital receipts - repayment of principal from long-term debtors	(1,765)	(1,699)
Government Grants and other contributions	(77,156)	(83,299)
<u>Sums set aside from revenue:</u>		
Direct revenue contributions	(130)	(8)
Minimum Revenue Provision	(2,123)	(2,111)
Additional Voluntary Provision	(400)	(447)
Closing Capital Financing Requirement	199,660	197,504
<u>Explanation of movements in year:</u>		
Decrease in underlying need to borrow (unsupported by government financial assistance)	(2,778)	(2,156)
Decrease in Capital Financing Requirement	(2,778)	(2,156)

23 Adjustment to net surplus or deficit on the provision of services for non cash movements and items that are Investing or Financing activities

	2016/17 £000	2017/18 £000
Surplus/(Deficit) on the provision of services	19,940	(7,380)
Adjustments to Surplus/(Deficit) on Provision of Services for Non-Cash Movements		
Depreciation and Impairment	4,572	3,890
(Increase)/Decrease in Creditors	(24,859)	(18,208)
Increase/(Decrease) in Debtors	(569)	(5,711)
Movement in Pension Liability	(30)	260
Other non-cash items charged to the net surplus or deficit on the provision of services	(5,509)	(5,681)
	(26,395)	(25,449)
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	(94,332)	(65,301)
	(94,332)	(65,301)
Net cash flow from operating activities	(100,787)	(98,130)

Cash Flow Statement -

The cash flows for operating activities include the following items:

	2016/17 £000	2017/18 £000
Interest received	2,893	2,717
Interest paid	(7,446)	(7,119)

24 Cash Flow Statement - Investing Activities

	2016/17 £000	2017/18 £000
Purchase of property, plant and equipment, investment property and intangible assets	(1,700)	4,479
Purchase of short-term and long-term investments	(102,500)	(54,000)
Proceeds from short-term and long-term investments	87,500	85,000
Other receipts from investing activities	93,678	68,348
Net cash flows from investing activities	76,978	103,827

25 Cash Flow Statement - Financing Activities

	2016/17 £000	2017/18 £000
Repayments of short and long-term borrowing	(1,717)	(677)
Net cash flows from financing activities	(1,717)	(677)

26 Accounting Standards Issued, Not Yet Adopted

Impact of the adoption of the new accounting standards on the 2017/18 Financial Statements.

IFRS 9 Financial Instruments: this new standard replaces IAS 39 from 2018/19 and changes the approach to financial assets and accounting for impairments.

- The impact of IFRS 9 will require reclassification of assets and will require assessment of loans provided reflecting the impact in the accounts of the likelihood of any loan defaulting in the future. This standard may cause volatility in the Consolidated Income and Expenditure Statement and Balance Sheet going forward.

IFRS 15 Revenue from Contracts: this new standard replaces IAS 18 from 2018/19 and aims to standardise practices around the recognition of revenue from contracts. This standard will have no impact on NECA financial statements.

27 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.

Public Sector Funding Context

There is a high degree of uncertainty regarding future levels of funding for local government and the impact of the decision for Britain to leave the European Union remains unclear. However the Authority takes the view that this uncertainty is not yet sufficient indication that the value of the Authority's assets might need to be impaired due to reduced levels of service provision.

Transferred assets and Liabilities in Local Government Pension Scheme

transferred to TT2 Ltd on 1 February 2008 relating 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.

28 Assumptions made about the Future and Other Major 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 2018 for which there is a risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	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.	<p>The approximate impact of changing the key assumptions on the present value of the funded defined benefit obligation as at 31 March 2018 and the projected service cost for the year ending 31 March 2019 are set out below.</p> <p>Discount rate assumption, an adjustment to the discount rate of +0.1% p.a. would decrease the present value of the total obligation to £38.44m, a variance of £0.51m, whereas a decrease of (0.1%) p.a. results in an increase to £39.46m. The percentage change in the present value of the total obligation would be (4%) and 4.1% respectively.</p>
		<p>Rate of increase to pensions in payment and deferred pensions assumption, and rate of revaluation of pension accounts assumption: an adjustment to the pension increase rate of +0.1% p.a. would increase the present value of the total obligation by £0.02m to £38.97m, whereas a decrease of (0.1%) p.a. results in a decrease to £38.93m, a variance of £0.02m. The percentage change in the present value of the total obligation would be 0.0% and (0.1%) respectively.</p>

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
		Post retirement mortality assumption: an adjustment to the mortality age rating assumption of -1 year would change the present value of the total obligation to £39.94m, an increase of £0.990m, whereas a adjustment of +1 year results in a reduction to £37.97m, a variance of £0.980m. The percentage change in the present value of the total obligation would be 2.5% and (2.5%) respectively.

29 Events after the Reporting Period

The Statement of Accounts was authorised for issue by the Chief Finance Officer on 31 May 2018. Where events taking place before this date provided information about conditions existing at 31 March 2018, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

There have been no non-adjusting events after the balance sheet date.

30 Statement of Accounting Policies

1. General Principles

The Statement of Accounts summarises the Authority's transactions for the 2017/18 financial year and its position at the year-end of 31 March 2018. The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015, 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 2017/18, supported by International Financial Reporting Standards (IFRS).

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

The Code requires that a Local Authority's Statement of Accounts is prepared on a 'going concern' basis, that is, the accounts are based on the assumption that the Authority will continue in operational existence for the foreseeable future.

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. Accruals are raised for income and expenditure exceeding £1,000.

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 less than 90 days 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

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

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

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

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

Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

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

6. Charges to Revenue for Non-Current Assets

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

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

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 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 Benefits

Benefits Payable during Employment

Short-term employee benefits are those due to be settled within 12 months of the year end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render service to the Authority. Due to the small number of employees the Authority has, 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 is immaterial and therefore an accrual will not be made. This approach will be reviewed each year to ensure it is still an appropriate treatment.

Termination Benefits

Termination benefits are amounts which would be payable as a result of a decision by the Authority to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis to the Non Distributed Costs line in the Comprehensive Income and Expenditure Statement when the Authority is demonstrably committed to the termination of the employment of an officer or group of officers or making an offer to encourage voluntary redundancy.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Authority to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination 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.

No such amounts are payable in 2017/18.

8. Post-Employment Benefits

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.

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 and projections of earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate determined annually, based on the indicative rate of return on high quality corporate bonds.
- The assets of the pension fund attributable to the Authority are included in the Balance Sheet at their fair value:
 - Quoted securities at current bid price.
 - Unquoted securities based on professional estimate.
 - Unitised securities at current bid price.
 - Property at market value.

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

- a) Current service cost - the increase in liabilities as a result of years of service earned this year - allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked.
- b) Past service cost - the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years - debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs.
- c) Net interest on the net defined liability, i.e. net interest expense for the Authority the change during the period in the net defined benefit liability that arises from the passage of time charged to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure statement. This is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability at the beginning of the period taking into account any changes in the net defined benefit liability during the period as a result of contribution and benefit payments.
- d) Remeasurements comprising:
 - the return on plan assets, excluding amounts included in net interest on the net defined benefit liability, charged to the Pensions Reserve as Other Comprehensive Income & Expenditure

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

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

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

Further details are provided in Note 18 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.
- 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. Fair Value Measurement

The Authority measures some of its non-financial assets such as surplus assets and investment properties and some of its financial instruments such as equity shareholdings at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

- a) in the principal market for the asset or liability, or
- b) in the absence of a principal market, in the most advantageous market for the asset or liability.

The Authority measures the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

When measuring the fair value of a non-financial asset, the Authority takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Authority uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the Authority's financial statements are categorised within the fair value hierarchy, as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the Authority can access at the measurement date
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3 – unobservable inputs for the asset or liability.

11. Financial Instruments

Financial Liabilities

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

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

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

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

Financial Assets

Financial assets are classified into two types:

- Loans and receivables - assets that have fixed or determinable payments but are not quoted in an active market.

- 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 Council 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.

Where the fair value of loans and receivables is disclosed (i.e. the Financial Instruments note) the fair value of the Nexus borrowing debtor is estimated by applying a proportion of the Authority's total fair value of borrowing to the proportion of the carrying value which relates to loans taken on behalf of Nexus.

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 charge 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 amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income (e.g. dividends) is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the Authority.

Assets are maintained in the Balance Sheet at fair value. Values are based on the following principles:

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

Changes in fair value are balanced by an entry in the Available-for-Sale Reserve and the gain/loss is recognised in the Surplus or Deficit on Revaluation of Available-for-Sale Financial Assets. The exception is where impairment losses have been incurred - these are debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any net gain or loss for the asset accumulated in the Available-for-Sale Reserve.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made (fixed or determinable payments) or fair value falls below cost, the asset is written down and a charge made to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. If the asset has fixed or determinable payments, the impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate. Otherwise, the impairment loss is measured as any shortfall of fair value against the acquisition cost of the instrument (net of any principal repayment and amortisation).

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

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

12. Government Grants & Contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Authority when there is reasonable assurance that:

- The Authority will comply with the conditions attached to the payments.
- 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-ring-fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

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

13. Property, Plant & Equipment

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

Recognition

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

Measurement

Assets are initially measured at cost, comprising:

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

The Authority does not capitalise borrowing costs incurred whilst assets are under construction.

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 assets - depreciated historical cost.
- Assets Under Construction - cost

- All other assets – current 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 current 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. 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).
- 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 deminimis level for capital expenditure means that in the above categories assets below the deminimis 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 deminimis 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).
- 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 and adjusted for depreciation that would have been charged if the loss had not been recognised.

Depreciation

Depreciation is provided 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 (except vehicles) is calculated by taking the asset value at 31 March 2016, 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 Plazas 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

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 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. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also 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.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. Receipts are 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.

The written-off value of disposals is not a charge against the general fund, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account 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 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 IAS 17. 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 both vehicle tunnels. NECA may therefore have no long term obligation to transfer economic resources to TT2, 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 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.

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 notes 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 of the project 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.

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.

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 reverses 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 & 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.

21. Tyne Tunnels Income

The majority of the income from tolls is received on a cash basis. Accruals are made to apportion income credited to the bank account to the correct financial year. Prepayments on permit accounts are also received, and the balance on these accounts are accrued as income received in advance at the year end.

22. Group Accounts

NECA is required by the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 to produce Group Accounts to include services paid 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 2017/18 accounts, NECA has fully complied with the requirements of the Code, providing Group figures for 2017/18 and comparators for 2016/17. 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.

3.0 Group Financial Statements and Explanatory Notes

3.0 Group Financial Statements and Explanatory Notes

3.1 Group Movement in Reserves Statement

	NECA Usable Reserves £000	NECA Unusable Reserves £000	Total NECA Reserves £000	Authority Share of Nexus £000	Total Group Reserves £000
Balance at 1 April 2016	(57,977)	(92,901)	(150,878)	(448,834)	(599,712)
<u>Movement in reserves during 2016/17</u>					
Total Comprehensive Income & Expenditure	(19,940)	120	(19,820)	(13,279)	(33,093)
Adjustments between accounting basis & funding basis under regulations	7,461	(7,461)	-	-	-
Net (Increase)/Decrease before transfers to Earmarked Reserves	(12,479)	(7,341)	(19,820)	(13,279)	(33,093)
Transfers (To)/From Earmarked Reserves	-	-	-	-	-
(Increase)/Decrease in 2016/17	(12,479)	(7,341)	(19,820)	(13,279)	(33,093)
Balance at 31 March 2017 carried forward	(70,456)	(100,242)	(170,698)	(462,113)	(632,811)
<u>Movement in reserves during 2017/18</u>					
Adjustment to opening balance					
Total Comprehensive Income & Expenditure	7,380	(280)	7,100	17,856	24,956
Adjustments between accounting basis & funding basis under regulations	7,200	(7,200)	-	-	-
Net (Increase)/Decrease before transfers to Earmarked Reserves	14,580	(7,480)	7,100	17,856	24,956
Transfers (To)/From Earmarked Reserves	-	-	-	-	-
(Increase)/Decrease in 2017/18	14,580	(7,480)	7,100	17,856	24,956
Balance at 31 March 2018 carried forward	(55,876)	(107,722)	(163,598)	(444,257)	(607,855)

North East Combined Authority Group Statement of Accounts 2017/18

3.2 Group Comprehensive Income and Expenditure Statement

2016/17				Note	2017/18		
Gross Expenditure £000	Gross Income £000	Net Expenditure £000			Gross Expenditure £000	Gross Income £000	Net Expenditure £000
1,318	(656)	662	Corporate		549	(543)	6
344	(169)	175	Inward Investment		609	(432)	177
61,268	(77,575)	(16,307)	Local Growth Fund		60,292	(41,673)	18,619
6,348	(2,658)	3,690	North East Local Enterprise Partnership		4,898	(3,954)	944
1,148	(1,148)	-	Skills		326	(326)	-
461	-	461	Transport - Retained Levy		452	-	452
15,414	-	15,414	Transport - Durham		15,477	-	15,477
6,293	-	6,293	Transport - Northumberland		6,217	-	6,217
150,633	(76,320)	74,313	Transport - Tyne and Wear		184,051	(79,878)	104,173
19,320	(18,160)	1,160	Transport - Other		24,134	(24,232)	(98)
25,938	(33,282)	(7,344)	Transport - Tyne Tunnels		23,542	(32,139)	(8,597)
288,486	(209,968)	78,518	Cost of Services		320,547	(183,176)	137,371
9,013	(2,532)	6,481	Financing & Investment Income & Expenditure	G2	9,073	(2,177)	6,896
-	(122,736)	(122,736)	Taxation & Non-Specific Grant Income	G3	-	(117,101)	(117,101)
46	-	46	(Gain)/Loss on disposal or derecognition of non-current assets		(20)	-	(20)
		(37,691)	Deficit/(Surplus) on Provision of Services				27,146
		4,810	Re-measurements of the defined benefit liability	G11			(2,471)
		(211)	Taxation of Group Entities	G12			282
		4,599	Other Comprehensive Income & Expenditure				(2,189)
		(33,091)	Total Comprehensive Income & Expenditure Deficit/(Surplus)				24,957

North East Combined Authority Group Statement of Accounts 2017/18

3.3 Group Balance Sheet

31 March 2017		Note	31 March 2018
£000			£000
840,319	Property, Plant & Equipment	G5	843,216
2,089	Intangible Assets	G6	2,860
16,583	Long Term Debtors		15,467
1	Long Term Investments		1
858,992	Long Term Assets		861,544
104,000	Short Term Investments		72,000
21,923	Short Term Debtors	G8	25,646
43,432	Cash and Cash Equivalents	G9	60,878
901	Inventories		2,852
170,256	Current Assets		161,376
(2,611)	Short Term Borrowing	G7	(2,596)
(67,286)	Short Term Creditors	G7, G10	(59,976)
(2,483)	Grants Receipts in Advance	G4	(2,328)
(5,093)	New Tyne Crossing - Deferred Income	16	(5,092)
(77,473)	Current Liabilities		(69,992)
(1,304)	Provisions		(3,222)
(4,977)	Deferred Taxation	G12	(4,763)
(101,845)	New Tyne Crossing - Deferred Income	16	(96,753)
(167,667)	Long Term Borrowing	G7	(167,000)
(971)	Grants Receipts in Advance	G4	(793)
(42,200)	Pension Liability	G7, G11	(71,541)
(318,964)	Long Term Liabilities		(344,072)
632,811	Net Assets		608,855
(113,670)	Usable Reserves	G13	(103,777)
(519,141)	Unusable Reserves	G14	(504,079)
(632,811)	Total Reserves		(607,855)

Chief Finance Officer Certificate

I certify that the group accounts set out on pages 77 to 101 give a true and fair view of the financial position of the North East Combined Authority Group at 31 March 2018

3.4 Group Cash Flow Statement

2016/17 £000		Note	2017/18 £000
37,692	Net Surplus/(Deficit) on the provision of services after taxation of Group Entities	G15	(27,709)
(15,984)	Adjustments to net surplus or deficit on the provision of services for non cash movements	G15	41,611
(126,556)	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	G15	(95,768)
(104,848)	Net cash flows from Operating Activities	G15	(81,866)
85,142	Investing Activities	G16	99,503
(3,346)	Financing Activities	G17	(2,190)
(23,051)	Net (Decrease)/Increase in cash and cash equivalents		15,447
66,483	Cash and cash equivalents at the beginning of the reporting period	G9	43,431
43,432	Cash and cash equivalents at the end of the reporting period	G9	58,878

3.5 Index of Explanatory Notes to the Group Financial Statements

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3.6 Explanatory Notes to the Group Financial Statements

G1 Group Accounts

Under the Code of Practice for Local Authority 2017/18, authorities with interest in subsidiaries, associates and/or joint ventures shall prepare Group Accounts in addition to their single entity financial statements, unless their interest is considered to be not material.

Nexus is the only subsidiary for the North East Combined Authority, and the Group Accounts have been prepared on a consolidation basis. The accounting policies adopted by Nexus are 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

Details of NECA depreciation policy can be found on page 69 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

G2 Financing and Investment Income and Expenditure

	Note	2016/17 £000	2017/18 £000
Interest payable and similar charges		7,793	7,471
Interest on defined benefit liability	G11	1,220	1,602
Interest receivable and similar income		(2,532)	(2,177)
Total		6,481	6,896

G3 Taxation and Non Specific Grant Income

	2016/17 £000	2017/18 £000
Transport Levy	(86,894)	(84,744)
Enterprise Zone income	(1,696)	(1,626)
Nexus Capital Grants	(32,320)	(29,892)
LGF Grant applied to Tyne Tunnels capital expenditure	(1,826)	(838)
Total	(122,736)	(117,100)

G4 Grant Income and Other Contributions

The Authority credited the following grants and contributions to the Comprehensive Income and Expenditure Statement in 2016/17 and 2017/18:

Credited to Services	2016/17 £000	2017/18 £000
DCLG Capacity Grant	(500)	(500)
Growth Hub	(556)	(410)
Local Authority Contributions to NECA	(440)	(440)
Local Authority Contributions to NELEP	(250)	(250)
Local Growth Fund	(79,402)	(42,506)
Local Sustainable Transport Fund	-	-
Local Transport Plan & National Productivity Investment	(13,949)	(22,889)
Mental Health Trailblazer	(1,148)	(326)
North East Smart Ticketing Initiative	(901)	(527)
North East Technical Assistance	(356)	(243)
Other Grants	(1,184)	(991)
Regional Growth Fund Capital	(80)	-
Regional Growth Fund Revenue	-	-
Sustainable Travel Transition Year	(2,343)	-
Metro Rail Grant	(24,689)	(25,110)
Heavy Rail Grant	(262)	(262)
Total	(126,060)	(94,454)

North East Combined Authority Group Statement of Accounts 2017/18

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 that if not met will require the monies or property to be returned to the giver. The balances at the year-end are as follows:

Grants Receipts in Advance	2016/17 £000	2017/18 £000
<u>Revenue Grants</u>		
Growth Hub	-	-
Mental Health Trailblazer	-	-
North East Smart Ticketing Initiative	(1,924)	(1,397)
Office for Low Emission Vehicles - Revenue	(30)	-
Other Grants	-	(225)
<u>Capital Grants</u>		
Office for Low Emission Vehicles - Capital	(1,500)	(1,500)
Regional Growth Fund Capital	-	-
Total	(3,454)	(3,122)
Shown as Short-Term Liability on Balance Sheet	(2,483)	(2,329)
Shown as Long-Term Liability on Balance Sheet	(971)	(793)
Total	(3,454)	(3,122)

G5 Property, Plant and Equipment

2017/18	Other Land and Buildings £000	Vehicles, Plant, Furniture & Equipment £000	Infrastructure Assets £000	Assets Under Construction £000	Total Property, Plant and Equipment £000
Cost or Valuation					
At 1 April 2017	1,739	34,283	1,033,370	53,140	1,122,531
Assets reclassified	-	-	-	-	-
Transfers from assets under construction	-	896	42,671	(44,787)	(1,220)
Derecognition - disposals	-	(206)	(4,492)	-	(4,698)
Derecognition - other	-	-	-	-	-
Additions	-	-	8	35,233	35,241
Revaluation increases/(decreases) recognised in the Revaluation Reserve	-	-	-	-	-
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	-	-	(8)	-	(8)
At 31 March 2018	1,739	34,973	1,071,549	43,586	1,151,846
Accumulated Depreciation and Impairment					
At 1 April 2017	(625)	(18,678)	(262,910)	-	(282,213)
Reclassification	-	-	-	-	-
Depreciation Adjustment	-	-	(27)	-	(27)
Depreciation Charge for the Year	(41)	(2,371)	(26,007)	-	(28,419)
Derecognition - Disposals	-	206	1,823	-	2,029
At 31 March 2018	(666)	(20,843)	(287,121)	-	(308,630)
Net Book Value					
At 1 April 2017	1,114	15,605	770,460	53,140	840,318
At 31 March 2018	1,073	14,130	784,428	43,586	843,216

North East Combined Authority Group Statement of Accounts 2017/18

Comparative Information 2016/17	Other Land and Buildings £000	Vehicles, Plant, Furniture & Equipment £000	Infrastructure Assets £000	Assets Under Construction £000	Total Property, Plant and Equipment £000
Cost or Valuation					
At 1 April 2016	1,739	34,462	992,571	56,772	1,085,544
Assets reclassified	-	-	-	-	-
Transfers from assets under construction	-	163	41,722	-	41,885
Derecognition - disposals	-	(342)	(923)	-	(1,265)
Derecognition - other	-	-	-	-	-
Additions	-	-	130	38,252	38,382
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	-	-	(130)	-	(130)
At 31 March 2017	1,739	34,283	1,033,370	95,024	1,164,417
Accumulated Depreciation and Impairment					
At 1 April 2016	(581)	(16,603)	(262,165)	-	(279,349)
Depreciation Charge for the Year	(44)	(2,417)	(24,816)	-	(27,277)
Derecognition - Disposals	-	342	156	-	498
At 31 March 2017	(625)	(18,678)	(286,825)	-	(306,128)
Net Book Value	109,299	96,322			
At 1 April 2016	1,157	17,860	730,406	56,772	806,195
At 31 March 2017	1,113	15,606	746,545	95,025	858,289

Costs of land intrinsically linked to the original Tyne Tunnel has now been included within the valuation of that Tunnel and therefore is shown as part of the Infrastructure Assets balance within this note.

Capital Commitments

At 31 March 2018 Nexus has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in future years, budgeted to cost £18.47m (2017 £15.70m). The major commitments are:

	£m
Rail Traffic Management System	0.77
Radio	0.59
Overhead Line	3.06
Trackworks - Northumberland Park to South Gosforth	0.56
Track Works - Tynemouth to Northumberland Park	0.68
Track Works - Chillingham Road to St James	0.22
Metro Maintenance and Skills Centre	6.96
Cullercoats, Monkseaton, West Monkseaton Stations	0.72

G6 Intangible Assets

Intangible assets in the Group Accounts relate wholly to Nexus.

Cost or valuation	2016/17 £000	2017/18 £000
Opening Balance	6,937	6,937
Reclassification	-	-
Derecognition - disposals	-	-
Transfers from assets under construction	-	1,220
Total	6,937	8,157

Depreciation and impairment	2016/17 £000	2017/18 £000
Opening Balance	4,310	4,847
Reclassification	-	-
Amortisation correction	-	-
Amortisation provided during the period	537	450
Derecognition - disposals	-	-
Total	4,847	5,297

Net Book Value at 31 March	2,090	2,860
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G7 Financial Instruments

Categories of Financial Instruments

The investments and borrowing disclosed in the Balances Sheet are made up of the following categories of financial instrument:

Long Term 31 March 2017 £000	Short Term 31 March 2017 £000		Long Term 31 March 2018 £000	Short Term 31 March 2018 £000
		Investments		
-	104,000	Fixed term deposits	-	72,000
1	-	Long term investments	1	-
1	104,000	Total Investments	1	72,000
		Debtors		
15,842	-	Long term debtors - Loans and advances treated as capital expenditure	15,150	-
741	21,923	Other debtors	-	16,800
16,583	21,923	Total Debtors	15,150	16,800
		Borrowings		
(167,667)	(667)	Financial liabilities at amortised cost - Loans (Principal)	(167,000)	(667)
-	(1,944)	Financial liabilities at amortised cost - Loans (Interest)	-	(1,929)
(167,667)	(2,611)	Total included in Borrowings	(167,000)	(2,596)
		Other Long Term Liabilities		
(42,200)	-	Pension Liability	(71,541)	-
(42,200)	-	Total Other Long Term Liabilities	(71,541)	-
		Creditors		
-	(67,286)	Short Term Creditors	-	(59,976)
-	(67,286)	Total Creditors	-	(59,976)

G8 Short Term Debtors

	31 Mar 2017 £000	31 Mar 2018 £000
Central government bodies	9,548	14,568
Other local authorities	2,552	3,669
NHS bodies	10	81
Public corporations and trading funds	-	-
Other entities and individuals	9,812	7,327
Total	21,923	25,645

G9 Cash and Cash Equivalents

	31 Mar 2017 £000	31 Mar 2018 £000
Cash	16,961	22,928
Short-term deposits with financial institutions	26,470	37,950
Total Cash and Cash Equivalents	43,431	60,878

G10 Short Term Creditors

	31 Mar 2017 £000	31 Mar 2018 £000
Central government bodies	(550)	(2,882)
Other local authorities	(33,687)	(30,838)
Other entities and individuals	(33,049)	(26,256)
Total	(67,286)	(59,976)

G11 Defined Benefit Pension Schemes

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.

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 levy is based on the cash payable in the year, so the real cost of post employment/retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year:

	Local Government Pension Scheme		Discretionary Benefits Arrangements	
	2016/17 £000	2017/18 £000	2016/17 £000	2017/18 £000
Comprehensive Income and Expenditure Statement				
Cost of Services:				
Current service cost	4,500	12,258	-	-
Past service costs	-	-	-	-
Financing and Investment Income and Expenditure:				
Interest on net defined benefit liability/(asset)	1,050	1,482	170	120
Pension expense recognised in profit and loss	5,550	13,740	170	120

North East Combined Authority Group Statement of Accounts 2017/18

	Local Government Pension Scheme		Discretionary Benefits Arrangements	
	2016/17 £000	2017/18 £000	2016/17 £000	2017/18 £000
Other Post Employment Benefit charged to the Comprehensive Income and Expenditure Statement:				
Return on plan assets (in excess of)/ below that recognised in net interest	(42,300)	(3,840)	-	-
Actuarial (gains)/losses due to changes in financial assumptions	54,290	-	410	-
Actuarial (gains)/losses due to changes in demographic assumptions	510	-	210	-
Actuarial (gains)/losses due to changes in liability assumptions	(9,780)	2,310	(290)	50
Adjustment in respect of paragraph 58	1,760	(620)	-	-
Total amount recognised in Other Comprehensive Income	4,480	(2,521)	330	50
Total amount recognised	10,030	11,219	500	170

Assets and Liabilities in Relation to Post-employment Benefits

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

	Funded liabilities: Local Government Pension Scheme		Unfunded liabilities: Discretionary Benefits	
	2016/17 £000	2017/18 £000	2016/17 £000	2017/18 £000
Opening balance at 1 April	(251,680)	(301,460)	(5,090)	(5,130)
Current service cost	(4,500)	(12,258)	-	-
Interest cost	(8,390)	(9,450)	(170)	(120)
Contributions by participants	(1,400)	(2,481)	-	-
Actuarial gains/(losses) on liabilities - financial assumptions	(54,290)	659	(410)	-
Actuarial gains/(losses) on liabilities - demographic assumptions	(130)	-	(210)	(210)
Actuarial gains/(losses) on liabilities - experience	9,400	(2,310)	290	(50)
Net benefits paid out	9,530	10,102	460	460
Past service costs	-	-	-	-
Closing balance at 31 March	(301,460)	(317,198)	(5,130)	(5,050)

North East Combined Authority Group Statement of Accounts 2017/18

Reconciliation of fair value of the scheme assets:

	Local Government Pension Scheme		Discretionary Benefits	
	2016/17 £000	2017/18 £000	2016/17 £000	2017/18 £000
Opening balance at 1 April	222,650	324,420	-	-
Interest income on assets	7,520	8,248	-	-
Remeasurement gains/(losses) on assets	42,300	4,212	-	-
Employer contributions	7,510	6,352	460	460
Contributions by scheme participants	1,400	2,481	-	-
Net benefits paid out	(9,530)	(8,442)	(460)	(460)
Closing balance at 31 March	271,850	337,271	-	-

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the balance sheet date.

Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets.

Scheme History	2013/14 £000	2014/15 £000	2015/16 £000	2016/17 £000	2017/18 £000
Fair value of LGPS assets	194,330	218,780	222,650	271,850	335,521
Present value of liabilities:					
LGPS liabilities	(229,650)	(258,730)	(251,680)	(301,460)	(395,162)
Impact of minimum funding requirement/asset ceiling	(2,280)	(3,250)	(5,520)	(7,460)	(7,030)
(Deficit) on funded defined benefit scheme	(37,600)	(43,200)	(34,550)	(37,070)	(66,671)
Discretionary benefits	(5,740)	(5,680)	(5,090)	(5,130)	(4,870)
Total (Deficit)	(43,340)	(48,880)	(39,640)	(42,200)	(71,541)

The split of the defined benefit obligation at the last valuation date between the various categories of members was as follows; NECA - active members 5%, deferred pensioners 10% and pensioners 85%; Nexus - active members 34%, deferred pensioners 10% and pensioners 56%.

The liabilities show the underlying commitments that the Authority has in the long run to pay post employment (retirement) benefits. The total combined liabilities of NECA and Nexus of £306.590m has an impact on the net worth of the authorities as recorded in the balance sheet, resulting in a negative pension balance of £42.200m. However, statutory arrangements for funding the deficit mean that the financial position of the authorities remain healthy:

The deficit on the local government scheme will be made good by contributions over the remaining working life of employees (i.e. before payments fall due), as assessed by the scheme actuary.

Finance is only required to be raised to cover discretionary benefits when the pensions are actually paid.

The total contributions expected to be made to the Local Government Pension Scheme by NECA and Nexus in the year to 31 March 2018 is £7.810m. In addition, Strain on the Fund contributions may be required. Expected payments direct to beneficiaries in the year to 31 March 2018 are £0.460m in relation to unfunded benefits.

Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. Both the Local Government Pension Scheme and Discretionary Benefits liabilities have been assessed by Aon, an independent firm of actuaries, estimates for the pension fund being based on the latest full valuation of the scheme as at 31 March 2016.

The principal assumptions used by the actuary have been:

	Local Government Pension Scheme		Discretionary Benefits	
	2016/17	2017/18	2016/17	2017/18
Mortality assumptions:-				
<u>Longevity at 65 for current pensioners:</u>				
Men	23.2	22.8	23.2	22.8
Women	24.8	26.3	24.8	26.3
Rate for discounting scheme liabilities	3.3%	2.5%	3.3%	2.5%
Rate of inflation - Retail Price Index	2.8%	3.1%	2.8%	3.1%
Rate of inflation - Consumer Price Index	1.7%	2.0%	1.7%	2.0%
Rate of increase in pensions	1.7%	2.0%	1.7%	2.0%
Pension accounts revaluation rate	1.7%	2.0%	n/a	n/a
Rate of increase in salaries	3.2%	3.5%	n/a	n/a

North East Combined Authority Group Statement of Accounts 2017/18

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

	31 March 2017	31 March 2018		
	% Total	% Quoted	% Unquoted	% Total
Equity investments	66.9	60.7	6.3	67.0
Property	9.2	0.0	8.5	8.5
Government bonds	3.9	4.0	0.0	4.0
Corporate bonds	11.5	11.7	0.0	11.7
Cash	2.6	3.7	0.0	3.7
Other*	5.9	3.5	1.6	5.1
Total	100.0	83.6	16.4	100.0

* Other holdings may include hedge funds, currency holdings, asset allocation futures and other financial instruments. It is assumed that these will generate a return in line with equities.

	Funded 2016/17 £000	Funded 2017/18 £000
Actual Return on Assets		
Interest income on assets	7,520	8,158
Remeasurement gain/(loss) on assets	42,300	4,212
Actual return on assets	49,820	12,370

Sensitivity Analysis

Sensitivity analysis of NECA pension liabilities is set out on pages 45-46 of the single entity accounts. Sensitivity analysis of Nexus pension liabilities is shown below.

The approximate impact of changing the key assumptions on the present value of the funded defined benefit obligation as at 31 March 2018 and the projected cost for the period ending 31 March 2019 is set out below. In each case, only the assumption mentioned is altered; all other assumptions remain the same and are summarised above.

Discount Rate assumption

Adjustment to Discount rate	+0.1% per annum	Base Figure	-0.1% per annum
Present value of total obligation (£m)	266.21	270.99	275.85
% change in present value of total obligation	-1.80%		1.80%
Projected service cost (£m)	6.03	6.22	6.41
Approximate % change in projected service cost	-3.00%		3.10%

Rate of general increase in salaries

Adjustment to salary increase rate	+0.1% per annum	Base Figure	-0.1% per annum
Present value of total obligation (£m)	387.99	395.16	402.46
% change in present value of total obligation	-1.82%		1.85%
Projected service cost (£m)	6.03	6.22	6.41
Approximate % change in projected service cost	-3.05%		3.05%

Rate of increase to pensions in payment and deferred pensions

Adjustment to pension increase rate	+0.1% per annum	Base Figure	-0.1% per annum
Present value of total obligation (£m)	395.87	393.80	391.75
% change in present value of total obligation	0.52%		-0.52%
Projected service cost (£m)	12.60	12.60	12.60
Approximate % change in projected service cost	0.00%		0.00%

Post retirement mortality assumption

Adjustment to mortality age rating assumption *	+ 1 year	Base Figure	- 1 year
Present value of total obligation (£m)	399.90	395.16	390.49
% change in present value of total obligation	1.20%		-1.18%
Projected service cost (£m)	13.05	12.70	12.34
Approximate % change in projected service cost	0.00%		0.00%

* 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.

The Group pension Liability of £71.541m includes NEMOL pension Liability in respect of staff transferred over from DB Regio.

G12 Deferred Tax Liability

The movement for the year comprises:

	2016/17 £000	2017/18 £000
Capital Allowances	(154)	(293)
Roll over relief on capital gains	(64)	(1)
Other timing differences	7	80
Tax effect of losses	-	-
Total	(211)	(213)

The balance at the year end comprises:

	31 March 2017 £000	31 March 2018 £000
Excess of Capital Allowances over depreciation	(3,824)	(3,531)
Roll over relief on capital gains	(1,233)	(1,232)
Other timing differences	80	-
Tax effect of losses	-	-
Total	(4,977)	(4,763)

G13 Usable Reserves

	31 March 2017 £000	31 March 2018 £000
General Fund Balance	(34,897)	(32,808)
Metro Reinvigoration Reserve	(9,126)	(9,117)
NELEP Earmarked Reserves	(539)	(5,532)
Capital Receipts Reserve	(168)	(692)
Capital Grants Unapplied Reserve	(25,726)	(7,728)
Nexus Revenue Reserves	(15,540)	(18,747)
Nexus Capital Reserves	(27,674)	(29,153)
Total Usable Reserves	(113,670)	(103,777)

G14 Unusable Reserves

Details of movements on the Capital Adjustment Account and Financial Instruments Adjustment Account are shown on pages 47 to 48 of the NECA single entity accounts. These reserves relate to NECA only.

	31 March 2017 £000	31 March 2018 £000
Revaluation Reserve	(9,266)	(9,120)
Capital Adjustment Account	(99,672)	(105,886)
Financial Instruments Adjustment Account	7,029	5,637
Pensions Reserve	42,200	71,541
Nexus Grant Deferred Account	(432,093)	(440,582)
Nexus Unusable Capital Reserve	(27,338)	(25,668)
Total Unusable Reserves	(519,140)	(504,077)

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.

	2016/17 £000	2017/18 £000
Balance at 1 April	(9,412)	(9,266)
Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	-	-
Difference between fair value depreciation and historic cost depreciation - amount written off to the Capital Adjustment Account	146	146
Balance at 31 March	(9,266)	(9,120)

Pensions Reserve

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

	2016/17 £000	2017/18 £000
Balance at 1 April	39,640	42,200
Remeasurement of the Net Defined Benefit Liability	4,810	(2,471)
Reversal of items relating to retirement benefits debited or	5,720	38,594
Employer's pension contributions and direct payments to pensioners payable in the year	(7,970)	(6,782)
Balance at 31 March	42,200	71,541

Nexus Grant Deferred Account

	2016/17 £000	2017/18 £000
Balance at 1 April	(415,894)	(432,094)
Capital Grants Released	20,730	24,697
Capital Grants Applied	(36,930)	(33,185)
Balance at 31 March	(432,094)	(440,582)

Nexus Unusable Capital Reserve

	2016/17 £000	2017/18 £000
Balance at 1 April	(28,635)	(27,338)
Depreciation	1,297	1,670
Balance at 31 March	(27,338)	(25,668)

G15 Adjustment to net surplus or deficit on the provision of services for non cash movements and items that are Investing or Financing activities

	2016/17 £000	2017/18 £000
Surplus/(Deficit) on the provision of services	37,692	(27,709)
Adjustments to Surplus/(Deficit) on Provision of Services for Non-Cash Movements		
Depreciation/ Impairment & Amortisation	28,551	28,904
(Gain)/Loss on disposal of non-current assets	46	2,648
(Increase)/Decrease in Creditors	(33,256)	(6,999)
Increase/(Decrease) in Debtors	(3,419)	(8,882)
Increase/(Decrease) in Inventories	(151)	(1,951)
Movement in Pension Liability	(2,250)	31,812
Other non-cash items charged to the net surplus or deficit on the provision of services	(5,505)	(5,092)
	(15,984)	40,439
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	(128,284)	(95,768)
Other adjustments for items that are financing or investing activities	1,728	1,172
	(126,556)	(94,596)
Net cash flow from operating activities	(104,848)	(81,866)

Cash Flow Statement -

The cash flows for operating activities include the following items:

	2016/17 £000	2017/18 £000
Interest received	1,407	1,288
Interest paid	(7,446)	(7,119)

G16 Cash Flow Statement - Investing Activities

	2016/17 £000	2017/18 £000
Purchase of property, plant and equipment, investment property and intangible assets	(38,125)	(27,785)
Purchase of short-term and long-term investments	(102,500)	(54,000)
Other payments for investing activities	49	(1,699)
Proceeds from the sale of property, plant and equipment, investment property, intangible assets & heritage assets	113	20
Proceeds from short-term and long-term investments	87,500	85,000
Other receipts from investing activities	138,105	97,967
Net cash flows from investing activities	85,142	99,503

G17 Cash Flow Statement - Financing Activities

	2016/17 £000	2017/18 £000
Repayments of short and long-term borrowing	(1,787)	(742)
Other payments for financing activities	(1,559)	(1,448)
Net cash flows from financing activities	(3,346)	(2,190)

4.0 Supplemental Information

4.0 Supplemental Information

4.1 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.

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.
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.

Curtailment (Pensions)	For a defined benefit pension scheme an event that reduces the expected years of future service of present employees or reduces for a number of employees the accrual of defined benefits for some or all of their future service. Examples include termination of employee's service through redundancy or amendment of the terms affecting future benefits.
Debtors	Monies owed to the Authority but not received at the balance sheet date.
Defined Benefit Scheme (Pensions)	A pension or other retirement scheme other than a defined contribution scheme. Usually, the scheme rules define the benefits independently of the contributions payable, and the benefits are not directly related to the investments of the scheme. The scheme may be funded or unfunded.
Depreciation	The measure of the wearing out, consumption or other reduction in the useful economic life of an asset.
Earmarked Reserve	A sum set aside for a specific purpose.
Emoluments	Payments received in cash and benefits for employment.
Events after the Balance Sheet Date	Events after the balance sheet date are those events, favourable and unfavourable, that occur between the balance sheet date and the date when the statement of Accounts is authorised for issue.
Expected Rate of Return on Pensions Assets	This is an actuarially calculated estimate of the return on the scheme's investment assets during the year.
Fair Value	The fair value of an asset is the price at which it could be exchanged in an arm's length transaction less, where applicable, any grants receivable towards the purchase or use of the assets.
Fees and Charges	Income arising from the provision of services, for example, charges for the use of leisure facilities.

Finance Lease	A lease that transfers substantially all of the risks and rewards of ownership of a fixed asset to the lessee. The payments usually cover the full cost of the asset together with a return for the cost of finance.
Financial Instrument	Document (such as a cheque, draft, bond, share, bill of exchange, futures or options contract) that has a monetary value or evidences a legally enforceable (binding) agreement between two or more parties regarding a right to payment of money.
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.
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 to the Comprehensive Income & Expenditure Account, for debt redemption or for the discharge of other credit liabilities.
Movement in Reserves Statement	The statement shows the movement in the year on the different reserves held by the Authority
Net Book Value	The amount at which fixed assets are included in the balance sheet being the historical cost or current value less the cumulative amounts provided for depreciation.
Net Debt	The Authority's borrowings less cash and liquid resources.
Operating Leases	Leases other than a finance lease.
Property, Plant & 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.
Revenue Expenditure	Expenditure on providing day-to-day services, for example employee costs 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. grants to other organisations for capital purposes.
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.

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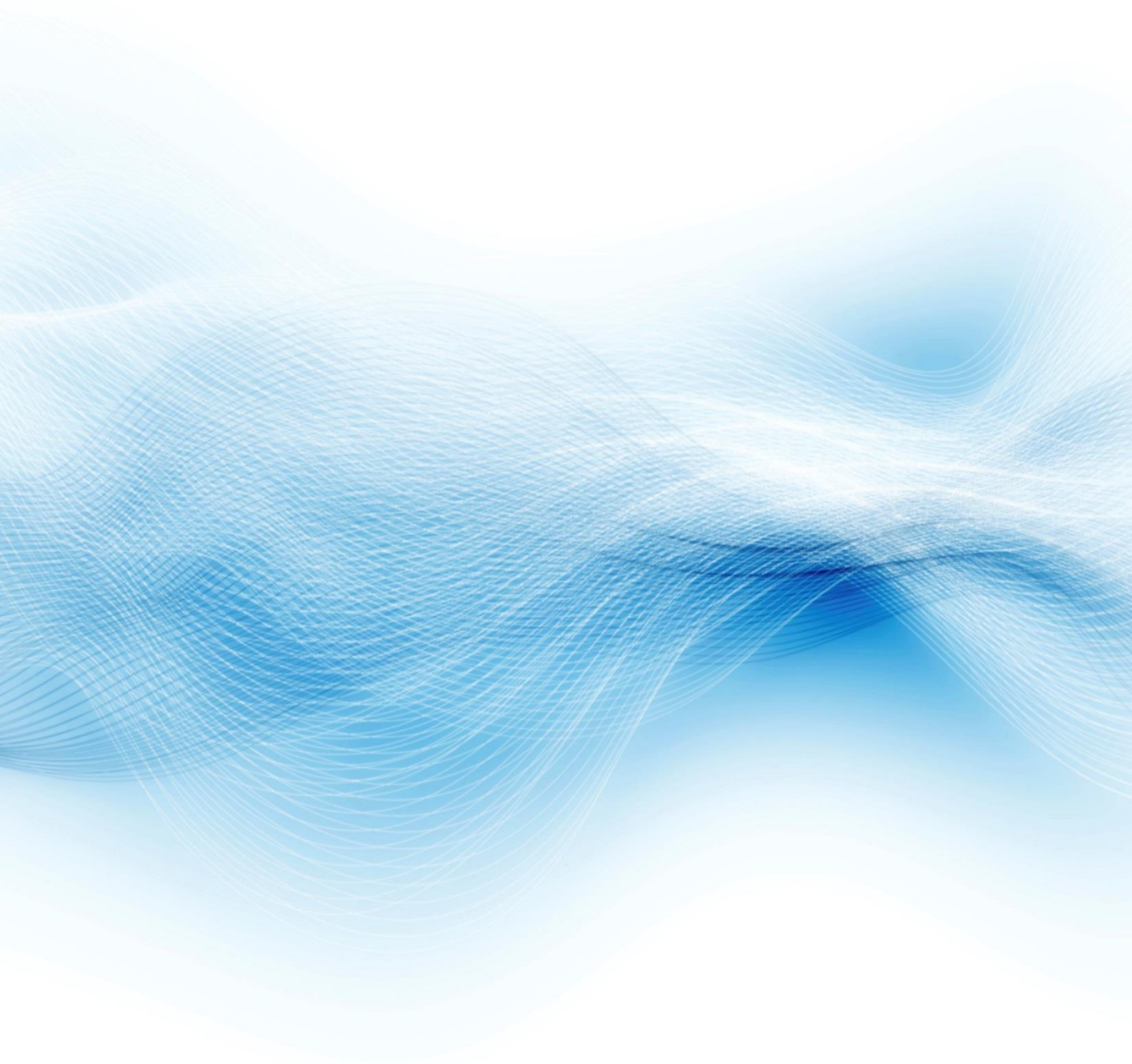
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Audit Completion Report

North East Combined Authority

Year ending 31 March 2018



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Our reports are prepared in the context of the 'Statement of responsibilities of auditors and audited bodies' and the 'Terms of Appointment' issued by Public Sector Audit Appointments Limited.

Reports and letters prepared by appointed auditors and addressed to the Authority are prepared for the sole use of the Authority and we take no responsibility to any member or officer in their individual capacity or to any third party.

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Mazars LLP
Salvus House
Aykley Heads
Durham
DH1 5TS

The Leadership Board
North East Combined Authority
North Tyneside Council
Quadrant
The Silverlink North, Cobalt Business Park
North Tyneside
NE27 0BY

31 July 2018

Dear Members

Audit Completion Report – Year ended 31 March 2018

We are pleased to present our Audit Completion Report for the year ended 31 March 2018. The purpose of this document is to summarise our audit conclusions.

The scope of our work, including identified significant audit risks and other areas of management judgement, was outlined in our Audit Strategy Memorandum which we presented on 3 April 2018. We have reviewed our Audit Strategy Memorandum and concluded that the original significant audit risks and other areas of management judgement remain appropriate.

We would like to express our thanks for the assistance of your team during our audit.

If you would like to discuss any matters in more detail then please do not hesitate to contact me on 0781 375 2053.

Yours faithfully

Signed: {{_es_:signer1:signature }}

Cameron Waddell
Partner
Mazars LLP

Mazars LLP – Salvus House, Durham, DH1 5TS
Tel: +44 (0) 191 383 6300 – Fax: +44 (0) 191 383 6350 – www.mazars.co.uk

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1. EXECUTIVE SUMMARY

Purpose of this report and principle conclusions

The Audit Completion Report sets out the findings from our audit of the North East Combined Authority ('the Authority') and its Group for the year ended 31 March 2018, and forms the basis for discussion at the Leadership Board meeting on 31 July 2018.

The detailed scope of our work as your appointed auditor for 2017/18 is set out in the National Audit Office's (NAO) Code of Audit Practice. Our responsibilities and powers are derived from the Local Audit and Accountability Act 2014.

Sections 2 and 5 of this report outline the detailed findings from our work on the financial statements and our conclusion on the Authority's arrangements to achieve economy, efficiency and effectiveness in its use of resources. As we outline on the following page, our work is substantially complete and, subject to the satisfactory completion of the outstanding work, at the time of issuing this report we have the following conclusions:

Opinion on the financial statements

We anticipate issuing an unqualified opinion, without modification, on the financial statements. Our proposed audit opinion is included in the draft auditor's report in Appendix B.

Value for Money conclusion

We anticipate concluding that the Authority had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources. Our draft auditor's report, including proposed conclusion, is provided in Appendix B

Whole of Government Accounts (WGA)

We anticipate completing our work on your WGA submission, in line with the group instructions issued by the NAO, by the deadline of 31 August 2018. We anticipate reporting that the WGA submission is consistent with the audited financial statements

Wider powers

The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of the Authority and consider any objection made to the accounts.

Misstatements and internal control recommendations

Section 3 sets out the internal control recommendations that we make, together with an update on any prior year recommendations.

Section 4 outlines the misstatements noted as part of our audit as at the time of issuing this report. If any additional misstatements are noted on completion of the outstanding work, these will be reported to the Leadership Board in a follow-up letter.

1. EXECUTIVE SUMMARY

Status of our audit work

We are still working on our audit of the financial statements for the year ended 31 March 2018. At the time of preparing this report the following jobs are ongoing

Audit area	Description of outstanding matters
Short term debtors	Awaiting supporting evidence for some of our sample
Short term creditors	Awaiting supporting evidence for some of our sample
Financial instruments	Awaiting amendments to the current disclosure
Group Accounts	Work to be completed
Whole of Government Accounts	Work to be completed
Audit completion steps	This includes internal consistency checks, agreeing amendments and post balance sheet events.

We will provide the Leadership Board with an update in relation to these outstanding matters in a follow-up letter, prior to signing the auditor’s report.

Our audit approach

We provided details of our intended audit approach in our Audit Strategy Memorandum in April 2018. We have not made any changes to our audit approach since we presented our Audit Strategy Memorandum.

Materiality

We set materiality at the planning stage of the audit at £4.007 million for NECA and £5.770 million for the Group using a benchmark of 2% of Gross Operating Expenditure. Our final assessment of materiality, based on the final financial statements and qualitative factors is £3.955 million for NECA and £6.417 million for the Group, using the same benchmark. We set our trivial threshold (the level under which individual errors are not communicated to NECA at £119k for NECA and £193k for the Group based on 3% of overall materiality.

2. SIGNIFICANT FINDINGS

Set out below are the significant findings from our audit. These findings include:

- our audit conclusions regarding significant risks and key areas of management judgement outlined in the Audit Strategy Memorandum;
- our comments in respect of the accounting policies and disclosures that you have adopted in the financial statements. On page 7 we have concluded whether the financial statements have been prepared in accordance with the financial reporting framework and commented on any significant accounting policy changes that have been made during the year;
- any further significant matters discussed with management; and
- any significant difficulties we experienced during the audit.

Significant risks and key areas of management judgement

As part of our planning procedures we considered the risks of material misstatement in the Authority’s financial statements that required special audit consideration. Although we report identified significant risks at the planning stage of the audit in our Audit Strategy Memorandum, our risk assessment is a continuous process and we regularly consider whether new significant risks have arisen and how we intend to respond to these risks. No new risks have been identified since we issued our Audit Strategy Memorandum.

Significant risk	Description of the risk
Management override of controls (relevant to single entity and group accounts)	Management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur there is a risk of material misstatement due to fraud on all audits.
	How we addressed this risk
	We addressed the management override of controls risk through performing audit work over the : <ul style="list-style-type: none">• reviewing of material accounting estimates, which may have been subject to management bias, included in the financial statements;• consideration and review of unusual or significant transactions outside the normal course of business; and• testing of journals recorded in the general ledger and other adjustments made in preparation of the financial statements.
	Audit conclusion
	Our work has provided the assurance we sought and has not highlighted any material issues to bring to your attention.

2. SIGNIFICANT FINDINGS (CONTINUED)

Significant risk	Description of the risk
Revenue recognition - in relation to Tyne Tunnel tolls and grant income (relevant to single entity and group accounts)	<p>Revenue recognition has been identified as a significant risk due to:</p> <ul style="list-style-type: none">• cut off considerations for Tyne Tunnel toll income given the cash nature of the receipts; and• grant income being recognised when all conditions attached to the grant have been met so there is significant management judgement in determining if there are any conditions and if they have been met.
	<p>How we addressed this risk</p> <p>We addressed the revenue recognition risk through performing audit work over:</p> <ul style="list-style-type: none">• the design and implementation of controls management had in place to ensure income was recognised in the correct period;• cash receipts around the year end to ensure they had been recognised in the right year;• the judgements made by management in determining when grant income was recognised; and• for major grant income, obtaining counterparty confirmation.
	<p>Audit conclusion</p> <p>Our work has provided the assurance we sought and has not highlighted any material issues to bring to your attention.</p>

Significant risk	Description of the risk
Defined benefit liability valuation	<p>The financial statements contain material pension entries in respect of the retirement benefits. The calculation of these pension figures, both assets and liabilities, can be subject to significant volatility and includes estimates based upon a complex interaction of actuarial assumptions. This results in an increased risk of material misstatement.</p>
	<p>How we addressed this risk</p> <p>We addressed this risk through performing audit work over</p> <ul style="list-style-type: none">• evaluating the management controls you had in place to assess the reasonableness of the figures provided by the Actuary; and• considered the reasonableness of the Actuary's output, referring to an expert's report on all actuaries nationally which is commissioned annually by the National Audit Office. <p>We discussed with key contacts the significant changes to the pension estimates prior to the preparation of the financial statements.</p>
	<p>Audit conclusion</p> <p>Work is ongoing in this area</p>

2. SIGNIFICANT FINDINGS (CONTINUED)

Qualitative aspects of the entity’s accounting practices

We have reviewed the Authority’s accounting policies and disclosures and concluded they comply with the requirements of the Code of Practice on Local Authority Accounting (the Code), appropriately tailored to the Authority’s circumstances.

Draft accounts were received from the Authority on 31 May 2018.

Significant difficulties during the audit

During the course of the audit we did not encounter any significant difficulties and we have had the full co-operation of management.

Wider responsibilities

Our powers and responsibilities under the 2014 Act are broad and include the ability to:

- issue a report in the public interest;
- make statutory recommendations that must be considered and responded to publicly;
- apply to the court for a declaration that an item of account is contrary to law; and
- issue an advisory notice under schedule 8 of the 2014 Act.

We have not exercised any of these powers as part of our 2017/18 audit.

The 2014 Act also gives rights to local electors and other parties, such as the right to ask questions of the auditor and the right to make an objection to an item of account. We have not received any questions or objections to date.

Our draft audit report, in full, is set out in Appendix B.

3. INTERNAL CONTROL RECOMMENDATIONS

The purpose of our audit is to express an opinion on the financial statements. As part of our audit we have considered the internal controls in place relevant to the preparation of the financial statements. We do this in order to design audit procedures to allow us to express an opinion on the financial statement and not for the purpose of expressing an opinion on the effectiveness of internal control, nor to identify any significant deficiencies in their design or operation.

The matters reported are limited to those deficiencies and other control recommendations that we have identified during our normal audit procedures and that we consider to be of sufficient importance to merit being reported. If we had performed more extensive procedures on internal control we might have identified more deficiencies to be reported or concluded that some of the reported deficiencies need not in fact have been reported. Our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

Our findings and recommendations are set out below. We have assigned priority rankings to each of them to reflect the importance that we consider each poses to your organisation and, hence, our recommendation in terms of the urgency of required action. In summary, the one matter we have identified falls into the medium priority category shown below:

Priority ranking	Description	Number of issues
1 (high)	In our view, there is potential for financial loss, damage to reputation or loss of information. This may have implications for the achievement of business strategic objectives. The recommendation should be taken into consideration by management immediately.	0
2 (medium)	In our view, there is a need to strengthen internal control or enhance business efficiency. The recommendations should be actioned in the near future.	1
3 (low)	In our view, internal control should be strengthened in these additional areas when practicable.	0

3. INTERNAL CONTROL RECOMMENDATIONS (CONTINUED)

Other deficiencies in internal control – Level 2

Description of deficiency

Related party declarations should be updated and obtained annually from senior officers.

Potential effects

Related parties may not be identified which potentially may lead to fraud and error.

Recommendation

Ensure that related party declarations are completed and received annually

Management response

Senior Officer declarations of interests have been provided and have been updated onto a new format. These will be updated as any interests change during the year and updated annually as part of the work to update the Annual Governance Statement.

Follow up of previous internal control points

We set out below an update on internal control points raised in the prior year.

Description of deficiency

Service level agreement with Newcastle City Council in respect of ICT services was not up to date.

Potential effects

SLA should be up to date to ensure appropriate services are provided to the NECA

Management 2017/18 update

The ICT SLA for 2017/18 was updated and signed. Work is ongoing to review and refresh all of the SLA arrangements for 2018/19 and this is intended to take into account changes in services resulting from new devolution arrangements in 2018/19.

4. SUMMARY OF MISSTATEMENTS

We set out below the misstatements identified for adjustment during the course of the audit, above the level of trivial threshold of £119k for NECA and £193k for the Group.

The first table outlines the misstatements that were identified during the course of our audit which management has assessed as not being material either individually or in aggregate to the financial statements and does not currently plan to adjust.

The second table outlines the misstatements that have been adjusted by management during the course of the audit.

Unadjusted misstatements 2017/18 – None identified as at 24 July 2018

4. SUMMARY OF MISSTATEMENTS (CONTINUED)

Adjusted misstatements 2017/18 – as at 24 July 2018

		Comprehensive Income and Expenditure Statement		Balance Sheet	
		Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
1	Dr: Cash and cash equivalent Cr: Short term investments			6,000	6,000
Mis-classification of Goldman Sachs Liquidity funds as short term investments instead of cash/cash equivalents					
2	Dr: Debtors - Long term Cr: Debtors – Short term Cr: Cost of services			846	211
			635		
Amendment to prepayment for advertising space at Newcastle Airport to ensure it was in line with treatment from the prior year.					
3	Dr Retained levy budget gross Income Cr Transport – Tyne and Wear Expenditure		3,333 3,333		
Being misclassification of funds returned by Nexus following an agree reduction in grant to Nexus					

Disclosure amendments

Our audit identified a number of presentational and disclosure errors, all of which have been amended. These are listed below:

- Cash flow statement – we identified errors in some of the values included in this statement and some internal consistencies with disclosures elsewhere in the financial statements
- Expenditure and funding analysis (Note 1) – Our initial work identified that the figures were not internally consistent
- Financial instruments (Note 11) – Note included some transactions that did not meet the definition of financial instruments per the Code.
- Contingent Liabilities (Note 17) - Note included a reference to a financial guarantee which no longer falls within the scope of IAS 37. The wording in relation to this issue has now been moved to the Critical Judgements in Applying Accounting Policies section of the Accounts (Note 27)

5. VALUE FOR MONEY CONCLUSION

Our approach to Value for Money

We are required to form a conclusion as to whether the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out in order to form our conclusion, and sets out the criterion and sub-criteria that we are required to consider.

The overall criterion is that, ‘in all significant respects, the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.’ To assist auditors in reaching a conclusion on this overall criterion, the following sub-criteria are set out by the NAO:

- Informed decision making.
- Sustainable resource deployment.
- Working with partners and other third parties.

Commentary against each of the sub-criteria, and an indication of whether arrangements are in place, is provided below.

Sub-criteria	Commentary	Arrangements in place?
Informed decision making	<p>The North East Leadership Board (NELB) is made up of the Leaders of the seven constituent bodies. The NELB is supplemented by elected members who serve on a number of committees along with non-executives.</p> <p>There is an update to date Constitution in place which is available on the website.</p> <p>NELB receive appropriate and regular reports on the financial position of NECA.</p> <p>Helen Golightly, the Head of Paid Service and Chief Executive leads a very experienced senior officer team at NECA..</p> <p>Risk management arrangements along with an up to date risk register is in place. A risk update is reported regularly to Governance Committee (now Audit and Standards Committee), who provide challenge in this area.</p> <p>An annual governance statement is prepared, reviewed and approved before being included in the financial statements.</p> <p>No indicators of inappropriate governance arrangements.</p>	Yes
Sustainable resource deployment	<p>The 2017/18 revenue budget and capital programme was approved by the NELB in January 2018.</p> <p>NECA has a history of achieving financial targets as evidenced by financial and performance reports.</p> <p>Arrangements are in place for the Financial Plan to be updated as appropriate.</p> <p>The 2017/18 Outturn position, which will be reported to Audit and Standards Committee (previously named Governance Committee) on 30 July 2018 identifies an underspend of £3.498 million at the year end.</p> <p>Relevant HR policies and procedures in place.</p>	Yes

5. VALUE FOR MONEY CONCLUSION (CONTINUED)

Sub-criteria	Commentary	Arrangements in place?
Working with partners and other third parties	<p>A service concession exists in relation to the Tyne Tunnel. This is subject to a detailed 30 year agreement with the operator TT2 which was introduced in 2008.</p> <p>NECA work very closely with the North East Local Enterprise Partnership (NELEP). This is a business-led, strategic partnership responsible for promoting and developing economic growth in the area. NECA supports the work of the enterprise partnership and they work together to ensure co-ordination across their range of activities.</p> <p>The NELEP board includes representatives from across the private and public sectors. Each of the leaders and the elected Mayor representing the seven NECA councils are members of the NELEP and the Chair of the NELEP is a non-voting member of the NELB.</p> <p>The Combined Authority provides the formal accountability arrangements for the enterprise partnership.</p> <p>On 26th April 2018, the NELB agreed in principle to the Government making the requisite Order, which will allow the three authorities North of Tyne (Newcastle, North Tyneside and Northumberland) to withdraw from NECA in order to create a new mayoral Combined Authority for the North of Tyne area, and also to maintain governance arrangements for Transport across all seven local authorities.</p>	Yes

Significant Value for Money risks

The NAO’s guidance requires us to carry out work to identify whether or not a risk to the Value for Money conclusion exists. Risk, in the context of our Value for Money work, is the risk that we come to an incorrect conclusion rather than the risk of the arrangements in place at the Authority being inadequate. In our Audit Strategy Memorandum, we reported that we had not identified a significant Value for Money risk.

Overall assessment (‘reality check’)

Having gathered evidence in each area we have conducted a final ‘reality check’, which included consideration of our cumulative knowledge of the NECA and, in particular:

- reports by statutory inspectorates, other regulators and external advisors;
- achievement of performance and other targets; and
- performance against budgets and other financial targets.

We do this to identify anything that would make us reconsider our conclusion.

5. VALUE FOR MONEY CONCLUSION (CONTINUED)

Evidence	Auditor assessment
Outputs by statutory inspectorates or other regulators	We are not aware of any relevant work which impacts upon our value for money conclusion.
Achievement of performance and other targets	No issues identified.
Performance against budgets and other financial targets	All relevant financial targets have been achieved.

Our overall Value for Money conclusion

Having completed our assessment, and having carried out a ‘reality check’, we have concluded that our initial risk assessment remains appropriate and we remain confident in our conclusion that the NECA has adequate arrangements in place for each criterion. We intend to issue an unqualified Value for Money conclusion as set out in Appendix B.

APPENDIX A

DRAFT MANAGEMENT REPRESENTATION LETTER

North East Combined Authority (and Group) - audit for year ended 31 March 2018

This representation letter is provided in connection with your audit of the statement of accounts for the North East Combined Authority (NECA) and Group for the year ended 31 March 2018 for the purpose of expressing an opinion as to whether the statement of accounts give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 (the Code).

I confirm that the following representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, inspection of supporting documentation) sufficient to satisfy ourselves that I can properly make each of the following representations to you.

My responsibility for the statement of accounts and accounting information

I believe that I have fulfilled my responsibilities for the true and fair presentation and preparation of the statement of accounts in accordance with the Code.

My responsibility to provide and disclose relevant information

I have provided you with:

- access to all information of which we are aware that is relevant to the preparation of the statement of accounts such as records, documentation and other material;
- additional information that you have requested from us for the purpose of the audit; and
- unrestricted access to individuals within NECA and Group's officers you determined it was necessary to contact in order to obtain audit evidence.

I confirm as Chief Finance Officer that I have taken all the necessary steps to make me aware of any relevant audit information and to establish that you, as auditors, are aware of this information. As far as I am aware there is no relevant audit information of which you, as auditors, are unaware.

Accounting records

I confirm that all transactions that have a material effect on the financial statements have been recorded in the accounting records and are reflected in the financial statements. All other records and related information, including minutes of all NECA and Group Committee meetings, have been made available to you.

Accounting policies

I confirm that I have reviewed the accounting policies applied during the year in accordance with the Code and International Accounting Standard 8 and consider these policies to faithfully represent the effects of transactions, other events or conditions on NECA and Group's financial position, financial performance and cash flows.

Accounting estimates, including those measured at fair value

I confirm that any significant assumptions used by NECA and Group in making accounting estimates, including those measured at fair value, are reasonable.

Contingencies

There are no material contingent losses including pending or potential litigation that should be accrued where:

- information presently available indicates that it is probable that an asset has been impaired or a liability had been incurred at the balance sheet date; and
- the amount of the loss can be reasonably estimated.

APPENDIX A

DRAFT MANAGEMENT REPRESENTATION LETTER

There are no material contingent losses that should be disclosed where, although either or both the conditions specified above are not met, there is a reasonable possibility that a loss, or a loss greater than that accrued, may have been incurred at the balance sheet date.

There are no contingent gains which should be disclosed.

All material matters, including unasserted claims, that may result in litigation against NECA and Group have been brought to your attention. All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to you and accounted for and disclosed in accordance with Code.

Laws and regulations

I confirm that I have disclosed to you all those events of which I am aware which involve known or suspected non-compliance with laws and regulations, together with the actual or contingent consequences which may arise therefrom.

NECA and Group have complied with all aspects of contractual agreements that would have a material effect on the accounts in the event of non-compliance.

Fraud and error

I acknowledge my responsibility as Chief Finance Officer for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

I have disclosed to you:

- all the results of my assessment of the risk that the statement of accounts may be materially misstated as a result of fraud;
- all knowledge of fraud or suspected fraud affecting NECA and Group involving:
 - management and those charged with governance;
 - employees who have significant roles in internal control; and
 - others where fraud could have a material effect on the financial statements.

I have disclosed to you all information in relation to any allegations of fraud, or suspected fraud, affecting NECA and Group's statement of accounts communicated by employees, former employees, analysts, regulators or others.

Related party transactions

I confirm that all related party relationships, transactions and balances, have been appropriately accounted for and disclosed in accordance with the requirements of the Code.

I have disclosed to you the identity of NECA and Group's related parties and all related party relationships and transactions of which I am aware.

Impairment review

To the best of my knowledge, there is nothing to indicate that there is a permanent reduction in the recoverable amount of the property, plant and equipment below their carrying value at the balance sheet date. An impairment review is therefore not considered necessary.

Future commitments

I am not aware of any plans, intentions or commitments that may materially affect the carrying value or classification of assets and liabilities or give rise to additional liabilities.

APPENDIX A

DRAFT MANAGEMENT REPRESENTATION LETTER

Subsequent events

I confirm all events subsequent to the date of the financial statements and for which the Code require adjustment or disclosure have been adjusted or disclosed.

Should further material events occur after the date of this letter which may necessitate revision of the figures included in the financial statements or inclusion of a note thereto, I will advise you accordingly.

Going concern

To the best of my knowledge there is nothing to indicate that NECA and Group will not continue as a going concern in the foreseeable future. The period to which I have paid particular attention in assessing the appropriateness of the going concern basis is not less than twelve months from the date of approval of the accounts.

Yours sincerely

Paul Woods
Chief Finance Officer
Date

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NORTH EAST COMBINED AUTHORITY AND GROUP

Opinion on the financial statements

We have audited the financial statements of the North East Combined Authority (NECA) and Group for the year ended 31 March 2018 under the Local Audit and Accountability Act 2014. The financial statements comprise the NECA and Group Movement in Reserves Statements, the NECA and Group Comprehensive Income and Expenditure Statements, the NECA and Group Balance Sheets, the NECA and Group Cash Flow Statements and notes to the financial statements, including the summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

In our opinion the financial statements:

- give a true and fair view of the financial position of NECA and its Group as at 31 March 2018 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities section of our report. We are independent of NECA in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Chief Finance Officer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Chief Finance Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about NECA's and its Group's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The Chief Finance Officer is responsible for the other information. The other information comprises the information included in the Statement of Accounts, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

APPENDIX B

DRAFT AUDITOR’S REPORT (CONTINUED)

Responsibilities of the Chief Finance Officer for the financial statements

As explained more fully in the Statement of the Chief Finance Officer Responsibilities, the Chief Finance Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18, and for being satisfied that they give a true and fair view. The Chief Finance Officer is also responsible for such internal control as the Chief Finance Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Chief Finance Officer is required to comply with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 and prepare the financial statements on a going concern basis, unless NECA is informed of the intention for dissolution without transfer of services or function to another entity. The Chief Finance Officer is responsible for assessing each year whether or not it is appropriate for NECA and its Group to prepare its accounts on the going concern basis and disclosing, as applicable, matters related to going concern.

Auditor’s responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council’s website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor’s report.

Conclusion on the NECA’s arrangements for securing economy, efficiency and effectiveness in the use of resources

Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, we are satisfied that, in all significant respects, NECA has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

Basis for conclusion

We have undertaken our review in accordance with the Code of Audit Practice issued by the Comptroller and Auditor General, having regard to the guidance on the specified criterion issued in November 2017, as to whether NECA had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider in satisfying ourselves whether NECA put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, NECA had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

APPENDIX B

DRAFT AUDITOR’S REPORT (CONTINUED)

Responsibilities of NECA

NECA is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor’s responsibilities in relation to review of arrangements for securing economy, efficiency and effectiveness in the use of resources. We are required under section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that NECA has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Comptroller and Auditor General requires us to report to you our conclusion relating to proper arrangements. We are not required to consider, nor have we considered, whether all aspects of NECA’s arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Matters on which we are required to report by exception under the Code of Audit Practice

We are required by the Code of Audit Practice to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make a recommendation under section 24 of the Local Audit and Accountability Act 2014; or
- we exercise any other special powers of the auditor under sections 28, 29 or 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

Use of the audit report

This report is made solely to the members of NECA, as a body, in accordance with part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to NECA those matters we are required to state to them in an auditor’s report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the members of NECA, as a body, for our audit work, for this report, or for the opinions we have formed.

Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the authority’s Whole of Government Accounts consolidation pack. We are satisfied that this work does not have a material effect on the financial statements or on our value for money conclusion.

Cameron Waddell, Partner
For and on behalf of Mazars LLP
Salvus House
Aykley Heads
Durham, DH1 5TS

Date

APPENDIX C

INDEPENDENCE

As part of our ongoing risk assessment we monitor our relationships with you to identify any new actual or perceived threats to our independence within the regulatory or professional requirements governing us as your auditors.

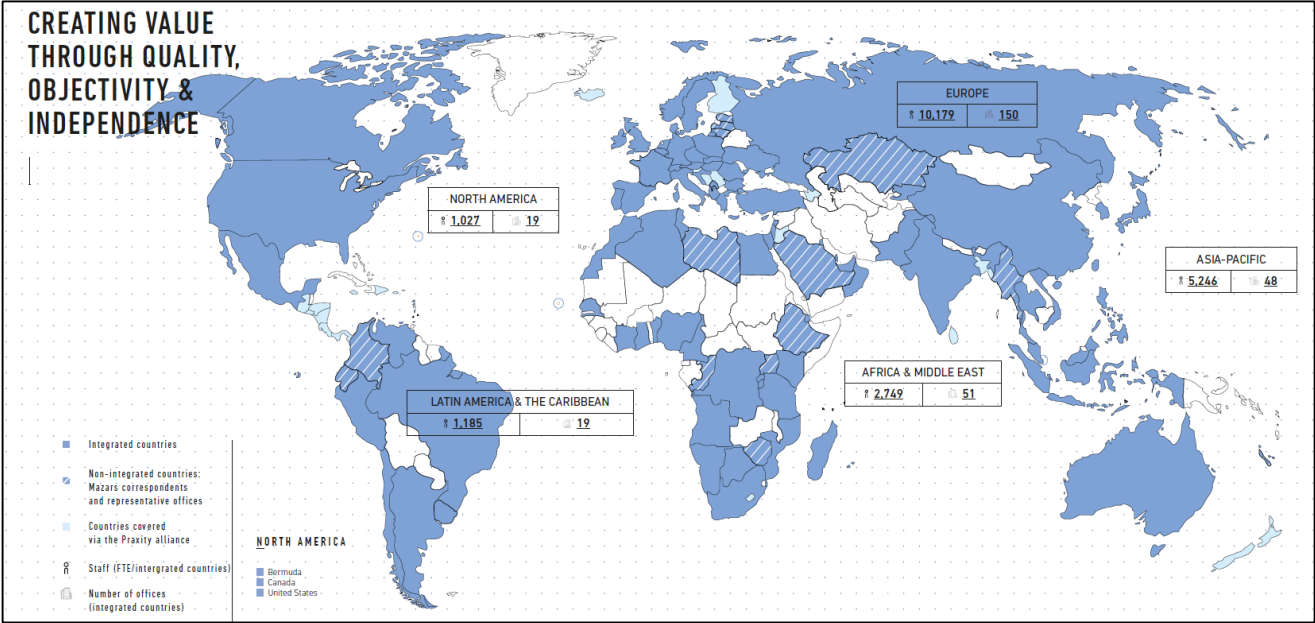
We can confirm that no new threats to independence have been identified since issuing the Audit Strategy Memorandum and therefore we remain independent.

MAZARS AT A GLANCE

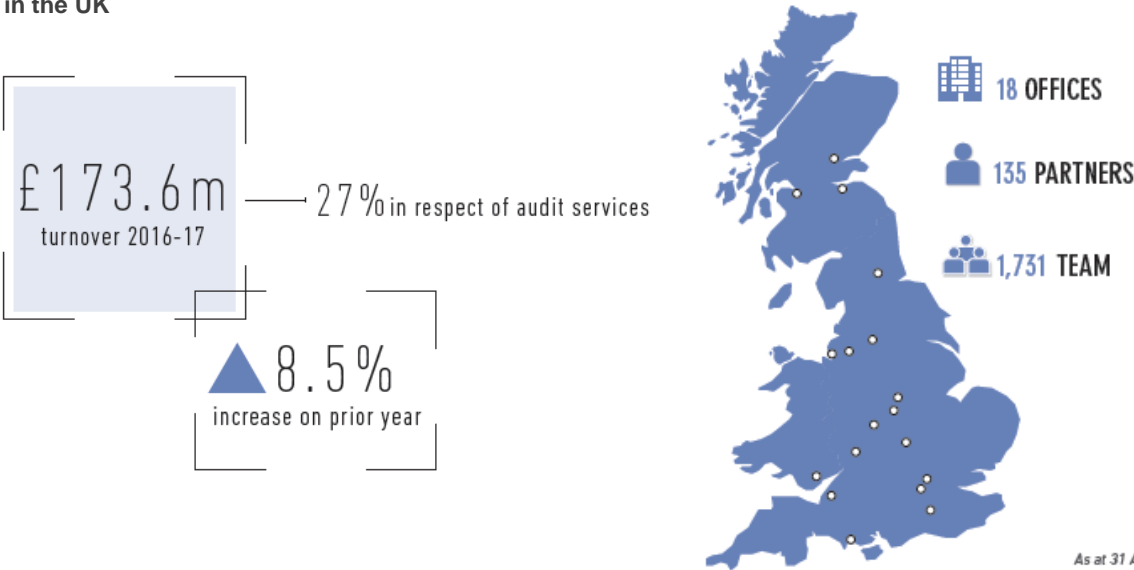
Mazars LLP

- Fee income €1.5 billion
- Over 86 countries and territories
- Over 300 locations
- Over 20,000 professionals
- International and integrated partnership with global methodologies, strategy and global brand

Mazars Internationally



Mazars in the UK



CONTACT

Partner: Cameron Waddell

Phone: 0191 383 6300

Mobile: 0781 375 2053

Email: cameron.waddell@mazars.co.uk

Senior Manager: Jim Dafter

Phone: 0191 3836300

Mobile: 0781 587 6042

Email: jim.dafter@mazars.co.uk