North East Combined Authority

Statement of Accounts 2018/19

Draft - Subject to Audit

Contents

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 2019 and its income and expenditure for the year ended 31 March 2019.

Signed:

John Hewitt, Chief Finance Officer

Signed:

Paul Woods, Interim Chief Finance Officer
to 31 March 2019

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 Total Comprehensive Income and Expenditure line shows the accounting cost of providing NECA's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. This is different from the statutory amounts required to be charged to the General Fund balance. The net increase 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.

		Usable Reserves						
	Note	**General Fund Balance**	**Earmarked General Fund Reserves**	**Capital Receipts Reserve**	**Capital Grants Unapplied**	**Total Usable Reserves**	**Unusable Reserves**	**Total Authority Reserves**
		£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Balance at 1 April 2017		**(34,897)**	**(9,665)**	**(168)**	**(25,726)**	**(70,456)**	**(100,242)**	**(170,698)**
Total Comprehensive Income and Expenditure		7,379	-	-	-	**7,379**	(280)	**7,099**
Adjustments between accounting basis & funding basis under regulations	3	(10,161)	(18,273)	(638)	17,999	**7,200**	(7,200)	**-**
Net (Increase)/Decrease before transfers to Earmarked Reserves		**(2,782)**	**-**	**(638)**	**17,999**	**14,579**	**(7,480)**	**7,099**
Transfers (To)/From Earmarked Reserves	20	4,871	(4,986)	114	-	**-**	-	**-**
(Increase)/Decrease in 2017/18		2,089	(4,986)	(524)	17,999	14,579	(7,480)	**7,099**
Balance at 31 March 2018 carried forward		**(32,808)**	**(14,651)**	**(682)**	**(7,727)**	**(55,877)**	**(107,722)**	**(163,599)**
Total Comprehensive Income and Expenditure (prior to transfer of services)		(5,066)	-	-	-	**(5,066)**	(230)	**(5,296)**
Adjustments between accounting basis & funding basis under regulations (prior to transfer of services)	3	3,026	-	-	-	**3,026**	(3,026)	**-**
Balance at 1 November 2018	1	**(34,848)**	**(14,651)**	**(682)**	**(7,727)**	**(57,917)**	**(110,978)**	**(168,895)**
Transfer of Services to the NTCA at 2 November 2018	1	**7,482**	**5,513**	**-**	**545**	**13,540**	**40,136**	**53,676**
Balance at 2 November 2018		**(27,365)**	**(9,138)**	**(682)**	**(7,182)**	**(44,377)**	**(70,842)**	**(115,219)**
Total Comprehensive Income and Expenditure (subsequent to transfer of services)		(2,482)	-	-	-	**(2,482)**	(111)	**(2,593)**
Adjustments between accounting basis & funding basis under regulations (subsequent to transfer of services)	3	6,362	-	(1,811)	(4,490)	**62**	(62)	**-**
Net (Increase)/Decrease before transfers to Earmarked Reserves		**3,880**	**-**	**(1,811)**	**(4,490)**	**(2,420)**	**(173)**	**(2,593)**

Transfers (To)/From Earmarked Reserves	20	655	(655)			-		-
(Increase)/Decrease in 2018/19		4,535	(655)	(1,811)	(4,490)	(2,420)	(173)	**(2,593)**
Balance at 31 March 2019 carried forward		**(22,830)**	**(9,793)**	**(2,493)**	**(11,672)**	**(46,797)**	**(71,015)**	**(117,812)**

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 charged to the General Fund which is set out in the Movement in Reserves Statement.

2017/18 - Restated					2018/19		
Gross Expenditure	Gross Income	Net Expenditure		Note	Gross Expenditure	Gross Income	Net Expenditure
£000	£000	£000			£000	£000	£000
			Continuing NECA Services	1			
549	(543)	6	Corporate		464	(311)	153
609	(432)	177	Inward Investment		295	(294)	0
60,292	(41,673)	18,619	Local Growth Fund Programme		52,283	(52,022)	261
4,898	(3,954)	944	North East Local Enterprise Partnership		6,448	(2,953)	3,495
326	(326)	-	Skills		767	(762)	5
252	-	252	Transport - Retained Levy Budget		328	-	328
15,477	-	15,477	Transport - Durham		15,692	-	15,692
32,072	-	32,072	Transport - Tyne and Wear		31,408	-	31,408
13,448	(13,503)	(55)	Transport - Other		9,398	(13,972)	(4,573)
13,118	(17,909)	(4,790)	Transport - Tyne Tunnels		13,396	(17,805)	(4,409)
141,041	**(78,339)**	**62,702**	**Cost of services relating to continuing services excluding operations transferred to the NTCA**		**130,479**	**(88,119)**	**42,360**
			Services transferred to the NTCA - income and expenditure for the period 1 April 2018 - 1 November 2018	1			
6,217	-	6,217	Transport - Northumberland		3,585	-	3,585
200	-	200	Transport - Retained Levy Budget		39	-	39
25,485	-	25,485	Transport - Tyne and Wear		15,420	-	15,420
10,686	(10,729)	(43)	Transport - Other		2,320	(2,316)	5
10,424	(14,230)	(3,807)	Transport - Tyne Tunnels		6,399	(9,159)	(2,760)
53,012	**(24,960)**	**28,052**	**Cost of services relating to services transferred to the NTCA**		**27,763**	**(11,475)**	**16,288**

194,053	**(103,299)**	**90,754**	**Cost of services**		**158,242**	**(99,594)**	**58,648**
			Financing and Investment Income and Expenditure	4			
7,134	(3,299)	3,835	- From continuing services		4,797	(3,446)	1,352
-	-	-	- From services transferred to the NTCA		1,531	(45)	1,486
			Taxation and Non-Specific Grant Income	5			
-	(87,210)	(87,210)	- From continuing services		-	(49,017)	(49,017)
-		-	- From services transferred to the NTCA		-	(20,018)	(20,018)
		7,379	**(Surplus)/Deficit on Provision of Services**				**(7,547)**
			Other Comprehensive Income and Expenditure				
			Re-measurement of the defined benefit liability	19			
		(156)	- From continuing services				(240)
		(124)	- From services transferred to the NTCA				(102)
		7,099	**Total Comprehensive Income and Expenditure**				**(7,889)**

The 2017/18 figures have been restated to reflect the new presentation required as a result of the reconfiguration of the North East Combined Authority and the establishment of the North of Tyne Combined Authority (NTCA) during 2018/19.

2.3 Balance Sheet

The Balance Sheet summarises NECA's financial position at 31 March each year. The Net Assets of the Authority (total assets less total liabilities are matched by Reserves. 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 2018 £000		Note	31 March 2019 £000
352,143	Property, Plant and Equipment	11	197,051
53,769	Long Term Debtors	12	32,671
405,912	**Long Term Assets**		**229,722**
72,000	Short Term Investments	12	65,281
16,575	Short Term Debtors	14	11,926
22,231	Cash and Cash Equivalents	16	11,720
110,806	**Current Assets**		**88,927**
(2,326)	Short Term Borrowing	12	(1,288)
(77,867)	Short Term Creditors	17	(51,118)
(2,328)	Grants Receipts in Advance	6	(1,205)
(5,092)	New Tyne Crossing Deferred Income	18	(2,838)
(87,613)	**Current Liabilities**		**(56,449)**
(96,753)	New Tyne Crossing Deferred Income	18	(51,076)
(167,000)	Long Term Borrowing	12	(92,685)
(793)	Grants Receipts in Advance	6	(125)
(960)	Pension Liability	19	(502)
(265,506)	**Long Term Liabilities**		**(144,388)**
163,599	**Net Assets**		**117,812**
(55,877)	Usable Reserves	20	(46,797)
(107,722)	Unusable Reserves	22	(71,015)
(163,599)	**Total Reserves**		**(117,812)**

Chief Finance Officer Certificate

I certify that the accounts set out on pages 4 to 68 give a true and fair view of the financial position of the North East Combined Authority as at the 31 March 2019.

Signed: John Hewitt, Chief Finance Officer

Signed: Paul Woods, Interim Chief Finance Officer to 31 March 2019

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 financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Authority.

2017/18 £000		Note	2018/19 £000
(7,379)	Net Surplus/(Deficit) on the provision of services		7,547
(25,450)	Adjustments to net surplus or deficit on the provision of services for non-cash movements	24	5,514
(65,301)	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	24	(64,823)
(98,130)	**Net cash flows from Operating Activities**		**(51,762)**
98,827	Investing Activities	25	48,540
(678)	Financing Activities	26	(1,891)
19	**Net (Decrease)/Increase in cash and cash equivalents**		**(5,113)**
22,231	Cash and cash equivalents at the beginning of the reporting period		22,231
-	Transfer to the NTCA		(5,398)
22,231	**Cash and cash equivalents at the end of the reporting period**		**11,720**

Note 1: Transfer of Services to the Newcastle upon Tyne, North Tyneside and Northumberland Combined Authority

On 2 November 2018, under the terms of the Newcastle upon Tyne, North Tyneside and Northumberland Combined Authority (Establishment and Functions) Order 2018 a new entity, the Newcastle upon Tyne, North Tyneside and Northumberland Combined Authority was created (referred to in this document as the North of Tyne Combined Authority, or NTCA).

- Newcastle City Council, North Tyneside Metropolitan District Council and Northumberland County Council ceased to be members of the North East Combined Authority and became members of the new NTCA; and
- The business of the North East Combined Authority, and the associated assets and liabilities, relating to the geography of Newcastle upon Tyne, North Tyneside and Northumberland transferred to the new NTCA.

Under the Order, it is stated that NECA and NTCA must appoint a Joint Transport Committee (JTC), which is endowed with the powers of the Integrated Transport Authority previously endowed upon NECA. The Constitution of the JTC is such that it meets the definition of Joint Control and it is classified accordingly as a Joint Operation

At its first meeting on 20 November 2018, the JTC appointed NECA its accountable body. In order to comply with the requirements outlined above NECA as the accountable body must split the revenue, expenditure, assets and liabilities into those which relate to NECA and NTCA:

- That which relates to Northumberland is wholly allocated to NTCA.
- That which relates to Durham is wholly allocated to NECA.
- That which relates to Tyne and Wear is allocated between NECA and NTCA on the basis of population using the ONS statistics used as the basis of dividing the levy contributions.

The NECA accounts for 2018/19 therefore include all income and expenditure relating to Transport activity up to 1 November 2018. From 2 November 2018 to 31 March 2019, all income and expenditure relating to Transport activity is split between NECA and NTCA as described above.

The following tables provide more detail about the split of income and expenditure, assets and liabilities.

The analysis between assets, liabilities and reserves transferred to the NTCA and those retained at the date of reconfiguration was as follows:

NECA Balance Sheet as at 31 March 2018 £000		Footnote	Note to the financial statements	JTC Balance Sheet as at 1 November 2018 £000	Retained by NECA at 2 November 2018 £000	Transferred to the NTCA at 2 November 2018 £000
352,143	Property, Plant and Equipment	A	11	352,557	196,454	156,103
53,769	Long Term Debtors	B	12	36,331	20,245	16,087
405,912	**Long Term Assets**			**388,888**	**216,698**	**172,190**
72,000	Short Term Investments	C	12	47,000	26,190	20,810
16,575	Short Term Debtors	D	14	1,983	1,105	878
22,231	Cash and Cash Equivalents	E	16	23,370	16,545	6,825
110,806	**Current Assets**			**72,353**	**43,840**	**28,513**
(2,326)	Short Term Borrowing	F	12	(2,964)	(1,651)	(1,312)
(77,867)	Short Term Creditors	G	17	(61,479)	(34,258)	(27,221)
(2,328)	Grants Receipts in Advance	H	6	(1,048)	(584)	(464)
(5,092)	New Tyne Crossing - Deferred Income	I	18	(5,092)	(2,838)	(2,255)
(87,613)	**Current Liabilities**			**(70,583)**	**(39,331)**	**(31,252)**
(96,753)	New Tyne Crossing - Deferred Income		18	(93,753)	(52,242)	(41,512)
(167,000)	Long Term Borrowing	J	12	(166,000)	(92,499)	(73,501)
(793)	Grants Receipts in Advance		6	(793)	(442)	(351)
(960)	Pension Liability	K	19	(930)	(518)	(412)
(265,506)	**Long Term Liabilities**			**(261,476)**	**(145,701)**	**(115,775)**
163,599	**Net Assets**			**129,182**	**75,506**	**53,676**
(55,877)	Usable Reserves	L	20	(38,536)	(24,996)	(13,540)
(107,722)	Unusable Reserves	M	22	(90,646)	(50,510)	(40,136)
(163,599)	**Total Reserves**			**(129,182)**	**(75,506)**	**(53,676)**

Footnotes:

The key judgements and estimates made in the calculation of the allocation of assets, liabilities and reserves between NECA and NTCA were as follows:

A	Property, Plant and Equipment relates wholly to Transport and has been allocated on the basis of population.
B	Long term debtors which relate to Transport only have been apportioned on the basis of population.
C	An element of Short Term Investments have been designated as held for Transport activity and apportioned on the basis of population.
D	Short term debtors which relate to Transport only have been apportioned on the basis of population.
E	An element of Cash and Cash Equivalents have been designated as held for Transport activity and apportioned on the basis of population.
F	Short term borrowing relates wholly to Transport and has been allocated on the basis of population.
G	Short term creditors which relate to Transport only have been apportioned on the basis of population.
H	Grants Receipts in Advance which relate to Transport only have been apportioned on the basis of population.
I	New Tyne Crossing Deferred Income relates wholly to Transport and has been allocated on the basis of population.
J	Long term borrowing relates wholly to Transport and has been allocated on the basis of population.
K	The pension liability relates wholly to unfunded defined benefit liabilities arising from the former Tyne and Wear Integrated Transport Authority and has been allocated on the basis of population.
L	Usable reserves have been split between those which relate to Transport and those retained wholly by NECA. Transport reserves have been apportioned on the basis of population.
M	Unusable reserves have been split between those which relate to Transport and those retained wholly by NECA. Transport reserves have been apportioned on the basis of population.

Under the terms of the Newcastle upon Tyne, North Tyneside and Northumberland Combined Authority (Establishment and Functions) Order 2018, the NECA and the NTCA are required to operate a Joint Transport Committee, under the Deed of Cooperation agreed between the two Combined Authorities NECA acts as the host Authority for this Joint Committee. It is management's judgement that the Joint Transport Committee meets the definition of a joint operation and, as such, each Authority accounts for its own share of the financial activity of the Joint Transport Committee in its own Single Entity and Group Financial Statements.

The results of the Joint Transport Committee together with the analysis of the results between the two Combined Authority members of the Committee is set out below.

	Footnote	Joint Transport Committee £000	Included within the CIES of the NECA £000	Included within the CIES of the NTCA £000
Gross Expenditure				
Transport - Retained Levy Budget	A	589	367	221
Transport - Durham	B	15,692	15,692	-
Transport - Northumberland	C	6,146	3,585	2,561
Transport - Tyne and Wear	D	56,367	46,829	9,538
Transport - Other	E	16,866	11,719	5,147
Transport - Tyne Tunnels	F	24,627	20,122	4,505
Total Expenditure		**120,286**	**98,313**	**21,973**
Gross Income				
Transport - Other		(25,073)	(16,287)	(8,786)
Transport - Tyne Tunnels		(31,954)	(26,965)	(4,989)
Total Income		**(57,027)**	**(43,252)**	**(13,775)**
Cost of Services		**63,259**	**55,061**	**8,198**
Financing and Investment Income and Expenditure relating to JTC	G	5,366	4,476	890
Taxation and Non-Specific Grant Income relating to JTC	H	(84,960)	(67,360)	(17,600)
Surplus/Deficit on the Provision of Services		**(16,336)**	**(7,823)**	**(8,513)**
Re-measurement of the defined benefit liability	I	(430)	(240)	(190)
Other Comprehensive Income and Expenditure		**(430)**	**(240)**	**(190)**
Total Comprehensive Income and Expenditure		**(16,766)**	**(8,062)**	**(8,703)**

Footnotes:

The key judgements and estimates made in the calculation of the allocation of income and expenditure between NECA and the NTCA were as follows:

A	Income and expenditure relating to the retained levy budget to 2 November is reported in the NECA accounts. After this date, income and expenditure has been apportioned between the NECA and NTCA accounts on the basis of population.
B	All income and expenditure relating to Durham County Council is reported in the NECA accounts.
C	Income and expenditure relating to Northumberland County Council up to 2 November 2018. After this date, all income and expenditure is included in the NTCA accounts.
D	Income and expenditure relating to the Tyne and Wear grant to Nexus to 2 November is reported in the NECA accounts. After this date, income and expenditure has been apportioned between the NECA and NTCA accounts on the basis of population.
E	Income and expenditure relating to other Transport activity to 2 November is reported in the NECA accounts. After this date, income and expenditure has been apportioned between the NECA and NTCA accounts on the basis of population.
F	Income and expenditure relating to the Tyne Tunnels to 2 November is reported in the NECA accounts. After this date, income and expenditure has been apportioned between the NECA and NTCA accounts on the basis of population.
G	expenditure has been apportioned between the NECA and NTCA accounts on the basis of population.
H	Taxation and non-specific grant income is shown in more detail in Note 5. Levies relating to Durham County Council, Gateshead Council, South Tyneside Council and Sunderland City Council are reported in the NECA accounts in full. Levies relating to Newcastle City Council, Northumberland County Council and North Tyneside Council are reported in the NECA accounts to 2 November 2018 and thereafter in the NTCA accounts.
I	Income and expenditure relating to the remeasurment of the defined benefit liability has been apportioned between NECA and NTCA on the basis of population at the year end.

Note 2: Expenditure and Funding Analysis

	2018/19				
	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
Continuing NECA Services					
Corporate	153	-	-	-	153
Inward Investment	-	-	-	-	-
Local Growth Fund Programme	502	241			261
North East Local Enterprise Partnership	795	2,700			3,495
Skills	5	-	-	-	5
Transport - Retained Levy Budget	741	(413)	-	-	328
Transport - Durham	15,692	-	-	-	15,692
Transport - Tyne and Wear	31,408	-	-	-	31,408
Transport - Other	1,337	(5,910)			(4,573)
Transport - Tyne Tunnels	(2,261)	(1,898)	(41)		(4,409)
Cost of services relating to continuing services excluding operations transferred to the NTCA	**48,372**	**(5,280)**	**(41)**	**-**	**42,360**
Services transferred to the NTCA					
Transport - Northumberland	3,585	-	-	-	3,585
Transport - Retained Levy Budget	39	-	-	-	39
Transport - Tyne and Wear	15,420	-	-	-	15,420
Transport - Other	5				5
Transport - Tyne Tunnels	(613)	(2,148)			(2,760)
Cost of services relating to services transferred to the NTCA	**18,436**	**(2,148)**	**-**	**-**	**16,288**
Cost of services	**66,808**	**(7,428)**	**(41)**	**-**	**58,648**

Other Income and Expenditure					
- From continuing services	(46,644)	-	-	(1,021)	(47,665)
- From services transferred to the NTCA	(18,323)	-	-	-	(18,532)
(Surplus)/Deficit on Provision of Services	**1,841**	**(7,428)**	**(41)**	**(1,021)**	**(7,549)**
Opening General Fund Balances	(47,458)				
Transferred to the NTCA 2 November 2018	12,995				
Closing General Fund Balances	**(32,622)**				

Adjustments for Capital Purposes

This column adds in depreciation and impairment and revaluation gains and losses in the service 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. Revenue grants are adjusted from those receivable in the year to those receivable without conditions or for which conditions were satisfied during the year. The Taxation and Non Specific Grant Income and Expenditure line is credited with capital grants receivable in the year without conditions or for which conditions were satisfied in the year.

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 statute:

- 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.

	2017/18				
	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
Corporate	6	-	-	-	6
Inward Investment	177	-	-	-	177
Local Growth Fund Programme	341	18,278	-	-	18,619
North East Local Enterprise Partnership	844	50	50	-	944
Skills	-	-	-	-	-
Transport - Retained Levy Budget	1,449	(997)	-	-	452
Transport - Durham	15,447	-	-	-	15,477
Transport - Northumberland	6,217	-	-	-	6,217
Transport - Tyne and Wear	57,557	-	-	-	57,557
Transport - Other	1,050	(1,147)	-	-	(98)
Transport - Tyne Tunnels	(3,655)	(4,892)	(50)	-	(8,597)
Net Cost of Services	**79,462**	**11,292**	**-**	**-**	**90,754**
Other Income and Expenditure	**(82,243)**	**5,253**	**260**	**(1,392)**	**(83,375)**
Surplus or Deficit on Provision of Services	**(2,782)**	**16,545**	**260**	**(1,392)**	**7,379**
Opening General Fund Balances	**(44,562)**				
Transfer from Capital Receipts Reserve	(114)				
Less Surplus on General Fund Balances in Year	(2,782)				
Closing General Fund Balance	**(47,458)**				

Note 2a: Income and Expenditure Analysed by Nature

	2017/18 £000	2018/19 £000
Expenditure		
Employee benefit expenses	1,485	1,865
Other service expenses	106,246	90,339
Depreciation, impairment and Revenue Expenditure Funded from Capital Under Statute (REFCUS)	86,322	66,039
Interest payments	7,134	6,328
Total expenditure	**201,187**	**164,572**
Income		
Fees, charges and other service income (Tyne Tunnels tolls)*	(26,774)	(18,137)
Interest and investment income	(3,299)	(3,491)
Income from business rates on enterprise zones	(1,626)	(1,675)
Income from transport levy	(84,744)	(65,320)
Government grants and contributions	(71,657)	(71,996)
Other income	(5,708)	(11,500)
Total income	**(193,808)**	**(172,119)**
Surplus/Deficit on the provision of services	**7,379**	**(7,547)**

Note 3: 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.

2017/18					2018/19			
General Fund	Capital Receipts Reserve	Capital Grants Unapplied	Unusable Reserves	Adjustments between Accounting Basis and Funding Basis Under Statute	General Fund	Capital Receipts Reserve	Capital Grants Unapplied	Unusable Reserves
£000	£000	£000	£000		£000	£000	£000	£000
				Adjustments primarily involving the Capital Adjustment Account (CAA)				
				Reversal of items debited or credited to the CIES				
(3,890)	-	-	3,890	Charges for depreciation and impairment of non current assets	(3,200)	-	-	3,200
5,092	-	-	(5,092)	Other income that cannot be credited to the General Fund	4,166	-	-	(4,166)
63,183	-	-	(63,183)	Capital grants and contributions applied	62,928	-	-	(62,928)
(82,432)	-	-	82,432	Revenue expenditure funded from capital under statute	(62,839)	-	-	62,839
				Insertion of items not debited or credited to the CIES				
2,557	-	-	(2,557)	Statutory provision for the financing of capital investment	1,521	-	-	(1,521)
2,129	-	-	(2,129)	Capital expenditure charged against the General Fund	24	-	-	(24)
				Adjustments primarily involving the Capital Grants Unapplied Account				
2,118	-	(2,118)	-	Grants and contributions unapplied credited to the CIES	6,063	-	(6,063)	-
-	-	20,117	(20,117)	Application of grants to capital financing transferred to the CAA	-	-	1,573	(1,573)
				Adjustments involving the Capital Receipts Reserve				
-	(2,387)	-	2,387	Loan principal repayments	-	(3,794)	-	3,794
(50)	-	-	50	Use of Capital Receipts Reserve to finance new capital expenditure	-	-	-	-
-	1,749	-	(1,749)	Application of Capital Receipts to repayment of debt	-	1,983	-	(1,983)

				Adjustments involving the Financial Instruments Adjustment Account				
1,392	-	-	(1,392)	Amount by which finance costs charged to the CIES are different from finance costs chargeable in the year in accordance with statutory requirements	1,021	-	-	(1,021)
				Adjustments involving the Pensions Reserve				
(310)	-	-	310	Reversal of items relating to retirement benefits debited or credited to the CIES	(336)	-	-	336
50	-	-	(50)	Employer's pension contributions and direct payments to pensioners payable in the year	41	-	-	(41)
(10,161)	**(638)**	**17,999**	**(7,200)**	**Total Adjustments**	**9,388**	**(1,811)**	**(4,490)**	**(3,088)**

Note 4: Financing and Investment Income and Expenditure

	Note	2017/18	2018/19	
			Continuing Services	Transport Services transferred to NTCA - 1 April 2018 - 1 November 2018
		£000	£000	£000
Interest Payable and Similar Charges		7,114	4,786	1,531
Interest Payable on defined benefit liability	19	20	11	-
Interest Receivable and similar income		(3,299)	(3,446)	(45)
Total		**3,835**	**1,352**	**1,486**

Note 5: Taxation and Non Specific Grant Income

	2017/18	2018/19	
		Continuing Services	Transport Services transferred to NTCA - 1 April 2018 - 1 November 2018
	£000	£000	£000
Transport Levy	(50,694)	(46,610)	(18,710)
Enterprise Zones Income	(1,626)	(1,675)	-
Non Specific Capital Grants	(468)	(731)	(468)
Total	**(52,788)**	**(49,016)**	**(19,178)**

Note 6: Grant Income

	2017/18	2018/19	
		Continuing Services	Transport Services transferred to NTCA - 1 April 2018 - 1 November 2018
	£000	£000	£000
LEP Core and Capacity Grant	(500)	(500)	-
Growth Hub	(410)	(410)	-
Local Authority Contributions to NECA	(440)	(440)	-
Local Authority Contribution to North East LEP	(250)	(250)	-
Local Growth Fund	(42,506)	(51,706)	-
Local Transport Plan	(22,889)	(7,773)	(2,316)
European Grants	(569)	(1,034)	(234)
North East Smart Ticketing Initiative	(527)	(463)	-
Transforming Cities Fund	-	(5,600)	-
LEP Local Industrial Strategy Grant	-	(176)	-
Office for Low Emission Vehicles	-	(393)	(234)
Other Grants	(444)	(468)	-
Total	**(68,535)**	**(69,212)**	**(2,784)**

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	31 March 2018 £000	31 March 2019 £000
North East Smart Ticketing Initiative	(1,396)	(316)
Office for Low Emission Vehicles	(1,500)	(443)
Other Grants	(225)	(571)
Total	**(3,121)**	**(1,330)**

Shown as Short-Term Liability on the Balance Sheet	(2,328)	(1,205)
Short as Long-Term Liability on the Balance Sheet	(793)	(125)
Total	**(3,121)**	**(1,330)**

Note 7: 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.

	2017/18 £000	2018/19 £000
Allowances	4	6
Total	**4**	**6**

Note 8: Officers' Remuneration

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

		Salary, Fees and Allowances £000	Pension Contributions £000	Total £000
Managing Director of Transport Operations	2018/19	125	21	**146**
	2017/18	127	22	**149**
Monitoring Officer	2018/19	85	-	**85**
	2017/18 (Oct-March)	30	-	**30**

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 secondment and agency arrangements, details of which are set out below in the interest of transparency.

		Payment for days worked £000	Expenses £000	Total £000
Interim Head of Paid Service	2018/19	77	-	**77**
	2017/18	63	-	**63**
Interim Chief Finance Officer	2018/19	120	2	**122**
	2017/18	117	2	**119**

The number of other officers (including those behalf of the North East LEP) who received remuneration greater than £50,000 (excluding employers' pension contributions) was as follows:

	2017/18 £000	2018/19 £000
£50,000-£54,999	2	2
£55,000-£59,999		
£60,000-£64,999	3	4
£65,000-£69,999		
£70,000-£74,999		
£75,000-£79,999		
£80,000-£84,999		
£85,000-£89,999		1
£90,000-£94,999		
£95,000-£99,999		
Total	**5**	**7**

Note 9: 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 for non-audit services provided by the Authority's external auditors.

	2017/18 £000	2018/19 £000
Scale fee for the audit of the Statement of Accounts	24	19
Additional fee in relation to the audit of the 2017/18 Accounts (paid during 2018/19)	-	2
Total	**24**	**21**

Note 10: 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
- Joint Transport Committee 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 6.

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 2018/19 no works or services were commissioned from companies in which any members had an interest.

Officers

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

NECA Constituent Authorities

The Leaders of the four NECA consituent Authorities serve as members of the NECA Leadership Board. Prior to 2 November, the Leaders and Elected Mayor of the seven North East local authorities were members of the NECA Leadership Board. Details of material transactions with the seven Authorities are set out in the table below.

Joint Transport Committee Constituent Authorities

From 2 November, the Joint Transport Committee has been in establishment, comprised of the seven North East local authorities. Figures reported in these accounts include the NECA share of Joint Transport Committee activity, and details of matetrial transactions with the seven Authorities are set out in the table below.

Other Public Bodies

Committee) sets the policy which is delivered by Nexus, and agrees its budget and revenue grant. Details of material transactions with Nexus are set out in the table below.

	2017/18 Receivables	2017/18 Income	2017/18 Expenditure	2017/18 Payables	2018/19 Receivables	2018/19 Income	2018/19 Expenditure	2018/19 Payables
	£000	£000	£000	£000	£000	£000	£000	£000
NECA Constituent Authorities								
Durham	-	(15,538)	30,151	774	-	(12,900)	15,826	77
Gateshead	-	(11,390)	2,740	838	(99)	(9,100)	8,887	7,661
South Tyneside	-	(8,450)	4,911	685	(213)	(6,981)	11,004	637
Sunderland	(708)	(16,367)	11,536	8,040	(849)	(13,260)	17,051	1,058
Remaining JTC Constituent Authorities								
Newcastle	(437)	(16,509)	18,093	1,095	(501)	(13,238)	7,271	914
North Tyneside	(160)	(11,474)	10,546	4,347	(245)	(9,394)	3,869	137
Northumberland	(321)	(6,430)	13,584	445	(780)	(5,479)	8,718	614
Other Public Bodies								
Nexus	(3,129)	(3,251)	60,892	4,190	(889)	(1,685)	52,060	34,203

Note 11: Property, Plant and Equipment

2018/19	Vehicles, Plant, Furniture & Equipment £000	Infrastructure Assets £000	Assets Under Construction £000	Total Property, Plant & Equipment £000
Cost or Valuation				
At 1 April 2018	3,207	381,072	12,695	**396,974**
Additions	-	-	2,702	**2,702**
At 2 November 2018	3,207	381,072	15,397	399,676
Transferred to the NTCA	(1,420)	(168,729)	(6,817)	**(176,966)**
Additions	-	24	1,487	**1,511**
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	-	(24)	-	**(24)**
At 31 March 2019	**1,787**	**212,343**	**10,066**	**224,196**
Accumulated Depreciation and Impairment				
At 1 April 2018	(1,094)	(43,738)	-	**(44,832)**
Depreciation charge for the period 1/4/18-1/11/18	(54)	(2,233)	-	**(2,287)**
At 2 November 2018	**(1,148)**	**(45,971)**	**-**	**(47,119)**
Transferred to the NTCA	508	20,355	-	**20,863**
Depreciation charge for the period 2/4/18-31/3/19	(21)	(868)	-	**(889)**
At 31 March 2019	**(661)**	**(26,484)**	**-**	**(27,145)**
Net Book Value				
At 1 April 2018	**2,113**	**337,334**	**12,695**	**352,142**
At date of reconfiguration	2,059	335,101	15,397	**352,557**
At 31 March 2019	**1,126**	**185,859**	**10,066**	**197,051**

2017/18	Vehicles, Plant, Furniture & Equipment £000	Infrastructure Assets £000	Assets Under Construction £000	Total Property, Plant & Equipment £000
Cost or Valuation				
At 1 April 2017	3,205	381,075	9,726	**394,006**
Additions	-	8	2,969	**2,977**
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	-	(8)	-	**(8)**
At 31 March 2018	**3,205**	**381,075**	**12,695**	**396,974**
Accumulated Depreciation and Impairment				
At 1 April 2018	(1,002)	(39,947)	-	**(40,949)**
Depreciation charge for the year	(92)	(3,763)	-	**(3,855)**
Depreciation adjustment	-	(27)	-	**(27)**
At 31 March 2019	**(1,094)**	**(43,737)**	**-**	**(44,831)**
Net Book Value				
At 1 April 2017	**2,203**	**341,128**	**9,726**	**353,057**
At 31 March 2018	**2,111**	**337,338**	**12,695**	**352,143**

Note 12: Financial Instruments

A financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Non-exchange transactions, such as those relating to taxes and government grants, do not give rise to financial instruments. The following categories of financial instrument are carried in the balance sheet:

Financial Assets

A financial asset is a right to future economic benefits controlled by the Authority that is represented by cash or other instruments or a contractual right to receive cash or another financial asset. The financial assets held by the Authority during the year are held under the following classifications.

	31-Mar-18 £000	31-Mar-19 £000
Financial assets at amortised cost		
Trade receivables	2,643	6,690
Other loans and receivables	61,760	37,912
Held to maturity investments (short term)	72,000	65,281
Total	**136,403**	**109,883**

Financial assets at amortised cost (2018/19 loans and receivables)

Financial assets are classifed at amortised cost only if both of the following criteria are met:

- The asset is held within a business model whose objective is to collect the contractual cash flows; and
- The contractual terms give rise to cash flows that are solely payments of principal and interest

All of NECA's financial assets fit these criteria and are classified at amortised cost.

Trade receivables

Trade receivables are amounts due for goods and services delivered. They are generally due for settlement within 30 days and are therefore classified as current. Trade receivables are recognised initially at the amount of the consideration. Trade receivables are held with the objective of collecting the contractual cash flows and are therefore measured at amortised cost using the effective interest method.

Due to the short-term nature of held to maturity investments their carrying value is considered to be the same as their fair value.

Financial Liabilities

A financial liability is an obligation to transfer economic benefits controlled by the Authority and can be represented by a contractual obligation to deliver cash or financial assets or an obligation to exchange financial assets and liabilities with another entity that is potentially unfavourable to Authority.

The Authority's financial liabilities held during the year are measured at amortised cost and comprised:

	31-Mar-18 £000	31-Mar-19 £000
Borrowings:		
Short term borrowing	(2,326)	(1,288)
Financial liabilities at amortised cost - long term borrowing	(167,000)	(92,685)
Total borrowings	**(169,326)**	**(93,973)**
Short term creditors	**(77,867)**	**(51,118)**

Income, Expense, Gains and Losses

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

31 March 2018				31 March 2019		
£000	£000	£000		£000	£000	£000
Financial Liabilities at amortised cost	Financial assets: loans and receivables	Total		Financial Liabilities at amortised cost	Financial assets: loans and receivables	Total
7,114	-	7,114	Interest expense	6,315	-	6,315
7,114	**-**	**7,114**	**Total expense in Surplus on Provision of Services**	**6,315**	**-**	**6,315**
-	(3,299)	(3,299)	Investment income	-	(3,491)	(3,491)
-	**(3,299)**	**(3,299)**	**Total income in Surplus on Provision of Services**	**-**	**(3,491)**	**(3,491)**
7,114	**(3,299)**	**3,815**	**Net (gain)/loss for the year**	**6,315**	**(3,491)**	**2,824**

Fair Value of Assets & Liabilities carried at Amortised Cost

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 2019, 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. Lender's options to proporse an increase to the interest rate of 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.

- The fair values of other long-term loans and investments have been discounted at the market rates for similar instruments with similar remaining terms to maturity on 31st March.

- 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 2018/19 the fair values are 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.

The fair values calculated are as follows:
Financial Liabilities

		31 March 2018		31 March 2019	
		Carrying amount £000	**Fair value £000**	**Carrying amount £000**	**Fair value £000**
Financial liabilities	2	(167,667)	(279,072)	(92,685)	(150,598)
Total		**(167,667)**	**(279,072)**	**(92,685)**	**(150,598)**
Financial Assets at amortised cost					
Held to maturity investments		72,000	72,000	65,281	65,281
Long-term debtors	3	53,452	78,815	32,671	45,568
Total		**125,452**	**150,815**	**97,952**	**110,849**

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 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.

2018/19

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	-	(756)	-	-	9,244	10,000
Neptune Test Centre	9	0.00%	4.99%	5,094	-	(1,000)	-	-	4,094	5,094
Cobalt Data Centre	6	6.00%	7.00%	2,384	-	(66)	-	-	2,318	2,384
Boiler Shop	3	4.50%	5.02%	1,545	-	(65)	-	-	1,480	1,545

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)	-	1,882	1,907
Boiler Shop	3	4.50%	5.02%	1,545	-	96	-	-	1,641	1,545
The Jesmond	2	11.00%	11.02%	1,269	-	87	-	-	1,356	1,269

Note 13: 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.

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 2019 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-Mar-18 £000	31-Mar-19 £000
Between 1-2 years	(667)	(372)
Between 2-5 years	(2,000)	(1,114)
Between 5-10 years	(2,333)	(1,672)
More than 10 years	(162,000)	(89,527)
	(167,000)	**(92,685)**
Less than 1 year	(2,326)	(1,288)
Total borrowing	**(169,326)**	**(93,973)**

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.

Note 14: Short Term Debtors

	31 March 2018 £000	31 March 2019 £000
Central Government bodies	6,203	2,458
Other local authorities	1,843	2,898
Other entities and individuals	8,529	6,570
Total	**16,575**	**11,926**

Note 15: Long Term Debtors

	31 March 2018 £000	31 March 2019 £000
Nexus borrowing	38,302	20,642
Airport prepayment	317	-
North East Investment Fund loans	15,150	12,029
Total	**53,769**	**32,671**

Note 16: Cash and Cash Equivalents

	31 March 2018 £000	31 March 2019 £000
North East LEP Cash balances held by Sunderland City Council	863	-
Cash held in Authority's bank account	15,368	7,819
Cash equivalents	6,000	3,901
Total	**22,231**	**11,720**

Note 17: Short Term Creditors

	31 March 2018 £000	31 March 2019 £000
Central government bodies	(63)	-
Other local authorities	(29,036)	(11,107)
Other entities and individuals		
- Nexus	(42,239)	(35,447)
- TT2	(3,208)	(1,871)
- Other	(3,321)	(2,693)
Total	**(77,867)**	**(51,118)**

The Code of Practice now permits the split of short term creditor balances to be across headings determined by the Authority itself, rather than specified headings. The presentation of 31 March 2018 balances has been restated accordingly.

Note 18: Private Finance Initiatives and Similar Contracts

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

In 2018/19 the total payment under the contract was £20.256m (2017/18 £19.487m) of which £16.654m is shown in the accounts of NECA and £3.602m shown in the accounts of the NTCA.

The contribution to the capital works by the private sector partner is recognised as a deferred income balance with a 2018/19 value of £96.753m (2017/18 £101.845m), of which £53.913m is shown on the NECA balance sheet and £42.840m shown on the NTCA balance sheet.

	Deferred Income Release	
	2017/18	**2018/19**
	£000	**£000**
Payable in 2019/20	(5,092)	(2,838)
Payable within 2 to 5 years	(20,370)	(9,931)
Payable within 6 to 10 years	(25,461)	(14,188)
Payable within 11 to 15 years	(25,461)	(14,188)
Payable within 16 to 20 years	(25,461)	(12,769)
Total	**(101,845)**	**(53,913)**

Note 19: Defined Benefit Pension Schemes

The Authority participates in two post-employment schemes:

(i) The largest of the two, the Tyne and Wear Pension Fund is administered locally by South Tyneside Council - this is a funded, defined benefit schemes, meaning that the Authority and employees pay contributions into a fund, calculated at a level intended to balance the pension liabilities with investments.

(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 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 General Fund 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:

Amounts recognised in profit and loss and other comprehensive income

	Local Government Pension Scheme		Discretionary Benefits	
	2017/18	2018/19	2017/18	2018/19
	£000	£000	£000	£000
Comprehensive Income and Expenditure Statement				
Cost of Services:				
Current service cost	290	320	-	-
Financing and Investment Income and Expenditure				
Interest on net defined benefit liability (asset)	-	-	20	16
Pension expense recognised in profit and loss	**290**	**320**	**20**	**16**
Other Post Employment Benefits charged to the Comprehensive Income and Expenditure Statement:				
Return on plan assets (in excess of)/below that recognised in net interest	(570)	(934)	-	-
Actuarial (gains)/losses due to changes in financial assumptions	330	947	-	18
Actuarial (gains)/losses due to changes in demographic assumptions	-	(897)	-	(22)
Actuarial (gains)/losses due to changes in liability assumptions	570	50	10	(17)
Adjustment in respect of paragraph 58	(620)	514	-	
Total amount recognised in Other Comprehensive Income	**(290)**	**(320)**	**10**	**(21)**
Total amount recognised	**-**	**-**	**30**	**(6)**

Assets and Liabilities in Relation to Post-employment Benefits

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

	Local Government Pension Scheme		Discretionary Benefits	
	2017/18	2018/19	2017/18	2018/19
	£000	£000	£000	£000
Opening balance at 1 April	**(37,590)**	**(38,950)**	**(980)**	**(960)**
Transferred to NTCA 2 November 2018		**17,118**		**412**
NECA balance 2 November 2018		**(21,832)**		**(548)**
Current service cost	(290)	(320)	-	-
Interest cost	(930)	(808)	(20)	(16)
Contributions by participants	(70)	(78)	-	-
Actuarial gains/(losses) on liabilities - financial assumptions	(330)	(947)	-	(18)
Actuarial gains/(losses) on liabilities - demographic assumptions	-	897	-	22
Actuarial gains/(losses) on liabilities - experience	(570)	(50)	(10)	17
Net benefits paid out	830	1,218	50	41
Past service costs	-	-	-	-
Closing balance at 31 March	**(38,950)**	**(21,921)**	**(960)**	**(502)**

Reconciliation of the fair value of the scheme assets:

	Local Government Pension Scheme		Discretionary Benefits	
	2017/18	2018/19	2017/18	2018/19
	£000	£000	£000	£000
Opening balance at 1 April	**45,050**	**45,980**	**-**	**-**
Transferred to NTCA 2 November 2018		**(20,753)**		**-**
NECA balance 2 November 2018		**25,227**		**-**
Interest income on assets	1,120	963	-	-
Remeasurement gains/(losses) on assets	570	1,864	-	-
Employer contributions	-	-	50	41
Contributions by scheme participants	70	78	-	-
Net benefits paid out	(830)	(1,218)	(50)	(41)
Closing balance at 31 March	**45,980**	**26,914**	**-**	**-**

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	2014/15 £000	2015/16 £000	2016/17 £000	2017/18 £000	2018/19 £000
Fair value of LGPS assets	**37,770**	**37,150**	**45,050**	**45,980**	**26,914**
Present value of liabilities:					
- LGPS liabilities	(34,520)	(31,630)	(37,590)	(38,950)	(21,921)
- Impact of minimum funding	(3,250)	(5,520)	(7,460)	(7,030)	(4,993)
Deficit on funded defined benefit scheme	**-**	**-**	**-**	**-**	**-**
Discretionary benefits	(1,020)	(890)	(980)	(960)	(502)
Total (Deficit)	**(1,020)**	**(890)**	**(980)**	**(960)**	**(502)**

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 £21.9m has an impact on the net worth of the Authority recorded on the balance sheet, resulting in a negative pension balance of £0.502m. 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 2019 is nil. In addition, Strain on the Fund contributions may be required. Expected payments direct to beneficiaries in the year to 31 March 2019 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 2016.

The principal assumptions used by the actuary have been:

	Local Government		Discretionary Benefits	
	2017/18	2018/19	2017/18	2018/19
Mortality assumptions:				
Longevity at 65 for current pensioners:				
Men	22.9	22.2	22.9	22.2
Women	26.4	25.3	26.4	25.3
Rate for discounting scheme liabilities	2.6%	2.4%	2.6%	2.4%
Rate of inflation - Retail Price Index	3.2%	3.3%	3.2%	3.3%
Rate of inflation - Consumer Price Index	2.1%	2.2%	2.1%	2.2%
Rate of increase in pensions	2.1%	2.2%	2.1%	2.2%
Pension accounts revaluation rate	2.1%	2.2%	n/a	n/a
Rate of increase in salaries	3.6%	3.7%	n/a	n/a

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

	31 March 2018	31 March 2019		
	% Total	% Quoted	% Unquoted	% Total
Equity investments	67.0%	58.0%	7.0%	65.0%
Property	8.5%	0.0%	8.8%	8.8%
Government bonds	4.0%	4.1%	0.0%	4.1%
Corporate bonds	11.7%	11.7%	0.0%	11.7%
Cash	3.7%	2.7%	0.0%	2.7%
Other*	5.1%	3.5%	4.2%	7.7%
Total	**100.0%**	**80.0%**	**20.0%**	**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.

Actual Return on Assets

	Local Government	
	2017/18	2018/19
	£000	£000
Interest Income on Assets	1,120	963
Remeasurement gain/(loss) on assets	570	1,864
Actual Return on Assets	**1,690**	**2,827**

Sensitivity Analysis

The approximate impact of changing the key assumptions on the present value of the funded defined benefit obligation as at 31 March 2019 and the projected service cost for the period ending 31 March 2020 is set out below.

Sensitivity analysis of unfunded benefits has not been included on materiality grounds.

Discount rate assumption	+0.1% per annum	Base Figure	-0.1% per annum
Adjustment to discount rate			
Present value of total obligation (£M)	21.63	21.92	22.22
% change in present value of total obligation	-1.30%		1.30%
Projected service cost (£M)	0.23	0.25	0.26
Approximate % change in projected service cost	-3.90%		4.00%

Rate of general increase in salaries	+0.1% per annum	Base Figure	-0.1% per annum
Adjustment to salary increase rate			
Present value of total obligation (£M)	21.92	21.92	21.92
% change in present value of total obligation	0.00%		0.00%
Projected service cost (£M)	0.25	0.25	0.25
Approximate % change in projected service cost	0.00%		0.00%

Rate of increase to pensions in payment and deferred pensions assumption, and rate of revaluation of pension accounts assumption	+0.1% per annum	Base Figure	-0.1% per annum
Adjustment to pension increase rate			
Present value of total obligation	22.47	21.92	21.40
% change in present value of total obligation	2.50%		-2.40%
Projected service cost (£M)	0.26	0.25	0.23
Approximate % change in projected service cost	4.00%		-3.90%

Post retirement mortality assumption	+0.1% per annum	Base Figure	-0.1% per annum
Adjustment to mortality age rating assumption *			
Present value of total obligation (£M)	22.77	21.92	21.07
% change in present value of total obligation	3.90%		-3.90%
Projected service cost (£M)	0.26	0.25	0.23
Approximate % change in projected service cost	3.90%		-3.90%

* 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

Note 20: Usable Reserves

	Note	31/03/2018 £000	31/03/2019 £000
General Fund Balance		(32,808)	(22,830)
Earmarked Reserves	21	(14,651)	(9,792)
Capital Receipts Reserve		(682)	(2,502)
Capital Grants Unapplied Reserve		(7,727)	(11,673)
Total		**(55,868)**	**(46,797)**

Note 21: 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 2017	Transfers Out 2017/18	Transfers In 2017/18	Balance at 31 March 2018	Transfer to NTCA 2 November 2018	NECA Balance at 2 November 2018	Transfers Out from 2 November to 31 March 2019	Transfers In from 2 November to 31 March 2019	Balance at 31 March 2019
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Metro Reinvigoration Reserve	(9,126)	49	(41)	**(9,118)**	4,037	(5,081)	-	(27)	(5,108)
Metro Fleet Replacement Reserve	-	-	(3,333)	**(3,333)**	1,476	(1,857)	-	(1,873)	(3,730)
North East LEP Restricted Cashable Reserve - RGF Interest	(539)	-	(253)	**(792)**	-	(792)	-	(142)	(934)
North East LEP Restricted Cashable Reserve - GPF Loan Repayments	-	8	(1,416)	**(1,408)**	-	(1,408)	1,706	(298)	-
Transforming Cities Fund Support	-	-	-	**-**	-	-	-	(20)	(20)
Total	**(9,665)**	**57**	**(5,043)**	**(14,651)**	**5,513**	**(9,138)**	**1,706**	**(2,360)**	**(9,792)**

Note 22: Unusable Reserves

Summary

	31 March 2018 £000	31 March 2019 £000
Capital Adjustment Account	(105,885)	(70,579)
Financial Instruments Adjustment Account	5,637	3,681
Revaluation Reserve	(8,433)	(4,617)
Pension Reserve	960	502
Total	**(107,721)**	**(71,014)**

Capital Adjustment Account

The Capital Adjustment Account (CAA) 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 CAA is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisation are charges to the CIES (with reconciling postings from the Revaluation Reserve to convert fair value figures on a historical cost basis). The CAA is credited with the amounts set aside by the Authority as finance for the costs of acquisition, construction and enhancement of assets.

The CAA 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 3 provides details of the source of all the transactions posted to the CAA, apart from those involving the Revaluation Reserve.

	£000
Opening Balance 1 April 2017	**(99,672)**
Reversal of items relating to capital expenditure debited or credited to the CIES:	
Charges for depreciation and impairment of non current assets	3,890
Other income that cannot be credited to the General Fund	(5,092)
Revenue expenditure funded from capital under statute	82,432
Write down of long term debtors	2,387
Adjusting amounts written out of the Revaluation Reserve	**(146)**
Capital financing applied in the year:	
Capital grants and contributions credited to the CIES that have been applied to capital financing	(83,299)
Statutory provision for the financing of capital investment	(2,557)
Capital expenditure charged against the General Fund	(2,129)
Debt redeemed using capital receipts	(1,699)
Balance at 31 March 2018	**(105,885)**
Reversal of items relating to capital expenditure debited or credited to the CIES to 2 November 2018:	
Charges for depreciation and impairment of non current assets	2,287
Other income that cannot be credited to the General Fund	(3,000)
Revenue expenditure funded from capital under statute	5,144
Write down of long term debtors	-
Adjusting amounts written out of the Revaluation Reserve to 2 November 2018	**-**

Capital financing applied in the year to 2 November 2018:	
Capital grants and contributions credited to the CIES that have been applied to capital financing	(6,200)
Statutory provision for the financing of capital investment	(981)
Capital expenditure charged against the General Fund	-
Debt redeemed using capital receipts	-
Balance at date of reconfiguration	**(108,635)**
Transferred to the NTCA	**37,748**
Reversal of items relating to capital expenditure debited or credited to the CIES to 31 March 2019:	
Charges for depreciation and impairment of non current assets	913
Other income that cannot be credited to the General Fund	(1,166)
Revenue expenditure funded from capital under statute	57,695
Write down of long term debtors	3,794
Adjusting amounts written out of the Revaluation Reserve to 31 March 2019	**(81)**
Capital financing applied in the year to 31 March 2019	
Capital grants and contributions credited to the CIES that have been applied to capital financing	(58,300)
Statutory provision for the financing of capital investment	(540)
Capital expenditure charged against the General Fund	(24)
Debt redeemed using capital receipts	(1,983)
Balance at 31 March 2019	**(70,579)**

Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account (FIAA) absorbs the timing differences arising from the different arrangements for accounting for income and expense 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.

	£000
Opening Balance 1 April 2017	**7,029**
Proportion of premiums incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements	(803)
Amount by which finance costs charged to the CIES are different from finance costs chargeable in the year in accordance with statutory requirements	(589)
Balance at 31 March 2018	**5,637**
Proportion of premiums incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements - to 2 November 2018	(477)
Balance at date of reconfiguration	**5,160**
Transferred to the NTCA	**(935)**
Amount by which finance costs charged to the CIES are different from finance costs chargeable in the year in accordance with statutory requirements	(545)
Balance at 31 March 2019	**3,681**

Revaluation Reserve

The Revaluation Reserve (RR) 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 RR only contains 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 CAA.

	£000
Opening Balance 1 April 2017	**(8,579)**
Difference between fair value depreciation and historical cost depreciation written off to the CAA	146
Balance at 31 March 2018	**(8,433)**
Transferred to the NTCA 2 November 2018	**3,734**
Difference between fair value depreciation and historical cost depreciation written off to the CAA	81
Balance at 31 March 2019	**(4,617)**

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 CIES as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on 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.

	£000
Opening Balance 1 April 2017	**980**
Remeasurements of the net defined benefit liability (asset)	(280)
Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the CIES	310
Employer's pension contributions and direct payments to pensioners payable in the year	(50)
Balance at 31 March 2018	**960**
Remeasurements of the net defined benefit liability (asset) to 2 November 2018	(230)
Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the CIES to 2 November 2018	230
Employer's pension contributions and direct payments to pensioners payable to 2 November 2018	(30)
Balance at date of reconfiguration	**930**
Transferred to the NTCA	**(412)**
Remeasurements of the net defined benefit liability (asset) to 31 March 2019	(111)
the Provision of Services in the CIES to 31 March 2019	106
Employer's pension contributions and direct payments to pensioners payable to 31 March 2019	(11)
Balance at 31 March 2019	**502**

Note 23: Capital Expenditure and Capital Financing

	£000
Opening Capital Financing Requirement 1 April 2017	**199,660**
Capital Investment	
Property, Plant and Equipment	2,976
Revenue Expenditure Funded from Capital Under Statute	82,432
Sources of Finance	
Capital receipts - repayment of principal from long term debtors	(1,699)
Government Grants and other contributions	(83,299)
Sums set aside from revenue	
Direct revenue contributions	(2,129)
Minimum Revenue Provision	(2,111)
Additional Voluntary Provision	(447)
Closing Capital Financing Requirement 31 March 2018	**195,383**
Decrease in underlying need to borrow (unsupported by government financial assistance)	**(4,277)**

	£000
Opening Capital Financing Requirement 1 April 2018	**195,383**
Capital Investment to 2 November 2018	
Property, Plant and Equipment	2,702
Revenue Expenditure Funded from Capital Under Statute	5,144
Sources of Finance to 2 November 2018	
Capital receipts - repayment of principal from long term debtors	-
Government Grants and other contributions	(6,200)
Sums set aside from revenue to 2 November 2018	
Direct revenue contributions	-
Minimum Revenue Provision	(981)
Closing Capital Financing Requirement 2 November 2018	**196,048**
Transfer to NTCA	**(86,805)**
NECA Capital Financing Requirement 2 November 2018	**109,243**
Capital Investment to 31 March 2019	
Property, Plant and Equipment	1,511
Revenue Expenditure Funded from Capital Under Statute	57,695
Sources of Finance to 31 March 2019	
Capital receipts - repayment of principal from long term debtors	(1,983)
Government Grants and other contributions	(58,300)
Sums set aside from revenue to 31 March 2019	
Direct revenue contributions	(24)
Minimum Revenue Provision	(387)
Additional Voluntary Provision	(153)
Closing Capital Financing Requirement 31 March 2019	**107,601**

Note 24: Adjustments to net surplus or deficit on the provision of services for non cash movements and items that are Investing or Financing activities

	2017/18 £000	2018/19 £000
Surplus/(Deficit) on the provision of services	(7,379)	7,547
Cash Movements		
Depreciation and Impairment	3,890	3,200
(Increase)/Decrease in Creditors	(18,208)	486
Increase/(Decrease) in Debtors	(5,711)	5,787
Movement in Pension Liability	260	206
Other non-cash items charged to the net surplus or deficit on the provision of services	(5,681)	(4,166)
	(25,450)	**5,514**
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	(65,301)	(64,823)
Net cash flow from operating activities	**(98,130)**	**(51,762)**

The cash flows for operating activities include the following items:

	2017/18 £000	2018/19 £000
Interest received	2,717	3,293
Interest paid	(7,119)	(6,317)

Note 25: Cash Flow Statement - Investing Activities

	2017/18 £000	2018/19 £000
Purchase of property, plant and equipment, investment property and intangible assets	4,479	(4,213)
Purchase of short-term and long-term investments	(53,000)	(184,574)
Proceeds from short-term and long-term investments	79,000	170,483
Other receipts from investing activities	68,348	66,843
Net cash flows from investing activities	**98,827**	**48,540**

Note 26: Cash Flow Statement - Financing Activities

	2017/18 £000	2018/19 £000
Repayments of short and long-term borrowing	(676)	(1,891)
Net cash flows from financing activities	**(676)**	**(1,891)**

Note 27: Accounting Standards Issued, Not Yet Adopted

Impact of the adoption of new accounting standards on the 2018/19 Financial Statements

At the balance sheet date, the following new standards and amendments to existing standards have been published but not yet adopted by the Code of Practice of Local Authority Accounting in the United Kingdom:

- **IFRS 16 Leases** will require local authorities that are lessees to recognise most leases on their balance sheets as right-of-use assets with corresponding lease liabilities (there is recognition for low-value and short-term leases). CIPFA/LASAAC have deferred implementation of IFRS 16 for local government to 1 April 2020.
- **IAS 40 Investment Property: Transfers of Investment Property** provides further explanation of the instances in which a property can be reclassified as investment property. NECA does not currently classify any of its assets as investment property.
- **IFRIC 22 Foreign Currency Transactions and Advance Consideration** clarifies the treatment of payments in a foreign currency made in advance of obtaining or delivering services or goods. NECA does not have any material transactions within the scope of this amendment.
- **IFRIC 23 Uncertainty over Income Tax Treatments** provides additional guidance on income tax treatment where there is uncertainty. This will have no impact on the NECA accounts.
- **IFRS 9 Financial Instruments: prepayment features with negative compensation** amends IFRS 9 to make clear that amortised cost should be used where prepayments are substantially lower than the unpaid principal and interest. NECA currently has no loans to which this will apply.

Note 28: 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 the refurbishment of the existing Tunnel are recorded within the Authority's Property, Plant and Equipment on the Balance Sheet.

Transferred Assets and Liabilities in Local Government Pension Scheme transferred to TT2 Ltd

Assets and liabilities relating to membership accrued before 1 February 2008 transferred to TT2 Ltd on commencement of the concessionaire agreement. The project agreement provides that should there be a shortfall in the TT2 fund at the actuarial valuation, which can be attributed to pre-2008 benefits, the authority will be required to reimburse the shortfall. As a result of the most recent triennial valuation, there is currently no reimbursement due.

Note 29: 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 2019 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.	The approximate impact of changing the key assumptions on the present value of the funded defined benefit obligation as at 31 March 2019 and the projected service cost for the year ending 31 March 2020 are set out below. Discount rate assumption, an adjustment to the discount rate of +0.1% p.a. would decrease the present value of the total obligation to £21.63m, a variance of £0.23m, whereas a decrease of (0.1%) p.a. results in an increase to £22.22m. The percentage change in the present value of the total obligation would be (1.3%) and 1.3% respectively.
		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 £0.43m to £22.47m, whereas a decrease of (0.1%) p.a. results in a decrease to £21.40m, a variance of £0.42m. The percentage change in the present value of the total obligation would be 2.5% and (2.4%) respectively.
		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 £22.77m, an increase of £0.68m, whereas a adjustment of +1 year results in a reduction to £21.07m, a variance of £0.68m. The percentage change in the present value of the total obligation would be 3.9% and (3.9%) respectively.

Note 30: Accounting Policies

1. General Principles

The Statement of Accounts summarises the Authority's transactions for the 2018/19 financial year and its position at the year-end of 31 March 2019. 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 2018/19, 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

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue from the sale of goods is recognised when the Authority transfers the significant risks and rewards of ownership to the purchaser and it is probable that the economic benefits or service potential associated with the transaction will flow to the Authority.
- Revenue from the provision of services is recognised when the Authority can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.

- Supplies are recorded as expenditure when they are consumed - where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.

- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.

- Interest receivable on investments and payments on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument, rather than the cash flows fixed or determined by the contract.

- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded on the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected. The Authority has a policy of not accruing for manual sundry creditor or sundry debtor provisions for less than £1,000, other than in exceptional circumstances.

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 tne 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.

8. Post-Employment Benefits

Employees of the Authority are members of the Local Government Pension Scheme, which provides members with defined benefits relating to pay and service. The relevant fund is the Tyne and Wear Pension Fund, administered by South Tyneside 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 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 19 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 recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of the financial instrument and are classified into three types using an approach that is based on the business model for holding the financial assets and their cashflow characteristics.

- Amortised Cost - assets held within a business model with the sole objective of collecting contractual cash flows on specified dates that are solely payments of principal and interest.

- Fair Value through other comprehensive income (FVOCI) - assets held within a business model with the objective to either sell the asset or collect contractual cash flows on specified dates that are solely payments of principal and interest.
- Fair value through profit and loss (FVPL) – objectives are achieved by any other means than collecting contractual cash flows.

The Authority can at initial recognition of the asset override the above classifications in the following circumstances and the decision is irrevocable:
- An equity instrument can be elected into FVOCI rather than FVPL if it is not held for trading.
- Any financial asset can be designated as measured at FVPL if this removes any deemed inconsistency in measurement by treating assets based upon the above classification.

Amortised Cost

Assets classified as amortised cost will usually write down over the expected life of the asset with interest being credited to the Surplus/Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement in line with the effective interest rate. 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.

Assets are impaired when it is determined that there is a likelihood arising that future cashflows due under the contract will not be made. A charge for the impairment value is made to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement with a corresponding reduction made in the Balance Sheet to the gross amortised cost of the asset.

The value of the impairment is determined by an assessment of the credit risk. If the risk has increased significantly the impairment loss allowance will be calculated on a lifetime basis. If there is no significant increase or remains low, the loss is assessed on the basis of the impact of an expected loss in the next 12 months.

Any gains or losses that arise on the de-recognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

Fair Value Through Other Comprehensive Income

Changes in fair value are recorded against Other Comprehensive Income and Expenditure gain/loss by an entry in the Financial Instrument Revaluation Reserve through the Movement in Reserves Statement.

However, interest is charged to the Surplus/Deficit on the Provision of Services as though the asset had been measured at amortised cost.

Where assets are identified as impaired because of a likelihood arising from a future event that cashflows due under the contract will not be made a charge for the value of the impairment is made to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement with a corresponding entry being recognised in Other Comprehensive Income through the Financial Instruments Revaluation Reserve on the Balance Sheet.

When the asset is de-recognised the cumulative gain or loss previously recognised in Other Comprehensive Income is reclassified from the Financial Instrument Revaluation Reserve to the Surplus/Deficit on the Provision of Services as a reclassification adjustment.

Fair Value through Profit and Loss

All changes in fair value are posted to the Surplus/Deficit on the Provision of Services.

Fair value is measured at market price where the instrument exists within an active market or using discounted cash flow where the instrument has fixed and determinable payments.

All gains and losses on de-recognition are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

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.

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 2019, divided by remaining life expectancy. Depreciation is 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 arrangments 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 2018/19 to produce Group Accounts to include services provided to Council Tax payers in the North East by organisations other than the Authority itself in which the Authority has an interest.

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

For the 2018/19 accounts, NECA has fully complied with the requirements of the Code, providing Group figures for 2018/19 and comparators for 2017/18. 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.

23. Joint Transport Committee

On 2 November 2018, the Newcastle upon Tyne, North Tyneside and Northumberland Combined Authority (Establishment and Functions) Order 2018 (the Order) changed the boundaries of NECA and established the new mayoral combined authority.

The reconfiguration of NECA has been classed as a transfer by absorption meaning:

- NECA has accounted for its control up to the date of the reconfiguration albeit with clear disaggregation of the financial results relating to the functions being transferred;
- Assets and liabilities transferred at book value.

The Order establishing the NTCA also required the seven local authorities to establish the Joint Transport Committee (JTC). Under the CIPFA Code, the JTC meets the definition of a 'joint operation', which determines its accounting treatment. Where a Joint Committee is accounted for as a Joint Arrangement each Joint Operator (in this case NECA and NTCA) must account for their own share of the assets, liabilities, revenues and expenses held or incurred jointly in their own single entity financial statements.

In order to comply with the CIPFA Code, NECA must:

- Split the revenues between that which relates to NECA and NTCA. In this case the constitution of the JTC and its funding arrangements suggests that, in the first instance, the revenues should be divisible into that which relates to Northumberland (allocated wholly to NTCA), that which relates to Durham (allocated wholly to NECA) and that which relate to Tyne and Wear (requires further division into NECA and NTCA).
- The revenues which relate to Tyne and Wear must then be divided into that which relates wholly to Newcastle and/or North Tyneside (allocated to NTCA), that which relates wholly to Gateshead, South Tyneside and/or Sunderland (allocated to NECA) and that which relates to activities not wholly attributable under the preceding two points which requires apportionment.

The Order gives no clear instruction on the basis of division of revenues, but the Deed of Cooperation made on 4 July 2018 between the seven local authorities in the area provides that "those costs and liabilities which are attributable to the exercise of functions exclusively in the area of the Tyne and Wear Authorities…shall be shared between the Tyne and Wear Authorities on a per capita basis relating to their resident populations at that time."
By similar rationale and argument, the division of assets, liabilities and expenditure incurred will also be divided on this basis.

Group Financial Statements and Explanatory Notes

Group Accounts for 2018/19 will be added to this document once available. The draft accounts for Nexus are available separately via the NECA and Nexus websites.

The Balance Sheet of Nexus will be apportioned between the Group Accounts of NECA and NTCA as

	Nexus Total 31/03/2019 £000	NECA 31/03/2019 £000	NTCA 31/03/2019 £000
Property, Plant and Equipment	464,048	258,581	205,467
Intangible Assets	2,365	1,319	1,047
Assets under Construction	24,807	13,823	10,984
Investments	1	1	-
Long Term Assets	**491,221**	**273,724**	**217,498**
Short Term Debtors	16,394	9,135	7,259
Inventories	2,956	1,647	1,309
Cash and Cash Equivalents	70,845	39,477	31,368
Current Assets	**90,195**	**50,259**	**39,936**
Short Term Borrowing	(1,575)	(878)	(697)
Short Term Creditors	(19,980)	(11,133)	(8,847)
Current Liabilities	**(21,555)**	**(12,011)**	**(9,544)**
Provisions	(4,466)	(2,489)	(1,977)
Long Term Borrowing	(36,726)	(20,465)	(16,261)
Deferred Taxation	(5,863)	(3,267)	(2,596)
Net Pension Liabilities	(36,770)	(20,489)	(16,281)
Long Term Liabilities	**(83,825)**	**(46,710)**	**(37,115)**
Net Assets	**476,036**	**265,262**	**210,775**
Usable Reserves	(46,296)	(25,798)	(20,498)
Unusable Reserves	(429,740)	(239,464)	(190,276)
Total Reserves	**(476,036)**	**(265,262)**	**(210,774)**

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.