North East Combined Authority

DURHAM • GATESHEAD • SOUTH TYNESIDE • SUNDERLAND

Audit and Standards Committee

Tuesday 5 April 2022 at 10.00am

Meeting to be held at: Mayor's Parlour, Sunderland City Hall, SR1 3DP

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AGENDA

	Page No
1. Apologies for Absence	
2. Declarations of Interest Please remember to declare any personal interest where appropriate both verbally and by recording it on the relevant form (to be submitted to the Democratic Services Officer). Please also remember to leave the meeting where any personal interest requires this.	
3. Minutes of the meeting held on 7 September 2021 For approval as a correct record	**1-4**
4. Minutes of the meeting held on 5 January 2022 For approval as a correct record	**5-9**
5. Follow Up Letter – *Report to Follow*	**11**
6. NECA Internal Audit Plan 2022/23	**13-22**
7. Accounting Policies	**23-46**
8. Agreement of Accounting Policies for 2021/22 Statement of Accounts	**47-52**
9. Date and Time of Next Meeting: To be confirmed.	

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Item 3

Audit and Standards Committee

DRAFT MINUTES TO BE APPROVED

7 September 2021

(10.00am – 10.55am)

Meeting held in the Whickham Room, Gateshead Civic Centre, NE8 1HH

Present:

Independent Members:	G Clark (Chair)
Councillors:	P Stewart (Sunderland), A Huntley (South Tyneside), R Beadle (Gateshead)
Officers:	Ged Morton (representing the Monitoring Officer - Core NECA), Paul Darby (Chief Finance Officer – NECA), Tracy Davis (Senior Manager – Assurance - Sunderland City Council), Eleanor Goodman (Finance Manager - NECA), Adam Robson (Risk and Assurance Specialist – Sunderland City Council), Gavin Armstrong (Policy and Scrutiny Officer, NECA) Karen Connolly (Strategy and Democratic Services Officer – South Tyneside Council) and Toby Ord (Strategy and Democratic Services Assistant - NECA)

1 APOLOGIES FOR ABSENCE (MEMBERS)

Apologies for absence were received from M Scrimshaw.

2 DECLARATIONS OF INTEREST

G Clark (Chair) declared an interest as a Non-Executive Director of Nexus and Chair of the Nexus Audit Committee.

3 **MINUTES OF THE PREVIOUS MEETING HELD ON 22 June 2021**

The minutes of the previous meeting held on 22 June 2021 were approved as a correct record.

The Chair enquired as to whether officers from Nexus were declining to attend the committee or if they had not been invited. It was suggested that Nexus officers may still be constructing a plan which may not be at a presentable stage yet.

4 **Draft Statement of Accounts 2021/2022**

Submitted: Report of the Chief Finance Officer (previously circulated and copy attached to the official minutes).

The Chair opened by giving thanks to all staff involved with the production of the draft statement and commended them on their efforts.

Paul Darby, Chief Finance Officer, explained that the statement was published 30 June 2021 and was subsequently subject to public inspection.

Attention was drawn to four key statements which make up the foundations of the statement of accounts, these were:

a) Movement in Reserves Statement
b) Comprehensive Income and Expenditure
c) Balance Sheet
d) Cash Flow Statement

It was noted that group accounts are included in the draft which consolidated the financial results of Nexus.

It was noted that the decrease of total reserves from £125.139m to £99.316m between 31 March 2020 and 31 March 2021 reflected the LEP being assimilated into NoTCA.

It was made clear that the statement of accounts is now subject to external audit, however the sign-off would not be completed within the statutory deadline of late September and would instead be completed toward November ready for the final statements presentation at the next meeting of this Committee in December. A Member queried the impact of the delay, to which the response was that it may negatively impact the Combined Authority's reputation.

The experienced delay is the result of a lack of resources, most notably staff. It was explained that the external auditors are bringing in new apprentices and staff from foreign firms in order to make up for lost time. Confidence in the sign-off being completed by the new deadline was expressed, especially with the omission of the LEP.

A Member questioned whether penalisation clauses existed in auditor contracts in order to incentivise completion within the statutory deadline. It was stated that they did not currently exist and furthermore that non-performance clauses may be counterintuitive, making roles less attractive and subsequently making recruitment increasingly difficult.

RESOLVED that: -

i. the report be noted

5 **NECA Internal Audit Progress Report 2021/2022**

Submitted: Report of the Senior Manager – Assurance, Sunderland City Council (previously circulated and copy attached to the official minutes).

Tracy Davis introduced the progress report, explaining that the report was split into two parts;

a) a summary of audits completed in past years and the current year so far;
b) a compilation of the internal audit's current performance against performance indicators

It was declared that all grants had their relevant order certificates in on time and the internal audit is currently hitting all targets. The Committee thanked the team for managing to successfully produce all grant statements.

RESOLVED that: -

i. the report be noted.

6 **NECA Strategic Risk Register 2021/2022**

Submitted: Report of the Senior Manager – Assurance, Sunderland City Council (previously circulated and copy attached to the official minutes).

Tracy Davis introduced the risk register to the committee. Members were notified that risks for transport are usually attached to the risk register when transport risks affect the achievement of NECA's objectives, however the JTC has its own strategic risk register in which its own organisational risks are assessed separately.

Members were informed of updates to the risk register and the uncertainty and challenges caused by the ongoing COVID-19 pandemic and Brexit which have both impacted risk scores. In addition, NECA has recently been working collaboratively with the wider LA7 area in tackling the ongoing pandemic which is reflected within the risk register. It was also mentioned that £500m in support grants are to be supplied by the government in order to aid businesses in the fallout of the pandemic.

A Member suggested that little progress had been made in the way of resolving issues detailed within the register with little indication of when they'd be completed. The Senior Manager, Assurance, noted that these were long term issues and providing a deadline at this time would not be viable. The Chief Finance Officer added that the resolution to the issues in question will become clearer after the expenditure review is complete and that the aforementioned lack of resources also hinders completion. Members acknowledged the complexity of the issue.

Members expressed their concerns over the high level of detail within the register and questioned whether such a substantial volume of detail drowned out vital information. It was explained that such levels of detail are only presented to the committee. A Member suggested the inclusion of a headline document being developed alongside the existing document in the name of streamlining information for those who prefer succinctness.

Members discussed the usefulness of risk management. It was suggested that responses to many risks included in the register are out of the committee's control.

The Chair suggested that a final decision be considered by the Chair, however suggested that a summary document be produced ready for presentation to the committee at the next meeting. Officers agreed to reconvene between meetings to find a resolution.

Resolved that: -

i. the report be noted.
ii. a summary document is to be produced for presentation and consideration at the next meeting.

7 **Date and Time of Next Meeting:** Tuesday 25 January at 10.00am

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Item 4

Audit and Standards Committee

DRAFT MINUTES TO BE APPROVED

25 January 2022

(10.00am – 10.45am)

Meeting held at Committee Room A, South Shields Town Hall, NE33 2RL

Present:

Independent Members:	G Clark (Chair)
Councillors:	S Duncan (South Tyneside), J Doyle (Sunderland)
Officers:	John Rumney (representing the Monitoring Officer, NECA), Eleanor Goodman (Finance Manager, NECA), Adam Robson (Risk and Assurance Specialist, Sunderland City Council), Kelly Brown (Audit Manager, Sunderland City Council), Paul Davies (Assistant Director of Business and Property Services, Sunderland City Council), Gavin Barker (Audit Director, Mazars), Gavin Armstrong (Policy and Scrutiny Officer, NECA), Toby Ord (Strategy and Democratic Services Assistant, NECA)

1 **APOLOGIES FOR ABSENCE (MEMBERS)**

Apologies for absence were received from Mark Scrimshaw, Cllr Beadle, Cllr Huntley, Cllr Mullen, Cllr Smith, Cllr Stewart, Cllr Wallace, Paul Darby, and Tracy Davis.

2 **DECLARATIONS OF INTEREST**

G Clark (Chair) declared an interest as a Non-Executive Director of Nexus and Chair of the Nexus Audit Committee.

3 **MINUTES OF THE PREVIOUS MEETING HELD ON 7 SEPTEMBER 2021**

As the meeting did not meet quorum, the minutes of the previous meeting held on 7 September 2021 could not be approved as a true record.

4 **DRAFT STATEMENT OF ACCOUNTS 2021/2022**

Submitted: Report of the Chief Finance Officer (previously circulated and copy attached to the official minutes).

The Finance Manager at NECA introduced the report, providing an overview of the Statement of Accounts for the current financial year.

It was noted that there have been no amendments to the draft or governance statement. It was conceded that there have been some delays, yet despite external issues this audit has been one of the smoothest NECA has seen. The External Auditors were credited for their thorough and pragmatic approach.

Members were informed that there was nothing further to raise regarding the report, and the draft will go forward to Leadership Board on 1 February 2022.

RESOLVED that: -

i. the report be noted.

5 **DECISION TO OPT-IN TO THE NATIONAL SCHEME FOR AUDITOR APPOINTMENTS MANAGED BY PUBLIC SECTOR AUDIT APPOINTMENTS (PSAA)**

Submitted: Report of the Chief Finance Officer (previously circulated and copy attached to the official minutes).

The Finance Manager at NECA delivered the report which provided an explanation of the recommendation to opt-in to the National Scheme for Auditor Appointments.

Members were made aware that the decision to opt-in would provide NECA with arrangements for Auditor procurement which would take effect from April 2023. This is a decision that Nexus has already submitted to, while all four NECA Authorities are heavily minded to follow.

It was noted that this decision would be the most cost effective; the alternative is that NECA arranges its own Audit Panel, the fees of which would surpass that offered by the PSAA, which is already considered to be a competitive price. This decision also presents the best opportunity to secure a registered Auditor. Members were made aware of the Chief Finance Officer’s recommendation to opt-in. It was also made apparent that it can be

requested that we are appointed the same Auditors as nearby Authorities as we work so closely with neighbouring boroughs.

The Chair questioned if the possibility of NECA recombining with NoTCA would cause an issue with the contractual process of opting-in. The Audit Director of Mazars made it clear that such a situation shouldn't cause much of an issue with appointment, with contractual changes also being relatively straightforward.

The report is due to be put to Leadership Board on 1 March 2022.

RESOLVED that: -

i. the report be noted.

6 **AUDIT COMPLETION REPORT**

Submitted: Report of the External Auditor (previously circulated and copy attached to the official minutes).

The Audit Manager of Mazars delivered the report, providing a comprehensive update on the status of the external audit.

Members were made aware that Mazars aren't currently able to sign off due to ongoing processes, however it was assured that the audit is substantially complete and will be signed off after the Leadership Board meeting on 1 February, and financial statements are close to completion. It was noted that the National Audit Office has declared there to be ongoing difficulties in the local audit sector, subsequently providing Auditors with support with deadlines.

Building on comments over sign off, the Audit Manager stated that a certificate of formal completion cannot be issued until all work regarding the audit is complete, including the 'value for money'. It was asserted that the Authority awaits guidance from the Treasury or the Audit Governance Council on what it needs to be able to complete the sign off. The Chair questioned what timescales we would be looking at regarding this, however the Finance Manager made clear that the last communications received from the Treasury was last year. It was subsequently suggested that contact should be made for further guidance.

The Audit Manager apologised for the delay in the Audit Completion, stating that when the Committee was notified that there would be a delay it was not expected to be to such an extent; Mazars has experienced a great lack of resources and many unexpected obstacles while undertaking the Audit. Gratitude was extended to all Officers and Members of the Committee for their patience and cooperation on the matter.

It was made clear that Mazars audit approach has remained unchanged since the Audit Strategy Memorandum. Moving onto significant risks, Members were informed that there is no evidence to suggest any risk regarding management override of controls. It was also noted that there are no issues to report involving revenue recognition regarding Tyne Tunnel tolls and grant income. In contrast, the defined benefit liability valuation was said to pose some risk, however this is not an outlier for NECA; as this is subject to estimation techniques, the matter was said to pose a risk regardless of the Authority or their arrangements.

It was made clear that management had been adjusted within the financial statements, these numbers were higher for Nexus due to a higher number of employees, including the appointment of five Non-Executive Directors during the financial year. It was noted that more issues have been raised in relation to the number of adjustments this year in contrast to previous. It was emphasised that this, atop of resource constraints, has not led to a lower standard of work, causing the delay in Audit Completion.

Despite the delay in the Audit Completion Certificate, financial statements can be published to the website however the value for money and governance accounts cannot be declared as completed. It was further noted that there is a delay in signing off bank reconciliations. One previous recommendation was said to have been addressed, with nothing further for the Authority to be concerned with regarding this nor the disclosure amendments.

As for significant weaknesses, it was said that these exist in the narrative communications and the audit report, however the Auditors are confident sufficient work has been completed regarding the value for money. It was emphasised that the Draft Audit Report, Appendix B, was a comprehensible version with little to draw attention to. Members commended Mazars for their comprehensive and informative report.

RESOLVED that: -

i. the report be noted.

7 **NECA INTERNAL AUDIT PROGRESS REPORT 2021/2022**

Submitted: Report of the Senior Manager – Assurance, Sunderland City Council (previously circulated and copy attached to the official minutes).

The Assistant Director of Business and Property Services at Sunderland City Council gave a brief of the Internal Audit Progress Report.

Members were made aware that the Local Transport Grant has been completed while business continuity arrangements remain ongoing, though should be completed by the years end. Further grant claims regarding

COVID-19 continue to be responded to. It was noted that all Internal Audit objectives and targets outlined in Appendix 2 are on track for completion.

RESOLVED that: -

i. the report be noted.

8 **NECA STRATEGIC RISK REGISTER 2021/2022**

Submitted: Report of the Senior Manager – Assurance, Sunderland City Council (previously circulated and copy attached to the official minutes).

The Risk and Assurance Specialist at Sunderland City Council delivered the report, outlining updates to the Strategic Risk Register.

Attention was drawn to updates to the Register such as the addition of target scores and the colour coding of likelihood factors outside of NECA's control. It was made clear that the number of risks remains unchanged, however operational risk 2 – funding, has been moved to high risk due to transport funding cost pressures coming from the Joint Transport Committee – the non-mayoral structure of NECA is starting to detriment the Authority in terms of funding.

RESOLVED that: -

i. the report be noted.

9 **DATE AND TIME OF NEXT MEETING:** Tuesday 5 April at 10.00am

North East Combined Authority

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Item 5

Audit and Standards

Date:	**5 April 2022**
Subject:	**Follow Up Letter**
Report of:	**External Auditor**

Report to follow

Report to follow

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Item 6

Date: **5 April 2022**

Subject: **NECA Internal Audit Plan 2022/23**

Report Of: **Senior Manager – Assurance, Sunderland City Council**

Executive Summary

This report provides members with the proposed Internal Audit Plan and performance measures for 2022/23.

It is intended as part of the Audit Plan for 2022/23 to carry out one audit, as follows:

- Coordination of the Audit Certificate for the Local Transport Grant Claim.

Recommendations

The Audit and Standards Committee is invited to consider and, if appropriate, make comment on the proposed Internal Audit Plan for 2022/23 which includes the key performance measures for the provision of the service.

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1 Background Information

1.1 The Terms of Reference of the Audit and Standards Committee included within the Constitution of the North East Combined Authority (NECA) state that the Audit and Standards Committee should receive on an annual basis, '*Internal Audit's Strategic Audit Plan, including Internal Audit's terms of reference, strategy and resources. The Audit and Standards Committee will approve, but not direct, the NECA Strategic Audit Plan*'. The submission of this report seeks to allow the Audit and Standards Committee to fulfil this requirement.

1.2 The internal audit service is provided to NECA by the Internal Auditors of Sunderland City Council. Under a Service Level Agreement.

2. Proposals

2.1 The Internal Audit Strategy was agreed by the NECA Audit and Standards Committee in 2019/20 and as no changes are proposed to it this report sets out only the proposed Internal Audit Plan and performance measures for 2022/23.

2.2 The draft Internal Audit Plan for 2022/23 is set out in Appendix 1. The Audit Plan covers Internal Audit's key performance measures and outlines the proposed internal audit work for NECA.

3. Reason for the Proposals

3.1 The Audit and Standards Committee continues to fulfil an ongoing review and assurance role in relation to the governance, risk management and internal control issues of NECA.

4. Next Steps and Timetable for Implementation

4.1 Delivery of the audit plan will be monitored to ensure it is delivered together with any actions arising from audit work. Update reports will be provided to the Audit and Standards Committee.

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5. Potential Impact on Objectives

5.1 The development of the audit plan 2022/23 will not impact directly on NECA's objectives, however the delivery of the audit plan will support NECA by providing assurance that the internal control arrangements in place to manage risks are effective or where assurance cannot be given highlighting opportunities for improvement.

6. Finance and Other Resources Implications

6.1 There are no financial implications arising from this report. The Internal Audit Service is provided to NECA and the Audit and Standards Committee under a formal Service Level Agreement (SLA). The audit days factored into that SLA are deemed sufficient to meet the audit plan requirements.

7. Legal Implications

7.1 There are no legal implications arising specifically from this report.

8. Key Risks

8.1 There are no risk management implications from this report.

9. Equalities and Diversity

9.1 There are no equalities and diversity implications arising from this report.

10. Crime and Disorder

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

11. Consultation /Engagement

11.1 The Head of Paid Service, Monitoring Officer, and Chief Finance Officer have been consulted on the draft Internal Audit Plan 2022/23.

12. Other Impact of the Proposals

12.1 The proposals comply with the principles of decision making. Relevant consultation processes have been held where applicable.

13. Appendices

Appendix 1 – Internal Audit Plan 2022/23 provides a description of the audit work to be carried out during the year.

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14. Background Documents

14.1 NECA Standing Orders.

15. Contact Officers

Tracy Davis – Senior Manager – Assurance, Sunderland City Council.
Tracy.Davis@sunderland.gov.uk

16. Sign off

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

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Appendix 1

Internal Audit Plan 2022/23

1. Introduction

This document presents the Internal Audit Plan for 2022/23 including the key performance measures for Internal Audit.

2. Division of Responsibilities

2.1 It is management's responsibility to manage the systems of NECA to ensure that risks are managed, an appropriate system of internal control is maintained, and its assets adequately protected. This includes ensuring that controls are in place to guard against error, potential fraud and corruption, and that there is efficiency and effectiveness in how the systems are operated.

2.2 Internal Audit independently reviews how effectively management discharges this aspect of its responsibilities by evaluating the effectiveness of systems and controls and providing objective analyses and suggesting areas for improvement. Management retains full ownership and responsibility for the implementation of any agreed actions within the agreed timescales.

3. Development of the Plan

3.1. The plan was developed based on consultation with the NECA's statutory officers and consideration of the key activities and risks relevant to NECA.

3.2. As specific areas of concern or irregularity may require investigation as and when they arise, a small contingency is made for this work. Should a significant piece of work be required there may be a need to replace a planned audit, in consultation with the NECA.

3.3 Where individual audits cannot be undertaken as originally planned (e.g. service no longer provided), attempts will be made to replace the audit with a suitable replacement in consultation with the NECA's Chief Finance Officer. Where these changes are agreed this shall be considered a variation to this Plan for the purposes of performance reporting.

3.1 Time has also been allocated for the provision of advice and guidance on internal control matters.

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4 Planned Audit Work for 2022/23

4.1 The audits undertaken so far are shown in Annex 2 against each of the organisational risk areas. The following audit is planned for 2022/23.

Coordination of the Audit Certificate for the Local Transport Grant Claim

4.2 Each local authority which is part of NECA must undertake audit work to confirm that the Local Transport Grant has been spent in accordance with the grant conditions for the year. Internal Audit receive the audit certificates from each local authority and submit a consolidated certificate on behalf of NECA.

5 Reporting Protocols

5.1 At the conclusion of each individual audit a draft report and, if necessary, a proposed action plan will be forwarded to the appropriate manager. Once agreement has been reached, a final report (including any agreed action plan) will be forwarded to the relevant senior officer and the Head of Paid Service. Where audits highlight issues which need to be brought to the attention of the Chief Finance Officer they will be raised as and when necessary.

5.2 Senior Management and the Audit and Standards Committee will be updated on progress against the audit plan mid-way through the year.

5.3 An Annual Report will be prepared for the Audit and Standards Committee, in order to give assurance, or otherwise, regarding the NECA's internal control environment

6 Performance Management

6.1 All work undertaken will be in accordance with the internal audit service's policies and procedures, which are based upon the Public Sector Internal Audit Standards.

6.2 The Key Performance Indicators which will be used to measure the performance of the service throughout the year are shown in Annexe 1.

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Annex 1

Internal Audit - Overall Objectives, Key Performance Indicators (KPI's) and Targets for 2022/23		
Efficiency and Effectiveness		
Objectives 1) To ensure the service provided is effective and efficient.	**KPIs** 1) Complete sufficient audit work to provide an opinion on the corporate risk areas 2) Percentage of draft reports issued within 15 days of the end of fieldwork 3) Percentage of audits completed by the target date	**Targets** 1) All organisational risk areas covered over a 3 year period 2) 90% 3) 85%
Quality		
Objectives 1) To maintain an effective system of Quality Assurance **2)** To ensure recommendations made by the service are agreed and implemented	**KPIs** 1) Opinion of External Auditor 2) Percentage of agreed high, significant and medium risk internal audit recommendations which are implemented	**Targets** 1) Satisfactory opinion 2) 100% for high and significant. 90% for medium risk
Client Satisfaction		
Objectives 1) To ensure that clients are satisfied with the service and consider it to be good quality	**KPIs** 1) Results of Post Audit Questionnaire 2) Results of Audit Questionnaire 3) Number of complaints and compliments	Targets 1) Overall average score of better than 1.5 (where 1=Good and 4=Poor) 2) Results classed as 'good' 3) No target – actual numbers will be reported

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Annex 2

Summary of Internal Audit Work

Organisational Risk Areas	Audits 2019/20	Opinion	Audits 2020/21	Opinion	Audits 2021/22	Opinion	Audits 2022/23	Opinion	Overall Opinion
Future Availability of Funding									
Funding Opportunities									
Use of Funding and Resources	Local Transport Grant Claim	S	Local Transport Grant Claim	S	Local Transport Grant Claim	S	Local Transport Grant Claim		
					Home to School Transport 2nd half spring term	S			
					Demand Travel Management	S			
					Demand Travel Management Top up	S			
					Home to School Transport summer term	S			
Governance Arrangements	Governance Arrangements	S	Information Governance/GDPR	M					
Operational Capacity and Resourcing	Financial Arrangements Assurance	M	Finance Service Relocation	S	Business Continuity Arrangements	M			
Delivery of Projects/Programmes							Note: Audit work is undertaken within the JTC in this regard		

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Organisational Risk Areas	Audits 2019/20	Opinion	Audits 2020/21	Opinion	Audits 2021/22	Opinion	Audits 2022/23	Opinion	Overall Opinion
Infrastructure Assets							Note: Audit work is undertaken within the JTC in this regard		

Assurance Level (Opinion) Key:
F – Full S – Substantial M – Moderate L – Limited N – None

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Item 7

Audit and Standards Committee

Date: **5 April 2022**

Subject: **Accounting Policies**

Report of: **Chief Finance Officer**

Executive Summary

The purpose of this report is to update the Audit and Standards Committee on the accounting policies to be applied by NECA in the preparation of the 2021/22 Statement of Accounts and to seek confirmation from the Audit and Standards Committee that appropriate policies are being applied.

The accounting policies applied in the preparation of the 2020/21 Statement of Accounts remain appropriate for the preparation of the 2021/22 Statement of Accounts. The CIPFA Code changes for 2021/22 are considered minor and there are no accounting policies which require amendment as a result of changes in the Code.

As highlighted in the Accounting Code changes report, included in today's agenda, CIPFA/LASAAC issued an exceptional consultation on 3 February 2022 on time limited changes to the 2021/22 and 2022/23 Code, including an adaptation to allow local authorities to pause professional valuations for operational property, plant and equipment for a period of up to two years.

Until the outcome of the consultation is known, we will continue to prepare for the accounts on the basis of the 2021/22 Code as it currently stands. We will review policies at that stage and propose amendments, if relevant.

The full list of accounting policies NECA proposes to disclose in its Statement of Accounts notes are detailed in Appendix 1.

Recommendations

The Committee is recommended to:

i) Review the accounting policies outlined in Appendix 1;

ii) Approve their use in the preparation of the 2021/22 financial statements;

iii) Authorise the Chief Finance Officer to review the accounting policies as necessary and report any changes to the Audit and Standards Committee.

1. Background Information

1.1 In preparing the annual Statement of Accounts we closely follow CIPFA's Code of Practice for Local Authority Accounting in the UK (the Code), which is based upon approved accounting standards.

1.2 The Code is based on International Financial Reporting Standards (IFRS) and has been developed by the joint CIPFA/Local Authority (Scotland) Accounts Advisory Committee (LASAAC) Code Board overseen by the Financial Reporting Advisory Board. It is based on approved accounting standards issued by the International Accounting Standards Board and interpretations of the International Financial Reporting Interpretations Committee, except where these are inconsistent with specific statutory requirements.

1.3 The Code also draws on approved accounting standards issued by the International Public Sector Accounting Standards Board and the UK Financial Reporting Council where these provide additional guidance. The latest edition of the Code applies for accounting periods commencing on or after 1 April 2021. It supersedes the 2020/21 Code.

1.4 In England and Wales, the Code constitutes a 'proper accounting practice' under the terms of section 21 (2) of the Local Government Act 2003.

1.5 The CIPFA/LASAAC Code Board, overseen by the Financial Reporting Council, is in a position to issue mid-year updates to the Code. This will only be done in exceptional circumstances.

1.6 As highlighted in the Accounting Code changes report, included in today's agenda, CIPFA/LASAAC issued an exceptional consultation on 3 February 2022 on time limited changes to the 2021/22 and 2022/23 Code, including an adaptation to allow local authorities to pause professional valuations for operational property, plant and equipment for a period of up to two years.

1.7 It is a requirement of the Local Government Act 2003 and the Accounts and Audit (England) Regulations 2015 for the Statement of Accounts to be produced in accordance with proper accounting practices.

2 Proposals

2.1 Accounting policies are defined in the Code as "the specific principles, bases, conventions, rules and practices applied by an authority in preparing and presenting financial statements".

2.2 Accounting policies need not be applied if the effect of applying them would be immaterial. Materiality is defined in the Code as it applied to omissions and misstatements:

Omissions or misstatements of items are material if they could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements. Materiality depends on the nature or size of the

omission or misstatement judged in the surrounding circumstances. The nature or size of the item, or a combination of both, could be the determining factor.

2.3 The proposed accounting policies are in line with those used in the preparation of the 2020/21 accounts. The CIPFA Code changes for 2021/22 are minor and there are no accounting policies which require amendment. At this stage, it appears unlikely that CIPFA's emergency proposals will have a significant impact on the preparation of the 2021/22 accounts and, until the outcome of the consultation is known, we will continue to prepare for the accounts on the basis of the 2021/22 Code as it currently stands. We will review policies at that stage and propose amendments, if relevant.

2.4 The full list of accounting policies NECA proposes to disclose in its Statement of Accounts notes are detailed in Appendix 1.

3. Reasons for the Proposals

3.1 This report is presented to the Committee in line with point 11 of its terms of reference: "The Audit and Standards Committee will review the accounting policies used to compile NECA's Statement of Accounts".

4. Alternative Options Available

4.1 There are no alternative options arising from this report.

5. Next Steps and Timetable for Implementation

5.1 The accounting policies set out in this report will be used in the preparation of the 2021/22 Statement of Accounts. The draft accounts will be presented to the Committee at a meeting in June 2022.

6. Potential Impact on Objectives

6.1 There are no impacts on objectives arising from this report.

7. Financial and Other Resources Implications

7.1 The report considers the Accounting Policies for NECA's Statement of Accounts for 2021/22.

8. Legal Implications

8.1 It is a requirement of the Local Government Act 2003 and the Accounts and Audit (England) Regulations 2015 for the Statement of Accounts to be produced in accordance with proper accounting practices.

9. Key Risks

9.1 There are no risk implications arising from this report.

10. Equality and Diversity

10.1 There are no equality and diversity implications arising from this report.

11. Crime and Disorder

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

12. Consultation/Engagement

12.1 Consultation has taken place with NECA statutory officers.

13. Other Impact of the Proposals

13.1 There are no other impacts arising from these proposals.

14. Appendices

14.1 Appendix 1 – Accounting Policies 2021/22

15. Background Papers

15.1 None

16. Contact Officers

16.1 Eleanor Goodman, Finance Manager, Eleanor.goodman@northeastca.gov.uk, 0191 433 3860

17. Sign off

17.1

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

Appendix 1: Accounting Policies 2021/22

Accounting Policy		New policy	Amended policy	No change	In line with Code
1	General Principles			✓	✓
2	Accruals of Income and Expenditure			✓	✓
3	Cash and Cash Equivalents			✓	✓
4	Exceptional Items			✓	✓
5	Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors			✓	✓
6	Charges to Revenue for Non-Current Assets			✓	✓
7	Employee Benefits			✓	✓
8	Post-Employment Benefits				
9	Events After the Balance Sheet Date			✓	✓
10	Fair Value Measurement			✓	✓
11	Financial Instruments			✓	✓
12	Government Grants and Contributions			✓	✓
13	Property, Plant and Equipment			✓	✓
14	Public Private Partnership (PPP) Contracts			✓	✓
15	Provisions			✓	✓
16	Contingent Liabilities			✓	✓
17	Reserves			✓	✓
18	Revenue Expenditure Funded from Capital Under Statute (REFCUS)			✓	✓

Accounting Policy		New policy	Amended policy	No change	In line with Code
19	VAT			✓	✓
20	Overheads			✓	✓
21	Tyne Tunnels Income			✓	✓
22	Group Accounts			✓	✓

Accounting Policies

1. General Principles

The Statement of Accounts summarises the Authority's transactions for the 2021/22 financial year and its position at the year-end of 31 March 2022. 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 2021/22, 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 reliability 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 eon 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 trnascations, 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 services 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 a contribution in the General Fund Balance (Minimum Revenue Provision), by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

7. Employee Benefits

Benefits Payable During Employment

Short-term employee benefits are those due to be settled within 12 months of the year end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render service to the Authority. Due to the small number of employees the Authority has, the cost of holiday entitlements (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year end which employees can carry forward into the next financial year is immaterial and therefore an accrual will not be made. This approach will be reviewed each year to ensure it is still an appropriate treatment.

Termination Benefits

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

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

No such amounts are payable in 2021/22.

8. Post-Employment Benefits

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

The relevant fund is the Tyne and Wear Pension Fund, administered by South Tyneside

Metropolitan Borough Council, from whom a copy of the annual report may be obtained. The Fund website may be visited at www.twpf.info.

The Local Government 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:

- 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 NECA Corporate line.
- 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 the NECA Corporate line.
- Net interest on the net defined liability (asset), i.e. net interest expense for the Authority – the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of 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 (asset) at the beginning of the period, taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.
- Gains or losses on settlements and curtailments – the result of actions to relieve the Authority of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Corporate Costs.
- Remeasurements comprising:

- The return on plan assets, excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pensions Reserve as Other Comprehensive Income and 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.
- 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 charged 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 as FVPL if this removes any deemed inconsistency in measurement by treating assets based upon the above classification.

Amortised Cost

Financial assets measured at amortised cost are recognised on the Balance Sheet when the authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the CIES for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the financial assets held by the authority, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the CIES is the amount receivable for the year in the loan agreement.

However, the authority can make loans to organisations at less than market rates (soft loans). When soft loans are made, a loss is recorded in the CIES (debited to the appropriate service) for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost that the outstanding principal.

Interest is credited to the Financing and Investment Income and Expenditure line in the CIES at a marginally higher effective rate of interest than the rate receivable from the organisations, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year – the reconciliation of amounts debited and credited to the CIES to net gain required against the General Fund Balance is managed by a transfer to or form the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Expected Credit Loss Model

The Authority recognises expected credit losses on all of its financial assets held at amortised cost, either on a 12-month or lifetime basis. Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses.

Fair Value Through Other Comprehensive Income (FVOCI)

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 (FVPL)

Financial assets that are measured at FVPL are recognised on the Balance Sheet when the authority becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Fair value gains and losses are recognised as

they arrive in the Surplus or Deficit on the Provision of Services. The fair value measurements of the financial assets are based on the following techniques:

- Instruments with quoted market prices – the market price
- Other instruments with fixed and determinable payments – discounted cash flow analysis.

The inputs to the measurement techniques are categorised in accordance with the following three levels:

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

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

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 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 Funded from Capital Under Statute) or Taxation and Non-Specific Grant Income (non-ringfenced revenue grants and 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:

- 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).

The following useful economic lives are used for NECA's PPE assets: Tyne Tunnels 120 years, Tunnels Vehicles, Plant and Equipment 30 years.

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 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. All valuations will be undertaken by or under the supervision of a fully qualified Chartered Surveyor (MRICS – Member of the Royal Institution of Chartered Surveyors). 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 de minimis level for capital expenditure means that in the above categories assets below the de minimis level are charged to the revenue account and are not classified as capital expenditure, i.e. the asset is not included in the balance sheet unless they are part of an overall project costing more than the established de minimis level. For all capital expenditure the de minimis level is £10,000.

Impairment

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

Where impairment losses are identified, they are accounted for as follows:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains).
- 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 of 31 March 2020, 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 non-current asset. The New Tyne Crossing is considered to meet both of the IFRIC 12 criteria and NECA therefore recognises the costs of the new tunnel on its Balance Sheet.

In most arrangements within the scope of the Application, the grantor will account for the arrangement's financing by recording and measuring a long-term liability in accordance with IAS 17. This treatment reflects an obligation to pay the operator for the full value of the asset along with the operator's cost of finance. However, in the New Tyne Crossing project, TT2 Ltd. (the Operator) receives a defined proportion of the total toll revenue and uses this to meet its cost of constructing and operating both vehicle tunnels. NECA may therefore have no long-term obligation to transfer economic resources to TT2, and hence should not recognise a liability.

The provisions within the Payment Mechanism for payment of toll revenue to the operator are as follows:

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

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

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

In relation to such an arrangement, the Code and the accompanying notes do not provide clear guidance. However, the guidance notes accompanying the code suggest that the credit that matches the asset should be a deferred income balance. NECA has therefore recognised a deferred credit balance, added to as each of Phase 1 and Phase 2 of the project were completed, and equal to the fair value of the asset addition under each Phase. This balance is then released to the Comprehensive Income and Expenditure Statement over the life of the contract.

15. Provisions

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

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

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probably 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. There are no contingent liabilities disclosed in 2021/22.

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 (REFCUS)

Expenditure incurred during the year tha 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. Value Added Tax (VAT)

VAT is payable and 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 and Support Services

The costs of central support service e.g. Finance and Legal Services have been allocated ot 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. Corporate, Transport Strategy, Tyne Tunnels) 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 2021/22 to produce Group Accounts to include services provided to council tax payers 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 2021/22 accounts, NECA has fully complied with the requirements of the Code providing Group figures for 2021/22 and comparators for 2020/21. 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; and
- Assets and liabilities transferred at book value.

The Order establishing the North of Tyne Combined Authority (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 (wholly allocated to NTCA), that which relates to Durham (wholly allocated 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 divisions of assets, liabilities and expenditure incurred will also be divided on this basis.

North East Combined Authority

DURHAM • GATESHEAD • SOUTH TYNESIDE • SUNDERLAND

Item 8

Audit and Standards Committee

Date: **5 April 2022**

Subject: **Changes to the Code of Practice for Local Authority Accounting in the UK for 2021/22**

Report of: **Chief Finance Officer**

Executive Summary

This report provides the Audit Committee with a summary of the key accounting changes in the latest edition of the Code of Practice for Local Authority Accounting in the UK (the Code). These changes apply to the 2021/22 Statement of Accounts.

In preparing the annual Statement of Accounts we closely follow CIPFA's Code of Practice for Local Authority Accounting in the UK, which is based upon approved accounting standards. 3 The 2021/22 Statement of Accounts will be prepared in accordance with the CIPFA Code 2021/22.

On 3 February 2022, CIPFA/LASAAC issued an exceptional consultation on time limited changes to the 2021/22 and 2022/23 Codes to help alleviate delays to the publication of audited financial statements. This includes an adaptation to allow local authorities to pause professional valuations for operational property, plant and equipment for a period of up to two years.

At this stage, it appears unlikely that the proposals will have a significant impact on the preparation of the 2021/22 accounts. The consultation closed on 3 March 2022. Until the outcome is known, we will continue to prepare for the accounts on the basis of the 2021/22 Code as it currently stands.

The key accounting changes to the Code from 2020/21 to 2021/22 are outlined in Appendix 2, detailing their relevance and applicability to the Authority.

Recommendations

The Committee is recommended to note the changes detailed in the report and in Appendix 1, which will be taken into account in the preparation of the 2021/22 statements.

1. Background Information

1.1 In preparing the annual Statement of Accounts we closely follow CIPFA's Code of Practice for Local Authority Accounting in the UK (the Code), which is based upon approved accounting standards.

1.2 The Code is based on International Financial Reporting Standards (IFRS) and has been developed by the joint CIPFA/Local Authority (Scotland) Accounts Advisory Committee (LASAAC) Code Board overseen by the Financial Reporting Advisory Board. It is based on approved accounting standards issued by the International Accounting Standards Board and interpretations of the International Financial Reporting Interpretations Committee, except where these are inconsistent with specific statutory requirements.

1.3 The Code also draws on approved accounting standards issued by the International Public Sector Accounting Standards Board and the UK Financial Reporting Council where these provide additional guidance. The latest edition of the Code applies for accounting periods commencing on or after 1 April 2021. It supersedes the 2020/21 Code.

1.4 In England and Wales, the Code constitutes a 'proper accounting practice' under the terms of section 21 (2) of the Local Government Act 2003.

1.5 In December 2021, proposed measures were announced by Government to support the timely completion of local government audits and the ongoing stability of the local audit market. The proposals include:

(i) extending the published/audited deadline to 30 November 2022 for the 2021/22 accounts, then reverting to 30 September for five years until 2027/28.

(ii) providing councils with £45m additional funding over the course of the next Spending Review period to support with the costs of strengthening their financial reporting and increased auditing requirements;

(iii) strengthening training and qualifications options for local auditors and audit committee members;

(iv) reviewing whether certain accounting and audit requirements could be reduced on a temporary basis, where these are of lesser risk to local authorities.

1.6 The CIPFA/LASAAC Code Board, overseen by the Financial Reporting Advisory Board, is in a position to issue mid-year updates to the Code in exceptional circumstances. On 3 February 2022, in response to the proposed measures announced by Government in December 2021, the Code Board issued an exceptional consultation on time limited changes to the 2021/22 and 2022/23 Codes to help alleviate delays to the publication of audited financial statements.

1.7 The consultation runs until 3 March 2022 and explores the following temporary changes:

(i) an adaptation to the Code to allow local authorities to pause professional valuations for operational property, plant and equipment for a period of up to two years (though the initial proposal is for the 2021/22 financial year); this approach also explores the use of an index to be used to increase or reduce that valuation; and

(ii) deferring the implementation of IFRS 16 (leases) for a further year and reversing the planned changes to the 2022/23 Code to implement that standard.

2 Proposals

2.1 NECA's assets primarily relate to infrastructure and are therefore held at depreciated historic cost. It therefore doesn't require a programme of valuation in the same way as most local authorities. Therefore the changes explored as part of the CIPFA/LASAAC consultation are unlikely to have a significant effect on the workload for either the 2021/22 or 2022/23 Statement of Accounts or their audits.

2.2 NECA does not hold any leases and therefore delaying the implementation of this standard would have no impact on workload.

2.3 Until the outcome of the consultation is known, we will continue to prepare for the accounts on the basis of the 2021/22 Code as it currently stands.

2.4 Appendix 1 provides a summary of the key accounting changes to the Code and their relevance to the Authority in preparing its Statement of Accounts for the year ended 31 March 2022.

3. Reasons for the Proposals

3.1 This report is presented to the Committee in line with point 11 of its terms of reference: "The Audit and Standards Committee will review the accounting policies used to compile NECA's Statement of Accounts". The Code of Practice is used as the basis for NECA's Accounting Policies.

4. Alternative Options Available

4.1 There are no alternative options arising from this report.

5. Next Steps and Timetable for Implementation

5.1 The Code of Practice for 2021/22 will be followed in the production of the draft Statement of Accounts for 2021/22 which will be presented to the Committee later in the summer.

6. Potential Impact on Objectives

6.1 There are no impacts on objectives arising from this report.

7. Financial and Other Resources Implications

7.1 There are no direct financial implications arising for NECA as a result of this report, although by implementing the changes in the Code in our financial reporting we are demonstrating efficient arrangements for the proper administration of the authority's financial affairs.

8. Legal Implications

8.1 It is a requirement of the Local Government Act 2003 and the Accounts and Audit (England) Regulations 2015 for the Statement of Accounts to be produced in accordance with proper accounting practices.

9. Key Risks

9.1 There are no risk implications arising from this report.

10. Equality and Diversity

10.1 There are no equality and diversity implications arising from this report.

11. Crime and Disorder

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

12. Consultation/Engagement

12.1 Consultation has taken place with NECA statutory officers.

13. Other Impact of the Proposals

13.1 There are no other impacts arising from these proposals.

14. Appendices

14.1 Appendix 1 – Code Changes 2021/22

15. Background Papers

15.1 https://www.gov.uk/guidance/measures-to-improve-local-audit-delays, published 16 December 2021

Emergency update of the 2021/22 and 2022/23 codes | CIPFA, published 3 February 2022

16. Contact Officers

16.1 Eleanor Goodman, Finance Manager, Eleanor.goodman@northeastca.gov.uk, 0191 433 3860

17. Sign off

17.1
- Head of Paid Service: ✓
- Monitoring Officer: ✓

- Chief Finance Officer: ✓

Appendix 1: Changes to the Code of Practice for Local Authority Accounting in the UK for 2021/22

The table below provides a summary of the key accounting changes in the 2021/22 CIPFA Code and their applicability to NECA. Note, this does not contain the emergency proposals that are still subject to consultation at the time of preparing this report.

	Change	**Relevant to NECA?**
1	Confirmation that the Code will be based on UK endorsed accounting standards following the United Kingdom's withdrawal from the European Union.	Yes
2	Confirmation of the accounting arrangements for the Dedicated Schools Grant as a consequence of the issue of the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2020. This was legislation that came into force in for 2020/21, but after the 2020/21 Code was issued.	No
3	Confirmation in Section 3.3 (Accounting Policies, Changes in Accounting Estimates and Errors) of the treatment of new standards that have been issued but not yet adopted.	Yes
4	Confirmation of the new standards introduced in the 2021/22 Code, and of the transitional reporting requirements for them: • Definition of a Business: Amendments to IFRS 3 • Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7) • Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)	Yes
5	Augmentations to Section 3.4 (Presentation of Financial Statements) for the reporting of estimation uncertainty: • focus on estimates where there is the greatest potential for material adjustments • disclosures to help the understanding of users of the accounts	Yes
6	Confirmation in Sections 7.2 (Subsequent Measurement of Financial Assets and Financial Liabilities) and 7.3 (Financial Instruments – Disclosure and Presentation Requirements) of the reporting requirements of interest rate benchmark reform – that is, the change from the London Inter-Bank Offered Rate (LIBOR) to the Sterling Overnight Index Average (SONIA).	Yes