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Tees Valley Combined Authority - Annual Financial Statements 2017/18

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Introduction

Welcome to the Tees Valley Combined Authority's Annual Statement of Accounts for 2017/18. The Statement of Accounts contains all the financial statements and disclosure notes required by statute. The statements have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18. This Annual Statement of Accounts will, for the first time, be group accounts incorporating Tees Valley Combined Authority and South Tees Development Corporation.

The Tees Valley Combined Authority (TVCA) was established in April 2016 as a new legal body that brings together the five Authorities which serve Darlington, Hartlepool, Middlesbrough, Redcar and Cleveland and Stockton, alongside private sector representation from the region's Local Enterprise Partnership. The TVCA is responsible for a number of transport functions and economic development and growth across the combined area. In May 2017 the first Tees Valley Mayor was elected to chair the Combined Authority and drive forward our ambitious plans.

Under new legal powers available to TVCA the South Tees Development Corporation (STDC) was established in August 2017 to redevelop the site of the former SSI steelworks which closed down in 2015 following SSI's liquidation. STDC is the first mayoral development corporation outside London.

Strategy and Priorities

The ambition is for Tees Valley to become a high value, low carbon, diverse and inclusive economy. These aspirations and goals, along with the Combined Authority's plan for delivering them, are laid down in the refreshed Strategic Economic Plan (SEP), published in December 2016. Our ambition incorporates economic, social and environmental priorities and will allow all partners to work towards a sustainable and socially responsible Tees Valley.

Underlying this ambition is a commitment to improving the lifetime opportunities for local people, tackling some of the difficult challenges of social exclusion, providing opportunities across all of the Tees Valley including rural areas and disadvantaged communities, thereby ensuring that all citizens are able to share in the benefits of economic growth. The SEP is focused around six thematic building blocks which reflect the main priorities and areas of activities over the next ten years to unlock transformational growth:-

- **Business Growth:** Further increase jobs and business density through targeted support to create and attract new companies and to grow businesses and sectors with high growth potential;
- **Research, Development, Innovation & Energy:** Further enhance productivity in all core sectors through the commercialisation of knowledge;
- **Education, Employment & Skills:** Ensure a labour market which meets the needs of local business and supports the lifetime opportunities of all our residents;
- **Place:** Promote the Tees Valley as the preferred location in the UK for energy intensive indigenous firms and Foreign Direct Investment and create the conditions necessary to attract businesses and individuals with a focus on vibrant town centres;
- **Culture:** Change the external perceptions of Tees Valley through the arts, cultural and leisure offer, create places that attract and retain businesses and business leaders, and make the area an attractive place to live, work and visit; and
- **Transport & Infrastructure:** Facilitate local, regional, national and international road, rail and broadband connectivity through collaborative investment in physical infrastructure.

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The Tees Valley Combined Authority's first Investment Plan was published and agreed in March 2017. For the first time, the Tees Valley was able to bring together multiple government funding sources, previously determined in Westminster and Whitehall, into a "single pot" for local decision-making. The Investment Plan described how £464 million of investment was being invested through a 5 year programme from 2016-2021. The Investment Plan also demonstrated how the Combined Authority would:

- actively support project development;
- respond flexibly to opportunities;
- build an asset base to be used for future re-investment;
- seek innovative partnership and commercial funding models;
- continue to secure further resources into the local fund;
- explore borrowing powers and take a commercial approach to assessing and managing risks;

- invest in strong proposals for the best value for money; and
- work to the agreed Assurance Framework.

The Vision for the South Tees regeneration programme is to see the area transformed into a hotbed of new industry and enterprise for the Tees Valley that makes a substantial contribution to the sustained economic growth and prosperity of the region and the communities it serves.

In October 2017 the South Tees Development Corporation masterplan was launched which presents the vision, strategy and ideas for the transformational regeneration of the area into a world class employment-generating zone and economic growth enabler for the Tees Valley. The total area of opportunity extends to almost 4,500 acres (1,800 hectares). The masterplan for the redevelopment of the site has been agreed with the long term view to redevelop the site to provide a high value, low carbon, diverse and inclusive economy. Creating significant employment prospects for the area.

The Vision of the STDC masterplan sees the creation of up to 20,000 new jobs. The focus is on higher skilled sectors and occupations, centred on manufacturing innovation and advanced technologies and those industries best able to deliver sustained economic prosperity for the Tees Valley and its people, while realising a jobs spectrum that offers opportunities for all. The strategic plan to redevelop the site is set out in the masterplan which is available on the website www.southteesdc.com

Achievements in Year

2017/18 was only the second year of operations for TVCA and we have successfully built on the work undertaken in the first year to prepare the organisation to undertake new devolved responsibilities. We have developed strategies and plans to shape future priorities and investments to meet our aims and objectives. Spend has been accelerated to start to deliver on a number of projects and programmes whilst also committing to new projects which match our ambitious plans. We have continued to strive for further devolved powers whilst securing additional funding from Government to fund our investments. A summary of these can be found below:-

- In August 2017 we established the first Mayoral Development Corporation to be set up outside of Greater London with the Masterplan for the site being launched in October.
- A draft Strategic Transport Plan has been developed to address transport issues in the Tees Valley and present a vision for the future
- Our "Inspiring our Future" strategy was launched to transform education, employment and skills and increase residents access to the planned 133,000 jobs available in Tees Valley by 2024

- A move to low-carbon, clean energy offers a remarkable economic opportunity for our area and during the year we were recognised by Energy Minister Claire Perry as the leading area for Carbon, Capture and Storage through the Teesside Collective

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- In March we launched "Enjoy Tees Valley" – a new destination marketing initiative that will promote local culture and attractions, and includes a new website.
- We have continued to support business growth with more than 1,000 businesses engaging with Business Compass this year, and 672 companies electing to receive intensive face-to-face support.
- During the year we have invested £51million on programmes, projects, grant schemes and development funding for future projects.
- In the past year we have secured £67million in Government funding for a much-needed overhaul to our road and rail network, and we will continue to deliver our transformative vision for the future of transport in our area.
- We have secured funding to enable a new £7.5million 'Routes to Work' scheme to help 2,500 long-term unemployed back to work.
- We commenced the Great Place programme to strengthen cultural capacity and activity, creating stronger engagement in Tees Valley supported by £1.5million funding secured from Heritage Lottery Fund.

Looking Ahead Including Risks and Opportunities

During the coming years we will continue to develop long-term commitments whilst being in a position to be responsive to new ideas and opportunities. We will continue to deliver transformational programmes and improve outcomes as a direct result of local decision making. Through our determination to secure a greater transfer of funding, powers and responsibility from London we aim to establish the Tees Valley as a flagship of successful devolution.

Our ambitious plans will rely on us securing the funding to make them a reality, and as such we will strive for further devolution through our continual dialogue with Government officials. We will continue to build upon our strong track record of securing funding to maximise all funding opportunities available. Through the use of our newly appointed borrowing powers and our partnership working with co-investors we will seek to explore a range of innovative funding instruments to maximise the impact for the area.

The STDC masterplan is an opportunity to enhance the local area through the creation of high quality jobs in industries which are resilient to future change should create an increase in GVA locally and further afield. The initial risks are safeguarding the hazards and progression to land ownership and it is anticipated that these will be resolved in the near term. Medium term risks are of unforeseen issues when redeveloping the site, principally these would be ground conditions but there could also be a similarly small risk of items identified whilst demolition of current structures takes place.

Brexit will have profound implications for the UK, and for the Tees Valley specifically. As one of a small number of areas which qualify for an enhanced level of access to European Funding, the resources available for investment in our economy are at particular risk. But there are also opportunities to develop new methods of funding, which could mean that Brexit actually improves the impact of regional economic development funding for areas such as ours. We will continue to engage with Government on future funding plans post Brexit.

In order to achieve our aims of delivering better outcomes for local people we will continue to build and maintain relationships with key local partners. We will engage with the business community utilising our working relationship with the Local Enterprise Partnership members and key partners.

Key Sections Included in the Statement of Accounts

Statement of Responsibilities - This sets out the respective responsibilities of the Combined Authority and the Chief Financial Officer for the Accounts.

Movement in Reserves Statement - This statement shows the movement during the year of the different reserves held by the Combined Authority.

Tees Valley Combined Authority - Annual Financial Statements 2017/18

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Comprehensive Income and Expenditure Statement - This account summarises the revenue costs of providing all services and the income and resources received in financing the expenditure.

Balance Sheet - The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Authority. The net assets of the Authority (assets less liabilities) are matched by the reserves held by the Authority.

Cash Flow Statement - This statement provides a summary of the flow of cash into and out of the Combined Authority for revenue and capital purposes.

Notes to the Financial Statements - These include the accounting policies and concepts applied, as well as the disclosure notes relating to the above statements.

Borrowing and Lending Arrangements

During 2017/18, the Combined Authority had no powers to borrow for investment and therefore has no loans.

The majority of the Authority's surplus cash is invested in short-term bank deposits, and money market funds. At the end of the financial year the Authority held investments totalling £91m. The average rate of return on investments was 0.37% and this has generated £395k in interest in the year.

The Authority has invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Authority's treasury management strategy.

In terms of investment strategy, given the increasing risk and falling returns from short-term unsecured bank investments, the Authority aims to diversify into more secure and/or higher yielding asset classes during 2018/19.

Retirement Benefits (IAS 19)

The Authority is required to comply with the accounting principles as required by International Accounting Standard 19 (IAS19). This requires the cost of retirement benefits to be recognised in the Financial Statements when employees earn them, rather than when the benefits are actually paid as pensions. Disclosure requirements include figures for the Net Pension Asset/Liability and the Pension Reserve in the Balance Sheet. There are also entries in the Comprehensive Income and Expenditure Statement and Movement In Reserves Statement to reflect movements in the Net Pension Asset/Liability from one year to the next. Entries are also required to reconcile back to actual pension contributions payable for Authority tax purposes.

Further Information

Further information about our finances is available from the Combined Authority's website, <https://teesvalley-ca.gov.uk> or from the Chief Financial Officer, Tees Valley Combined Authority, Cavendish House, Teesdale Business Park, Stockton-on-Tees, Tees Valley, TS17 6QY.

Group Movement in Reserves Statement for the year ended 31 March 2018

This statement shows the movement in the year on the different reserves held by the Group, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure) and other reserves. The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the Groups services, more details of which are shown in the Comprehensive Income and Expenditure Statement.

	General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Authority Reserves
	£000s	£000s	£000s	£000s	£000s	£000s
Transfer from Stockton Borough Council	35,121			35,121		35,121
<u>Movement in reserves during 2016/17</u>						
Total Comprehensive Income and Expenditure	52,028			52,028	(1,723)	50,305
Adjustments between accounting basis & funding basis under regulations (Note 5)	(40,403)		40,570	167	(167)	-
Increase/Decrease in Year	11,625		40,570	52,195	(1,890)	50,305
Balance at 31 March 2017 carried forward	46,746		40,570	87,316	(1,890)	85,426
<u>Movement in reserves during 2017/18</u>						
Balance at 31 March 2017 brought forward	46,746	-	40,570	87,316	(1,890)	85,426
Total Comprehensive Income and Expenditure	11,031	-	-	11,031	48	11,079
Adjustments between accounting basis & funding basis under regulations (Note 5)	(5,506)	-	5,937	431	(431)	-
Increase/Decrease in Year	5,525	-	5,937	11,462	(383)	11,079
Balance at 31 March 2018 carried forward	52,271	-	46,507	98,778	(2,273)	96,505
General Fund analysed over:						
Amounts earmarked (Note 6)	51,238					
Amounts uncommitted	1,033					
Total General Fund Balance at 31 March 2018	52,271					

TVCA Movement in Reserves Statement for the year ended 31 March 2018

	General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Authority Reserves
	£000s	£000s	£000s	£000s	£000s	£000s
Transfer from Stockton Borough Council	35,121			35,121		35,121
<u>Movement in reserves during 2016/17</u>						
Total Comprehensive Income and Expenditure	52,028			52,028	(1,723)	50,305
Adjustments between accounting basis & funding basis under regulations (Note 5)	(40,403)		40,570	167	(167)	-
Increase/Decrease in Year	11,625		40,570	52,195	(1,890)	50,305
Balance at 31 March 2017 carried forward	46,746		40,570	87,316	(1,890)	85,426
<u>Movement in reserves during 2017/18</u>						
Balance at 31 March 2017 brought forward	46,746	-	40,570	87,316	(1,890)	85,426
Total Comprehensive Income and Expenditure	7,181	-	-	7,181	49	7,230
Adjustments between accounting basis & funding basis under regulations (Note 5)	(5,508)	-	5,937	429	(429)	-
Increase/Decrease in Year	1,673	-	5,937	7,610	(380)	7,230
Balance at 31 March 2018 carried forward	48,419	-	46,507	94,926	(2,270)	92,656
General Fund analysed over:						
Amounts earmarked (Note 6)	47,458					
Amounts uncommitted	961					
Total General Fund Balance at 31 March 2018	48,419					

**Group Comprehensive Income and Expenditure Statement
for the year ended 31 March 2018**

The Comprehensive Income and Expenditure Statement (CIES) shows the economic cost in the year of providing services in accordance with generally accepted accounting practices.

2016/17			2017/18		
£000s	£000s	£000s	£000s	£000s	£000s
Expenditure	Income	Net	Expenditure	Income	Net
6,108	(10,112)	(4,004)	3,130	(2,935)	195
1,631	(4,378)	(2,747)	3,937	(3,394)	543
4,558	(6,827)	(2,269)	6,382	(6,102)	280
25	-	25	685	(676)	9
20,602	(20,863)	(261)	23,338	(23,270)	68
58	(6,679)	(6,621)	10,706	(11,393)	(687)
1,258	(1,258)	-	981	(4,314)	(3,333)
2,227	(7,028)	(4,801)	4,517	(2,980)	1,537
16,505	(16,505)	-	16,628	(16,628)	-
8,259	1,485	9,744	5,152	50	5,202
1,309	(1,237)	72	4,231	(12,717)	(8,486)
62,540	(73,402)	(10,862)	79,687	(84,359)	(4,672)
Financing and Investment Income and Expenditure:					
160	(130)	30	176	(136)	40
	(253)	(253)		(462)	(462)
Taxation and Non-Specific Grant Income:					
-	(373)	(373)	-	-	-
-	(40,570)	(40,570)	-	(5,937)	(5,937)
		(52,028)	79,863	(90,894)	(11,031)
		1,723			(48)
		-			-
		1,723			(48)
		(50,305)			(11,079)

**TVCA Comprehensive Income and Expenditure Statement
for the year ended 31 March 2018**

2016/17			2017/18		
£000s	£000s	£000s	£000s	£000s	£000s
Expenditure	Income	Net	Expenditure	Income	Net
6,108	(10,112)	(4,004)	3,130	(2,935)	195
1,631	(4,378)	(2,747)	3,937	(3,394)	543
4,558	(6,827)	(2,269)	6,382	(6,102)	280
25	-	25	685	(676)	9
20,602	(20,863)	(261)	23,338	(23,270)	68
58	(6,679)	(6,621)	11,631	(11,393)	238
1,258	(1,258)	-	4,359	(4,314)	45
2,227	(7,028)	(4,801)	4,283	(3,199)	1,084
16,505	(16,505)	-	16,628	(16,628)	-
8,259	1,485	9,744	5,152	50	5,202
1,309	(1,237)	72	4,231	(12,717)	(8,486)
62,540	(73,402)	(10,862)	83,756	(84,578)	(822)
<i>Financing and Investment Income and Expenditure:</i>					
160	(130)	30	176	(136)	40
	(253)	(253)		(462)	(462)
<i>Taxation and Non-Specific Grant Income:</i>					
-	(373)	(373)	-	-	-
-	(40,570)	(40,570)	-	(5,937)	(5,937)
		(52,028)	83,932	(91,113)	(7,181)
		(52,028)	(Surplus) or Deficit on Provision of Services		
		1,723			(49)
		-			-
		1,723			(49)
		(50,305)			(7,230)
		(50,305)			(7,230)

Tees Valley Combined Authority (Group) - Annual Financial Statements 2017/18

Group & TVCA Balance Sheet as at 31 March 2018

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Group. The net assets of the Group (assets less liabilities) are matched by the reserves held by the Group. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the Group may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use. The second category of reserves are those that the Group is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses and reserves that hold timing differences shown in the Movement in Reserves Statement line "Adjustments between accounting basis and funding basis under regulations".

	Note	Group 31 March 2018 £000s	TVCA 31 March 2018 £000s	TVCA 31 March 2017 £000s
Non-current assets				
Long Term Debtors		6,453	6,453	5,013
Total non-current assets		6,453	6,453	5,013
Current assets				
Short term investments		65,000	65,000	50,056
Debtors	10	5,055	5,277	5,966
Cash and Cash Equivalents	11	30,074	26,000	28,002
Total current assets		100,129	96,277	84,024
Current liabilities				
Cash and Cash Equivalents	11	(2,648)	(2,648)	
Short Term Creditors	12	(5,378)	(5,375)	(1,897)
Total current liabilities		(8,026)	(8,023)	(1,897)
Long term liabilities				
Long Term Creditors		-	-	
Other Long Term Liabilities	13 & 20	(2,051)	(2,051)	(1,714)
Total long term liabilities		(2,051)	(2,051)	(1,714)
Net Assets:		96,505	92,656	85,426
Reserves				
Usable reserves:				
General Fund Balance	1	1,033	961	668
Earmarked General Fund Reserves	6	51,238	47,458	46,078
Capital Grants Unapplied		46,507	46,507	40,570
		98,778	94,926	87,316
Unusable Reserves:				
Pensions Reserve	13 & 20	(2,051)	(2,051)	(1,714)
Accumulated Absences Account	5	(222)	(219)	(176)
		(2,273)	(2,270)	(1,890)
Total Reserves:		96,505	92,656	85,426

Mayor Ben Houchen

Chair Tees Valley Combined Authority Cabinet
31st July 2018

Tees Valley Combined Authority (Group) - Annual Financial Statements 2017/18

Group & TVCA Cash Flow Statement For The Year Ended 31 March 2018

The Cash Flow Statement shows the changes in cash and cash equivalents of the Group during the reporting period. The statement shows how the Group generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Group are funded by way contributions and grant income or from the recipients of services provided by the Group. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Group's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Group.

	Note	Group 2017/18 £000s	TVCA 2017/18 £000s	TVCA 2016/17 £000s
Net (surplus) or deficit on the provision of services		(11,031)	(7,181)	(52,028)
Adjustments to net surplus or deficit on the provision of services for non-cash movements:				
Pension Fund adjustments		(386)	(386)	9
Transfer of reserves from Stockton-on-Tees Borough Council		-	-	(35,121)
Increase/(Decrease) in Revenue Debtors	10	(910)	(689)	5,966
(Increase)/Decrease in Revenue Creditors	12	(3,481)	(3,478)	(1,897)
Increase/(Decrease) in Long Term Debtors		1,440	1,440	5,013
		(3,337)	(3,113)	(26,030)
Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities:				
Capital Grants credited to surplus or deficit on the provision of services		5,937	5,937	40,570
		5,937	5,937	40,570
Net cashflow from operating activities		(8,431)	(4,357)	(37,488)
Investing activities				
Purchase of short term and long term investments		14,944	14,944	50,056
Other receipts from investing activities		(5,937)	(5,937)	(40,570)
Net cashflow from investing activities		9,007	9,007	9,486
Net (increase) or decrease in cash and cash equivalents		576	4,650	(28,002)
Cash and cash equivalents at the beginning of the reporting period		(28,002)	(28,002)	-
Cash and cash equivalents at the end of the reporting period	11	(27,426)	(23,352)	(28,002)
The cashflow for operating activities includes the following items:				
Interest received		(375)	(375)	(191)
Interest paid		-	-	0

Tees Valley Combined Authority (Group) - Annual Financial Statements 2017/18

Note 1: Group Expenditure & Funding Analysis

The Expenditure and Funding Analysis shows how annual expenditure is used and funded from resources by the Group in comparison with those resources consumed or earned by the Group in accordance with generally accepted accounting practices. It also shows how this expenditure is allocated for decision making purposes between the Groups directorates/services/departments. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

2016/17			2017/18		
Net Expenditure Chargeable to the General Fund	Adjustments between the Funding and Accounting Basis	Net Expenditure in the Comprehensive Income and Expenditure Statement	Net Expenditure Chargeable to the General Fund	Adjustments between the Funding and Accounting Basis	Net Expenditure in the Comprehensive Income and Expenditure Statement
£000s	£000s	£000s	£000s	£000s	£000s
43	(4,047)	(4,004)	1,541	(1,346)	195
		Business Growth			
45	(2,792)	(2,747)	7	536	543
		Research Development Innovation & Energy			
21	(2,290)	(2,269)	1,173	(893)	280
		Education Employment & Skills			
24	1	25	466	(457)	9
		Culture			
30	(291)	(261)	1,182	(1,114)	68
		Transport			
-	(6,621)	(6,621)	872	(1,559)	(687)
		Enabling Infrastructure			
-	-	-	3,350	(6,683)	(3,333)
		Project Development			
(276)	(4,525)	(4,801)	1,000	537	1,537
		Core Running Costs			
-	-	-	-	-	-
		Concessionary Fares			
(1)	9,745	9,744	-	5,202	5,202
		SSI Related Schemes Not in the Investment Plan			
72	-	72	12,130	(20,616)	(8,486)
		Other Non Investment Plan Costs			
(42)	(10,820)	(10,862)	21,721	(26,393)	(4,672)
		Net Cost Of Services			
(626)	(40,540)	(41,166)	(22,086)	15,727	(6,359)
		Other Income and Expenditure			
(668)	(51,360)	(52,028)	(365)	(10,666)	(11,031)
		Surplus or Deficit			
-		Opening General Fund Balance	668		
668		Less/Plus Surplus or (Deficit)	365		
668		Closing General Fund Balance at 31 March 2017	1,033		

Group Notes to the Expenditure and Funding Analysis:

Adjustments between Funding and Accounting Basis 2017/18				
Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement Amounts	Adjustments for Capital Purposes	Net change for the Pensions Adjustments	Other Differences	Total Adjustments
	£000s	£000s	£000s	£000s
Business Growth	-	9	(1,355)	(1,346)
Research Development Innovation & Energy	-	-	536	536
Education Employment & Skills	-	14	(907)	(893)
Culture	-	7	(464)	(457)
Transport	-	-	(1,114)	(1,114)
Enabling Infrastructure	-	3	(1,562)	(1,559)
Project Development	-	-	(6,683)	(6,683)
Core Running Costs	-	301	236	537
Concessionary Fares	-	-	-	-
SSI Related Schemes Not in the Investment Plan	-	13	5,189	5,202
Other Non Investment Plan Costs	-	-	(20,616)	(20,616)
Net Cost Of Services	-	347	(26,740)	(26,393)
Other Income and Expenditure from the Expenditure and Funding Analysis	(5,937)	40	21,624	15,727
Difference between General Fund Surplus or Deficit and Comprehensive Income and Expenditure Surplus or Deficit on the Provision of Services	(5,937)	387	(5,116)	(10,666)

Adjustments between Funding and Accounting Basis 2016/17				
Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement Amounts	Adjustments for Capital Purposes	Net change for the Pensions Adjustments	Other Differences	Total Adjustments
	£000s	£000s	£000s	£000s
Business Growth	-	(2)	(4,045)	(4,047)
Research Development Innovation & Energy	-	-	(2,792)	(2,792)
Education Employment & Skills	-	(1)	(2,289)	(2,290)
Culture	-	(1)	2	1
Transport	-	-	(291)	(291)
Enabling Infrastructure	-	-	(6,621)	(6,621)
Project Development	-	-	-	-
Core Running Costs	-	(33)	(4,492)	(4,525)
Concessionary Fares	-	-	-	-
SSI Related Schemes Not in the Investment Plan	-	(2)	9,747	9,745
Other Non Investment Plan Costs	-	-	-	-
Net Cost Of Services	-	(39)	(10,781)	(10,820)
Other Income and Expenditure from the Expenditure and Funding Analysis	(40,570)	30	-	(40,540)
Difference between General Fund Surplus or Deficit and Comprehensive Income and Expenditure Surplus or Deficit on the Provision of Services	(40,570)	(9)	(10,781)	(51,360)

Adjustments for capital purposes: this column adds in depreciation and impairment and revaluation gains and losses in the services line, and for:

Other operating expenditure – adjusts for capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets.

Financing and investment income and expenditure – the statutory charges for capital financing ie Minimum Revenue Provision and other revenue contributions are deducted from other income and expenditure as these are not chargeable under generally accepted accounting practices.

Taxation and non-specific grant income and expenditure – capital grants are adjusted for income not chargeable under generally accepted accounting practices. Revenue grants are adjusted from those receivable in the year to those receivable without conditions or for which conditions were satisfied throughout the year. The Taxation and Non Specific Grant Income and Expenditure line is credited with capital grants receivable in the year without conditions or for which conditions were satisfied in the year.

Net Change for the Pensions Adjustments: this is the net change for the removal of pension contributions and the addition of IAS 19 Employee Benefits pension related expenditure and income:

For services this represents the removal of the employer pension contributions made by the Group as allowed by statute and the replacement with current service costs and past service costs.

For Financing and investment income and expenditure – the net interest on the defined benefit liability is charged to the CIES.

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

For **Financing and investment income and expenditure** the other differences column recognises adjustments to the General Fund for the timing differences for premiums and discounts.

Expenditure and Income Analysed By Nature

The Authority's expenditure and income is analysed as follows:

	Group	TVCA	TVCA
	2017/18	2017/18	2016/17
	£000s	£000s	£000s
Expenditure			
Employee benefits expenses	3,694	3,579	2,476
Other services expenses	75,993	80,177	60,065
Interest payments	176	176	160
Total Expenditure	79,863	83,932	62,701
Income			
Fees, charges and other service income	(7,201)	(7,191)	(691)
Interest and investment income	(598)	(598)	(383)
Government grants and contributions	(83,095)	(83,324)	(113,655)
Total Income	(90,894)	(91,113)	(114,729)
(Surplus) or Deficit on the Provision of Services	(11,031)	(7,181)	(52,028)

Segmental Income

Income received on a segmental basis is analysed below:

	Group	TVCA	TVCA
	2017/18	2017/18	2016/17
	£000s	£000s	£000s
Services			
	Income from Services	Income from Services	Income from Services
Business Growth	(190)	(190)	0
Research Development Innovation & Energy	(543)	(543)	0
Education Employment & Skills	(260)	(260)	0
Culture	(4)	(4)	0
Transport	(69)	(69)	0
Enabling Infrastructure	(235)	(235)	0
Project Development	(39)	(39)	0
Core Running Costs	(671)	(661)	(275)
SSI Related Schemes Not in the Investment Plan	(5,190)	(5,190)	(416)
Total income analysed on a segmental basis	(7,201)	(7,191)	(691)

Note 1: Expenditure & Funding Analysis TVCA

The Expenditure and Funding Analysis shows how annual expenditure is used and funded from resources by the Combined Authority in comparison with those resources consumed or earned by the authority in accordance with generally accepted accounting practices. It also shows how this expenditure is allocated for decision making purposes between the Authority's directorates/services/departments. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

2016/17			2017/18		
Net Expenditure Chargeable to the General Fund	Adjustments between the Funding and Accounting Basis	Net Expenditure in the Comprehensive Income and Expenditure Statement	Net Expenditure Chargeable to the General Fund	Adjustments between the Funding and Accounting Basis	Net Expenditure in the Comprehensive Income and Expenditure Statement
£000s	£000s	£000s	£000s	£000s	£000s
43	(4,047)	(4,004)	1,541	(1,346)	195
		Business Growth			
45	(2,792)	(2,747)	7	536	543
		Research Development Innovation & Energy			
21	(2,290)	(2,269)	1,173	(893)	280
		Education Employment & Skills			
24	1	25	466	(457)	9
		Culture			
30	(291)	(261)	1,182	(1,114)	68
		Transport			
-	(6,621)	(6,621)	872	(634)	238
		Enabling Infrastructure			
-	-	-	3,350	(3,305)	45
		Project Development			
(276)	(4,525)	(4,801)	1,072	12	1,084
		Core Running Costs			
-	-	-	-	-	-
		Concessionary Fares			
(1)	9,745	9,744	-	5,202	5,202
		SSI Related Schemes Not in the Investment Plan			
72	-	72	12,130	(20,616)	(8,486)
		Other Non Investment Plan Costs			
(42)	(10,820)	(10,862)	21,793	(22,615)	(822)
		Net Cost Of Services			
(626)	(40,540)	(41,166)	(22,086)	15,727	(6,359)
		Other Income and Expenditure			
(668)	(51,360)	(52,028)	(293)	(6,888)	(7,181)
		Surplus or Deficit			
-		Opening General Fund Balance	668		
668		Less/Plus Surplus or (Deficit)	293		
668		Closing General Fund Balance at 31 March 2017	961		

Notes to the Expenditure and Funding Analysis: TVCA

Adjustments between Funding and Accounting Basis 2017/18				
Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement Amounts	Adjustments for Capital Purposes	Net change for the Pensions Adjustments	Other Differences	Total Adjustments
	£000s	£000s	£000s	£000s
Business Growth	-	9	(1,355)	(1,346)
Research Development Innovation & Energy	-	-	536	536
Education Employment & Skills	-	14	(907)	(893)
Culture	-	7	(464)	(457)
Transport	-	-	(1,114)	(1,114)
Enabling Infrastructure	-	3	(637)	(634)
Project Development	-	-	(3,305)	(3,305)
Core Running Costs	-	300	(288)	12
Concessionary Fares	-	-	-	-
SSI Related Schemes Not in the Investment Plan	-	13	5,189	5,202
Other Non Investment Plan Costs	-	-	(20,616)	(20,616)
Net Cost Of Services	-	346	(22,961)	(22,615)
Other Income and Expenditure from the Expenditure and Funding Analysis	(5,937)	40	21,624	15,727
Difference between General Fund Surplus or Deficit and Comprehensive Income and Expenditure Surplus or Deficit on the Provision of Services	(5,937)	386	(1,337)	(6,888)

Adjustments between Funding and Accounting Basis 2016/17				
Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement Amounts	Adjustments for Capital Purposes	Net change for the Pensions Adjustments	Other Differences	Total Adjustments
	£000s	£000s	£000s	£000s
Business Growth	-	(2)	(4,045)	(4,047)
Research Development Innovation & Energy	-	-	(2,792)	(2,792)
Education Employment & Skills	-	(1)	(2,289)	(2,290)
Culture	-	(1)	2	1
Transport	-	-	(291)	(291)
Enabling Infrastructure	-	-	(6,621)	(6,621)
Project Development	-	-	-	-
Core Running Costs	-	(33)	(4,492)	(4,525)
Concessionary Fares	-	-	-	-
SSI Related Schemes Not in the Investment Plan	-	(2)	9,747	9,745
Other Non Investment Plan Costs	-	-	-	-
Net Cost Of Services	-	(39)	(10,781)	(10,820)
Other Income and Expenditure from the Expenditure and Funding Analysis	(40,570)	30	-	(40,540)
Difference between General Fund Surplus or Deficit and Comprehensive Income and Expenditure Surplus or Deficit on the Provision of Services	(40,570)	(9)	(10,781)	(51,360)

Adjustments for capital purposes: this column adds in depreciation and impairment and revaluation gains and losses in the services line, and for:

Other operating expenditure – adjusts for capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets.

Financing and investment income and expenditure – the statutory charges for capital financing ie Minimum Revenue Provision and other revenue contributions are deducted from other income and expenditure as these are not chargeable under generally accepted accounting practices.

Taxation and non-specific grant income and expenditure – capital grants are adjusted for income not chargeable under generally accepted accounting practices. Revenue grants are adjusted from those receivable in the year to those receivable without conditions or for which conditions were satisfied throughout the year. The Taxation and Non Specific Grant Income and Expenditure line is credited with capital grants receivable in the year without conditions or for which conditions were satisfied in the year.

Net Change for the Pensions Adjustments: this is the net change for the removal of pension contributions and the addition of IAS 19 Employee Benefits pension related expenditure and income:

For services this represents the removal of the employer pension contributions made by the authority as allowed by statute and the replacement with current service costs and past service costs.

For Financing and investment income and expenditure – the net interest on the defined benefit liability is charged to the CIES.

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

For **Financing and investment income and expenditure** the other differences column recognises adjustments to the General Fund for the timing differences for premiums and discounts.

Expenditure and Income Analysed By Nature

The Authority's expenditure and income is analysed as follows:

	2017/18	2016/17
	£000s	£000s
Expenditure		
Employee benefits expenses	3,579	2,476
Other services expenses	80,183	60,065
Interest payments	176	160
Total Expenditure	83,938	62,701
Income		
Fees, charges and other service income	(6,897)	(691)
Interest and investment income	(598)	(383)
Government grants and contributions	(83,324)	(113,655)
Total Income	(90,819)	(114,729)
(Surplus) or Deficit on the Provision of Services	(6,881)	(52,028)

Segmental Income

Income received on a segmental basis is analysed below:

	2017/18	2016/17
	£000s	£000s
Services	Income from Services	Income from Services
Business Growth	(190)	0
Research Development Innovation & Energy	(543)	0
Education Employment & Skills	(260)	0
Culture	(4)	0
Transport	(69)	0
Enabling Infrastructure	(235)	0
Project Development	(39)	0
Core Running Costs	(367)	(275)
SSI Related Schemes Not in the Investment Plan	(5,190)	(416)
Total income analysed on a segmental basis	(6,897)	(691)

Note 2: Accounting Standards That Have Been Issued But Have Not Yet Been Adopted

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

- IFRS 9 Financial Instruments, which introduces extensive changes to the classification and measurement of financial assets, and a new "expected credit loss" model for impairing financial assets. The impact will be to reclassify assets currently classified as loans and receivables, and available for sale to amortised cost and fair value through other comprehensive income respectively based on the contractual cashflows and business model for holding the assets. There are not expected to be any changes in the measurement of financial assets. Assessment of the Council's financial assets does not anticipate any impairment.
- IFRS 15 Revenue from Contracts with Customers presents new requirements for the recognition of revenue, based on a control-based revenue recognition model. The Council does not have any material revenue streams within the scope of the new standard.
- IFRS 16 Leases will require local authorities that are lessees to recognise most leases on their balance sheets as right-of-use assets with corresponding lease liabilities (there is recognition for low-value and short-term leases).

The Group does not anticipate that the above amendments will have a material impact on the information provided in the financial statements in that there is unlikely to be a change to the reported information in the reported net cost of services or the Surplus or Deficit on the Provision of Services.

Note 3: Critical Judgements in Applying Accounting Policies

In applying its accounting policies the Authority has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

No critical judgements made.

Note 4: Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty

The Statement of Accounts contains estimated figures that are based on assumptions made by the Group about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Groups Balance Sheet at 31 March 2018 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

- Pension liabilities: estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Group with expert advice about the assumptions to be applied. Sensitivities are included in Note 20.

Note 5: Adjustments between Accounting Basis and Funding Basis under Regulations

Group

2017/18	General Fund Balance £000s	Capital Receipts Reserve £000s	Capital Grants Unapplied £000s	Movement in Unusable Reserves £000s
Adjustments involving the Capital Adjustment Account (see note 7)	-			-
Adjustments involving the Capital Grants Unapplied Account	(5,937)		5,937	-
Adjustments involving the Pensions Reserve	386			(386)
Adjustments involving the Accumulated Absences Adjustment Account	46			(46)
Total Adjustments	(5,505)	-	5,937	(432)

TVCA

2017/18	General Fund Balance £000s	Capital Receipts Reserve £000s	Capital Grants Unapplied £000s	Movement in Unusable Reserves £000s
Adjustments involving the Capital Adjustment Account (see note 7)	-			-
Adjustments involving the Capital Grants Unapplied Account	(5,937)		5,937	-
Adjustments involving the Pensions Reserve	386			(386)
Adjustments involving the Accumulated Absences Adjustment Account	43			(43)
Total Adjustments	(5,508)	-	5,937	(429)

2016/17 Comparative figures	General Fund Balance £000s	Capital Receipts Reserve £000s	Capital Grants Unapplied £000s	Movement in Unusable Reserves £000s
Adjustments involving the Capital Adjustment Account	-			-
Adjustments involving the Capital Grants Unapplied Account	(40,570)		40,570	-
Adjustments involving the Capital Receipts Reserve	-	-		-
Adjustments involving the Deferred Capital Receipts Reserve	-			-
Adjustments involving the Financial Instruments Adjustment Account	-			-
Adjustments involving the Pensions Reserve	(9)			9
Adjustments involving the Accumulated Absences Adjustment Account	176			(176)
Total Adjustments	(40,403)	-	40,570	(167)

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Note 6: Movements in Earmarked Reserves

This note sets out the amounts set aside from the General Fund balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund expenditure in 2017/18.

Group

Earmarked Reserves	Balance at 31 March 2017 £000s	Transfers Out 2017/18 £000s	Transfers In 2017/18 £000s	Balance at 31 March 2018 £000s
Revenue Reserves				
Development Pot	(2,159)	220	-	(1,939)
Investment Fund	(21,587)	1,543	(12,267)	(32,311)
SSI	(22,332)	5,344	-	(16,988)
Total Revenue Reserves	(46,078)	7,107	(12,267)	(51,238)

TVCA

Earmarked Reserves	Balance at 31 March 2017 £000s	Transfers Out 2017/18 £000s	Transfers In 2017/18 £000s	Balance at 31 March 2018 £000s
Revenue Reserves				
Development Pot	(2,159)	220	-	(1,939)
Investment Fund	(21,587)	1,543	(8,487)	(28,531)
SSI	(22,332)	5,344	-	(16,988)
Total Revenue Reserves	(46,078)	7,107	(8,487)	(47,458)

Note 7: Capital Adjustment Account Group and TVCA

2017/18

Balance at 1 April 2017

Revaluation losses on property, plant and equipment
Revaluation losses on AHFS & Investment Properties

- Revenue expenditure funded from capital under statute

43,151

Amounts of non-current assets written off on disposal or sale

43,151

Capital financing applied in the year:

Use of the Capital Receipts Reserve to finance new capital expenditure

- Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing

(40,331)

Capital expenditure charged against the General Fund balance

(2,820)

(43,151)

Other adjustments

-

Balance at 31 March 2018

-

Note 8: Group and TVCA Members' Allowances

If applicable the amounts paid to each elected member of the Group and Authority are published annually. Elected members from the constituent local authorities sit on various TVCA and STDC boards and no payments were made to these members during 2017/18. The allowance in respect of the Mayor was £32,375 for 2017/18.

**Note 9: Employee remuneration
Group and TVCA**

Remuneration of the Managing Director and his senior staff are shown in the following table.

Remuneration of Senior Employees 2017/18						
Post holder information	Salary (Including fees & Allowances)	Expense Allowances	Benefits in kind	Total Remuneration excluding pension contributions 2017/18	Pension contributions	Total Remuneration including pension contributions 2017/18
	£	£	£	£	£	£
<i>Managing Director</i>	136,350	734	-	137,084	32,817	169,901
<i>Strategy Director</i>	89,259	549	-	89,808	14,192	104,000
<i>Investment Director</i>	89,259	599	-	89,858	14,192	104,050
<i>Business Director</i>	89,259	1,473	-	90,732	14,192	104,924
<i>Head of Skills Education & Employment</i>	75,487	-	-	75,487	12,002	87,489
<i>Head of Culture & Tourism</i>	75,057	-	-	75,057	12,002	87,059
<i>Director of Finance</i>	56,387	-	-	56,387	8,965	65,352
<i>Head of Transport</i>	75,487	-	-	75,487	12,002	87,489
<i>Head of Comms & Marketing</i>	13,190	-	-	13,190	2,097	15,287
<i>Head of Homes & Communities</i>	75,487	-	-	75,487	12,002	87,489
	775,221	3,354	-	778,576	134,466	913,042

The Director of Finance commenced employment with the organisation in August 2017 and the Head of Communications and Marketing commenced in January 2018.

Remuneration of Senior Employees 2016/17						
Post holder information	Salary (Including fees & Allowances)	Expense Allowances	Benefits in kind	Total Remuneration excluding pension contributions 2017/18	Pension contributions	Total Remuneration including pension contributions 2017/18
	£	£	£	£	£	£
<i>Managing Director</i>	100,161	559	-	100,720	8,694	109,414
<i>Strategy Director</i>	91,932	651	-	92,583	18,202	110,785
<i>Investment Director</i>	21,619	158	-	21,777	4,280	26,057
<i>Business Director</i>	91,932	964	-	92,896	18,202	111,098
<i>Head of Skills Education & Employment</i>	17,078	-	-	17,078	3,381	20,459
<i>Head of Culture & Tourism</i>	16,993	-	-	16,993	3,620	20,613
<i>Head of Transport</i>	5,827	-	-	5,827	1,154	6,981
<i>Head of Homes & Communities</i>	31,142	-	-	31,142	6,166	37,308
	376,684	2,332	-	379,016	63,699	442,715

Only two of the senior employee posts were in employment of the organisation for the full financial year. These being the Strategy Director and Business Director. All other employees commenced employment at various stages of the year.

The number of employees whose taxable remuneration, including benefits, redundancy and other severance payments, exceeded £50,000 is shown below, in bands of £5,000:

Remuneration Summary Salary Range	Number of Employees	Number of Employees
	2017/18	2016/17
£50,001 - £55,000	1	-
£55,001 - £60,000	-	-
£60,001 - £65,000	-	-
£65,001 - £70,000	-	-
£70,001 - £75,000	-	-
£75,001 - £80,000	-	-
£80,001 - £85,000	-	-
£85,001 - £90,000	-	-
£90,001 - £95,000	-	-
£95,001 - £100,000	-	-
£100,001 - £105,000	-	-
£125,001 - £130,000	-	-
£130,001 - £135,000	-	-
£135,001 - £140,000	-	-

Remuneration of the Managing Director and his senior staff has been excluded from the salary range analysis shown in the table above.

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Note 10: Debtors

	Group 31 March 2018 £000s	TVCA 31 March 2018 £000s	TVCA 31 March 2017 £000s
Central Government	1,576	1,569	1,372
Local Government	3,249	3,478	4,500
Other entities and individuals	230	230	94
	<u>5,055</u>	<u>5,277</u>	<u>5,966</u>

Note 11: Cash and Cash Equivalents

	Group 31 March 2018 £000s	TVCA 31 March 2018 £000s	TVCA 31 March 2017 £000s
Bank and Imprests	(2,648)	(2,648)	2,996
Cash Equivalents	30,074	26,000	25,006
	<u>27,426</u>	<u>23,352</u>	<u>28,002</u>

Note 12: Short Term Creditors

	Group 31 March 2018 £000s	TVCA 31 March 2018 £000s	TVCA 31 March 2017 £000s
Central Government	(90)	(90)	(59)
Local Government	(2,650)	(2,650)	(1,474)
Other entities and individuals	(2,638)	(2,635)	(364)
	<u>(5,378)</u>	<u>(5,375)</u>	<u>(1,897)</u>

Note 13: Other Long Term Liabilities

	Group 31 March 2018 £000s	TVCA 31 March 2018 £000s	TVCA 31 March 2017 £000s
Net pensions liability	(2,051)	(2,051)	(1,714)
	<u>(2,051)</u>	<u>(2,051)</u>	<u>(1,714)</u>

Note 14: Related Party Transactions

The Group is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the Group or to be controlled or influenced by the Group. Disclosure of these transactions allows readers to assess the extent to which the Group might have been constrained in its ability to operate independently or might have secured the ability to limit another party’s ability to bargain freely with the Group.

Central Government

Central government has effective control over the general operations of the Group – it is responsible for providing the statutory framework within which the Group operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Group has with other parties. Grants received from government departments are set out in the subjective analysis in Note 18.

Members

Members of the Authority and STDC have direct control over the Groups financial and operating policies. The total of members’ allowances paid in 2017/18 is shown in Note 8. During 2017/18, there were no related party transactions between members and TVCA or STDC.

Entities Controlled or Significantly Influenced by the Authority

The Code of Practice requires local authorities to produce Group Accounts to reflect significant activities by other organisations in which the Council has an interest. The Combined Authority has considered its interests in this respect, both quantitatively and qualitatively, and has concluded that its subsidiary, South Tees Development Corporation (STDC), is materially significant to the overall financial position of the Combined Authority and is therefore consolidated into the Group Financial Statements.

TVCA Constituent Authorities

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

2017/18	Income Received £000s	Expenditure £000s
Stockton On Tees Borough Council	4,266	6,464
Middlesbrough Borough Council	4,966	13,112
Redcar & Cleveland Borough Council	5,049	4,330
Hartlepool Borough Council	2,349	7,151
Darlington Borough Council	3,177	9,084
Total	19,806	40,141

Tees Valley Combined Authority (Group) - Annual Financial Statements 2017/18

Note 15: External Audit Costs

The Group has incurred the following costs in relation to the audit of the Statement of Accounts, certification of grant claims and to non-audit services provided by the Groups external auditors:

	Group 2017/18 £000s	TVCA 2017/18 £000s	TVCA 2016/17 £000s
Fees payable to Mazars LLP with regard to external audit services	48	30	30
	48	30	30
<i>Rebate from Public Sector Audit Appointments Ltd</i>		(4)	

Note 16: Leases

Operating leases: Authority as lessee

From the 1st January 2017 the TVCA took on the lease of the third floor of Cavendish House. The new lease is for a term of 10 years. The minimum lease payments due in future years are:

Future minimum lease payments due	2017/18 £000s	2016/17 £000s
Not later than one year	152	119
Later than one year & not later than five years	608	608
Later than five years	570	722
	1,330	1,449

Note 17: Capital Expenditure and Financing

The total amount of capital expenditure incurred in the year by TVCA is shown in the table below together with the resources that have been used to finance it. No capital expenditure was made by STDC. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Authority, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Authority that has yet to be financed. The CFR is analysed in the bottom part of this note.

	31 March 2018 £000s	31 March 2017 £000s
Opening Capital Financing Requirement	-	-
Capital investment		
Revenue expenditure funded from capital under statute	43,151	28,339
Sources of Finance		
Government grants and other contributions	(40,331)	(28,339)
<i>Sums set aside from revenue:</i>		
Direct revenue contributions	(2,820)	-
Closing Capital Financing Requirement	-	-

Tees Valley Combined Authority (Group) - Annual Financial Statements 2017/18

Note 18: Grant Income Group

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

	2017/18	2016/17
	£000s	£000s
Credited to Taxation and Non Specific Grant Income		
Local Growth Fund	19,697	28,479
Local Transport Plan	13,952	-
National Productivity Investment Fund	2,298	-
Pothole Action Fund	1,929	-
SSI	1,394	6,872
DfT Local Majors	100	-
Growing Places	961	4,063
Development Pot	-	1,156
Total	40,331	40,570
Credited to Services		
Local Growth Fund	-	9,308
Adult Education Transitional Budget	16	-
BIES Growth Hub	246	-
ESIF	1,337	339
HLF Great Places	85	-
SSI	-	7,368
LEP Core	500	500
One Public Estates	359	-
AGE Apprentice Grant for Employers	379	1,158
DECC - City Deal / Carbon	7	300
Devolution	15,000	15,000
DfT Sustainable Transport	-	990
DfT Access Fund	1,163	14,674
DWP Routes To Work	133	-
MHCLG	2,399	-
Contributions from other LA's	-	2,088
Other	-	3,696
Total	21,624	55,421

Tees Valley Combined Authority (Group) - Annual Financial Statements 2017/18

Note 19: Financial Instruments Group

Categories of Financial Instruments

The following categories of financial instrument are carried in the Balance Sheet:

	Long Term		Current	
	31 March 2018 £000s	31 March 2017 £000s	31 March 2018 £000s	31 March 2017 £000s
Loans and receivables	6,419	5,013	95,074	78,058
Financial assets carried at contract amounts	-	-	4,713	5,812
Total financial assets	6,419	5,013	99,787	83,870
Financial liabilities carried at contract amount	-	-	(5,595)	(1,662)
Total financial liabilities	-	-	(5,595)	(1,662)

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

Financial liabilities and financial assets represented by loans and receivables and long term debtors and creditors are carried on the balance sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that take place over the remaining life of the instruments, using the following assumptions:

- No early repayment or impairment is recognised;
- Where an instrument has a maturity of less than 12 months or is a trade or other receivable the fair value is taken to be the carrying amount or the billed amount.

The fair value of trade and other receivables is taken to be the invoiced or billed amount.

Mark to Model Valuation for Financial Instruments

As at 31st March 2017 the Group held £106.2m financial assets and had financial liabilities of £2.6m. All the financial assets are classed as Loans and Receivables and held with Notice Accounts. To provide a fair value which provides a comparison to the carrying amount, we have used a financial model valuation provided by Arlingclose our Treasury Management Advisors. This valuation applies the Net Present Value approach, which provides an estimate of the value of payments in the future in today's terms as at the balance sheet date. This is a widely accepted valuation technique commonly used by the private sector.

The fair values calculated are as follows:

Financial liabilities

	31 March 2018		31 March 2017	
	Carrying Amount £000s	Fair Value £000s	Carrying Amount £000s	Fair Value £000s
Bank Overdraft	(2,648)	(2,648)	-	-
Total financial liabilities	(2,648)	(2,648)	-	-

Loans and receivables

	31 March 2018		31 March 2017	
	Carrying Amount £000s	Fair Value £000s	Carrying Amount £000s	Fair Value £000s
Money Market Loans < 1 year	65,000	65,000	50,056	50,056
Other Loans >1 year	6,453	6,453	5,013	5,013
Cash on Deposit	30,074	30,074	28,002	28,002
Customers	4,713	4,713	5,812	5,812
Total loans and receivables	106,240	106,240	88,883	88,883

Available for sale assets and assets and liabilities at fair value through profit or loss are carried in the Balance Sheet at their fair value. These fair values are based on public price quotations where there is an active market for the instrument. The exceptions to this treatment are short term debtors and creditors are carried at cost as this is a fair approximation of their value.

Note 19: Financial Instruments Group

Nature and Extent of Risks Arising from Financial Instruments

Key risks

The Groups activities expose it to a variety of financial risks; the key risks are:

- **credit risk** – the possibility that other parties might fail to pay amounts due to the Authority
- **liquidity risk** – the possibility that the Authority might not have funds available to meet its commitments to make payments
- **re-financing risk** – the possibility that the Authority might be requiring to renew a financial instrument on maturity at disadvantageous interest rates or terms
- **market risk** – the possibility that financial loss might arise for the Authority as a result of changes in such measures as interest rates and stock market movements

Overall procedures for managing risks

The Groups overall risk management procedures focus on the unpredictability of financial markets, and are structured to implement suitable controls to minimise these risks. The procedures for risk management are set out through a legal framework based on the Local Government Act 2003 and associated regulations. These require the Group to comply with the CIPFA Prudential Code, the CIPFA Code of Practice on Treasury Management in the Public Services and investment guidance issued through the Act. Overall, these procedures require the Group to manage risk in the following ways:

- by formally adopting the requirements of the CIPFA Treasury Management Code of Practice;
- by the adoption of a Treasury Policy Statement and treasury management clauses within its financial regulations/standing orders/constitution;
- by approving annually in advance prudential and treasury indicators for the following three years limiting:
 - The Groups overall borrowing;
 - Its maximum and minimum exposures to fixed and variable rates;
 - Its maximum and minimum exposures to the maturity structure of its debt;
 - Its maximum annual exposures to investments maturing beyond a year.
- by approving an investment strategy for the forthcoming year setting out its criteria for both investing and selecting investment counterparties in compliance with Government guidance.

These are required to be reported and approved at or before the the start of the year to which they relate. These items are reported with the annual treasury management strategy which outlines the detailed approach to managing risk in relation to the Groups financial instrument exposure. Actual performance is also reported after each year and regular updates are provided to the Audit & Governance Committees.

Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Groups customers. This risk is minimised through the Annual Investment Strategies, which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria, in accordance with the Fitch, Moody's and Standard & Poors Credit Ratings Services.

The Annual Investment Strategies also consider maximum amounts and time limits in respect of each financial institution. Deposits are not made with banks and financial institutions unless they meet the minimum requirements of the investment criteria outlined above. Additional selection criteria are also applied after this initial criteria is applied. Details of the Investment Strategy can be found on TVCA's website.

The Authority's maximum exposure to credit risk in relation to its investments in banks and building societies of £72,000 cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of irrecoverability applies to all of the Groups deposits, but there was no evidence at the 31 March 2018 that this was likely to crystallise.

The following analysis summarises the Authority's potential maximum exposure to credit risk on other financial assets, based on experience of default and uncollectability over the last five financial years, adjusted to reflect current market conditions.

Amount at 31 March 2018	Historical experience of default	Adjustment for market conditions at 31 March 2018	Estimated maximum exposure to default at 31 March 2018	Estimated maximum exposure to default at 31 March 2017
£000s	%	%	£000s	£000s

Note 19: Financial Instruments Group

A rated counterparties	53,000	0.06%	0.08%	42	21
Local Authorities	35,000	0.06%	0.07%	25	-
Debtors	4,713	0.10%	0.10%	5	-
				72	21

No breaches of the counterparty criteria occurred during the reporting period and the Group does not expect any losses from non performance by any of its counterparties in relation to deposits.

Liquidity Risk

The Group manages its liquidity position through the risk management procedures above (the setting and approval of prudential indicators and the approval of the treasury and investment strategy reports), as well as through a comprehensive cash flow management system, as required by the CIPFA Code of Practice. This seeks to ensure that cash is available when needed.

The Group is required to provide a balanced budget through the Local Government Finance Act 1992, which ensures sufficient monies are raised to cover annual expenditure. There is therefore no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

As at 31 March 2018, all of the Groups deposits were due to mature within 364 days.

Refinancing and Maturity risk

The Group maintains a significant investment portfolio. Whilst the cash flow procedures above are considered against the refinancing risk procedures, longer term risk to the Group relates to managing the exposure to replacing financial instruments as they mature. The approved treasury indicator limits placed on investments are the key parameters used to address this risk. The approved treasury and investment strategies address the main risks and the central treasury team address the operational risks within the approved parameters. This includes:

- monitoring the maturity profile of investments to ensure sufficient liquidity is available for day to day cash flow needs, and the spread of longer term investments provide stability of maturities and returns in relation to the longer term cash flow needs.

Market Risk

Interest Rate Risk: *The Group is exposed to interest rate movements on its investments. Movements in interest rates have a complex impact on the Group, depending upon how variable and fixed interest rates move across differing financial instrument periods. For instance, a rise in variable and fixed interest rates would have the following effects:*

- investments at variable rates – the interest income credited to the (Surplus) or Deficit on the Provision of Services will rise
- investments at fixed rates – the fair value of the assets will fall (no impact on revenue balances)

The Group has a number of strategies for managing interest rate risk. The Annual Treasury Management Strategy draws together prudential and treasury indicators and its expected treasury operations, including an expectation of interest rate movements. From this strategy a treasury indicator is set which provides maximum limits for fixed and variable interest rate exposure. The central treasury team will monitor market and forecast interest rates within the year to adjust exposures appropriately. For instance during periods of falling interest rates, and where economic circumstances make it favourable, fixed rate investments may be taken for longer periods to secure better long term returns.

If all interest rates had been 1% higher with all other variables held constant, the financial effect would be:

	2017/18	2016/17
	£000s	£000s
Increase in interest receivable on variable rate investments	258	301
Impact on (Surplus) or Deficit on the Provision of Services	258	301

The approximate impact of a 1% fall in interest rates would be as above but with the movements being reversed.

Price Risk: *The Group, excluding the pension fund, does not invest in equity shares or marketable bonds.*

Foreign Exchange Risk: *The Group has no financial assets or liabilities denominated in foreign currencies and therefore has no exposure to loss arising from movements in exchange rates.*

Note 20: Defined Benefit Pension Schemes - Group

Participation in Pension Schemes

As part of the terms and conditions of employment of its officers, the Group makes contributions towards the cost of post employment benefits. Although these benefits will not actually be payable until employees retire, the Group has a commitment to make the payments that needs to be disclosed at the time that employees earn their future entitlement.

The Group participates in The Local Government Pension Scheme, administered locally by Middlesbrough Council – this is a funded defined benefit final salary scheme, meaning that the Group and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.

Transactions Relating to Post-employment Benefits

We recognise the cost of retirement benefits in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge we are required to make against Group resources is based on the cash payable in the year, so the real cost of post employment/retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year:

Note 20: Defined Benefit Pension Schemes - Group

	Local Government Pension Scheme	
	2017/18	2016/17
	£000s	£000s
Comprehensive Income and Expenditure Statement		
Cost of Services:		
• Current service cost	715	366
• Past service cost	15	-
Financing and Investment Income and Expenditure		
Net interest cost	40	30
Total Post Employment Benefit Charged to the (Surplus) or Deficit on the Provision of Services	770	396
Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement		
• Return on plan assets (excluding the amount included in the net interest expense)	(47)	(787)
• Actuarial gains and losses arising on changes in financial assumptions	(1)	1,434
• Actuarial gains and losses due to liability experience	-	-
• Actuarial gains and losses due to acquisitions	-	-
Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	(48)	647
Movement in Reserves Statement		
Reversal of net charges made to the (Surplus) or Deficit for the		
• Provision of Services for post employment benefits in accordance with the Code	(770)	(396)
Actual amount charged against the General Fund Balance for pensions in the year:		
• Employers' contributions payable to scheme	385	405

The amount included in the Comprehensive Income and Expenditure Account as "Re-measurements of the defined benefit liability" is (£0.048m).

Pension Assets and Liabilities Recognised in the Balance Sheet

The amount included in the Balance Sheet arising from the Group's obligation in respect of its defined benefit plans is as follows:

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	Local Government Pension Scheme	
	2017/18	2016/17
	£000s	£000s
Present value of defined benefit obligation	(7,705)	(6,715)
Fair value of assets	5,654	5,001
Net liability recognised in the Balance Sheet	<u>(2,051)</u>	<u>(1,714)</u>

Note 20: Defined Benefit Pension Schemes - Group

Reconciliation of the Movements in the Fair Value of Scheme (Plan) Assets

	Local Government Pension Scheme	
	2017/18	2016/17
	£000s	£000s
Opening fair value of scheme assets	5,001	3,578
Interest income	136	130
Remeasurement gains and (losses)	47	787
Contributions from the employer	385	405
Contributions from employees into the scheme	187	113
Net increase from acquisitions	-	-
Benefits paid	(102)	(12)
Closing balance at 31 March 2018	<u>5,654</u>	<u>5,001</u>

Reconciliation Of Present Value Of The Scheme Liabilities (Defined Benefit Obligation)

	Local Government Pension Scheme	
	2017/18	2016/17
	£000s	£000s
Opening balance at 1 April	(6,715)	(4,654)
Current service cost	(715)	(366)
Interest cost	(176)	(160)
Contributions by scheme participants	(187)	(113)
Actuarial gains and losses - financial assumptions	1	(1,434)
Actuarial gains and losses - liability experience	-	-
Benefits paid	102	12
Net increase from acquisitions	-	-
Past service cost	(15)	0
Closing balance at 31 March 2018	<u>(7,705)</u>	<u>(6,715)</u>

Local Government Pension Scheme assets comprised:

	Fair value of scheme assets		Fair value of scheme assets	
	2017/18		2016/17	
	£000s	%	£000s	%
Equity investments (Quoted)	4,518	79.9%	4,001	80.0%
Property (Quoted)	413	7.3%	345	6.9%
Government Bonds	-	0.0%	10	0.2%
Corporate Bonds	-	0.0%	10	0.2%
Cash	628	11.1%	560	11.2%
Other Investments	96	1.7%	75	1.5%
	<u>5,654</u>	<u>100%</u>	<u>5,001</u>	<u>100%</u>

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Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. Both the Local Government Pension Scheme and discretionary benefits liabilities have been assessed by AON Hewitt, an independent firm of actuaries; estimates for the Teesside Pension Fund being based on the latest full valuation of the scheme as at 31 March 2018.

Note 20: Defined Benefit Pension Schemes

The principal assumptions used by the actuary have been:

	2017/18	2016/17
Mortality assumptions:		
<u>Longevity at 65 for current pensioners:</u>		
Men	22.9	22.8
Women	25.0	24.9
<u>Longevity at 45 for future pensioners:</u>		
Men	25.1	25.0
Women	27.3	27.2
<u>Other assumptions:</u>		
Rate of inflation (RPI)	3.1%	3.1%
Rate of inflation (CPI)	2.0%	2.0%
Rate of increase in salaries	3.0%	3.0%
Rate of increase in pensions	2.0%	2.0%
Rate of Pension accounts revaluation rate	2.0%	2.0%
Rate for discounting scheme liabilities	2.6%	2.6%
Take-up of option to convert annual pension into retirement lump sum	80.0%	80.0%

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analyses below have been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all the other assumptions remain constant. The assumptions in longevity, for example, assume that life expectancy increases or decreases for men and women. In practice, this is unlikely to occur, and changes in some of the assumptions may be interrelated. The estimations in the sensitivity analysis have followed the accounting policies for the scheme, i.e. on an actuarial basis using the projected unit credit method. The methods and types of assumptions used in preparing the sensitivity analysis below did not change from those used in the previous period.

Impact on the Defined Benefit Obligation in the Scheme

	Increase	Base Figure	Decrease
	£000s	£000s	£000s
Longevity (increase or decrease in 1 year)	7,933	7,705	7,478
Rate of increase in salaries (increase or decrease by 0.1%)	7,784	7,705	7,627
Rate of increase in pensions payment (increase or decrease by 0.1%)	7,825	7,705	7,586
Rate for discounting scheme liabilities (increase or decrease by 0.1%)	7,510	7,705	7,905

Impact on the Group's Cash Flows

The objectives of the scheme are to keep employers' contributions at as constant a rate as possible. The Group has agreed a strategy with the scheme's actuary to achieve a funding level of 100% over the next 20 years. Funding levels are monitored on an annual basis. The next triennial valuation is due to be carried out as at 31 March 2019.

The scheme will need to take account of the national changes to the scheme under the Public Pensions Services Act 2013. Under the Act, the Local Government Pension Scheme in England and Wales and the other main existing public service schemes may not provide benefits in relation to service after 31 March 2014 (or service after 31 March 2015 for other main existing public service pension schemes in England and Wales). The Act provides for scheme regulations to be made within a common framework, to establish new career average revalued earnings schemes to pay pensions and other benefits to certain public servants.

The Group anticipates to pay £0.395m contributions to the scheme in 2018/2019.

The weighted average duration of the defined benefit obligation for TVCA scheme members is 25.7 years. The weighted average duration of the defined benefit obligation for STDC scheme members is 37.4 years.

Note 21: Termination Benefits

The Group terminated the contract of one employee in 2017/18, incurring liabilities of £27k. The amount has been payable to an officer from the TVCA reflecting a service restructure.

The numbers of exit packages with total cost per band and total cost of the compulsory and other redundancies are set out in the table below:

Exit package cost band (including special payments)	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band		Total cost of exit packages in each band	
	2017/18	2016/17	2017/18	2016/17	2017/18	2016/17	2017/18 £000s	2016/17 £000s
£1 to £20,000	-	1	-	-	-	1	-	3
£20,001 to £40,000	1	-	-	-	1	-	27	-
£40,001 to £60,000	-	-	-	-	-	-	-	-
£60,001 to £80,000	-	-	-	-	-	-	-	-
£80,001 to £100,000	-	-	-	-	-	-	-	-
£100,001 to £150,000	-	-	-	-	-	-	-	-
£150,001 to £200,000	-	-	-	-	-	-	-	-
Total	1	1	-	-	1	1	27	3

Note 22: Provisions

The Group has not been required to establish any provision's in year.

Note 23: Contingent Liabilities

The Group has no contingent liabilities.

Note 24: Post Balance Sheet Events

The Group has no post balance sheet events to report.

Note 25: Statement of Accounting Policies

General Principles

The Statement of Accounts summarise the Group's transactions for the 2017/18 financial year and its position at the year-end of 31 March 2018. The Group 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 Group Accounting in the United Kingdom 2017/18, supported by International Financial Reporting Standards (IFRS).

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

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:

- Income from the sale of goods is recognised when the Group transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Group.
- Income from the provision of services is recognised when the Group can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Group.
- 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 is accounted for respectively as income on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in 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.

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 highly liquid investments that mature in no more than three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Group's cash management.

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

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

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

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 for current employees and are recognised as an expense for services in the year in which employees render service to the Group. An accrual is made for the cost of holiday entitlements (or any form of leave, eg time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to (Surplus) or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Note 25: Statement of Accounting Policies

Post Employment Benefits

Employees of the Group are members of one pension scheme:

- The Local Government Pensions Scheme, administered by Middlesbrough Group.

The schemes provided defined benefits to members (retirement lump sums and pensions), earned as employees worked for the Group and its predecessor.

The Local Government Pension Scheme

The Local Government Scheme is accounted for as a defined benefits scheme:

- The liabilities of the Teesside Pension Fund attributable to the Group are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc., and projections of projected earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate based on the indicative rate of return on the Aon Hewitt GBP Central AA Curve.
- The assets of the Teesside Pension Fund attributable to the Group are included in the Balance Sheet at their fair value:
 - quoted securities* – current bid price
 - unquoted securities* – professional estimate
 - unitised securities* – current bid price
 - property* – market value.

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

Service cost comprising:

- *current service cost*: the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked
- *past service cost*: the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years – debited to the (Surplus) or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs
- net interest on the net defined benefit liability: i.e. net interest expense for the Group - the change during the period in the net defined benefit liability that arises from the passage of time charged to the Financing and Investment Income and Expenditure line 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 at the beginning of the period - taking into account any changes in the net defined benefit liability during the period as a result of contribution and benefit payments.

Remeasurements comprising:

- *the return on plan assets* - excluding amounts included in the net interest on the net defined benefit liability - 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 Teesside 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 Group 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.

Events after the Reporting Period

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 Financial Statements are authorised for issue. Two types of events can be identified:

Note 25: Statement of Accounting Policies

- those that provide evidence of conditions that existed at the end of the reporting period – the Financial Statements are 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 financial statements.

Financial Assets

Loans and receivables are recognised on the Balance Sheet when the Group becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset in the Balance Sheet. For most of the loans that the Group has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

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

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

Government Grants and Contributions

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

- the Group will comply with the conditions attached to the payments, and
- the grants or contributions will be received.

Amounts recognised as due to the Group are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as receipts in advance. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non Specific Grant Income (non ringfenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant or equipment. Charges are made on a straight line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a rent-free period at the commencement of the lease).

Overheads and Support Services

The costs of overheads and support services are charged to service segments in accordance with the Group's arrangements for accountability and financial performance.

Note 25: Statement of Accounting Policies

Provisions, Contingent Liabilities and Contingent Assets

Provisions

Provisions are made where an event has taken place that gives the Group 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 instance, the Group 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 Group becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

Contingent Liabilities & Contingent Assets

A contingent liability arises where an event has taken place that gives the Group 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 Group. A contingent asset arises where an event has taken place that gives the Group a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Group. Contingent liabilities and contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts.

Reserves

The Group 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 Group 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 Group.

Revenue Expenditure Funded from Capital under Statute

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Group has determined to meet the cost of this expenditure from existing capital resources, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged.

VAT

VAT on income and expenditure is included only to the extent that it is not recoverable from HM Revenue and Customs.

Note 25: Statement of Accounting Policies

Fair Value Measurement

The Group measures some of its non-financial assets, and some of its financial instruments 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:

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

The Group measures the fair value of an asset or liability on the same basis that market participants would use when pricing the asset or liability (assuming those market participants were acting in their economic best interest).

When measuring the fair value of a non-financial asset, the Group 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 Group uses appropriate valuation techniques for each circumstance, maximising the use of relevant known data and minimising the use of estimates or unknowns. this takes into account the three levels of categories for inputs to valuations for fair value assets:

- Level 1 - quoted prices
- 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.

Responsibilities for the Annual Financial Statements

The Authority's Responsibilities

The Tees Valley Combined Authority Group is required to:

- make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Group, that officer is the Chief Financial Officer;
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- approve the Annual Financial Statements by the date specified by the Secretary of State.

The Chief Financial Officers Responsibilities

The Chief Financial Officer is responsible for the preparation of the Groups Annual Financial Statements in accordance with proper practice as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in Great Britain (the Code of Practice).

In preparing the Annual Financial Statements, the Chief Financial Officer has:

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent;
- complied with the Local Authority Code of Practice.

The Chief Financial Officer has also:

- kept accounting records which were up to date;
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

Certification of the accounts by the Chief Financial Officer

In accordance with the requirements of the Accounts and Audit Regulations 2015, I certify that by signing this statement the Annual Financial Statements give a true and fair view of the financial position of Tees Valley Combined Authority Group Accounts at the accounting date and its income and expenditure for the year ended 31 March 2018.



J Gilhespie
Director of Finance

Date: 31 May 2018

These financial statements replace the unaudited financial statements certified by the Director of Finance on 31st May 2018.

J Gilhespie
Director of Finance

Date: 31 July 2018

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF TEES
VALLEY COMBINED AUTHORITY**

Glossary of Terms

Accruals

The concept that income and expenditure are recognised as they are earned or incurred, not as money is received or paid.

Amortised cost

The amount at which a financial asset or financial liability is measured at initial recognition, less principal repayments and plus or minus any unamortised original premium or discount. International Accounting Standard (IAS) 39 requires the amortised cost to be calculated using the effective interest method.

Capital Charge

A charge to service revenue accounts to reflect the cost of non current assets used in the provision of a service.

Capital Expenditure

Expenditure on the acquisition of a non current asset or expenditure designed to extend its useful life.

Consistency

The concept that the accounting treatment of like items within an accounting period and from one period to the next is the same.

Contingency

A condition which exists at the balance sheet date, where the outcome will be confirmed only on the occurrence or non occurrence of one or more uncertain future events.

Depreciation

The measure of the wearing out, consumption or other reduction in the useful economic life of a non current asset, whether arising from use, effluxion of time or obsolescence through technological or other changes.

Effective interest method

This is a method of calculating the amortised cost of a financial asset or financial liability, and of allocating the interest income or interest expense over the relevant period. The effective interest rate in a financial instrument is the rate that exactly discounts the cash flows associated with the instrument to the net carrying amount at initial recognition.

Exceptional Items

Material items which derive from events or transactions that fall within the ordinary activities of the Authority and which need to be disclosed separately by virtue of their size or incidence to give fair presentation of the accounts.

Extraordinary Items

Material items, possessing a high degree of abnormality, which derive from events or transactions that fall outside the ordinary activities of the Authority and which are not expected to recur. They do not include exceptional items, nor do they include prior period items, merely because they relate to a prior period.

Fair Value

The fair value of an asset is the price at which it could be exchanged in an arm's length transaction, less, where applicable, any grants receivable towards the purchase or use of the asset.

Glossary of Terms

Finance Lease

A lease that transfers substantially all the risks and rewards of ownership of a non current asset to the lessee. Such a transfer of risks and rewards may be presumed to occur if at the inception of the lease the present value of the minimum lease payments, including any initial payment, amounts to substantially all of the fair value of the leased asset.

Going Concern

The concept that the Authority will remain in operational existence for the foreseeable future, in particular that the revenue accounts and balance sheet assume no intention to curtail significantly the scale of operations.

Government Grants

Assistance by government and inter-government agencies and similar bodies, whether local, national or international, in the form of cash or transfers of assets to an Authority in return for past or future compliance with certain conditions relating to the activities of the Authority.

Inventories

Comprise the value of items held in the following categories:

- a) goods or other assets purchased for resale;
- b) consumable stores;
- c) raw materials and components purchased for incorporation into products for sale;
- d) products and services in intermediate stages of completion;
- e) long term contract balances; and
- f) finished goods.

Investments

A long term investment is an investment that is being held for use on a continuing basis in the activities of the Authority. Investments should be so classified only where an intention to hold the investment for the long term can clearly be demonstrated or where there are restrictions as to the investor's ability to dispose of the investment. Investments which do not meet the above criteria are classified as current assets.

Long Term Contracts

A contract entered into for the design, manufacture or construction of a substantial asset or the provision of a service (or a combination of assets or services which together constitute a single project), where the time taken to substantially complete the contract is such that the contract activity falls into different accounting periods. Some contracts with a shorter duration than one year should be accounted for as long term contracts, if they are sufficiently material to the activity of the period.

Net Book Value

The amount at which non current assets are included in the balance sheet i.e. the historical cost or current value, less the cumulative amounts provided for depreciation.

Net Current Replacement Cost

The cost of replacing or recreating the particular asset in its existing condition and in its existing use i.e. the costs of its replacement or of the nearest equivalent asset, adjusted to reflect the current condition of the existing asset.

Net Realisable Value

The open market value of the asset in its existing use (or open market value in the case of a non operational asset), less any expenses incurred in realising the asset.

Glossary of Terms

Non Current Assets

Tangible assets that yield benefits to the Authority and the services it provides for a period of more than one year.

Non Operational Assets

Non current assets held by a Authority but not directly occupied, used or consumed in the delivery of services. Examples of non-operational assets are investment properties and assets that are surplus to requirements, pending sale or redevelopment.

Operating Lease

A lease other than a finance lease.

Operational Assets

Non current assets held and occupied, used or consumed by the Authority in the direct delivery of those services for which it has either a statutory or discretionary responsibility.

Post Balance Sheet Events

Those events, both favourable and unfavourable, which occur between the balance sheet date and the date on which the Statement of Accounts is signed by the responsible financial officer.

Prior Year Adjustments

Those material adjustments applicable to prior years, arising from changes in accounting policies or from the correction of fundamental errors. They do not include normal recurring corrections or adjustments of accounting estimates in prior years.

Prudence

The concept that revenue is not anticipated, but is recognised only when realised, in the form either of cash or of other assets, the ultimate cash realisation of which can be assessed with reasonable certainty.

Usable Reserves

Amounts set aside to meet future costs, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use.

Unusable Reserves

Reserves that not available to spend; this category of reserves includes reserves that hold unrealised gains and losses and reserves that hold timing differences shown in the Movement in Reserves Statement line "Adjustments between accounting basis and funding basis under regulations".