North East Combined Authority
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Item 8

Leadership Board

Date: **23 January 2024**

Subject: **North East Mayoral Combined Authority 2025-2029 Draft Corporate Plan, Draft Budget and Medium-Term Financial Plan Proposals**

Report of: **Chief Finance Officer**

Executive Summary

The late provision of this report is due to the need for both combined authorities to receive the information at the same time, but the meeting dates differing by one week, and in order to provide the most up-to-date information in relation to the work on development of budgets for the proposed mayoral combined authority. The budget proposals set out in the report are consistent with the draft proposals discussed with the Leadership Board on 28 November 2023.

On 28 December 2022 HM Government announced a "minded to" devolution deal with the North East Combined Authority, North of Tyne Combined Authority and the seven councils across the North East (i.e. Durham, Gateshead, Newcastle, North Tyneside, Northumberland, South Tyneside and Sunderland). The proposed devolution deal provides at least £4.2 billion of investment into the region over 30 years and requires the councils to establish a new mayoral combined authority and abolish the North East Combined Authority (NECA) and the North of Tyne Combined Authority (NTCA) which is dependent on the Secretary of State making a statutory order under the Local Democracy, Economic Development and Construction Act 2009.

The 7 constituent authorities as well as NECA and NTCA have now all given their formal consent to the making of the order and have authorised their Chief Executives to issue formal consent to the final order when requested to do so by the Secretary of State. It is anticipated that the Secretary of State will issue his request for the councils and combined authorities to consent to the making of the order in December or January. This will allow the Secretary of State to lay the order before Parliament and for it to be made (i.e., take effect) by March 2024. This will then allow for the mayoral election to be held in May 2024 and NEMCA to come into existence on 7 May 2024.

The drafting of the statutory order has continued since the budget report to the Leadership Board in November with the expectation that DLUHC will lay the order no later than the

week commencing 29 January 2024. The new combined authority will be created when the mayor is due to take office on 7 May 2024 (with the existing combined authorities being abolished at that point). To this end the NECA and NTCA will extend their financial current year end to 6 May 2024. To deliver the deal there is a need to be ready with a single corporate plan and budget for the first period of 7 May 2024 through to 31 March 2025. The deal provides a framework for the development of the initial budgets and financial plans for the new authority, however until the new authority comes into existence, the current decision-making arrangements apply; therefore the single corporate plan and budget are set out in this report for consideration by the current decision-makers (NECA, NTCA and Joint Transport Committee (JTC)) in a manner that fits currents arrangements and can be seen as a combined budget in May 2024.

The Leadership Board considered an initial draft Budget and Corporate Plan on the 28 November. The proposals have been subject to engagement and consultation, including with Overview and Scrutiny Committees for both NECA and NTCA. The report also reflects changes arising as a result of the Autumn Statement and subsequent announcements since 28 November 2023.

Recommendations

The Leadership Board is recommended to:

i. Agree the draft NEMCA Corporate Budget for 2024/25 as set out in section 2.8;
ii. Agree the overarching delivery budgets as set out in section 2.13-2.26;
iii. Note the Transport Levies were agreed by the North East Joint Transport Committee on the 16 January 2024 and will be issued by the Combined Authorities preceding the commencement of the financial year in respect of which they are to be issued, in line with the Transport Levying Bodies Regulations; and
iv. Note the reserves position as set out in section 2.29 which will be kept under review while consideration of NEMCA developments and new information becomes available about the financial risks facing the authority and the proposed arrangements for managing those risks;
v. Note that no comments or recommendations have been made by the Overview and Scrutiny Committees set out in section 12.2.

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1. Background Information

1.1 On 28 December 2022 HM Government announced a “minded to” devolution deal with North East Combined Authority, North of Tyne Combined Authority and the seven councils across the North East (i.e. Durham, Gateshead, Newcastle, North Tyneside, Northumberland, South Tyneside and Sunderland). The “minded to” devolution deal would see a significant shift of powers, funding and responsibility which would enable the Councils to pursue their ambitions for inclusive growth. In total, it is expected to provide at least £4.2 billion of additional funding for transport, education and skills, housing, and regeneration. This would enable into projects which reflect local needs and opportunities, making a real difference for residents, communities, and the local economy.

1.2 The deal requires the councils to establish a new mayoral combined authority. This will be dependent on the Secretary of State making a statutory order under the Local Democracy, Economic Development and Construction Act 2009 to deliver the following proposals:

a. The abolition of the two existing combined authorities, i.e. North East Combined Authority (NECA) and the North of Tyne Combined Authority (NTCA); and

b. The creation of a new mayoral combined authority which covers the area of all 7 councils, which will be called the North East Mayoral Combined Authority (NEMCA).

(N.B. the changes above would also entail the abolition of the Joint Transport Committee (JTC) as NEMCA would be responsible for the exercise of transport functions across the regions in the future.)

1.3 Discussions have taken place with DLUHC officials over several months regarding the content of the statutory order. The order will provide for the election of a mayor for the new combined authority in May 2024 and for the new combined authority to come into existence when the mayor is due to take office on 7 May 2024 (with the existing combined authorities being abolished at that point). To this end the NECA and NTCA will extend their financial current year end to 6 May 2024.

1.4 To deliver the deal there is a need to be ready with a single corporate plan and budget for the first period of 7 May 2024 through to 31 March 2025. Subject to the necessary order being laid, the deal provides a framework for the development of the initial budgets and financial plans for the new authority, however until the new authority comes into existence, the current decision-making arrangements apply; therefore the single corporate plan and budget are set out in this report in line with the current decision-makers (NECA, NTCA and JTC) in a manner that fits current arrangements and can be seen as a combined budget in May 2024.

1.5 The Autumn Statement announcement in November 2023 contained some areas of financial matters in relation to Combined Authorities. They included the following:

1.5.1 Confirmation that Growth Hub (currently delivered by the NELEP) funding will continue to 31 March 2025 at the current level of £0.420m per annum. The assumed level of funding of £0.420m was included in the draft budget presented to the Leadership Board on 28 November 2023.

1.5.2 Funding for the Made Smarter programme was confirmed to March 2025, with the expectation the programme will expand in 2025-26 but the scale of that and associated funding to be considered once a government taskforce is set up to explore how best to support SMEs to adopt digital technology.

1.6 At Spring Budget 2023, the government launched the refocussed Investment Zones programme. The government is now going further by extending the Investment Zones programme from five to ten years, which will double the envelope of funding and tax reliefs available in each Investment Zone from £80 million to £160 million, to provide greater certainty to investors. The government is also extending the duration of the tax reliefs available in Freeports from five to ten years to maximise the programme's impact. To ensure Investment Zones and Freeports can respond nimbly as investment opportunities arise, the government is also creating a new £150 million Investment Opportunity Fund, which will be available over five years. Details on how to access the £150m had not been released at the time of drafting this report. Details of the proposed North East Investment zones are set out in Section 2.17 of this report.

2. Proposals

Implications for NECA, NTCA and the Joint Transport Committee

2.1 To establish the new regional NEMCA, the existing combined authorities – NECA and NTCA – will need to be abolished. The Leadership Board of NECA and the Mayor and Cabinet of NTCA will need to consent to the statutory order which provides for their abolition and the creation of NEMCA, which will take place simultaneously when the elected mayor for NEMCA takes office in early May 2024.

2.2 The Leadership Board are aware that the draft statutory order provides appropriate continuity and transitional arrangements so that any acts of the existing combined authorities are to be treated as the acts of the new mayoral combined authority. The order will also provide for the staff, assets, rights and liabilities of the existing combined authorities to transfer to NEMCA. This will ensure that the existing funding programmes of NTCA and the regional transport arrangements which are currently overseen by the JTC are maintained by

NEMCA without interruption. Officers from both combined authorities and the local authorities continue to liaise on the operational requirements of the transition, which will include the arrangements for Transport North East (TNE) and the integration of the North East Local Enterprise Partnership (NELEP) in line with central government policy.

2.3 Implementing the devolution deal would enable the region to access over £4bn of funding over a 30-year deal cycle, together with new powers to better shape local skills provisions to ensure these meet the needs of the local economy. This would include devolution of adult education functions and the core adult education budget, as well as input into the new local skills improvement plans. The "minded to" deal also secures significant investment in regional transport. Over time the region would also expect to benefit from access to additional funding streams reserved for mayoral combined authorities. Detailed discussions will be progressed with the existing combined authorities and the other councils regarding the financial arrangements associated with the transition to the new arrangements.

2.4 An initial Corporate Plan for 2024 (Appendix A) has been agreed through the transition governance arrangements by the 7 Local Authority Leaders and Mayor. The plans sets out the seven interim portfolio areas and early priorities that will be supported by the various funding streams, which are detailed in section 2.13-2.26 of this report. The plan also describes the various roles the Combined Authority undertakes as part of its remit to deliver the North East devolution deal and that has formed some of the consideration in developing the Corporate Budget.

Developing the Corporate Budget

2.5 This draft budget as set out in Table 1 below is based on the following central assumptions and worked through the current Transition Governance arrangements, with collaborative work across the Chief Executives and Financial Directors and using experience of what it takes to run an effective Mayoral Combined Authority.

a) A balanced budget is proposed for the 11-month period between May 2024 and March 2025 – the first operating year of NEMCA.
b) Constituent authorities will see no material increase in revenue funding to establish NEMCA – and will thus continue to contribute the current 2023-24 funding arrangements across NECA, NTCA, NELEP, INEE and TNE.
c) Additional funding for costs is secured from new income into the region through prudent top slicing of the investment fund and additional income, in line with the approach taken by other Mayoral Combined Authorities.

d) The budget enables the integration of five organisations. Most of this activity is already funded by the region; this budget identifies the marginal budget growth needed to enable key new senior posts that are required to deliver the outcomes set out in the devolution deal.
e) It is a prudent year one budget that enables a TUPE process and 'day 1' continuity for NEMCA, but with opportunities for integration anticipated to deliver efficiencies for investment where capacity gaps are identified.
f) The estimates have been refreshed following further analysis of the existing budgets and commitments for resources to deliver the funded programmes.

Additional budget assumptions:

a) Prudent assumption on staff turnover of less than 3%. Recently staff turnover rates have been as high as 10% being representative of the market conditions in respect of recruitment and retention and will be kept under review as part of the usual financial management and resource management actions of NEMCA.
b) The current employer pension contributions rates for NECA and NTCA differ; NECA being 0% and NTCA being 15.1%. The draft budget includes a blended rate across the new organisation while dialogue progresses with the Tyne and Wear Pension fund regarding a rate for the new authority. It is reasonable to expect the new contribution rate to be lower than currently assumed.
c) The budget assumes a £400k contribution to an Election Reserve to start the build-up for 2029.
d) The budget is prudent, it is reasonable to anticipate upside from higher interest earning reflecting higher cash balances, and from the possibility of additional in-year income that has been realised for each year of the NTCA to date.
e) No Mayoral precept has been in place for NTCA.

2.6 The preparation of these initial budget proposals has taken into consideration the existing organisations (under the rubric of NECA and NTCA) that will transfer to NEMCA. Consideration has been given to the NEMCA being the "sum of its parts" of the 5 organisations coming together but being cognisant of any known additional capacity requirements where there are known increased delivery requirements. The draft corporate plan sets out some clear priority areas for early delivery and there will be programme/project activity that whilst started in NTCA, the NELEP and TNE will continue into future years. Current indications are that total investment funding for 2024-25 will be in the region of £402.68m, so the relatively small amount of additional staffing capacity at £0.835m delivers an excellent return on investment.

2.7 A full review of Service Level Agreements has been undertaken on behalf of LA7 Finance Directors to consider where appropriate activity should be delivered directly by NEMCA and where service level agreements will need to continue (based on a judgement of the right balance between delivery capacity, risk, and public value). These will continue to be reviewed in line with good practice as NEMCA evolves over time. Plans are in development to ensure smooth transition from current to new arrangements as part of the overall Transition Programme.

2.8 Table 1 below sets out an initial Operational Budget for NEMCA. For illustrative purposes, an estimated full year budget is shown but in essence the authority will only exist for 11 months of 2024-25. The constituent elements to this budget are set out in Appendix B to this report.

Table 1 Initial Operational Budget		2024-25 Full year estimate	7 May 2024- 31 March 2025
Expenditure		£m	£m
Employees Baseline		13.266	12.169
Employees Growth		0.911	0.835
Transport		0.085	0.077
Premises		0.659	0.604
Supplies and Services		3.291	3.217
Programme delivery costs		1.027	0.941
Support Services		0.882	0.809
Cost of Capital		9.445	8.658
Contribution to Election Reserves		0.400	0.400
Efficiency savings			
Total Expenditure		29.966	27,710
Income			
Top-slice		(8.623)	(8.295)
Transport Grants		(1.405)	(1.288)
Other grants, reimbursements, and contributions ECMA and Levies, TNE		(2.120)	(1.943)
Grants including NELEP transition grant		(2.930)	(2.686)
Mayoral Capacity Fund		(1.000)	(1.000)
Direct Grant Recharges		(1.501)	(1.435)
Tyne Tunnel		(8.807)	(8.073)
Interest		(0.732)	(0.671)

Recharges - Nexus and Northumberland		(0.437)	(0.401)
Local Authority Contributions		(0.741)	(0.679)
Contribution from Reserves		(1.352)	(1.239)
Total Income		(29.648)	(27.710)
Net Budget		0.318	0.000

Developing an Investment Plan for the North East

2.9 The overarching objectives of the devolution deal are set out in summary below:

- Integrating economy, skills, transport, housing, and public sector reform
- Shared principles of inclusive growth, addressing disparities and bringing communities together in a smart, skilled, sustainable region
- Accelerate rural growth.
- Amplify global assets.
- Bring forward fiscal innovation, working on a public service reform programme, and influencing integrated care system.
- Creating an integrated transport system, including unlocking transformative schemes
- Incentivising investment in digital connectivity, 5G-ready infrastructure
- Decisions reflect diverse geography, assets and needs and each partners sees benefits of cross-regional investment.

2.10 An Investment Strategy for NEMCA will be brought together which considers the future deployment of the Investment Fund (e.g., £48m per annum) alongside the other funding streams inherent to the Combined Authority – such as for brownfield housing, economic development, and inclusive growth. The purpose of the NEMCA investment fund is to improve the trajectory of the North East economy – improving productivity and public services, not substituting, or displacing existing investment. The following financial principles are designed to support that aim.

2.11 Specifically for the £1.4bn (£48m per annum Investment Fund), the financial principles to be followed – as discussed and agreed with a steering group of political leaders, in lieu of a NEMCA establishment, – include:

- **Value for money** – projects must make a tangible contribution to our strategic objectives and provide good value for money in terms of outputs and outcomes.

- **Social value** – investments will meet established social value requirements, as well as articulating their relationship to the strategic outcomes set out in the investment plan and assurance framework. e.g., a commitment to good work
- **Additionality** – investments will be in addition to existing funding available at regional and local levels, avoiding displacement, deadweight, leakage, and substitution.
- **A programme approach** – we will develop coherent programmes of investments. This includes looking for opportunities to take a pan-regional approach to sectoral growth whilst considering how more localised initiatives can work together to address the opportunities and challenges of specific places and communities.
- **Novel approaches** – the authority will explore opportunities to introduce new financial instruments (for instance tax increment finance, land value capture, energy delivery vehicles, etc where their introduction could increase outcomes within the region, with appropriate review by scrutiny and the investment board to manage risk.

2.12 For capital projects specifically:

- **Co-investment and leverage** – investments will be made in ways that maximise private sector leverage, either through up-front co-investment commitments, or through additional investment unlocked by funding.
- **Recyclability** – the expectation will be that where returns on investment are collected, they will be used to service any debt accrued in financing the upfront investment, and then will be recycled into the regional investment fund for re-investment.
- **Borrowing** – borrowing against the investment fund will only be pursued for strategic regional investments with substantial co-investment of and expected returns on investment as set out in the forthcoming Investment Strategy.

Funding Streams Financial Year 2024/25 through to 2028/29

2.13 The Tables below set out indicative funding streams for 2024/25 and across the first four years of the MCA. It is reasonable to expect (based on NTCA and wider MCA performance to date) that the funding streams will grow and future allocations of UKSPF and Brownfield Housing Funding, for example, are confirmed beyond 2024/25.

2.14 These are clearly delivery funding streams and will be split between revenue and capital programmes and projects as illustrated in the Tables.

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Table 2 Draft Investment Fund: This Table starts by illustrating the programme commitments made by NTCA over the course of the first five years. Activity continues over most programme areas, but some examples include projects such as Access to Finance, North Bank of the Tyne Walker Key phase II, ongoing Skills programmes in respect of the Inclusive Economy Programme and on-going delivery of the Culture, and Creative Zones. Early consideration for the NEMCA cabinet will include those existing programmes/projects of the NTCA that NEMCA consider appropriate to “scale up” across the LA7 geography, in addition to consideration of funding of Local Authority contributions to projects such as the North East Screen Improvement Partnership (NESIP). Currently the NTCA Investment fund meets the contribution of the 3 North of Tyne constituent authorities, and early consideration will be required to ensure a consistent approach across the LA7 geography.

Draft Investment Fund	**2024-25 £m**	**2025-26 £m**	**2026-27 £m**	**2027-28 £m**	**2028-29 £m**	**Total £m**
NTCA – current programme commitments Revenue and Capital into future years	25.234	15.525	5.854	1.138	6.020	53.770
Funded by NTCA Investment fund Reserve forecast as of 6 May 2024	(19.525)	0.000	0.000	0.000	0.000	(19.525)
Balance of funding requirement 2024-25 and future years	**5.709**	**15.525**	**5.854**	**1.138**	**6.020**	**34.245**
NEMCA Capital Funding	14.000	14.000	14.000	14.000	14.000	70.000
Capital top slice	(1.400)	(1.400)	(1.400)	(1.400)	(1.400)	(7.000)
Early Capital match	(12.600)	(1.610)	0.000	0.000	0.000	(14.210)
Available for New Investment	**0.000**	**10.990**	**12.600**	**12.600**	**12.600**	**48.790**
NEMCA Revenue Funding	34.000	34.000	34.000	34.000	34.000	170,000
Revenue top slice	(3.400)	(3.400)	(3.400)	(3.400)	(3.400)	(17.000)
Cost of Borrowing – currently based on an £50m borrowed in 24-25	(1.125)	(2.504)	(2.513)	(2.523)	(2.532)	(11.197)
Funding NTCA current programme commitments	(5.709)	(15.525)	(5.854)	(1.138)	(6.020)	(34.245)
Available for New Investment	**23.766**	**12.571**	**22.233**	**26.939**	**22.048**	**107.557**

2.15 **Table 3 Strategic Place based funding – Brownfield Housing Fund**: 2024/25 will be the final year of funding for NTCA for the North of Tyne sites bringing the total investment to £31.820m by 31 March 2025. As part of the early priorities in negotiation the NEMCA deal £35.400m has been secured for Brownfield housing sites across the South of Tyne Local Authorities area. This current financial year has seen sites proposed that are currently progressing through the NTCA Assurance process that will allow the project to start in 2023/24 and conclude delivering of the expenditure during 2024/25. Currently 2024/25 is the final year of the allocation of Brownfield Housing funding but again it is anticipated further funding will be provided for the NEMCA geography over the course of 2024/25.

Brownfield Housing Fund - Year 2	**2024-25**	**2025-26**	**2026-27**	**2027-28**	**2028-29**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
NTCA	8.669	0.000	0.000	0.000	0.000	8.669
NEMCA	15.400	0.000	0.000	0.000	0.000	15.400
Total	**24.069**	**0.000**	**0.000**	**0.000**	**0.000**	**24.069**

2.16 **Table 4 Early Capital funding:** The Leadership Board are aware that as part of securing the NEMCA devolution deal a £20m capital fund was secured. Projects have been agreed are currently progressing through the NTCA assurance process to start delivery and spending in 2023/24. This table sets out the current forecast final year of the early capital spend and funding alongside the proposed match funding from the Investment Fund.

Early Capital Programme	**2024-25 £m**	**2025-26 £m**	**2026-27 £m**	**2027-28 £m**	**2028-29 £m**	**Total £m**
Early Capital Funding	0.240	0.000	0.000	0.000	0.000	0.240
NEMCA Early Capital match from Investment Fund Capital	12.600	1.610	0.000	0.000	0.000	14.210
Total	**12.840**	**1.610**	**0.000**	**0.000**	**0.000**	**14.450**

2.17 **Table 5 Indicative Investment Zones Funding**: the table sets out the indicative profile of the £35m Flexible funding, alongside an indication of the additional flexible fund to be received where the Tax site proposed in Blyth is 100Ha as opposed to the maximum 200Ha. This is in line with the over-arching principles and operational model for the Investment Zone agreed with political leaders across the LA7 and Government.

Investment Zones	2024-25 £m	2025-26 £m	2026-27 £m	2027-28 £m	2028-29 £m	Total £m
Flexible Revenue Funding	2.000	3.000	3.000	3.000	3.000	14.000
Additional Flexible Revenue Funding	0.000	0.250	0.250	0.250	0.250	1.000
Capital Funding	2.500	5.000	5.000	4.500	4.000	21.000
Additional Flexible Capital	3.000	4.750	4.750	4.750	4.250	21.500
Total	**7.500**	**13.000**	**13.000**	**12.500**	**11.500**	**57.500**

2.18 The NEIZ proposition includes two Business Rates Retention sites – with approvals being sought from Northumberland and Sunderland/South Tyneside Councils respectively. These sites will benefit from the retention of all growth in business rates over the next 25 years – as opposed to the ‘normal’ process of the local authority keeping half the growth until the next business rates reset point. Business rates retention therefore provides the potential for a significant additional revenue source, with an indicative £382m retained business rates becoming available to fund investment over the 25-year period. To maximise its impact, the following reinvestment principles have been developed:

- First, income will be used to meet costs which would otherwise be incurred by the host local authority in enabling growth of the Intervention / Tax / BRR site and ensuring that the benefits associated with delivering against the IZ objectives are maximised and felt by the local community.
- Second, interventions which are expected to maximise private sector investment and job creation in clean energy and green manufacturing at the four intervention sites, and to ensure that the benefits of delivering against the Investment Zone objectives are felt across the region as a whole.
- Third, to fund interventions which will support growth of the low carbon economy over a wider geography.

2.19 **Table 6 Indicative Overall Skills Funding**: this table sets out the range of funds to deliver skills and adult education across the first 5 years. Currently Bootcamps funding is secured through an annual process with no indication of funding beyond 2024/25 financial year – albeit the case is being made by the region to Government to provide additional assurance as to future funding rounds. Approval of Wave 5 Bootcamps for 2024/25 was confirmed late in December with a 1 April start date. Initially NTCA will act as accountable body until the 7 May when NEMCA will take over that responsibility. It is anticipated more funds will be made available to deliver skills over the course of 2024/25.

Skills Funding	2024-25 £m	2025-26 £m	2026-27 £m	2027-28 £m	2028-29 £m	Total £m
AEB devolved funding NTCA April-July 2024	7.991	0.000	0.000	0.000	0.000	7.991
NTCA FCFJ April-July 2024	0.559	0.000	0.000	0.000	0.000	0.559
AEB devolved funding NEMCA August-March 2025	42.667	64.000	64.000	64.000	64.000	298.667
Bootcamps						
Residual NELEP	1.206	0.000	0.000	0.000	0.000	1.206
NEMCA	17.999	0.000	0.000	0.000	0.000	17.999
Total	**70.421**	**64.000**	**64.000**	**64.000**	**64.00**	**326.421**

2.20 **Table 7 Transport Programmes Funding:** the table below gives a high-level summary of the transport funding to be channelled through NEMCA up to the year ending 31 March 2027. Recent announcements following the abandonment of the HS2 project have indicated a significant increase of funding from April 2027, but indicative allocations and capital/revenue splits are not yet confirmed. It is anticipated these can be made clearer in the report to the Mayor and Cabinet in January 2024. The Joint Transport Committee Report that sets out the proposed budget for 2024/25 across the Transport programme is attached at Appendix D.

	2024-25 £m	2025-26 £m	2026-27 £m	Total £m
CRSTS Revenue	2.841	0.000	0.000	2.841
CRSTS Capital	49.000	49.000	49.000	147.000
BSIP Revenue	29.300	0.000	0.000	29.300
BSIP Capital	32.776	0.000	0.000	32.776
Highways Maintenance Block Capital (CRSTS)	52.143	52.143	52.143	156.429
Levelling Up Fund	14.622	0.000	0.000	14.622
LTP Integrated Transport Block Capital (CRSTS)	14.057	14.057	14.057	42.171
Indicative LEVI Capital	7.900	7.900	0.000	15.800
Total	**202.639**	**123.100**	**115.200**	**440.939**

Final Year Funding Programmes for North of Tyne

2.21 In terms of UKSPF 2024/25 will be the final year for the current round of allocations. NEMCA will be the accountable body for this final year of delivery of the North of Tyne allocation with indicative spend of £13.788m Revenue and £3.372m capital. The 4 NECA local authorities will continue to deliver their own UKSPF programmes through their direct awards, with the expectation nationally that all spend is completed by 31 March 2025. At the current time, the NTCA programme is substantially committed with projects in delivery.

2.22 North of Tyne CA is the accountable body for the LA7 for the Creative Growth Programme funded by DCMS. 2024/25 is the final year of funding of £0.588m.

NELEP – Ongoing Programmes

2.23 There are a range of regional programmes delivered through the NELEP that will continue into 2024/25 and beyond. Programmes such as the North East Investment Fund (NEIF) and the Enterprise Zones (EZs) continue well beyond 2024/25 and will continue to deliver economic activity in line with the Investment Strategy priorities and plans as developed by NEMCA. Table 8 below gives an indication of current programmes and assumptions made at the current time re their continuance into 2024/25.

Table 8 NELEP ongoing programmes

Programme	Funded by	Period of activity/confirmed funding	Notes/ MTFP Implications
North East Growth Hub	UKSPF/ Gov £420k/annum	To March 2024	Funding confirmed for 2024/25 A review in March 2025 and decision made then on future options and direction of travel.
Made Smarter	£800k/annum	To March 2025	Includes Tees Valley CA– promotes digital adoption by advanced manufacturers. Confirmation of funding for 2024/25 has been received. The programme will continue to 2030 with awards confirmed during 2024/25.
Challenge North East	£880k	To March 2024	Collaboration with Innovation SuperNetwork – independent appraisal of performance due January 2024.
Local Growth Fund	Balance to fund closure		Programme closure and performance reporting.

Get Building Fund	Balance to fund closure	Programme closure and performance reporting.
EZ Programme	Business Rates Retention.	Ongoing –will transition into NEMCA see paragraph 4.8 below.
North East Investment Fund (NEIF)	Evergreen Loans fund	Programme monitoring and performance management with FW capital – fund managers, and fund returns continuing.

Enterprise Zones

2.24 The Leadership Board will be aware of the existing Enterprise Zones (EZs) across the LA7 geography. There are two rounds of zones in existence. The EZs are expected to continue to March 2037 for round 1 sites and 2042 for round 2 sites. The table below, previously shared at the NELEP Investment Panel and Board, give a broad indication of potential surplus income for investment into future years. A prudent approach has always been taken as to the timing of decisions on the use of any surplus, with the expectation that it was dependant on "cash" being in the bank. The budget for 2024/25 and forecast into future years will be updated once the year end position 2023/24 is concluded early in June 2024.

Table 9 Forecast BRGI in the Enterprise Zones

2.25

	23/24	24/25	25/26	26/27	27/28	28/29
	£m	£m	£m	£m	£m	£m
BRGI Income (Excluding Cat 4)	8.570	11.990	15.970	17.720	19.020	19.700
Capital Financing Costs	(4.200)	(6.240)	(8.440)	(9.630)	(9.990)	(9.960)
Net Revenue Costs	(0.140)	(0.180)	(0.160)	(0.100)	(0.110)	(0.150)
Annual Surplus	4.230	5.570	7.370	7.990	8.930	9.600
Cumulative Surplus b/f	11.540	13.510	15.540	19.070	23.550	29.690
Current assumption - use for LEP Budget Support	(0.410)	(0.500)	(0.500)	(0.500)	(0.500)	(0.500)
Agreed Performance Incentive Reward	(0.960)	(0.960)	(0.960)	(0.960)	(0.960)	(0.960)
Provision for CPIF Incentives	(1.000)	(1.000)	(1.000)	(1.000)	(1.000)	(1.000)
Funding GBF Top Up	0.000	(1.000)	(1.000)	0.000	(1.000)	0.000

Provision for Strategic Grants	(1.000)	(1.000)	(1.000)	(1.000)	(1.000)	0.000
Repayment of Project development fund	(0.230)	(0.730)	0.000	0.000	0.000	0.000
LGF swaps	0.000	(0.150)	0.000	0.000	0.000	0.000
Retained Surplus after uses	**7.940**	**8.170**	**11.080**	**14.610**	**20.090**	**27.230**

The North East Investment Fund

2.25 The Leadership Board will be aware that the North East Investment fund (NEIF) has been in operation since March 2013 as a recyclable loans fund to support business in the region. The fund was set up with Regional Growth Fund and Growing Places Fund grants a set out in the table below. Investments made and recycled funds have resulted in £79m of loans made to date against an original cash injection of £54m. Repayments into the fund will continue to 2037/38. Currently funds are fully committed with the cash balance of £11.734m at the end of September 2023 committed to a range of projects including the Commercial Property Fund. Current agreements indicate funds will become available for investment in Q4 2026/27.

2.26 **Table 10 North East Investment Fund – 30 September 2023**

RGF Grant	£29.3m
GPF Grant	£24.7m
Fund Budget (plus interest)	£54m (+£1.1m)
Total Investment Made to date (No. of Projects)	£79m (31)
Current Cash balance on the NEIF	£11.7m*
Bad Debt Provision	£2.6m

*Earmarked for the Commercial Property Investment Fund (CPIF)

Capital Investment and Borrowing

2.27 The range of funds set out above illustrate the significant level of resources for both revenue and capital investment across the region in 2024/25 and beyond. However, like existing combined authorities NEMCA will secure borrowing powers for all activities including non-transport activities. In securing those powers the authority will be required to negotiate a debt cap with Treasury giving an indication of the type of activity the authority may wish to borrow for. NTCA currently has a debt cap of £21.5million which is starting point for early negotiations with Treasury.

2.28 The Treasury management strategy and Prudential Indicators are set out as Appendix D to this report. These will be finalised and updated once the debt cap has been secured.

Reserves

2.29 As NEMCA comes into existence on 7 May any reserves and balances remaining on 6 May will transfer to NEMCA. The current forecast outturn of those reserves is set out in Appendix C but will be reviewed and updated as the year end approaches. Consideration will be given to the level of the Strategic (risk) reserve the new authority should hold. This is not expected to be material in the context of the funding the authority receives and the role it pays across the region.

3. Reasons for the Proposals

3.1 The report is provided to enable initial budget proposals for NEMCA to be agreed.

4. Alternative Options Available

4.1 There are no alternative options proposed.

5. Next Steps and Timetable for Implementation

5.1 Transport Levies will be issued to the relevant constituent authorities by 15 February.

6. Potential Impact on Objectives

6.1 The new mayoral combined authority will build on the work and objectives of NECA. The Leadership Board has been clear and consistent as to the need for close collaboration with colleagues across the North East region. This was evident through the response to the coronavirus pandemic and recovery, in the development of transport priorities through the Joint Transport Committee, and in the development of the North East Devolution Deal. This willingness to commit time, resource and expertise has provided an important platform for securing the new Deal and will continue through the transition period over the next 12 months.

7. Financial and Other Resources Implications

7.1 Implementing the devolution deal would enable the region to access over £4bn of funding over a 30-year deal cycle, together with new powers to better shape local skills provisions to ensure these meet the needs of the local economy. This would include devolution of adult education functions and the core adult education budget, as well as input into the new local skills improvement plans. Over time the region would also expect to benefit from access to additional funding streams reserves for mayoral combined authorities as set out in this report.

8. Legal Implications

8.1 NEMCA will be required to agree a balanced budget annually and to monitor that budget throughout the year. NEMCA will also have a fiduciary duty not to waste public resources and to secure value for money. It will also need to make provision for an adequate level of un-earmarked reserves and ensure that good financial governance arrangements are in place. The proposals in this report are recommended for approval by both NECA and NTCA to assist NEMCA in meeting these requirements when it is created.

9. Key Risks

9.1 It is considered that failure to establish the mayoral combined authority would risk the region falling behind other major city regions such as Greater Manchester, Liverpool City Region and Tees Valley, which have received new powers and funding.

9.2 Prudent financial planning assumptions have been made in terms of forecasting the base budget pressures and issues NEMCA will face in 2024/25 and over the coming years. The budget and corporate plan will be underpinned by a robust Assurance Framework and process.

9.3 Key risks underpinning the budget estimates include inflation risk and deliverability/slippage in expected programmes of work. Service Level Agreements costing is still underway, and this may change the budget estimates once completed.

10. Equality and Diversity

10.1 In developing these proposals, the constituent local authorities of NEMCA have taken account of their obligations under section 149 of the Equality Act 2010 (i.e. the public sector equality duty.) It is not expected that the proposals described in this report will have any adverse impacts on people with protected characteristics. Indeed, the aim of promoting inclusive growth within the region is expected to boost the efforts of the councils to advance equality of opportunity and foster good relations between different groups. Throughout the public consultation to date, the councils collected data on those who responded, including those who identified as having a protected characteristic and an Equality Impact Assessment was undertaken.

Leadership Board

11. Crime and Disorder

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

12. Consultation/Engagement

12.1 The overall devolution proposals have been developed from close collaboration working across the local authorities and specifically the LA7 Finance Directors and a wide range of stakeholders and the public. Engagement continues among key stakeholders across the region.

12.2 A joint session of the Overview and Scrutiny Committees from NECA, NTCA and the JTC was held on 16 January 2024 that took members of the committee through the Draft Corporate Plan and the Draft 2024/25 budget. There were no recommendations made to the Leadership Board by the committees.

13. Other Impact of the Proposals

13.1 The green agenda is a critical element of the minded to devolution deal and therefore the governance changes proposed in this report, if implemented, would help to deliver those initiatives identified in the minded to deal.

14. Appendices

14.1 Appendix A – Draft 2024-25 Corporate Plan

Appendix B – Budget Analysis of 5 organisations

Appendix C – Reserves and Balances

Appendix D – Treasury Management Strategy and Prudential Indicators

Appendix E – Joint Transport Committee Report – Revenue Budget

Appendix F – Joint Transport Committee Report – Capital Programme

15. Background Papers

15.1 Report to Leadership Board 7 November 2023 – North East Devolution Leadership-Board-extraordinary-7-November-2023.pdf (northeastca.gov.uk)

15.2 Report to Leadership Board 28 November 2023 – Draft NEMCA Budget and Corporate Plan Leadership-Board-28-November-FINAL-1.pdf (northeastca.gov.uk)

16. Contact Officers

16.1 Paul Darby, Chief Finance Officer NECA – paul.darby@durham.gov.uk

Janice Gillespie, Director of Finance NTCA –
janice.gillespie@northoftyne-ca.gov.uk

17. Sign off

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

18. Glossary

18.1 INEE – Invest North East England

LA7 – Seven North East local authorities i.e. Durham, Gateshead, Newcastle, North Tyneside, Northumberland, South Tyneside and Sunderland

NECA – North East Combined Authority

NELEP – North East Local Enterprise Partnership

NEMCA – North East Mayoral Combined Authority

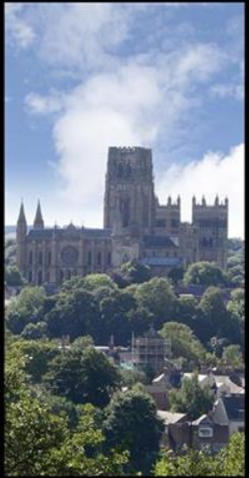
NTCA – North of Tyne Combined Authority

TNE – Transport North East

North East Devolution

Appendix A







Preparations for a new Mayoral Combined Authority

invest | north east england

neca North East Combined Authority DURHAM • GATESHEAD • SOUTH TYNESIDE • SUNDERLAND

North East Local Enterprise Partnership

NORTH OF TYNE COMBINED AUTHORITY

Transport North East

Introduction

Dame Norma Redfearn, DBE. Chair of the Combined Authority Steering Group and Elected Mayor of North Tyneside.

"Our devolution deal is the result of collaboration across seven local authorities, two combined authorities and with our businesses, voluntary sector and public services.

"We all share an ambition for this region – to make a difference for our people and our places.

"With greater powers and more resources, this new deal promises to deliver bigger and better outcomes for everyone.

"We will invest in skills, transport, homes and jobs to have a real impact on people's lives. We're investing in the future of the North East and giving new hope to our residents."

How we will deliver – 7 (interim) portfolios

						
Cllr Graeme Miller	Cllr Tracey Dixon	Cllr Nick Kemp	Dame Norma Redfearn DBE	Cllr Martin Gannon	Cllr Glen Sanderson	Cllr Amanda Hopgood
Leader Sunderland City Council	Leader South Tyneside Council	Leader Newcastle City Council	Elected Mayor North Tyneside Council	Leader Gateshead Council	Leader Northumberland County Council	Leader Durham County Council
Finance & investment	Education, Skills & Inclusion	Economy	Housing and Land	Transport	Rural, Coastal & Environment	Culture, Creative, Tourism & Sport

Strong collaboration across portfolios… with net zero, digital, Public sector rteform & addressing health inequalities as cross-cutting

The area

North East Devolution

A deal that covers seven local authority areas

Durham County Council

Gateshead Council

Newcastle City Council

Northumberland County Council

North Tyneside Council

South Tyneside Council

Sunderland City Council

A Snapshot of the Region

Population of **1,968,000**	An economy worth **£40.7bn**	Business population of **55,340**	Jobs **820,000**	**£25,404** Median Gross Annual Salary	**105,000** Residents who are unemployed or inactive and want a job	Halved Annual C02 emmissions since 2005	**48.8m** Annual visitors to the North East

A Snapshot of the Region

- Diverse geography with strong urban, rural and coastal communities
- Four universities, innovation centres in offshore wind and manufacturing, and nine further education colleges
- Good international connectivity through airport and deep-water ports, alongside mainline rail and trunk road connections.
- Challenges include: below national average growth, productivity, skills and wages; relatively high inactivity; and poorer health outcomes
- Multiple economic opportunities, including a thriving clean energy industry; an innovative health and life-science sector that supported the UK’s response to the pandemic; and a growing specialism in digital and data that catalyse growth of our other sectors such as cyber security, fintech, and advanced manufacturing

Investment to delivery…

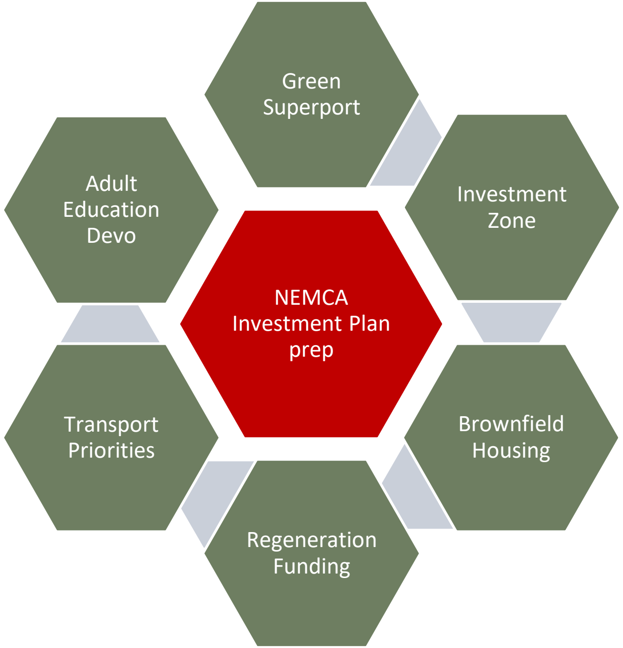
Investment streams that support 7 interim portfolios and early delivery priorities…

Funding Stream	Amount
Investment Fund	£1.4bn
Skills / AEB	c£1.8bn
Transport	Over £900m
Housing and place based regeneration	£69m
Mayoral Capacity Fund	c£30m
Other Funding Streams	Various
TOTAL	**c£4.2bn**

Delivery of early priorities

North East Devolution

Examples of early priorities delivered collaboratively



Governance timeline

All seven local authorities have now endorsed consultation results, submitted to Secretary of State and approved next steps

Two existing Combined Authorities have endorsed progress and consented to abolition in order to create NEMCA

Government legal team is preparing the legal order with support from the region

Next local decisions will take place in October/ November and are about laying the Order in Parliament

If agreed, an election will take place in May 2024

Five organisations dissolved

NEMCA formed

What does NEMCA need to do?

Convening – at scale & across sectors

Commissioning and delivering

Managing multi-billion investment

Making and shaping Policy

Regulating – esp transport

North East Devolution Deal

Stimulating & investing in innovation

Leading on behalf of the region

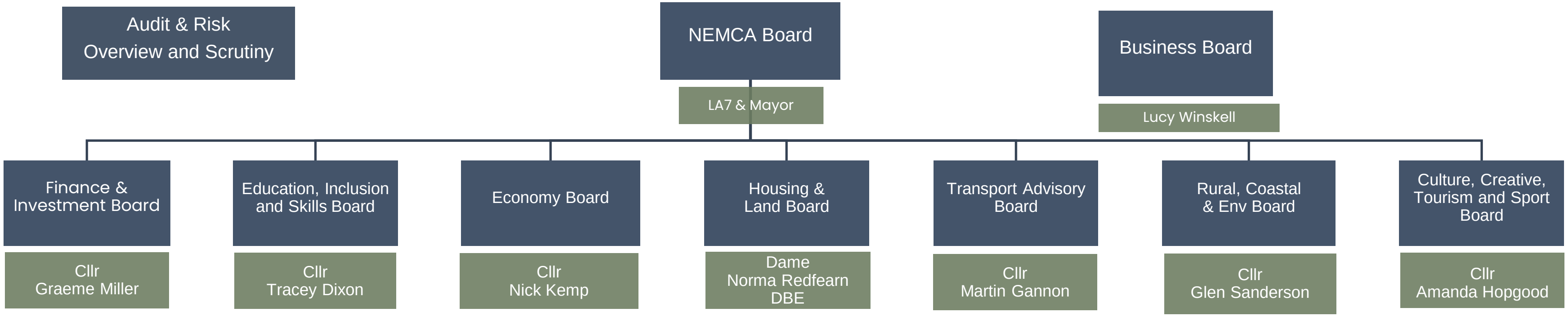
Supporting and Enabling

Adding capacity to the system

Being a Local Authority … but different

Outline governance from May 2024

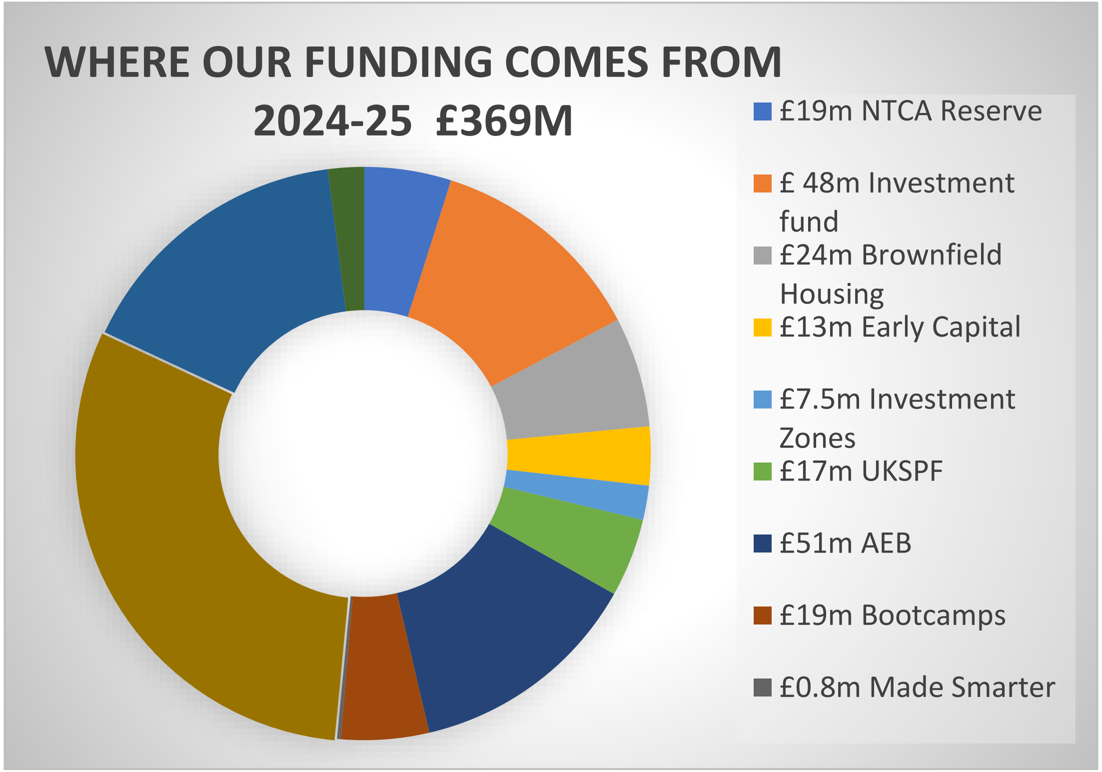
North East Devolution



Resources

North East Devolution

Funding Stream	Amount
Investment Fund	£1.4bn
Skills / AEB	c£1.8bn
Transport	Over £900m
Housing and place based regeneration	£69m
Mayoral Capacity Fund	c£30m
Other Funding Streams	Various
TOTAL	**c£4.2bn**



Key Budget Assumptions

This draft budget is based on the following central assumptions – worked through after discussion with CASG, collaborative work across the CX and FDs, and experience of what it takes to run an effective MCA.

- *We are proposing a balanced budget for the 11-month period between May 2024 and March 2025 – the first operating year of NEMCA*
- *We are <u>not</u> asking constituent authorities to pay any more than they do currently – additional funding is taken from new income into the region through prudent top slicing of investment fund and additional income in line with other MCAs.*

- The budget enables the coming together of five organisations – most of this activity is already funded by the region – but with marginal growth enabling key new senior posts – the ROI on this is significant.
- This is a prudent year one budget that enables a TUPE process and day 1 continuity – but with opportunities for integration, efficiencies and cross-over – e.g. LEP skills staff working on AEB and Bootcamps

Additional budget assumptions:

- Prudent assumption on staff turnover
- No assumptions on day 1 pension contribution rate change – so we are using a blended rate across NTCA (15.1%) and NECA (0%)
- Budget assumes £400k into Election Reserve build up for 2029
- Budget is prudent but we can anticipate upside from higher interest earning reflecting higher cash balances

Draft Expenditure 2024-25 (11 months budget)

			May 2024- March 2025
			£m
Employees		Baseline	11.595
		Growth	0.835
Transport			0.159
Premises			0.573
Supplies and Services			1.771
Programme delivery costs			0.941
Support Services			0.731
Cost of Capital			8.658
Contribution to Reserves			0.367
Total Expenditure			25.629

Notes:

- Staffing forms the majority of fixed costs – similar to other MCAs
- Pessimistic assumptions on additional funding streams – but we already know that this funding will increase over time
- Prudent assumption on staff turnover rates
- Prudent assumption on employers Pension contribution rate

Income Streams and net

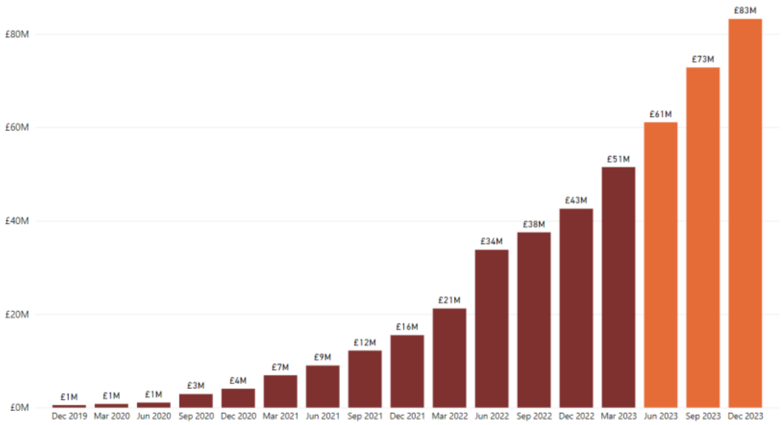
Assumed top-slices:

	£m
Investment fund £48m- 10%	4.800
AEB- 5%	2.133
AEB pump prime (July 24 end) actual award	0.143
Bootcamps £17m 6%	1.375
Total	8.451

Estimate	£m
Proposed Top-slice	-8.451
Tranport Grants	-1.288
Other Transport grants, reimbursements and contributions ECMA and Levies, TNE	-1.966
Grants	-2.686
Mayoral Capacity Fund	-1.000
Direct Grant Recharges	-1.376
Tyne Tunnel	-7.661
Interest	-0.352
Recahrges - Nexus and Northumberland	-0.171
Local Authority Contributions	-0.679
Total Income	-25.629
Net Budget	0.000

Indicative – Investment Fund spending profile

- The chart on the left shows the spending profile over the first Mayoral term for North of Tyne.
- NEMCA profile will have similarities (in that we scale up over time) but also important differences
- Year 1 & 2 capital allocations will mean a higher capital spend profile in early stages
- Revenue will scale up but not from scratch – includes some programmes folded over and/or scaled up – some will be subject to early NEMCA decisions (eg towns/high streets or culture zones)
- NTCA commitments have been sequenced to leave minimal overlap.
- IF profile augmented by other funding streams - including Brownfield Land, AEB, Bootcamps, Shared Prosperity Fund, Investment Zone



Analysis of full year estimate of Operational costs of constituent organisations 2024-25

Appendix B

	NECA	TNE/JTC	NTCA	LEP	INEE	Total		Proposed adjustments. Note 1	Estimated Growth	Estimated Gross NEMCA cost
Expenditure	**£**	**£**	**£**	**£**	**£**	**£**		**£**	**£**	£
Employees Baseline	80,870	2,737,235	6,588,653	3,291,536	238,000	**12,936,294**		330,890		**13,267,184**
New Funding Streams employee growth									910,500	**910,500**
Transport	1,000	42,855	30,000		10,000	**83,855**				**83,855**
Premises	0	144,150	350,000	164,576	0	**658,726**				**658,726**
Supplies and Services	45,640	1,643,670	972,624	794,945	209,000	**3,665,879**		(395,000)	20,000	**3,290,879**
Programme Delivery Costs	0	0	245,000	782,507	0	**1,027,507**				**1,027,507**
Support Services	140,760	502,480	458,610	109,000	3,000	**1,213,850**		(330,890)		**882,960**
Capital Financing Costs	0	9,444,680	0	0	0	**9,444,680**				**9,444,680**
Election Reserve	0	0	0	0	0	0		400,000		**400,000**
Total Expenditure	**268,270**	**14,515,070**	**8,644,887**	**5,142,564**	**450,000**	**29,030,791**		**5,000**	**930,500**	**29,966,291**

Note 1 cost adjustments

Estimate of current SLA provision being delivered in house £330,890,

Adjust for LEP pension contribution ££395,000

Start annual contribution to the creation of election Reserve for 2029 £400,000

Draft Reserves and Balances Position at 31 March 2024.

Appendix C

Reserve/Balance	Opening Balance 2023/24 £m	Forecast Balance on Reserves at 31/03/2024 £m
NTCA		
Strategic Reserve	0.200	0.200
Investment Fund Reserve	50.046	22,057
Election Fund Reserve	0.000	1.100
Adult Education Budget Grant	8.760	4.628
DLUHC Capital Grant	12.302	0.000
Create Growth Programme	0.425	0.163
United Kingdom Social Prosperity Fund	3.950	4.177
Strategic Capacity Reserve	1.252	1.252
Bootcamp Wave 3	1.134	0.000
Bootcamp Wave 4	0.000	4.997
Net Zero North East England	0.151	0.000
Brownfield Housing Fund	12.763	2.784
Capacity Funding	0.000	0.125
Transition Reserve	0.000	3.238
Reserves less than £0.100m	0.333	0.087
Total Reserves NTCA	**91.316**	**46.608**
NECA and JTC		
NECA Corporate	0.416	0.413
JTC Unallocated	1.096	0.874
JTC Tyne Tunnels	9.626	9.339
JTC Metro and Local Rail Studies	1.963	1.099
JTC Nexus POP Truth on Server	0.461	0.000
JTC Transport Devolution Preparation	2.573	1.258
Nexus Metro Reinvigoration	8.267	2.967
Nexus Metro Fleet Replacement	10.367	5.456
Interest on balances reserve	0.000	8.125
Total Reserves NECA and JTC	**34.769**	**29.531**
NELEP		
NIEF Reserve	12.156	12.156
EZ Reserve	7.431	7.431
LGF SWAP Reserve	-0.350	0.000
Tyne Tunnel Reserve (LEP)	0.350	0.000
GBF Reserve	1.390	0.000
DFE Funding	0.117	0.000
North East Ambition Reserve	0.341	0.000
LEP General reserves	0.675	0.128
CEC Enterprise Advisor	0.128	0.000
Collaboration of Digital Expertise	0.386	0.000

Balances < £0.100m	0.048	0.048
Total NELP Reserves	**22.672**	**19.763**
General Fund Balances (LEP)	**0.613**	**1.250**
Total Reserves and Balances	**149.370**	**97,552**

Appendix D

Draft North East Mayoral Combined Authority Treasury Management Strategy 2024/25 and Prudential Indicators

Purpose

1 In accordance with statutory guidance and the Authority's Financial Procedure rules, this report presents the 2024/25 position for the proposed Treasury Management Strategy, the Annual Cash Investment Strategy, Prudential Indicators, Minimum Revenue Provision (MRP) Policy and Treasury Management Policy Statement.

Background

2 Treasury management is defined as 'the management of the local authority's investments and cash flows, its banking, money market and capital market transactions, the effective control of the risks associated with those activities and the pursuit of optimum performance consistent with those risks'.

3 The Authority operates a balanced budget, which broadly means that cash raised during the year will meet cash expenditure incurred. Part of the treasury management operation is to ensure this cash flow is adequately planned, with surplus monies being invested in low-risk counterparties, with the main aims of providing sufficient liquidity and security, with the achievement of the best possible investment returns ranking as less important.

4 The second main function of the treasury management service is to arrange the funding of the Authority's capital programme, which will support the provision of the Authority's services. The capital programme provides a guide to the borrowing need of the Authority, and there needs to be longer term cash flow planning to ensure capital spending requirements can be met. The management of longer-term cash may involve arranging long or short-term loans, utilising longer term cash flow surpluses and, occasionally, debt restructuring to meet the Authority's risk or cost objectives. The North East Mayoral Combined Authority ('The Authority') will have powers to borrow for Transport responsibilities inherited from the former Tyne and Wear Integrated Transport Authority and will have powers to borrow for other activities subject to the negotiation of a debt cap with His Majesty's Treasury.

5 The Authority adopts the latest CIPFA Code of Practice on Treasury Management (the Code) which is regarded as best practice in ensuring adequate monitoring of the Authority's capital expenditure plans and its Prudential Indicators (PIs). This requires that Members agree the following reports, as a minimum:

i. An annual Treasury Management Strategy in advance of the year (this report);
ii. A mid-year Treasury Management Review;
iii. An annual review following the end of the year describing the activity compared to the strategy.

The 2021 Prudential Code introduced a requirement for the monitoring and reporting of treasury management performance against forward looking indicators at least quarterly, and this information will be reported as part of the Combined Authority's revenue and capital monitoring.

6 This report provides a summary of the following for 2024/25:

- Borrowing Strategy;
- Other Debt and Long-Term Liability Plans;
- Cash Investment Strategy;
- Non-Treasury Investments;
- Treasury Management Indicators;
- Prudential Indicators;
- MRP Policy Statement;
- Other Matters.

7 This covers the requirements of the various statutory requirements, codes and guidance that cover the Treasury Management activity, including the Local Government Act 2003, the CIPFA Prudential Code, Communities and Local Government (CLG) MRP Guidance, the CIPFA Treasury Management Code and Communities and Local Government Investment Guidance.

Borrowing Strategy

8 Prior to the formation of the proposed Mayoral Combined Authority, borrowing is held by the North East Combined Authority (NECA) which primarily relates to Transport activity. On creation of the proposed Mayoral Combined Authority, borrowing liabilities will be transferred from NECA.

9 NECA held £169.333m of loans at 31 March 2023. The balance had decreased to £149.667m at 31 December 2023 and is expected to be £149.333m at 31 March 2024, as detailed below:

	1 April 2023	**2023/24**	**31 March 2024**	**Average**	**31 March 2024**
	Actual Balance	**Estimated Movement**	**Estimated Balance**	**Interest Rate**	**Average Life**
	£m	**£m**	**£m**	**%**	**years**
Public Works Loan Board (PWLB)	81.000	(0.667)	80.333	4.09	22.8
Private Sector	89.000	(20.000)	69.000	4.39	48.3
Total borrowing	**170.000**	**(20.667)**	**149.333**		

10 NECA's principal objective when borrowing has been to strike an appropriate risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required.

11 The difference between the Authority's borrowing requirement and the actual borrowing undertaken is called under-borrowing. This represents the ability of the Authority to use its balance sheet reserves to delay the date that loans are taken out. The strength of the Authority's balance sheet means it has no immediate need to borrow to fund its capital outlays and this means that using internal balances is the generally most cost-effective option. However, in the medium term the Authority may need to borrow to fund its capital programme.

12 No new borrowing has been undertaken during 2023/24 to date and none is anticipated for the remainder of the financial year.

13 The following sources of long-term and short-term borrowing have been identified for approval:

- Public Works Loan Board (PWLB);
- UK local authorities;
- Any institution approved for investments (see paragraph 36);
- UK public/private sector pension funds;
- European Investment Bank; and
- Local authority special purpose vehicles created to enable local authority bond issues (for example the Municipal Bonds Agency)

14 A major source of the Authority's borrowing is the PWLB, which is a lending facility operated by the UK Debt Management Office on behalf of HM Treasury. In order to have access to PWLB loans, the current arrangements require the Authority to confirm that they are not buying investment assets primarily for yield and that they are not borrowing in advance of need, with the aim of making a profit from the sums borrowed.

15 The Authority meets the borrowing criteria so taking out PWLB loans is an available option. Loan rates are fluid (PWLB rates change twice daily), and the Authority will continue to work with its Treasury Management advisors, Link Asset Services, to monitor rates and cash flow requirements to determine the timing for taking out further loans.

Policy on Borrowing in Advance of Need

16 The Authority will not borrow more than, or in advance of, its needs, purely to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be made within approved Capital Financing Requirement (CFR) estimates and following careful consideration, in order to demonstrate value for money and ensure the security of such funds.

17 Any risks associated with activity to borrow in advance will be subject to prior appraisal and will be subsequently accounted for in the Treasury Management report that follows.

Debt Rescheduling

18 As short-term borrowing rates will likely be cheaper than longer term fixed interest rates, there may be opportunities to generate savings by switching from long term debt to short term debt. Advantages of debt rescheduling would include:

- generating cash savings and / or discounted cash flow savings;
- helping to fulfil the treasury strategy;
- enhancing the balance of the portfolio (amend the maturity profile and / or the balance of volatility).

However, these savings will need to be considered in light of the current treasury position and the cost of debt repayments (i.e. premiums).

19 Consideration will also be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.

Other Debt and Long Term Liabilities Plans

20 The Combined Authority does not currently have any capital finance liabilities in the form of finance leases.

Cash Investment Strategy

21 The Authority holds a significant cash surplus from reserves in its balance sheet and from funds received before related expenditure is incurred. A strategy for the investment of these funds is required.

22 The revised 2021 Treasury Management Code requires all investments and investment income to be attributed to one of the following three purposes:

a) Treasury Management – arising from the organisation’s cash flows or treasury risk management activity, this type of investment represents balances which are only held until the cash is required for use.
b) Service Delivery – investments held primarily and directly for the delivery of public services including housing, regeneration and local infrastructure. Returns on this category of investment which are funded by borrowing are permitted only in cases where the income is “either related to the financial viability of the project in question or otherwise incidental to the primary purpose”.
c) Commercial return – investments held primarily for financial return with no treasury management or direct service provision purpose. Risks on such investments should be proportionate to an authority’s financial capacity – i.e. that ‘plausible losses’ could be absorbed in budgets or reserves without unmanageable detriment to local services. An authority must not borrow to invest primarily for financial return.

The Combined Authority’s investments primarily relate to category a) and it holds no investments primarily for commercial return (category c). This strategy relates to the category a) Treasury Management investments.

23 The Authority's cash investment policy is governed by Department for Levelling Up, Housing and Communities (DLUHC) guidance. Both the CIPFA Code and government guidance require the Authority to invest its funds prudently, and to have regard to the security, liquidity and rate of return, or yield, of its investments. Of these three criteria the first two, security and liquidity, are most important, ahead of achieving the highest yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

24 In accordance with the guidance from the DLUHC and CIPFA, and in order to minimise the risk to investments, the Authority will apply minimum acceptable credit criteria in order to generate a list of creditworthy counterparties, with investment limits set so that investments are diversified. Credit ratings agencies will be used but will not be the sole determinant of investment quality and the assessments will also take account of other information that reflects the opinion of the markets. To this end the Authority will engage with its advisers to maintain a monitor on market pricing (e.g. "credit default swaps") and overlay that information on top of the credit ratings. Information in the financial press, share price and other banking sector information will also be used as appropriate.

25 There are a wide range of Investment instruments which are available for the Authority to consider. These can be classified as either Specified or Non-Specified Investments and are listed below:

Specified Investments

26 These investments are sterling investments of not more than one-year maturity, or those which could be for a longer period but where the Authority has the right to be repaid within 12 months if it wishes. These are considered to be low risk assets where the possibility of loss of principal or investment income is small and are not defined as capital expenditure. These would include the following sterling investments:

- Deposit with the UK Government – e.g. the Debt Management Office deposit facility, UK treasury bills or gilts with less than one year to maturity;
- Term deposits with a body that is considered of a high credit quality e.g. UK banks and building societies;
- Global bonds of less than one year's duration;
- Deposits with a local authority, parish council or community council;
- Certificates of Deposit;
- Pooled investment vehicles (such as money market funds) that have been awarded a high credit rating by a credit rating agency.

Non-Specified Investments

27 These are investments which do not meet the specified criteria as outlined above. The Authority is therefore required to examine non-specified investments in more

detail. As well as any of the above sterling investments that are of more than one-year maturity, non-specified investments include the following sterling investments:

- gilt edged securities with a maturity of greater than one year. These are Government bonds and so provide the highest security of interest and the repayment of principal on maturity;
- deposits with the Authority’s own banker if it fails to meet the basic credit criteria. In this instance balances will be minimised as far as is possible;
- loans and shares in local businesses, in order to encourage regeneration and economic development in the area. Any new investments will only be agreed after significant due diligence checks have been carried out;
- Any other funds.

Creditworthiness Policy

28 The primary principle governing the Authority’s investment criteria is the security of its investments; although the yield or return on the investment is also a key consideration. After this main principle, the Authority will ensure that:

- it maintains a policy covering the categories of investment types it will invest in, the criteria for choosing investment counterparties with adequate security and arrangements for monitoring their security; and
- it has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Authority’s prudential indicators covering the maximum principal sums invested.

29 The Chief Finance Officer will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit these to the Leadership Board for approval as necessary. These criteria provides an overall pool of counterparties considered to be high quality which the Authority may use, rather than defining what types of investment instruments are to be used.

30 The Combined Authority uses Link Group, Treasury solutions as its external treasury management advisors. The Combined Authority recognises that responsibility for treasury management decisions remains with the organisation and seeks to ensure that undue reliance is not placed upon external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisors. The Combined Authority recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Combined Authority will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed, documented, and subjected to regular review

31 Typically the minimum credit ratings criteria used by the Authority will be a short term rating (Fitch or equivalents) of F1 and a Long Term rating of A-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances, consideration will

be given to the whole range of ratings available or other topical market information to support their use.

32 All credit ratings will be monitored regularly. The Authority is alerted to changes to ratings of all three agencies (Fitch, Moody's and Standard and Poor's) through its use of Link's creditworthiness service.

33 If a downgrade results in the counterparty / investment scheme no longer meeting the Authority's minimum criteria, its further use as a new investment will be withdrawn immediately.

34 In addition to the use of credit ratings, the Authority will be advised of information in movements in credit default swap spreads against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in the downgrade of an institution or removal from the Authority's lending list.

35 Sole reliance will not be placed on the use of the service provided by Link. The Authority will also use market data and market information, information on sovereign support for banks and the credit ratings of that supporting government. This additional market information, for example credit default swaps and negative rating watches / outlooks, will be applied to compare the relative security of differing investment counterparties. The relative value of investments will be reviewed in relation to the counterparty size to ensure an appropriate ratio.

Investment Criteria

36 The criteria for providing a pool of high-quality investment counterparties (both specified and non-specified investments) is:

Banks 1 – good credit quality. The Authority will only use banks which are:

- UK banks and/or
- Non-UK banks domiciled in a country which has a minimum sovereign long-term rating of AA- and have, as a minimum, the following credit ratings (where rated):

	Fitch	**Moody's**	**Standard & Poor's**
Short Term	F1	P1	A-1
Long Term	A-	A3	A-

(N.B. viability, financial strength and support ratings have been removed and will not be considered in choosing counterparties).

- Banks 2 – Part nationalised UK banks - Royal Bank of Scotland. This bank can be included if it continues to be part nationalised or meets the ratings in Banks 1 above;
- Banks 3 – The Authority's own banker for transactional purposes if the bank falls below the above criteria, although in this case, balances will be minimised in both monetary size and time;
- Bank subsidiary and treasury operation. The Authority will use these where the parent bank has provided an appropriate guarantee or has the necessary ratings outlined above;

- UK Government (including gilts and the Debt Management Account Deposit Facility [DMADF});
- Local authorities, parish councils etc.;
- Building societies. The Authority will use societies which:
  i. Meet the ratings for banks outlined above; or
  ii. Have assets in excess of £1 billion;
- Money market funds;
- Ultra-Short Dated Bond Funds;
- Property Funds.

Time and Monetary Limits applying to Investments

37 The time and monetary limits for institutions on the Authority's counterparty list, covering specified and non-specified investments, are as follows:

Investment Type	**Long Term Rating**	**Money Limit**	**Time Limit**
Banks / Building Societies*	AA-	£30m	1 year
Banks / Building Societies*	A	£30m	1 year
Banks / Building Societies*	A-	£20m	6 months
Banks – part-nationalised*	N/A	£30m	1 year
Banks– Council's banker*	A-	£30m	3 months
DMADF / Treasury Bills	AAA	unlimited	unlimited
Local Authorities	N/A	£20m each	3 years
Investment Type	**Asset Size**	**Money Limit**	**Time Limit**
Building Societies	+£1 billion	£15m	6 months
Investment Type	**Fund Rating**	**Money Limit**	**Time Limit**
Money Market Funds	AAA	£60m total	liquid
Money Market Funds CNAV	AAA	£15m each	liquid
Money Market Funds LVNAV	AAA	£15m each	liquid
Money Market Funds VNAV	AAA	£15m each	liquid

*For bank subsidiaries and treasury operations the limits depend on the rating of the subsidiary / operation or of the parent providing a guarantee

These are initial draft limits for NEMCA based on estimated balances and will be kept under review following the establishment of the new Mayoral Combined Authority. They may be revised if required and a recommendation will be brought to the NEMCA cabinet if this is the case.

UK Banks – Ring Fencing

38 An additional factor must be taken into account when making investments with some UK banks from 1 January 2019. From this date the largest UK banks, (those with more than £25bn of retail / Small and Medium-sized Enterprise (SME) deposits), are

required, by UK law, to separate core retail banking services from their investment and international banking activities. This is known as “ring-fencing”. Whilst smaller banks with less than £25bn in deposits are exempt, they can choose to opt to be included in the arrangements. Several banks are very close to the threshold already and so may come into scope in the future regardless.

39 Ring-fencing is a regulatory initiative created in response to the global financial crisis. It mandates the separation of retail and SME deposits from investment banking, in order to improve the resilience and resolvability of banks by changing their structure. In general, simpler, activities offered from within a ring-fenced bank, (RFB), will be focused on lower risk, day-to-day core transactions, whilst more complex and “riskier” activities are required to be housed in a separate entity, a non-ring-fenced bank, (NRFB). This is intended to ensure that an entity’s core activities are not adversely affected by the acts or omissions of other members of its group.

40 While the structure of the banks included within this process may have changed, the fundamentals of credit assessment have not. The Authority will continue to assess the new-formed entities in the same way that it does others and those with sufficiently high ratings, (and any other metrics considered), will be considered for investment purposes.

Non-Treasury Investments

41 Separately from treasury investments, the Authority may make loans and investments in support of service priorities and this may mean they generate a commercial return.

42 Where an authority invests in other financial assets and property with the main aim of generating a financial return, the Prudential Code guidance is that the investments should be proportionate to the authority’s level of resources and the same robust procedures for the consideration of risk and return should be followed as for other investments.

43 The Authority recognises that investments such as these, taken for non-treasury management purposes, require careful investment management and that it is important that there are agreed processes to ensure there is effective due diligence and that the investments fit with the Authority’s agreed risk profile. This type of investment will require greater consideration by members and officers before being authorised for use.

Treasury Management Indicators

44 There are three debt related treasury activity limits which are designed to manage risk and reduce the impact of an adverse movement in interest rates.

45 Interest Rate Exposures – this indicator is set to control the Authority’s exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as the proportion of net principal invested is:

	2024/25 Limit
Upper limit on fixed interest rate exposure	100%
Upper limit on variable interest rate exposure	70%

46 Maturity Structure of Borrowing – this indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing are:

	Lower Limit	Upper Limit
Under 12 months	0%	20%
12 months to 2 years	0%	40%
2 years to 5 years	0%	60%
5 years to 10 years	0%	80%
10 years and above	0%	100%

47 Principal Sums Invested for Periods Longer than 365 days – the purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments:

	2024/25	2025/26	2026/27
Principal sums invested > 365 days	£15m	£15m	£15m

a) Prudential Indicators

48 The Local Government Act 2003 requires the Authority to have regard to the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code) when determining how much money it can afford to borrow.

49 The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the Authority has fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.

50 Capital Expenditure – this indicator summarises the Combined Authority's capital expenditure plans for the current financial year and the three subsequent years, together with the proposed sources of financing. This will be updated following finalisation of initial capital expenditure proposals for the first year of the Combined Authority.

	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m	2027/28 Estimate £m
Transport Capital Programme	304.416	188.893	135.128	66.200	66.200
Non-Transport Capital Programme	67.643	26.885	15.604	10.388	14.270
Total Capital Programme	**372.059**	**215.778**	**150.732**	**76.588**	**80.470**
Financed by:					
Capital Grants	330.638	194.143	136.658	75.450	74.450
Revenue and Reserves	28.821	20.025	14.074	1.138	6.020
Investment Fund	12.600	1.610	0.000	0.000	0.000
Net borrowing financing need for the year	**0.000**	**0.000**	**0.000**	**0.000**	**0.000**

51 Capital Financing Requirement (CFR) – the CFR is a measure of the Authority's underlying borrowing need for a capital purpose. The table below sets out the CFR relating to Transport activity which will be inherited on creation of the new Combined Authority and initial estimates of a new NEMCA capital financing requirement which will be subject to updating as plans are refined.

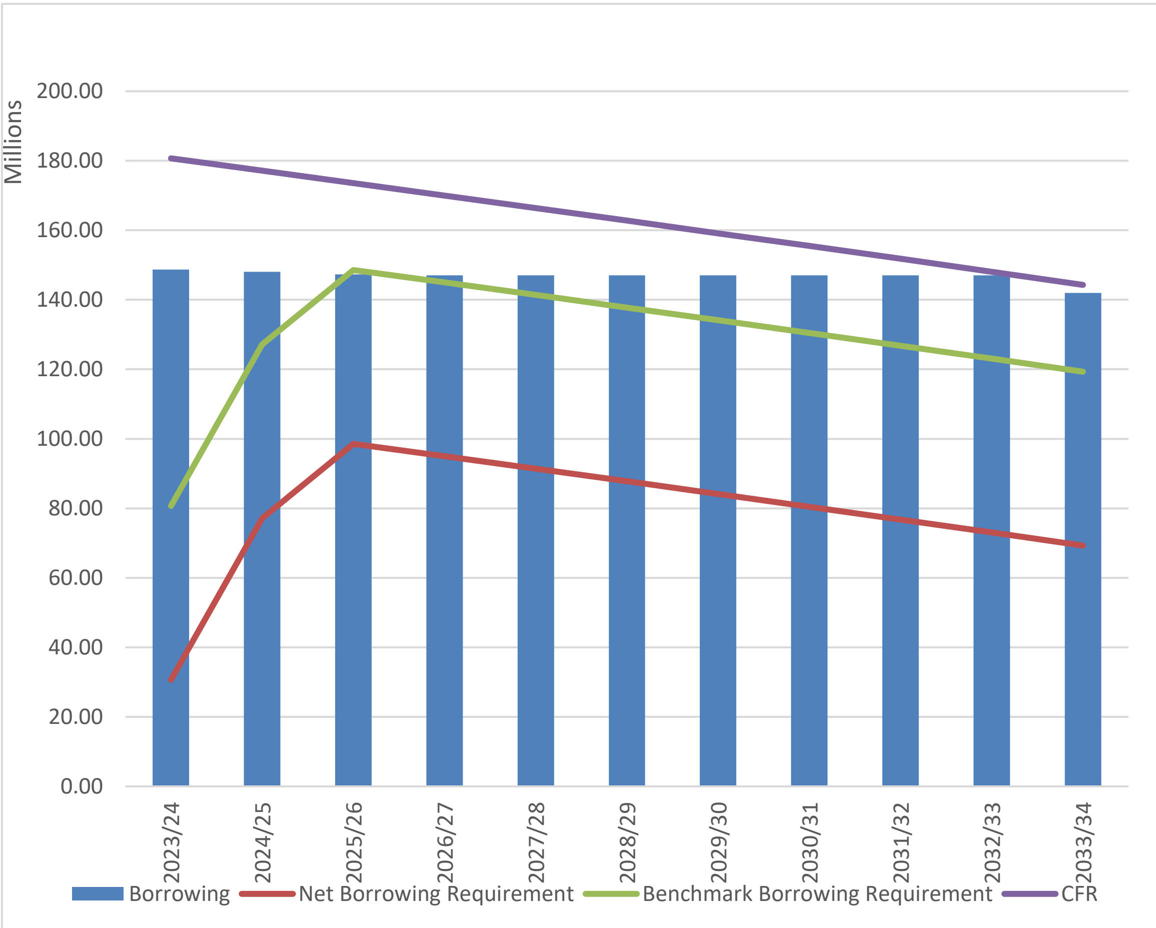
	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m	2027/28 Estimate £m
Transport Capital Financing Requirement	180.693	177.123	173.550	169.970	166.377
New NEMCA Capital Financing Requirement	0.000	50.000	50.000	50.000	50.000
Total CFR	**180.693**	**227.123**	**223.550**	**219.970**	**216.377**
Movement in CFR represented by:	(3.599)	46.430	(3.573)	(3.580)	(3.593)
Net borrowing financing need for the year	0.000	50.000	50.000	50.000	0.000
Less MRP/VRP and other financing movements	(3.599)	(3.570)	(3.573)	(3.580)	(3.593)
Movement in CFR	**(3.599)**	**46.430**	**(3.573)**	**(3.580)**	**(3.593)**

52 Gross Debt and the Capital Financing Requirement – in order to ensure that debt will only be held for capital purposes, the Authority should ensure that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. This is a key indicator of prudence. The table below shows how the Authority plans to comply with this requirement, which shows gross borrowing continues to be less than the CFR:

	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m	2027/28 Estimate £m
Debt at 1 April	169.333	148.666	198.000	197.333	197.333
Expected change in debt	(20.667)	49.334	(0.667)	0.000	0.000
Gross Debt at 31 March	**148.666**	**198.000**	**197.333**	**197.333**	**197.333**
Capital Financing Requirement	**180.693**	**227.123**	**223.550**	**219.970**	**216.377**
Over/(Under) borrowing	**(32.027)**	**(29.123)**	**(26.217)**	**(22.637)**	**(19.044)**

53 Debt Liability Benchmark – this benchmark has been introduced to show the link between the Capital Financing Requirement and the profile of the borrowing that the authority has taken out to finance this requirement, where:

- Net Borrowing Requirement – shows the need to borrow after taking account of reserve balances that can be used for internal borrowing;
- Benchmark Borrowing Requirement – shows the Net Borrowing Requirement plus a margin to ensure there is an adequate balance to manage cashflows effectively.



54 Operational Boundary and Authorised Limit – the Operational Boundary is the limit which external borrowing is not normally expected to exceed. Periods where the actual position is either below or above the boundary is acceptable subject to the authorised limit not being breached. The Authorised Limit represents a control on the maximum level of borrowing and is a statutory limit determined under section 3 (1) of the Local Government Act 2003. It reflects the level of external borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

The majority of the borrowing, and therefore the majority of the limits, relate to transport activity. An extra provision has been included for potential NEMCA borrowing which will be subject to the agreement of a debt cap with HMT.

	2021/22 Actual £m	**2022/23 Estimate £m**	**2023/24 Estimate £m**	**2024/25 Estimate £m**	**2025/26 Estimate £m**
Operational Boundary	205.000	255.000	255.000	255.000	255.000
Authorised Limit	210.000	260.000	260.000	260.000	260.000

55 Actual and estimates of the ratio of financing costs to net revenue stream – this indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue streams.

	2023/24 Estimate	**2024/25 Estimate**	**2025/26 Estimate**	**2026/27 Estimate**	**2027/28 Estimate**
Ratio of financing costs to net revenue stream:					
Tyne and Wear Levy	1.88%	1.74%	1.68%	1.67%	1.63%
Tyne Tunnels Account	19.38%	21.52%	21.18%	21.44%	20.73%

The estimates of financing costs include current commitments and the proposals in the budget report, and currently relate to Transport borrowing only.

MRP Policy Statement

56 The CIPFA Prudential Code for Capital Finance in Local Authorities requires the Leadership Board to agree an annual policy for the Minimum Revenue Provision (MRP).

57 The MRP is the amount that is set aside each year to provide for the repayment of debt. The regulations require the authority to determine an amount of MRP which it considers to be prudent. The broad aim of a prudent provision is to ensure that debt is repaid over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Revenue Support Grant (RSG), reasonably commensurate with the support provided through the RSG. The guidance provides recommended options for the calculation of a prudent provision but local authorities have significant discretion in determining the level of MRP which they consider to be prudent.

58 The Government updated its Statutory Guidance on MRP on 2 February 2018, with some elements of the guidance taking effect from 1 April 2018.

59 The Authority’s annual MRP policy has been set in line with the following principles:

- Supported capital borrowing (pre-2008) debt – minimum revenue provision to be made on a 2% straight line basis.
- Supported capital borrowing undertaken on behalf of Nexus, being a 4% minimum revenue provision – this relates to historic debt (prior to 1 April 2008) only.
- For unsupported capital borrowing (Prudential Borrowing) undertaken on behalf of Nexus, making provision for the debt in equal annual instalments over the estimated life of the asset.
- For unsupported capital borrowing for the New Tyne Crossing, making provision for the debt over the life of the asset on an annuity basis. This basis is suitable for use on this particular project as it is consistent with the financial model which reflects an increase in traffic and tolls over the life of the concession contract. A 50-year asset life is assumed.
- For unsupported capital borrowing (prudential borrowing) in relation to Enterprise Zones, making provision for the repayment of debt over the life of the asset on an annuity basis (maximum of 25 years); or making provision for the repayment of the debt over a shorter period on an annuity basis for a period agreed by the CFO with reference to the estimate of business rates income receivable to repay the debt.
- For new (unsupported) borrowing for the Combined Authority’s capital plans, the Combined Authority intends to take a more nuanced, principles-based approach to the calculation of MRP. The approach to the calculation will be guided by whether the borrowing is related to the creation or enhancement of an asset or whether the borrowing is to support the provision of a loan or other form of investment within another organisation.

60 Where the borrowing underpins the acquisition and enhancement of assets funded through borrowing, an Asset Life Method will b used to calculate MRP (Option 3 under the guidance). Under the guidance, there are two approaches that can be applied: Equal Instalments or the Annuity Method. The Authority will make the decision as to the specific approach to be adopted on a case-by-case basis determining what is most appropriate and prudent based on the underlying asset.

61 For capital expenditure that is classified as such under Regulation 25(1) of the Local Government Act 2003, the rebuttable presumption will be that a revenue provision will be made and that MRP will be calculated in accordance with Option 3 (Asset Life Method) applying the maximum life value detailed in the statutory guidance.

62 This presumption will be challenged on a case-by-case basis to the extent that the Authority is seeking to make a loan to a third party, the approach to making a prudent provision will be made giving due consideration to a variety of factors including the following:

- Whether the loan is being made on commercial or sub commercial rates.
- The duration of the loan.
- The financial standing of the borrower.
- The degree of perceived risk to the underlying capital sums invested.
- The strength or existence of covenants that underpin any loans; and
- The structure of the loan and subsequent repayments.

Where loans are made to support policy objectives or there is a degree of risk that the capital will not be repaid either in full or in part, then a revenue provision will be made using Option 3 as detailed above.

63 Where loans are made where there is a higher degree of confidence in repayment and the regular repayment over the life of the agreement, then the Authority will seek to set aside capital receipts arising from the repayment of the loan to reduce the Capital Financing Requirement.

64 Where loans are made where there is a high degree of confidence in repayment but where repayment is irregular or is on expiration of the loan, then the Authority will make a revenue provision in accordance with Option 3 using an asset life as determined through this method. To the extent that the loan is repaid over a shorter timescale, capital receipts from the repayment would be used to write down any remaining CFR liability relating to the loan.

65 The regulations allow the Authority to review its policy every year and set a policy that it considers prudent at that time. The impact of a revised MRP policy would be kept under regular review in order to ensure that the annual provision is prudent. The Authority retains the right to make additional voluntary payments to reduce debt if deemed prudent.

Other Matters

Training

66 The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny and training will be arranged as required. There is a further requirement that the training needs of treasury management officers are periodically reviewed.

Policy on use of external advisers

67 The Combined Authority uses Link Group, Treasury solutions as its external treasury management advisors. The Combined Authority recognises that responsibility for treasury management decisions remains with the organisation and seeks to ensure that undue reliance is not placed upon external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisors. The Combined Authority recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Combined Authority will ensure that

the terms of their appointment and the methods by which their value will be assessed are properly agreed, documented, and subjected to regular review

68 The range of services provided by the advisers currently includes:

- technical support on treasury matters and capital finance issues;
- economic and interest rate analysis;
- debt services which includes advice on the timing of borrowing;
- debt rescheduling advice surrounding the existing portfolio;
- generic investment advice on interest rates, timing and investment instruments;
- credit ratings/ market information service, comprising the three main credit rating agencies

NORTH OF TYNE COMBINED AUTHORITY

North East Combined Authority

DURHAM • GATESHEAD • SOUTH TYNESIDE • SUNDERLAND

North East Joint Transport Committee

Date: **16 January 2024**

Subject: **Transport Budget and Levies 2024/25**

Report of: **Chief Finance Officer**

Executive Summary

This report sets out the 2024/25 Transport Budget and associated Transport Levies for the North East Joint Transport Committee (JTC) together with indicative forecasts for future years also exemplified for consideration and approval. The budget proposals contained in this report take into account comments received during consultation on the outline proposals presented to this committee in November 2023 and input from members of the JTC Overview and Scrutiny Committee.

The two Combined Authorities in the JTC area are required to set the Transport Levies before 15 February 2024 to enable their constituent council to take the levies and other contributions into account in setting their own budgets. The two Combined Authorities will formally determine to issue the levies that are agreed by the JTC at their meetings on 23 January 2024 (NECA) and 30 January 2024 (NTCA).

The changes which will be required in order to establish the proposed North East Mayoral Combined Authority (NEMCA) will entail the abolition of the JTC, as NEMCA will be responsible for the exercising of transport functions across the region in the future. Until the new authority comes into existence, the current decision-making arrangements apply and therefore budget and levy proposals are set out for agreement by the JTC. The transport budgets and levies included in this report will form part of the overall combined budget for NEMCA from May 2024.

The report provides an update on the Revenue Budget outturn for 2023/24 and sets out the revenue resources planned to be used in 2024/25 to deliver the objectives of the JTC. A separate report on this agenda sets out the 2024/25 Transport Capital Programme and provides an update on the delivery of the 2023/24 Transport Capital Programme.

The proposed budget and levy for public transport activity in County Durham is £16.905m for 2024/25, of which £16.895m will be payable as a grant to Durham County Council and £10,000 retained to contribute to the central costs of the JTC. This compares with a levy for 2024/25 of £16.912m, of which £16.902m was payable as transport grant.

The proposed budget and levy for public transport activity in Northumberland is £6.562m for 2024/25, of which £6.552m will be payable as a grant to Northumberland County Council and £10,000 retained to contribute to the central costs of the JTC. This compares with a levy for 2024/25 of £6.458m, of which £6.448m was payable as transport grant.

The proposed levy for public transport activity in Tyne and Wear is £70.300m for 2024/25, of which £68.200m will be payable as a grant to Nexus. This represents a year-on-year increase of £2.500m (3.7%) in the levy compared with 2023/24 when the Tyne and Wear levy was £67.800m. As in previous years, £2.100m of the Tyne and Wear levy will be retained and used to help fund central costs of the JTC, primarily relating to historic debt charges for the former Tyne and Wear Integrated Transport Authority (TWITA) functions.

The proposed gross expenditure budget for Transport North East (TNE) is £36.672m in 2024/25, funded through a range of sources, including external government grants, a contribution from the Local Transport Plan (LTP) Integrated Transport Block grant of £500,000 (equating to £62,500 for each of the seven local authorities and Nexus), a contribution from the Transport levies and interest earned on revenue balances.

A break-even position is forecast on the Tyne Tunnels revenue account for 2023/24, where increased investment income and reduction in debt financing costs will cover the deficit previously forecast for the year. For 2024/25 a break even budget will be set on the assumption that toll increases in line with RPI are applied when the Tyne and Wear Sub Committee take their decision on tolls on 18 January 2024.

The proposed increase in the tolls will apply to Class 2 and Class 3 vehicles next year. The calculated increases required, based on RPI, are from £2.20 to £2.40 for Class 2 vehicles (cars) and £4.40 to £4.80 for Class 3 vehicles. No change is proposed to the 10% discount available to Pre-Paid account holders or to the toll exemptions for emergency response vehicles, public bus services, disabled users and other categories of exempt vehicle as set out in the Tyne Tunnels Bylaws and River Tyne Tunnels order. The increases are required as RPI linked increases are triggered in the contract payments to the operator of the tunnels, so the tolls must increase to maintain a balanced position.

Increased interest on revenue balances held for transport activity is forecast in the current year, and it is proposed that the additional income generated this year (£8.125m) is transferred to an earmarked reserve at the end of this financial year, to be applied to support investment and activity in future years to facilitate and following the transition to NEMCA.

Factoring in the budget proposals contained in this report and the accompanying capital budget report, the JTC reserves are forecast to be £28.204 million at 31 March 2025. Details of the sums held and earmarked for specific purposes are set out in the report.

Recommendations

The North East Joint Transport Committee is recommended to:

i) Note the updated forecast outturn position for the Transport budget in 2023/24 and approve the revised estimates for the year;

ii) Agree a Transport net revenue budget from the levies for 2024/25 of £93.767m, as set out in section 2.4 of this report;

iii) Agree the following Transport Levies for 2024/25:

   a. Durham County Council £16,905,000

   b. Northumberland County Council £6,562,000

   c. Tyne and Wear Councils (detailed in Table 6) £70,300,000

iv) Agree a transport revenue grant to Durham County Council for the delivery of transport services of £16,895,000, as outlined in section 2.6;

v) Agree a transport revenue grant to Northumberland County Council for the delivery of transport services of £6,552,000, as outlined in section 2.10;

vi) Agree a transport revenue grant to Nexus for the delivery of transport services in Tyne and Wear of £68,200,000;

vii) Approve the budget for Transport North East as set out in section 2.53 to 2.57;

viii) Approve the budget for the Tyne Tunnels set out in section 2.58-2.70; and

ix) Note and agree the forecast level and use of reserves at section 2.71.

1. Background Information

1.1 The draft transport revenue budget proposals were presented to this committee for consideration on 21 November 2023 and have been the subject of consultation with officer groups, members of the JTC Overview and Scrutiny Committee and the Tyne and Wear Sub-Committee (for proposals relating to Tyne and Wear).

1.2 This report sets out the final budget proposals, taking into account the comments received during the budget setting process and the latest available information.

1.3 The report outlines the proposed Transport revenue budget and levies for 2024/25, together with indicative forecasts for future years exemplified for consideration and approval. The report also provides an updated forecast for the current year against the 2023/24 budget agreed by the JTC in January 2023.

1.4 The proposed devolution deal requires the seven councils to establish a new mayoral combined authority and will lead to the abolition of the North East Combined Authority (NECA) and North of Tyne Combined Authority (NTCA). The new Mayoral Combined Authority is dependent on Parliament passing a statutory order under the Local Democracy, Economic Development and Construction Act 2009. The creation of the North East Mayoral Combined Authority (NEMCA) will also see the abolition of the JTC, as NEMCA will be responsible for the exercising of transport functions across the region in future.

1.5 It is anticipated that the order will be laid before Parliament this month and for it to be made (i.e., take effect) in March 2024. This will then allow for the mayoral election to be held in May 2024 and NEMCA to come into existence on 7 May 2024.

1.6 Until the new combined authority comes into being, existing decision-making arrangements apply and therefore the budgets for 2024/25 are set out in this report for agreement by the JTC.

2. Proposals

Transport Revenue Budgets Updated 2023/24 Forecast

2.1 The main area of income and expenditure in the JTC revenue budget is the Transport Levies and the revenue grants paid to Durham County Council, Northumberland County Council and Nexus for the delivery of public transport services.

2.2 The Transport levies and revenue grants are normally fixed for the year so there is no change in these amounts in the forecast for the year end. Any surplus (underspending) or deficit (overspending) against these grants by the three main delivery agencies (Durham County Council, Northumberland County Council and Nexus) is retained or managed within the reserves of those organisations.

2.3 The updated forecasts, based on actual spend to 31 October is set out in the table below:

Table 1: Transport Levies and Grants 2023/24

	2023/24 Original Budget	Spend to 31 October 2023	2023/24 Forecast Outturn	2023/24 Variance
	£m	£m	£m	£m
Total Transport Levies	**(91.170)**	**(53.183)**	**(91.170)**	**0.000**
Grant to Durham	16.902	9.859	16.902	0.000
Grant to Northumberland	6.448	3.761	6.448	0.000
Grant to Nexus	65.700	38.325	65.700	0.000
Retained Levy budget	2.120	0.620	2.120	0.000
Total Expenditure	**91.170**	**52.565**	**91.170**	**0.000**
Net (Income) / Expenditure Position	**0.000**	**(0.618)**	**0.000**	**0.000**

Transport Revenue Budget and Levy Proposals for 2024/25

2.4 The overall total proposed net revenue budget for transport levies in 2024/25 is £93.767m, as summarised in Table 2 below. This represents a total net increase of £2.597m (2.85%) when compared to 2023/24.

Table 2: Transport Levies 2024/25

	2023/24 Levy	2024/25 Proposed Levy	Change from 2023/24	Levy per person[1]
	£m	£m	£m	£
Durham	16.912	16.905	(0.007)	32.01
Northumberland	6.458	6.562	0.104	20.23
Tyne and Wear	67.800	70.300	2.500	61.57
Total	**91.170**	**93.767**	**2.597**	

2.5 The variation in the figures for the levy per person reflects the higher costs of concessionary travel demand and capital financing costs in the Tyne and Wear area and the fact that in Tyne and Wear a proportion of the levy underpins the Metro, and demonstrates why three separate levies are required. There is more information provided in Appendix 1 on the background to the separate levies and what the levies fund. The following table sets out a summary of the transport net revenue spending planned for 2024/25. Approximately £49.305m (52.6%) is planned to be spent on the statutory English National Concessionary Travel Scheme (ENCTS) concessionary travel and discretionary add-ons, and £19.898m (21.2%) on subsidised bus services (not including the costs of home to school transport for children and young people as these are within the budgets of the relevant local authorities). £20.494m (21.9%) is used to partially fund the Metro Services – representing 29.2% of the Tyne and Wear levy.

[1] ONS mid-2022 Population estimates, [Population estimates for England and Wales - Office for National Statistics (ons.gov.uk)]

Table 3: Summary of the 2024/25 Transport Levy Budget

	Durham	Northum-berland	Tyne and Wear	Total
	£m	**£m**	**£m**	**£m**
Statutory Concessionary Travel	12.155	4.865	29.298	**46.318**
Discretionary Concessionary Travel	-	-	2.987	**2.987**
Subsidised Bus Services	3.888	1.480	14.530	**19.898**
Bus Stations/Infrastructure	0.009	0.029	2.546	**2.584**
Public Transport Information	0.051	0.025	1.166	**1.242**
Metro (inc. Discretionary Travel)	-	-	20.494	**20.494**
Ferry	-	-	1.999	**1.999**
Staffing in Durham/Northumberland	0.792	0.153	-	**0.945**
Reserves Funding	-	-	(4.820)	**(4.820)**
Transport Grant	**16.895**	**6.552**	**68.200**	**91.647**
JTC Central Costs/former TWITA costs	0.010	0.010	2.100	**2.120**
Transport Levy	**16.905**	**6.562**	**70.300**	**93.767**

Durham

2.6 The proposed budget and levy for public passenger transport activity in County Durham will be set at £16.905m for 2024/25. This compares with a levy of £16.912m for 2023/24 – a year on year decrease of £7k. The budget and levy for 2023/24, including the forecast outturn position, and the proposed 2024/25 levy is summarised in table 4 below.

Table 4: Durham Transport Budget and Levy 2024/25

	Original Budget	Spend to Date	2023/24 Forecast	2023/24 Variance	2024/25 Initial Budget
	£m	**£m**	**£m**	**£m**	**£m**
Concessionary Fares	11.155	6.059	9.239	(1.916)	12.155
Subsidised Services	4.888	4.341	6.801	1.913	3.888
Bus Stations	0.276	0.634	0.297	0.021	0.312
Bus Shelters	(0.268)	0.052	(0.089)	0.179	(0.303)
Passenger Transport Information	0.089	0.053	0.082	(0.007)	0.051
Staffing	0.762	0.508	0.762	0.000	0.792
Share of JTC costs	0.010	0.010	0.010	0.000	0.010
Net Expenditure	**16.912**	**11.657**	**17.102**	**0.190**	**16.905**

2.7 The updated projected outturn for 2023/24 indicates a total overspend of £0.190m to the year end. An underspend is forecast on Concessionary Fares reimbursement due to the reduction in Concessionary travel passengers post-Covid, estimated at £1.916m. These underspends are offsetting the additional support (£1.913m) being provided to the Passenger Transport Network through subsidised services. These costs relate to increased contract costs to bus operators for services that are deemed as no longer being commercially viable to the operator and which would otherwise have been withdrawn. Concessionary Fares underspends are being utilised to offset these costs and support the Passenger Transport Network.

2.8 An overspend of £0.021m is forecast in relation to an increase in security and repairs and maintenance costs in bus stations and an overspend of £0.179m is also forecast in relation to increased repairs and maintenance and a loss of advertising income on bus shelters. There is a small anticipated underspend of £0.007m against the revised budget for passenger transport information.

2.9 The proposed budget for 2024/25 represents a small year on year reduction (£0.006m) compared to 2023/24.

Northumberland

2.10 The proposed budget and levy for public transport activity in Northumberland is £6.562m for 2024/25. This compares with a levy of £6.458m for 2023/24 – a year on year increase of £0.104m. The budget and levy for 2023/24, including the forecast outturn position, and the proposed 2024/25 levy is summarised in the table below.

Table 5: Northumberland Transport Budget and Levy 2024/25

	Original Budget	**Spend to Date**	**2023/24 Forecast**	**2023/24 Variance**	**2024/25 Initial Budget**
	£m	**£m**	**£m**	**£m**	**£m**
Concessionary Fares	5.020	2.174	4.670	(0.350)	4.865
Subsidised Bus Services	1.230	1.049	1.480	0.250	1.480
Bus Services	0.027	0.016	0.035	0.008	0.029
Passenger Transport Information	0.025	0.000	0.025	0.000	0.025
Staffing	0.146	0.085	0.146	0.000	0.153
Share of JTC Costs	0.010	0.010	0.010	0.000	0.010
Total Net Expenditure	**6.458**	**3.334**	**6.366**	**(0.092)**	**6.562**

2.11 The updated forecast outturn position for 2023/24 is an underspend of £0.092m to year end. Concessionary travel is forecast to underspend by £0.350m as a result of suppressed demand for public transport journeys. Journeys relating to Concessionary Travel are currently at seventy-five percent of pre-Covid levels, although there is evidence that they are starting to rise. A regional review of the provision of supported services is underway and passenger behaviour in the longer term following the removal of restrictions cannot yet be predicted.

2.12 The Supported Services budget is currently forecast to overspend by £0.250m. The overspend relates to the high number of contracts that were handed back to the Council by operators due to increases in fuel prices and the lack of resources (drivers/vehicles) available. The passenger transport team have reviewed the existing network and prioritised the contracts that continue to provide value for money and ensure that all geographic areas are served by the new network. As part of its 2023/24 budget the Council approved a recurrent pressure to be added after the levy had been approved.

2.13 The small overall increase proposed in the 2024/25 levy compared with 2023/24 is a result of a number of factors. On concessionary travel, the budget has been reduced by £0.350m due to suppressed demand for journeys, with patronage levels still recovering to pre-pandemic levels, but the reduction is partially offset by a provisional allowance of £0.195m for increases in the potential level of reimbursement rates to operators in 2024/25. The budget for supported bus services is increased by £0.250m. Costs have increased due to a number of impacts on the supported bus network in 2023/24. There have been cases where bus operators have withdrawn from operating bus services on a purely commercial basis due to patronage and revenue levels not recovering to their pre-pandemic levels, with routes then being needed to be funded as supported bus services. The additional funding allocated in 2023/24 allowed the Council to maintain vital public transport links around the County so has been built into the 2024/25 base budget.

Tyne and Wear Levy

2.14 The levy for Tyne and Wear includes a centrally retained budget of £2.100m, required to fund central transport costs, primarily relating to debt charges for the former Tyne and Wear Integrated Transport Authority.

2.15 The apportionment of the Tyne and Wear levy between the constituent councils is revised each year to take into account the mid-year population estimates. In 2024/25 the split of the levy will be based on the mid-2022 population estimates, published in November 2023. Table 6 below exemplifies the overall year on year change in the budget and apportionment between the Tyne and Wear Councils. The movement in population estimates means that the levy change per council may be higher or lower than the headline percentage change of 3.7%. Further detail is provided in Appendix 1.

Table 6: Tyne and Wear Levy Apportionment 2024/25

	2022 Population	**2023/24 Levy**	**2024/25 Proposed Levy**	**Change inc. population impact**
		£	**£**	**£**
Gateshead	197,722	11,814,249	12,173,688	359,439
Newcastle	307,565	17,964,279	18,936,691	972,412
North Tyneside	210,487	12,597,052	12,959,626	362,574
South Tyneside	148,667	8,908,840	9,153,386	244,546
Sunderland	277,354	16,515,580	17,076,609	561,029
Total	**1,141,795**	**67,800,000**	**70,300,000**	**2,500,000**

Nexus Revenue Budget

Updated Nexus Forecast of Outturn 2023/24

2.16 The JTC approved Nexus' revenue budget for 2023/24 on 17 January 2023. The budget included a levy increase of £2.6m, utilisation of reserves of £8.0m and use of £3.3m additional Metro Rail Grant received in 2021/22.

2.17 At that time, a budget pressure on high voltage (HV) power costs existed due to the budget being lower than the forecast at the time. Although this remains the case (paragraph 2.23 refers), additional Metro Rail Grant was received at the end of 2022/23 totalling £3.0m to assist with this pressure, which has been reflected within the forecast outturn shown below.

2.18 Since the previous report, Nexus has seen a £2.426m improvement in the forecast financial position for 2023/24, most notably due to unexpected, one-off savings in concessionary fares reimbursement and secured service payments of

£1.580m as a result of Go North East's industrial action, together with the continued recovery of Metro fare revenue, which has exceeded previous forecasts. This means that at the end of period 8, Nexus is no longer expecting to use reserves in the current year and only the one-off Metro Rail Grants (referred to in paragraph 2.16 and 2.17 above) will be needed to balance the budget in the current year.

2.19 Despite the positive position being reported in respect of the current year, due to Nexus' underlying structural deficit, the financial outlook remains very challenging for 2024/25 and beyond. It will be necessary to earmark reserves that were previously expected to be used in 2023/24 to balance the budget across the Medium-Term Financial Plan (MTFP) period up to 2026/27 in order to protect front line services and limit the potential future increases in the levy on Tyne and Wear councils.

2.20 The table below shows expenditure to the end of period 8 (11 November 2023), together with the forecast to the year end (based on current estimates of the likely outturn) against budget. The allocation of budget across service areas has been updated following the processing of the annual pay award. There is narrative following the table explaining the variances against budget across the main service areas.

Table 7: Nexus Forecast of Outturn 2023/24

	Revised Budget	**Spend to Date**	**2023/24 Forecast**	**2023/24 Variance**
	£m	**£m**	**£m**	**£m**
Concessionary Fares	30.689	17.171	28.630	(2.059)
Metro	26.178	10.807	23.243	(2.935)
Bus Services	14.739	7.545	14.344	(0.395)
Other	5.386	2.870	4.897	(0.489)
	76.992	**38.394**	**71.114**	**(5.878)**
Grant from Levy	(65.700)	(40.389)	(65.700)	-
MRG 2021/22 (reserves)	(3.300)	-	(3.300)	-
MRG 2022/23 (reserves)	-	-	(0.832)	(0.832)
LTF	-	(0.480)	(1.050)	(1.050)
BSIP	-	(0.156)	(0.232)	(0.232)
	7.992	**(2.631)**	**-**	**(7.992)**
Reserves	**(7.992)**	**2.631**	**-**	**7.992**
	-	**-**	**-**	**-**

Metro

2.21 At the end of period 8, financial performance on Metro shows net expenditure at £2.935m better than budget, before application of one-off grant. Metro fare revenue (including car park and Penalty Fare Notice (PFN) income) at the end of period 8 was £29.521m which exceeded the budget by £2.546m (9%). This includes a one-off adjustment of £0.250m in relation to Network Ticketing (NTL) share of revenue redistribution for the prior year.

2.22 The year end Metro fare revenue forecast is a positive variance of £2.912m, an increase of £0.679m since the previous report. Given the uncertainties surrounding Metro performance and patronage growth since the pandemic, the forecast continues to be cautious and the extent to which actual performance against budget has delivered this favourable variance in the year to date has begun to unwind, something that will need careful examination as to the reasons why. In addition, the introduction of the BSIP subsidised multi-modal fare has led to a reduction in the price of the all zone daysaver product and there is a risk that Metro customers switch to the BSIP product, in addition to the revenue loss from the all zone daysaver price reduction. The impact is difficult to predict at this time, therefore the forecast for the year end remains prudent.

2.23 The Metro forecast reflects the pressure on HV power costs for the year, which is estimated to be £2.398m higher than the £15.230m original budget. At this stage 86% of the required electricity for the year has been purchased. This creates a level of budget certainty, although as the remainder is purchased there is still scope for further movement in the forecast. As outlined in paragraph 2.17, £3.0m of additional MRG was received in the previous financial year to assist with this pressure and is also reflected within the forecast.

2.24 The forecasts include net cost pressures of £0.773m directly relating to Metro, which has increased since the last report primarily in relation to additional infrastructure maintenance costs. The forecasts reflect the deployment of additional security on the Metro to tackle anti-social behaviour in the evenings and investment in front-line teams to operate gatelines for longer, address backlogs in maintenance and provide greater capacity and resilience in Metro's Control Room. It also includes additional contractual inflation, where this has been higher than was included at the time of budget setting, particularly in respect of the Stadler contract for the maintenance of Metrocars, although this has been offset by additional income in relation to penalties being imposed for non-delivery of key contracts.

2.25 All service areas receive a share of interest income, and at the end of period 8, interest income was £3.731m better than budget. Interest rates are significantly higher than they were at the time of budget setting, and cashflow is expected to be positive throughout the year, due to the sizeable amount of capital grants that Nexus has access to. It is currently expected that interest income may be as high as £4.400m for the year, representing a £4.000m improvement against the original budget which is reflected in the forecast. Metro also benefits from savings in overheads since the previous report and include areas such as ICT licencing, support services costs and unused contingencies. The share of additional interest income and overhead savings allocated within the forecast for Metro is currently £3.194m.

Concessionary Fares

2.26 At the end of period 8, within concessionary fares, a saving of £1.091m is reflected for reduced payments to Go North East as a result of the impact of the industrial action. In addition to this, the forecast outturn for the year reflects £0.184m of additional school income, a £0.400m prior year adjustment for the reimbursement of concessionary travel payments relating to 2021/22 and £0.133m of other reductions in concessionary travel payments to operators. In addition, the share of increased interest income and overhead savings allocated within the forecast of £0.251m.

Bus Services

2.27 The table shows that at the end of period 8, the forecast outturn for bus services is £0.395m less than budget. This reflects £0.489m of reduced secured services costs due to the Go North East industrial action. The forecast includes additional expenditure in relation to those services funded by the Local Transport Fund (LTF) of £1.050m, as well as additional expenditure relating to BSIP of £0.232m.

2.28 The forecast also reflects higher than budgeted secured services revenue of £0.570m, as well as other savings on secured services contracts of £0.057m and a saving of £0.022m relating to the Taxi Card scheme. In addition to this, the share of additional interest income and overhead savings allocated within the forecast is £0.539m.

Other

2.29 Other includes Ferry, Bus Infrastructure and Passenger Transport Information and at the end of period 8, financial performance shows net expenditure at £0.489m better than the revised budget, before application of one-off grant. The forecast reflects £0.022m of higher than budgeted income relating to the ferry, departure charges and bus information, £0.042m of public transport information cost savings, offset by £0.046m of additional ferry operating costs and bus shelter installation costs. In addition to this, the share of additional interest income and overhead savings allocated within the forecast is £0.471m.

Nexus Budget 2024/25

2.30 When the JTC met on 21 November 2023, Nexus reported that in order to protect service, an increase in the Tyne and Wear levy commensurate with the 3.7% uplift that was signalled in the budget report to the JTC in January 2023, would be required to protect front line services.

2.31 As set out earlier in this report, the reduction in planned use of reserves in 2023/24 has created the headroom to assist with the financial challenges in 2024/25 and beyond. This is because Nexus' underlying deficit is expected to continue into subsequent years.

2.32 As reported to the JTC in November 2023, in 2023/24 the budget pressures being faced by Nexus are all permanent, whereas the efficiencies/additional income that are offsetting these in the current year are largely temporary. For example, the additional MRG is a one-off grant allocation, interest on balances is expected to reduce in future years and the efficiencies being delivered in the current year are also largely one-offs, e.g., savings resulting from Go North East's industrial action, salary slippage from employee turnover and penalties being imposed for non-delivery of key contracts. Although the recovery in Metro fare revenue should continue, it is clear that Nexus' underlying structural deficit remains.

Budget Planning

2.33 During budget setting for 2023/24, although it was not formally agreed by the JTC, it was highlighted that it was likely to be necessary to increase the Tyne and Wear Transport levy further in both 2024/25 and 2025/26 given Nexus cannot place reliance on reserves indefinitely. Initial forecasts presented to JTC in January 2023 as part of the 2023/24 budget setting report suggested that an increase in the levy of 3.7% (amounting to £2.5m) in 2024/25 and 3.0% (amounting to £2.1m) in 2025/26 would be required. This was in addition to Nexus using £8.0m of reserves in 2023/24 and £3.6m of reserves in 2024/25, to enable services to be maintained.

2.34 Since the development of the 2023/24 budget and medium-term financial plan last year, inflation levels have been higher than expected and it has also been necessary to invest further in security. This has placed added pressure to the 2024/25 budget, alongside investment in train operations and infrastructure maintenance, making provision for an increase in concessionary fares and pressures from the delay in the introduction of the new fleet.

2.35 However, at the same time, it is expected that investment income will be higher than previously forecast, due to higher interest rates and the level of cash balances. In addition, due to the recovery of Metro fare revenue being better than expected during 2023/24, the forecast for 2024/25 has been revised upwards.

2.36 The table below shows Nexus' latest estimate for Metro fare revenue across the medium term using 2019/20 i.e., the last full year before the Covid pandemic, as the base year:

Table 8: Estimate of Metro Fare Revenue 2024/25 to 2026/27

	2024/25	**2025/26**	**2026/27**	**Total**
	£m	**£m**	**£m**	**£m**
Balance brought forward	46.5	48.3	49.5	46.5
Fares review	1.0	0.5	0.5	2.0
Impact of new fleet	0.8	0.7	1.2	2.7
Impact of Metro Flow	-	-	2.0	2.0
Total	**48.3**	**49.5**	**53.2**	**53.2**
Total as a % of 2019/20 (£45.1m)	**107%**	**110%**	**118%**	**118%**

2.37 This estimate reflects the phased implementation of the new fleet (which is expected to generate additional fare revenue) together with the impact of the annual fares review being considered by the Tyne and Wear Sub-Committee later this month, for implementation with effect from April 2024. Risks associated with this estimate not being achieved are highlighted in paragraph 2.46.

2.38 In terms of secured bus services, at this point, budget planning has only reflected the base level of service provision. Additional funding will be available in 2024/25 and beyond from the BSIP and an operational delivery plan reflecting Nexus' allocation is currently being formulated.

2.39 The opportunities described in paragraph 2.35 help partially offset the cost pressures described in paragraph 2.34, resulting in a net budget pressure of £1.2m. However, as referred to in paragraph 2.32 and outlined in the November 2023 JTC report, Nexus has an underlying structural deficit that remains unresolved. The medium-term financial forecast for 2024/25, reported to the JTC in January 2023, showed a net deficit of £6.1m before a levy increase. Taking into account the net budget pressure of £1.2m, the forecast deficit for 2024/25 is now £7.3m.

2.40 Given the magnitude of this financial challenge, Nexus is still seeking a 3.7% or £2.5m increase in the Tyne and Wear transport levy, the impact of which on each of the Tyne and Wear councils is shown in table 6 earlier in the report.

2.41 Nexus is also proposing to underpin (and balance) the revenue budget in 2024/25 by applying £4.8m of reserves funding. This is possible due to the better financial position reported in 2022/23, as well as the expected improved position in 2023/24. It is necessary to adopt this strategy, so that Nexus, in addition to being able to protect fare revenue, operational performance, and the delivery of key transport services, can also provide stability surrounding the introduction of the new Mayoral Combined Authority. The alternative to this would be the need to immediately address the underlying structural deficit which would likely require cuts to key transport services and increased levies from the Tyne and Wear authorities.

2.42 Due to the underlying structural deficit, in addition to annual levy increases, the latest forecasts for 2025/26 and 2026/27 indicate that use of reserves will also be required in these years. As highlighted to the JTC in November, Nexus' total reserves as at 31 March 2023 amounted to £62.5m, the majority of which is earmarked in general reserves, to accommodate any unforeseen pressures arising in-year or for capital investment. Specifically in relation to underpinning the MTFP, Nexus has earmarked £19.7m of its total reserve for this purpose, which is in excess of the assumed contributions in 2024/25, 2025/26 and 2026/27, which will provide an element of contingency.

2.43 It is necessary to consider a long-term solution for eradicating the budget deficit, something which the JTC has previously acknowledged, prior to the outbreak of the Covid pandemic, when it stated that further discussions in relation to resourcing were necessary.

Budget 2024/25

2.44 Taking into account the measures proposed to balance the budget (paragraphs 2.40 and 2.41), Nexus' 2024/25 budget and its main sources of funding are summarised in the table below and in more detail at Appendix 2 and Appendix 3.

Table 9: Nexus 2024/25 Budget and Funding Summary

	Gross Exp[2]	Commercial Revenue[3]	Govt Grant	Net position
	£m	**£m**	**£m**	**£m**
Statutory Concessions ENCTS	29.7	(0.4)	-	29.3
Discretionary Concessions	3.6	(0.6)	-	3.0
Metro	144.9	(57.4)	(67.0)	20.5
Ferry	3.2	(0.8)	(0.4)	2.0
Bus Services	18.8	(3.3)	(1.0)	14.5
Bus Infrastructure	3.5	(0.6)	(0.4)	2.5
Public Transport Information	1.7	(0.5)	-	1.2
Total	**205.4**	**(63.6)**	**(68.8)**	**73.0**
JTC Grant from Levy				**(68.2)**
Deficit funded from reserves				**4.8**

2.45 As shown above, the proposed levy increase of £2.5m would mean the grant receivable by Nexus in 2024/25 is £68.2m, which is lower than the estimated costs that will be incurred and need to be budgeted for next year. The gap (£4.8m) will need to be funded by utilising reserves to underpin the revenue budget in 2024/25.

2.46 The preparation of the 2024/25 budget gives rise to a number of risks and opportunities which include the following:

a) The JTC may not approve the levy increase of £2.5m. This would force Nexus to cut services as described in 2.41;

b) The budget makes an allowance for inflation on pay and non-pay. Inflation has begun to fall, however there is still a risk that the allowance made may be insufficient and this will put Nexus' budget under additional pressure. On the other hand, if inflation falls faster than expected, this could have a positive impact on Nexus' budget;

c) During 2022/23, Nexus reduced its ENCTS (concessionary fares) reimbursement to reflect reduced ridership seen since Covid. There is a risk that there could be upward pressure placed on this budget, arising from technical work that the DfT commissioned during the early part of 2023 in respect of the calculation of these costs;

d) Metro fare revenue is budgeted to recover to 107% of pre-Covid levels. In respect of this challenging target, it should be noted that Nexus' assessment of its ability to generate revenue at this level reflects the better than expected and continued recovery seen during the year to date in

[2] Including central support service costs and overheads
[3] This assumes fare revenue recovers to 107% of pre-Covid levels as shown in paragraph 2.36

2023/24. The fare revenue budget assumes that the new fleet will generate additional fare revenue, which could be impacted if there is any further delay in its implementation. In addition, there is also a risk that additional revenue expected to be generated from the annual fares review being considered by the Tyne and Wear Sub-Committee later in January will not be as high as modelled given the need to hold the price of certain fares commensurate with the £6.00 multi-modal fare introduced as part of the BSIP; and

e) The budget assumes an inflationary uplift in the MRG that is received from central government. At this stage this has not been confirmed, although lobbying to the DfT will continue.

Forecasts 2025/26 and 2026/27

2.47 It was previously indicated that it would be necessary to consider further increases in the Tyne and Wear transport levy in 2025/26. This is still expected to be required and potentially an increase thereafter may also be required. In addition, as highlighted in paragraph 2.42, it will be necessary to place reliance on reserves in 2025/26 and 2026/27 in order to balance the budget and maintain services, due to the underlying structural deficit.

2.48 In compiling the forecasts for 2025/26 and 2026/27, assumptions for inflation have been made with reference to the latest Bank of England forecasts which shows it will be at the target rate. The cost base is therefore expected to increase, although at the same time Nexus has assumed that the MRG received from central government will be indexed, however this is unconfirmed and represents a risk to the forecast at this time. In addition, the forecast reflects additional fare revenue that is expected to be generated from future fares reviews.

2.49 Further to this, the forecast reflects opportunities from the introduction of the new fleet, including additional fare revenue, and savings in HV power consumption, once the entire new fleet is in service. At the same time, the forecast makes an allowance for additional costs associated with delivering a timetable uplift in connection with the opportunity presented by completion of the Metro Flow engineering works. These additional costs have been estimated based on the original business case which planned for an introduction of a ten-minute frequency across the Metro network. Nexus is continuing to refine these estimates and review the options for modifying the timetable, in view of the deficit position.

2.50 Despite the opportunities being reflected in the forecast, due to the unavoidable cost pressures Nexus is likely to face, it will be necessary for consideration to be given for the levy to increase in both years. After taking into account the levy increase, the pressures and opportunities are broadly neutral, and therefore do not help to address Nexus' underlying structural deficit. As previously outlined, Nexus is able to make reserves contributions in 2025/26 and 2026/27, however, beyond this it is clear that Nexus needs to be able to set a balanced budget which is sustainable in the long term and does not continue to place reliance on reserves.

2.51 The forecasts for 2025/26 and 2026/27 are subject to a significant amount of variability and will need to be updated, once key risks and uncertainties become clearer. Indicative estimates are set out below:

Table 10: Nexus budget indicative estimates 2025/26 and 2026/27

	Gross Exp	**Commercial Revenue**	**Government Grant**	**Grant from Levy**	**Deficit funded from reserves**
	£m	**£m**	**£m**	**£m**	**£m**
2025/26	207.7	(60.1)	(71.8)	(70.3)	5.5
2026/27	213.5	(63.7)	(72.1)	(72.5)	5.2
Total					**10.7**

2.52 As shown in this table above, in 2025/26, the potential levy increase previously identified of 3.0% (amounting to £2.1m) is still required to balance the budget in 2025/26, with a further levy increase of 3.0% (amounting to £2.2m) potentially being required in 2026/27. This is in addition to use of £10.7m of reserves across these two years, whilst an approach to addressing Nexus' underlying structural deficit is developed.

Transport North East

2.53 TNE provides strategy, planning and delivery services on behalf of the JTC and works to implement the vision of 'moving to a green, healthy, dynamic and thriving North East'. The TNE Core budget is funded through contributions from the Transport Levies which are retained to support central activity, a topslice of the LTP Integrated Transport Block grant which is awarded to the JTC. In addition, external contributions fund specific posts and government grants are awarded which meet the costs of specific programmes and projects. The budget in 2023/24 and 2024/25 includes items agreed by the JTC in July 2023 to fund transition to the new mayoral combined authority.

2.54 The table below summarises the forecast for the current year across all areas of TNE's revenue budget, with the exception of the Tyne Tunnels which is shown separately in the next section as this is treated as a ringfenced account which is self-financing from tolls income.

Table 11: TNE Forecast 2023/24 and Budget 2024/25

	Revised Budget	Spend to Date	2023/24 Forecast	2023/24 Variance	2024/25 Initial Budget
	£m	£m	£m	£m	£m
Expenditure					
Transport Strategy	1.037	0.568	1.126	0.089	1.159
Enhanced Partnerships	76.891	4.567	59.286	(17.605)	31.679
Programmes	9.775	1.619	12.058	2.283	1.651
Rail Partnerships	1.270	0.648	1.287	0.017	1.061
Bus Reform	0.900	0.026	0.900	0.000	0.450
Other Devolution Workstreams	0.897	0.164	0.648	(0.249)	0.672
Total Expenditure	**90.770**	**7.592**	**75.305**	**(15.465)**	**36.672**
Income					
LTP Topslice	(0.500)	(0.500)	(0.500)	0.000	(0.500)
Retained Transport Levy	(0.284)	(0.361)	(0.362)	(0.078)	(0.367)
External Funding for Specific Posts	(0.178)	(0.042)	(0.187)	(0.009)	(0.194)
Government Grants	(87.303)	(6.280)	(71.855)	15.448	(34.289)
Interest Income	0.000	0.000	(8.125)	(8.125)	0.000
Total Income	**88.265**	**(7.183)**	**(81.029)**	**7.236**	**(35.350)**
Net Expenditure	**2.505**	**0.409**	**(5.724)**	**(8.229)**	**1.322**
Devolution Reserve	(1.357)	(0.190)	(1.315)	0.042	(0.966)
JTC Unallocated Reserve	(0.105)	0.354	(0.222)	(0.117)	0.000
Local Rail Studies Reserve	(1.043)	(0.573)	(0.864)	0.179	(0.356)
2023/24 Transport Interest Reserve	0.000	0.000	8.125	8.125	0.000
Total Use of Reserves	**(2.505)**	**(0.409)**	**5.724**	**8.229**	**(1.322)**

2.55 Total expenditure across TNE is now forecast to be £75.305m in 2023/24 compared with the revised budget of £90.770m – the reduction being primarily due to reprofiling of expenditure on the Bus Service Improvement Plan (Enhanced

Partnerships) budget where some service improvements will now commence from 2024/25, when previously it was anticipated that they would commence in the current year.

2.56 Total income is forecast at £81.029m, which is above forecast expenditure due to the receipt of unbudgeted interest on revenue balances, arising from the frontloading of government grants and interest rates having risen sharply during 2023. It is proposed that £8.125m be set aside in an earmarked reserve at the 2023/24 year end and held to support investment and activity in future years to facilitate and following the transition to the new mayoral combined authority.

2.57 Savings on historic debt charges inherited from the former Tyne and Wear ITA mean that the amount retained from the Tyne and Wear levy to help fund TNE has been increased, from £0.284m in 2023/24 to £0.367m in 2024/25. This has enabled cost pressures around staffing, such as the national pay award, to be accommodated without any additional contributions from constituent local authorities being required.

Tyne Tunnels

2.58 The Tyne Tunnels are accounted for as a ring-fenced account within the JTC budget, meaning that all costs relating to the tunnels are wholly funded from toll income and Tyne Tunnels reserves, with no call on the levy or external government funding.

2.59 The JTC receives all toll income from the vehicle tunnels in the first instance and a payment under the contract with TT2 is determined based on traffic levels. The balance retained by the JTC is to meet other costs associated with the Tyne Tunnels, primarily interest and principal repayments on borrowing taken out to fund the New Tyne Crossing project, and other client costs associated with the management of the contract with the concessionaire.

2.60 The updated forecast outturn for 2023/24 and budget for 2024/25 is set out below.

Table 11: Tyne Tunnels Budget 2023/24 and 2024/25

	Revised Budget	**Spend to Date**	**2023/24 Forecast**	**2023/24 Variance**	**2024/25 Initial Budget**
	£m	**£m**	**£m**	**£m**	**£m**
Tolls Income	(35.991)	(23.546)	(36.216)	(0.225)	(39.033)
TT2 Contract	28.032	17.082	28.628	0.596	30.226
Employees	0.147	0.087	0.146	(0.001)	0.153
Historic Pensions	0.065	0.028	0.045	(0.020)	0.047
Premises	0.114	0.003	0.114	0.000	0.014

Support Services	0.160	0.071	0.175	0.015	0.179
Supplies and Services	0.347	0.225	0.626	0.279	0.403
Financing Charges	7.928	6.247	6.674	(1.254)	8.401
Interest/Other income	(0.150)	(0.082)	(0.239)	(0.089)	(0.150)
Repayment from TWITA for temporary use of reserves	(0.240)	(0.240)	(0.240)	0.000	(0.240)
Capital Expenditure Funded from Revenue - TPCT	0.287	0.125	0.287	0.000	0.000
Net Expenditure to be Funded from Reserves	**0.699**	**0.000**	**0.000**	**(0.699)**	**0.000**
Contribution to/(from) Reserves	**(0.699)**	**0.000**	**0.000**	**0.699**	**0.000**

2.61 The forecast tolls income for 2023/24 is higher than the original budget due to higher than forecast traffic levels over the first two quarters. This is also the reason for the forecast TT2 contract payment being higher than the original budget. The 2023/24 forecast for supplies and services exceeds the budgeted amount by approximately £0.280m due to additional requirement for technical services relating to completion of the Tyne Pedestrian and Cycle Tunnels refurbishment works and several engineering projects, above and beyond that anticipated.

2.62 Budget estimates for 2024/25 are provided in the table above and are based on the assumption that the JTC Tyne and Wear Sub Committee (TWSC) will decide to increase the tolls in line with the Retail Prices Index (RPI), as set out in the legislation. Decisions on toll charges are reserves for the TWSC and the mechanism for revising the tolls is detailed in the River Tyne Tunnels Order 2005. The TWSC are able to increase the toll paid by customers (the ‘Real Toll’) once every 12 months, based on the RPI from the application of the last increase, rounded to the nearest 10 pence.

2.63 Separately, a ‘Shadow Toll’ sets the amount paid to TT2 per journey, also based on RPI. It is considered every January and is a contractual commitment as set out in the Project Agreement signed in 2007. The Shadow Toll is required to be rounded to the nearest 10 pence, and an increase is only possible in 10 pence increments.

2.64 The legislation does not provide for any alternative to the RPI based increase in the Real Toll and assumes that the authority will increase user charges in line with the RPI calculation. The Project Agreement similarly prescribes the calculation for the Shadow Toll increase without any alternative.

2.65 The Real Toll charged to users needs to be the same amount or similar to the Shadow Toll paid to TT2 per journey, otherwise the JTC would incur a loss on each tunnel journey because the income generated would fall short of the expenditure incurred in servicing the debt charges and meeting the contractual obligations to TT2.

2.66 The current Real Toll lags slightly behind the Shadow Toll (10p lower) due to a decision taken by the TWITA in August 2011. However, this has been the position for some years and can be accommodated within the budget. The current Real Toll is £2.20 for Class 2 Vehicles and £4.40 for Class 3 Vehicles, and the Shadow Toll is £2.30. The Shadow Toll will increase to £2.50 on 1 January 2024. The TT2 contract payment for the 2024/25 budget is based on this increase to the Shadow Toll and therefore to ensure the Tyne Tunnels account is balanced, an increase will be required to the tolls in 2024/25. It is forecast that the tolls will increase to £2.40 for Class 2 Vehicles and £4.80 for Class 3 Vehicles, representing a 20p and 40p rise respectively.

2.67 The earliest date an increase in the tolls can be applied is May 2024 because of the decision taken by the TWSC last year to delay increasing the toll for Class 2 Vehicles in 2023 until May to provide relief for tunnel users during the winter period taking into account winter fuel bulls and the cost-of-living crisis. The income lost during that period was funded from Tyne Tunnel reserves, however this is not a sustainable long-term position.

2.68 The 2024/25 budget for Employee Costs and Support Services is based on assumed cost increases. The 2024/25 budget for Supplies and Services is lower than the 2023/24 forecast outturn and this is primarily due to the handover of the operations and maintenance of the TPCT to TT2, which is planned for May 2024. Nevertheless, ongoing technical advice is required on multiple projects and there have been cost increases introduced by several suppliers.

2.69 The costs associated with Premises are largely related to the operations of eth TPCT. Electricity costs for the lighting systems, CCTV and security systems, and the lifts at either end are substantial. Therefore, the proposed budget for Premises is less than in 2023/24 because the TPCT operational costs will be transferred to TT2 as part of the handover which is planned for May 2024 on the basis that the refurbishment works are completed.

2.70 Financing charges have reduced significantly compared to the original budget as a result of the early repayment of some outstanding borrowing using cash balances. Interest on revenue balances is higher than budgeted as interest rates have increased since the budget was agreed.

Reserves

2.71 The JTC holds reserves to fund future activity and to manage financial risk associated with its activities. A summary of the reserves held at 1 April 2023 and the forecast position at 31 March 2024 and 31 March 2025 is shown in the table below.

Table 12: JTC Reserves

	1 April 2023	31 March 2024	31 March 2025
	Actual	**Forecast**	**Estimate**
	£m	**£m**	**£m**
JTC Unallocated	1.096	0.874	0.874
2023/24 Transport Interest	0.000	8.125	8.125
Earmarked – JTC Tyne Tunnels	9.626	9.339	9.239
Earmarked – Local Rail Studies	1.963	1.099	0.743
Earmarked – Nexus POP Truth on Server	0.461	0.000	0.000
Earmarked – Transport Devolution Preparation	2.573	1.258	0.292
Earmarked – Metro Reinvigoration	8.267	2.967	2.967
Earmarked – Metro Fleet Replacement	10.367	5.456	5.456
Total	**34.353**	**29.118**	**27.696**

2.72 The budget for 2024/25 contains planned use of earmarked reserves to provide local match funding on the Metro Asset Renewal Plan and Metro Fleet Replacement capital programmes, and to fund work on Metro and Local Rail Studies and Transport Devolution preparation.

2.73 A significant level of interest on revenue balances attributable to high cash balances due to front-loading of government grants is forecast to be received in 2023/24, over and above already budgeted levels. This is due to both the much higher interest rates now compared with at the time of setting the original budget, and significantly higher cash balances held on behalf of the JTC during the year as a result of receipts of large capital grants relating to BSIP, Active Travel and TCF in advance of expenditure being defrayed. A total of £9.018m is forecast, of which £0.893m will be applied to earmarked reserves held on behalf of Nexus and the Tyne Tunnels. It is proposed that the remaining £8.125m is held in an earmarked reserve support investment and activity in future years to facilitate and following transition to the new proposed MCA.

2.74 This table does not include Nexus own reserves, use of which is described in the Nexus budget sections above.

3. Reasons for the Proposals

3.1 The proposals are presented in this report to enable the JTC to set its budget for 2024/25.

4. Alternative Options Available

4.1 Option 1 – the North East Joint Transport Committee may accept the recommendations set out in the report.

4.2 Option 2 – the North East Joint Transport Committee may suggest amendments or alternative proposals to be considered. Option 1 is the recommended option.

4.3 Option 1 is the recommended option. If the recommendations in the report are not agreed, a special meeting of the JTC would be urgently required in order to agree 2024/25 Transport Levies before the statutory deadline of 15 February 2024.

5. Next Steps and Timetable for Implementation

5.1 The NECA Leadership Board and NTCA Cabinet will issue the transport levies to their constituent authorities on behalf of the JTC, and this will be presented to their meetings on 23 January and 30 January respectively.

6. Potential Impact on Objectives

6.1 The budgets presented in this report are aligned to the achievement of the Transport policy objectives of the JTC. They allow a balanced budget to be established in 2024/25 and include a strategy to enable the delivery of services over the medium term.

7. Financial and Other Resources Implications

7.1 The financial and other resource implications are set out in the body of the report.

8. Legal Implications

8.1 The JTC must approve the transport budgets and levies unanimously. The NECA Leadership Board and NTCA Cabinet will issue the levies to their constituent councils by 15 February preceding the financial year to which they relate. The Newcastle upon Tyne, North Tyneside, and Northumberland Combined Authority (Establishment and Functions) Order 2018 specifies that this function is exercisable only by the JTC.

9. Key Risks

9.1 Appropriate risk management arrangements are put in place in each budget area by the delivery agencies responsible. Reserves are maintained to help manage financial risk to the authority.

9.2 The JTC must approve the transport budget and levies unanimously. Despite mitigations including briefings and consultation with all constituent authorities particularly in Tyne and Wear, there remains a risk that it is not possible to achieve unanimous agreement at this meeting.

9.3 Should the proposals for the levies not be agreed unanimously at this meeting, a special meeting of the JTC would be required to consider revised proposals. Without an increase in the Tyne and Wear levy, the approach to balancing the Nexus budget in 2024/25 may involve reductions in services.

9.4 Under the Transport Levying Bodies Regulations 1992, the two combined authorities are required to issue a levy before 15 February preceding the commencement of the financial year in respect of which it is issued. This is to enable constituent local authorities to be able to include the levy amounts in their budgets for the new financial year.

10. Equality and Diversity

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

11. Crime and Disorder

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

12. Consultation/Engagement

12.1 The NECA Constitution requires that consultation on budget proposals in its role as Accountable Body for the JTC be undertaken at least two months prior to the budget being agreed. The draft proposals have been subject to consultation with members of the JTC Overview and Scrutiny Committee and officer groups.

12.2 The JTC Overview and Scrutiny Committee discussed the draft budget proposals in its meetings on 26 October and 14 December. As part of their discussions, Members recognised that the current forecasts of deficits in the Nexus budget resulted in a serious position for the JTC and a set of stark choices around levy increases.

12.3 Members noted the reliance on reserves in order to balance the budget and the need to reach a balanced position without reliance on reserves at the end of the MTFP period. The forecast for the period to 2026/27 is covered in detail in the report.

13. Other Impact of the Proposals

13.1 There are no other impacts arising from this report.

14. Appendices

14.1 Appendix 1 – Transport Levy Arrangements

Appendix 2 – Nexus Summary Revenue Budget Requirement 2024/25

Appendix 3 – Detailed Nexus 2024/25 Budget

15. Background Papers

15.1 JTC Budget 2023/24 – report to JTC 17 January 2023

[(Public Pack) Agenda Document for North East Joint Transport Committee, 17/01/2023 14:30 (northeastca.gov.uk)]

15.2 Draft JTC Budget Proposals 2024/25 – report to JTC 21 November 2023

(Public Pack) Agenda Document for North East Joint Transport Committee, 21/11/2023 14:30 (northeastca.gov.uk)

16. Contact Officers

16.1 Eleanor Goodman, NECA Finance Manager, eleanor.goodman@northeastca.gov.uk

17. Sign off

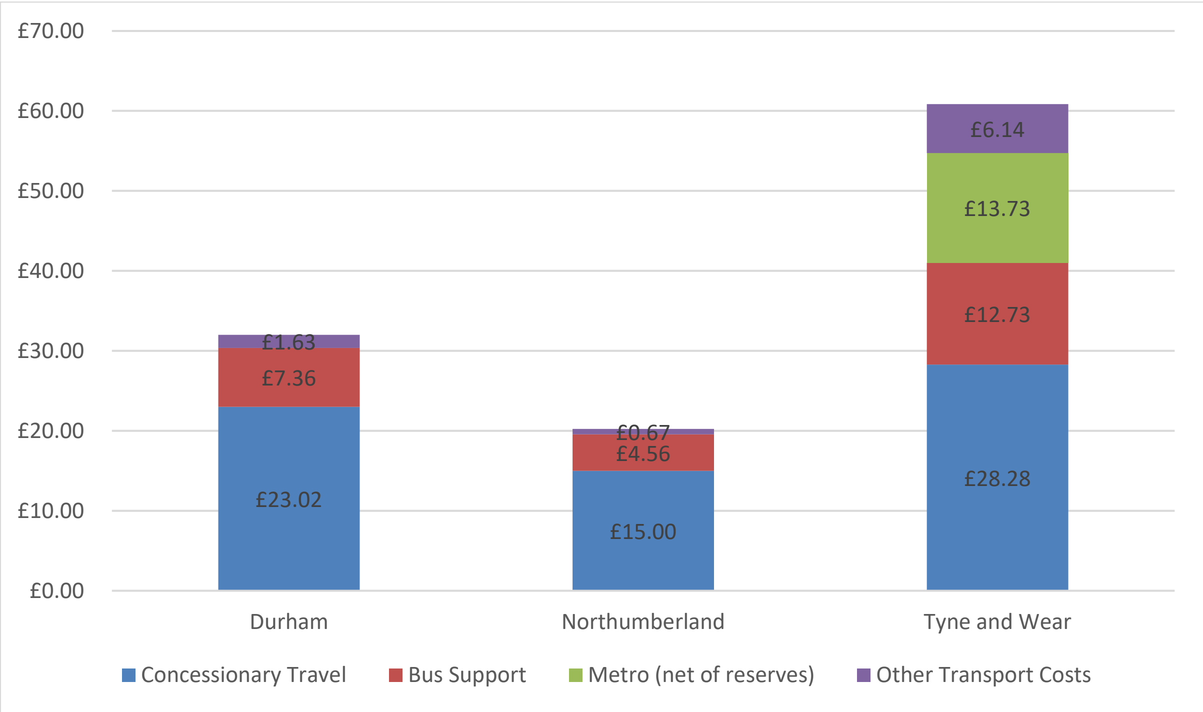
- The Proper Officer for Transport:
- Head of Paid Service:
- Monitoring Officer:
- Chief Finance Officer:

Appendix 1 – Transport Levy Arrangements

Background to Levy Arrangements

Public transport has traditionally been seen as a county-wide service, due to the wider geographic nature of transport services. County-wide precepts for Transport costs were replaced in 1990 with levying arrangements, reflecting Government decisions about how public transport grant support was to be provided i.e., within the Revenue Support Grant paid to metropolitan districts rather than directly to Passenger Transport Authorities (PTAs). The levying arrangements which specified a population apportionment were set out in the Transport Levying Bodies Regulations 1992. The regulations reflected the principle that all residents in a county area should contribute equally to access to transport services. In recent years concessionary travel costs have also been classified by DLUHC and DfT as a county-wide level service.

In establishing Combined Authorities with levying powers, Government required population to be used as the basis for levy apportionment. The area, unlike other Combined Authority areas, includes three county areas with very different levels of cost and grant funding. The difference in costs relates particularly to the cost of concessionary travel reimbursement, which is considerably higher in Tyne and Wear due to the high levels of travel on an urban transport network as well as higher levels of historic public transport borrowing costs and services such as the Tyne and Wear metro and the Shields ferry. It was not therefore considered appropriate to have a single transport levy covering the whole JTC area and the amended levy arrangements established three separate levies through legislation: one for Durham County Council, on for Northumberland County Council and one for Tyne and Wear. The difference in transport costs and levies between the three areas can be seen in the chart below:



Apportionment on Population basis in Tyne and Wear

Under the Transport Levying Bodies Regulations, the measure of population which must be used to apportion the Tyne and Wear Transport levy between the constituent authorities is the total resident population at the relevant date of the area of each Authority concerned (the relevant date being 30 June in the financial year which commenced prior to the levying year).

For the 2024/25 levy, this is the 2022 Mid-Year estimates published by the Office for National Statistics (ONS). The population estimates for 2021 and 2022 are set out in the table below. The population estimates for all five authorities have changed by different proportions:

	2021 MYE	2022 MYE[4]	Change	
	People	People	People	% increase/-decrease
Gateshead	196,154	197,722	1,568	0.8%
Newcastle	298,264	307,565	9,301	3.1%
North Tyneside	209,151	210,487	1,336	0.6%
South Tyneside	147,915	148,667	752	0.5%
Sunderland	274,211	277,354	3,143	1.2%
Total Tyne & Wear	**1,125,695**	**1,141,795**	**16,100**	**1.4%**

Apportioning the proposed levy of £70.300m gives the following figures for Tyne and Wear:

	2023/24	2024/25	Change	
	£	£	£	%
Gateshead	11,814,249	12,173,688	359,439	3.0%
Newcastle	17,964,279	18,936,691	972,412	5.4%
North Tyneside	12,597,051	12,959,626	362,574	2.9%
South Tyneside	8,908,840	9,153,386	244,546	2.7%
Sunderland	16,515,580	17,076,609	561,029	3.4%
Total Tyne & Wear	**67,800,000**	**70,300,000**	**2,500,000**	**3.7%**

[4] Population estimates for England and Wales - Office for National Statistics (ons.gov.uk)

Appendix 2 – Nexus Summary Budget Requirement 2024/25

Revenue Budget 2024/25

	Direct Costs	External Income	Net Costs	Net Indirect	Grants	Loan Interest	Capital Adjustment	2024/25 Net
	£m	£m	£m	£m	£m	£m	£m	£m
ENCTS	28.701	-	28.701	0.597	-	-	-	29.298
Discretionary CT	3.392	(0.590)	2.802	0.185	-	-	-	2.987
Metro	126.980	(54.728)	72.252	14.262	(28.634)	1.049	(38.435)	20.494
Ferry	1.877	(0.455)	1.422	0.941	-	0.014	(0.378)	1.999
Bus Services	17.111	(2.833)	14.278	1.204	(0.891)	0.009	(0.070)	14.530
Bus Infrastructure	2.473	(0.423)	2.050	0.639	-	0.225	(0.368)	2.546
Public Transport Information	0.595	(0.164)	0.431	0.707	-	0.028	-	1.166
Total requirement	**181.129**	**(59.193)**	**121.936**	**18.535**	**(29.525)**	**1.325**	**(39.251)**	**73.020**
JTC Grant (levy)								(68.200)
Deficit								**4.820**

Appendix 3 – Detailed Nexus Budget 2024/25

Service Area	Direct Costs £m	External Income £m	Indirect £m	Grants £m	Loan Interest £m	Asset Financing £m	Net £m
ENCTS	28.701	-	-	-	-	-	28.701
ENCTS	**28.701**	**-**	**-**	**-**	**-**	**-**	**28.701**
Discretionary CT	3.392	(0.590)	-	-	-	-	2.802
Discretionary CT	**3.392**	**(0.590)**	**-**	**-**	**-**	**-**	**2.802**
METRO							
Metro Farebox	0.867	(48.294)	-	-	-	-	(47.427)
PFN Income	-	(0.785)	-	-	-	-	(0.785)
Car Park Income	0.005	(0.198)	-	-	-	-	(0.193)
Ticketing & Gating	1.189	-	-	-	-	-	1.189
Automatic Fare Collection	1.685	(0.004)	-	-	-	-	1.681
Fare Collection & Revenue	**3.746**	**(49.281)**	**-**	**-**	**-**	**-**	**(45.535)**
MMA Management	12.785	-	-	-	-	-	12.785
Contracts & Commercial	7.197	(1.369)	-	-	-	-	5.828
Contracts & Commercial	**19.982**	**(1.369)**	**-**	**-**	**-**	**-**	18.613
System Development	4.000	(4.000)	-	-	-	-	-
System Development	**4.000**	**(4.000)**	**-**	**-**	**-**	**-**	**-**
Planning & Performance	1.492	-	-	-	-	-	1.492
Service Delivery	2.852	-	-	-	-	-	2.852
Operations Delivery	18.150	(0.066)	-	-	-	-	18.084
Metro Operations	**22.494**	**(0.066)**	**-**	**-**	**-**	**-**	**22.428**

Service Area	Direct Costs £m	External Income £m	Indirect £m	Grants £m	Loan Interest £m	Asset Financing £m	Net £m
Insurance & Claims	1.731	-	-	-	-	-	1.731
Rates	1.725	-	-	-	-	-	1.725
Utilities	1.894	-	-	-	-	-	1.894
Metro Marketing	0.699	-	-	-	-	-	0.699
Metro pensions and provisions	2.140	-	-	-	-	-	2.140
Depreciation	39.537	-	-	-	-	-	39.537
Metro - Other	**47.726**	**-**	**-**	**-**	**-**	**-**	**47.726**
HV Power	13.880	-	-	-	-	-	13.880
Safety & Assurance Metro	3.609	-	-	-	-	-	3.609
Engineering	0.281	-	-	-	-	-	0.281
Buildings & Facilities	3.247	-	-	-	-	-	3.247
IMSM/facilities	0.145	-	-	-	-	-	0.145
Civils & Structures	2.347	-	-	-	-	-	2.347
Rail Management & Administration	0.217	-	-	-	-	-	0.217
Permanent Way	1.882	(0.011)	-	-	-	-	1.871
Power Supplies	0.842	-	-	-	-	-	0.842
Signalling	1.339	-	-	-	-	-	1.339
Stores	0.207	(0.001)	-	-	-	-	0.206
ID Admin & performance	1.036	-	-	-	-	-	1.036
Infrastructure Management	**29.032**	**(0.012)**	**-**	**-**	**-**	**-**	**29.020**
Metro	**126.980**	**(54.728)**	**-**	**-**	**-**	**-**	**72.252**
Ferry	1.877	(0.455)	-	-	-	-	1.422
Ferry	**1.877**	**(0.455)**	**-**	**-**	**-**	**-**	**1.422**

Service Area	Direct Costs £m	External Income £m	Indirect £m	Grants £m	Loan Interest £m	Asset Financing £m	Net £m
Contract Management	0.510	-	-	-	-	-	0.510
TaxiCard	0.179	(0.021)	-	-	-	-	0.158
Secured Bus Services	16.422	(2.812)	-	-	-	-	13.610
Bus Services	**17.111**	**(2.833)**	**-**	**-**	**-**	**-**	**14.278**
Bus Infrastructure	2.473	(0.423)	-	-	-	-	2.050
Bus Infrastructure	**2.473**	**(0.423)**	**-**	**-**	**-**	**-**	**2.050**
Information	0.595	(0.164)	-	-	-	-	0.431
Public Transport Information	**0.595**	**(0.164)**	**-**	**-**	**-**	**-**	**0.431**
INDIRECT							
Pensions & Provisions	-	-	2.581	-	-	-	2.581
Investment Income	-	-	(2.786)	-	-	-	(2.786)
Democratic Services & Executive	-	-	1.411	-	-	-	1.411
Central Other	**-**	**-**	**1.206**	**-**	**-**	**-**	**1.206**
Media & Communications	-	-	0.490	-	-	-	0.490
Print & Distribution	-	-	0.220	-	-	-	0.220
Marketing	-	-	0.420	-	-	-	0.420
Customer Services	-	-	1.332	-	-	-	1.332
Customer Services & Communications	**-**	**-**	**2.461**	**-**	**-**	**-**	**2.461**
Human Resources	-	-	0.896	-	-	-	0.896
Learning & Development	-	-	2.322	-	-	-	2.322

Service Area	Direct Costs £m	External Income £m	Indirect £m	Grants £m	Loan Interest £m	Asset Financing £m	Net £m
Corporate Planning	-	-	1.536	-	-	-	1.536
People & Culture	**-**	**-**	**4.754**	**-**	**-**	**-**	**4.754**
Administration & Secretarial	-	-	0.177	-	-	-	0.177
Legal Services	-	-	0.480	-	-	-	0.480
Finance & Audit	-	-	1.695	-	-	-	1.695
Procurement	-	-	0.345	-	-	-	0.345
Estates	-	-	0.734	-	-	-	0.734
ICT	-	-	4.551	-	-	-	4.551
Finance & Resources	**-**	**-**	**7.982**	**-**	**-**	**-**	**7.982**
ICT Projects	-	-	0.089	-	-	-	0.089
ISTP	-	-	0.265	-	-	-	0.265
Major Projects	**-**	**-**	**0.354**	**-**	**-**	**-**	**0.354**
Safety & Assurance	-	-	1.776	-	-	-	1.776
Safety & Assurance	**-**	**-**	**1.776**	**-**	**-**	**-**	**1.776**
Indirect	**-**	**-**	**18.535**	**-**	**-**	**-**	**18.535**
Loan Charges	-	-	-	-	1.325	-	1.325
Released from:							
Released from Capital Grants	-	-	-	-	-	(37.414)	(37.414)
Released from Capital Reserves	-	-	-	-	-	(1.838)	(1.838)
Asset Financing					**1.325**	**(39.251)**	**(37.926)**

Service Area	Direct Costs £m	External Income £m	Indirect £m	Grants £m	Loan Interest £m	Asset Financing £m	Net £m
Bus Operators Grant	-	-	-	(0.891)	-	-	(0.891)
Metro Rail Grant	-	-	-	(28.634)	-	-	(28.634)
Grants	**-**	**-**	**-**	**(29.525)**	**-**	**-**	**(29.525)**
TOTAL REQUIREMENT	**181.129**	**(59.193)**	**18.535**	**(29.525)**	**1.325**	**(39.251)**	**73.020**
JTC Grant	-	-	-	(68.200)	-	-	(68.200)
JTC Grant	**-**	**-**	**-**	**(68.200)**	**-**	**-**	**(68.200)**
DEFICIT / (SURPLUS)	**181.129**	**(59.193)**	**18.535**	**(97.725)**	**1.325**	**(39.251)**	**4.820**

Appendix F

North East Combined Authority
DURHAM • GATESHEAD • SOUTH TYNESIDE • SUNDERLAND

NORTH OF TYNE COMBINED AUTHORITY

North East Joint Transport Committee

Date: **16 January 2024**

Subject: **Transport Capital Programme 2024/25**

Report of: **Chief Finance Officer**

Executive Summary

This report provides the North East Joint Transport Committee (JTC) with an updated forecast capital outturn for 2023/24 and presents the initial 2024/25 capital programme, totalling £304.416, for consideration and approval.

The report identifies that total capital expenditure on Transport schemes of £232.693m is now forecast for 2023/24 against the revised programme budget of £278.496m – forecast slippage / underspending of £45.803m (16.4%). The main variances since the last update reported to the committee is a substantial revision of forecast expenditure on the Transforming Cities Fund Tranche 2 programme and the Active Travel Fund Tranches 2, 3 and 4 programmes. There are also variances forecast on the Bus Service Improvement Plan, the Metro Asset Renewal Programme and the Metro Flow programme which are detailed in the report.

The capital expenditure forecast on the Transforming Cities Fund Tranche 2 schemes is now estimated to be £48.212m in 2023/24. This is a revision of £12.189m on the previous forecast and is mainly due to scheme development difficulties, ongoing resource and capacity constraints and challenging market conditions which have led to some scheme promoters failing to hit assurance milestones.

£3.369m of capital expenditure is forecast on Active Travel Fund Tranches in 2023/24, which is a sizeable revision (reduction) on the previous forecast of expenditure (£22.725m) and has arisen largely due to difficulties in developments, scheme interdependencies and delays in Active Travel England sign off on final designs.

The report sets out details of the Nexus Capital Programme for 2024/25, totalling £102.143m, which includes the Metro Asset Renewal Program (MARP £47.191m), Fleet Replacement Programme (MFR £50.579m), Metro Flow (MFL £1.553m) and Other Nexus Capital Projects (Nexus OCP £2.819m). Indicative figures for 2025/26 and 2026/27 are included, which are subject to approval of funding.

The programme includes an estimated £14.057m of Local Transport |Plan Integrated Transport Block grant that will be received by NECA on behalf of the JTC, most of which will be paid to constituent authorities and Nexus on a quarterly basis to support

their capital programmes. Expenditure on the Nexus elements is included in the sections on the Nexus capital programme and to avoid double counting the remaining £11.309m is reported against the LTP Integrated Transport Block programme line.

The vast majority of the planned capital expenditure will be funded from specific government grants received, with these capital resources augmented with the use of earmarked reserves also. Full details of the funding of the planned expenditure are set out in the report.

Recommendations

The North East Joint Transport Committee is recommended to:

i) Note the latest position in respect of the 2023/24 capital programme, summarised in section 2.1 and exemplified in more detail in the sections that follow;

ii) Approve the proposed initial capital programme for 2024/25 which amounts to £304.416m, as summarised in section 2.1 and exemplified in more detail in the sections that follow;

iii) Note that grant funding for the Metro Asset Renewal Programme (MARP) for years 2025/26 and 2026/27 is still subject to Department for Transport (DfT) approval, therefore the element of Nexus' capital programme relating to the MARP in these years, can only be considered indicative at this stage, pending the outcome of ongoing discussions with DfT officials;

iv) Note that a further report to consider the MARP programme once will be prepared once the grant funding for years 2025/26 and 2026/27 is confirmed by DfT; and

v) Approve the other elements of Nexus' capital programme (2024/25 to 2025/26) for the MARP (2024/25 only), the Fleet Replacement Programme and Other Projects as detailed in this report.

1. Background Information

1.1 In January 2023, the JTC approved the initial 2023/24 capital programme of £238.994m. The capital programme was updated to take account of adjustments for slippage in the 2022/23 outturn and new developments and funding secured. The revised updated budget for 2023/24, as reported to the JTC in November 2023 is £278.496m.

1.2 The programme for 2024/25 includes schemes for which funding has been identified. Where funding announcements are still outstanding (for example in relation to the Local Electric Vehicle Infrastructure (LEVI) bid submitted at the end of November 2023) schemes will be brought forward for inclusion in the capital programme once funding has been confirmed.

1.3 The report describes the work underway to develop the potential programme for the City Region Sustainable Transport Settlement. The indicative CRSTS programme will continue to be refined through the development of the CRSTS Business Case. The North East Mayoral Combined Authority and newly elected Mayor will be required to submit the CRSTS Business Case to Government for consideration post May 2024.

2. Proposals

2023/24 Capital Programme forecast and Indicative 2024/25 Capital Programme

2.1 A summary of the Transport capital outturn forecast for 2023/24, together with details of actual expenditure to 31 October 2023 and the indicative Transport capital programme for 2024/25 is set out in the table below, with further details provided in the sections that follow.

Table 1: Transport Capital Programme 2023/24 and 2024/25

	2023/24 Revised Budget	2023/24 Forecast Outturn	2023/24 Variance	Actual Spend to 31 Oct	2024/25 Initial Programme
	£m	£m	£m	£m	£m
ATF Tranche 2	2.929	0.540	(2.389)	1.885	0.464
ATF Tranche 3	17.612	1.929	(15.683)	0.000	16.000
ATF Tranche 4	2.184	0.900	(1.284)	0.000	5.979
BSIP	40.982	33.291	(7.691)	0.000	40.467
CRSTS[1]	0.000	0.000	0.000	0.000	49.000

[1] A total of £147m funding for allocation to projects from CRSTS capital settlement. Until a programme is agreed, this is shown as equal allocations of £49m per annum which will be refined at a later date.

EV Charging Infrastructure	0.299	0.153	(0.146)	0.189	0.000
Levelling Up Fund	0.000	4.097	4.097	0.000	14.622
LTP Highways Maintenance Block[2]	0.000	0.000	0.000	0.000	52.143
LTP Integrated Transport Block[3]	11.396	11.391	(0.005)	4.663	11.309
MARP	43.686	36.635	(7.051)	15.908	47.191
MFR	90.986	91.318	0.332	74.738	50.600
MFL	4.126	0.987	(3.139)	2.956	1.533
Nexus OCP	3.544	2.889	(0.655)	1.741	2.819
TCF	60.401	48.212	(12.189)	13.011	12.189
Tyne Tunnels	0.287	0.287	0.000	0.125	0.100
ULEV – Taxis	0.064	0.064	0.000	0.000	0.000
Total	**278.496**	**232.693**	**(45.803)**	**115.216**	**304.416**

Active Travel Fund

2.2 In November 2020, the North East region was allocated £9.049m of grant funding from Tranche 2 of the Active Travel Fund (ATF) (£7.714m capital and £1.335m revenue). To date £6.984m of the capital funding has been spent.

2.3 Eight active travel schemes across the seven constituent local authorities have been allocated capital funds. In order for a Grant Funding Agreement (GFA) to be set up and claims to be processed for schemes, all required grant funding agreements are now in place.

2.4 Due to development difficulties and scheme interdependencies, it is forecast that two schemes will now not be completed this year and will complete in 2024/25, with a budget of £0.464m associated with these schemes.

[2] Following transition to the proposed Mayoral Combined Authority from May 2024, Local Transport Plan funding will form part of the overall CRSTS grant settlement. It is proposed that for the years 2024/25 – 2026/27 allocations remain as previously agreed for distribution to constituent local authorities and Nexus.
[3] As above. Excludes local match for MARP shown under that budget line.

2.5 In March 2022, the North East was allocated £17.929m of capital grant funding from ATF Tranche 3. Schemes are now entering into final development stages before delivery commences. Nine schemes across four local authorities were originally allocated funds, and following change control requests and the award of an additional £6.500m to a North Tyneside scheme, there are now eight schemes and the allocation for ATF Tranche 3 totals £26.962m. Active Travel England (ATE) must sign off final designs before schemes can progress into delivery, which is being considered through a design review meeting process.

2.6 There have been delays in processing schemes through the design review process by ATE, however one scheme has now entered into delivery (North Tyneside Sea Front Sustainable Route) and a further four are due to commence before or shortly after the end of the 2023/24 financial year. Therefore, the majority of the allocation of Tranche 3 expenditure will now be incurred next year and has needed to be reprofiled into 2024/25.

2.7 In March 2023, the North East was allocated £7.203m from Tranche 4 of the Active Travel Fund, of which £6.879m is capital. Four of the schemes are capital delivery schemes, and two are revenue development schemes. One scheme (NCN1 – South Tyneside to Sunderland) has entered into delivery, but to date no grant funding has been spent. As a result, the majority of capital spend is forecast for 2024/25.

2.8 The assurance process for Tranche 4 follows that for Tranche 3, in that schemes must provide an Assurance Statement and Monitoring & Evaluation plan, and also go through an ATE design review before a GFA is issued.

Bus Service Improvement Plan

2.9 In April 2022, the North East's BSIP was awarded £163.5 million of indicative funding through the government's competitive BSIP funding pot, of which £73.5m was for capital expenditure. All funding has now been confirmed by DfT.

2.10 A series of corridor-based bus priority improvement schemes which focus on improving bus reliability on high passenger demand routes across the region was approved at JTC in July 2023 totalling £20.250m. A further £13.040m was approved for the continued roll out of Intelligent Transport Systems (ITS). Preparatory work is currently underway to develop a programme of works for the remaining allocation.

2.11 At the JTC meeting in December 2023, Members agreed to the release of £0.350m of allocated professional fees to advance the remaining BSIP capital schemes and £3.4m to accelerate the delivery of Jesmond bus priority measures and Metrocentre Pocket Park and Ride. Capital expenditure to 31 October 2023 is nil with forecast expenditure to the year-end being £33.291m.

City Region Sustainable Transport Strategy

2.12 On establishment of the proposed mayoral combined authority, the region will be able to access £147m of new capital funds through the CRSTS. A business case, including a proposed programme to allocate this funding, will be presented to the mayor and cabinet for agreement post May 2024, which must then be submitted to Government for consideration.

2.13 During the year, TNE has procured consultancy support to undertake an Independent Assessment of CRSTS candidate schemes as a means of identifying a prospective programme. An evidence-based recommendation will be developed, to ensure that the emerging indicative programme of prospective CRSTS schemes offers value for money and crucially can deliver within the CRSTS timescales.

2.14 Until a programme is developed and agreed by the new MCA, the total £147m CRSTS capital available has been indicatively profiled in the table above as £49m per annum. This will be refined and updated as the programme is agreed.

Electric Vehicle Charging Infrastructure

2.15 Work is nearing completion on the installation of EV charging infrastructure at six further sites around the region, in Gateshead, West Denton, The Dunes at South Shields, Morpeth, Crook and Tynemouth Swimming Pool. In some cases, sites have had to be altered to reflect changing circumstances or restrictive network capacity.

Levelling Up Fund

2.16 Following positive subsidy control appraisal of the region's £19.5m, levelling up Fund programme, the region is now able to progress towards delivery of the programme. This involves the delivery of 52 electric buses and supporting infrastructure and 92 Electric Vehicle chargers at park and ride locations and key destinations. A memorandum of understanding is due to be signed with the Department for Transport which will see the first capital payment of £4.7m made in January 2024. Thereafter orders for vehicles can be placed and infrastructure procured. Proportionate extensions to the programme have been agreed with DfT to account for the revised commencement date.

Local Transport Plan

2.17 Currently, LTP Highways Maintenance Funding is paid directly to constituent local authorities by DfT. From 2024/25 and the creation of the proposed MCA, this funding will be awarded to NEMCA to allocate. For at least the CRSTS1 period (2024/25 to 2026/27), this will continue to be allocated to each local authority on the same basis as they currently receive the funding. Any change to these arrangements post 2026/27 will need to be agreed by NEMCA.

2.18 LTP Integrated Transport Block funding is currently paid to NECA on behalf of the JTC for local allocation, and this principle will continue from 2024/25 under NEMCA. Proposed allocations for 2024/25 are in line with current distributions and set out in the table below.

Table 2: LTP Integrated Transport Block allocation 2024/25

Authority	Gross Allocation	UTMC Contribution	TNE Contribution	Net Allocation
	£	£	£	£
Durham	2,810,594	0	(62,500)	2,748,094
Gateshead	1,338,823	(79,187)	(62,500)	1,197,136
Newcastle	1,662,476	(115,397)	(62,500)	1,484,579
North Tyneside	1,096,864	(79,761)	(62,500)	954,603
Northumberland	1,708,124	0	(62,500)	1,645,624
South Tyneside	849,247	(58,583)	(62,500)	728,164
Sunderland	1,618,226	(109,208)	(62,500)	1,446,518
Nexus/PT allocation	2,972,647	0	(62,500)	2,910,147
Total	**14,057,000**	**(442,136)**	**(500,000)**	**13,114,864**

Nexus Capital Programme

2.19 The JTC approved Nexus' capital programme for 2023/24 to 2025/26 in January 2023. Following consideration of the 2022/23 outturn report a revised 2023/24 Capital Programme budget was approved by the JTC in July 2023. The programme is sub-divided into the following sections:

i. Metro Asset Renewal Programme (MARP);

ii. Fleet Replacement Programme (FRP);

iii. Other Capital Projects (OCP); and

iv. Metro Flow (MFL).

2.20 The following report reviews the financial performance, at the end of Period 8 against the latest revised programme budget approved in terms of:

i. Actual cumulative spend at the end of the period;

ii. Latest forecast outturn for 2023/24; and

iii. Actual capital grant recovery.

2.21 Nexus' revised capital programme for 2023/24, provided for gross expenditure of £142.342m. By comparison, the 2023/24 programme forecast outturn as at Period 8 stands at £133.829m. The £8.513m forecast under spend (6%) is illustrated below and detailed within the report. At the end of Period 8 the total programme spend was £95.343m, against an approved budgeted spend of £102.105m. The £6.762m variance is highlighted throughout the remainder of this report.

Table 3: Total Nexus Capital Programme

	Original Budget £m	Revised Budget £m	Actual / Forecast £m	Variance £m
Cumulative to Period 8				
Metro Asset Renewal Programme	20.665	20.665	15.908	(4.757)
Fleet Replacement Programme	74.608	74.608	74.738	0.130
Other Capital Projects	2.912	2.912	1.741	(1.171)
Metro Flow	3.920	3.920	2.956	(0.964)
	102.105	**102.105**	**95.343**	**(6.762)**
Outturn				
Metro Asset Renewal Programme	43.897	43.686	36.635	(7.051)
Fleet Replacement Programme	115.236	90.986	91.318	0.332
Other Capital Projects	3.107	3.544	2.889	(0.655)
Metro Flow	1.075	4.126	2.987	(1.139)
	163.315	**142.342**	**133.829**	**(8.513)**

2.22 At the end of Period 8, £91.440m of capital grant has been claimed from the DfT. This includes both the MARP and DRP. The actual amount claimed in total was 100.7% of forecast and therefore within DfT tolerance levels of +/- 5%.

Metro Asset Renewal Programme

2.23 Cumulative actual spend at the end of Period 8 was £15.908m compared with an original forecast of £20.665m. This is a £4.757m under spend relates to the timing of spend and is across a number of projects, the most notable being the Ticket Vending Machine (TVM) upgrade, Cullercoats Footbridge (there was a delay to the award of contract but the project is still expected to be completed this year), Whitley Bay Canopy (detailed further below) and the Benton Square Compound refurbishment.

2.24 Overall, the forecast outturn for 2023/24 stands at £36.635m (including £0.769m of contingency) compared to the approved budget of £43.686m. This is a forecast under spend of £7.051m (16%). There are a number of projects that contribute to this, but those of particular note are:

- Whitley Bay Canopy – to reflect a revised programme of works as a direct consequence of the Buckingham Group going into Administration and the subsequent novation to the new contractor.
- Multi-Storey Car Parks - to reflect the latest project timetables which have been impacted by consultancy availability and quality.
- Switches and crossings at Pelaw – to limit the cumulative impact of network closures to take into account the availability of suitable of bus replacement services.

- Nexus Office and Operational Buildings – to allow for the scope of the project to be fully developed.

2.25 The November grant claim was £2.953m, compared to the forecast £3.000m and therefore within the +/- 5% DfT target. Total grant claimed to date is £16.707m and MRG (capital) grant totalling £30.900m (including £2.987m Metro Flow spend) is forecast to be claimed by year end. This represents the total available MRG (Capital) Grant for 2023/24.

2.26 The forecast outturn of £36.635m is currently being critically examined in light of uncertainties surrounding future funding, particularly in relation to financial years 2025/26 and 2026/27. For now, the forecast represents work currently being undertaken, but this could change in the next month or two depending on levels of available funding, once known. In the meantime, the current forecast would be funded from £27.913m MRG capital grant from DfT, with the remaining £8.722m funded from £2.718m of local funding (LTP), plus £5.300m of earmarked reserves. There is currently £0.704m of unfunded over programming. Originally over programming was £8.224m.

2.27 Metro Rail Grant (Capital) for 2023/24 to 2024/25 has been included as part of the North East devolution deal announced on 28 December 2022. The majority of the local contribution, currently sourced from the Public Transport allocation of the LTP Integrated Transport Block is likely to form part of CRSTS.

Fleet Replacement Programme (FRP)

2.28 Cumulative actual spend at the end of Period 8 was £74.748m compared to the revised expected spend of £74.608m, following a re-set of contract milestones, reflecting delays in the new fleet becoming operational. The £0.130m over spend relates to the Carriage Wash fit out works at Gosforth Depot which are ahead of forecast.

2.29 Forecast outturn for 2023/24 is £91.318m (including a risk contingency of £2.719m), compared to the approved budget of £90.986m. therefore broadly on budget. The 2023/24 forecast outturn is based on the revised delivery programme. The £0.332m in-year pressure can but funded from within existing resources and the programme contingency continues to be critically examined each period in order to contain the budget within overall funding levels.

2.30 The November grant claim is £13.060m and 101.3% of the forecast and therefore within the +/- 5% DfT target.

2.31 The £91.318m forecast outturn is funded from the £89.900m DfT Fleet Replacement grant available in 2023/24, with the balance, £1.418m, funded from Nexus Fleet Reserves. This includes contingency expenditure of £2.719m and therefore if this not used in-year, spend may fall below the £89.900m DfT Fleet Replacement grant allocation and permission would need to be sought from the DfT for the virement of any under recovery of grant.

Other Capital Projects (OCP)

2.32 In 2023/24 Other Capital Projects have an approved budget of £3.544m comprising of £1.878m for the Transforming Cities digital car parks project, £0.023m for the completion of the Bus Contracts system, £0.862m for Ground Investigation (GI) works at the site of the proposed North Ferry Landing relocation project, and a further £0.781m for Ferry vessels and maintenance of existing landings (North and South).

2.33 Cumulative actual spend at the end of Period 8 was £1.741m against the approved budget profile of £2.912m. The £1.171m under spend relates to:

- Digital Car Parking – Delays in contractor installing new ticket machines, plus a reduction in overall use of contingency. The completion date is now February 2024, which is within TCF funding deadlines.
- Bus Contracts system – Delays in testing due to additional software development being required.
- Ferry North Landing Relocation – The actual cost of delivering the North Landing Relocation project GI works is less than budget.
- Ferry – Slippage of the South Landing works and a reduction for a change in scope for the Ferry TVM solution.

2.34 Forecast outturn for 2023/24 is £2.889m against an approved budget of £3.544m. The £0.655m forecast underspend (18%) refers largely to the aforementioned underspend on North Landing GI works, a reduction in contingency for Digital Car Parking and slippage on the Ferry South Landing project.

2.35 The £2.889m outturn forecast is funded by £1.642m of Transforming Cities Grant in relation to Digital Car Parks, £0.079 LTP funding, £0.018m Clean Maritime Demonstration Competition funding and £1.150m Capital Reserves.

Metro Flow (MFL)

2.36 Cumulative actual spend at the end of Period 8 was £2.956m, against the approved budget profile of £3.920m. The £0.964m underspend is as a result of delays to delivering remaining remedial works to the main contract, which were previously being delivered by the main contractor Buckingham Group and are now delayed following Buckingham Group going into receivership and termination of the contract.

2.37 Forecast outturn for 2023/24 is £2.987m compared with the approved budget of £4.126m. The forecast in-year underspend is due to the termination of the Buckingham contract, with remedial works now scheduled to be carried out in 2024/25.

2.38 The forecast outturn of £2.987m is expected to be funded by £2.987m of MRG (Capital) Grant. £3.456m of 2023/24 MRG (Capital) Grant had been allocated to fund Metro Flow in this financial year. The forecast 2023/24 underspend therefore results in a £0.469m under spend of MRG (Capital) Grant and zero use of TCF grant retained for Metro Flow in 2023/24.

2.39 Surplus TCF grant of c£4.500m is anticipated, which the DFT has agreed can be retained by the region and is expected to be used as contribution towards the North Shields Ferry landing relocation.

Nexus 2024/25 Capital Programme

2.40 Nexus' capital programme for 2024/25 to 2026/27 includes investment in three main areas:

I. Metro infrastructure (the Metro Asset Renewal Programme or MARP);

II. A new fleet of Metrocars (the Fleet Replacement Programme or FRP); and

III. Other Capital Projects (OCP) e.g., the cross Tyne Ferry and projects where external funding is being sought;

2.41 Funding is largely provided by the DfT:

I. In respect of the MARP, the Department for Transport (DfT) is still to confirm the level of grant funding to be made available to Nexus for 2025/26 and 2026/27;

II. In relation to FRP, 2023/24 represents the sixth year of capital funding from DfT, with the programme expected to complete in 2026/27;

III. OCP is funded via a combination of earmarked reserves and external grant in the form of the City Regional Transport Scheme (CRSTS) and Transforming Cities Fund (TCF).

2.42 The financing of the proposed programme, assuming a certain level of grant funding from DfT is detailed in the following table:

	Proposed Budget 2024/25 £m	**Proposed Budget 2025/26 £m**	**Proposed Budget 2026/27 £m**
Metro Rail Grant (DfT)	38.400	39.300	19.079
Fleet Replacement Grant (DfT)	50.579	28.073	-
Transforming Cities Grant (DfT)	0.772	-	-
LTP ITB	2.797	2.797	2.797
Reserves	3.487	4.500	0.822
Overprogramming	4.554	1.723	0.000
	100.589	**76.393**	**22.698**

Metro Asset Renewal Programme (MARP)

2.43 At its January 2023 meeting, the JTC approved the capital programme for 2023/24 to 2025/26. At that time, grant funding was only secured for 2023/24 and

2024/25, but there was an assumption that grant funding would be secured for 2025/26 at a later date.

2.44 The North East Devolution Deal confirmed the following in connection with funding for the Metro Essential Renewals Programme:

- Funding for Metro's Essential Renewals programme and operational support will be paid direct to Nexus as Metropolitan Rail Grant, out with the CRSTS mechanism. However, £57 million of capital funding was transferred from the North East's nominal CRSTS allocation to take account of the additional Metropolitan Rail Grant capital payments in 2023/24 and 2024/25; and
- Funding for Metro Essential Renewals and operational support for 2025/26 and 2026/27 will be considered as part of the next Comprehensive Spending Review following the production of a business case and discussion between the government, the North East Mayoral Combined Authority, and Nexus.

2.45 Following informal dialogue between Nexus and DfT civil servants, a programme for 2025/26 and 2026/27 has been developed totalling £65.709m.

2.46 However, at this point no funding has been confirmed by DfT for 2025/26 and 2026/27. Discussions are ongoing, and a further report will be brought to the Joint Transport Committee when the outcome is known.

2.47 Based on discussions with DfT officials, investment that Nexus envisages it might be funded to deliver over the next 36 months (2024/25 to 2026/27) at asset category level is set out below and in more detail at Appendix 1.

	Proposed Budget 2024/25 £m	**Proposed Budget 2025/26 £m**	**Proposed Budget 2026/27 £m**
Capital Maintenance	2.840	3.310	2.500
Civils	5.067	3.340	1.125
Level Crossings	0.100	0.100	0.100
Mechanical and Electrical	3.934	4.500	1.300
Overhead line	3.750	5.025	5.606
Permanent Way (Plain line)	7.058	10.345	1.031
Plant	0.625	1.250	0.400
Risk Contingency	2.000	5.752	5.629
Signalling	7.561	6.898	3.380
Stations	4.445	0.230	0.200
Business Applications	1.404	0.310	0.075
ICT Infrastructure	3.040	0.957	0.370
Miscellaneous	4.797	1.824	-
Power	0.570	0.100	0.100
	47.191	**43.941**	**21.816**

2.48 The programme is developed based on funding discussions with DfT officials, using a prioritisation model that, in the context of the finite funding available for investment in the Metro asset base, targets resources based on a range of criteria ranging from safety and performance to impact on customer demand/experience and broader strategic fit. Whilst the proposed programme is set out in Appendix A, a summary of its key components is provided below:

Civils

- Refurbishment of bridges at Stoddart Street (Newcastle)
- Development of a scheme to replace the track system on Howdon Viaduct
- Asbestos Management in central area tunnels
- Remedial works to Regent Centre, Four Lane Ends and Northumberland Park Multi-Storey Car Parks and Surface Car Parks across the network
- Heworth Interchange roofing works
- Carlisle Street works

Permanent Way

- Renewal of Prudhoe Street switch and crossing (central Newcastle tunnel)
- Renewal of switches and crossings at Pelaw
- Procurement of switches and crossings for installation at Monkseaton in the following year
- Design, planning and renewal and refurbishment of track between Regent Centre and Airport
- Scope and option development to enable reduced reliance on lookout protection for infrastructure works

Mechanical and Electrical

- Continued renewal of tunnel lighting across the network with efficient LED units
- Lift renewal
- Escalator renewal
- Fire safety improvement surveys
- Sump pump replacement
- Development and design of Electric Vehicle charging infrastructure

Overhead Line Equipment

- Continuation of the overhead line renewal
- Replacement of fixed tension sections with automatically tensioned equipment

ICT Infrastructure

- Renewal of the CCTV storage platform
- Upgrade of the Public Address system
- Replacement of Copper cable for communications systems

Business Applications

- Replacement of the Asset Management Systems
- Replacement of Bank Note Recyclers in Ticket Vending Machines (to accommodate the change to the Kings Head appearing on bank notes)

Signalling

- Continued development of proposals for a new signalling system, including feasibility assessments
- Implementation of a new Supervisory Control and Data Acquisition (SCADA) system, which allows remote monitoring of various items of equipment across the network, some of it safety critical
- Continuation of works to address cable degradation in a multi-year programme continuing across the Metro infrastructure

Stations

- Refurbishment of Whitley Bay Station canopy.
- Continuation of works to refresh and update Halt Stations across the network.
- Northumberland Park Car Park refurbishment

Capital Maintenance/Other

- Continued heavy maintenance of the existing fleet and a contribution towards the mid-life refurbishment of the new trains
- Replacement of road vehicles, and specialist Engineering and Road-Rail vehicles

- Investment in the Nexus estate
- Permanent way, rail grinding, off track enhancements and vegetation management around the system
- Refurbishment of electrically powered engineering locomotives

Fleet Replacement Programme (FRP)

2.49 In October 2017, government announced £336.8m of grant funding for the replacement of Nexus' fleet of Metrocars. This funding is augmented by a £25.0m local contribution.

2.50 The funding profile was confirmed in January 2020 based on the key milestones to be delivered within the programme and is detailed below:

	18/19	19/20	20/21	21/22	22/23	23/24	24/25	25/26	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
DfT Capital	-	21.6	29.8	44.0	78.6	117.7	43.6	1.5	336.8
Local Cont.	1.1	7.6	16.3	-	-	-	-	-	25.0
	1.1	**29.2**	**46.1**	**44.0**	**78.6**	**117.7**	**43.6**	**1.5**	**361.8**

2.51 During 2023/24 the profile has evolved further with most notably a contract reset delaying completion until 2026/27:

	18/19 to 22/23	23/24	24/25	25/26	26/27	Total
	£m	£m	£m	£m	£m	£m
DfT Capital	168.2	89.9	50.6	28.1	-	336.8
Local Cont.	18.5	1.4	-	4.3	0.8	25.0
	186.7	**91.3**	**50.6**	**32.4**	**0.8**	**361.8**

2.52 The re-profiling of the delivery programme reflects the approved contract reset programme for the planned delivery of the new train fleet. Currently, it is envisaged that over the next 36 months, some residual Gosforth Depot works will complete, Driver Transition Training will commence and complete and the Manufacture and Supply Agreement (MSA) will progress through manufacture and acceptance leading to the delivery of all 46 new trains. The following expenditure is forecast:

	Proposed Budget 2024/25	Proposed Budget 2025/26	Proposed Budget 2026/27
	£m	**£m**	**£m**
New Train Fleet (MSA)	43.282	29.031	0.822
Gosforth Depot (DCC)	0.155	-	-
Project Delivery	5.272	1.939	-
Risk Contingency	1.870	1.382	-
	50.579	**32.352**	**0.822**

Other Capital Projects (OCP)

2.53 Other Capital Projects for which funding is confirmed largely feature investment in Ferry related infrastructure and the finalisation of works in relation to the Metro Flow project:

	Proposed Budget 2024/25	Proposed Budget 2025/26	Proposed Budget 2026/27
	£m	**£m**	**£m**
Ferry Vessels	0.517	0.060	0.060
South Landing works	0.749	0.040	-
Metro Flow	1.553	-	-
	2.819	**0.100**	**0.060**

2.54 There are a number of emerging projects for which funding is yet to be confirmed that Nexus may undertake during the life of the proposed programme. These include:

- Bus Service Improvement Plan (BSIP) projects e.g., website development, bus stops and shelters;
- CRSTS projects e.g., smart ticketing, Regent Centre, Metro gatelines, North ferry landing, Callerton car park;
- Levelling Up Fund projects e.g., customer facing EV charging infrastructure;
- Other third party funded projects e.g., Green Lane bridleway crossing improvements, Wallsend bus station improvements, Clean Ferry feasibility study.

2.55 In addition, during the lifetime of the proposed programme Nexus expects to develop the business cases for the Washington Loop Metro expansion and the renewal of the existing signalling system. Whilst the proposed programme contains a budget to undertake feasibility studies and establish options available, construction/works are subject to future funding submissions and therefore do not feature within the programme detailed in this report.

Transforming Cities Fund

2.56 The North East was awarded £198m of capital grant for Tranche 2 of Transforming Cities Fund. Within the Tranche 2 schemes, £103.8m is for schemes where the decision making on funding is devolved to the region, and the remaining £94m is for the Metro Flow scheme managed by Nexus, where the decision making on the funding is retained by the Department for Transport. Updates on Metro Flow are included with the Nexus Capital Programme sections in this report.

2.57 Total expenditure to date within the TCF Tranche 2 programme stands at approximately £56.002m, which represents 54.2% of the overall grant. Over quarter 1 and quarter 2 of 2023/24, £13.011m from the Devolved Pot was incurred. A total of £12.189m of expenditure is now forecast for 2023/24. Therefore, a rapid acceleration in the spending over the remainder of 2022/23 is required to meet the forecast. Expenditure forecasts have been based on quarterly monitoring returns and expenditure profiles included within scheme business cases.

2.58 Scheme development difficulties, ongoing resource and capacity constraints and challenging market conditions have led to some scheme promoters failing to hit assurance milestones and because of these delays, expenditure is likely to run into the 2024/25 financial year. Talks are ongoing with DfT regarding the revised expenditure profile.

Tyne Tunnels

2.59 The Tyne Tunnels capital programme relates to the refurbishment of the Tyne Pedestrian and Cycle Tunnels (TPCT). The TPCT reopened for public use in August 2019 after being closed for several years for refurbishment. They are currently open to the public with no charge to users. To access the tunnels, pedestrians and cyclists can use the vertical lift at both ends. The tunnels are monitored via CCTV by the 24-hour security presence on-site.

2.60 The inclined glass lifts at the TPCT are additional lifts which have been planned to increase capacity for cyclists and to provide a tourist attraction, as they are bespoke glass lifts which travel on a steep incline down the historic escalator shaft to the lowest part of the tunnels. Completion and certification of the inclined lifts has been significantly delayed due to the bespoke nature of the design and issues with contractors. However, the works have been completed and are in the final stages of testing and certification and should be opening to the public within the next few months.

2.61 There is a planned handover of the TPCT to TT2 scheduled for May 2024 on the basis that the refurbishment works are completed. However, the JTC (and any future equivalent bodies) will remain responsible for carrying out major maintenance and renewal of assets, and therefore, it is prudent to set aside funds for these capital works within the budget. An asset life cycle schedule will be developed as part of the handover documentation, which will detail when the TPCT assets are likely to require renewal based on the manufacturer's specification. This will inform the capital works budget, however in the meantime a provisional figure of £0.1m has been included in the 2024/25 budget. The future capital needs will be constantly reviewed, and the budget updated accordingly to ensure suitable provision is made for capital works.

Ultra Low Emission Vehicles – Taxi Project

2.62 It is expected that the final North Tyneside charger will go live imminently with orders being placed for connections. The Newcastle site remains delayed owing to legal agreements being sought. It is hoped the works will be fully complete this financial year.

3. Reasons for the Proposals

3.1 The proposals are presented in this report to enable the JTC to agree its capital programme for 2023/24.

4. Alternative Options Available

4.1 Option 1 is the recommended option.

4.2 Option 1 – the North East Joint Transport Committee may accept the recommendations set out in the report.

4.3 Option 2 – the North East Joint Transport Committee may suggest amendments or alternative proposals to be considered. Option 1 is the recommended option.

5. Next Steps and Timetable for Implementation

5.1 Progress against the JTC Capital Programme will be reported regularly throughout the year and monitored carefully by officers at the various delivery bodies. AS and when updated information on funding bids is received, the capital programme will be updated.

6. Potential Impact on Objectives

6.1 The budgets presented in this report are aligned to the achievement of the Transport policy objectives of the Authority.

7. Financial and Other Resources Implications

7.1 The financial and other resource implications are set out in the body of the report.

8. Legal Implications

8.1 The Newcastle upon Tyne, North Tyneside, and Northumberland Combined Authority (Establishment and Functions) Order 2018 specifies that the setting of the capital programme in relation to transport is a function exercisable only by the JTC. Unanimous approval is required.

9. Key Risks

9.1 Risks associated with the delivery of transport schemes by the key delivery bodies are factored into the risk management processes of those organisations.

10. Equality and Diversity

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

11. Crime and Disorder

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

12. Consultation/Engagement

12.1 Projects being delivered by constituent authorities and other delivery partners, or in constituent authority areas, are subject to local consultation and planning approvals.

13. Other Impact of the Proposals

13.1 There are no other impacts arising from this report.

14. Appendices

14.1 Appendix 1 – Nexus Proposed Capital Programme 2024/25 to 2026/27

15. Background Papers

15.1 JTC 2023/24 Capital Programme January 2023 (Public Pack)Agenda Document for North East Joint Transport Committee, 17/01/2023 14:30 (northeastca.gov.uk)

15.2 JTC 2023/24 Capital Programme Update November 2023 (Public Pack)Agenda Document for North East Joint Transport Committee, 21/11/2023 14:30 (northeastca.gov.uk)

16. Contact Officers

16.1 Eleanor Goodman, NECA Finance Manager, eleanor.goodman@northeastca.gov.uk

17. Sign off

- The Proper Officer for Transport:
- Head of Paid Service:
- Monitoring Officer:
- Chief Finance Officer:

18. Glossary

ATF – Active Travel Fund

BSIP – Bus Service Improvement Plan

CRSTS – City Region Sustainable Transport Settlement

EV – Electric Vehicles

LUF – Levelling Up Fund

LTP – Local Transport Plan

MARP – Metro Asset Renewal Plan

MFR – Metro Fleet Replacement

MFL – Metro Flow

OCP – Other Capital Projects

TCF – Transforming Cities Fund

ULEV – Ultra Low Emission Vehicles

Appendix 1 – Nexus Proposed Capital Programme 2024/25 to 2026/27

Asset Category	**Proposed Budget 2024/25 (£m)**	**Proposed Budget 2025/26 (£m)**	**Proposed Budget 2026/27 (£m)**
Metro ARP	**47.191**	**43.941**	**21.816**
Capital Maintenance	**2.840**	**3.310**	**2.500**
Capital Maintenance - Existing fleet and transition.	*1.700*	*1.700*	*1.700*
Infrastructure Vehicle Renewal and Refurbishment (RRV's, wagons, etc.)	*0.540*	*0.660*	*-*
Plain Line (Heavy Maintenance)	*0.600*	*0.600*	*0.800*
Rail Grinding	*-*	*0.350*	*-*
Civils	**5.067**	**3.340**	**1.125**
Structural Assessments - overbridges	*0.075*	*0.075*	*0.075*
Tunnels - repairs and asbestos maintenance	*0.150*	*0.150*	*0.150*
Howdon Viaduct - Track System Renewal	*0.342*	*0.050*	*0.050*
Stoddart Street bridges - repair/waterproofing	*2.578*	*0.040*	*-*
Multi Storey Car Parks refurbishment	*0.066*	*0.925*	*-*
Surface Car Parks Refurbishment	*0.200*	*0.100*	*0.100*
Bridges - condition and assessment led repairs/painting	*0.750*	*0.750*	*0.750*
Earthworks GST-SSS	*0.106*	*-*	*-*
Carlisle Street Overbridge - deck refurbishment	*0.150*	*0.500*	*-*
Station- Heworth Interchange- Construction - Roof	*0.250*	*0.750*	*-*
Seaburn station platform repairs	*0.400*	*-*	*-*
Level Crossings inc. foot crossing	**0.100**	**0.100**	**0.100**
Crossing Upgrade / repairs	*0.100*	*0.100*	*0.100*

Asset Category	Proposed Budget 2024/25 (£m)	Proposed Budget 2025/26 (£m)	Proposed Budget 2026/27 (£m)
Mechanical and Electrical	**3.934**	**4.500**	**1.300**
Escalators - Haymarket (No. 1&3) 1/2 Life Refurbishment	*0.016*	-	-
Lighting inverters	*0.077*	-	-
Tunnel Lighting	*0.500*	*1.000*	*1.000*
Escalator Replacements	*0.850*	*0.505*	-
Lift Replacements	*1.120*	*1.680*	-
Fire Safety Improvement Programme	*0.771*	*0.540*	-
NRHQ Gas Improvement Works	*0.035*	-	-
Protection testing	*0.130*	-	-
Sump Pump Replacement Works	*0.225*	*0.225*	-
Lighting Control Programme	*0.030*	*0.100*	*0.100*
Decarbonisation Programme	*0.050*	*0.250*	-
BMS Programme	*0.030*	*0.100*	*0.100*
EV Vehicle infrastructure	*0.100*	*0.100*	*0.100*
Overhead line	**3.750**	**5.025**	**5.606**
OHL renewal - Continued from Phase 2 ARP	*3.450*	*3.525*	*3.606*
Replacement of fixed tensioning with automatic	*0.300*	*1.500*	*2.000*
Permanent Way	**7.058**	**10.345**	**1.031**
Vegetation management / Off track remedial works	*0.750*	*0.750*	*0.500*
Metro Infrastructure Boundary improvements	*0.100*	*0.100*	*0.100*
Switches & Crossings - Pelaw 7005/7006/7017 pts	*1.357*	-	-

Asset Category	Proposed Budget 2024/25 (£m)	Proposed Budget 2025/26 (£m)	Proposed Budget 2026/27 (£m)
Switches & Crossings - Prudhoe Street 6007A/B pts	*0.451*	*-*	*-*
Plain Line Refurbishment. SGF to Airport (Col)	*3.400*	*6.804*	*0.040*
Switches & Crossings - Monkseaton 2036Bpts (Turnout), 2034 Abpts (Crossover), 2032 AB pts (Crossover)	*0.750*	*2.300*	*-*
Lookout Protection infrastructure works	*0.250*	*0.250*	*0.250*
Bridge longitudinal timbers	*-*	*0.141*	*0.141*
Plant	**0.625**	**1.250**	**0.400**
Vehicle replacement Programme	*0.300*	*0.400*	*0.400*
Battery Locomotive refurbishment	*0.325*	*0.850*	*-*
Risk Contingency	**2.000**	**2.000**	**2.000**
Signalling	**7.561**	**6.898**	**3.380**
Cable Testing and Replacement	*0.500*	*0.500*	*0.500*
Location Rewire	*0.200*	*0.200*	*0.200*
Cable degradation - relay rooms	*1.083*	*-*	*-*
Scada (and Mimic)	*4.480*	*3.265*	*0.115*
LED Signal Replacement	*0.100*	*0.100*	*0.100*
Signalling componentary sundry	*0.200*	*0.200*	*0.200*
Remote condition monitoring	*0.100*	*0.100*	*0.100*
Signal Sighting works - Stop boards	*0.018*	*-*	*-*
Troughing and trayplating	*0.100*	*0.100*	*0.100*
Signalling System replacement development	*0.400*	*1.000*	*-*

Asset Category	Proposed Budget 2024/25 (£m)	Proposed Budget 2025/26 (£m)	Proposed Budget 2026/27 (£m)
RTMS Upgrade / refresh	*0.100*	*0.500*	*0.900*
Passenger Information Displays	*0.100*	*0.933*	*1.165*
Uninterrupted Power Supply	*0.100*	*-*	*-*
Point Heaters	*0.080*	*-*	*-*
Stations	**4.445**	**0.230**	**0.200**
Northumberland Park Car Park	*0.770*	*-*	*-*
Whitley Bay (Canopy)	*3.425*	*0.030*	*-*
Monkseaton (inc. canopy)	*0.050*	*-*	*-*
Chichester refurbishment	*0.050*	*0.050*	*0.050*
Halt Stations - including Sunderland line	*0.150*	*0.150*	*0.150*
Business Applications	**1.404**	**0.310**	**0.075**
Asset Management Software Replacement	*0.526*	*0.235*	*-*
Finance BACS application	*0.003*	*-*	*-*
Bank Note Acceptors	*0.800*	*-*	*-*
Business Applications	*0.075*	*0.075*	*0.075*
ICT Infrastructure	**3.040**	**0.957**	**0.370**
Microsoft SQL Server	*0.050*	*-*	*-*
Network Refresh	*0.050*	*-*	*-*
CCTV Storage Platform	*1.882*	*-*	*-*
CCTV - Safety and Security led enhancements	*0.050*	*-*	*-*
Copper ICT 50 pair cable	*0.110*	*0.050*	*-*

Asset Category	Proposed Budget 2024/25 (£m)	Proposed Budget 2025/26 (£m)	Proposed Budget 2026/27 (£m)
Lift Help Points	*0.038*	*0.037*	*-*
PA Speakers and Cabling	*0.050*	*0.050*	*0.050*
Office LAN	*0.340*	*-*	*-*
Telephony architecture	*-*	*0.100*	*-*
PA Head End Upgrade	*0.350*	*-*	*-*
Cyber Security / Environment Hardening	*-*	*0.425*	*-*
Wi/Fi Upgrade	*-*	*0.175*	*-*
Laptop / desktop replacement	*-*	*-*	*0.200*
Smartphone renewal	*0.120*	*0.120*	*0.120*
Miscellaneous	**4.797**	**1.824**	**-**
Control Centre improvements (further)	*1.700*	*-*	*-*
LV Top Shed	*0.150*	*-*	*-*
Benton Square Security	*0.150*	*-*	*-*
Infra Del NRHQ office refurb	*0.075*	*-*	*-*
Smart Card Reader 3 Upgrade / Fare collection systems	*1.800*	*-*	*-*
Nexus Office and Operational Property strategy delivery.	*0.872*	*1.824*	*-*
Upgrade TVMs, gates/barriers, validators, TOMs XP	*0.050*	*-*	*-*
Power	**0.570**	**0.100**	**0.100**
DC Switch Boxes	*0.420*	*-*	*-*
HV Improvements	*0.150*	*0.100*	*0.100*
Inflation Allowance	**-**	**3.752**	**3.629**

Asset Category	Proposed Budget 2024/25 (£m)	Proposed Budget 2025/26 (£m)	Proposed Budget 2026/27 (£m)
Inflation at 3% annually from 2027/28	*-*	*3.752*	*3.629*
Metro Flow	**1.553**	**-**	**-**
Fleet Replacement Programme	**50.579**	**32.352**	**0.822**
MSA	*43.283*	*29.031*	*0.822*
DCC	*0.155*	*-*	*-*
Project Delivery	*5.272*	*1.939*	*-*
Risk Allowance	*1.869*	*1.382*	*-*
Other Capital Projects	**1.266**	**0.100**	**0.060**
Ferry Vessels	*0.517*	*0.060*	*0.060*
South Landing works	*0.749*	*0.040*	*-*
Total Capital Programme	**100.589**	**76.393**	**22.698**