North East Combined Authority

DURHAM • GATESHEAD • SOUTH TYNESIDE • SUNDERLAND

Leadership Board

Tuesday 2 February 2021 at 2.00pm

Meeting to be held virtually via Microsoft Teams

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AGENDA

9. **Capital Programme and Treasury Management Policy and Strategy 2021/22** **45-132**

10. **Revenue Budget 2021/22** **133-190**

11. **Date and Time of Next Meeting:** 3 March 2021 at 2.00pm

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North East Combined Authority
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North East Combined Authority, Leadership Board Agenda Item 3

15 December 2020

(2.00pm - 2.20pm)

Meeting held virtually via Microsoft Teams

Present:

Councillors: M Gannon (in the Chair), T Dixon, P Stewart, C Marshall

Officers: Lucy Winskell (Chair, NELEP), Nicola Robason (Deputy Monitoring Officer, NECA), John Hewitt (Chief Finance Officer, NECA), George Mansbridge (Corporate Director Regeneration and Environment, South Tyneside), Sheena Ramsey (Chief Executive, Gateshead Council), Patrick Melia (Chief Executive, Sunderland Council), Paul Darby (Deputy Chief Finance Officer, NECA), Gavin Armstrong (Policy and Scrutiny Officer, NECA), Jonathan Lunness (Strategy and Democratic Services Assistant, NECA), Karen Connolly (Strategy and Democracy Officer, South Tyneside Council)

1. APOLOGIES FOR ABSENCE (MEMBERS)

Apologies for absence were received from Cllr G Miller, Cllr S Henig, Terry Collins and Gillian Hall.

2. DECLARATIONS OF INTEREST

None.

3. MINUTES OF THE MEETING HELD ON 3 NOVEMBER 2020

The minutes of the previous meeting held on 3 November 2020 were approved as a correct record.

4. ANNOUNCEMENTS FROM THE CHAIR

There were no announcements from the Chair.

5. ECONOMIC DEVELOPMENT AND DIGITAL THEMATIC PORTFOLIO UPDATE

Submitted: Report of Economic Development and Digital Thematic Lead (previously circulated and copy attached to the official minutes).

Cllr P Stewart presented the report which provided an update to the Board on the Economic Development and Digital Theme of NECA.

In addition to the submitted report, the following updates were noted:

- Following the UK's exit from the EU, European Structural and Investment Funding will be stopped from 1 January 2021. However, some funding will still be received up to 2023 as the previous funding period overlaps;
- The UK Shared Prosperity Fund will replace such European funding, with a framework to be released in Spring to mid-2021;
- The £263.2m allocation of European Regional Development Fund (ERDF) to the NELEP area has been largely committed. 92% has been contracted (£221m) or provisionally allocated to pipeline projects (£21m), which are subject to full appraisal;
- Any ERDF funds not allocated through NELEP area calls would be recycled into a National Reserve Fund which will be allocated through calls by the national Government;
- The majority of the NELEP area allocated European Social Fund (ESF) is expected to be committed. Currently 70% of the allocation is legally committed, with a further 26% assigned to pipeline projects;
- Any ESF grants not allocated will be recycled into a fund overseen by the DWP to deliver projects to help address the digital divide relating to Covid-19;
- Talks are ongoing regarding a trade deal between the UK and the EU, however either way the UK will leave the Customs Union and Single Market on 1 January 2021. Councils and partners will continue to work to mitigate risks and impacts to communities, residents and businesses.

The Chair thanked Cllr P Stewart for the report.

RESOLVED That:

i. the report be noted.

6. FINANCE, SKILLS AND EMPLOYABILITY THEMATIC PORTFOLIO UPDATE

Submitted: Report of Finance, Skills and Employability Thematic Lead (previously circulated and copy attached to the official minutes).

Cllr C Marshall presented the report which provided an update to the Board on the Finance, Skills and Employability Theme of NECA.

In addition to the submitted report, the following updates were noted:

- Local Government finance remains an issue which needs to be kept under review and there is a reliance on external funding for skills and employability.
- There are good partnerships developing inter-authority working arrangements across the region which put NECA in a strong position moving forward;
- It is the intention of NECA to continue lobbying Government for Fair Funding for transport and the capital investment to improve infrastructure developments in the region;
- £3 billion additional Covid-19 funding from 2021-22, with the further details being awaited;

- In the Spending Review, clarification was provided regarding the maintained levels for Council Tax limits, as well as the business rate multiplier being frozen in 2021-22.
- Further details are being awaited on the £4 billion ‘Levelling Up Fund’ which was announced by Government;
- Further details of the £1.5 billion Shared Prosperity Fund will be set out in Spring 2021;
- An additional £3.7 billion has been allocated to support front line services and to enable the DWP to deliver on July’s Plan for Jobs;
- The extension of the furlough scheme is welcomed to support jobs in the region.

The Chair thanked Cllr C Marshall for the report.

RESOLVED That:

i. the report be noted.

7. MEMBERSHIP OF THE LEADERSHIP BOARD, APPOINTMENT OF CHAIR AND VICE-CHAIR AND DESIGNATION OF THEMATIC LEADS

Submitted: Report of the Deputy Monitoring Officer of the North East Combined Authority (previously circulated and copy attached to the official minutes).

Nicola Robason presented the report which sought confirmation from the Leadership Board of its Membership for the remainder of the 2020/21 municipal year. The report invited the Leadership Board to appoint a new Chair, confirm the appointment of the Vice-Chair and NECA Thematic Leads with immediate effect.

RESOLVED That:

i. the membership of the Leadership Board for the remainder of the municipal year 2020/21 be confirmed as set out in Appendix A of the report;
ii. the Leadership Board appoints Cllr Graeme Miller as its Chair for the remainder of the municipal year 2020/21;
iii. the Leadership Board confirms the continued appointment of Cllr Simon Henig as Vice-Chair and Thematic Lead for Finance and Skills and Employment;
iv. the Leadership Board confirms the continued appointment of Cllr Martin Gannon as Thematic Lead for Transport;
v. the Leadership Board appoints Cllr Tracey Dixon as Thematic Lead for Economic Development and Digital and appoints her as Chair of the Economic Development and Digital Board;
vi. the Leadership Board appoints Cllr Mark Walsh as Substitute Member for Cllr Tracey Dixon on the NECA Leadership Board;
vii. the Leadership Board confirms the continued appointment of Mrs Lucy Winskill as the non-voting Member of the Leadership Board representing the North East Local Enterprise Partnership;
viii. the Leadership Board confirms the continued appointment of Ms Gillian Hall as the Substitute Member for the Member of the Leadership Board who represents the North East Local Enterprise Partnership;

ix. the Leadership Board appoints Cllr Tracey Dixon as Member of the Joint Transport Committee as a direct replacement for Iain Malcolm. Cllr Mark Walsh will remain as substitute member;
x. the Leadership Board agrees and nominates Cllr Tracey Dixon to replace Iain Malcolm as one of its three nominated members on the North East Local Enterprise Partnership Board (together with Cllr Simon Henig and Cllr Martin Gannon) and that Cllr Graeme Miller – Leader of Sunderland City Council, continues to act as the additional representative with observer status until the annual alphabetical rotation previously agreed (Durham, Gateshead, South Tyneside); and
xi. the Leadership Board agrees and nominates Cllr Tracey Dixon to replace Iain Malcolm as its nominated member on the North East Local Enterprise Partnership Investment Board.

8. DESIGNATION OF STATUTORY OFFICERS

Submitted: Report of the Deputy Monitoring Officer of the North East Combined Authority (previously circulated and copy attached to the official minutes).

Nicola Robason presented the report which sought confirmation from the Leadership Board of several Statutory Officers and the appointment of Deputy Statutory Officers to take immediate effect.

RESOLVED That:

i. Patrick Melia, Chief Executive of Sunderland City Council, is appointed to the role of Head of Paid Service for NECA;
ii. John Hewitt, Chief Executive of Durham County Council, and George Mansbridge, Corporate Director Regeneration and Environment and Acting Head of Paid Service at South Tyneside MBC, are both appointed as Deputy Heads of Paid Service for NECA;
iii. Sheena Ramsey, Chief Executive of Gateshead MBC, continues in the role of Lead Chief Executive for Transport;
iv. Paul Darby, Head of Financial and HR Services at Durham County Council, is appointed to the role of Resources Lead (including Chief Finance Officer / Section 73 Officer responsibilities) for NECA;
v. An Officer be appointed to the position of Deputy Resources Lead from Durham County Council, to provide Deputy Chief Finance Officer / Deputy Section 73 Officer responsibilities for NECA;
vi. Mike Barker, Strategic Director, Corporate Services and Governance at Gateshead MBC is appointed to the role of Monitoring Officer (Transport); and
vii. Nicola Robason, Head of Corporate and External Affairs at South Tyneside MBC is appointed to the role of Monitoring Officer (Core NECA).

9. DATE AND TIME OF NEXT MEETING

Tuesday 2 February 2021 at 2.00pm.

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Leadership Board

Agenda Item 5

Date: **2 February 2021**

Subject: Chair's Update

Report of: Chair of the North East Combined Authority

Executive Summary

This report provides a brief summary of the key issues for the Leadership Board at the current time and over the coming year.

Recommendations

The Leadership Board is requested to receive the update and comment on the issues outlined.

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1.	**Purpose of the report**
1.1	This report provides a brief summary of the key issues for the Leadership Board at the current time and over the coming year. The Leadership Board is requested to receive the update and comment on the issues outlined.
2.	**Covid-19 Recovery**
2.1	The work of the North East Covid-19 Economic Response Group has continued in order to help the region recover from, and overcome the impacts of, the biggest economic shock in a lifetime.
2.2	As a product of this, in September 2020, a North East Recovery and Renewal deal was published and submitted to Government, and subsequently, further economic, transport and connectivity propositions have been developed and submitted.
2.3	Playing an active part in the work of the group needs to continue to be a priority for NECA, to ensure this part of the region's challenges are clearly identified and articulated, and a strong and unified case is made for Government support to address them.
2.4	The work also provides the opportunity to demonstrate the area's significant potential to contribute to the Government's levelling up agenda, the development of the green economy, fast-paced digital and future technology developments, the growth of key sectors and increased business innovation and productivity, post-Brexit.
3.	**Freeports**
3.1	The deadline for bids to Government for freeports is Friday 5 February 2021. Bids will be assessed by a Ministry of Housing, Communities and Local Government chaired assessment panel in March 2021, with decisions made in Spring. It is anticipated that there will be 10 freeports across the UK, with 7 in England.
3.2	Freeports are described by the Government as one of the mechanisms through which Britain can drive post-Brexit growth, as mentioned above. Potentially similar to enterprise zones, benefits would include streamlined planning processes, tax reliefs, and simplified or suspended customs and duty arrangements.
3.3	At the time of writing, LA7 (NECA and North of Tyne Combined Authority - NTCA) Leaders and other key stakeholders are holding discussions about the

	development of a potential North East bid to support trade and industry in the region.
4.	**Devolution and Future Governance Arrangements**
4.1	As part of its budget in March 2020, the Government announced that an English Devolution White Paper would be published. Although this stalled due to the pandemic, there is the suggestion that the devolution agenda will again become more prominent this year.
4.2	The budget also included a range of funding opportunities for 'Mayoral Combined Authority' areas and stated that Tyne and Wear would receive a transport settlement, subject to putting in place appropriate governance to agree and deliver funding, including an elected Mayor for their city regions and transport networks. This clearly signalled the Government's hope to review arrangements in the North East.
4.3	As outlined above, NECA and NTCA are working together effectively in partnership with the North East LEP and other partners and stakeholders, on a number of key initiatives, including the publication of the first, joint strategic transport plan (consultation draft), to boost economic recovery and growth in the region.
4.4	It is therefore timely for the NECA to consider future working and governance arrangements that can best meet the shared challenges and priorities for the region, and help maximise opportunities including securing Government support and resources as well as other investment.
5.	**Proposal**
5.1	To receive an update on and comment on current and future issues and priorities for NECA.
6.	**Reasons for the Proposal**
6.1	To support a discussion by the Leadership Board on current and future issues and priorities for NECA.
7.	**Alternative Options Available**
7.1	There are no alternative options associated with this report.

Leadership Board

8.	**Next Steps and Timetable for Implementation**
8.1	Following consideration of the issues outlined in this report, further updates and items for discussion will be presented by the Chair at subsequent meetings of the Leadership Board.
9.	**Potential Impact on Objectives**
9.1	There is no potential impact on objectives associated with this report.
10.	**Financial and Other Resources Implications**
10.1	There are no financial or other resource implications associated with this report.
11.	**Legal Implications**
11.1	There are no legal implications arising from this report.
12.	**Key Risks**
12.1	There are no specific risk management issues arising from this report.
13.	**Equality and Diversity**
13.1	There are no specific equality and diversity issues arising from this report.
14.	**Crime and Disorder**
14.1	There are no specific crime and disorder issues arising from this report.
15.	**Consultation/Engagement**
15.1	There are no specific consultation and engagement issues arising from this report.
16.	**Other Impact of the Proposals**
16.1	There are no further impacts arising from the proposals.
17.	**Appendices**
17.1	None.
18.	**Background Papers**

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18.1	None.
19.	**Contact Officers**
19.1	Beverley Poulter, Lead Policy Officer, Sunderland City Council, beverley.poulter@sunderland.gov.uk
20.	**Sign off**
20.1	• Head of Paid Service: ✓ • Monitoring Officer: ✓ • Chief Finance Officer: ✓
21.	**Glossary**
21.1	None.

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Leadership Board

Agenda Item 6

Date: **2 February 2021**

Subject: **Economic Development and Digital Theme Update**

Report of: **Economic Development and Digital Thematic Lead**

Executive Summary

The purpose of this report is to provide an update on activity and progress under the Economic Development and Digital theme of the Combined Authority.

The report provides updates on inward investment activity, the UK-EU Trade and Cooperation Agreement, the UK Shared Prosperity Fund, DCMS's UK Gigabit Programme and CV19 Business Grants.

Recommendations

The Leadership Board is recommended to note the contents of the report.

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1.0	**Background Information**
1.1	This report provides an update on activity and progress under the Economic Development and Digital theme of the Combined Authority, specifically: • Invest North East England • UK-EU Trade and Cooperation Agreement • UK Shared Prosperity Fund • CV19 Business Grants • DCMS UK Gigabit Programme
2.0	**Invest North East England**
2.1	***Inward Investment Successes***
	To date in 2020/21, due to Covid-19, there has been a significant decrease in active inward investment project numbers and a very difficult environment in which to attract new investment. Provisional successes/new job numbers for financial year 2020/21 (up to Q3), in the NECA area were: - 19 FDI projects resulting in 1,200 new jobs; - 4 UK inward investments projects resulting in 127 new jobs. Across the wider INEE area (including North of Tyne Combined Authority) in 2020/21 (Q3) provisionally there were a combined total of 27 inward investment projects resulting in over 1,394 new jobs. Key successes include: - The creation of 1,000 jobs at the new Amazon distribution hub in County Durham at Integra 61;

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	- Corehaus announcing a new manufacturing facility at Jade Business Park, creating up to 100 jobs; - VRAI (Immersive Technology specialist) has opened its first UK Office at PROTO, Gateshead. This year has also seen a number of acquisitions of North Eastern companies, particularly in the digital / gaming sector. These include Thunderful Group (Sweden) acquiring Sunderland based Coatsink and Keyword Studios (Ireland) acquiring Gateshead based Coconut Lizard.
2.2	***Current Enquiries***
	The INEE team is currently experiencing an increase in enquiry levels after a very quiet first two quarters of 2020/21. Although visits to the region are still difficult during the current restrictions, projects are being developed with clients in several key sectors and some very promising new projects are emerging. Amongst these, are projects in the renewable energy, advanced manufacturing and business services sectors, which if successful will lead to the creation of thousands of jobs.
2.3	***Marketing and Communications***
	Promoting the INEE brand and services continue to be a focus for the team. INEE has produced an integrated marketing plan for 2020/21 to coordinate activities to promote the region. The team continues to use social media (Twitter / Linkedin) to promote the region to a wider audience. This has included a tailored social campaign in December 2020 promoting the Top Stories of the year and promoting a series of vlog interviews (Oct-Dec 2020). The team are looking to using both methods in on going marketing tactics

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	The team is working with website developers to implement changes to the Invest North East England website; making user experience and navigation easier. This includes a copy refresh, new images, new case studies and a functional change to the sector pages. Work due to be completed by February 2021. The North East England Showcase Videos are being updated with the latest key selling messages for the region. The team has been proactive in commenting and featuring in virtual events, webinars and panel discussions to promote the region and the brand.
2.4	***Events***
	The Events calendar has been severely reduced in 2020/21 due to the COVID Pandemic. INEE has attended numerous virtual events including Dynamo North East and Newcastle Start Up Week - where team members featured on panels and/or online interviews. The INEE team continues to (virtually) attend / exhibit / sponsor events in 2020/21 representing the region. Planning for 2021/22 is difficult given the current uncertainty, however, an event plan is being agreed with local authorities.
2.5	***Lead Generation Contract***
	The sourcing of completely new leads for the North East is a vital part of INEE's activity, adding value to NECA local authorities' own activities. INEE's proactive lead generation contract with OCO Global was paused in March 2020 in response to the COVID19 lockdown. In September 2020, the contract was restarted as enquiry levels began to increase. OCO is conducted a piece of work for INEE on the impact of COVID19 on some key supply chains and the opportunities this will bring for the North East in terms

	of new inward investment. The Team is setting up a number of working groups with partners to agree how these opportunities will be followed up. Areas of interest include north-shoring and electrification.
2.6	***High Potential Opportunities (HPO)***
	In addition to its existing HPO in Immersive Technology, the North East has been successful in securing three HPO projects in DIT's second round: INEE will work with local partners to deliver these projects throughout 2020/2021 and beyond. They will be used to promote these sectors internationally and generate new investment leads. The three new HPOs are: - Heat Networks; - Plant-based Products; - Healthy Ageing.
2.7	***Northern Powerhouse Key Account Management Programme***
	The Department for International Trade Key Account Management programme delivered exceptional results 2019/20 - 29 projects were won in this period across the North East LEP area. INEE continues to manage the DIT Key Account Management Contract in 2020/21. The current COVID19 pandemic has raised significant challenges but also some opportunities and overall, the programme is delivering sound results and providing the basis for more success in 2021/22.
3.0	**UK-EU Trade Deal**
	The UK reached a Trade Deal with the EU on 24th December, which was formally agreed on 31st December. The deal includes; Trade (which allows for zero tariffs on goods), and associated arrangements for Airlines and Hauliers, along with agreements on Healthcare, Information Sharing, Scientific Research (the UK will

	remain a member of Horizon Europe), Energy and Nuclear cooperation, and Security. To reach a deal, compromises were made on the two key sticking points; namely on UK and EU fishing rights, which will see quotas returned to the UK over a five and a half year transition period; and on an arbitration panel to deliberate on any misuse of state aid and subsidies, along with a rebalancing mechanism on standards (allowing either side to place tariffs on the other if standards such as environmental or labour, are lowered and becoming distortive). 25 specialist committees have been established to discuss areas the Agreement did not cover, such as financial services and data. Both parties have made a pledge to review the deal in 2026 with each able to terminate the deal at one year's notice. As the Commons Select Committee on the Future Relationship with the EU suggests, the "agreement is necessarily complex. It will take time to analyse it fully and understand its implications."
3.1	***Immediate Economic Impact***
	The new deal removes the major threat of tariffs and quotas which would have added considerable costs for importers, exporters and large OEMs, while the agreement also has measures designed to reduce trade delays (such as recognition of Trusted Trader schemes). The fact that prohibitive tariffs and quotas were avoided through the agreement is undoubtedly a positive for the NECA economy, given the impact the alternative would have had upon businesses, employment and the costs of living. Therefore, zero tariffs are a positive for importing and exporting businesses – as the considerable additional cost from tariffs will not have to be born or passed onto customers or suppliers – and those involved in complex multi-national supply chains

	or direct suppliers to large UK-based firms. This is particularly the case for the supply chain into Nissan as the Agreement avoids tariffs of circa 10% on the export of cars to Europe (a key market) and 4.5% on parts imported from the continent. The firm consistently reiterated that this would have made their Sunderland plant unviable. The main immediate impact will be the effects of non-tariff barriers which leaving the single market and customs union produces and which is now enshrined in the agreement. This includes border and customs checks (potentially resulting in delays, particularly at Southern ports), complex rules around the rules of origin of parts that make up a product, the need to register for VAT, the requirement to obtain import and export licences, as well as for increased vet and other checks for animal and plant products. While this is not a direct tariff, the costs in terms of fees, delays to products (resulting in need to source alternatives, find storage space or let customers down) or time spent navigating the additional administration is likely to add up to additional costs that eat into profit margins and investment plans. This is particularly the case for businesses operating just-in-time supply chain models. In addition, for imports, customs checks are being phased in, with full checks not in place until July 2021 (although from April supermarkets and importers of animal-related products will have to pre-notify). This suggests a potential crunch point in July when full import checks and documentation are required. Some larger firms have been preparing for these impacts, however, there is concern on the impact to SMEs and the cost of making necessary changes to export/import paperwork and supply chain demands, particularly in the manufacturing sector. A January 2021 Make UK survey found that the biggest three

	risks identified by manufacturers to their 2021 business plans were; delays at ports; national or local lockdowns; and the increased costs of meeting EU regulation.
3.2	***Medium term Economic Impacts***
	The medium-term impact of the Agreement upon our businesses and wider economy is harder to judge and will be dependent upon a number of factors, including: - The perception of the UK as a foreign direct investment destination; - The UK's use of State Aid as the Government has pledged to replace EU State Aid rules with "our own modern subsidy system so that we can better support businesses to grow and thrive in a way that best suits the interests of British industries;" - How firms can take advantage of global market opportunities (the UK has agreed 62 deals with third countries to roll over existing EU agreements, most recently with Turkey and including the likes of Japan, Canada, Switzerland and Norway, with speculation around a deal with India); - The opportunities to reform procurement rules to provide better support to local economies; - The impact of the new points-based immigration system upon local economies, particularly in relation to the social care workforce, and; - The ability of local areas to use the UK Shared Prosperity Fund to shape the needs of local economies and places. The Bank of England predict that the UK economy will be 4% smaller in 15 years as a result of leaving the EU, while the Social Market Foundation – which examined the potential impact of both EU Exit and CV19 upon regional economies – states that "in the Free Trade Agreement scenario the five English regions most affected by the double impact of coronavirus and Brexit are the South East, East of England,

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	West Midlands, North West and North East." The report estimated a 6.5% negative effect upon GDP in the North East over three years. However, there are opportunities as a result of the Deal, such as to bring manufacturing supply chains back to the UK or for Northern ports to grow container markets as a result of the pressure upon Southern ports. There is also a major opportunity in the Electric Vehicle (EV) supply chain given that in order to continue to export EVs to Europe without unsustainable tariffs being placed on vehicles (aligning to Rules of Origin regulations), UK car makers need to build up supplies of parts from the UK and EU to 40% by the end of 2023 and 45% by the end of 2026. With the vast majority of the supply chain for EVs located in Asia, there is therefore a major incentive for battery and part manufacturers to set up and grow in the UK. While the deal largely covers goods, the impact upon services is largely unknown, particularly financial services where the UK has clear competitive advantage.
4.0	**UK Shared Prosperity Fund**
	The European Structural & Investment Funds (ESIF) ended on 31st December. The Programme and spend can continue until June 2023, however there is still some uncertainty regarding any underspend as Government had previously pledged that Reserve Funds would be available. The North East ESIF Sub-Committee responded in Jan 2021 to MHCLG's call for views on the use of the remaining European Social Fund (ESF) Reserve Funds to assist post-CV19 economic recovery. The Committee suggested that any remaining ESF should be utilised to support people, particularly younger, older and the self-employed, who are unemployed or at risk with skills training (as per the North East Recovery and Renewal Deal).

	The Government have yet to confirm this, or how much underspend remains nationally and regionally for both ESF and the European Regional Development Fund (ERDF). ERDF and ESF have been vital funding sources for Capital Programmes, Business Support and Skills and Employment schemes since 2013 with £437m spent up until 2020. The UK Shared Prosperity Fund (UKSPF) will replace European Funding and Local Growth Funding, with the 2020 Spending Review suggesting that it would reach £1.5bn a year – however, this will not be available until 2022 with £220m being made available to prepare in 21/22. UKSPF will target “ex-industrial areas, deprived towns and rural and coastal communities”. The overall criteria for funding have yet to be established including to what level (if any) it will be devolved, the overall amount of funding and if it will be competitive, eligibility, any match requirements and outputs. Further details of UK Shared Prosperity Fund (and a new £4bn Levelling Up Fund) are expected to be published this Spring.
5.0	**CV19 Business Grants**
	The NECA Local authorities have been allocated £50.5m in grants to support business through the trading and socialising restrictions. The grant is being funded through three schemes: - Local Restriction Support Grant (LRSG Open) - Additional Restrictions Grants (ARG) - Local Restrictions Support Grant (LRSG Closed) - Christmas Support Grant for wet-led pubs

	The Councils were given discretion on how the money would be used through the LRSG Open and ARG and have agreed to use: - Money from ARG and extend support through the LRSG Closed scheme to businesses required to close and who have property costs but are not on the ratings list; - LRSG Open grants for the period 18 September to 4 November to provide support for hospitality, accommodation, leisure, event businesses and businesses directly suppling these sectors, that have property costs, including business not on the ratings list, using the ARG, if necessary, to meet these costs; - ARG to support suppliers to hospitality, accommodation, leisure and events businesses who are not required to close during the period of the second national lockdown but that we nevertheless severely impacted. The Councils continue to receive funding for the Local Restrictions Support Grant (Open) and (Closed) for identified businesses. The grant allocations for the period 2-19 December 2020 have been received with further allocations expected imminently.
5.2	***Progress to date***

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Payments to eligible businesses under the LRSG Closed up to and including 29th December 2020 are:

Local Authority	Funding Received	Paid out
Durham	£10,292,193	£7,168,353
Gateshead	£3,591,745	£2,175,974
South Tyneside	£2,211,786	£1,172,101
Sunderland	£4,517,949	£1,973,980

Local Authorities are keeping application portals open and a proactive approach is being taken to identify eligible businesses who have yet to apply. There is still £8,123,265 funding reaming.

The LRSG Open has been heavily utilised:

Local Authority	Funding Received	Paid out
Durham	£3,036,142	£4,483,999
Gateshead	£938,946	£937,165
South Tyneside	£697,428	£680,838
Sunderland	£1,297,893	£897,460

The Government announced a one-off lump sum payment to Council's to provide a Christmas Support Payment for wet-led pubs, it offers £1,000 per wet-led pub within the business rates system for the period 2 December to 29 December. Initial allocations represent an 80% upfront payment. Some authorities have used ARG to support otherwise qualifying businesses not in the rates listing

Local Authority	Funding Received	Paid to Date

Durham	£288,000	TBC
Gateshead	£83,200	£81,000
South Tyneside	£200,000	£54,000
Sunderland	£102,400	£91,000

Application portals remain open for ARG. Final applications must be received by local authorities by 31 January 2021. Local Authorities to make final payments no later than 28 February 2021.

Additional Restrictions Grant

Local Authority	Funding Received	Paid to Date
Durham	£10,601,880	£2,040,670
Gateshead	£4,041,100	£697,590
South Tyneside	£3,019,520	£114,774
Sunderland	£5,554,100	£420,613

ARG is being used to enable the Councils to supplement LRSG Open funding and continue to make payments to eligible businesses. Collectively **£19,942,953** ARG remains available for use in 2020/21 and 2021/22. However, now former Secretary of State for Business**,** Alok Sharma, has said he would write to all Local Authorities to stress the importance of getting ARG funding paid out without delay and Government intend to table and publish local authority performance.

5.3 ***New Lockdown Grants***

Following the Prime Minister's announcement on 4th January that business will be closed until at least February half-term, the Chancellor has announced one-off top up grants for businesses forced to close and further discretionary funding to support other impacted businesses.

Leadership Board

	The one off top up grants are to be paid in addition to LRSG (Closed) payments for the same period. LRSG (Closed) is payable from 31 December 2020. Individual local authority allocations are still to be announced but it is anticipated that the full cost of grants (LRSG Closed and top-up payments) to closed businesses will be fully funded by Government. The discretionary funding will be based on population and be subject to the same restrictions as ARG and is essentially a top up to that fund.
6.0	**Digital Rollout – DCMS UK Gigabit Programme**
	The Department for Digital, Culture, Media and Sport (DCMS) has outlined its approach to how it will ensure the hardest to reach 20% of areas of the UK have access to gigabit-capable broadband networks. Under the UK Gigabit Programme, the Government have a target that 85% of the UK is covered with digital infrastructure that can provide speeds of 1GB by 2025 (a slight watering down of a previous commitment to reach 100%) and have set aside up to £5bn for the purpose. Such speeds are a step above that of superfast (defined as 30mbps) and ultrafast (100mbps). The model proposed by DCMS appears similar to the gap funding approach utilised under the previous Broadband Delivery UK (BDUK) programme, led and coordinated across the wider North East by Digital Durham. This subsidises a provider to reach areas which are not commercially viable. The approach under the Gigabit Programme, supplemented by vouchers for rural areas and persuading providers to stretch their commercial plans as far as possible, is looking at the final 20% of the UK which is deemed not commercially viable. It aims to bundle up groups of areas to either large procurements (40,000 to 80,000

	premises) or small procurements (1,000 to 8,000) to make them attractive for bidders and to achieve value for money. In the NECA area, Ofcom 2020 data shows the following gigabit availability: - Durham: 15.3% of residential premises; - Gateshead: 4.1%; - South Tyneside: 1%; - Sunderland: 6.9%. These figures are likely to grow significantly this year as commercial rollout continues (from the likes of City Fibre, Virgin Media and Openreach) and as Virgin Media raise the speeds of its existing network to 1GB (they have extensive coverage in Gateshead, South Tyneside and Sunderland). The Government's consultation proposes, although the detail is difficult to decipher, that there will be a large procurement area for those hard to reach parts of the North East (particularly Durham and up into Northumberland). It is recommended, therefore, that Local Authorities continue to engage with DCMS on the proposed approach and the next steps (potential events in February before a launch of the large procurement process in the Spring). DCMS's plans are designed to complement commercial investment from providers, such as that announced by City Fibre in Sunderland and conversations between providers and NECA Local Authorities.
7.0	**Reasons for the Proposals**
	This report provides an update on Economic Development and Digital theme.
8.0	**Alternative Options Available**
	There are no alternative options associated with this report.

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9.0	**Next Steps and Timetable for Implementation**
	A further update will be provided to the Board at subsequent meetings.
10.	**Potential Impact on Objectives**
	The activities under the Economic Development and Digital theme will support NECA in its aims to promote economic growth and regeneration in the area.
11.1	**Financial and Other Resources Implications**
	There are no financial or other resource implications directly associated with this report as it is for information only.
12.	**Legal Implications**
	There are no legal implications arising from this report.
13.	**Key Risks**
	There are no specific risk management issues arising from this report.
14.	**Equality and Diversity**
	There are no specific equality and diversity issues arising from this report.
15.	**Crime and Disorder**
	There are no specific crime and disorder issues arising from this report.
16.	**Consultation/Engagement**
	There are no specific consultation and engagement issues arising from this report.
17.	**Other Impact of the Proposals**
	There are no further impacts arising from the proposals.
18.	**Appendices**
	None
19.	**Background Papers**
	None.
20.	**Contact Officers**
	John Scott, Acting Head of economic Growth john.scott@southtyneside.gov.uk
	Sign off

Leadership Board

	• Head of Paid Service: ✓ • Monitoring Officer: ✓ • Chief Finance Officer: ✓
	• **Glossary**
	None.

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Leadership Board

Agenda Item 7

Date: **2 February 2021**

Subject: **Finance, Skills & Employability- Thematic Update**

Report of: **Finance, Skills & Employability Thematic Lead**

Executive Summary

This report seeks to provide an update on current Finance, Skills and Employability portfolio activity and the baseline position for a future ‘Skills & Employment’ ask for the North East Combined Authority.

Local Government financing remains an issue for careful review following the recent Spending Review announcements and the publication of the draft Local Government Finance Settlement for consultation. The delay in the publication of the Comprehensive Spending Review to at least December 2021 and the uncertainties the Governments strategy to redress the public finances builds in significant risk and uncertainty to medium financial planning across the sector.

Skills and Employment considerations builds on the wide-ranging activity already underway and provides an opportunity for the Combined Authority to take a lead of Employment & Skills services in the coming years.

Central to the Skills and Employability agenda are the issues of financing particularly the reliance on external funding as we approach the final stages of the current European Structural Investment Fund programme with little detail as yet as to the operation of the UK Shared Prosperity fund, alongside ensuring the ongoing development of good partnership and inter authority working arrangements that have been developed.

Recommendations

The Leadership Board is recommended to receive this report for information.

Leadership Board

1. Background Information

1.1 Further to the agreed portfolio leads and the update provided to the Leadership Board in December, activity continues to progress all aspects of the Finance, Skills and Employment needs and opportunities across NECA. Identification of the main issues and progress being made under each element is as follows:

2. Finance Theme

2.1 The spending review announcements in November 2020 set out the resources that are available for local government. It is vital that the functions that NECA oversees as accountable body are properly resourced.

2.2 Work will be undertaken with the Joint Transport Committee to continue to lobby government for fair funding for transport across the North East and for capital investment that will improve transport infrastructure. The draft Transport Plan includes an initial £6.1bn of transformative projects required to meet its vision of “moving to a green, healthy, dynamic and thriving North East”. Public consultation on the draft Transport Plan has recently closed, and the final revised document will be approved by the Joint Transport Committee in Spring 2021.

2.3 Details of the provisional local government finance settlement were published on 17 December 2020, largely confirming the announcements made in the Spending Review as reported in the last thematic update report. Final figures for Local Government will be confirmed in late January or early February. At a national level the settlement proposals confirm an increase in Core Spending Power of £2.2bn (4.5%), with a significant proportion of this coming from an expectation from Government that Council Tax set by upper tier councils will be increased by 5% next. Key items include:

- Proposals for a 2% Council Tax referendum threshold and a 3% precept to fund pressures in Adult Social Care.
- The review of the Business Rates Retention scheme and plans to reset the baseline from next year have been deferred – this will not be implemented until at least 2022/23.
- Additional £300m grant for social care – which has been part funded through redirecting £150m of the £285m of New Homes Bonus funding that is being withdrawn next year.
- A new “lower tier” authorities grant of £111m, which has been introduced to ensure no authority received a negative CSP position next year. This benefits District Councils in the main where the

withdrawal of NHB would have resulted in a negative CSP,. But results in unitary authorities receiving some additional funding also.

- Continuation of £153m of grant payments to authorities who would otherwise experience a negative RSG position. This benefits authorities in more affluent areas in the main.
- One-off support for Covid-19 related pressures in 2021/22 – providing an additional £1.55bn of grant funding to local authorities to meet additional expenditure pressures. The Covid-19 sales, fees and charges reimbursement scheme will also be extended for a further 3 months until the end of June 2021.
- Funding to meet increased demand for council tax support – a new grant of £670m will fund authorities for the expected Council tax losses, including the impact of the increase in numbers receiving Council Tax Support.
- New Homes Bonus continues with no new legacy payments, with a consultation to be launched into the future of the scheme.

2.4 87% of the £2.2bn reported increase in core spending power for local government is based on the assumption that councils impose the maximum available council tax increase on residents. The actual increase in core funding is likely to be lower.

2.5 The one-year settlement means there remains still significant uncertainty around the longer-term position of local government funding. Councils also await the outcome of reviews of the adult social care system, funding allocations, business rates reform and post-Brexit regional development funding which may have major implications for their spending responsibilities and funding in future years.

2.6 Following the announcement of the third national lockdown, the Chancellor announced a grant funding package worth up to £4.6bn to support businesses, to be allocated by councils. In addition to the Local Restrictions Grants (Open and Closed) schemes and the Additional Restrictions Grant funding available, one-off grants worth up to £9,000 per property will be available to support retail, hospitality and leisure businesses are expected to total around £4bn, and an additional £594m funding will be made available to support other businesses not eligible for the grants.

2.7 Further details are expected in Spring 2021 on the Levelling Up Fund and the Shared Prosperity Fund.

3. Skills Theme

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3.1 Further Education Reform White Paper

3.1.1 The education secretary has promised that the imminent Further Education white paper will bring an “end to getting a qualification for its own sake” and ensure that training reflects the “changing needs” of employers.

3.1.2 Gavin Williamson said further education will “no longer be hiding its vast potential under a bushel” following the reforms, while making a keynote address at Association of College’s FE summit in November.

3.1.3 *Since the last report, the publication of the White Paper has been postponed and is now anticipated before the end of the financial year* The white paper is seen by government as a vital opportunity to collaborate further, so that the FE sector delivers for all those it serves, its students, its local employers and for its communities.

3.2 **Ofsted Inspections**

3.2.1 The Government has announced that full graded Ofsted inspections will not return until the summer term. However, monitoring visits, including to those with grade three and four ratings and new apprenticeship providers, will resume in January**.**

3.2.2 Ofsted said FE providers that do not receive a monitoring visit “may receive support and assurance visits”, which will result in a report but no grade, similar to the “interim visits” being run this autumn The watchdog will also continue to have the power to inspect an education provider if they have serious concerns about safeguarding.

3.2.3 Under a raft of measures announced relating to holding exams in 2021, education secretary Gavin Williamson announced that Ofsted’s full return has been pushed back again until the summer term. Full inspections have been paused since the outbreak of Covid-19 in March

3.2.4 Ofsted’s return to inspection in 2021 will happen in phases, with no graded inspections for education or social care providers planned before the summer term.

3.2.5 Following the Secretary of State’s announcement in December, Ofsted is able to set out plans for its return to inspection in schools and further education providers – as well as plans for inspections and regulatory work in early years and social care.

3.2.6 The usual level of scrutiny within the education and care system has been absent since last March, so it’s important that it returns next year as we all hope for a greater level of normality.

Leadership Board

3.2.7 Graded inspections will not be re-introduced to schools and colleges before April. During the spring term, supportive monitoring inspections will be used to help those that most need it, focused on how well pupils and students are learning. Routine inspections in early years and social care are also planned for the summer term, but regulatory work will continue in the interim.

3.2.8 These plans will help us support the providers who are facing the greatest challenges during these difficult times. They will ensure that inspection is fair, safe and valuable, while remaining true to the core purpose and principles.

4 Employment Theme

4.1. Comprehensive Spending Review (CSR) Nov 20

4.1.1 As part of the Comprehensive Spending Review an additional £3.7 billion has been allocated to support frontline services and to enable DWP to deliver on July's Plan for Jobs to support people back into work. This includes:

- A new Restart programme to provide intensive and tailored support to over 1 million unemployed people and to help them find work in England and Wales. This is approximately £400million investment in 2021-22. The first step in a £2.9 billion three-year programme.
- Investing £1.4billion to build on the Plan for Jobs commitment to increase capacity in Job Centre Plus and double the number of work coaches in Great Britain.
- Additional investments in Plan for Jobs measures including the Job Entry: Targeted Support and Job Finding Support schemes and the Youth Offer in Great Britain, as well as Sector-based Work Academy Programme placements in England and Scotland.
- This settlement also confirms a total package of £2 billion, with £1.6billion in 21/22 to continue creating up to 250,000 government-subsidised jobs through the Kickstart Scheme in Great Britain.

4.2 Restart Programme

4.2.1 Restart is a new programme to help people on Universal Credit within the Intensive Work Search group, who have been out of work for 12 months or longer with no sustainable earnings when they are referred to Restart. They will receive more intensive support, via fortnightly meetings for up to a year, from local providers. Using in-depth knowledge of local jobs and skills markets, providers will work with community organisations, including local authorities, to deliver tailored support for individuals.

4.2.2 This may include training to switch to growth sectors by providing support through recruitment stages, updating IT skills and / or getting the right certificates to take up a job in a different industry, such as construction or transport. The scheme is expected to help more than a million jobseekers over the course of three years and will be available in England and Wales. Current procurement timelines indicate Prime providers submitting final bids to deliver the scheme by the end of March 2021 with mobilisation and contract start anticipated during the summer.

4.3 Kickstart

4.3.1 Announced in July 2020 and implemented from September, the £2 billion Kickstart Scheme provides funding to create new job placements for 16-to-24-year olds on Universal Credit who are at risk of long-term unemployment. Employers of all sizes can apply for funding which covers:

- 100% of the National Minimum Wage (or the National Living Wage depending on the age of the participant) for 25 hours per week for a total of 6 months
- associated employer National Insurance contributions
- employer minimum automatic enrolment contributions

4.3.2 Employers can spread the start date of the job placements up until the end of December 2021, but the government has made it clear that this will be extended if required.

4.3.3 A Kickstart Scheme application must be for a minimum of 30 job placements. If a single employer cannot provide this many job placements, they can find a Kickstart gateway, such as a local authority, charity or trade body for help applying.

4.3.4 Further funding is available for training and support so that young people on the scheme can secure further work in the future. These jobs must be new positions and of good quality. They cannot replace existing or planned vacancies

4.4 Job Retention Scheme (Furlough)

4.4.1 The Coronavirus Job Retention Scheme has been in place since March 2020, was extended in November and has been extended again until 30

April 2021. Employers can claim 80% of an employee's usual salary for hours not worked, up to a maximum of £2,500 per month.

4.4.2 Employers can claim for employees who were employed on 30 October 2020, as long as they have made a PAYE RTI submission to HMRC between the 20 March 2020 and 30 October 2020, notifying a payment of earnings for that employee. This may differ where they have made employees redundant, or they stopped working for the same employer on or after 23 September 2020 and have subsequently been re-employed.

4.4.3 All employers with a UK, Isle of Man or Channel Island bank account and UK PAYE schemes can claim the grant and do not need to have previously claimed for an employee before the 30 October 2020 to claim.

4.4.4 Employers can furlough employees for any amount of time and any work pattern, while still being able to claim the grant for the hours not worked. Employers will need to continue to pay for employer National Insurance contributions and pension costs.

4.4.5 Current rates of furlough take up across local authority areas are set out in the table below: (Source HMRC)

Area	Total employments furloughed at 31July	Total employments furloughed at 31October	Take up Rate 31 July	Take up rate 31 October
County Durham	32,400	12,500	17%	7%
Gateshead	14,300	6,700	16%	8%
South Tyneside	9,100	4,100	15%	7%
Sunderland	16,800	7,200	14%	6%
NECA	72,600	30,500	15%	6%
North East	166,100	70,400	15%	6%
England	4,234,200	1,897,400	17%	7%

4.4.6 The next release of data will include statistics on the Coronavirus Job Retention Scheme extension and will be reported to the next Leadership Board meeting.

4.5 JETS (Job Entry Targeted Support)

4.5.1 Job Entry Targeted Support (JETS) was launched from 5th October 2020 across Britain. JETS is aimed at supporting those Universal Credit claimants in the all work related requirements group and New Style Jobseeker's Allowance claimants who find themselves unemployed for 13 weeks or longer as a result of COVID-19 and is expected to boost the prospects of more than a quarter of a million people across Britain.

4.5.2 More than 800 jobseekers per day have been referred to the government's new £238 million JETS – Job Entry Targeted Support – programme since it launched at the start of October 2020.

4.5.3 Work Coaches across the country have acted quickly to deliver the additional support, signposting tens of thousands of Universal Credit and New Style Job Seeker's Allowance (JSA) claimants to the programme - providing job hunters with the boost they need to return to employment.

4.5.4 Targeting those made jobless by coronavirus, the support has already had early successes in finding participants roles. Jobseekers have received specialist advice on how they can move into growing sectors where jobs are available, as well as CV and interview guidance.

4.5.5 The tailored programme also sees those out of work for three months or longer agree an action plan with their Work Coach, receive peer support and be signposted to opportunities helping them build vital skills.

4.6 ESF Resources

4.6.1 As the ESF programme draws to an end, the DEP as Managing Authority are currently looking at how the remaining funds held in the reserve fund are prioritised for distribution this year, with the aim of committing all reserve funds are committed by September 2021.

4.6.2 A current exercise of priority setting is underway involving local stakeholders to establish project calls which can be published in April. These calls will reflect local needs particularly reflecting the continuing impacts of COVID and any gaps in provision which may exist once the new national schemes are taken into account.

4.6.3 Across the North East the following have been identified as priority areas for support:

- Young People
- Older Workers (50 plus)
- Self Employed

- Job Creation Projects (for people excluded from national programmes such as Kickstart)
- Skills and Digital Skills Training

5. Next Steps and Timetable for Implementation

5.1 Employment & Skills issues and opportunities for development remain under development through meetings of the Skills and Employment Working Group.

6. Potential Impact on Objectives

6.1 This report is for information only.

7. Financial and Other Resources Implications

7.1 There are no additional financial implications as this report is for information only.

8. Legal Implications

8.1 There are no specific legal implications arising from this report.

9. Key Risks

9.1 This report is for information.

10. Equality and Diversity

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

11. Crime and Disorder

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

12. Consultation/Engagement

12.1 Economic Directors have been fully consulted on the contents of this paper

13. Other Impact of the Proposals

Leadership Board

13.1 There are no other impacts arising from this report

14. Appendices

14.1 None

15. Background Papers.

15.1 Thematic Portfolio Update January 2021

16. Contact Officers

16.1 Amy Harhoff, Corporate Director Regeneration Economy & Growth,
Amy.Harhoff@durham.gov.uk Tel: 03000 267330

17. Sign off.

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

18. Glossary

18.1

CJRS	Coronavirus Job Retention Scheme
DWP	Department for work and Pensions
ESFA	Education and Skills Funding Agency
JETS	Job Entry Targeted Support
JSA	Job Seekers Allowance
UKSPF	UK Shared Prosperity Fund

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Leadership Board

Agenda Item 8

Date: **2 February 2021**

Subject: Transport Thematic Lead Portfolio Update Report

Report of: Thematic Lead for Transport

Executive Summary

The purpose of this report is to provide an update on various transport matters of relevance to the NECA area.

Recommendations

The Leadership Board is recommended to note the contents of this report.

Leadership Board

1. Background Information

1.1 This report provides an update on transport issues affecting the NECA area.

1.2 **Government Spending Review 2020/National Infrastructure Strategy**

The 2020 Spending Review, published in 25th November, takes a 12-month view on Government spending priorities. It was accompanied by the National Infrastructure Strategy, outlining future planned investment in infrastructure.

The document commits to providing £1.125 billion nationally for road maintenance in 2021/22, and £260 million to continue the Integrated Transport Block. The maintenance funding seems to be slightly below the 2020/21 figure (nearer £1.5 billion nationally), though this was unusually high. The Integrated Transport Block funding appears very similar to the level seen nationally in recent years.

The Strategy also states the intention to provide 5 year local transport funding settlements for eight city-regions from 2022/23, totalling £4.2 billion (with £50 million available in 2021/22 to support preparatory work). The supporting text refers to Tyne and Wear (presumably they mean the JTC area) as one of these, albeit there is a general caveat ‘subject to appropriate governance’ around this funding. In the past Government has indicated this has meant elected mayors, though it is not known if or how this position may have shifted since the setting up of the Joint Transport Committee.

Disappointingly the review does not provide certainty over the longevity of emergency Covid-19 support for both Metro and local bus services. Passenger numbers and fare remains heavily depressed with the need for additional support likely to continue for the foreseeable future.

The documents also include a commitment to the continued roll out of electric vehicle charging infrastructure. This includes extending support for installing chargers in homes, workplaces, and on-street locations, with £90 million committed to support larger on-street charging schemes and rapid hubs.

1.3 **Bus Services**

The gap between income and costs for local bus services continues to be filled by emergency Covid-19 Bus Service Support Grant (CBSSG) paid by the Government, as well as the continuation of local authority payments around concessionary fares and supported services. The Department for Transport (DfT) has advised that the continuation of the payment of CBSSG is subject to 8 weeks’ notice.

Leadership Board

There is every likelihood that when Covid-19 restrictions and the additional Government support for bus services both end there will still be a considerable gap between fare revenue costs due to a long term loss of patronage due to Covid. The North East Joint Transport Committee (JTC) have been discussing this situation directly with NEBus, the North East Bus Operators' Association, and have agreed to work in partnership to tackle the issues together.

1.4 **Tyne and Wear Metro**

Sections of the Metro in South Tyneside are set to be closed for 12 weeks from September 2022 as part of the "Metro Flow" major upgrade scheme which will see an existing freight line upgraded and electrified making it capable of carrying Metro services. Nexus are looking to create communication plans so that councillors and other stakeholders are providing with up-to-date messaging.

A closure of sections of the Metro through Gateshead for two weeks in February 2021 is also planned for necessary renewal of infrastructure.

1.5 **Heavy rail**

Transport for the North (TfN) are in the process of developing proposals for the delivery of Northern Powerhouse Rail (NPR) with a view to finalising the Outline Business Case (OBC) in 2021. Currently two options for the restoration of the Leamside Line currently remain under consideration.

The North East's preferred option is the reinstatement of the full Leamside route. An alternative option known as 'Leamside South' (effectively a bypass around Durham) remains on the table. The possibility of the 'Leamside South' option remains a major concern given the impacts this would have on transport and regeneration aspirations, in particular on the Washington to Pelaw corridor.

Feasibility funding is to be provided for the possible re-opening of a rail link between Consett and Newcastle.

1.6 **North East Transport Plan**

A public consultation was held on the draft North East Transport Plan between 19th November 2020 and 14th January 2021. Next steps are for the production of a consultation feedback document which will set out how responses have been considered and, where appropriate, included into the final Transport Plan. The

Transport Plan will be updated to reflect relevant and appropriate responses and a final document will be taken to the March 2021 JTC for approval.

1.7 **Electric vehicle infrastructure**

Urban Foresight was procured by the North East Joint Transport Committee to develop a regional Electric Vehicle (EV) Enabling Study. This will set out the electric vehicle infrastructure the region needs over the next five years. This work is drawing to a close and following the Enabling Study it is anticipated that £500,000 will be made available to install EV charging infrastructure at those prioritised sites, funded by the Local Growth Fund.

2. Proposals

2.1 This report is for information purposes only. Therefore, no decisions are contained in this report.

3. Reasons for the Proposals

3.1 This report is for information purposes only

4. Alternative Options Available

4.1 Not applicable to this report.

5. Next Steps and Timetable for Implementation

5.1 Timetables are set out as appropriate in relation to the individual items in the sections above.

6. Potential Impact on Objectives

6.1 Successful delivery of the various transport schemes and investment proposals will assist NECA in delivering its objective to maximise the area's opportunities and potential.

7. Financial and Other Resources Implications

7.1 The report includes information on funding and financial opportunities.

7.2 There are no specific additional financial implications for NECA arising from this report.

7.3 There are no Human Resource or ICT implications for NECA arising from this report.

8. Legal Implications

8.1 There are no specific legal implications arising from this report.

9. Key Risks

9.1 Various risks exist in relation to the impacts that a failure to achieve the region's aspirations for improving transport would have on wider economic and environmental objectives.

10. Equality and Diversity

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

11. Crime and Disorder

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

12. Consultation/Engagement

12.1 Consultation will be carried out as and when appropriate on any schemes or proposals arising from the issues outlined above.

13. Other Impact of the Proposals

13.1 No specific impacts.

14. Appendices

14.1 Not applicable.

Leadership Board

15. Background Papers

15.1 Not applicable.

16. Contact Officers

16.1 Sheena Ramsey

17. Sign off

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

18. Glossary

18.1 Department for Transport (DfT) – Government department responsible for national transport policy and programmes.

Integrated Transport Block – Government funding made available to local authorities to support small scale transport improvements.

North East Joint Transport Committee (JTC) – North East Regional body covering Northumberland, Tyne and Wear and Durham with formal responsibility for strategic transport policy and planning.

Transport for the North (TfN) – sub national body dealing with transport issues across the north of England as a whole.

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Agenda Item 9

Date: **2 February 2021**

Subject: **Capital Programme and Treasury Management Policy and Strategy 2021/22**

Report of: **Chief Finance Officer**

Executive Summary

This report provides the Leadership Board with a copy of the Capital Programme for 2021/22 as agreed by the North East Joint Transport Committee (JTC) on 19 January 2021. The report to the JTC sets out an updated forecast of outturn for the current year as well as the capital programme for 2021/22 and includes details of how the capital investments will be financed. The Transport Capital Programme will be administered by NECA in its role as Accountable Body for the JTC. The full report to the JTC is set out at Appendix 1.

The initial capital programme for 2021/22 agreed by the JTC totals £152.674m, and includes a wide range of transport programmes including Transforming Cities Fund, Go Ultra Low, the Metro Asset Renewal Plan, Metro Fleet Replacement, Local Transport Plan Integrated Transport Block grant and the capital elements of the region's Active Travel Fund programme.

This report also presents the NECA Treasury Management Strategy, the expected treasury operations for this period and provides details of the Treasury Management Strategy and Statement on Minimum Revenue Provision (MRP).

Consideration of this report and adoption of the Treasury Management Strategy fulfils NECA's legislative requirements with regards to compliance with the CIPFA Prudential Code for Capital Finance.

Recommendations

The Leadership Board is recommended to:

- Note the forecast outturn position for 2020/21 set out in section 2.3 of this report;
- Agree to administer the capital programme approved by the JTC as set out in section 2.3;
- Agree the Minimum Revenue Provision (MRP) Statement contained within Appendix 2 which sets out the Authority's policy on MRP;

Leadership Board

- Agree the Treasury Management Strategy and the Treasury Prudential Indicators contained within Appendix 2, including the Authorised Limit;
- Agree the Cash Investment Strategy 2021/22 contained in the Treasury Management Strategy within Appendix 2;

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1. Background Information

1.1 This report provides an updated forecast of outturn against the revised capital budget for 2020/21 and outlines the proposed capital programme for 2021/22 and the funding sources identified to deliver it. The capital programme covers a wide range of economic and regeneration initiatives and transport improvements.

1.2 In its role as accountable body for the JTC, NECA accounts for the transport capital programme, which is set and overseen by the JTC, so this is included in summary in the budgets included in this report. A copy of the detailed report considered and agreed by the JTC is appended to this report.

1.3 The report also sets out the authority's Treasury Management Strategy and Minimum Revenue Provision Policy for 2021/22. Consideration of this report and adoption of the Treasury Management Strategy fulfils NECA's legislative requirements with regards to compliance with the CIPFA Prudential Code for Capital Finance.

2. Proposals

Transport Capital Programme

2.1 The Transport Capital Programme for 2021/22 and indicative amounts for 2022/23 and 2023/24 was approved by the JTC on 19 January 2021. The report also provided an update on the latest forecast of outturn for 2020/21. Details of the various elements making up the transport capital programme are set out in detail in the report to the JTC, which is attached as Appendix 1. As Accountable Body for the JTC, NECA must administer the capital programme which the JTC has agreed.

2.2 A summary of the forecast outturn for 2020/21 and the initial programme for 2021/22 is set out in the table below with full details contained in the report at Appendix 1.

	2020/21 Updated (Nov JTC)	**2020/21 Updated Forecast**	**2020/21 Forecast Variance**	**2021/22 Initial Budget**
	£m	**£m**	**£m**	**£m**
Transforming Cities Fund Tranche 1	2.725	2.725	0.000	0.248
Transforming Cities Fund Tranche 2 (Excl. Metro Flow)	1.517	1.517	0.000	34.735
Go Ultra Low	0.384	0.384	0.000	0.000

Ultra-Low Emission Vehicles – Taxi Project	0.497	0.497	0.000	0.000
Metro Asset Renewal Plan	23.546	23.546	0.000	19.222
	2020/21 Updated (November JTC)	**2020/21 Updated Forecast**	**2020/21 Forecast Variance**	**2021/22 Initial Programme**
	£m	**£m**	**£m**	**£m**
Metro Fleet Replacement	44.380	46.615	2.235	63.069
Nexus Other Capital Projects	1.479	1.479	0.000	8.252
Metro Flow	1.598	1.566	-0.032	8.100
Tyne Tunnels	0.800	1.007	0.207	0.500
Local Transport Plan[1]	11.309	11.309	0.000	11.309
Active Travel Fund (capital elements)	0.000	1.157	1.157	7.239
Total Capital Programme	**88.235**	**91.802**	**3.567**	**152.674**

Prudential Code and Treasury Management

2.4 Appendix 2 outlines the authority's prudential indicators for 2021/22 to 2023/24, details of the expected treasury operations for this period and provides details of the Treasury Management Strategy and Statement on Minimum Revenue Provision (MRP).

2.5 Consideration of this report and adoption of the Treasury Management Strategy fulfils NECA's legislative requirements with regards to compliance with the CIPFA Prudential Code for Capital Finance.

2.6 Included within the Treasury Management Strategy is a cash investment strategy which sets out the Authority's criteria for choosing investment counterparties and limiting exposure to the risk of loss. This element of the strategy is in accordance with the MHCLG Investment Guidance.

2.7 The Treasury Management Strategy sets out how the treasury service will support the capital decisions taken in this report, the day-to-day treasury management and

[1] Excluding amounts for local contribution to Metro ARP, shown within Nexus capital programme lines.

the limitations on activity through treasury prudential indicators. The key indicator being the 'Authorised Limit', the maximum amount of debt the Authority could afford in the short term but which would not be sustainable in the longer term. This is the Affordable Borrowing Limit required by section 3 of the Local Government Act 2003. This is in accordance with the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code.

2.8 The Authority's Minimum Revenue Provision (MRP) Statement sets out how the Authority will pay for capital assets through revenue each year (as required by Regulation under the Local Government and Public Involvement in Health Act 2007).

2.9 The policies and parameters set out in Treasury Management Strategy and Statement on Minimum Revenue Provision provide an approved framework within which officers undertake day to day capital and treasury activities.

3. Reasons for the Proposals

3.1 The proposals are presented in this report to enable the Leadership Board to agree its capital programme for 2021/22 and to adhere to legislative requirements with regards to compliance with the CIPFA Prudential Code for Capital Finance. Appendix 2 therefore contains the NECA Treasury Management Strategy, the expected treasury operations for this period and provides details of the Treasury Management Strategy and Statement on Minimum Revenue Provision (MRP)

4. Alternative Options Available

4.1 Option 1: The Leadership Board may accept the recommendations set out in this report.

Option 2: The Leadership Board may not accept the recommendations set out in this report.

Option 1 is the recommended option.

5. Next Steps and Timetable for Implementation

5.1 The initial capital programme for 2021/22 and the indicative programme for future years will be closely monitored. As new funding is sourced additional schemes will added and therefore the capital programme will inevitably be subject to change. Any changes to the capital programme, including slippage and necessary re-profiling of investments, will be subject to reports and consideration by meetings of the Joint Transport Committee.

6. Potential Impact on Objectives

6.1 The capital investment set out in the report will have a positive impact on the objectives of the Authority. Successful delivery of the various transport schemes and investment proposals will assist the JTC in meeting its objective to maximise the region's opportunities and potential.

7. Financial and Other Resources Implications

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

8. Legal Implications

8.1 It is noted that both the recommended resolutions require unanimous approval in accordance with the NECA Constitution.

9. Key Risks

9.1 Appropriate risk management arrangements are in place and managed by the teams delivering the capital programme on the Authority's behalf.

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 be undertaken at least two months prior to the budget being agreed. The draft proposals were subject to consultation with the Leadership Board, Overview and Scrutiny Committee, Audit and Standards Committee and officer groups and the final proposals are in line with those. In its accountable body role for the JTC, Transport proposals were also subject to consultation with the JTC Overview and Scrutiny Committee, JTC Audit Committee, the JTC Tyne and Wear Sub Committee and constituent councils. Comments raised as part of the consultation process have been taken into account in the preparation of the final report.

12.2 The planned capital expenditure set out in this report comprises previously approved investments. Particular schemes making up the elements of the programme will be subject to local consultation where relevant.

13. Other Impact of the Proposals

13.1 There are no other impacts arising from these proposals.

14. Appendices

14.1 Appendix 1 – North East Joint Transport Committee Capital Programme report

Appendix 2 – North East Combined Authority Annual Treasury Management Strategy 2021/22

15. Background Papers

15.1 NECA Capital Programme report 4 February 2020, Leadership-Board-4-February-2020-Public-Agenda-Pack.pdf (northeastca.gov.uk)

16. Contact Officers

16.1 Eleanor Goodman, NECA Finance Manager, Eleanor.goodman@northeastca.gov.uk, 07546 653402

17. Sign Off

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

Leadership Board

Appendix 1

Appendix 1 – North East Joint Transport Committee Capital Programme Report

Date: **19 January 2021**

Subject: **Transport Capital Programme 2021/22**

Report of: **Chief Finance Officer**

Executive Summary

This report provides the North East Joint Transport Committee with an updated forecast capital outturn for 2020/21 and presents the initial 2021/22 capital programme, totalling £152.674m, for consideration and approval.

The report identifies that total capital expenditure on Transport schemes of £91.802m is now forecast for 2020/21 against the revised programme budget of £88.235m. The main variance since the last update reported to the committee is an increase in forecast expenditure on the Fleet Replacement Programme and the inclusion of the capital elements of the Active Travel Fund within the capital programme.

The revised capital programme is £14.441m lower than the original capital programme for the year, mainly due to the significant reduction in forecast expenditure on Transforming Cities Fund (TCF) Tranche 2 schemes, which have been delayed due to the Covid-19 pandemic.

£2.725m is forecast to be invested on TCF Tranche 1 schemes in 2020/21, with the majority of schemes due to complete this financial year. £0.248m of investment will however be delivered in 2021/22, reflecting slippage on a scheme within the Tranche 1 programme.

In March 2020, the JTC was notified of the successful award of TCF Tranche 2 funding of £198.484m, made up of £94.685m for Metro Flow project delivered by Nexus and £103.799m as a devolved programme. £9.901m of capital grant was received at the end of March 2020 and work has been undertaken to agree a revised prioritised programme of schemes to be funded from the devolved funding pot. £1.517m of expenditure is currently forecast for 2020/21 pending a detailed review of likely construction dates for each project, taking into account slippage arising as a result of Covid-19. Reporting on the Metro Flow project is included within the sections on the Metro capital programme.

TCF Tranche 2 funding and investment of £34.735m is included in the initial 2021/22 capital programme, with a number of schemes due to progress to grant funding approval stage in early 2021.

£0.384m is forecast on the Go Ultra Low project, representing slippage from 2019/20 and costs required to bring the remaining rapid charging clusters into operation. The project will be completed in 2020/21.

Leadership Board

£0.497m is forecast on the Ultra-Low Emission Vehicles – Taxi Project and actual expenditure to November is £0.418m. The project will be completed in 2020/21.

2020/21 is the final year of the Metro Asset Renewal Plan programme which runs from 2010 to 2021. Expenditure in year is forecast to be £23.546m which is within the minimum and maximum levels set for the year by the Department for Transport (DfT).

The Metro Fleet Replacement project is forecast at £46.615m in 2020/21.

The report sets out details of the Nexus capital programme for 2021/22, totalling £98.643m which includes the Metro Asset Renewal Programme (MARP, £19.222m), Fleet Replacement Programme (FRP, £63.069m), Other Nexus Capital Projects (£8.252m) and Metro Flow (£8.100m). Indicative figures for 2022/23 and 2023/24 are included, which are subject to approval of funding.

In terms of the Tyne Pedestrian and Cycle Tunnels there is still outstanding work to complete and the commissioning of the inclined lifts continues to be delayed because of contractors being unable to complete the works because of ongoing travel restrictions. Expenditure in 2020/21 is forecast to be £1.007m with an initial estimate of £0.500m for 2021/22.

The programme includes £13.949m of Local Transport Plan Integrated Transport Block grant that will be received by NECA on behalf of the Joint Transport Committee, 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.

A new programme element has been added in the revised forecast for 2020/21 and the initial 2021/22 programme, for the capital elements of the Active Travel Fund programme, for which the JTC has been awarded Tranches 1 and 2 funding. The capital elements of this programme (which is a mix of revenue and capital grant paid by DfT to NECA and which will be paid to constituent local authorities to deliver active travel projects) totals £8.396m (£1.157m Tranche 1 and £7.239m Tranche 2) and the investment is expected to be delivered by the end of next financial year.

Most of the capital works during the current and next financial year will be funded through government grants awarded (£77.457m in 2020/21 and £147.253m in 2021/22) with elements of the Nexus capital programme and the Tyne Pedestrian and Cyclist Tunnels works funded by reserves (£14.464m in 2020/21 and £5.500m in 2021/22) held specifically for this purpose.

Recommendations

The North East Joint Transport Committee is recommended to:

i. Note the latest position in respect of the 2020/21 capital programme, set out in section 2.1 and the following sections;

ii. Approve the proposed initial capital programme for 2021/22 which amounts to £152.674m as set out in section 2.1 and the following sections.

1. Background Information

1.1 In January 2020, the JTC approved the initial 2020/21 capital programme of £81.566m. The capital programme was updated to take account of adjustments for slippage in the 2019/20 and any new grant approvals made since the original capital programme was set in January 2020, particularly in relation to Transforming Cities Fund Tranche 2 at the JTC meeting in July. It was subsequently updated in reports to the JTC in October and November 2020.

1.2 The updated position shows a revised capital programme forecast of £91.802m - £3.567m higher than the position reported to the last meeting where the updated capital programme was £88.235m.

2. Proposals

Forecast of Capital Outturn 2020/21 – Period to 30 November 2020

2.1 A summary of the Transport capital outturn forecast for 2020/21, together with an initial programme for 2021/22 is set out in the table below, with further details provided in the sections that follow.

Table 1: Transport Capital Programme 2020/21 and 2021/22

	2020/21 Updated (November JTC)	2020/21 Updated Forecast	2020/21 Forecast Variance	2021/22 Initial Programme
	£m	£m	£m	£m
Transforming Cities Fund Tranche 1	2.725	2.725	0.000	0.248
Transforming Cities Fund Tranche 2 (Excluding Metro Flow)	1.517	1.517	0.000	34.735
Go Ultra Low	0.384	0.384	0.000	0.000
Ultra-Low Emission Vehicles – Taxi Project	0.497	0.497	0.000	0.000
Metro Asset Renewal Plan	23.546	23.546	0.000	19.222
Metro Fleet Replacement	44.380	46.615	2.235	63.069

Nexus Other Capital Projects	1.479	1.479	0.000	8.252
Metro Flow	1.598	1.566	-0.032	8.100
Tyne Tunnels	0.800	1.007	0.207	0.500
Local Transport Plan[2]	11.309	11.309	0.000	11.309
	2020/21 Updated (November JTC)	**2020/21 Updated Forecast**	**2020/21 Forecast Variance**	**2021/22 Initial Programme**
	£m	**£m**	**£m**	**£m**
Active Travel Fund (capital elements)	0.000	1.157	1.157	7.239
Total Capital Programme	**88.235**	**91.802**	**3.567**	**152.674**

Transforming Cities Fund (TCF) – Tranche 1 and Tranche 2

2.2 The Transforming Cities Fund represents a significant opportunity for the region to source capital funding for public transport and sustainable transport infrastructure. An initial £10m allocation was secured for the region from Tranche 1, which was announced and received in March 2019.

2.3 In July 2020 the JTC approved a revised programme for 2020/21 for Tranche 1, factoring in slippage from 2019/20. As set out in the report presented to the JTC in November 2020, one scheme (Cycling Links to Newcastle City Centre – High Level Bridge scheme) is likely to slip into 2021/22, due to it being held up with delivery of earlier phases which need to be completed first. The remaining Newcastle spend has now been refocussed to achieve similar outcomes and ensure timely delivery of infrastructure in the early part of 2021/22.

2.4 The forecast to the end of 2020/21 for Tranche 1 schemes is £2.725m, with £0.248m of capital investments being undertaken in 2021/22. This will represent full utilisation of the £10m grant funding received.

2.5 A Tranche 2 funding bid was submitted to Government in November 2019 following a draft submission in June 2019. In March 2020 we received a substantial settlement that funded the Metro Flow scheme (£95m) and a devolved fund to deliver a range of local schemes (£104m). In addition, a commitment was given to fund the

[2] Excluding amounts for local contribution to Metro ARP, shown within Nexus capital programme lines.

reintroduction of passenger trains on the Northumberland Line through a different funding source..

2.11 A Transport Planner has been appointed to work with local authorities to deliver the programme of schemes funded by the Devolved Pot, which was ratified by JTC members in May 2020. Expenditure in 2020/21 has been less than originally forecast in the TCF bid, largely due to the effects of the Covid-19 pandemic, and these are reported quarterly to the DfT. However, the programme is now progressing. A full review of spend profiles is being carried out for each scheme in the programme, and schemes will begin to be presented to the JTC for grant funding award decisions in the early months of 2021.

2.12 The schemes to be delivered using the TCF Devolved Pot retain a considerable degree of over-programming and the TCF team is working with scheme promoters to understand opportunities for how this can be managed. A plan for dealing with the over-programming will be prepared in due course and presented to the JTC. Initial forecast expenditure in the 2021/22 programme is £34.735m for schemes in the Devolved Pot and £8.100m on Metro Flow (more details of which are included in the Nexus capital programme at section 2.35-2.37).

Table 2: TCF Tranche 2 Capital Forecast of Outturn 2020/21 to 2020/23:

TCF Tranche 2	**2020/21 Budget £m**	**2021/22 Budget £m**	**2022/23 Budget £m**	**Total Budget £m**
Devolved Programme Level	1.517	34.735	67.547	103.799
Nexus Metro Flow (reported with Nexus Capital Programme)	1.700	8.100	84.885	94.685
All Programme Level	**3.217**	**42.835**	**152.432**	**198.484**

Go Ultra Low

2.13 The Go Ultra Low project is jointly funded through from Office for Low Emission Vehicles (OLEV) and European Regional Development Funding (ERDF) resources and includes the construction of one of the UK’s first Electric Vehicle (EV) filling stations at West Wear Street in Sunderland city centre, along with the installation of a number of rapid charging clusters across the region.

2.14 Work in 2020/21 is on bringing the remainder of the rapid charging clusters into operation. The Go Ultra Low North East programme has been extended until January 2021 by the Ministry of Housing, Communities and Local Government. This extension is primarily so that the remaining EV rapid hubs can be installed as this had to be paused due to the furlough of staff as a result of the Covid-19 lockdown. We are on course to fully spend the allocated fund. The project is expected to be complete this financial year.

2.15 Capital expenditure to the end of November 2020 was £0.224m. Forecast expenditure to the year end is £0.384m.

Ultra-Low Emission Vehicles - Taxi Project

2.16 The North East was awarded a grant of £500,750 from the Office of Low Emission Vehicles, Ultra Low Taxi Infrastructure scheme to deliver 10 chargers dedicated to the Taxi and Private Hire trade across 9 sites. Commissioning for nine of the ten rapid chargers to be installed for the taxi and private hire market at strategic locations in car parks and on street around areas of high taxi demand is due to be completed by the end of 2020. Work on the tenth charger has been delayed as the car park has been reserved for use as a temporary COVID-19 testing station. The project also includes funding for engagement with the taxi trade to encourage the uptake of EV's, which will take place through a series of online webinars, trials and workshops over a two-year period.

2.17 Capital expenditure to the end of November 2020 was £0.419m. Forecast expenditure to the year end is £0.497m. The project is expected to be complete this financial year.

Nexus Capital Programme

2.18 Nexus' planned capital programme for 2021/22 to 2023/24 includes investment in four main areas:

i) Metro infrastructure (the Metro Asset Renewal Programme or MARP);
ii) A new fleet of Metrocars (the Fleet Replacement Programme or FRP);
iii) Other Capital Projects (OCP) e.g. the cross Tyne Ferry; and
iv) Metro Flow (MFL)

2.19 Funding for these programmes is largely provided by the DfT:

i) In respect of MARP, 2021/22 represents the first year of a five-year Essential Renewals Programme. An application for funding covering the period 2021/22 to 2025/26 was submitted to DfT who, to date, have only been able to confirm £20.000m funding for 2021/22 but are considering the future investment need;

ii) In relation to FRP, 2021/22 represents the third year of capital funding from DfT, with the programme fully funded to expected completion in 2025/26;

iii) OCP is largely funded via DfT Transforming Cities Fund (TCF) grant and the Getting Building Fund, administered by the North East Local Enterprise Partnership (in respect of the North Shields Ferry Landing Relocation project), which in lieu of other funding being confirmed is currently underwritten by a local contribution from Nexus reserves;

iv) With regard to MFL, 2021/22 funding and beyond is subject to a successful Final Business Case (FBC) application to DfT, scheduled to be submitted in Summer 2021. The local contributions will come from Metro Rail Grant which at this stage is still unconfirmed.

2.20 Funding for 2021/22 has been confirmed, with the exception of MFL, and the various programmes are defined and deliverable. Programmes for 2022/23 and 2023/24 are currently unfunded, except for FRP which is fully funded. As a result, delivery programmes for 2022/23 and 2023/24 are subject to further refinement, depending upon funding approvals and a review of programme deliverability in respect of network capacity and potential disruption. This is important in the context of Metro's recovery plan being developed for DfT/HMT. As a result, the risk contingency for 2022/23 and 2023/24 is higher than the 2021/22 level.

2.21 Subject to funding approvals and depending upon the aforementioned refinement of the programme, the scale of investment increases considerably over the next 36 months. Therefore, resource planning across multiple disciplines will be undertaken during calendar year 2021 to ensure Nexus has the optimum capacity and skills to deliver this step-change in investment efficiently.

Tyne and Wear Metro Asset Renewal Programme (MARP)

2.22 Nexus is nearing the end of the final year of its initial eleven-year, £350m renewal programme to upgrade and replace many of the assets across the Tyne and Wear Metro system.

2.23 With up to £4m of the 2021/22 approved funding able to be deployed in the current year, confirmed funding for the 2021/22 programme is currently assessed as £19.222m, consisting of Metro Rail Grant of £16.000m, supplemented by local contributions of £2.222m LTP grant and £1.000m Highways Challenge Fund in respect of the Tanners Bank bridge project.

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2.24 A number of significant projects across a range of different asset categories are planned in 2021/22. The programme is set out in Appendix 1 and a summary is provided below:

- **Civils**

Tanners Bank £1m. Replacement of a vulnerable cast iron bridge in order to increase headroom and access to North shields Fish Quay, funded by grant from the Highways Maintenance Challenge Fund (HMCF).

- **Permanent Way**

Tyne Dock track works £1.850m. Full depth renewal of circa 450m of track between Tyne Dock and Simonside. Plain Line Renewal South Gosforth to Airport £1.500m. Renewal of life expired switch and crossing at Christon Road to ensure access to the Gosforth Depot.

- **Mechanical and Electrical**

Lift and escalator refurbishment works at Haymarket and Monument stations £0.430m.

- **Overhead Line Equipment**

Continuation of the programme of contact wire renewal and cantilever replacement £3.321m.

- **ICT Infrastructure**

Network Refresh £0.900m. Replacement of obsolete IP network management system to enable continuing effectiveness of our operational maintenance, monitoring and support. IP network equipment supporting devices throughout the Metro system, (such as PA, CCTV, Telephony etc.) to be refreshed in order to maintain continuing stable operation.

- **Signalling**

Cable Degradation Relay Rooms £1.000m. Detailed survey (and replacement) of signalling cables within South Gosforth relay room suffering from age related degradation. Cable testing and replacement £0.500m. Location case rewiring £0.300m. Further development on Scada and mimic panel replacements £0.050m.

- **Capital Maintenance/Other**

Investment in the existing fleet in order to prevent further degradation and help maintain performance until the new fleet is operational.

2.25 Despite the eleven-year programme successfully renewing and replacing a range of key assets network wide, this essential programme of renewals needs to continue across the next five years (at least) in order to stabilise the backlog that had developed pre 2010, when Metro was subject to annual funding settlements, meaning that the condition of the Metro infrastructure had steadily declined. Years 2 and 3 (2022/23 and 2023/24) of this three-year programme therefore represents the planned investment to continue network Essential Renewals.

2.26 Whilst an Essential Renewals funding bid for the period 2021/22 to 2025/26 was accepted by the DfT in January 2020, as a result of the pandemic this was not confirmed by HMT at the time and only £20m of capital grant for 2021/22 was confirmed in July 2020. Confirmation of funding beyond 2021/22 is still being sought and the JTC will be updated if further funding is approved.

2.27 Nexus will still be required to fund 10% of the overall investment in the MARP, which will amount to £2.222m in 2021/22. As with investment since 2010, Nexus will secure this from the LTP Integrated Transport Block.

2.28 The MARP includes Tanner's Bank bridge replacement, which has secured £2.7m of Highways Maintenance Challenge Fund (HMCF) grant.

2.29 Over the next 24 months the indicative MARP programme sets out the investment need at this stage and is therefore subject to change depending upon the level of funding confirmed for 2022/23 and 2023/24:

Table 3: Indicative MARP programme 2021/22 to 2023/24

	2021/22 Budget	**2022/23 Budget**	**2023/24 Budget**	**Total**
	£m	**£m**	**£m**	**£m**
Capital Maintenance	4.0	3.8	4.0	11.8
Civils	1.2	5.2	0.6	7.0
Mechanical & Electrical	0.4	2.3	0.2	2.9
Miscellaneous	-	0.3	-	0.3
Overhead Line	3.3	3.3	3.6	10.2
Permanent Way	3.6	2.4	9.0	15.0
Plant	0.4	2.5	0.1	3.0
Power	-	2.5	1.3	3.8
Risk Contingency[3]	0.8	5.6	10.5	16.9
Signalling	1.9	4.1	5.8	11.8

[3] The risk contingency will be allocated to individual projects once they are further developed

Stations	-	1.0	0.8	1.8
Ticketing & Gating	-	1.0	0.2	1.2
	2021/22 Budget	**2022/23 Budget**	**2023/24 Budget**	**Total**
	£m	**£m**	**£m**	**£m**
Business Applications	0.2	0.5	-	0.7
ICT Infrastructure	1.3	0.4	2.2	3.9
Project Delivery[4]	2.2	5.3	4.8	12.3
	19.2	**40.1**	**43.2**	**102.5**

Fleet Replacement Programme (FRP)

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

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

Table 4: FRP original funding profile

	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 Grant	-	21.6	29.8	44.0	78.6	117.7	43.6	1.5	336.8
Local Contribution	1.1	7.6	16.3	-	-	-	-	-	25.0
Total	**1.1**	**29.2**	**46.1**	**44.0**	**78.6**	**117.7**	**43.6**	**1.5**	**361.8**

2.32 The programme has necessarily evolved since this funding profile was initially agreed, a sizeable amount of which relates to the Covid pandemic, although there are other factors, most notably changes to the delivery milestones for the Depot Construction Contract (DCC). The latest spend profile for grant draw down is being discussed with DfT and is detailed below:

Table 5: FRP revised funding profile

[4] This includes project management resources and other ancillary costs e.g. site supervision, replacement bus services etc

	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 Grant	-	21.6	29.8	59.7	71.2	94.4	45.3	14.8	336.8
Local Contribution	1.5	3.3	16.8	3.4	-	-	-	-	25.0
Total	**1.5**	**24.9**	**46.6**	**63.1**	**71.2**	**94.4**	**45.3**	**14.8**	**361.8**

2.33 Importantly the re-profiling of the delivery programme has not resulted in a delay to the planned delivery of the new train fleet and over the next 36 months, the Manufacture and Supply Agreement (MSA) will progress through detailed design and acceptance of the first train, together with construction and delivery of the next 26 new trains. In addition, the existing depot in Gosforth will be demolished and replaced with a brand-new purpose built and modern facility. The following expenditure is forecast:

Table 6: FRP programme forecast 2021/22 to 2023/24

	2021/22	2022/23	2023/24	Total
	£m	**£m**	**£m**	**£m**
New Train Fleet (MSA)	25.3	48.3	87.4	161.0
Gosforth Depot (DCC)	30.7	15.6	3.2	49.4
Project Delivery	2.0	2.9	3.0	7.9
Risk Contingency	5.1	4.4	0.9	10.4
Total	**63.1**	**71.2**	**94.4**	**228.7**

Other Capital Projects (OCP)

2.34 Other Capital Projects largely feature other external funding that Nexus has secured. The most notable of which is the project to relocate the North Shields Ferry Landing. Nexus will also construct a new car park at Callerton Metro station and deliver a range of digital enhancements at other car parks across the Metro estate, funded by the Transforming Cities Fund.

Table 6: Nexus Other Capital Projects 2021/22 to 2023/24

	2021/22	2022/23	2023/24	Total

	£m	£m	£m	£m
North Shields Ferry Landing Relocation	6.6	-	-	6.6
Other Ferry Infrastructure	0.3	0.2	0.3	0.8
Callerton Car Park	0.9	0.8	-	1.7
Digital Car Park Enhancements	0.5	2.1	-	2.6
Total	**8.3**	**3.1**	**0.3**	**11.7**

Metro Flow (MFL)

2.35 In March 2020 DfT awarded Nexus £95m of Transforming Cities funding for the Metro Flow project, subject to approval of the Final Business Case in Summer 2021. A local contribution of £9m is dependent on DfT approving Metro Rail Grant for 2022/23.

2.36 The MFL project will deliver more capacity, better frequency and more resilience to the existing network via the implementation of dual tracking in South Tyneside and the procurement of four additional trains. It is envisaged that this project will increase patronage, reduce emissions and improve journey times.

2.37 Procurement of the main contracted works is underway. Appointment of the preferred contractor will help further define the required funding profile. At this stage, the expected profile for the project to completion is illustrated below:

Table 7: MFL profile 2021/22 to 2023/24

	2021/22	2022/23	2023/24	Total
	£m	£m	£m	£m
Main Construction Contract	3.1	59.7	-	62.8
Additional Trains	-	20.6	-	20.6
Project Delivery	3.2	5.7	0.6	9.5
Risk Contingency	1.8	6.5	0.2	8.5
Total	**8.1**	**92.5**	**0.8**	**101.4**

Nexus Capital Programme Funding

2.38 The proposed Capital Programme for 2021/22 to 2023/24 is only funded in part, with the bulk of years 2 and 3 dependent on bids to DfT, whether for Metro Rail Grant or

Transforming Cities funding. Notwithstanding this, the programme funding is summarised in the following table:

Table 8: Nexus Capital Programme Funding 2021/22 to 2023/24

	2021/22	2022/23	2023/24	Total
	£m	£m	£m	£m
MARP	**19.2**	**40.1**	**43.2**	**102.5**
Metro Rail Grant (DfT)[5]	20.0	33.8	38.8	92.6
2021/22 Metro Rail Grant (DfT) b'fwd	(4.0)	-	-	(4.0)
Local Funding	-	2.4	2.1	4.5
LTP Grant	2.2	2.2	2.3	6.7
Highways Challenge Fund	1.0	1.7	-	2.7
FRP	**63.1**	**71.2**	**94.4**	**228.6**
New Fleet Grant (DfT)	59.7	71.2	94.4	225.2
Fleet Local Funding	3.4	-	-	3.4
	2021/22	**2022/23**	**2023/24**	**Total**
	£m	**£m**	**£m**	**£m**
OCP	**8.3**	**3.1**	**0.3**	**11.7**
LTP Grant	0.1	-	-	0.1
Transforming Cities Fund (DfT)	1.4	2.5	-	3.9
Local Funding	1.6	0.6	0.3	2.5
LEP Grant - North Shields Ferry	5.2	-	-	5.2
MFL	**8.1**	**92.5**	**0.8**	**101.4**
Metro Rail Grant (DfT)	-	7.6	0.8	8.4
Transforming Cities Fund (DfT)[6]	8.1	84.9	-	93
Grand Total	**98.6**	**206.9**	**138.7**	**444.2**

[5] Funding for 2022/23 and 2023/24 has not yet been confirmed by DfT

[6] TCF grant for MFL is subject to submission and approval of a full business case in summer 2021.

2.39 Dialogue will continue with DfT in respect of approving a longer-term funding arrangement for MARP. This will allow Nexus to better plan and procure delivery of a complex programme with greater certainty, and the JTC will be updated on progress in this respect.

Tyne Tunnels

2.40 It was anticipated at the time of setting the 2020/21 budget that the works would be fully completed, and the Tyne Pedestrian and Cycle Tunnels would be handed over to the operation of TT2. However, due to contractor delays related to Covid-19 travel restrictions, the new inclined lifts have not yet been completed and put into operation during 2020 as planned.

2.41 Until the lifts are operational the Tunnels cannot be handed back to TT2 and will continue to incur costs if they are to remain open to the public. Costs including on-site security, maintenance contracts, cleaning and utilities are being incurred. There is also further expenditure required on lift parts, engineers and testers to complete the inclined lifts. An update report on the refurbishment and the inclined lift works was provided to JTC Audit Committee in December 2020 and regular updates on the works will be taken to the Tyne and Wear Sub Committee from January 2021 onwards.

Local Transport Plan

2.42 Local Transport Plan (LTP) Integrated Transport Block funding is made available by the DfT to the whole JTC area. This block is allocated between the JTC constituent authorities on a locally agreed basis with an allocation to Nexus (mainly used to provide the match funding needed for the Metro ARP capital programme). The LTP block allocation is also used to contribute to the costs of the Transport Strategy Unit and, in Tyne and Wear, to the Urban Traffic Management and Control (UTMC) centre. Q1 and 2 payments have been made to constituent authorities following receipt of the grant from DfT, and expenditure to the end of December 2020 is £4.686m.

2.43 At the time of writing this report, final confirmation from DfT of the level of Integrated Transport Block grant for 2021/22 has not been received. There are no indications that this will be different from the amount received in 2020/21, which has been at the same level for a number of years. For 2021/22 it is proposed that the apportionment of the grant between constituent authorities be made as set out in the table below. This represents no change to the gross allocation or the TSU topslice, but an increase in the topslice on Tyne and Wear authorities to fund the UTMC, from £0.376m to £0.442m, as set out in a report to the last meeting of the Transport Strategy Board. This is an increase of 18% compared to the figure agreed in 2016, partly due to inflation but mainly arising from the increase in maintenance and hosting costs that are a result of the increase in connected assets from National Productivity Improvement Fund and other transport infrastructure schemes.

Table 9: Allocation of LTP Integrated Transport Block grant 2021/22

	Allocation	Topslice for TSU	Topslice for UTMC	2021/22 Net Allocation
	£m	£m	£m	£m
Durham	2.789	(0.0625)	0.000	2.727
Gateshead	1.328	(0.0625)	(0.079)	1.187
Newcastle	1.650	(0.0625)	(0.115)	1.472
North Tyneside	1.088	(0.0625)	(0.080)	0.946
Northumberland	1.695	(0.0625)	0.000	1.633
South Tyneside	0.843	(0.0625)	(0.059)	0.722
Sunderland	1.606	(0.0625)	(0.109)	1.434
MARP Local Contribution / Public Transport Schemes	2.950	(0.0625)	0.000	2.888
Total	**13.949**	**(0.500)**	**(0.442)**	**13.007**

Active Travel Fund (Capital Elements)

2.40 The region successful secured £2.262m of the Active Travel Fund in July, which was made up of £1.157m capital grant and £1.105 revenue grant. This was for temporary measures to reallocate road space to pedestrians and cyclists in order to make these travel modes safer and more convenient, and will be fully completed this financial year.

2.41 On 7 August 2020 JTC submitted a regional bid requesting £15.678m from tranche 2 of the ATF. This was for further measures to support the reallocation of road space to pedestrians and cyclists, both permanent and temporary. In November 2020 it was announced that the JTC had been awarded £9.049m from Tranche 2, £7.239m capital and £1.810m revenue. Schemes will need to be delivered by constituent local authorities by the end of 2021/22. A report elsewhere on this agenda considers the allocation and programme, in light of the award being less than the bid submitted.

Overall Capital Programme Financing

2.42 Forecast capital expenditure for the 2020/21 year will be financed as follows:

Table 10: Capital Programme Financing 2020/21

	2020/21 Original Budget	**2020/21 Updated (November JTC)**	**2020/21 Revised Forecast**	**Variance – November JTC to January JTC**
	£m	**£m**	**£m**	**£m**
Government Grants	63.897	73.978	77.338	3.360
Earmarked Reserves	17.669	14.257	14.464	0.207
Total Funding	**81.566**	**88.235**	**91.802**	**3.567**

2.43 The 2021/22 capital programme will be financed as follows:

Table 11: Capital Programme Financing 2021/22

	2021/22 Initial Programme Budget
	£m
Government Grants	147.174
Earmarked Reserves	5.500
Total Funding	**152.674**

3. Reasons for the Proposals

3.1 The proposals are presented in this report to enable the Joint Transport Committee to agree its capital programme for 2021/22.

4. Alternative Options Available

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

4.2

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4.3 Option 2 – The North East Joint Transport Committee may not accept the recommendations set out in this report.

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 and presented to the JTC for consideration and approval.

6. Potential Impact on Objectives

6.1 Successful delivery of the various transport schemes and investment proposals outlined in this report will assist the JTC in meeting its objective to maximise the region's opportunities and potential.

7. Financial and Other Resources Implications

7.1 The financial and other resources implications are set out in the main 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 Joint Transport Committee. 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 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 Capital Programme 2021/22 to 2023/24

15. Background Papers

15.1 JTC report 17 November 2020 – Capital Programme Update – (Public Pack)Agenda Document for North East Joint Transport Committee, 17/11/2020 14:30 (northeastca.gov.uk)

JTC report 21 January 2020 – 2020/21 Initial Capital Programme – (Public Pack)Agenda Document for North East Joint Transport Committee, 21/01/2020 14:00 (northeastca.gov.uk)

16. Contact Officers

16.1 Eleanor Goodman, NECA Finance Manager, eleanor.goodman@northeastca.gov.uk, 07546 653402

17. Sign off

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

18. Glossary

DfT – Department for Transport

DARP – Digital Asset Renewal Programme

JTC – Joint Transport Committee

LTP – Local Transport Plan

MARP – Metro Asset Renewal Programme

TCF – Transforming Cities Fund

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TPCT – Tyne Pedestrian and Cycle Tunnel

TSU – Transport Strategy Unit

UTMC – Urban Traffic Management and Control

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Appendix 1 – Nexus Capital Programme 2021/22

	2021/22	2022/23	2023/24	Grand Total
	£m	£m	£m	£m
MARP	**17.070**	**34.816**	**38.363**	**90.248**
Capital Maintenance	**3.998**	**3.798**	**3.998**	**11.794**
Capital Maintenance - Existing fleet and transition.	*3.223*	*3.223*	*3.223*	*9.669*
Infrastructue Vehicle Maintenance (RRV's, wagons, locos etc.)	*0.175*	*0.175*	*0.175*	*0.525*
Plain Line (Heavy Maintenance)	*0.400*	*0.400*	*0.400*	*1.200*
Rail Grinding	*0.200*	*-*	*0.200*	*0.400*
Civils	**1.150**	**5.185**	**0.600**	**6.935**
Bridges - condition and assessment led repairs/painting	*-*	*0.500*	*0.300*	*0.800*
Multi Storey Car Parks refurbishment	*-*	*1.000*	*-*	*1.000*
Reyrolle Underbridge	*-*	*-*	*0.075*	*0.075*
Stoddart Street bridges - repair/waterproofing	*-*	*0.500*	*-*	*0.500*
Structural Assessments - overbridges	*0.050*	*0.050*	*0.025*	*0.125*
Surface Car Parks Refurbishment	*-*	*0.200*	*0.200*	*0.400*
Tanners Bank Underbridge	*1.000*	*1.700*	*-*	*2.700*
Tunnels - repairs and asbestos maintenance	*0.100*	*0.400*	*-*	*0.500*
Bridges - Benton (1114 1115B) (subway demolition)	*-*	*0.275*	*-*	*0.275*
Cullercoats Footbridge	*-*	*0.500*	*-*	*0.500*
FLE drainage	*-*	*0.060*	*-*	*0.060*
Level Crossings	**0.010**	**0.010**	**0.010**	**0.030**
Mechanical and Electrical	**0.430**	**2.282**	**0.245**	**2.957**
Dry risers	*-*	*0.100*	*-*	*0.100*

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	2021/22	2022/23	2023/24	Grand Total
	£m	£m	£m	£m
Escalator handrail & lift re-roping	*-*	*0.075*	*0.075*	*0.150*
Escalators - Haymarket (No. 1&3) 1/2 Life Refurbishment	*0.250*	*-*	*-*	*0.250*
Gas supression	*-*	*0.007*	*0.020*	*0.027*
Lifts - BTN (No. 1-2) 1/2 Life Refurbishment	*-*	*-*	*0.100*	*0.100*
Lifts - Haymarket (No. 1) 1/2 Life Refurbishment	*-*	*0.050*	*-*	*0.050*
Station lighting and small power	*-*	*0.050*	*0.050*	*0.100*
Escalator - Haymarket 2 1/2 Life Refurbishment	*-*	*0.125*	*-*	*0.125*
Escalator - Sunderland 1 1/2 Life Refurbishment	*-*	*0.125*	*-*	*0.125*
Lift - Central (No.1) 1/2 Life Refurbishment	*-*	*0.050*	*-*	*0.050*
Lift Monument (No.1) 1/2 Life Refurbishment	*-*	*0.050*	*-*	*0.050*
Lift Monument (No.3) Replacement	*0.180*	*-*	*-*	*0.180*
Lift Gateshead (No.1) 1/2 Life Refurbishment	*-*	*0.050*	*-*	*0.050*
Lift Chichester (No.1-2) 1/2 Life Refurbishment	*-*	*0.100*	*-*	*0.100*
Lighting inverters	*-*	*0.500*	*-*	*0.500*
Tunnel Lighting	*-*	*1.000*	*-*	*1.000*
Miscellaneous	**-**	**0.250**	**-**	**0.250**
Control Centre Improvements	*-*	*0.250*	*-*	*0.250*
Overhead line	**3.321**	**3.321**	**3.628**	**10.270**
Permanent Way (Plain line)	**3.550**	**2.375**	**8.950**	**14.875**
Plain line - Tynemouth to Northumberland Park	*-*	*0.250*	*0.250*	*0.500*

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	2021/22	2022/23	2023/24	Grand Total
	£m	£m	£m	£m
Plain Line Refurbishment. SGF to Airport (Col)	-	-	6.000	6.000
Plain line Renewal South Gosforth to Airport	-	-	2.500	2.500
Points Heater Controls Replacement	-	0.075	-	0.075
Switches & Crossings - Chillingham Road 3014AB pts (Crosssover)	-	0.050	-	0.050
Switches & Crossings - Monkseaton 2036Bpts (Turnout), 2034 Abpts (Crossover), 2032 AB pts (Crossover)	-	0.800	-	0.800
Vegetation clearance	0.200	0.200	0.200	0.600
Track Works - Tyne Dock	1.850	-	-	1.850
Plain Line Refurbishment South Gosforth to Airport (Christon Road 1020A/B & 1021 pts)	1.500	-	-	1.500
Switches & Crossings - Pelaw Chords 7016/17 pts	-	0.500	-	0.500
Switches & Crossings - Prudhoe Street 6007A/B pts	-	0.500	-	0.500
Plant	**0.390**	**2.490**	**0.140**	**3.020**
Vehicle replacement Programme	0.140	0.140	0.140	0.420
Diesel Shunters Battery Locos (likely to be RRVs)	0.250	2.350	-	2.600
Power	**-**	**2.543**	**1.333**	**3.876**
DC Switch boxes	-	0.333	0.333	0.666
HV/DC troughing fettling	-	1.000	-	1.000
Targeted HV Cabling Replacement	-	0.210	-	0.210
Voltage/harmonics optimisation systems	-	-	1.000	1.000
Traction power mimic replacement (now included in Scada)	-	1.000	-	1.000

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	2021/22	2022/23	2023/24	Grand Total
	£m	£m	£m	£m
Risk Contingency	**0.758**	**5.622**	**10.519**	**16.898**
Signalling	**1.850**	**4.140**	**5.765**	**11.755**
Track inpedance bonds(replace oil filled)	*-*	*0.090*	*0.090*	*0.180*
Cable Degradation relay rooms	*-*	*1.000*	*1.000*	*2.000*
Cable Testing and Replacement	*0.500*	*0.500*	*0.425*	*1.425*
Customer Information System (PID's) & pids to IP	*-*	*0.050*	*1.000*	*1.050*
Ground shunt & Subsidiary Signals	*-*	*0.050*	*-*	*0.050*
Location Rewire	*0.300*	*0.300*	*0.300*	*0.900*
Point Machine Replacement	*-*	*-*	*0.300*	*0.300*
Relay Replacement & relay room equipment	*-*	*0.100*	*0.100*	*0.200*
Relay rooms cooling and lighting at SGF	*-*	*0.030*	*0.080*	*0.110*
SCADA	*0.050*	*0.050*	*2.000*	*2.100*
Track Circuits	*-*	*0.250*	*0.250*	*0.500*
Trainstop replacement (Trackside)	*-*	*0.080*	*0.080*	*0.160*
Treadle Replacement	*-*	*0.040*	*0.040*	*0.080*
Troughing	*-*	*0.100*	*0.100*	*0.200*
Cable degradation - relay rooms	*1.000*	*-*	*-*	*1.000*
LED Signal Replacement	*-*	*1.500*	*-*	*1.500*
Stations	**0.031**	**0.950**	**0.750**	**1.731**
Byker	*-*	*0.450*	*-*	*0.450*
Halt stations JES – SGF	*-*	*-*	*0.100*	*0.100*
Halt Stations MAN – NSH	*-*	*-*	*0.100*	*0.100*
Manors	*-*	*-*	*0.200*	*0.200*
Monkseaton (incl canopy)	*-*	*-*	*0.300*	*0.300*

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	2021/22	2022/23	2023/24	Grand Total
	£m	£m	£m	£m
Simonside	*-*	*-*	*0.050*	*0.050*
Whitley Bay (Canopy)	*-*	*0.500*	*-*	*0.500*
Station Platform Tactile Paving	*0.031*	*-*	*-*	*0.031*
Ticketing and Gating	**-**	**1.000**	**0.200**	**1.200**
Fare Collection Systems	*-*	*1.000*	*-*	*1.000*
Upgrade TVMs, gates/barriers, validators, TOMs	*-*	*-*	*0.200*	*0.200*
Business Applications	**0.233**	**0.475**	**0.025**	**0.733**
Asset Management Software Replacement	*0.075*	*0.175*	*-*	*0.250*
Finance System	*0.058*	*-*	*-*	*0.058*
HR/Payroll	*0.100*	*0.250*	*-*	*0.350*
ArcGis Desktop	*-*	*0.025*	*-*	*0.025*
Finance System upgrades/developments	*-*	*0.025*	*0.025*	*0.050*
ICT Infrastructure	**1.349**	**0.375**	**2.200**	**3.924**
Remote condition monitoring	*-*	*-*	*2.200*	*2.200*
Cycle Lockers	*0.020*	*-*	*-*	*0.020*
Microsoft SQL Server	*0.044*	*0.050*	*-*	*0.094*
Backup & Recovery Solution	*0.300*	*-*	*-*	*0.300*
DMZ Virtual Infrastructure	*0.085*	*-*	*-*	*0.085*
Network Refresh	*0.900*	*-*	*-*	*0.900*
Microsoft Sharepoint	*-*	*0.100*	*-*	*0.100*
Microsoft CRM	*-*	*0.060*	*-*	*0.060*
Paloalto (Firewall)	*-*	*0.165*	*-*	*0.165*
FRP	**63.069**	**71.163**	**94.410**	**228.642**
MSA	25.300	48.299	87.398	160.997
DCC	30.696	15.560	3.165	49.421

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	2021/22	2022/23	2023/24	Grand Total
	£m	**£m**	**£m**	**£m**
Project Delivery	1.997	2.873	2.976	7.845
Risk Allowance	5.077	4.432	0.871	10.380
OCP	**8.252**	**3.098**	**0.317**	**11.667**
TCF	1.382	2.932	-	4.314
Callerton Car Park	*0.876*	*0.825*	*-*	*1.701*
Digital Car Park	*0.506*	*2.107*	*-*	*2.613*
Ferry	**6.847**	**0.166**	**0.317**	**7.330**
Ferry Vessels	*0.090*	*-*	*-*	*0.090*
Ferry Property Repairs	*-*	*-*	*-*	*-*
Ferry North Landing Relocation	*6.569*	*-*	*-*	*6.569*
South Landing works	*0.188*	*0.166*	*0.317*	*0.671*
HCE PAYG Development	0.023	-	-	0.023
MFL	**8.100**	**92.500**	**0.800**	**101.400**
Project Delivery	3.200	5.700	0.600	9.500
Risk Allowance	1.800	6.500	0.200	8.500
Construction Contract	3.100	59.700	-	62.800
Additional Trains	-	20.600	-	20.600
Programme Overhead	**2.152**	**5.305**	**4.810**	**12.267**
Grand Total	**98.643**	**206.882**	**138.700**	**444.224**

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Appendix 2 – North East Combined Authority Treasury Management Strategy 2021/22

Purpose

1 In accordance with statutory guidance and the Authority's Financial Procedure rules, this report presents the 2021/22 position for the proposed Treasury Management Strategy, the Annual Cash Investment Strategy, Prudential Indicators, Minimum Revenue Provision (MRP) Policy and Treasury Management Policy Statement and Practices (which are detailed at Annex 1).

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 NECA 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 NECA risk or cost objectives.

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 report (results incorporated into this report);

iii. An annual review following the end of the year describing the activity compared to the strategy (the 2019/20 outturn was reported to the Leadership Board 28 July 2020 and the detailed accounts on 3 November 2020);

6 This report provides a summary of the following for 2021/22:

- Summary Treasury Position including Mid-Year Update;
- 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.

a) Summary Treasury Position including Mid-Year Update

8 The vast majority of NECA's borrowing relates to historic Tyne and Wear Transport activities, and the financing of the borrowing debt is met from the Tyne and Wear levy and the Tyne Tunnels budgets and is included within the revenue budgets for these areas. Treasury Management arrangements are managed by NECA as the accountable body for the North East Joint Transport Committee (JTC) and approved by the two Combined Authorities.

9 The Authority's debt and investment position is organised to ensure adequate liquidity for revenue and capital activities, security for investments, and to manage risks within all treasury management activities.

10 External interest rates payable in the first nine months of 2020/21 were at the level assumed in the 2020/21 Treasury Management strategy, with a weighted average rate of 4.24%. The majority of borrowing relates to transport activity in Tyne and Wear inherited from the former Tyne and Wear Integrated Transport Authority and the costs of this borrowing are charged to the Tyne and Wear Transport levy budget, the Tyne Tunnels budget and the Nexus budget as appropriate.

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11 The table below shows the movement between the opening and closing level of external loans during 2020/21. External loans were £171.000m at 31 December 2020 which is well within the authorised borrowing limit of £210.000m.

	Actual	Authorised Limit
	£m	£m
Level of external loan principal at 1 April 2020	171.333	210.000
New loans taken out during 2020/21	0.000	
Scheduled repayments during 2020/21	(0.333)	
Early repayment of borrowing during 2020/21	0.000	
Level of external loan principal at 31 December 2020	171.000	210.000

12 The Authority strives to minimise the interest rate risk it faces and maintain stability by seeking to maintain an appropriate debt maturity profile which is shown in the table below.

Loan principal repayable:	**01/04/2020 (actual) £m**	**31/12/2020 (actual) £m**	**31/03/2021 (estimate) £m**
In less than one year	0.666	0.666	0.666
Between one and two years	0.667	0.667	0.667
Between two and five years	2.000	2.000	2.000
Between five and ten years	1.000	0.667	0.333
In more than ten years	167.000	167.000	167.000
Total	**171.333**	**171.000**	**170.667**

13 As the table demonstrates, the profile is weighted heavily towards long-term borrowing. This is because most of the borrowing relates to the New Tyne Crossing project, where long-term borrowing was preferable to provide certainty of payments

to enable accurate financial modelling over the period of the operating concession. As short-term loans have matured, they have not been replaced.

14 At 31 December 2020 the authority had external investments of £20m plus cash balances held in its current account.

15 For 2020/21 the rate of external interest receivable ranged from 0.0% to 1.1% on external investments held for up to 12 months. Investment of cash balances are placed for up to 12 months where possible in order to help secure an increased average rate of return, with increased interest income used to help fund the costs of the Authority.

b) Borrowing Strategy

16 NECA held £171.333m of loans at 31 March 2020. The balance had decreased to £171.000m at 31 December 2020 and is expected to be £170.667m at 31 March 2021, as detailed below:

	31 March 2020	2019/20	31 March 2020	Average	31 March 2021
	Actual Balance	Estimated Movement	Estimated Balance	Interest Rate	Average Life
	£m	£m	£m	%	years
Public Works Loan Board (PWLB)	82.333	(0.667)	81.667	4.08	30
Private Sector	89.000	0	89.000	4.39	47
Total borrowing	**171.333**	**(0.667)**	**170.667**	**4.24**	**39**

17 The Authority'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.

18 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.

19 No new borrowing has been undertaken during 2020/21 to date and none is anticipated for the remainder of the financial year.

20 In November 2020, the Treasury announced a cut in PWLB rates, taking them back to the level they were before the 1 percentage point increase was applied in October 2019. Under the new rules, authorities seeking to borrow from the PWLB will now have to provide a three-year capital plan, confirming they do not intend to borrow primarily for yield at any point over the period or from any source.

21 The Authority is under-borrowed and has the scope to take out more loans should these be required. This would be necessary if reserves fell significantly so that internal funds were unavailable. In light of its £5m under-borrowed position, if interest rates fall sufficiently low, the Authority might consider borrowing to meet its future borrowing requirements. The Authority will continue to work with treasury management advisers to monitor cash flow requirements and long-term interest rates to determine whether taking out further loans is appropriate.

Municipal Bond Agency

22 When the 1% increase in PWLB rates was announced October 2019 the Municipal Bond Agency confirmed that it was still working to be in a position to offer loans to local authorities. The Agency hopes that the borrowing rates offered will be lower than those offered by the PWLB. The Authority may choose to make use of this source of borrowing as and when appropriate, after a full options appraisal.

Policy on Borrowing in Advance of Need

23 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.

24 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

25 As short-term borrowing rates will be considerably 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).

26 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.

c) Other Debt and Long Term Liabilities Plans

27 NECA does not currently have any capital finance liabilities in the form of finance leases.

d) Cash Investment Strategy

28 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.

29 The Authority's cash investment policy is governed by Ministry of Housing, Communities and Local Government (MHCLG) 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.

30 In accordance with the guidance from the MHCLG 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.

31 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

32 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

33 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. 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

34 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.

35 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.

36 Since 1 April 2020, Treasury Management services to NECA have been provided by Durham County Council. Durham County Council have a contract with Link Asset Services as Treasury Management advisers. Link Asset Services' creditworthiness service uses a wider array of information than just primary ratings and by using a risk weighted scoring system, does not give undue weight to only one agency's ratings.

37 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.

38 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.

39 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.

40 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.

41 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

42 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.;

Leadership Board

- 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

43 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-	£15m	1 year
Banks / Building Societies*	A	£15m	1 year
Banks / Building Societies*	A-	£10m	6 months
Banks – part-nationalised*	N/A	£15m	1 year
Banks– Council's banker*	A-	£15m	3 months
DMADF / Treasury Bills	AAA	unlimited	unlimited
Local Authorities	N/A	£10m each	3 years
Investment Type	**Asset Size**	**Money Limit**	**Time Limit**
Building Societies	+£1 billion	£5m	6 months
Investment Type	**Fund Rating**	**Money Limit**	**Time Limit**
Money Market Funds	AAA	£20m total	liquid
Money Market Funds CNAV	AAA	£5m each	liquid
Money Market Funds LVNAV	AAA	£5m each	liquid
Money Market Funds VNAV	AAA	£5m 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

UK Banks – Ring Fencing

44 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.

45 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.

46 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.

e) Non-Treasury Investments

47 Separately from treasury investments, the Authority may also purchase property for investment purposes and also make loans and investments in support of service priorities. Such loans and investments will be subject to the Authority’s normal approval processes for revenue and capital expenditure and need not comply with this Treasury Management Strategy.

48 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.

49 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.

f) Treasury Management Indicators

50 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.

Leadership Board

51 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:

	2020/21 Limit
Upper limit on fixed interest rate exposure	100%
Upper limit on variable interest rate exposure	70%

52 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%

53 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:

	2020/21	2021/22	2022/23
Principal sums invested > 365 days	£75m	£75m	£75m

g) Prudential Indicators

54 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.

55 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.

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56 Capital Expenditure – the table below summarises capital expenditure incurred and planned and how the expenditure was and will be financed:

	2019/20 Actual £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m
Capital Programme	**74.236**	**91.802**	**152.674**	**285.756**	**150.009**
Financed by:					
Capital grants	67.869	77.338	147.174	282.756	147.609
Revenue and reserves	6.367	14.464	5.500	3.000	2.400
Net borrowing financing need for the year	**0.000**	**0.000**	**0.000**	**0.000**	**0.000**

57 Capital Financing Requirement (CFR) – the CFR is a measure of the Authority's underlying borrowing need for a capital purpose.

	2019/20 Actual £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m
Capital Financing Requirement	195.895	192.273	188.657	185.052	181.453
Movement in CFR	3.306	(3.622)	(3.616)	(3.605)	(3.599)
Net borrowing financing need for the year	0.000	0.000	0.000	0.000	0.000
Less MRP/VRP and other financing movements	3.306	(3.622)	(3.616)	(3.605)	(3.599)
Movement in CFR	**3.306**	**(3.622)**	**(3.616)**	**(3.605)**	**(3.599)**

58 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:

Leadership Board

	2019/20 Actual £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m
Debt at 1 April	167.000	171.333	170.667	170.000	169.333
Expected change in debt	4.333	(0.667)	(0.667)	(0.667)	(0.667)
Gross Debt at 31 March	**171.333**	**170.667**	**170.000**	**169.333**	**168.667**
Capital Financing Requirement	195.895	192.273	188.657	185.052	181.453
Under borrowing	**(24.561)**	**(21.606)**	**(18.657)**	**(15.719)**	**(12.786)**

59 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 instrument.

	2019/20 Actual £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m
Operational Boundary	205.000	205.000	205.000	205.000	205.000
Authorised Limit	210.000	210.000	210.000	210.000	210.000

60 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.

	2019/20 Actual %	2020/21 Estimate %	2021/22 Estimate %	2022/23 Estimate %	2023/24 Estimate %
Ratio of financing costs to net revenue stream:					
Tyne and Wear Levy	2.47%	2.34%	2.29%	2.36%	2.33%
Tyne Tunnels Account	23.97%	36.42%	27.32%	27.34%	27.34%

The estimates of financing costs include current commitments and the proposals in the budget report.

h) MRP Policy Statement

Leadership Board

61 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).

62 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.

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

64 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.
- The Authority retains the right to make additional voluntary payments to reduce debt if deemed prudent.

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.

i) 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 Link Asset Services are Durham County Council's treasury management advisers and whilst they provide professional support to the internal treasury management team, under current market rules and the CIPFA Code of Practice, the final decision on treasury matters remains with the Authority. This service is subject to regular review.

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

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Annex 1: Treasury Management Policy Statement and Practices

Treasury Management Policy Statement

The Authority defines its treasury management activities as:

The management of the organisation'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.

The Authority regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the Authority, and any financial instruments entered into to manage these risks.

The Authority acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

Treasury Management Practices

From 1 April 2020, Durham County Council has provided Treasury Management support to NECA under a service level agreement. Accordingly, NECA will adopt the TMPs of Durham County Council to enable this support to be provided to implement its Treasury Management Policies.

TMP1 Risk management

General Statement

The Authority regards a key objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, it will ensure that robust due diligence procedures cover all external investment.

The responsible officer will design, implement and monitor all arrangements for the identification, management and control of treasury management risk, will report at least annually on the adequacy/suitability thereof, and will report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the organisation's objectives in this respect, all in accordance with the procedures set out in TMP6 *Reporting requirements and management information arrangements*.

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The arrangements for the management of identified risks are detailed overleaf.

Credit and Counterparty Risk Management

The Authority regards a key objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, it will ensure that its counterparty lists and limits reflect a prudent attitude towards organisations with whom funds may be deposited, and will limit its investment activities to the instruments, methods and techniques referred to in TMP4 *Approved instruments, methods and techniques.* It also recognises the need to have, and will therefore maintain, a formal counterparty policy in respect of those organisations from which it may borrow, or with whom it may enter into other financing or derivative arrangements.

Liquidity Risk Management

The Authority will ensure it has adequate though not excessive cash resources, borrowing arrangements, overdraft or standby facilities to enable it at all times to have the level of funds available to it which are necessary for the achievement of its business/service objectives. The Authority will only borrow in advance of need where there is a clear business case for doing so and will only do so for the current capital programme or to finance future debt maturities.

Interest Rate Risk Management

The Authority will manage its exposure to fluctuations in interest rates with a view to containing its interest costs, or securing its interest revenues, in accordance with the amounts provided in its budgetary arrangements as amended in accordance with TMP6 Reporting requirements and management information arrangements.

It will achieve this by the prudent use of its approved instruments, methods and techniques, primarily to create stability and certainty of costs and revenues, but at the same time retaining a sufficient degree of flexibility to take advantage of unexpected, potentially advantageous changes in the level or structure of interest rates. This should be the subject to a consideration and, if required, approval of any policy or budgetary implications.

It will ensure that any hedging tools such as derivatives are only used for the management of risk and the prudent management of financial affairs and that the policy for the use of derivatives is clearly detailed in the annual strategy.

Exchange Rate Risk Management

Leadership Board

It will manage its exposure to fluctuations in exchange rates so as to minimise any detrimental impact on its budgeted income/expenditure levels.

Inflation Risk Management

The organisation will keep under review the sensitivity of its treasury assets and liabilities to inflation, and will seek to manage the risk accordingly in the context of the whole organisation's inflation exposures.

Refinancing Risk Management

The Authority will ensure that its borrowing, private financing and partnership arrangements are negotiated, structured and documented, and the maturity profile of the monies so raised are managed, with a view to obtaining offer terms for renewal or refinancing, if required, which are competitive and as favourable to the organisation as can reasonably be achieved in the light of market conditions prevailing at the time.

It will actively manage its relationships with its counterparties in these transactions in such a manner as to secure this objective, and will avoid overreliance on any one source of funding if this might jeopardise achievement of the above.

Legal and Regulatory Risk Management

The Authority will ensure that all of its treasury management activities comply with its statutory powers and regulatory requirements. It will demonstrate such compliance, if required to do so, to all parties with whom it deals in such activities. In framing its credit and counterparty policy under TMP1[1] *credit and counterparty risk management*, it will ensure that there is evidence of counterparties' powers, authority and compliance in respect of the transactions they may effect with the organisation, particularly with regard to duty of care and fees charged.

The Authority recognises that future legislative or regulatory changes may impact on its treasury management activities and, so far as it is reasonably able to do so, will seek to minimise the risk of these impacting adversely on the organisation.

Fraud, Error and Corruption, and Contingency Management

The Authority will ensure that it has identified the circumstances which may expose it to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings. Accordingly, it will employ suitable systems and procedures, and will maintain effective contingency management arrangements, to these ends.

Price Risk Management

Leadership Board

The Authority will seek to ensure that its stated treasury management policies and objectives will not be compromised by adverse market fluctuations in the value of the principal sums it invests, and will accordingly seek to protect itself from the effects of such fluctuations.

TMP2 Performance Measurement

The Authority is committed to the pursuit of value for money in its treasury management activities, and to the use of performance methodology in support of that aim, within the framework set out in its treasury management policy statement.

Accordingly, the treasury management function will be the subject of ongoing analysis of the value it adds in support of the organisation's stated business or service objectives. It will be the subject of regular examination of alternative methods of service delivery, of the availability of fiscal or other grant or subsidy incentives, and of the scope for other potential improvements.

TMP3 Decision Making and Analysis

The Authority will maintain full records of its treasury management decisions, and of the processes and practices applied in reaching those decisions, both for the purposes of learning from the past, and for demonstrating that reasonable steps were taken to ensure that all issues relevant to those decisions were taken into account at the time.

TMP4 Approved Instruments, Methods and Techniques

The Authority will undertake its treasury management activities within the limits and parameters defined in TMP1 *Risk management*.

Where the Authority intends to use derivative instruments for the management of risks, these will be limited to those set out in its annual treasury strategy. The organisation will seek proper advice and will consider that advice when entering into arrangements to use such products to ensure that it fully understands those products.

TMP5 Organisation, Clarity and Segregation of Responsibilities, and Dealing Arrangements

The Authority considers it essential, for the purposes of the effective control and monitoring of its treasury management activities, for the reduction of the risk of fraud or error, and for the pursuit of optimum performance, that these activities are structured and managed in a fully integrated manner, and that there is at all times a clarity of treasury management responsibilities.

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The principle on which this will be based is a clear distinction between those charged with setting treasury management policies and those charged with implementing and controlling these policies, particularly with regard to the execution and transmission of funds, the recording and administering of treasury management decisions, and the audit and review of the treasury management function.

If and when the Authority intends, as a result of lack of resources or other circumstances, to depart from these principles, the responsible officer will ensure that the reasons are properly reported in accordance with TMP6 Reporting requirements and management information arrangements, and the implications properly considered and evaluated.

The responsible officer will ensure that there are clear written statements of the responsibilities for each post engaged in treasury management, and the arrangements for absence cover. The responsible officer will also ensure that at all times those engaged in treasury management will follow the policies and procedures set out.

The responsible officer will ensure there is proper documentation for all deals and transactions, and that procedures exist for the effective transmission of funds.

The delegations to the responsible officer in respect of treasury management are set out in the Authority's constitution. The responsible officer will fulfil all such responsibilities in accordance with the organisation's policy statement and TMPs and, if a CIPFA member, the *Standard of Professional Practice on Treasury Management*.

TMP6 Reporting Requirements and Management Information Arrangements

The Authority will ensure that regular reports are prepared and considered on the implementation of its treasury management policies; on the effects of decisions taken and transactions executed in pursuit of those policies; on the implications of changes, particularly budgetary, resulting from regulatory, economic, market or other factors affecting its treasury management activities; and on the performance of the treasury management function.
As a minimum:

The Leadership Board will receive:

(a) an annual report on the strategy and plan to be pursued in the coming year;

(b) a mid-year review;

(c) an annual report on the performance of the treasury management function, on the effects of the decisions taken and the transactions executed in the past year, and on any circumstances of non-compliance with the organisation's treasury management policy statement and TMPs.

The Leadership Board will receive regular monitoring reports on treasury management activities and risks.

The Audit and Standards committee, will have responsibility for the scrutiny of treasury management policies and practices.

TMP7 Budgeting, Accounting and Audit Arrangements

The responsible officer will prepare, and the Authority will approve and, if necessary, from time to time will amend, an annual budget for treasury management, which will bring together all of the costs involved in running the treasury management function, together with associated income. The matters to be included in the budget will at minimum be those required by statute or regulation, together with such information as will demonstrate compliance with TMP1 *Risk management*, TMP2 *Performance measurement*, and TMP4 *Approved instruments, methods and techniques*. The responsible officer will exercise effective controls over this budget, and will report upon and recommend any changes required in accordance with TMP6 *Reporting requirements and management information arrangements*.

The Authority will account for its treasury management activities, for decisions made and transactions executed, in accordance with appropriate accounting practices and standards, and with statutory and regulatory requirements in force for the time being.

TMP8 Cash and Cash Flow Management

Unless statutory or regulatory requirements demand otherwise, all monies in the hands of the Authority will be under the control of the responsible officer, and will be aggregated for cash flow and investment management purposes. Cash flow projections will be prepared on a regular and timely basis, and the responsible officer will ensure that these are adequate for the purposes of monitoring compliance with TMP1 *Liquidity risk management*.

TMP9 Money Laundering

The Authority is alert to the possibility that it may become the subject of an attempt to involve it in a transaction involving the laundering of money. Accordingly, it will maintain procedures for verifying and recording the identity of counterparties and reporting suspicions, and will ensure that staff involved in this are properly trained.

TMP10 Training and Qualifications

Leadership Board

The Authority recognises the importance of ensuring that all staff involved in the treasury management function are fully equipped to undertake the duties and responsibilities allocated to them. It will therefore seek to appoint individuals who are both capable and experienced and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills. The responsible officer will recommend and implement the necessary arrangements.

The responsible officer will ensure that members tasked with treasury management responsibilities have access to training relevant to their needs and those responsibilities.

Those charged with governance recognise their individual responsibility to ensure that they have the necessary skills to complete their role effectively.

TMP11 Use of External Service Providers

The Authority recognises that responsibility for treasury management decisions remains with the organisation at all times. It recognises that there may be potential value in employing external providers of treasury management services, in order to acquire access to specialist skills and resources. When it employs such service providers, it will ensure it does so for reasons which have been submitted to a full evaluation of the costs and benefits. It will also ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review. And it will ensure, where feasible and necessary, that a spread of service providers is used, to avoid overreliance on one or a small number of companies. Where services are subject to formal tender or re-tender arrangements, legislative requirements will always be observed. The monitoring of such arrangements rests with the responsible officer.

TMP12 Corporate Governance

The Authority is committed to the pursuit of proper corporate governance throughout its businesses and services, and to establishing the principles and practices by which this can be achieved. Accordingly, the treasury management function and its activities will be undertaken with openness and transparency, honesty, integrity and accountability.

The Authority has adopted and has implemented the key principles of the Code. This is considered vital to the achievement of proper corporate governance in treasury management, and the responsible officer will monitor and, if and when necessary, report upon the effectiveness of these arrangements.

Leadership Board

TREASURY MANAGEMENT PRACTICES – DETAILED SCHEDULES

The following schedules have been prepared to support the implementation of the TMPs.

TMP 1 Risk management

TMP 2 Best value and performance measurement

TMP 3 Decision–making and analysis

TMP 4 Approved instruments, methods and techniques

TMP 5 Organisation, clarity and segregation of responsibilities, and dealing arrangements

TMP 6 Reporting requirements and management information arrangements

TMP 7 Budgeting, accounting and audit arrangements

TMP 8 Cash and cash flow management

TMP 9 Money laundering

TMP 10 Training and qualifications

TMP 11 Use of external service providers

TMP 12 Corporate governance

Leadership Board

TMP 1 RISK MANAGEMENT

1.1 CREDIT AND COUNTERPARTY RISK MANAGEMENT

Credit and counterparty risk
The risk of failure by a third party to meet its contractual obligations to the Authority under an investment, borrowing, capital, project or partnership financing, particularly as a result of the third party's diminished creditworthiness, and the resulting detrimental effect on the Authority's capital or current (revenue) resources.

1.1.1 Criteria to be used for creating/managing approved counterparty lists/limits:

(a) Suitable criteria for assessing and monitoring the credit risk of investment counterparties will be formulated and a lending list comprising time, type, sector and specific counterparty limits will be constructed. This criteria will follow the Ministry of Housing, Communities and Local Government (MHCLG) investment guidance issued in February 2018 to cover financial years from 1 April 2018.

(b) The primary criteria used in the selection of counterparties is their credit worthiness. However the authority will also monitor latest market information and reduce the limits imposed on third parties where appropriate.

(c) The Authority's Treasury Management Advisers provide a regular update of all the ratings relevant to the authority as well as any changes to the counterparty credit ratings. This information is also available via their website.

(d) Credit ratings will be used as supplied from one or more of the following credit rating agencies: -

- Fitch Ratings
- Moody's Investors Services
- Standard and Poor's

(e) Counterparty limits will be as set within the annual Treasury Management Strategy reported to Authority.

1.1.2 Credit ratings for individual counterparties can change at any time. The Chief Finance Officer is responsible for applying the stated credit rating criteria in 1.1.1 for selecting approved counterparties, and will add or delete counterparties as appropriate to / from the approved counterparty list when there is a change in the credit ratings of individual counterparties or in banking structures e.g. on mergers or takeovers. This is delegated on a daily basis to the Durham County Council Treasury Management team who provide treasury management support to NECA.

1.1.3 When there is a change in the credit ratings of individual counterparties or in banking structures (e.g. on mergers or takeovers in accordance with the criteria in 1.1.1) the Chief Finance Officer will also adjust lending limits and periods. This is delegated on a daily basis to the Durham County Council Treasury Management team who provide treasury management support to NECA.

1.2 LIQUIDITY RISK MANAGEMENT

Liquidity Risk
The risk that cash will not be available when it is needed, that ineffective management of liquidity creates additional unbudgeted costs, and that the Authority's business/service objectives will be thereby compromised.

1.2.1 **Cash Flow**
NECA finance officers will maintain, on a daily basis, a cash flow projection showing:

(a) all known income and expenditure
(b) all anticipated income and expenditure.

This record will be maintained for a minimum period of 12 months ahead of current date.

1.2.2 Amounts of approved minimum cash balances and short-term investments
The Treasury Management team shall seek to ensure that the balance held in the Authority's main bank accounts at the close of each working day is held at a level in order to maximize the amount of credit interest receivable. Borrowing or lending shall be arranged in order to achieve this aim.

1.2.3 Short-term borrowing facilities
The Authority can access temporary loans through approved brokers on the London money market.

1.2.4 Closure of Offices
When the Authority's offices are closed on a banking day, then provision will be made for expected clearances and receipts. The actual strategy to be adopted will depend on overall liquidity and market conditions at the time and available staff resources. At such times the Treasury Management team undertakes transfers, anticipating cash flow within the Authority's accounts.

1.3 INTEREST RATE RISK MANAGEMENT

Interest rate risk

The risk that fluctuations in the levels of interest rates creates an unexpected or unbudgeted burden on the Authority's finances, against which the Authority has failed to protect itself adequately.

1.3.1 Details of approved interest rate exposure limits

This risk is considered as part of the Treasury Management Strategy Statement approved by Authority in February each year. The Strategy sets interest rate exposure limits in accordance with the requirements of the CIPFA Prudential Code. A variety of Prudential indicators is required to be approved and monitored by Authority. The Authority will have regard to potential fluctuations in interest rates when borrowing or lending surplus cash. Advice will be sought from the Authority's Treasury Management advisers before any non-routine transaction is made.

1.3.2 Maximum proportion of variable rate debt/interest

The requirement to set out a series of Prudential Indicators includes a requirement to set upper limits for exposure to fixed interest rates and variable interest rates.

1.4 EXCHANGE RATE RISK MANAGEMENT

Exchange rate risk

The risk that fluctuations in foreign exchange rates create an unexpected or unbudgeted burden on the Authority's finances, against which the Authority has failed to protect itself adequately.

1.4.1 Approved criteria for managing changes in exchange rate levels

NECA rarely deals with foreign currency so an exposure to exchange rate risk will be minimal. However, as a result of the nature of the Authority's business, the Authority may have an exposure to exchange rate risk from time to time. This will mainly arise from the receipt of income or the incurring of expenditure in a currency other than sterling. Where appropriate the Authority will adopt a hedging strategy to control and add certainty to the sterling value of these transactions. This will mean that the Authority will minimize all foreign exchange exposures as soon as they are identified.

Where there is a contractual obligation to receive income or make a payment in a currency other than sterling at a date in the future, forward foreign exchange transactions will be considered, with professional advice, to comply with this full cover hedging policy. Unexpected receipt of foreign currency income will be converted to sterling at the earliest opportunity unless the Authority has a contractual obligation to make a payment in the same currency at a date in the future. In this instance, the currency may be held on deposit to meet this expenditure commitment, depending on the expected timing of transactions.

1.5 INFLATION RISK MANAGEMENT

Inflation risk
The risk that prevailing levels of inflation cause an unexpected or unbudgeted burden on the Authority's finances, against which the Authority has failed to protect itself adequately.

1.5.1 Details of approved inflation exposure limits for cash investments/debt
During the current period of low and stable worldwide inflation there is little requirement for an active consideration of the impact of inflation. The key consideration is that investments reap the highest real rate of return, with debt costing the lowest real cost, consistent with other risks mentioned within TMP 1 *Risk Management.*

1.5.2 Approved criteria for managing changes in inflation levels
Inflation both current and projected will form part of the debt and investment decision-making criteria both within the strategy and operational considerations.

1.6 <u>REFINANCING RISK MANAGEMENT</u>

Refinancing risk
The risk that maturing borrowings, capital, project or partnership financings cannot be refinanced on terms that reflect the provisions made by the Authority for those refinancings, both capital and current (revenue), and/or that the terms are inconsistent with prevailing market conditions at the time.

1.6.1 Debt/other capital financing maturity profiling, policies and practices
The maturity profile of debt will be monitored and used to minimize any refinancing risk in consultation with the Authority's treasury advisors. Any debt rescheduling is likely to take place when the difference between the refinancing rate and the redemption rate is most advantageous and the situation will be continually monitored. The reasons for any rescheduling to take place will include:

(a) The generation of cash savings at minimum risk;
(b) To reduce the average interest rate;
(c) To enhance the balance of the long term portfolio (amend the maturity profile and /or the balance of volatility)

1.6.2 Projected capital investment requirements
The Authority will prepare forecasts of capital investment needs and resources covering at least a three-year period within the Medium Term Financial Plan (MTFP). This will identify capital financing requirements and therefore the need to borrow to finance the capital programme. The MTFP provides details of the Authority's financial plans covering a three-period and is updated on an annual basis.

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1.6.3 Policy concerning limits on revenue consequences of capital financings
As part of compliance with the CIPFA Prudential Code, the Authority will consider the revenue consequences of any capital scheme to ensure it is affordable, prudent and sustainable.

1.7 LEGAL AND REGULATORY RISK MANAGEMENT

Legal and regulatory risk
The risk that the Authority itself, or a third party with which it is dealing in its treasury management activities, fails to act in accordance with its legal powers or regulatory requirements, and that the Authority suffers losses accordingly.

1.7.1 References to relevant statutes and regulations
The treasury management activities of the Authority shall comply with legal statute and the regulations of the Authority.

1.7.2 Procedures for evidencing the Authority's powers/authorities to counterparties
The Authority will prepare, adopt and maintain, as the cornerstones for effective treasury management:-

(a) A Treasury Management Policy Statement, stating the overriding principles and objectives of its Treasury Management activities.

(b) Treasury Management Practices, setting out the manner in which the Authority will achieve those principles and objectives, and prescribing how it will manage and control those activities.

1.7.3 Required information from counterparties concerning their powers/authorities
Lending shall only be made to counterparties on the authorised list and borrowings will only be undertaken from recognized and reputable counterparties to comply with TMP 9 *Money Laundering*.

Durham County Council (providing support to NECA) hold letters verifying that the approved brokers are regulated by the Financial Services Authority under the provisions of the Financial Services and Markets Act 2000, under which Local Authorities are classified as market counterparties.

Building Societies are members of Building Society Association and are governed by Building Society Act 1986.

Banks are regulated by the Financial Services Authority under the provisions of the Financial Services and Markets Act 2000.

1.7.4 Statement on the Authority's political risks and their management

The Authority recognises that future political, legislative or regulatory changes may impact on its treasury management activities and, so far as it is reasonably able to do so, will seek to minimise the risk of these impacting adversely on the authority.

1.8 <u>FRAUD, ERROR AND CORRUPTION, BUSINESS CONTINUITY AND CONTINGENCY MANAGEMENT ARRANGEMENTS</u>

Fraud, error and corruption, business continuity and contingency risk

The risk that the Authority fails to identify the circumstances in which it may be exposed to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings, and fails to employ suitable systems and procedures to maintain effective business continuity and contingency management arrangements to these ends. It includes the area of risk commonly referred to as operational risk.

1.8.1 Details of systems and procedures to be followed, including internet services

Durham County Council's Treasury Management function is subject to a regular review by the Council's Internal Audit Service. The systems and procedures followed are described below:

Authority:

- The Scheme of Delegation to Officers sets out the appropriate delegated levels. All loans and investments, including PWLB, are negotiated by the Chief Finance Officer or authorized persons.

Occurrence:

- Detailed register of loans and investments is maintained.
- Adequate and effective cash flow forecasting records are maintained to support the decision to lend or borrow.
- Written confirmation is received from the lending or borrowing institution
- All transactions placed through the brokers are confirmed by a broker note, showing details of the loan arranged.

Completeness:

- The loans register is updated to record all lending and borrowing. This includes the date of the transaction and interest rates and covers both Treasury Management loans and others to third parties that are not part of the routine Treasury Management activity.

Measurement:

- The Treasury Management team checks the calculation of repayment of principal and interest notified by the lender or borrower for accuracy.

- The Treasury Management team calculates periodic interest payments of PWLB and other long-term loans. This is used to check the amount paid to these lenders.

Timeliness:
- The Treasury Management team maintains an up to date diary and register that clearly identifies when money borrowed or lent is due to be repaid.

Regularity:
- Lending is only made to institutions on the Approved List or as specifically approved by Cabinet for loans that are outside the usual Treasury Management activity.
- All loans raised and repayments made go directly to and from the institutions bank account.
- Authorisation limits are set for every institution (see 1.1.1).
- A list of named officials authorised to perform loan transactions is maintained.
- There is adequate Fidelity Guarantee insurance cover for employees involved in loans management and accounting.

1.8.2 Contingency planning and business continuity management arrangements
If the Electronic Banking System fails, there is a contingency arrangement in place with the Bank whereby cash balances can be obtained from Lloyds Bank, and the Authority can make CHAP payment instructions (which are normally input directly into the electronic payment system) to Lloyds, via telephone and/or e-mail.

In the event of a business continuity problem, which prevents access to the electronic payment system, the present contingency management arrangements will be invoked.

1.8.3 Insurance cover details
The officers concerned in the treasury management function are covered by appropriate fidelity guarantee insurance.

1.9 MARKET RISK MANAGEMENT

Market risk
The risk that, through adverse market fluctuations in the value of the principal sums invested, the Authority's stated treasury management policies and objectives are compromised, so it has not protected itself adequately against the effects of the fluctuations.

1.9.1 Details of approved procedures and limits for controlling exposure to investments whose capital value may fluctuate (gilts, CDs, etc.)

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The Authority does not normally make investments where the capital value may fluctuate. Investment instruments used by external fund managers are subject to fluctuations in capital and exposure to interest rate risk. The Authority does not currently use external fund managers but will keep the situation under review. In order to minimise the risk of fluctuations in capital value of investments, capital preservation is set as the primary objective.

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TMP 2 BEST VALUE AND PERFORMANCE MEASUREMENT

2.1 METHODOLOGY TO BE APPLIED FOR EVALUATING THE IMPACT OF TREASURY MANAGEMENT DECISIONS

Durham County Council's Treasury Management consultants are required to carry out a health check of the Treasury Management function, who provide support to NECA.

2.2 POLICY CONCERNING METHODS FOR TESTING BEST VALUE IN TREASURY MANAGEMENT

2.2.1 Frequency and processes for tendering

Tenders are normally awarded for a minimum ranging from two to five years. The process for advertising and awarding contracts will be in line with Durham County Council's Contract Standing Orders.

2.2.2 Banking services

Banking services will be reviewed every 5 years to ensure that the level of prices reflect efficiency savings achieved by the supplier and current pricing trends.

2.2.3 Money-broking services

The Authority will use money broking services in order to make deposits or to borrow, and will establish charges for all services prior to using them. An approved list of brokers will be established which takes account of both prices and quality of services. The Chief Finance Officer may add brokers to the list during the year, providing they meet the Authority's standards and requirements.

2.2.4 Consultants'/advisers' services

Durham County Council's policy is to separately appoint professional treasury management consultants and leasing advisory consultants.

2.2.5 Policy on External Managers (Other than relating to Superannuation Funds)

The Authority's current policy is not to use an external investment fund manager to manage a proportion of surplus cash. This will be kept under review.

2.3 METHODS TO BE EMPLOYED FOR MEASURING THE PERFORMANCE OF THE AUTHORITY'S TREASURY MANAGEMENT ACTIVITIES

Performance of the Treasury Management function will be measured against annual Treasury Management Strategy Statement targets and compliance with the CIPFA Code of Treasury Practice.

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Performance will be monitored monthly against approved budgets and internally agreed targets.

2.4 BENCHMARKS AND CALCULATION METHODOLOGY:

2.4.1 Performance will be measured against Annual Treasury Management Strategy targets:

Debt management

Average rate on all external debt
Average maturity of external debt

Investment

The performance of in house investment earnings will be measured against 7 day LIBID, (London Inter-Bank Bid Rate)

.

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TMP 3 DECISION-MAKING AND ANALYSIS

3.1 FUNDING, BORROWING, LENDING, AND NEW INSTRUMENTS /TECHNIQUES:

3.1.1 Records to be kept

(a) Daily cash projections.
(b) Telephone / e-mail rates.
(c) Dealing ticket for all money market transactions.
(d) PWLB loan schedules.
(e) Local bond certificates (if used).
(f) Market bond certificates (if used).
(g) Temporary loan receipts (if used).
(h) Brokers confirmations for deposits/investments.
(i) Contract notes received from fund managers (if used).
(j) Fund managers valuation statements (if used).
(k) Confirmation notes from borrowers.

3.1.2 Processes to be pursued

(a) Cash flow analysis.
(b) Maturity analysis.
(c) Ledger reconciliations
(d) Review of borrowing requirement.
(e) Monitoring of projected loan charges and interest and expenses costs.
(f) Review of opportunities for debt rescheduling.
(g) Collation of performance information.

3.1.3 Issues to be addressed.

3.1.3.1 ***In respect of every decision made the Authority will:***

(a) Above all be clear about the nature and extent of the risks to which the Authority may become exposed.

(b) Be certain about the legality of the decision reached and the nature of the transaction, and that all authorities to proceed have been obtained.

(c) Be content that the documentation is adequate both to deliver the Authority's objectives and protect the Authority's interests, and to deliver good housekeeping

(d) Ensure that third parties are judged satisfactory in the context of the Authority's creditworthiness policies, and that limits have not been exceeded

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(e) Be content that the terms of any transactions have been fully checked against the market, and have been found to be competitive.

3.1.3.2 ***In respect of borrowing and other funding decisions, the Authority will:***

(a) Evaluate the economic and market factors that might influence the manner and timing of any decision to fund.

(b) Consider the merits of alternative forms of funding, including (but not exclusively) funding from revenue, leasing and private partnerships

(c) Consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use

(d) Consider the ongoing revenue liabilities created, and the implications for the Authority's future plans and budgets.

3.1.3.3 ***In respect of investment decisions, the Authority will:***

(a) Consider the optimum period, in the light of cash flow availability and prevailing market conditions.

(b) Consider the alternative investment products and techniques available, especially the implications of using any which may expose the Authority to changes in the value of its capital.

Leadership Board

TMP 4 APPROVED INSTRUMENTS, METHODS AND TECHNIQUES

4.1 APPROVED ACTIVITIES OF THE TREASURY MANAGEMENT OPERATION

(a) Borrowing;
(b) Lending;
(c) Debt repayment and rescheduling;
(d) Consideration, approval and use of new financial instruments and treasury management techniques;
(e) Managing the underlying risk associated with the Authority's capital financing and surplus funds activities;
(f) Managing cash flow;
(g) Banking activities;
(h) Leasing.

4.2 APPROVED INSTRUMENTS FOR INVESTMENTS

All investments will comply with the Authority's Annual Investment Strategy (which takes into account guidance issued by the Secretary of State concerning Local Authority investments). The instruments used will be:

(a) Term deposits with banks and building societies
(b) Term deposits with non-rated subsidiaries of an institution meeting the basic credit criteria
(c) Debt Management Office
(d) Treasury Bills
(e) Term deposits with other Local Authorities and Parish Councils
(f) Money market funds that meet the criteria set in the investment policy
(g) Ultra-Short dated Bond Funds
(h) Property Funds

4.3 APPROVED METHODS AND SOURCES OF RAISING CAPITAL FINANCE

Finance will only be raised in accordance with the Local Government and Housing Act 1989, and within this limit the Authority has a number of approved methods and sources of raising capital finance.

Borrowing will only be undertaken in keeping with the contents of the Prudential Code and within the limits determined through the approved Prudential Indicators and Treasury Management Strategy and, in respect of any long term borrowings, following consultation with the Chief Finance Officer.
All forms of funding will be considered dependent on the prevailing economic climate, regulations and local considerations. The Chief Finance Officer has delegated powers

through this policy and the strategy to take the most appropriate form of borrowing from the approved sources.

Leadership Board

TMP 5 ORGANISATION, CLARITY AND SEGREGATION OF RESPONSIBILITIES, AND DEALING ARRANGEMENTS

INDEX OF SCHEDULES:

5.1 LIMITS TO RESPONSIBILITIES/DISCRETION AT AUTHORITY/DIRECTOR LEVELS

(a) Leadership Board will receive and review reports on treasury management policies, practices and activities, and the annual treasury management strategy.

(b) The Chief Finance Officer will be responsible for amendments to the Authority's adopted clauses, treasury management policy statement and treasury management practices.

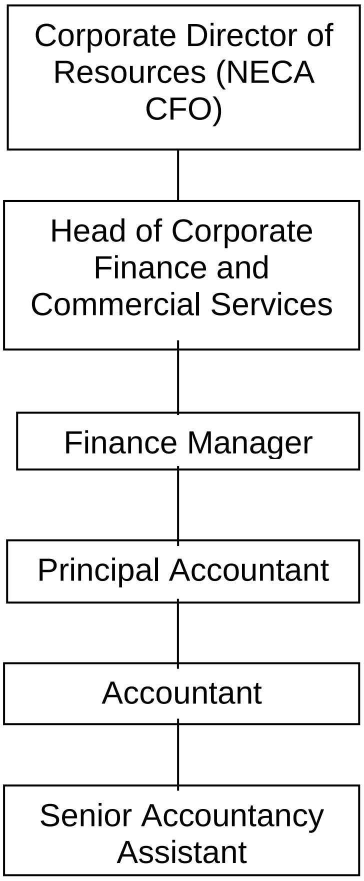
5.2 PRINCIPLES AND PRACTICES CONCERNING SEGREGATION OF DUTIES

Leadership Board

Durham County Council provide Treasury Management support to NECA. In addition, the Corporate Director of Resources has the role of Chief Finance Officer for NECA.

The Corporate Director of Resources will ensure there is always adequate segregation of duties in all transactions.

5.2.1 <u>DURHAM COUNTY COUNCIL TREASURY MANAGEMENT ORGANISATION CHART</u>



5.3 <u>STATEMENT OF DUTIES/RESPONSIBILITIES OF EACH TREASURY POST AND OTHER OFFICERS INVOLVED WITH TREASURY MANAGEMENT</u>

5.3.1 Corporate Director of Resources

(a) The Corporate Director of Resources will:

- Recommend clauses, treasury management policy/practices for approval, reviewing the same regularly and monitor compliance
- Submit Treasury Management reports to NECA Leadership Board

- Authorise and maintain TMPs and Schedules
- Set, submit and monitor budgets
- Review the performance of the treasury management function.
- Ensure the adequacy of treasury management resources and skills and the effective division of responsibilities within the treasury management function
- Ensure the adequacy of internal audit and liaise with external audit
- Recommend the appointment of external service providers and brokers where appropriate.
- Approve and authorise investment deals (within dealing limits – see 5.6)

(b) The Corporate Director of Resources has delegated powers to take the most appropriate form of borrowing from the approved sources and to take the most appropriate form of investments in approved instruments.

(c) Prior to entering into any capital financing, lending or investment transaction, it is the responsibility of The Corporate Director of Resources to be satisfied, by reference to legal and external advisors as appropriate, that the proposed transaction does not breach any statute, external regulation or the Authority's Financial Regulations.

(d) The Corporate Director of Resources may delegate power to borrow and invest to members of staff to conduct all dealing transactions. All transactions must be processed by at least two specified named officers. Alternatively staff can be authorised to act as temporary cover for leave/sickness.

5.4.2 Head of Corporate Finance and Commercial Services

The treasury responsibilities of this post will be to assist the Corporate Director of Resources to:

(a) Formulate the Treasury Management Strategy.
(b) Identify and recommend opportunities for improved practices
(c) Supervise Treasury Management staff
(d) Monitor performance
(e) Review the performance of treasury management functions

5.4.3 Finance Manager

The treasury responsibilities of this post will be to assist the Corporate Director of Resources and the Head of Corporate Finance and Commercial Services to:
(a) Formulate the Treasury Strategy
(b) Produce the Treasury Management reports to Council
(c) Identify and recommend opportunities for improved practices

(d) Supervise Treasury Management staff
(e) Monitor performance
(f) Review the performance of treasury management functions
(g) Implement Treasury Management Strategy
(h) Approve and authorise investment deals (within dealing limits – see 5.6)
(i) Approve Chaps payments/Faster payments according to the limits in the Table of Payment Approval Responsibilities below
(j) Arrange rescheduling or premature repayment of existing borrowings.

5.4.4 Principal Accountant

This post responsibilities to assist the Finance Manager – Commercial Capital Treasury to:

(a) Formulate the Treasury Strategy.
(b) Identify and recommend opportunities for improved practices
(c) Supervise Treasury Management staff
(d) Monitor performance
(e) Review the performance of treasury management functions
(f) Implement Treasury Management Strategy
(g) Approve and authorise investment deals (within dealing limits – see 5.6)
(h) Approve Chaps/Faster payments according to the limits in the Table of Payment Approval Responsibilities below

5.4.5 Accountant

This post has responsibilities to:-

(a) Calculate daily cash balances
(b) Monitor performance and market conditions on a day to day basis and recommend investments
(c) Adhere to agreed policies and procedures on a day to day basis
(d) Enter transmission of monies via Lloyds Banking system
(e) Approve Chaps/Faster payments according to the limits in the Table of Payment Approval Responsibilities below
(f) Select Brokers from approved list
(g) Adhere to agreed policies and practices on a day to day basis
(h) Submit management information reports
(i) Maintain cash flow projections
(j) Record investment deals and obtain third party loan confirmation
(k) Identify and maintain relationships with 3rd parties and external partners
(l) Ensure counter party limits are not exceeded

5.4.6 Senior Accountancy Assistant/Principal Accountancy Assistant

This post has responsibilities to:-

Leadership Board

(a) Calculate daily cash balances
(b) Enter transmission of monies via Lloyds Banking system
(c) Select Brokers from approved list
(d) Adhere to agreed policies and practices on a day to day basis
(e) Submit management information reports
(f) Maintain cash flow projections
(g) Obtain third party loan confirmation
(h) Ensure counter party limits are not exceeded

Table of Payment Approval Responsibilities

Monetary Limit per Investment	Number of Approvers	Level of Approver Required
Up to £100,000	1	Any one of Accountant/Principal Accountant/Finance Manager
£100,000 to £20,000,000	2	Any two of Accountant/Principal Accountant/Finance Manager
£20,000,000 to £30,000,000	2	Any two of Principal Accountant/Finance Manager

5.4 ABSENCE COVER ARRANGEMENTS

The Corporate Director of Resources is responsible for ensuring that adequate arrangements are in place to cover staff absences.

5.6 INVESTMENT DEALING LIMITS

Dealings can be carried out providing that transactions are within limits determined by the Authority and the Chief Finance Officer as detailed in the table below:

Officers	Limits
Corporate Director of Resources and Head of Corporate Finance and Commercial Services	As per limits set within the Treasury Management Strategy
Finance Manager & Principal Accountant	As per limits set within the Treasury Management Strategy for dealings of up to 12 months
Accountant	As per limits set within the Treasury Management Strategy for dealings of up to 12 months, in consultation with Finance Manager or Principal Accountant

5.7 LIST OF APPROVED BROKERS

A list of approved brokers is maintained within the Treasury Management section and a record of all transactions recorded against them.

5.8 POLICY ON BROKERS' SERVICES

It is the Authority's policy to divide business between brokers.

5.9 POLICY ON RECORDING OF CONVERSATIONS

It is not the Authority's Policy to record broker's conversations

5.10 DIRECT DEALING PRACTICES

It is an acceptable practice for the Authority to make direct dealings with suitable counterparties if the use of Brokers does not provide a satisfactory financial arrangement at any time.

5.11 SETTLEMENT TRANSMISSION PROCEDURES

All payments and repayments resulting from the treasury management function will be made via the authority's bank account using the electronic payment facility (with Lloyds Banking system). Only authorised officers can transmit, approve or release payments, protected by appropriate passwords and a card operated pin number. A manual back up facility, agreed with Lloyds Bank, is in place to cover system failure.

5.12 DOCUMENTATION REQUIREMENTS

For each deal undertaken a record should be prepared giving details of amount, period, counterparty, interest rate, dealing date, payment date(s), broker.

5.13 ARRANGEMENTS CONCERNING THE MANAGEMENT OF THIRD-PARTY FUNDS

The authority manages funds under delegated powers for the Office of the Durham Police, Crime and Victims' Commissioner and the Durham County Council Pension Fund. From 1st April 2020 it will also manage funds for the North East Combined Authority.

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TMP 6 REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION ARRANGMENTS

6.1 ANNUAL TREASURY MANAGEMENT STRATEGY

The Treasury Management Strategy sets out the specific expected treasury activities for the forthcoming financial. This strategy will be submitted to the Leadership Board for approval before the commencement of each financial year.

The formulation of the annual treasury management strategy involves determining the appropriate borrowing and investment decisions in the light of the anticipated movement in both fixed and shorter term variable interest rates.

The Treasury management statement is concerned with the following elements:

(a) Summary Treasury Position;
(b) Borrowing Strategy;
(c) Other Debt and Long Term Liability Plans
(d) Cash Investment Strategy;
(e) Non-Treasury Investments
(f) Treasury Management Indicators;
(g) Prudential Indicators;
(h) MRP Policy Statement;
(i) Other Matters

6.2 MID-YEAR REVIEW OF ANNUAL TREASURY MANAGEMENT ACTIVITY

A report will be presented to the the Leadership Board detailing performance for the six months to 30th September against the items reported in the annual strategy. The report will be presented to the Leadership Board at the earliest practicable meeting after the mid-year point.

6.3 ANNUAL PERFORMANCE REPORT

An annual report will be presented to the Leadership Board at the earliest practicable meeting after the end of the financial year, but in any case by the end of September. This report will include the following:

(a) Summary Treasury Position;
(b) Borrowing Activity;
(c) Other Debt and Long Term Liability Activity;
(d) Investment activity;
(e) Treasury Management Indicators;

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(f) Prudential Indicators;

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TMP 7 BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS

7.1 STATUTORY/REGULATORY REQUIREMENTS

The accounts are drawn up in accordance with the Code of Practice on Local Authority Accounting in Great Britain that is recognized by statute as representing proper accounting practices.

7.2 ACCOUNTING PRACTICES AND STANDARDS

Due regard is given to the Statements of Recommended Practice and Accounting Standards as they apply to Local Authorities in Great Britain. The Authority adopts in full the principles set out in:

(a) the CIPFA Code of Practice on Treasury Management in the Public Services;
(b) the CIPFA Prudential Code for Capital Finance in Local Authorities;
(c) the Code of Practice on Local Authority Accounting in the United Kingdom (Statement of Recommended Practice);
(d) Statutory Guidance on Local Authority Investments;
(e) Statutory Guidance on Minimum Revenue Provision and
(f) any other mandatory guidance covering this service area.

7.3 BUDGETING AND ACCOUNTING ARRANGEMENTS

The Finance Manager will prepare an annual budget for treasury management, which will bring together all the expenditure incurred with regard to this activity, as well as the associated income. The Finance Manager will exercise effective controls over this budget, and will report upon and recommend any changes required in accordance with section TMP6 *Reporting Requirements and Management Information Arrangements.*

All transactions for loans, repayments and interest paid and received are recorded to general ledger codes reserved for these purposes.

7.4 LIST OF INFORMATION REQUIREMENTS OF INTERNAL AND/OR EXTERNAL AUDITORS

The Authority will ensure that all those charged with regulatory review, including internal and external auditors, have access to all information and papers supporting the activities of the treasury management function.

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TMP 8 CASH AND CASH FLOW MANAGEMENT

8.1 ARRANGEMENTS FOR PREPARING/SUBMITTING CASH FLOW STATEMENTS

The authority will monitor and complete daily cashflow forecasts for major items of income and expenditure. The annual and monthly cash flow projections are prepared from the previous year's daily cash flow records, adjusted for known changes in levels of income and expenditure and also changes in payments and receipts dates. Additionally, a strategic cashflow forecast will be prepared annually and updated as necessary.

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TMP 9 MONEY LAUNDERING

9.1 PROCEDURES FOR ESTABLISHING IDENTITY/AUTHENTICITY OF LENDERS

The Authority will only accept loans from individuals where the funds are transferred through a United Kingdom domiciled bank account. All other loans are obtained from the PWLB or from authorised institutions under the Financial Services and Markets Act 2000. The Financial Conduct Authority (FCA) is responsible for maintaining a register of authorised institutions. This register can be accessed through their website at https://register.fca.org.uk/

9.2 RECONCILIATION OF DEPOSITS

All deposits are identified and reconciled on a daily basis. The source of each deposit is verified so they can be allocated to the appropriate fund within the main accounting system. Staff will be kept aware of developments in money laundering regulations and will be encouraged to keep abreast of money laundering issues through specific training, publications and the Internet.

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TMP 10 STAFF TRAINING AND QUALIFICATIONS

10.1 DETAILS OF TRAINING ARRANGEMENTS

The Corporate Director of Resources is committed to ensuring that staff engaged in Treasury Management activities are appropriately trained, so they can carry out their duties to the required standards.

Staff employed in the treasury management function will be qualified to the level that is appropriate to their post. All staff will be given appropriate basic training before fulfilling their treasury management duties for the first time and will be expected to undertake continuous training as appropriate to enable them to keep up to date with all aspects of treasury management within their responsibility.

Training courses run by CIPFA and other training providers such as our Treasury Advisors will form the major basis of ongoing staff training. Records will be kept of all courses and seminars attended by staff as part of their annual appraisal. The authority will take all reasonable steps to ensure that staff are adequately trained.

CIPFA members are required to abide by CIPFA's Ethics Standard on Professional Practice (SOPP).

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TMP 11 USE OF EXTERNAL SERVICE PROVIDERS

11.1 DETAILS OF CONTRACTS WITH SERVICE PROVIDERS, INCLUDING BANKERS, BROKERS, CONSULTANTS, ADVISERS

11.1.1 Banking services

(a) Name of supplier of service is Lloyds Bank plc. The branch address is:
19 Market Place
Durham
DH1 3NL

(a) Contract commenced 5th January 2015 and runs for a minimum 5 years, subject to one year's notice, such notice to expire after the minimum period

(b) Cost of service is variable depending on schedule of tariffs and volumes agreed at the beginning of the contract

11.1.2 Money-broking services

Name of suppliers of service:

(a) Martin Brokers (UK) plc
(b) Tradition (UK) Ltd
(c) King and Shaxson
(d) BGC Brokers
(e) Tullett Prebon (Europe) Limited

The Chief Finance Officer may add brokers to the list during the year, providing they meet the Authority's standards and requirements.

No commission is paid by the Authority to any money broker

11.1.3 Consultants/advisers services

(a) Treasury Consultancy Services

Name of supplier of service is Link Asset Services Their address is:
65 Gresham Street
London
EC2V 7NQ

(b) Leasing Consultancy Services.

Name of the supplier of the service is Link Asset Services. Their address is:
65 Gresham Street
London
EC2V 7NQ

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The cost of the service is dependent upon the value of leasing drawdowns which take place throughout the year.

(c) External Fund Managers
There are none at present.

External Fund Managers and other consultancy services may be employed on short term contracts as and when required.

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TMP 12 CORPORATE GOVERNANCE

12.1 LIST OF DOCUMENTS TO BE MADE AVAILABLE FOR PUBLIC INSPECTION

To support the implementation of a robust corporate governance policy, the following documents are available for public inspection:

(a) Treasury Management Practices;
(b) Treasury Management Strategy;
(c) Mid-year Treasury Management Review;
(d) Annual Treasury Management Report;
(e) Annual Statement of Accounts, and
(f) Annual Budget

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Agenda Item 10

Date: **2 February 2021**

Subject: Budget 2021/22 and Medium-Term Financial Strategy

Report of: Chief Finance Officer

Executive Summary

This report provides an updated forecast of outturn against the 2020/21 budgets agreed in February 2020 and presents the NECA revenue budget for 2021/22 and indicative estimates for 2022/23 and 2023/24 for consideration and approval. It also presents the decisions made by the North East Joint Transport Committee (JTC) about the transport revenue budget and the Transport Levies for 2021/22 and recommends that the levies be issued to the constituent authorities in NECA in accordance with the decisions of the JTC.

The updated forecast outturn for 2020/21 is for total expenditure of £265,991 in relation to NECA corporate expenditure and costs relating to the Accountable Body role for the JTC.

In 2021/22 the NECA corporate costs are estimated to be £115,750 and the budget for the JTC Accountable Body role is proposed to be set at £87,190. After estimated investment income of £32,940, the level of contributions from constituent authorities is proposed to set as follows:

- £25,000 from each of the four constituent authorities in NECA to cover NECA corporate costs; and
- £10,000 from the seven local authorities in the JTC area to cover the JTC Accountable Body role

The NECA corporate costs and budgets for the JTC Accountable Body role primarily covers employee and Service Level Agreement (SLA) charges and regular costs such as independent members' allowances, telecoms charges and meeting expenses. The budget will need to be kept under review for any new areas of work that are identified over and above the budget that is agreed and to take account of inflation and other pressures.

The budget proposals contained in this report have been subject to consultation with the NECA Overview and Scrutiny Committee, NECA Audit and Standards Committee and relevant officer groups.

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Recommendations

The Leadership Board is recommended to:

i. Note the updated position in terms of forecast of outturn for 2020/21;

ii. Unanimously agree a budget for 2021/22 for the corporate costs of NECA of £115,750, with an equal contribution of £25,000 from each of the constituent authorities in NECA to help meet these costs, as set out in section 2.7;

iii. Unanimously agree a budget for 2021/22 in respect of the accountable body role for the JTC in 2021/22 of £87,190, with equal contributions of £10,000 from the seven local authorities in the JTC area to help meet these costs, as set out in section 2.7;

iv. Note the decisions taken on 19 January 2021 by the JTC about the Transport Budget and Levies for 2021/22 as set out in section 2.8-2.11 and in the JTC report attached at Appendix 2, and to issue the following levies in accordance with that decision:

Durham County Council	£15,485,400
Gateshead Council	£10,815,502
South Tyneside Council	£8,081,370
Sunderland City Council	£14,864,859

v. Make arrangements to administer payment of a transport revenue grant of £15,475,400 to Durham County Council for the delivery of transport services in the Durham area and to Nexus for the delivery of transport services in Tyne and Wear of £57,813,000 (which is net of £1,187,000 retained by Transport North East to fund the Metro Futures studies);

vi. Note that the North of Tyne Combined Authority will issue the Transport Levies to Newcastle City Council (£16,209,202), North Tyneside Council (£11,129,066) and Northumberland County Council (£6,328,000) that have been agreed by the JTC and will pass the levy income from Newcastle City Council and North Tyneside Council to NECA in order to meet costs relating to the Tyne and Wear area;

vii. Note that the North of Tyne Combined Authority will issue the Transport Grant to Northumberland County Council (£6,318,000) agreed by the JTC and make a £10,000 contribution to NECA in respect of Northumberland County Council's contribution to the costs of the JTC;

viii. Authorise the Chief Finance Officer and the Monitoring Officer to take such other steps as are necessary to give effect to the proposals in this report;

ix. Note the section on the level of reserves set out in section 2.12 to 2.13; and

x. Approve the Pay Policy Statement at Appendix 3.

1. Background Information

1.1 The arrangements set out in the Order which set up the North of Tyne Combined Authority (NTCA) require decisions about the Transport Revenue Budget and Transport Levies and the Transport Capital Programme to be taken by the North East Joint Transport Committee (JTC). The transport functions and assets still rest with each Combined Authority but can only be exercised or deployed through the decisions of the JTC. Accordingly, the JTC is an integral part of the decision-making in relation to the budget of each Combined Authority.

1.2 The NECA Leadership Board take decisions about the non-transport elements of its budget and incorporate the transport elements decided by the JTC into its budget.

2. Proposals

NECA Corporate Costs

2.1 The NECA budget for corporate costs is required to support operational costs including staffing employed by NECA, Service Level Agreements (SLAs) with constituent local authorities for the provision of support, independent members allowances and expenses and supplies and services costs.

2.2 The report to the Leadership Board on 4 February 2020 set a net NECA Corporate budget for 2020/21 of £192,780 which provided for NECA corporate capacity and to fulfil the JTC Accountable Body role. This was funded from contributions from NECA constituent authorities totalling £91,428 (£22,857 per authority), contributions from JTC constituent authorities totalling £70,000 (£10,000 per authority) and interest income on short term investments.

2.3 A forecast outturn for 2020/21 was presented to the Leadership Board in November 2020. The expenditure forecast included grant funded activity, which augments the contributions from constituent authorities. As previously reported, NECA allocated £95,000 of grant funding received from MHCLG to support the North East Brexit Work Programme, including Trade Facilitation and Free Zone work and a joint coordinating post with the North East LEP and the North of Tyne Combined Authority. £34,000 of the amount allocated was claimed by the LEP at the end of the last financial year, and the remaining £61,000 is included in the updated forecasts for 2020/21. The updated forecast for expenditure to the year-end has increased slightly since the position reported in November as a result of increased external audit fees received for additional work required as part of the audit of the annual accounts. Anticipated interest receipts have reduced slightly as a result of market conditions. There is a small in-year deficit forecast which will be funded from the Corporate Reserve, and the estimated level of this reserve set out in section 2.12 has been updated accordingly.

2.4 ***Table 1: NECA Corporate Budget Forecast Outturn 2020/21***

	NECA Corporate £	**JTC Accountable Body £**	**Total £**
	£	**£**	**£**
Expenditure			
Employees	48,695	11,541	**60,506**
Service Level Agreements	48,350	76,085	**124,435**
Independent Members Allowances	6,000	0	**6,000**
Supplies and Services	11,801	2,350	**14,151**
Other Grant Funded Activity	60,900	0	**60,900**
Total Expenditure	**176,015**	**89,976**	**265,991**
Income			
NECA Corporate Contributions	(91,428)	0	**(91,428)**
JTC Accountable Body Contributions	0	(70,000)	**(70,000)**
Government Grants	(60,900)	0	**(60,900)**
Interest Income	(15,000)	(15,000)	**(30,000)**
Total Income	**(167,328)**	**(85,000)**	**(252,328)**
In-year deficit to be funded from Corporate Reserve	**8,687**	**4,976**	**13,663**

2.5 The budget agreed in February 2020 also set out initial proposals for years 2 and 3 of the Medium-Term Financial Plan for NECA, which included a small increase in contributions to keep pace with increases in staff costs due to pay awards, and SLAs (which are also largely driven by staff costs). As reported to the Leadership Board in November 2020 in the draft budget proposals, an initial budget of £201,520 is proposed which will be met from NECA Corporate Contributions totalling £100,000 (£25,000 per authority – representing an increase of £2,143 per authority) and JTC Accountable Body contributions totalling £70,000 plus interest income on short term investments. This is the first time that an increase has been recommended for the NECA corporate contributions since the establishment of NECA in 2014.

2021/22 and Future Years

2.6 The table below summarises the proposed budget and funding for 2021/22. Indicative figures for the medium-term period of 2022/23 and 2023/24 are set out in Appendix 1 for information.

2.7 ***Table 2: NECA Corporate Budget 2021/22***

	NECA Corporate £	**JTC Accountable Body £**	**Total £**
	£	**£**	**£**
Expenditure			
Employees	49,815	11,790	**61,605**
Service Level Agreements	53,000	75,400	**128,400**
Independent Members Allowances	7,000	0	**7,000**
Supplies and Services	5,935	0	**5,935**
Total Expenditure	**115,750**	**87,190**	**202,940**
Income			
NECA Corporate Contributions	(100,000)	0	**(100,000)**
JTC Accountable Body Contributions	0	(70,000)	**(70,000)**
Interest Income	(15,750)	(17,190)	**(32,940)**
Total Income	**(115,750)**	**(87,190)**	**(202,940)**
Net	**0**	**0**	**0**

Transport Budgets

2.8 A copy of the report to the JTC meeting on 19 January 2021 setting out detailed proposals for transport budgets is attached as Appendix 2. This includes the

Transport Levies, the Transport Strategy Unit budget and the budgets in relation to the Tyne Tunnels.

2.9 The budget proposals were agreed unanimously by the JTC at its meeting on 19 January 2021. NECA must agree to issue the levies agreed by the JTC to its constituent authorities and, in its role as Accountable Body for the JTC, make arrangements for the payment of the Transport Grants to Durham County Council and Nexus for the delivery of public transport services in Durham and Tyne and Wear on behalf of the JTC. The North of Tyne Combined Authority will issue the Transport Levies to Newcastle City Council, North Tyneside Council and Northumberland County Council and will pass the levy income from Newcastle City Council and North Tyneside Council to NECA in order to meet costs relating to the Tyne and Wear area. The North of Tyne Combined Authority will issue the Transport Grant to Northumberland County Council and make a £10,000 contribution to NECA in respect of Northumberland County Council's contribution to the central costs of the JTC. The levies to be issued by NECA and grants to be paid by NECA are as set out in the tables below:

2.10 ***Table 3: NECA Area Transport Levies 2021/22***

Constituent Authority	**2020/21 Transport Levy**
Durham County Council	15,485,400
Gateshead Council	10,815,502
South Tyneside Council	8,081,370
Sunderland City Council	14,864,859

2.11 ***Table 4: Durham and Nexus Transport Grants 2021/22***

Delivery Body	**2021/22 Transport Grant**
Durham County Council	15,475,400
Nexus	57,813,000

Reserves and Contingencies

2.12 The corporate reserve of NECA was originally set at £350,000 which was created by a contribution of £50,000 from each local authority on the establishment of NECA in 2014. This is forecast to be approximately £220,000 at 31 March 2021, following redistribution of an element of the corporate reserve back to NTCA authorities as previously reported to the Leadership Board. Based on current plans of activity this is considered a prudent but minimum level of reserves to hold to mitigate against unforeseen financial risks which may arise specifically in relation to this area of the budget.

2.13 It should be noted that separate reserves are held for Transport activity (including Nexus and the Tyne Tunnels), and decisions on the use of these reserves will be taken by the Joint Transport Committee. The report to the JTC on 19 January 2021, attached at Appendix 2, includes details of the reserves held for Transport activity.

Pay Policy

2.14 The Localism Act 2011 requires the authority to prepare and publish a pay policy statement annually which sets out the authority's policy relating to the remuneration of its Chief Officers and how this compares with the policy on the remuneration of its lowest paid employees. The policy must be published by the end of March for each subsequent year, although it can be amended by a resolution of the Leadership Board during the year.

2.15 Additionally, the Act requires that in relation to Chief Officers the policy must set out the authority's arrangements relating to:

a) The level and elements of remuneration for each Chief Officer;
b) Remuneration of Chief Officers on recruitment;
c) Increases and additions to remuneration for each Chief Officer;
d) The use of performance-related pay for Chief Officers;
e) The use of bonuses for Chief Officers;
f) The approach to the payment of Chief Officers on their ceasing to hold office under or to be employed by the authority;
g) The publication of and access to information relating to the remuneration of Chief Officers.

The NECA Pay Policy Statement is set out at Appendix 3 for the consideration of the Leadership Board and outlines the details for the authority in line with the above requirement.

3. Reasons for the Proposals

3.1 NECA must agree its budgets before the start of the financial year. The two Combined Authorities in the JTC area are required to set the Transport Levies before

15 February 2021 to enable their constituent councils to take the levies and other contributions into account in setting their own budgets.

4. Alternative Options Available

4.1 Option 1: agree the proposals as set out in the report.

Option 2: suggest amendments or alternative budget proposals to be agreed.

Option 1 is the recommended option.

5. Next Steps and Timetable for Implementation

5.1 Letters confirming the Transport levies and dates for payment will be issued to NECA constituent authorities in February 2021. The revenue budget will be monitored and reported to the Leadership Board during the financial year.

6. Potential Impact on Objectives

6.1 The budget and medium-term financial strategy will be prepared to reflect the objectives of the Authority. Future reports will set out the revenue and capital budget proposals in detail that will help deliver the objectives of the Authority.

7. Financial and Other Resources Implications

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

8. Legal Implications

8.1 The budget must be approved unanimously in accordance with the requirements of the NECA Order and the NECA Constitution.

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.

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.

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12. Consultation/Engagement

12.1 The NECA Constitution requires that consultation on budget proposals be undertaken at least two months prior to the budget being agreed. The draft proposals were subject to consultation with the Leadership Board, Overview and Scrutiny Committee, Audit and Standards Committee and officer groups and the final proposals are in line with those. In its accountable body role for the JTC, Transport proposals were also subject to consultation with the JTC Overview and Scrutiny Committee, JTC Audit Committee, the JTC Tyne and Wear Sub Committee and constituent councils. Comments raised as part of the consultation process have been taken into account in the preparation of the final report. There were no comments made with regards to the NECA corporate budget proposals and the comments relating to Transport activity are disclosed in the report to the JTC on 19 January 2021 attached at Appendix 2.

13. Other Impact of the Proposals

13.1 There are no other impacts arising from these proposals.

14. Appendices

14.1 Appendix 1 – Summary of NECA Corporate Budgets 2021/22-2023/24

Appendix 2 – Copy of Transport Revenue Budgets report to North East Joint Transport Committee 19 January 2021

Appendix 3 – NECA Pay Policy 2021/22

15. Background Papers

15.1 Report to Leadership Board 4 February 2020 – Budget 2020/21 Leadership-Board-4-February-2020-Public-Agenda-Pack.pdf (northeastca.gov.uk)

Report to Leadership Board 3 November 2020 – Draft Budget Proposals Leadership-Board-3-November-2020-Public-Agenda-Pack-1.pdf (northeastca.gov.uk)

16. Contact Officers

16.1 Eleanor Goodman, NECA Finance Manager, Eleanor.goodman@northeastca.gov.uk, 07546 653402

17. Sign Off

17.1
- Head of Paid Service: ✓

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- Monitoring Officer: ✓
- Chief Finance Officer: ✓

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Appendix 1 – NECA Corporate and JTC Accountable Body Budget Proposals 2021/22-2023/24

	2021/22			2022/23			2023/24		
	NECA Corporate	**JTC Accountable Body**	**Total**	**NECA Corporate**	**JTC Accountable Body**	**Total**	**NECA Corporate**	**JTC Accountable Body**	**Total**
Expenditure									
Employees	49,815	11,790	**61,605**	49,815	11,790	**61,605**	49,815	11,790	**61,605**
Service Level Agreements	53,000	75,400	**128,400**	54,065	76,915	**130,980**	54,605	77,685	**132,290**
Independent Members Allowances	7,000	0	**7,000**	7,000	0	**7,000**	7,000	0	**7,000**
Supplies and Services	5,935	0	**5,935**	5,970	0	**5,970**	5,980	0	**5,980**
Total Expenditure	**115,750**	**87,190**	**202,940**	**116,850**	**88,705**	**205,555**	**117,400**	**89,475**	**206,875**
Income									
NECA Corporate Contributions	(100,000)	0	**(100,000)**	(100,000)	0	**(100,000)**	(100,000)	0	**(100,000)**
JTC Accountable Body Contributions	0	(70,000)	**(70,000)**	0	(70,000)	**(70,000)**	0	(70,000)	**(70,000)**
Interest Income	(15,750)	(17,190)	**(32,940)**	(16,850)	(18,705)	**(35,555)**	(17,400)	(19,475)	**(36,875)**
Total Income	**(115,750)**	**(87,190)**	**(202,940)**	**(116,850)**	**(88,705)**	**(205,555)**	**(117,400)**	**(89,475)**	**(206,875)**

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Net (to)/from Corporate Reserve	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**

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Appendix 2

Appendix 2 – North East Joint Transport Committee Report 19 January 2021

Date:	**19 January 2021**
Subject:	**Transport Budget and Levies 2021/22**
Report of:	**Chief Finance Officer**

Executive Summary

This report sets out the 2021/22 Transport Revenue 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 2020.

The two Combined Authorities in the JTC area are required to set the Transport Levies before 15 February 2021 to enable their constituent councils to take the levies and other contributions into account in setting their own budgets. The two Combined Authorities will formally consider issuing the levies that are agreed by the JTC at their meetings on 2 February (NECA) and 26 January (NTCA).

The report provides an update on the Revenue Budget outturn for 2020/21 and sets out the revenue resources planned to be used in 2021/22 to deliver the objectives of the JTC. A separate report on this agenda sets out the 2021/22 Transport Capital Programme and provides an update on the delivery of the 2020/21 Transport Capital Programme.

The proposed budget and levy for public passenger transport activity in County Durham is £15.467m for 2021/22, of which £15.457m 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 2020/21 of £15.466m, of which £15.456m was payable as transport grant.

The proposed budget and levy for public transport activity in Northumberland is £6.328m for 2021/22, of which £6.318m 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 of £6.234m for 2020/21, of which £6.224m was payable as transport grant.

The proposed budget and levy for public transport activity in Tyne and Wear is £61.100m for 2021/22, of which £57.813m will be payable as a grant to Nexus. This represents a year on year cash freeze in the levy compared with 2020/21. As in previous years, £2.120m of the levy will be retained and used to help fund central costs of the JTC, primarily relating to the former Tyne and Wear Integrated Transport Authority (TWITA) functions. £1.187m will also be retained as a contribution from Nexus towards the Metro Futures Planning Studies budget. A one-off £1.2m levy rebate (the equivalent of a 2% levy reduction), funded from reserves will be shared by the five Tyne and Wear Councils to partially offset the cost of the levy in 2021/22.

The gross expenditure budget for the Transport Strategy Unit is £2.660m in 2021/22, funded through a range of sources, including a contribution from the Local Transport Plan Integrated Transport Block grant of £500,000 (equating to £62,500 for each of the seven local authorities and Nexus), contribution from Transforming Cities Fund (TCF) grant to meet programme management costs relating to the TCF programme, a contribution from the Retained Levy Budget and other specific revenue grants received from central government. There is a proposed use of JTC reserves to fund the Bus Covid Recovery Project and additional work on the Transport Plan.

The Tyne Tunnels revenue account forecast for 2020/21 is a breakeven position and factors in the financial framework agreed by the JTC at its meeting on 15 September 2020 in support of the introduction of the Tyne Pass scheme, which includes a payment of £6.7m to TT2 to be repaid with interest over the life of the concession, to 2037. The budget estimates for 2021/22 have been prepared on the basis that increases in the Retail Price Index (RPI) measure of inflation will trigger an increase in the toll for Class 2 vehicles (Cars). This is a decision for the Tyne and Wear Sub Committee, who will be recommended to agree the increase at their meeting on 14 January 2021.

Recommendations

The North East Joint Transport Committee is recommended to receive this report for consideration and, taking into account the comments from consultation, to:

i) Note the position of the Transport budget in 2020/21 and approve the revised estimates for the year;

ii) Agree a Transport net revenue budget for 2021/22 of £82.895m, as set out in section 2.5 of this report;

iii) Agree the following Transport Levies for 2021/22:
   a. Durham County Council £15.467m
   b. Northumberland County Council £6.328m
   c. Tyne and Wear councils (detailed in Table 6) £61.100m

iv) Agree a transport revenue grant to Durham County Council for the delivery of transport services of £15.457m, as outlined in section 2.8;

v) Agree a transport revenue grant to Northumberland County Council for the delivery of transport services of £6.318m, as outlined in section 2.10;

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vi) Agree a transport revenue grant to Nexus for the delivery of transport services in Tyne and Wear of £57.813m (a temporary reduction from £59.000m to facilitate the transfer to Transport Strategy Unit of £1.187m budget for Metro Futures Planning Studies) as outlined in section 2.12, noting that £3.3m of this will be used to fund Metro operations;

vii) Agree the payment of a one-off £1.2m levy rebate to the five Tyne and Wear Councils, funded from reserves, to be distributed on the basis of population (detailed in Table 6 at section 2.13);

viii) Agree that Nexus' 2021/22 budget for concessionary fares reimbursement will be held at 2020/21 levels, with Nexus continuing to place reliance on Cabinet Office guidance to reimburse commercial bus operators at such levels, pending further guidance from central government and/or a direction from the JTC to reimburse on a different basis;

ix) Note that a fare increase for Metro and the Ferry service of RPI is included in Nexus' budget estimates, pending agreement from the Tyne and Wear Sub-Committee;

x) Note the planning assumption in Nexus' budget that agreement will be reached with DfT for Covid support of £21.9m over the full year to cover lost fare and commercial income;

xi) Approve the budget for the Tyne Tunnels set out in section 2.50, which includes a recommended increase in the Tyne Tunnels tolls for inflation to be considered for approval by the Tyne and Wear Sub Committee on 14 January 2021;

xii) Approve the budget for the Transport Strategy Unit as set out in section 2.37; and

xiii) Agree the forecast level and use of reserves at section 2.53.

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1. Background Information

1.1 The draft budget proposals were presented to this committee for consideration on 26 October 2020 and 17 November 2020 and have been the subject of consultation with officer groups, the JTC Overview and Scrutiny Committee, the Tyne and Wear Sub-Committee (for proposals relating to Tyne and Wear) and the JTC Audit Committee.

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 2021/22, together with indicative forecasts for future years also exemplified for consideration and approval. The report also provides an updated forecast for the current year.

2. Proposals

Transport Revenue Budgets 2020/21 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 As the Transport Levies and revenue grants are normally fixed for the year, there is no change in the Levies payable and minimal change in the Joint Transport Committee revenue budget itself in year.

2.3 Any surplus or deficit against the budgets for the three main delivery agencies (Durham County Council, Northumberland County Council and Nexus) is retained or managed within the reserves of those organisations.

2.4 *Table 1: 2020/21 Transport Levies and Grants:*

	2020/21 Original Budget	2020/21 Forecast Outturn	2020/21 Forecast Variance
	£000	£000	£000
Total Transport Levies			
Grant to Durham	15,466	15,466	0
Grant to Northumberland	6,234	6,234	0
Grant to Nexus	59,000	59,000	0
Retained Transport Levy budget (to meet central costs)	2,120	2,120	0
Net	**82,820**	**82,820**	**0**

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Contribution to/ (from) JTC unearmarked reserves	**0**	**0**	**0**

North East Combined Authority
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Budget and Levy Proposals for 2021/22

2.5 The overall total proposed net revenue budget for transport levies in 2021/22 is £82.895m, as summarised in Table 2 below. This represents a small net increase of £0.095m when compared to 2020/21.

Table 2: Transport Levies 2021/22:

	Levy	Change from 2020/21	Levy per person[1]
	£m	**£m**	**£**
Durham	15.467	0.001	29.18
Northumberland	6.328	0.094	19.63
Tyne and Wear	61.120	0	53.53
Total	**82.915**	**0.095**	

2.6 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 demonstrates why three separate levies are required (it should be noted that only £3.3m of the Tyne and Wear levy is used to fund Metro operations). The following table sets out a summary of the transport net revenue spending planned for 2021/22. Around £55.4m (67%) is planned to be spent on concessionary travel and around £18.6m (22%) on subsidised bus services. It should be noted that these figures do not include the costs of home to school transport for children and young people as these are within the budgets of the relevant local authorities.

Table 3: Summary of the 2021/22 Transport Budget:

	Durham	N'Land	Tyne & Wear	Total
	£000	**£000**	**£000**	**£000**
Statutory Concessionary Travel	11,932	4,902	35,710	52,544
Discretionary Concessionary Travel	0	0	2,894	2,894
Subsidised Bus Services	2,556	1,231	14,833	18,620
Bus Stations/Infrastructure	196	26	2,154	2,376
Public Transport Information	88	25	1,205	1,318
Metro (incl. Discretionary Travel)	0	0	24,103	24,103
Heavy Rail	0	0	260	260
Ferry	0	0	1,278	1,278
Staffing in Durham/Northumberland	685	134	0	819

[1] ONS mid-2019 Population estimates, https://www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/populationestimates/bulletins/annualmidyearpopulationestimates/mid2019

Projected Covid-19 Support	0	0	(21,944)	(21,944)
Funded from Reserves	0	0	(2,680)	(2,680)
Transport Grant	**15,547**	**6,318**	**57,813**	**79,588**
JTC General Transport Costs and former TWITA Costs	10	10	2,100	2,120
Contribution to Metro Futures Planning Studies	0	0	1,187	1,187
Transport Levy	**15,467**	**6,328**	**61,100**	**82,895**

2.7 Durham County Council, Nexus and Northumberland County Council make payments to operators under the Government's English National Concessionary Travel Scheme (ENCTS) which entitles pass holders to free off-peak travel after 9.30 am on local bus services. Patronage using the scheme was significantly reduced due to the introduction of the Government's lockdown policy in response to the Covid-19 outbreak. Transport Authorities continue to reimburse operators at pre pandemic levels to ensure the viability of routes and operators is maintained, in line with the Cabinet Office Procurement Policy Note 02/20 – Supplier Relief due to Covid-19, for at least the period of the outbreak to enable the resumption of socially necessary services afterwards.

Durham

2.8 The budget and levy for public passenger transport activity in County Durham will be set at £15.467m for 2021/22. This compares with a levy for 2020/21 of £15.466m. The budget and levy for 2020/21 and 2021/22 is summarised in the table below.

Table 4: Durham Transport Budget and Levy 2021/22:

	2020/21 Original Budget	2020/21 Forecast	2020/21 Forecast Variance	2021/22 Proposed Budget
	£000	£000	£000	£000
Concessionary Fares	11,932	11,932	0	11,932
Subsidised Services	2,556	2,564	8	2,556
Bus Stations	177	159	(18)	177
Bus Shelters	19	82	63	19
Passenger Transport Information	88	61	(27)	88
Staffing	684	685	1	685
Share of NECA Transport Costs	10	10	0	10
Net Expenditure / Levy	**15,466**	**15,493**	**27**	**15,467**

There is a £27,000 overspend forecast in 2020/21, which will be met by Durham County Council at the year-end. The main reasons for the projected overspend are as follows:

- Bus Stations - £18,000 under budget – this is due to a reduction in payments to third parties;
- Bus Shelters – £63,000 over budget – this is due to additional costs of providing bus shelters; and
- Passenger Transport Information - £27,000 under budget – this is due to a reduction in printing and communications costs

The budget proposals for 2021/22 are largely in line with those for the current year, with no adverse impact on services anticipated in the coming year.

Northumberland

2.9 The latest forecast indicates that the year-end position will be £40k underspent for both Concessionary Fares and Subsidised Bus Services. Following the Covid-19 outbreak the majority of supported services within Northumberland continued to operate, albeit for the most part at a reduced frequency. The Council has continued to pay operators at full contracted prices with the exception of some seasonal services that had been due to commence from 5th April when these services were suspended until the resolution of the Covid-19 crisis or such point when it was deemed fit to resume. Some of these services have now commenced operating. These supported services include instances of services running commercially at popular/peak times, but where support is given to maintain journeys at other times, for example early mornings or late evenings. As described in paragraph 2.7, the Council continues to make Concessionary Travel payments to operators.

2.10 The budget and levy for public transport activity in Northumberland is £6.328m for 2021/22. This compares with a budget of £6.234m for 2020/21. The reason for the small increase is due to an allowance for some inflation. The Council is currently consulting on its 2021/22 budget proposals. The budget and levy for 2020/21 and 2021/22 is summarised in the table below:

Table 5: Northumberland Transport Budget and Levy 2021/22:

	2020/21 Original Budget	**2020/21 Forecast**	**2020/21 Forecast Variance**	**2021/22 Proposed Budget**
	£000	**£000**	**£000**	**£000**
Concessionary Fares	4,811	4,772	(39)	4,902
Subsidised Services	1,230	1,230	0	1,231

Bus Stations	25	24	(1)	26
Passenger Transport Information	25	25	0	25
Staffing	133	133	0	134
Share of NECA Transport Costs	10	10	0	10
Net Expenditure / Levy	**6,234**	**6,194**	**(40)**	**6,328**

Tyne and Wear

2.11 The recommended budget and levy for Tyne and Wear is £61.100m for 2021/22, a year on year cash freeze when compared with 2020/21. A one-off rebate of £1.2m will however be paid to the Tyne and Wear Authorities, to be distributed on the same population basis as the levy. This will be funded from reserves and is set out in Table 6 below.

2.12 The levy for Tyne and Wear includes a centrally retained budget of £2.1m, required to fund Tyne and Wear transport costs (primarily relating to the former Tyne and Wear Integrated Transport Authority). A sum of £1.187m will also be retained in 2021/22 as a contribution to Metro Futures Planning Studies, which will now be coordinated by the Transport Strategy Unit and the grant to Nexus for the provision of public transport services will therefore be £57.813m next year. The reduction in the payment to Nexus is a one off and represents Nexus' commitment to funding Metro Futures Planning Studies as agreed by the JTC in January 2020. Assuming a freeze in the Tyne and Wear transport levy in 2022/23, Nexus' share of the levy will revert back to £59.000m in that year.

2.13 The apportionment of the Tyne and Wear levy between the constituent councils is revised each year to consider the mid-year population estimates. In 2021/22 the split of the levy will be based on the mid-2019 population estimates, as set out in Table 6 below. More detail is provided in Appendix 1.

Table 6: Tyne and Wear Levy Apportionment 2021/22:

Council	2020/21 Levy	2021/22 Levy	Change	Share of Levy Rebate
	£	£	£	£
Gateshead	10,888,379	10,815,502	(72,877)	(212,416)
Newcastle	16,140,834	16,209,202	68,368	(318,348)
North Tyneside	11,075,330	11,129,066	53,736	(218,574)

South Tyneside	8,079,396	8,081,370	1,974	(158,717)
Sunderland	14,916,061	14,864,860	(51,201)	(291,945)
Total	**61,100,000**	**61,100,000**	**0**	**1,200,000**

Nexus Revenue Budget

2.14 Over the past decade, Nexus' main sources of funding have reduced by a net £5m in cash terms, from £136m to £131m (in real terms, this reduction is estimated at around £45m) including a £15.2m reduction in the grant from the Tyne and Wear Levy. Over this time, a range of efficiency savings have been delivered to protect frontline services. At the same time, Nexus has delivered a significant asset renewal programme on the Tyne and Wear Metro to replace key assets. In anticipation of the delivery of the new fleet, Nexus has modernised its train crew agreement and in partnership with Stadler Rail will transform the way in which fleet engineering is carried out. Despite this, Nexus has managed to generate surpluses of £12.2m since 2014, of which £8.5m has been invested in transport infrastructure, with the balance increasing usable reserves and therefore available to support frontline services.

Nexus Forecast 2020/21

2.15 Since the JTC approved Nexus' 2020/21 budget, the Covid-19 pandemic has significantly impacted on the financial position of Nexus. The effect of the nationwide lockdown in March 2020 led to patronage on the Metro immediately declining by around 95%. The nature of Metro's operation is such that many of its costs are fixed and cannot be reduced in the short to medium term. Therefore, during the lockdown period, the system was operating at a loss of approximately £0.9m per week, excluding costs associated with making the system Covid secure, e.g. purchase of additional Personal Protective Equipment (PPE), new signage and deep cleaning of trains and stations. A partial recovery when lockdown restrictions were relaxed saw the scale of these losses reduce but the imposition of local restrictions in late September 2020 and the second national lockdown in early November 2020, followed by Tier 3 restrictions, mean that Metro is currently forecast to only generate between 25% and 30% of pre-Covid revenues in 2020/21.

2.16 As a consequence of Covid, the government introduced a new short-term emergency grant called Light Rail Revenue Restart Grant (LRRRG). This grant covers all of Metro's Covid-related net losses i.e. fare and commercial revenue losses, additional costs associated with combatting the coronavirus pandemic offset by savings from delivering a reduced level of service. The grant provided to Nexus has been paid in five tranches, covering the period 16 March 2020 to 31 March 2021.

2.17 In total, around £39.0m of support has been provided in LRRRG this financial year. This is subject to an audit process and Nexus is also required to develop a recovery plan for DfT aimed at becoming financially sustainable and based on two high level assumptions:

a) LRRRG will be discontinued at some future point; and

b) Metro will likely operate with a reduced level of demand in the medium term.

2.18 The recovery plan will need to respond to the challenges of stimulating demand once a vaccine is rolled out, whilst also reviewing Metro’s cost base in order to identify opportunities for cost reductions. The recovery plan needs to respond to environmental challenges as well.

2.19 Bus services were similarly impacted by the national lockdown, and a government grant called “Coronavirus Bus Services Support Grant (CBSSG)” has been provided to commercial bus operators on a broadly similar basis to the light rail funding. CBSSG was also predicated on an assumption made by government that local transport authorities such as Nexus would continue to make payments for Concessionary Travel and Secured Bus Services at pre-Covid levels, even though those services were not being provided (as demand for them had evaporated).

2.20 A separate bus grant aimed at local authorities to cover lost fare income on secured bus services was implemented at the same time, called “LACBSSG”. In addition, funding has also been made available by the Department of Education (DfE) for school bus services from September 2020 to December 2020[2]. In total, £1.7m has been provided in LACBSSG and DfE funding during this period to Nexus this financial year.

2.21 Nexus has also lost revenue on services it provides outside of Metro and bus e.g. the cross Tyne ferry during 2020/21. Part of these revenue losses will be met by the Ministry of Housing, Communities and Local Government (MHCLG) with £0.125m paid to Nexus for losses sustained to the end of July, with the ability to continue submitting such claims to the end of the current year and into the early part of 2021/22 now confirmed. As a result of additional government support during the current financial year, Nexus is expected to balance its budget in 2020/21.

Nexus Planning for 2021/22: Key Assumptions

LRRRG and LACBSSG

[2] Additional grant funding was recently announced in the CSR covering the early part of 2021, although Nexus’ allocation has yet to be determined

2.22 These grants are assumed to continue throughout 2021/22 on the same basis as 2020/21 and the development of the recovery plan for DfT will help inform this. At this point in time, it is assumed that £20.8m of LRRRG will be required and just over £1.0m of LACBSSG but this is dependent on a range of factors relating to the strength of the recovery, much of which is dependent on the tiered system of lockdown, ongoing social distancing requirements, government messaging about travelling on public transport and the efficacy of vaccination programme expected in 2021.

2.23 In the event that LRRRG and LACBSSG do not fully cover Nexus' net losses in 2021/22, it will be necessary to use reserves as a short-term measure to cover the gap between expenditure and reserves, whilst Nexus and the JTC consider more sustainable solutions.

Service Provision and Use of Reserves

2.24 The budget for 2021/22 has been prepared largely on the same basis as the 2020/21 budget i.e. the same level of service provision and output will be delivered by Nexus. A description of these services is provided in Appendix 2.

2.25 The key planning assumptions underpinning the Nexus budget have been updated as the budget preparation has been progressed. Further to the assumptions built into previous reports the budgets now include the following key assumptions:

a) The budget assumes that agreement will be reached with DfT for Covid support of £21.9m over the full year to cover lost fare and commercial income;

b) Reserves will only be required to fund those services where government support for Covid is not anticipated e.g. the ferry service where reductions in fare revenues are not covered by MHCLG grant. This explains the reduction in the level of reserves now assumed as required to underpin Nexus' budget;

c) The budget for concessionary fares reimbursement will be held at 2020/21 levels, with an assumption that Nexus is able to continue placing reliance on Cabinet Office guidance to reimburse commercial bus operators at such levels, pending further guidance from central government and/or a direction from the JTC to reimburse on a different basis;

d) Headroom exists within the Metro budget to enhance the staffing presence across the Metro network through the deployment of additional Customer Service Advisors. This is likely to be a key tenet of Metro's recovery plan, referred to earlier in this report and will be used to attract customers back to Metro through improving security, protecting revenue and generally enhancing the customer experience;

e) As described earlier in this report, the JTC grant payable to Nexus from the Levy will temporarily reduce by £1.187m in 2021/22, which reflects the transfer of the budget for planning studies relating to Metro and Local Rail extensions which will be managed by the Transport Strategy Unit during 2021/22;

f) The pensions future service contribution is 9.3% (the previous forecast had assumed a voluntary increase to 10.4% in 2021/22 but given the financial pressures Nexus is facing, it has agreed with the Tyne and Wear Pension Fund that this rate can be held at the 2020/21 level); and

g) Of the JTC grant payable to Nexus from the Levy, £3.3m will be used to fund Metro operations.

JTC Grant from the Tyne and Wear Transport Levy

2.26 As previously explained within this report, given the exceptional circumstances surrounding the Covid pandemic and in recognition of exceptional financial pressures faced by the five Tyne and Wear Councils, the JTC is also asked to agree to redirect part of the reserve held by the North East Combined Authority (NECA) on behalf of Nexus in order to provide a one off £1.2m rebate (the equivalent of a 2.0% levy reduction), to the five Tyne and Wear Councils in 2021/22. The grant payable to Nexus by the JTC will also temporarily reduce in 2021/22 to reflect the transfer of the Metro Futures Planning Studies budget commitments.

Metro Rail Grant (MRG)

2.27 MRG comes in the form of revenue and capital grant:

a) MRG revenue is confirmed at £27.1m in 2021/22 which represents a £0.5m increase on 2020/21;

b) MRG capital, used in the financing of Nexus' capital programme[3] which is confirmed at £20.0m in 2021/22; and

c) The Metro budget also includes a release from the capital grant deferred account in 2021/22 of £27.9m to offset depreciation charged to the revenue account in relation to fixed assets used to deliver the Metro service that were previously financed from MRG capital grant.

Bus Services Operators Grant (BSOG) and Rail Admin Grant (RAG)

2.28 Nexus also receives other government grant in the form of BSOG and RAG. In 2020/21, BSOG was assumed to increase by £0.200m and although from a

[3] It is important to note that a sizeable proportion of Nexus' workforce (estimated at 15%) is funded from capital grant. With MRG capital of £20m confirmed for 2021/22, together with other DfT capital grant e.g. for the fleet replacement programme and transforming cities, all posts within Nexus that are reliant on capital grant are funded in 2021/22.

budgetary perspective, this was accommodated in year by an allocation of Better Bus Funding, this funding was provided as a one-off so even though BSOG will standstill in 2021/22, this will effectively mean a £0.200m reduction in Nexus' grant income base. RAG will standstill in 2021/22 at £0.260m.

Nexus Revenue Budget 2021/22

2.29 Nexus' 2021/22 budget is summarised in the table below and in more detail, at Appendix 3 and Appendix 4.

Table 7: Nexus Revenue Budget 2021/22

	Gross Exp	Gross Income [4]	Govt Grant[5]	Net Expenditure
	£m	£m	£m	£m
Concessionary Fares	35.7	(0.0)	-	35.7
Discretionary Concessions	3.2	(0.3)	-	2.9
Metro	110.4	(30.3)	(56.0)	24.1
Ferry	1.7	(0.2)	(0.2)	1.3
Local Rail	0.5	(0.0)	(0.3)	0.2
Bus Services	17.1	(1.4)	(0.9)	14.8
Bus Infrastructure	3.1	(0.5)	(0.4)	2.2
Public Transport Information	1.4	(0.2)	-	1.2
Total	**173.1**	**(32.9)**	**(57.8)**	**82.4**
JTC Grant from Levy				(57.8)
Deficit before Covid Support				**24.6**
Projected Covid Support[6]				(21.9)
Deficit funded from Reserves				**2.7**

The analysis shown in the table highlights the need for the continuation of central government support in response to Covid, particularly in relation to Metro.

2.30 The forecasts for 2022/23 and 2023/24 are set out below:

Table 8: Nexus Forecasts 2022/23 and 2023/24

	2021/22	2022/23	2023/24
	£m	£m	£m

[4] Fare and commercial revenues are assumed to be no more than 60% of pre-Covid levels
[5] Government grant is confirmed funding, before Covid emergency support
[6] Of which LRRRG is assumed at £20.8m, LACBSSG £1.0m, and MHCLG £0.1m, grant total £21.9m

Net Expenditure	**82.4**	**80.7**	**81.3**
JTC Grant from the Levy	(57.8)	(59.0)	(59.0)
Deficit before Covid Support	**24.6**	**21.7**	**22.3**
Projected Covid Support	(21.9)	(19.3)	(19.0)
Deficit funded from Reserves	**2.7**	**2.4**	**3.3**

2.31 The same planning assumptions have been used in compiling the estimate for 2022/23 and 2023/24 in relation to both the cost base and required Covid support, although notwithstanding the huge uncertainties surrounding recovery, fare revenue is shown as growing to 70% of pre-Covid levels in 2022/23 and 75% of pre-Covid levels in 2023/24. This will necessarily need to be reviewed as more about the shape and length of the recovery becomes known.

2.32 Nexus had £15.0m of unearmarked reserves as at 31 March 2020 available to support its medium-term financial forecast. In the event that LRRRG and LACBSSG do not fully cover Nexus' net losses, it will be necessary to use reserves over and above those highlighted in tables 7 and 8 above, as a short-term measure to cover the gap between expenditure and revenues. Given the scale of the net losses across the medium term, it is evident that having to use reserves in this way will be a very short-term solution and will only support the Metro service in particular until a significant amount of its variable cost base can be shed.

Transport Strategy Unit

2.33 The Transport Strategy Unit (TSU) supports the JTC, providing relevant information to support policy choices and to deliver policies at a regional level. The TSU's activities include developing and maintaining:

- The Transport vision and plan;
- The funding plan and bids for external funding;
- Input into the LEP's strategies and plans on transport, and local business organisations;
- A project pipeline and assurance framework;
- Responses to transport consultations and policy-making opportunities by government and other external agencies;
- Input into Transport for the North (TfN)'s pan-Northern policies and plans; and
- Relationships with other authorities (whether local, combined, national or sub-national) with whom the JTC may share a common interest.

2.34 The TSU is funded through contributions from the Transport Levies which are retained to support JTC activity and a top slice of the Local Transport Plan Integrated

Transport Block grant which is awarded to the JTC plus external contributions to fund some specific posts and activities of the TSU. A series of studies looking at the feasibility of various local rail expansion proposals was commenced by Nexus in early 2020. The lead responsibility for these studies has now transferred to Transport North East (TNE), contracts are being novated to facilitate this and the budget established by Nexus is being transferred to TNE to fund completion of this work.

2.35 The original 2020/21 budget made no assumptions about funding to be received from the Transforming Cities Fund Tranche 2. Costs of programme management were built into the successful bid to be met from the grant award, and the forecast for 2020/21 and the budgets for 2021/22 have been updated accordingly.

2.36 In addition to the significant current activity of developing the Transport Plan and related delivery programmes, some other major upcoming policy developments for 2021/22 could potentially include the development of a new bus strategy, the expansion of the Metro and local rail network, developing a model for rail devolution, and growing the programme to increase the uptake of walking and cycling. Further work is required in considering the scope of these developments, with funding packages to be agreed once requirements are clearer. There are also significant funding opportunities for well-developed bids along with a need for strong delivery programme management

2.37 A summary of the forecast position for 2020/21 including the Transforming Cities Fund (TCF) bid resources (which was agreed after the original budget was set in January 2020) and the initial proposed budget for 2021/22 is set out in the table below. Should changes be required as a result of the updated Transport Plan which will set clear priorities for the work of the TSU, this will be the subject of future reports to the JTC.

Table 9: Summary of TSU budget 2021/22:

	2020/21 Original Budget	**2020/21 Forecast**	**2020/21 Forecast Variance**	**2021/22 Proposed Initial Budget**
Gross Expenditure	**£000**	**£000**	**£000**	**£000**
Employee costs - Managing Director Transport North East and TSU	721	684	(37)	758
Transport Plan and Strategy Work	50	108	58	70
TSU Research and Development	120	91	(29)	100

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TSU Travel and Miscellaneous	16	3	(13)	13
TSU IT / Equipment / Accommodation	10	19	9	1
TSU Contingency	10	0	(10)	10
Go Ultra Low – Revenue	0	156	156	0
TCF Tranche 2 Programme Management	0	194	194	361
Covid-19 Grants	0	15,515	15,515	0
Metro Futures Planning Studies	0	0	0	1,187
Bus Covid Recovery Project	0	80	80	160
Total Expenditure	**927**	**16,850**	**15,923**	**2,660**
Gross Income				
LTP funding – TSU	(500)	(500)	0	(500)
LGF funding – TSU	(95)	(56)	39	0
Retained Transport Levy	(129)	(129)	0	(187)
External funding for specific posts	(148)	(168)	(20)	(216)
ERDF grant – Go Ultra Low Revenue	0	(156)	(156)	0
TCF Tranche 2 grant	0	(194)	(194)	(361)
	2020/21 Original Budget	**2020/21 Forecast**	**2020/21 Forecast Variance**	**2021/22 Proposed Initial Budget**
	£000	**£000**	**£000**	**£000**
Covid-19 grants	0	(15,515)	(15,515)	0
Metro Futures Planning Studies (Transport Levy)	0	0	0	(1,187)
Total Income	**(872)**	**(16,718)**	**(15,846)**	**(2,451)**
Net Expenditure to be funded from Reserves[7]	**55**	**132**	**77**	**209**

[7] Further details provided in paragraph 2.53-2.54.

2.38 Forecast expenditure for the Transport Strategy Unit in 2020/21 is estimated to be £16.85m compared with the original budget of £0.9m, primarily as a result of the disbursement of COVID-19 Grants received amounting to £15.5m in relation to:

- Supported Bus Service Funding - £1.5m,
- Emergency Active Travel Funding - £2.9m
- Coronavirus Bus Service Support Grant - £5.2m,
- Travel Demand Management Funding - £0.4m; and
- Additional Dedicated Home to School and College Transport Grant - £5.5m.

These COVID-19 related grants have been or are being passed onto the seven local authorities and Nexus/commercial bus operators (in the case of Home to School and College Transport grant) and have been offset by additional Government Grant Income.

2.39 An increase in the forecast costs in relation to the Transport Plan is reflected in the 2020/21 outturn and the 2021/22 budget as a result of additional work on the Plan requested by the Joint Transport Committee. Go Smarter legacy funds will be used to help fund these additional costs.

A new project, the Bus Covid Recovery project has been included within the revised budget for 2020/21 and the budget for 2021/22, following previous discussions with JTC and a paper to the last meeting of the Transport Strategy Board. Initial funding for this project totalling £0.240m across 2020/21 and 2021/22 will be drawn from the JTC's unallocated reserve to procure the resources necessary to cover the technical and legal work required.

2.40 The staffing budget for 2021/22 includes the cost of a communications officer post for the team which will also provide support to the Transforming Cities team and the Tyne Tunnels contract manager. It also includes the cost of officers currently employed by Nexus working on regional heavy rail activities who will be transferred to NECA and integrated into the wider TSU. The staffing costs, and the cost of a modest planning studies budget, will be met from Rail Admin Grant, received by Nexus each year from the Department for Transport which will be used to reimburse the TSU costs.

Tyne Tunnels

2.41 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.

2.42 The JTC receives all toll income from the vehicle tunnels 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 client costs associated with the management of the contract with the concessionaire.

2.43 The 2020/21 budget included an increase in tolls for Class 3 vehicles to £3.70 in line with inflation as measured by the Retail Price Index (RPI) – a year on year increase of £0.10 (2.6%). This was not implemented until August 2020 due to the Covid-19 pandemic. The delayed implementation of the increase has been factored into the updated forecasts.

2.44 Until mid-March 2020, traffic levels and corresponding tolls income were strong and had seen a marked improvement since the completion of Highways England works at Silverlink. From March 2020, however, the impact of the Covid-19 lockdown took effect and traffic levels fell dramatically during March and April 2020 to approximately 17,000 vehicles per day, just 30% of normal levels and the lowest level of traffic seen during the life of the TT2 contract.

2.45 From May to August traffic gradually increased, reaching 85% of normal levels by mid-September. This recovery was however impacted by local restrictions from mid-September and the second national lockdown in November, where traffic flows were 23% below target. Latest forecasts suggest traffic might not return to expected levels for many months to come, given local restrictions and the continued impact of many employees working from home and therefore fewer vehicle journeys taking place around the region.

2.46 The structure of the project agreement with TT2 means that the JTC retains the first proportion of traffic income per month, with the traffic risk overwhelmingly borne by TT2. This ‘Band 0’ income represents approximately 30% of journeys, so the JTC is expected to receive its full budgeted net income for the year, which will enable all costs to be met.

2.47 At its meeting on 15 September 2020 the JTC approved a financial framework which included an offer to support TT2 in the introduction of the Tyne Pass scheme. This has been factored into the updated forecasts. This framework includes the payment of £6.67m to TT2 from Tyne Tunnel reserves which will be repaid with interest by TT2 over the life of the concession, to 2037.

2.48 The forecast outturn for 2020/21 includes updated forecasts for reduced toll income as a result of reduced traffic and delay in implementing toll increases, offset by reduced payments to TT2 under the contract. An increase is forecasts in the supplies and services budget to reflect the need for additional external engineering advice in relation to the vehicle tunnels and professional advice in relation to the Tyne Pass project during the year.

2.49 The budget for Service Level Agreements (SLAs) has been reviewed following the conclusion of the exercise with all local authorities providing services to NECA and the JTC to more accurately reflect the cost of providing these services. The updated costings reflect the resources currently committed by the local authorities providing support to NECA and the JTC which includes oversight and support to the Tyne Tunnels.

2.50 The updated forecast outturn and budget for 2021/22 is set out below. This assumes the 10p increase in class 2 vehicle tolls is agreed to increase the toll charge to £1.90 and the additional revenue generated is used to make revenue provision for the repayment of debt. This is a year-on-year increase of 5.5% but will be the first time that the class 2 tolls have been increased since May 2019.

Table 10: Tyne Tunnels Budget 2020/21 and 2021/22 and initial forecasts to 2022/23:

	2020/21 Original Budget	**2020/21 Forecast Budget**	**2020/21 Forecast Variance**	**2021/22 Proposed Budget**	**2022/23 Estimate**	**2023/24 Estimate**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Tolls Income[8]	(28,441)	(18,714)	9,727	(30,004)	(30,304)	(30,608)
TT2 Contract	21,653	11,900	(9,753)	21,707	21,924	22,144
TT2 Advance (Tyne Pass)	0	6,670	6,670	0	0	0
Employees	62	69	7	93	93	93
Pensions	53	50	(3)	53	54	55
Premises	0	15	15	21	15	15
Support Services	100	113	13	129	129	129

[8] Toll Income includes an assumed inflation increase in tolls for class 2 vehicles of £0.10 from April 2021.

Supplies & Services	45	42	(3)	95	95	95
Financing Charges	6,816	6,815	(1)	8,196	8,284	8,367
Interest /Other Income	(50)	(50)	0	(50)	(50)	(50)
	2020/21 Original Budget	**2020/21 Forecast Budget**	**2020/21 Forecast Variance**	**2021/22 Proposed Budget**	**2022/23 Estimate**	**2023/24 Estimate**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Repayment from TWITA for temporary use of reserves	(240)	(240)	-0	(240)	(240)	(240)
(Surplus) /Deficit on Tyne Tunnels revenue account	**(2)**	**6,670**	**6,672**	**0**	**0**	**0**

2.51 Financing charges have increased in 2021/22 due to additional minimum revenue provision for the repayment of debt (MRP) being made, in line with the financial model for the New Tyne Crossing. MRP is set on an annuity basis so that the provision was relatively low in the early years of the contract with TT2, increasing in later years in line with anticipated increased traffic levels.

2.52 Tyne Tunnels reserves are held in order to manage risks associated with NECA's ownership of the tunnels, to meet any in-year deficits which may arise on the Tunnels revenue account, to fund capital expenditure relating to the tunnels and to deal with any changes which may arise from changes in accounting treatments. The table below summarises the forecast position against the Tunnels reserves.

Table 11: Tyne Tunnels Reserves:

	2020/21 Original	**2020/21 Forecast**	**2020/21 Variance**	**2021/22 Original**
	£000	**£000**	**£000**	**£000**
Tyne Tunnels Reserves b/f	**(16,763)**	**(17,163)**	**(400)**	**(9,334)**

Deficit (Surplus) on Tyne Tunnels revenue account met from reserves	(2)	6,670	6,672	0
Capital Expenditure funded from Reserves	100	1,007	907	500
NESTI Expenditure funded from Reserves	305	152	(153)	0
Tyne Tunnels Reserves c/f	**(16,360)**	**(9 334)**	**7,026**	**(8,834)**

Expenditure to be funded from reserves relates to costs incurred on the Tyne Pedestrian and Cycle Tunnels. Once the project is fully complete and the inclined lifts have been commissioned, the tunnels will be passed to TT2 to operate, likely to be during the 2021/22 financial year. Until this point, however, costs are being incurred on the completion of the project including 24 hour security, maintenance and cleaning. There is also further expenditure required on lift parts, engineers and testers to complete the inclined lifts.

JTC Reserves

2.53 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 2020 and the forecast position at 31 March 2021 and 31 March 2022 is shown in the table below. Reserves are forecast to reduce as a result of the application of funding held in the Tyne Tunnels reserve to make a payment of £6.67m to TT2 and to finance capital investment. The level of reserves forecast at 31 March 2022 is considered to be prudent in order to manage risk associated with the activities of the JTC, taking into account that separate reserves are held by Nexus.

Table 12: Summary of JTC Reserves to 2022

	Actual 1 April 2020	**Forecast 31 March 2021**	**Forecast 31 March 2022**
	£000	**£000**	**£000**
JTC Unallocated Reserve	757	677	517
Tyne Tunnels	17,163	9,334	8,834
Metro Reinvigoration	9,243	9,243	9,243
Metro Fleet Renewal	10,097	10,097	8,897

Go Smarter Legacy (within Grants Unapplied)	162	112	70
Transport Strategy Unit (within Grants Unapplied)	125	123	116
Total JTC Reserves	**37,547**	**29,586**	**27,677**

2.54 It is recommended that up to £240k of the JTC unallocated reserve is drawn down across 2020/21 and 2021/22 to support the Bus Covid Recovery Project, as described in paragraph 2.39 above, with a forecast profile of £80k in 2020/21 and £160k in 2021/22. This will leave a forecast remaining JTC unallocated reserve of £517k.

3. Reasons for the Proposals

3.1 The proposals are presented in this report to enable the JTC to set its budget for 2022/23.

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 not accept the recommendations set out in the report.

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 2021/22 Transport Levies before the statutory deadline of 15 February.

5. Next Steps and Timetable for Implementation

5.1 The NTCA Cabinet and NECA Leadership Board will issue the transport levies to their constituent authorities on behalf of the Joint Transport Committee, and this will be presented for agreement on 26 January and 2 February 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 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 JTC must approve the transport budget and levies unanimously. The NECA Leadership Board and NTCA Cabinet must agree to issue their transport levies 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.

8.2 Nexus has a legal obligation to balance its budget, including use of reserves. The funding gap identified within this report assumes that agreement will be reached with DfT for Covid support of £21.9m in 2021/22 to cover lost fare and commercial income, with a similar reliance on such funding across the medium term. The vast majority of this support is dependent on Nexus submitting a Recovery Plan for Metro to DfT and HM Treasury. Without this continued grant funding, Nexus will need to review its budget in order to ensure it can comply with legislation.

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 major risk to Nexus' budget is that Covid support of £21.9m is required in 2021/22 to cover lost fare and commercial income, with a similar reliance on such funding across the medium term. This risk is highlighted throughout this report.

10. Equality and Diversity

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

11. Crime and Disorder

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

12. Consultation/Engagement

12.1 The NECA Constitution requires that consultation on budget proposals prepared 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 JTC Overview and Scrutiny Committee, JTC Audit Committee, the Tyne and Wear Sub Committee and constituent councils.

12.2 The JTC Overview and Scrutiny Committee met on 26 October 2020 and 17 December 2020 to consider draft proposals. In considering the report on the Nexus budget and the impact of the Covid-19 pandemic on both the 2020/21 outturn and the Medium Term Financial Plans that had been agreed by JTC in January 2020, news that the continuation of LRRRG had been confirmed was welcomed by members of the committee. It was noted that DfT required Nexus to prepare a recovery plan and that this was to form the basis of discussions between the DfT and HM Treasury with regards to funding for 2021/22 and beyond. Members of the committee welcomed this news also and recognised the importance of continued and enhanced funding from central government as Nexus recovers from the impacts of the pandemic.

12.3 JTC Overview and Scrutiny members recognised that notwithstanding Covid-19 impacts there were structural funding issues within Nexus that needed to be addressed across the medium term and were concerned that the report to the JTC on 20 October had stated that there would be a need for further efficiencies and potentially service cuts to close that gap and seemed to preclude any increase in the levy.

12.4 Members of the committee accepted that the use of reserves to balance the budget could only be considered to be a short term measure, to buy some times whilst a longer term more sustainable solution was found but requested that the JTC and its constituent authorities give consideration to the level of the Tyne and Wear levy as part of these considerations rather than severe reductions in services. This point was reiterated by the committee at its meeting on 17 December. It was noted that this required hard choices to be made but JTC Overview and Scrutiny members were concerned about the potential impacts should cuts of the magnitude modelled by required to the existing service offer.

12.5 Members recognised that current government advice on social distancing and use of public transport was impacting on passenger behaviours and patronage. The advice is counter to the JTC Transport Plan objectives of increasing use of public transport as a more sustainable method of transport. The current government advice and Covid-19 restrictions was having a profound impact on Nexus and there was concern over how long it would take and whether patronage would ever return to pre-Covid levels given the change in working patterns and increased working from home. The Committee were concerned what this might mean for future years, particularly if there is not further government support forthcoming and called on the JTC to better understand what is driving passenger behaviours and to consider what strategies could be adopted to improve engagement with public transport and return to / exceed pre-Covid levels of patronage in the future.

12.6 Finally, members of the JTC Overview and Scrutiny Committee welcomed the lobbying that had been undertaken to date with regards to securing additional government grant support, the continuation of this support and a rebalancing of the funding arrangements for Metro in particular if patronage is lower than pre-Covid levels going forward was seen as essential to secure these services.

12.7 JTC Audit Committee considered the same draft proposals at their meeting on 9 December 2020. The Committee gave thanks to Nexus officers for all the work carried out in protecting jobs and keeping costs down. The point was made that the biggest risk is the uncertainty around continuation of the LRRRG. Government funding has covered Nexus' revenue losses so far but there is concern that the following year's revenue losses will not be covered.

12.8 In terms of the recovery plan, it was noted that patronage is not expected to recover for a long time, as working and travel patterns have changed so much. The economic impact has not been fully felt yet which in turn impacts on the need to travel. In addition, bus operators need to provide financially sustainable services and this will have a direct impact on Nexus, Durham and Northumberland. Committee requested sight of the recovery plan before sign off by the Tyne and Wear Sub Committee. It was also suggested that an informal workshop session be held for all JTC Committee members to give their views and provide extra assurance.

12.9 The point was made that a large portion of the region relies on buses as they have no direct access to the Metro, therefore it was felt that this should be made clear to government when looking at what needs to be subsidised.

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 Services

Appendix 3 – Nexus Summary Revenue Budget Requirement 2021/22

Appendix 4 – Detailed Nexus Revenue Budget 2021/22

15. Background Papers

15.1 Budget Proposals 2021-22 – JTC Report 17 November 2020 https://northeastca.gov.uk/wp-content/uploads/2020/11/2020.11.17-JTC-Public-Agenda-Pack.pdf

16. Contact Officers

North East Combined Authority
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Leadership Board

16.1 Eleanor Goodman, NECA Finance Manager, eleanor.goodman@northeastca.gov.uk, 07546 653402

17. Sign off

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

18. Glossary

CBSSG – Coronavirus Bus Services Support Grant

DfT – Department for Transport

ENCTS – English National Concessionary Travel Scheme

JTC – Joint Transport Committee

LRRRG – Light Rail Revenue Restart Grant

LTP – Local Transport Plan

MHCLG – Ministry of Housing, Communities and Local Government

MRG – Metro Rail Grant

NECA – North East Combined Authority

NTCA – North of Tyne Combined Authority

RPI – Retail Price Index

TCA – Travel Concession Authority

TCF – Transforming Cities Fund

TfN – Transport for the North

TSU – Transport Strategy Unit

TT2 – TT2 Ltd, Tyne Tunnels Concessionaire

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Appendix 1 – Transport Levy Arrangements

Background to Levy Arrangements

Public Transport has traditionally been seen as a county-wide level 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 PTAs. The levying arrangements which specified a population apportionment were set out in the Transport Levying Bodies Regulations 1992, now amended by the Transport Levying Bodies (Amendment) Regulations 2015. 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 MHCLG 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 JTC area, unlike other Combined Authority areas, includes three county areas with very different levels of cost and different levels of 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. Both of these items are reflected in higher grants historically paid to Tyne and Wear authorities within revenue support grant. It was not therefore possible 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, one 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:

Chart 1: JTC Levies per head of population – 2021/22 Proposed Levies

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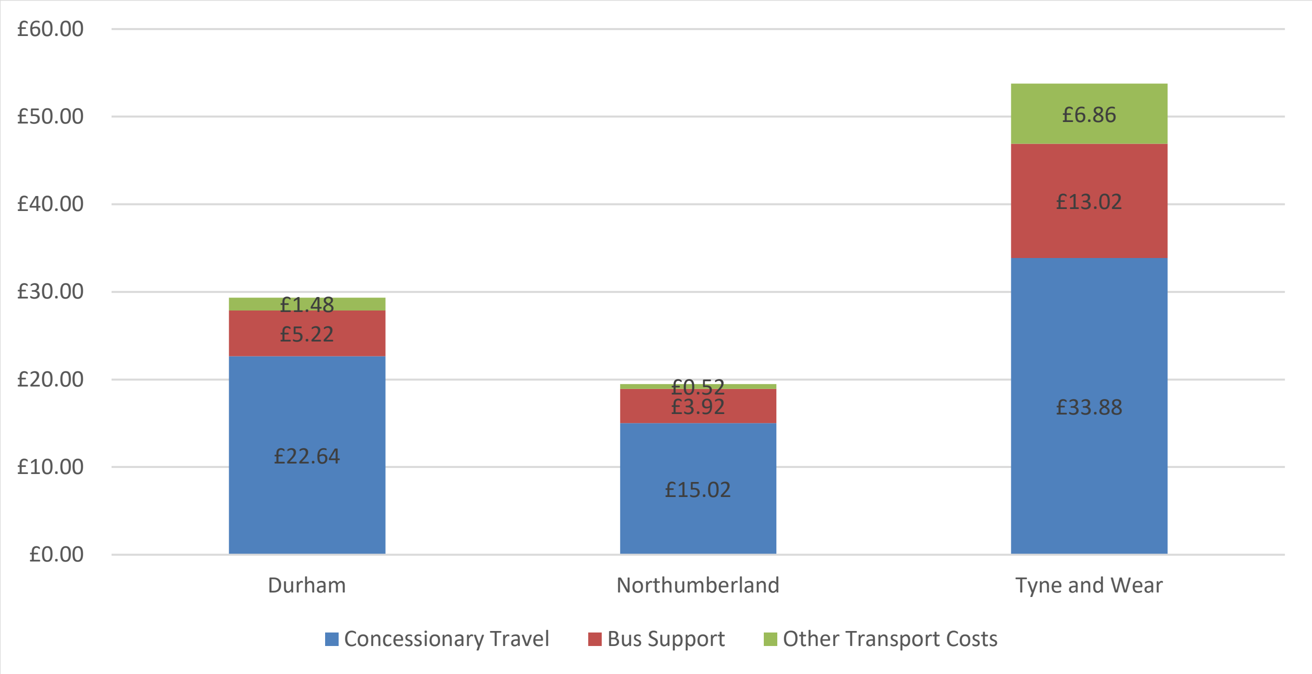

The costs per head of population in Tyne and Wear are higher because they reflect a significantly higher level of concessionary travel activity and the support for secured bus services to provide accessible transport schemes across the county. 'Other' Transport costs also includes capital financing costs relating to transport schemes which are not included in the other levies, together with a small contribution towards the operating costs of the Tyne and Wear Metro, reflecting revenue forgone in the carriage of Gold Card concessionary passholders.

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 2021/22 levy, this is the 2019 Mid-Year estimates published by the Office for National Statistics (ONS). The population estimates for 2018 and 2019 are set out in the table below. The population estimates for all five authorities have changed by different proportions, as set out in the table below.

	2018 MYE	2019 MYE	Change	
	People	People	People	Percentage (increase/-decrease)

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Gateshead	202,508	202,055	-453	-0.22%
Newcastle	300,196	302,820	2,624	0.87%
North Tyneside	205,985	207,913	1,928	0.94%
South Tyneside	150,265	150,976	711	0.47%
Sunderland	277,417	277,705	288	0.10%
Total Tyne & Wear	**1,136,371**	**1,141,469**	**5,098**	**0.45%**

Apportioning the proposed levy of £61.100m gives the following figures for Tyne and Wear:

	2020/21	**2021/22**	**Change compared to 2020/21**	
	£	**£**	**£**	**%**
Gateshead	10,888,380	10,815,502	(72,878)	(0.67)%
Newcastle	16,140,834	16,209,202	68,368	0.42%
North Tyneside	11,075,330	11,129,066	53,736	0.48%
South Tyneside	8,079,396	8,081,370	1,974	0.02%
Sunderland	14,916,061	14,864,860	(51,200)	(0.34)%
Total Tyne & Wear	**61,100,000**	**61,100,000**	**0**	**0**

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Appendix 2 – Nexus Services

- **Statutory Concessionary Travel** – comprising the net costs of the English National Concessionary Travel Scheme (ENCTS) in Tyne and Wear, which is a statutory obligation placed upon Nexus as the Travel Concession Authority (TCA). Expenditure is dependent upon the numbers of passengers using the Scheme, the fare that would have been paid (to the bus operator) if the Scheme did not exist and an estimate of the additional costs of meeting the increased demand caused by the existence of the Scheme. TCAs and bus operators utilise DfT guidance in determining the value of payments due but, in essence, Nexus has no control over this budget.

- **Discretionary Concessionary Travel** – comprising the discretionary add-ons to the ENCTS (the all-day disabled pass, the companion pass, post 23:00 boardings, and pre 09:30 boardings for the purposes of attending medical appointments), the Under 16 Scheme and Teen Travel.

- **Metro –** comprising operations (train control, train crew, cleaning security, fleet engineering, customer services and track access), infrastructure repairs and maintenance and planning studies relating to potential future extensions. The cost of the Metro concessionary travel Scheme (Gold Card) also forms part of this budget, funded by the JTC grant from the Levy. Costs are offset by central and local government grants, fare revenue and other commercial income.

- **Ferry –** comprising staffing, fuel, maintenance, cleaning and security.

- **Local Rail –** comprising the cost of Nexus' involvement in the franchise management arrangements of Northern Rail and Trans Pennine Express. This includes servicing the North East Rail Management Unit on behalf of the JTC.

- **Bus Services –** mainly comprising secured bus services which necessarily involves the following types of service provision:

    - All day services
    - Scholars services
    - Works/Early Morning services
    - Evenings and weekend extensions
    - Route diversions
    - Taxibus and Community Transport

- **Bus Infrastructure** – comprising staffing, cleaning, maintenance and security of bus interchanges, stations and shelters.

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- **Public Transport Information –** comprising website design and maintenance, printed material including Bus, Metro and Ferry timetables (including bus stop liners), call handling and the provision of electronic information for journey planning.

APPENDIX 3 - Nexus Summary Revenue Budget Requirement 2021/22

Revenue Budget 2021/22	Direct Costs £m	External Income £m	Indirect Cost £m	Indirect Income £m	Grants £m	Loan Interest £m	Capital Adjustment £m	2021/22 Net £m
ENCTS	34.933	0.000	0.811	(0.034)	0.000	0.000	0.000	35.710
Discretionary CT	3.056	(0.340)	0.186	(0.008)	0.000	0.000	0.000	2.894
Metro	95.146	(29.676)	14.071	(0.588)	(27.555)	1.184	(28.479)	24.103
Ferry	1.215	(0.198)	0.465	(0.019)	0.000	0.016	(0.201)	1.278
Local Rail	0.236	0.000	0.271	(0.011)	(0.252)	0.016	0.000	0.260
Bus Services	15.464	(1.332)	1.397	(0.058)	(0.891)	0.258	(0.005)	14.833
Bus Infrastructure	2.434	(0.424)	0.571	(0.025)	0.000	0.010	(0.412)	2.154
Public Transport Information	0.562	(0.170)	0.814	(0.034)	0.000	0.033	0.000	1.205
Total requirement	**153.046**	**(32.140)**	**18.586**	**(0.777)**	**(28.698)**	**1.517**	**(29.097)**	**82.437**
JTC grant from the levy								(57.813)
Deficit before Covid support								**24.624**
Projected Covid support[9]								(21.944)
Deficit funded from reserves								**2.680**

[9] Of which LRRRG is assumed at £20.8m, LACBSSG £1.0m, and MHCLG £0.1m, grant total £21.92m

Appendix 4 – Detailed Nexus Budget 2021/22

Service Area	Direct Costs £m	External Income £m	Indirect £m	Grants £m	Loan Interest £m	Asset Financing £m	Net £m
Statutory Concessionary Travel - Bus	34.933	-	-	-	-	-	34.933
Statutory CT	**34.933**	**-**	**-**	**-**	**-**	**-**	**34.933**
Discretionary Concessionary Travel - Bus	3.056	(0.340)	-	-	-	-	2.716
Discretionary CT	**3.056**	**(0.340)**	**-**	**-**	**-**	**-**	**2.716**
METRO							
Metro Farebox (Inc. Car park income)	0.974	(28.621)	-	-	-	-	(27.647)
Ticketing & Gating	1.180	-	-	-	-	-	1.180
Automatic Fare Collection	1.504	-	-	-	-	-	1.504
Fare Collection & Revenue	**3.658**	**(28.621)**	**-**	**-**	**-**	**-**	**(24.963)**
Contracts & Commercial	14.467	(1.042)	-	-	-	-	13.425
Operations	11.488	-	-	-	-	-	11.488
Service Delivery	2.081	-	-	-	-	-	2.081
Customer Services	4.468	-	-	-	-	-	4.468
Metro Operations	**32.504**	**(1.042)**	**-**	**-**	**-**	**-**	**31.462**
MMA Management	7.258	-	-	-	-	-	7.258
Metrocar Maintenance Agreement	**7.258**	**-**	**-**	**-**	**-**	**-**	**7.258**
Metro Insurance & Claims	1.625	-	-	-	-	-	1.625
Metro Rates	1.664	-	-	-	-	-	1.664
Metro Utilities	0.363	-	-	-	-	-	0.363
Metro Marketing	0.762	-	-	-	-	-	0.762
Metro Depreciation	29.623	-	-	-	-	-	29.623

Leadership Board

Service Area	Direct Costs £m	External Income £m	Indirect £m	Grants £m	Loan Interest £m	Asset Financing £m	Net £m
Metro - Other	**34.037**	**-**	**-**	**-**	**-**	**-**	**34.037**
Metro HV Power	6.321	-	-	-	-	-	6.321
Health & Safety	1.432	-	-	-	-	-	1.432
Planning & Performance	0.721	-	-	-	-	-	0.721
Engineering	0.340	-	-	-	-	-	0.340
Buildings & Infrastructure Services	2.891	(0.001)	-	-	-	-	2.890
Facilities & Services	1.900	-	-	-	-	-	1.900
Rail Management & Administration	0.091	-	-	-	-	-	0.091
Permanent Way	1.616	(0.012)	-	-	-	-	1.604
Power Supplies	0.861	-	-	-	-	-	0.861
Signalling	1.310	-	-	-	-	-	1.310
Stores	0.176	(0.001)	-	-	-	-	0.176
Capital Delivery	0.026	-	-	-	-	-	0.026
Renewals	0.005	-	-	-	-	-	0.005
Metro Infrastructure	**17.691**	**(0.014)**	**-**	**-**	**-**	**-**	**17.677**
Metro	**95.146**	**(29.676)**	**-**	**-**	**-**	**-**	**65.470**
Ferry	1.215	(0.198)	-	-	-	-	1.016
Ferry	**1.215**	**(0.198)**	**-**	**-**	**-**	**-**	**1.016**
Local Rail	0.236	-	-	-	-	-	0.236

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Service Area	Direct Costs £m	External Income £m	Indirect £m	Grants £m	Loan Interest £m	Asset Financing £m	Net £m
Local Rail	**0.236**	**-**	**-**	**-**	**-**	**-**	**0.236**
Contract Management	0.250	-	-	-	-	-	0.250
Network Management	0.206	-	-	-	-	-	0.206
TaxiCard	0.233	(0.038)	-	-	-	-	0.195
Secured Bus Services	14.775	(1.294)	-	-	-	-	13.481
Bus Services	**15.464**	**(1.332)**	**-**	**-**	**-**	**-**	**14.132**
Bus Infrastructure	2.434	(0.424)	-	-	-	-	2.010
Bus Infrastructure	**2.434**	**(0.424)**	**-**	**-**	**-**	**-**	**2.010**
Public Transport Information	0.562	(0.170)	-	-	-	-	0.392
Public Transport Information	**0.562**	**(0.170)**	**-**	**-**	**-**	**-**	**0.392**
INDIRECT							
Pensions and Provisions	-	-	2.285	-	-	-	2.285
Investment Income	-	-	(0.260)	-	-	-	(0.260)
Board	-	-	1.096	-	-	-	1.096
Central Other	**-**	**-**	**3.121**	**-**	**-**	**-**	**3.121**
Media & Communications	-	-	0.407	-	-	-	0.407
Print & distribution	-	-	0.201	-	-	-	0.201

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Marketing	-	-	0.400	-	-	-	0.400
Customer Services	-	-	0.785	-	-	-	0.785
Metro Customer Relations	-	-	0.473	-	-	-	0.473
Retail Sales	-	-	0.005	-	-	-	0.005
Customer Services	**-**	**-**	**2.272**	**-**	**-**	**-**	**2.272**

Service Area	Direct Costs £m	External Income £m	Indirect £m	Grants £m	Loan Interest £m	Asset Financing £m	Net £m
Human Resources	-	-	0.741	-	-	-	0.741
Learning & Development	-	-	1.900	-	-	-	1.900
Corporate Planning	-	-	1.321	-	-	-	1.321
People & Culture	**-**	**-**	**3.962**	**-**	**-**	**-**	**3.962**
Finance & Audit	-	-	1.543	-	-	-	1.543
Procurement	-	-	0.267	-	-	-	0.267
Legal & Admin	-	-	0.614	-	-	-	0.614
Estates	-	-	0.689	-	-	-	0.689
ICT	-	-	3.971	-	-	-	3.971
Finance & Resources	**-**	**-**	**7.083**	**-**	**-**	**-**	**7.083**
Health & Safety	-	-	1.371	-	-	-	1.371
Health & Safety	**-**	**-**	**1.371**	**-**	**-**	**-**	**1.371**
Indirect	**-**	**-**	**17.809**	**-**	**-**	**-**	**17.809**

Leadership Board

Service Area	Direct Costs £m	External Income £m	Indirect £m	Grants £m	Loan Interest £m	Asset Financing £m	Net £m
Loan Charges	-	-	-	-	1.517	-	1.517
Released from Capital Reserves	-	-	-	-	-	(1.174)	(1.174)
Released from Capital Grants	-	-	-	-	-	(27.923)	(27.923)
Asset Financing	**-**	**-**	**-**	**-**	**1.517**	**(29.097)**	**(27.580)**
Bus Operators Grant	-	-	-	(0.891)	-	-	(0.891)
Heavy Rail Grant	-	-	-	(0.252)	-	-	(0.252)
Metro Rail Grant	-	-	-	(27.090)	-	-	(27.090)
Other Grant	-	-	-	(0.465)	-	-	(0.465)
Grants	**-**	**-**	**-**	**(28.698)**	**-**	**-**	**(28.698)**
TOTAL REQUIREMENT	**153.046**	**(32.140)**	**17.809**	**(28.698)**	**1.517**	**(29.097)**	**82.437**
JTC Grant				(57.813)			(57.813)
JTC Grant	**-**	**-**	**-**	**(57.813)**	**-**	**-**	**(57.813)**
DEFICIT BEFORE COVID SUPPORT	**153.046**	**(32.140)**	**17.809**	**(86.511)**	**1.517**	**(29.097)**	**24.624**
Projected Covid Support				(21.944)			(21.944)
Covid Support Grant	**-**	**-**	**-**	**(21.944)**	**-**	**-**	**(21.944)**

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DEFICIT FUNDED FROM RESERVES	**153.046**	**(32.140)**	**17.809**	**(108.455)**	**1.517**	**(29.097)**	**2.680**

Appendix 3: North East Combined Authority Pay Policy Statement 2021/22

1 Introduction

This policy outlines the key principles of North East Combined Authority's (NECA) pay policy for 2021/22 aimed at supporting the recruitment and remuneration of the workforce in a fair and transparent way. The policy complies with government guidance issued under the Localism Act 2011 and includes commentary on:

- the approach towards the remuneration of Chief Officers;
- the remuneration of the lowest paid employee;
- the relationship between the remuneration of its Chief Officers and the remuneration of its employees who are not Chief Officers.

The Local Government Transparency Code, published in February 2015 by the government also sets out key principles for local authorities in creating greater transparency through the publication of public data. As part of the code, the government recommends that local authorities should publish details of senior employee salaries. This pay policy forms part of the Authority's response to transparency of senior pay through the publication of a list of job titles and remuneration.

North East Combined Authority is mindful of its obligations under the Equality Act 2010 and is an equal opportunity employer. The overall aim of our Single Equality Scheme is to ensure that people are treated fairly and with respect. The scheme also contains a specific objective to be a diverse organisation, which includes recruiting and retaining a diverse workforce and promoting equality and diversity through working practices. This pay policy forms part of our policies to promote equality in pay practices. By ensuring transparency of senior pay and the relationship with pay of other employees, it will help ensure a fair approach which meets our equality objectives.

In setting the pay policy arrangements for the workforce, the Authority seeks to pay competitive salaries within the constraints of a public sector organisation.

2 Posts defined within the Act as Chief Officers

The strict definition of Chief Officers within the legislation is limited to:

- The Head of Paid Service
- The Monitoring Officer
- The Statutory Chief Officer and non-statutory Chief Officer under Section 2 of the Local Government and Housing Act 1989
- A Deputy Chief Officer mentioned in Section 2 of that Act.

For NECA, these roles are fulfilled by officers who are employed by constituent local authorities and are not NECA employees, and are subject to the pay policies of their employing authorities. No additional remuneration to individuals is paid for fulfilling the NECA roles.

However NECA employs other senior officers to oversee the functions of the Authority. The Managing Director, Transport North East is directly employed by NECA and this post fulfils the role of Proper Officer for Transport which is required under the Order which established the North of Tyne Combined Authority and the North East Joint Transport Committee (JTC), and reports to the JTC. The post also includes the functions of the Director General of Nexus, the Tyne and Wear Passenger Transport Executive, which is a statutory role set out by the Transport Act 1968. Accordingly, NECA classifies this post as a Chief Officer.

3 Governance Arrangements

NECA takes advice on setting its pay policy from the constituent local authority providing HR services (Durham County Council). Durham County Council Chief Officer Appointments Committee is defined within the council's constitution as performing the functions under section 112 of the Local Government Act 1972 in relation to these officers. This includes the setting of the pay arrangements for these posts and in doing so the Committee takes into account:

- the prevailing market in which the organisation operates;
- the short and long-term objectives of the council;
- the council's senior structure, financial situation and foreseeable future changes to these;
- the expectations of the community and stakeholders;
- the total remuneration package;
- the links with how the wider workforce is remunerated and national negotiating frameworks;
- the cost of the policy over the short, medium and long term.

The Committee also has access to appropriate external independent expert advice on the subject where required.

Decisions on NECA appointments are taken by the Leadership Board, or by the Joint Transport Committee where a post relates to Transport activity.

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4 Key Principles

- The Chief Officer Pay policy is designed to be easily understood and to be transparent to the post holders and key stakeholders. The structure and level of the pay arrangements will enable the Authority to attract, motivate and retain key senior talent for the authority.

- The policy is based upon spot salaries with clear differentials between levels of work/job size, within a range that is affordable now, will remain so for the medium term, and will be subject to review to ensure it continues to remain fit for purpose. In the first instance it is intended that the Authority will market test the rates of pay when vacancies arise, as part of consideration on whether or not roles continue to be required within the context of the Authority's priorities and commitments at that time.

- A values and behaviours framework is established within the organisation which links to individual job descriptions, person specifications and performance and development reviews. Leaders' behaviours are clearly defined and this ensures that the individual standards of achievement and performance are met and clearly linked to the achievement of the council's objectives and priorities, and the authority's expectations are delivered by post holders within these roles.

- These posts do not attract performance related pay, bonuses or any other additions to basic salary. This approach enables the Authority to assess and budget accurately in advance for the total senior pay bill over a number of years.

- Roles at this level have all been subject to an externally ratified job evaluation scheme that is transparent and auditable to ensure equality proofing of pay levels.

- Other terms and conditions of employment for this group are as defined within the Joint Negotiating Committee for Chief Officers of Local Authorities Conditions of Service handbook, with discretion to set actual pay levels at a local level, but within a national negotiating framework. These posts are part of the nationally defined Local Government Pension Scheme.

5 Pay Levels

Individual elements of the remuneration package are established as follows at the point of recruitment into the posts:

Role	Salary 01/04/2020
Managing Director, Transport North East	£130,859

Increases are made in accordance with the appropriate Joint Negotiating Committee (JNC) Pay Agreements. The JNCs for the Chief Executives and Chief Officers both agreed a pay award of 2.75% with effect from 1 April 2020.

For the majority of NECA employees, the NJC pay agreement for 2018/19 included the introduction of a new pay spine on 1 April 2019. The 2019 pay spine is mandatory. Agreements reached by the NJC are collective agreements and if they are incorporated into employee contracts of employment then the changes will take effect. The new pay spine replaced entirely the previous spine and accordingly employees assimilated across from the previous SCP to the new corresponding SCP in April 2019. The NJC produced a circular on 14 June 2018, which provided technical advice on assimilating employees onto the new pay spine. The authority has complied with the NJC guidance (i.e. one approach to be applied consistently and a maximum of five spinal column points for each grade).

6 The Authority’s Policy on the Remuneration of its Lowest Paid Workers

Definition of Lowest Paid Workers

NECA employees below senior officer level are subject to the national framework as outlined in the National Joint Council for Local Government Services “Agreements on Pay and Conditions of Service”. This ensures that the lowest paid workers and the wider workforce share equitable terms and conditions and access to pay and condition arrangements that are set within a national negotiating framework.

The lowest paid post in the NECA establishment is a range from Spinal Column Point 12 which equates to a full time annual salary of £22,183 (at 1 April 2020). This is the Authority’s definition of ‘lowest paid workers’.

7 The Policy Relationship between Chief Officers Pay, the Lowest Paid Workers, and the Wider Workforce

Current Position

In setting the relevant pay levels, a range of background factors outlined at were taken into consideration for senior pay alongside the scope and scale of the Authority.

For 2021/22, the ratio between the pay of the highest and the lowest paid posts employed by NECA is 5.9 (2021/22 pay award pending), against figures published by government of an expectation to always be below 20:1 in local government.

The ratio between the highest and median paid posts employed by NECA is 3.12.

8 Pay Policy Objectives

This planned approach towards pay for the wider workforce, and the use of established and equality impact assessed job evaluation schemes in the exercise will ensure:

- a planned approach towards pay policy for the organisation that enables the Authority to establish a relationship between pay for senior officers, the low paid and the wider workforce to align to the national guidance;

- the provision of accountability, transparency and fairness in setting pay for North East Combined Authority.

9 Pay Policy Decisions for the Wider Workforce

The decision making power for the implementation of new pay arrangements is one for the Leadership Board of the Authority, ensuring that decisions in relation to workforce pay are taken by those who are directly accountable to local people.

10 The Approach towards Payment for those Officers Ceasing to Hold Office Under or be Employed by the Authority

The Authority has an agreed policy in relation to officers whose employment is terminated via either voluntary or compulsory redundancy. This policy provides a clear, fair and consistent approach towards handling early retirements and redundancy for the wider workforce, including Chief Officers**.**

In setting policy, the Authority does at this time retain its discretion to utilise the Local Government (Early Termination of Employment) (Discretionary Compensation) (England and Wales Regulations) 2006.

11 Policy towards the Reward of Chief Officers Previously Employed by the Authority.

Chief Officers leaving the authority under regulations allowing for early access to pension are leaving in circumstances where there is no longer a suitable role for them, and in such circumstances, they leave the employment of the Authority. Immediate re-engagement in another role would negate redundancy by operation of the Redundancy Payments (Continuity of Employment in Local Government, etc.) (Modification) Order 1999.

The Authority would not expect such officers to be offered further remunerated employment with the Authority or any controlled company without such post being subject to external competition.

The administering authority for the Local Government Pension Scheme does not currently have a policy of abating pensions for former employees who are in receipt of a pension, although this is an area that is kept under review.

The Authority is mindful of its obligations under equality legislation and as such is limited in its ability to adopt a policy that it will not employ people of an age that has entitled them to pension access on leaving former employment in the public sector or to propose that such applicants be employed on less favourable terms than other applicants. It expects all applicants for any posts to compete and be appointed on merit.