

North of Tyne Combined Authority, Overview and Scrutiny Committee

Thursday 14 February 2019 at 10.00 am

Meeting to be held at North Tyneside Council, Cobalt Business Park, The Quadrant, 16 The Silverlink North, Newcastle upon Tyne NE27 0BY

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SUPPLEMENTAL AGENDA

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Overview and Scrutiny Committee

Date: 14 February 2019
Subject: Budget 2019/20
Report of: Janice Gillespie, Chief Finance Officer

Report Summary

This report seeks the Committee's views on the Authority's draft budget proposals for 2019/20.

Recommendations

The Committee is recommended to consider and comment on the Authority's draft budget proposals for 2019/20 which were set out in the report to Cabinet on 5 February 2019.

1. Background Information, Proposals and Timetable for Implementation

- 1.1 At its meeting on 5 February 2019 Cabinet considered a report from the Chief Finance Officer regarding the proposed budget for the Authority for 2019/20. A copy of that report is attached as Appendix 1 to this report. Cabinet agreed the recommendations in that report and therefore the budget proposals for 2019/20 contained therein are being brought to this Committee for its consideration. Cabinet will be asked to approve the final budget proposals for 2019/20 at its meeting on 12 March. This Committee's comments on the draft budget proposals will be reported to Cabinet at that meeting.

2. Potential Impact on Objectives

- 2.1 These are set out in the attached report to Cabinet on 5 February 2019.

3. Key Risks

- 3.1 These are set out in the attached report to Cabinet on 5 February 2019.

4. Financial, Legal and Other Resources Implications

- 4.1 These are set out in the attached report to Cabinet on 5 February 2019.

5. Consultation/Engagement

5.1 Cabinet are seeking the Committee's views on the draft budget proposals before the 2019/20 budget is approved.

6. Appendices

6.1 Appendix 1 – report to report to Cabinet on 5 February 2019.

7. Background Papers

7.1 As set out in the attached report to Cabinet on 5 February 2019.

8. Contact Officers

8.1 Janice Gillespie, Chief Finance Officer,
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Subject: Budget 2019/20**Report by: Janice Gillespie, Chief Finance Officer****Report Summary**

The purpose of the report is to outline the proposed budget for the North of Tyne Combined Authority (NTCA) for 2019/20, and the medium term financial plan for the period 2019/20 to 2021/22. Cabinet is recommended to approve the budget as a basis of consultation. Subject to any changes that may result, the budget will be resubmitted for final agreement at the 12 March meeting.

As the Combined Authority was only established in November 2018 the budgets for both this financial year and financial year 2019/20 reflect a set up phase in which the organisation is both establishing capacity to undertake its new responsibilities and beginning to deliver its priorities.

In developing these budget proposals the interim Mayor and Cabinet have been clear that NTCA should be a lean, agile, outward-facing organisation, working closely with stakeholders to achieve its goals. The new combined authority will draw on the expertise of its three constituent authorities to maximise opportunities for efficiency, including through use of Service level Agreements for key corporate functions. The authority will also look to maximise funding available through use of the £20m per annum Investment Fund to leverage in additional investment. There is no additional cost to local taxpayers or local authorities in the current proposals.

This report also seeks agreement to the proposed 2019/20 Transport Levy, which funds local and regional transport across the North of Tyne and North East Combined Authority areas, this is a legal requirement following the creation of the Joint Transport Committee (JTC).

Recommendations

The Cabinet is recommended to:

1. Agree the Draft Corporate Budget for 2019/20 including the allocation from devolved funds to form the basis of consultation ending 4 March and an updated version will be presented to Cabinet on 12 March 2019 (Paragraph 1.1)

2. Agree the Draft Investment fund as set out in paragraph 1.4 to form the basis of consultation ending 4 March and an updated version will be presented to Cabinet on 12 March 2019
3. Note the Transport Prudential Indicators and MRP Policy as set out in Appendix B
4. Note the decision taken by the North East Joint Transport Committee(JTC) with regard to the Transport Budget and Levies for 2019/20 as referenced in paragraph 1.5 and Appendix A, and to issue the following levies in accordance with that decision;-
 - a. Newcastle City Council £16,002,955;
 - b. North Tyneside Council £11,060,540; and
 - c. Northumberland County Council £6,104,370.
5. Note that the authority will transfer the levy income from Newcastle City Council and North Tyneside Council to NECA as the accountable body for the JTC in order to meet costs relating to the Tyne and Wear area
6. Note that the authority will make arrangements to administer payment of a transport revenue grant of £6,094,370 to Northumberland County Council for the delivery of transport services, as agreed by the JTC;
7. Note that authority will issue the Transport Grant to Northumberland Country Council (£6,094,370) and make a £10,000 contribution to NECA in respect of Northumberland County Council's contribution to the costs of the JTC
8. Agree the Treasury Management Strategy 2019/20 as described in paragraph 1.6 and attached at Appendix C
9. Agree to hold the level of reserves set out in paragraph 1.11 and to note that the Chief Finance Officer continues to keep the level of reserves under review as the Authority develops and new information becomes available about the financial risks facing authority arrangements for managing those risks; and,
10. Agree that the independent Auditor Panel which was previously established to advise on the appointment of a Local Auditor to Newcastle City Council. North Tyneside Council and Northumberland County Council is approved to act as the independent Auditor Panel on behalf of the North of Tyne Combined Authority.

1. Background Information, Proposals and Timetable for Implementation

1.1 Combined Authority Medium Term Financial Plan – Corporate Budget

- On the 4 December the Combined Authority set a Corporate Budget for 2018/19 which established an initial baseline position.
- Since that time officers have continued to consider the early requirements of the new authority and Table 1 below identifies the proposed core budget that is required to operate the Mayoral Combined Authority and how it is to be funded.

Table 1 Draft 2019/20 Budget and 2019-22 Financial Plan

	2019/20	2020/21	2021/22
Expenditure	£	£	£
Staffing	1,602,641	1,698,772	1,732,647
Mayor and officer	169,704	188,835	192,611
Policy Development Capacity	305,000	5,000	5,000
Miscellaneous (includes Mayoral election 2019/20)	1,399,000	199,000	174,000
Service Level Agreements	197,270	201,215	176,799
Total Expenditure	3,673,616	2,292,822	2,281,057
Income			
Contributions from the constituent Authorities	(120,000)	(120,000)	(120,000)
Mayoral Capacity Fund	(1,000,000)	(750,000)	0
Investment Fund Contribution	(2,400,000)	(1,300,000)	(2,000,000)
AEB Income	(153,616)	(122,822)	(161,057)
Total Income	(3,673,616)	(2,292,822)	(2,281,057)
NET (Income)/Expenditure	0	0	0

In developing these budget proposals the Interim Mayor and Cabinet have been clear in their approach to ensuring the North of Tyne Authority is a lean organisation. The draft budget proposals include the anticipated capacity required to deliver the ambition of the authority, and will be regularly reviewed as the delivery of key priorities and actions progress. The bulk of expenditure is funded through devolved funding secured through the devolution deal, with no change in contributions from constituent authorities compared to previous arrangements.

The Interim Mayor and Cabinet will be working with officers to maximise the opportunities of the three constituent authorities working together efficiently and effectively with the North of Tyne Authority. Some of this is already in place through the development of the Service level Agreements for support services such as HR and legal services from across the three constituent authorities. A further example of this is with regard to the approach to procurement and the opportunity to consider whether Procurement Strategies across the constituent authorities can support the ambition and delivery of the Vision for North of Tyne.

1.2 Mayoral Election Costs

It is a requirement of Government that Mayoral Election costs need to be funded by the Combined Authority, although NTCA has also secured a £2M Mayoral Capacity Fund grant from Government to support set up costs including the election. The estimated costs relating to the delivery of the election is £1.20m. This includes promotion and publicity costs, including mandated statutory requirements. The returning officer is reviewing arrangements and working to keep costs as low as possible.

1.3 Mayoral Allowance

Included in the Corporate Budget is provision for the Mayoral allowance the details of which are included in a separate report to this Cabinet meeting. That report sets out the work done to consider the Mayoral Allowance and demonstrates that it is in keeping with other areas and in line with recommendation from independent remuneration panel.

1.4 Investment Fund Budget

The Investment fund sets out indicative early costs associated with the development of proposals to be delivered through the Investment fund. The late establishment of the Authority in 2018/19 has a direct impact on the timing of decisions to award funding support to projects and the level of expenditure in 2018/19 and through in to 2019/20.

At its meeting on 4 December Cabinet considered early investment priorities which include:

- Inspiring the development of STEM and Digital skills in young people
- Help Residents into work- Returnship project
- Attracting new business to the North of Tyne, and
- Enhancing Rural Business Growth

In addition, Cabinet identified projects for early business case development funding for, which include

- Local Fibre Network
- North Shields Town Centre Redevelopment /Fish Quay
- Energy Central Learning Hub Blyth
- Targeted employment support for areas of Newcastle with the Highest unemployment levels
- The Northumberland, Newcastle and North of Tyne rail line

These proposed projects are still in development and are expected to progress through the established assurance framework during the coming months.

The draft Investment Fund budget set out in Table 2 attempts to recognise the impact of timing on the ability to issue funding and projects to be in a position to deliver in 2019/20 and the impact through to 21/22. At this stage no assumptions have been made regarding match funding opportunities that may arise as the Investment proposals are developed, but it is anticipated the fund will be used to maximise the opportunities to secure other funding across the North of Tyne area.

Cabinet will be updated on progress against the proposed budget and any revisions required as the year end is approached. Included in the budget is provision for Technical Support -this is a requirement of the Assurance Framework that Investment Fund proposals are subject to external independent testing. Any unspent Investment Fund will be held and transferred to a specific reserve at the year end to support the delivery of the programme of work in future years.

Table 2 Draft 2019/20 Investment Fund Budget

	2019/20	2020/21	2021/22
Expenditure	£	£	£
Supporting Business Case development	750,000	750,000	750,000
Work streams	975,000	7,200,000	12,200,000
Technical Support	250,000	250,000	250,000
Contribution to Corporate Costs	2,400,000	1,300,000	2,000,000
Total Expenditure	4,375,000	9,500,000	15,200,000
Income			
Investment fund	(20,000,000)	(20,000,000)	(20,000,000)
Total Income	(20,000,000)	(20,000,000)	(20,000,000)
NET (Income)/Expenditure	(15,625,000)	(10,500,000)	(4,800,000)
Investment Reserve Brought forward	(19,011,667)	(34,636,667)	(45,136,667)
Net Investment Fund Reserve Carried Forward	(34,636,667)	(45,136,667)	(49,936,667)

As can be seen from Table 2 2019/20 will continue to be a year of development of plans for the delivery of the Vision and its priorities with the expectation that these plans will see more financial investment achieved beyond 2019/20.

- 1.5 Transport Levy The North of Tyne and the North East Combined Authorities are required under the Transport Levying Bodies regulations to set the Revenue Budget and associated Transport Levies before 15 February 2019, in order 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 issue the levies that were agreed by the JTC at its meetings on 22 January, the budget report to the JTC is attached as Appendix A to this report

The decision taken by the North East Joint Transport Committee(JTC) with regard to the Transport Budget and Levies for 2019/20 were to issue the following levies

- a. Newcastle City Council £16,002,955;
- b. North Tyneside Council £11,060,540; and
- c. Northumberland County Council £6,104,370.

The authority will transfer the levy income from Newcastle City Council and North Tyneside Council to NECA as the accountable body for the JTC in order to meet costs relating to the Tyne and Wear area and will make arrangements to administer payment of a transport revenue grant of £6,094,370 to Northumberland County Council for the delivery of transport services, as 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

- 1.6 Treasury Management Strategy

The Authority is required to approve a Treasury Management Strategy each year and this is attached at Appendix B for approval. Further work will progress during 2019/20 to identify potential synergies from alignment of the Treasury Management Strategy of this Authority with those of the constituent authorities, and the outcome of this work will be brought back to Cabinet for their consideration in due course.

- 1.7 Prudential Indicators and MRP Policy

The new arrangements set out in the NECA and NTCA Orders require decisions about the Transport Revenue Budget and Levies and the Transport Capital Programme to be determined by the new 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 Joint Transport Committee.

As a result of this requirement a proportion of the outstanding balance of the loans and investments (based on the share of Tyne and Wear population in each combined authority areas) will be shown in the balance sheets of the two Combined Authorities. It may be necessary for the individual loan agreements with lenders to be amended to reflect the new arrangement for the share of liabilities between the two Combined Authorities. The Interim Mayor and Cabinet are required to be aware of the associated prudential indicators and MRP policy associate with the loans and Investments which are included in the budget report for the NECA as the relevant accountable body. A summary of the Loans outstanding at the date of the change in governance is set out in Table 3 below.

Table 3: Transport (Tyne and Wear) Outstanding Debt, and Capital Financing Requirement at 2nd November 2018

	Principal	Interest Due	Total	NECA Share	NTCA Share
	£000	£000	£000	£000	£000
Capital Financing Requirement	193,665		193,665	107,883	85,782
Actual External Debt	167,333	2,274	169,607	94,482	75,125

The NECA have consulted the Chief Finance Officer of both this authority and the constituent North of Tyne authorities on the development of these Prudential Indicators and MRP policy for the Transport Asset and liabilities and NECA Budget report is included as an Appendix to this report.

At this early stage of the North of Tyne Combined Authority there is no borrowing requirement associated with the delivery of the Vision and priorities, therefore this authority does not require its own Prudential Indicators or an MRP policy. These will be developed when necessary and brought back to Cabinet as part of the Budget and Financial Planning process in future years.

1.8 External Audit Arrangements

The Local Audit and Accountability Act 2014 introduced a requirement for all local authorities to procure and appoint their own external auditor (known as a 'local auditor') from 2017/18 onwards. As the North of Tyne Combined Authority was formally created on 2 November 2018, it is now necessary to progress the appointment of a local auditor for the North of Tyne Combined Authority.

The appointment of Local Auditor must comply with all relevant procurement laws, and the decision on the appointment must be made by Cabinet consulting and taking into account the advice of an independent Auditor Panel convened for the purpose of evaluating and recommending the choice of local auditor to the North of Tyne Combined Authority. It is proposed that the existing independent Auditor Panel (which was convened on behalf of the three constituent Authorities) is approved to act as the independent Auditor Panel for the North of Tyne Combined Authority.

A further report will be brought to Cabinet 12 March 2019 to agree the appointment of the External Auditor.

1.9 The LEP Accountable Body Arrangements

When the North of Tyne Combined Authority was established the 7 North East authorities agreed that the former NECA's accountable body responsibilities should be shared between the new NECA and NTCA. The intention is that the NTCA will take on the accountable body function for the North East LEP, while NECA will act as accountable body for the Joint Transport Committee. The North East Combined Authority (NECA) is currently the accountable body for the North East LEP and will be at the time when decisions relating to the 2019/20 Budget must be taken. Necessarily the NECA budget report will include information about the funds available to the North East LEP and its proposed budget for 2019/20, which will be agreed by the North East LEP Board. The budget will need to reflect decisions about the level of government grant available to support North East LEP costs as well as the guidance and resource requirements needed to meet grant conditions. A further report will be brought back to this Cabinet once the LEP have made their decision regarding the accountable body function.

1.10 Mayoral Precept

No provisions has been included in the Financial Plan for a Mayoral precept

1.11 Reserves

As set out in the Budget report to Cabinet on the 4 December 2018, a Corporate reserve of £200k was set. The level of reserve will remain under review as the Authority develops and new information becomes available about the financial risks facing NTCA and the arrangements in place for managing those risks.

2. Potential Impact on Objectives

The North of Tyne Combined Authority Vision document sets out the strategic objectives of the Authority, detailing the key priorities and the first steps in the journey around the six key pillars. The budget will enable the Authority to properly discharge its functions and assist in delivering the Authority's vision, policies and priorities.

3. Key Risks

There are no key risks identified at this time.

4. Financial and Other Resources Implications

The report sets out finance and other resource considerations in detail.

5. Legal Implications

The Authority is required to agree a balanced budget annually and to monitor that budget throughout the year. The Authority must also make provision for an adequate level of un-earmarked reserves. It is also required to ensure that good financial governance arrangements are in place.

All relevant authorities are required under the Local Audit and Accountability Act 2014 to appoint a local auditor. The Authority must also consult and take into account the advice of its auditor panel on the selection and appointment of a local auditor under section 7 of the same Act.

6. Consultation/Engagement

The creation of the North of Tyne Combined Authority has been subject to significant regional and national engagement. The 2019/20 Budget is based on the devolution deal and the Parliamentary Order which created the Authority and the Authority's Vision which has been agreed by Cabinet and is being shared with stakeholders in a range of events.

Further consultation will take place with the Business Community and the Community and Voluntary Sector in advance of Cabinet finalising the 2019/20 budget.

7. Appendices

Appendix A 22 January Budget Report to the Joint Transport Committee

Appendix B Treasury Management Strategy

Appendix C 5 February North East Combined Authority Budget report (including the Prudential Indicators and MRP Policy)- available when published

8. Background Papers

8 November Cabinet Report: North Tyneside Combined Authority Vision and Emerging Priorities of Early Investment.

The Combined Authorities (Finance) Order 2017.

Statutory Instrument No 1133 (2018) The Newcastle Upon Tyne, North Tyneside and Northumberland Combined Authority (Establishment and Functions) Order 2018.

8 November Cabinet 2018/19 Budget Report

9. Contact Officers

Janice Gillespie, Chief Finance Officer,

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North East Joint Transport Committee

Date: 22 January 2019

Subject: Transport Budget and Levies 2019/20

Report of: Chief Finance Officer, NECA

Executive Summary

The purpose of this report is to set out the 2019/20 Transport Revenue Budget and Transport Levies for the North East Joint Transport Committee, for consideration and approval. This report takes into account comments received during consultation on the outline proposals presented to this committee in November 2018.

The Combined Authorities are required under the Transport Levying Bodies regulations to set the Revenue Budget and Transport Levies before 15 February 2019, in order 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 issue the levies that are agreed by the Joint Transport Committee at their meetings on 5th February.

This report also provides an update on the Revenue Budget for 2018/19 and sets out the revenue resources planned to be used in 2019/20 to deliver the objectives of the Joint Transport Committee. A separate report on this agenda sets out the 2019/20 Transport Capital Investment Programme and Treasury Management information related to Transport.

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 2018/19 and approve the revised estimates for the year;
- ii. Agree a Transport net revenue budget for 2019/20 of £82.766m, as set out in sections 2.4 to 2.9 of this report;
- iii. Agree the following Transport Levies for 2019/20:

a. Durham County Council	£15,561,536
b. Northumberland County Council	£6,104,370
c. Tyne and Wear councils (detailed in table 7)	£61,100,000

- iv. Agree a transport revenue grant to Durham County Council for the delivery of transport services of £15,551,536, as outlined in section 2.6;
- v. Agree a transport revenue grant to Northumberland County Council for the delivery of transport services of £6,094,370 outlined in section 2.7;
- vi. Agree a transport revenue grant to Nexus for the delivery of transport services in Tyne and Wear of £55,666,667 and a contribution to the Metro Fleet Replacement Reserve of £3,333,333 as outlined in section 2.8;
- vii. Approve the budget for the Tyne Tunnels set out in section 2.10 and appendix 4, 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 31 January 2019; and
- viii. Agree the continuation of funding for the Regional Transport Team as set out in section 2.12;
- ix. Note the response made to the Government consultation on the Provisional Local Government Finance Settlement by the deadline of 10th January, expressing concern at a further cut in Government funding for concessionary travel in 2019/20; and agree that the Chair (in consultation with the Proper Officer for Transport and Chief Finance Officer, NECA) be given delegated authority to submit a response to Ministry of Housing, Communities and Local Government (MHCLG) consultation on future funding by 21st February, expressing a strong preference to keep a specific formula for concessionary travel funding, which recognises the different patterns of boardings around the country, as opposed to the current proposal to simply merge the funding into a foundation formula based mainly on resident population. Further information is set out in Appendix 5; and
- x. Note and take into account the comments received during consultation set out in section 2.13 and agree that a response be provided to the North East England Chamber of Commerce by the Chair on behalf of the Committee.

1. Background Information

- 1.1 This report sets out the proposed Transport revenue budget and levies for 2019/20 for consideration and approval. The draft budget proposals were presented to this committee on 20 November 2018. These have been the subject of consultation and this report sets out the proposed budget in more detail, taking into account the comments received during the budget process and the latest available information, including the recent provisional Local Government Finance Settlement for 2019/20.
- 1.2 The provisional Local Government Finance Settlement was announced on 13 December 2018. The national Settlement headlines were an extra £1.3bn for councils (including £650m for Social Care), with an average 2.8% cash terms increase in core councils' 'spending power' in 2019/20. Spending power is a combination of Government grants, retained business rate income and estimated income from the maximum increase in council tax income within the referendum limits that have been announced. There is a cash cut in Government funding, with an assumed increase in general council tax of 3%, (plus changes in the council tax base) and an additional increase in council tax to pay for adult social care.
- 1.3 The average increase in the North East area covered by the Joint Transport Committee was a lower 2.1% cash increase in 'spending power'. Once the additional funding for social care is excluded, the underlying change in cash spending power for all services including transport averages a cash reduction in Tyne and Wear of -0.7%; a 0% change in Durham and a 0.3% change in Northumberland. Part of the variation in the change in spending power is due to Government assumptions about changes in council's tax bases and changes in new homes bonus. It is clear that Government funding for Transport services is continuing to be cut once again, with cuts partly being offset by council tax income. It is in this context of continuing austerity related funding cuts and increasing social care cost pressures that the transport levy proposals that are set out in this report have been developed.
- 1.4 A response to the MHCLG consultation on the Provisional Local Government Finance Settlement for 2019/20 was submitted by the deadline of 10th January. This raised concerns about the further (7%) cut in the Government Funding for Upper Tier services, which includes a (10%) cut in the block that includes grant funding for Concessionary Travel. This brings the cut in grant funding for concessionary Travel to around 41% since 2015/16 and to over 60% since 2011/12, with no change in the statutory concessionary scheme. The funding gap in the North East is estimate to be c £29m.
- 1.5 MHCLG have also published a consultation paper about "A review of local authorities' relative needs and resources", which is likely to change the distribution of Local Government Funding in future years from 2020/21, with a deadline for response by 21 February 2019. A strong response is needed to the consultation paper's proposed treatment of Concessionary Travel funding. The paper proposes to replace the current formula, which reflect the different patterns of concessionary travel usage and simply include the funding within a foundation formula distributed mainly in line with resident population. This could result in a significant loss of funding for the Tyne and Wear area, further increasing the funding gap. Detailed evidence has been provided to the national Fair Funding Technical Working Group and the discussion at the group

supported the retention of a specific formula. It is disappointing that none of this work or evidence is reflected in the latest consultation paper. It is proposed that the Chair be given delegated authority to agree a response to the consultation paper in consultation with senior officers. Summary information is provided in Appendix 5 and a more detailed report on the implications of the consultation paper will be submitted to a future JTC meeting.

2. Proposals

Transport Revenue Budgets 2018/19 Forecast

- 2.1 This report provides a progress update in relation to the transport revenue budgets for the delivery agencies [Durham, Nexus (Tyne and Wear) and Northumberland] for 2018/19 of £83.647m. It presents the proposed budget for 2019/20 of £82.766m for approval, following a two-month consultation period.
- 2.2 As the Transport levies and revenue grants are normally fixed for the year, there is no change in Levies payable and minimal change in the Joint Transport Committee revenue budget itself. 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.
- 2.3 As the Transport levies and revenue grants are normally fixed for the year, there is no change in Levies payable and minimal change in the Joint Transport Committee revenue budget itself. 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.

The one significant change is a £3.333m reduction in the grant payable to Nexus in 2018/19, with £3.333m being held instead in a Metro Fleet Replacement Reserve as a second year contribution towards the match funding contribution that is required by the Department for Transport.

Table 1: 2018/19 Transport Levies and Grants

	2018/19 Original Budget	2018/19 Revised Forecast	Spend to date Nov 2018
	£000	£000	£000
Total Transport Levies	(83,648)	(83,648)	(55,765)
Grant to Durham	15,692	15,692	10,461
Grant to Northumberland	6,146	6,146	4,097
Grant to Nexus	59,700	56,367	39,800
Contribution to Metro Fleet Replacement Reserve	-	3,333	-
Retained Transport Levy Budget	2,110	2,110	1,139
Contribution (to)/from NECA Transport reserves	-	-	(268)

Budget and Levy Proposals for 2019/20

- 2.4 The overall total proposed net revenue budget for transport levies in 2019/20 is £82.766m as set out in Table 2 below. This represents a net reduction of £0.882m (1.1%) when compared to 2018/19.

Table 2: Transport Levies 2019/20

	Transport Levy	Change from 2018/19	Levy per person
	£	£	£/person
Durham	15,561,536	(135,330)	£29.72
Northumberland	6,104,370	(46,510)	£19.13
Tyne and Wear	61,100,000	(700,000)	£54.09
Total	82,766,370	(881,840)	

- 2.5 The variation in the figures for the levy per person reflect the higher costs of concessionary travel demand and capital financing costs in urban areas and demonstrates why three separate levies are required. The following table sets out a summary of the transport net revenue spending planned for 2019/20. Over £54.9m (66%) is planned to be spent on concessionary travel and over £15.5m 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.

Table 3: Summary of the 2019/20 Transport Budget

	Durham	Northum-berland	Tyne & Wear	Total
	£000	£000	£000	£000
Statutory Concessionary Travel	12,048	4,690	34,529	51,267
Discretionary Concessionary Travel	-	-	3,720	3,720
Subsidised Bus Services	2,583	1,230	11,731	15,544
Bus Stations/Infrastructure	163	24	2,531	2,718
Public Transport Information	89	25	1,206	1,320
Metro (incl. Discretionary Travel)	-	-	1,454	1,454
Heavy Rail	-	-	189	189
Ferry	-	-	1,008	1,008
Staffing in Durham/Northumberland	668	125	-	793
Use of Nexus Reserves	-	-	(700)	(700)
Contribution to Metro Fleet Replacement Reserve	-	-	3,333	3,333
Transport Grants	15,552	6,094	59,000	80,646
JTC General Transport Costs	10	10	50	70
Former T&WITA Costs	-	-	2,050	2,050
Transport Levy	15,562	6,104	61,100	82,766

2.6 Durham Transport Budget 2019/20

2.6.1 The budget and levy for public passenger transport activity in Durham is £15.552m and £15.562m respectively for 2019/20. This compares with an original budget of £15.697 for 2018/19 and a revised forecast for 2018/19 estimated at £15.412m. The budget and levy for 2019/20 are set out below. The budget for concessionary fares in Durham will rise from £11.940m to £12.048m. A negotiated settlement was reached with the bus operators taking into account expected usage and average fares, which resulted in an increase of 0.9%.

Table 4: Durham Transport Budget 2019/20

	Gross Expenditure	Income	Net Expenditure
	£	£	£
Concessionary Fares	12,057,795	(9,500)	12,048,295
Subsidised Services	4,389,971	(1,806,551)	2,583,420
Bus Stations	457,791	(314,211)	143,580
Bus Shelters	31,350	(12,120)	19,230
Passenger Transport Information	184,440	(95,514)	88,926
Staffing	668,085	-	668,085
Total Grant	17,789,432	(2,237,896)	15,551,536
Share of JTC Transport Costs	10,000	-	10,000
Net Expenditure	17,799,432	(2,237,896)	15,561,536

2.7 Northumberland Transport Budget 2019/20

2.7.1 The budget and levy for public passenger transport activity in Northumberland is £6.094m and £6.104m respectively for 2019/20. This compares with an original budget of £6.146m for 2018/19. The budget and levy for 2019/20 are set out below.

Table 5: Northumberland Transport Budget 2019/20

	Gross Expenditure	Gross Income	Net Expenditure
	£	£	£
Concessionary Fares	4,702,940	(12,940)	4,690,000
Subsidised Bus Services	1,776,740	(546,340)	1,230,400
Bus Stations	23,930	0	23,930
PT Information	25,000	0	25,000
Staffing	125,040	0	125,040
Total Grant	6,653,650	(559,280)	6,094,370
Share of JTC Transport Costs	10,000	0	10,000
Transport Levy	6,663,650	(559,280)	6,104,370

2.7.2 The net budget for 2019/20 is less than the comparable budget for 2018/19. The Concessionary Fares budget includes a small saving of £32k as a result of inflation, offset by a small (c2%) reducing passenger numbers. Increases in cost for inflation have been offset by a The budget for Bus Services is unchanged from its current level with no significant investment in the county's bus stations planned for 2019/20 and minor changes on staffing due to vacancies, restructures and an analysis of time spent on combined authority activities. The budgets assume that the grant received in respect of Bus Service Operators Grant will remain unchanged.

2.8 Tyne and Wear Transport Budget 2019/20

2.8.1 The budget and levy for Tyne and Wear is proposed to be £61.1m for 2019/20, which is a reduction of £0.7m when compared with the budget for the current year.

2.8.2 The revenue budget is made up of a retained budget for centrally held Tyne and Wear transport costs (primarily relating to the former Tyne and Wear Integrated Transport Authority (TWITA)), a Transport grant to Nexus and a contribution to the Metro Fleet Replacement Reserve, as summarised in Table 6.

Table 6: Allocation of Tyne and Wear Levy for 2019/20

	2018/19	2019/20	Change
Tyne and Wear Transport	2,100,000	2,100,000	-
Grant to Nexus	59,700,000	55,666,667	(4,033,333)
Contribution to Metro Fleet Replacement Reserve	-	3,333,333	3,333,333
Total Levy	61,800,000	61,100,000	(700,000)

2.8.3 The allocation of the Tyne and Wear transport levy between the constituent authorities is based on mid-2017 population estimates. The new levy proposed for 2019/20 is set out in the table below and outlined in more detail in Appendix 1.

Table 7: Tyne and Wear Transport Budget and Levy 2019/20

District	Population (2017 Mid- Year Estimate)	2019/20 Proposed Levy	Saving compared to 2018/19
Gateshead	202,419	£10,949,433	(£87,828)
Newcastle	295,842	£16,002,955	(£229,361)
North Tyneside	204,473	£11,060,540	(£70,618)
South Tyneside	149,555	£8,089,866	(£90,843)
Sunderland	277,249	£14,997,206	(£221,350)
Total	1,129,538	£61,100,000	(£700,000)

2.8.4 This £0.7m reduction would bring the overall reduction in the annual transport levy since 2010 to £16.9m, which has largely been achieved through efficiency savings and use of reserves, whilst protecting service outcomes to date. This level of saving while protecting service outcomes is a significant achievement, particularly in the light of the cost pressures that have been contained in respect of Concessionary Travel and outcomes in other areas of the country where there have been significant cuts in transport services.

Nexus Revenue Budget

2.8.5 The achievement of a range of efficiency savings in the current year has placed Nexus in a good position. Moving into 2019/20, Nexus will be able to set a balanced budget, save for the proposed £0.7m reduction in its grant from the levy, which will be funded from its revenue reserve in the first instance.

2.8.6 This means Nexus will be able to maintain frontline services in 2019/20 and its corporate objectives, as endorsed by the Tyne and Wear Sub Committee in November 2018, include a range of positive initiatives, whereby during 2019/20 Nexus will:

- Award contracts to design, build and maintain a new fleet of trains for the Tyne and Wear Metro and to design and build a new depot.
- Improve customers' journey experience on Metro.
- Continue the programme to modernise the Metro with track renewal, replacement of overhead power lines and the opening of a new Transport Interchange in South Shields.
- Open the new Learning Centre in South Shields, to provide a step change in how Nexus develops its people and makes Nexus an employer of choice.
- Ensure the North East's priorities for transport are properly reflected in Transport for the North's (TfN's) investment plans.
- Develop plans to expand Metro and local rail services, connecting communities not currently served by either Metro or Northern rail services.
- Implement organisational change to deliver efficiencies, ensuring Nexus achieves value for money.
- Protect levy funded frontline services and discretionary concessionary travel schemes.
- Develop plans to improve the local bus network and the use of new mobility services.

Deliver technological improvements, which will benefit customers and encourage wider use of public transport.

2.8.7 However, without any improvements to its funding over the medium term Nexus will need to work with the JTC and Tyne and Wear Sub Committee in regards possible service reductions during 2020/21 and future years.

2.8.8 A summary of the draft Nexus budget for 2019/20 and the use of the Transport grant is set out below, with further details given in Appendix 3.

Table 8: Summary of Nexus net budget for 2019/20

Service Area	Gross Expenditure	Grants and Income	2019/20 Net
	£000	£000	£000
Statutory Concessionary Travel	35,646	(1,117)	34,529
Discretionary Concessionary Travel	11,416	(7,696)	3,720
Metro	101,647	(100,193)	1,454
Ferry	1,563	(555)	1,008
Local Rail	448	(259)	189
Bus Services	15,147	(3,416)	11,731
Bus Infrastructure	3,561	(1,030)	2,531
Public Transport Information	1,495	(290)	1,205
Total Requirement	170,923	(114,556)	56,367
JTC Grant (Levy)			(55,667)
Use of Reserves			700

2.9 Retained Tyne and Wear Transport Budget

2.9.1 This budget relates primarily to activity inherited from the former Tyne and Wear Integrated Transport Authority TWITA, as well as some costs such as external audit and the cost of servicing the Joint Transport Committee, which relate to the whole JTC area. Further information on this is provided in Appendix 1. The majority of the budget relates to financing charges on historic supported borrowing debt. Additionally, there is budget provision to pay for support services, other supplies and services, and a repayment to the Tyne Tunnels account for use of reserves in 2013/14 to pay off the Tyne and Wear pension deficit.

2.9.2 The budget for this area of activity for 2019/20 is maintained at the same level as 2018/19. Scope for further savings is limited since the majority of the budget is for financing charges, and any savings cannot be fully confirmed until the position and

costs of a new Proper Officer for Transport post and the support required for the JTC is identified and agreed.

2.9.3 The proposed budget for 2019/20 is summarised in the table below with further detail in Appendix 2.

Table 9: Retained Transport Budget

	2018/19 Original Budget	2018/19 Forecast	2019/20 Proposed Budget
	£000	£000	£000
Support Services/Staffing	220	205	210
Administration and Governance	42	38	44
Financing Charges	1,798	1,798	1,785
Transport Joint Committee	50	20	70
TCF bid support	-	49	11
Total Expenditure	2,110	2,110	2,120
Contribution to JTC cost from Durham and Northumberland Levies	(10)	(10)	(20)
Contribution from Tyne and Wear Levy	(2,100)	(2,100)	(2,100)
Total Contribution from Levies	(2,110)	(2,110)	(2,120)

2.9.4 The Tyne and Wear (former TWITA) Transport Revenue reserves are estimated to be £0.513m at the year-end as a result of a breakeven forecast for the year. Up to £0.100m of this reserve could be available to support the bid preparation for the Transforming Cities Fund Bid in addition to the specific allocation of £0.06m shown above and this will be the subject of a future report to the Joint Transport Committee. Support to the Transport Joint Committee includes a contribution to the costs of the Proper Officer for Transport as set out in a separate paper on this agenda.

2.10 Tyne Tunnels

2.10.1 The Tyne Tunnels are accounted for as a ring-fenced account, meaning that all costs relating to the tunnels are wholly funded from the tolls and Tyne Tunnels reserves, with no call on the levy, council tax payers or Government funding at all.

Table 10: Tyne Tunnels Revenue Budget

	2018/19 Original Budget	2018/19 Forecast	2019/20 Proposed Budget
	£000	£000	£000
Tolls Income	(25,970)	(26,730)	(28,090)
Contract payments to TT2	19,480	20,298	21,197
Employees	33	-	-
Pensions	54	50	52
Support Services	80	95	95
Supplies & Services	45	30	45
Financing Charges	6,579	6,594	6,966
Interest/Other Income	(50)	(90)	(50)
Repayment from TWITA for temporary use of reserves	(240)	(240)	(240)
(Surplus)/Deficit on Tyne Tunnels revenue account met from reserves	11	7	(25)

- 2.10.2 The operational management from the client side is currently carried out by Newcastle City Council on behalf of NECA. This support is currently under review and there is the potential for arrangements to change to reflect changes in regional Transport governance during 2019/20. Details of these arrangements will be reported to the Tyne and Wear Sub Committee.
- 2.10.3 The 2019/20 budget figures shown in the table above assumes an increase in tolls for both Class 2 and Class 3 vehicles in line with inflation as measured by the Retail Price index. It is proposed that the toll for Class 2 Vehicles (cars and light goods vehicles) be increased by 10p from £1.70 to £1.80 and that the toll for Class 3 vehicles (Heavy Goods Vehicles) be increased by 20p from £3.40 to £3.60 in spring 2019. This has been discussed in greater detail with the Tyne and Wear Sub Committee and is recommended for approval at the meeting on 31 January 2019.
- 2.10.4 The increase in toll income in 2019/20 as a result of the increase in tolls is estimated to be £1.56m. Without an increase in tolls the Tyne Tunnels account would operate at a deficit of £1.54m, next year which would be unsustainable over the life of the concession.

- 2.10.5 In terms of the formal process for the increase in Tolls, the proposed increase has been recommended by the Tyne and Wear Sub-Committee (TWSC) and a decision to increase tolls will be taken by the TWSC in January. It is proposed that the JTC approves the budget for the Tunnels which includes the effect of the toll increase recommended by TWSC. NECA, as the Host Combined Authority for Transport will implement the decision by advertising the proposed increase and notifying the Department for Transport, and the increase will be implemented by TT2 Ltd at a date to be determined, anticipated to be in March or April 2019.
- 2.11 **Transport Accountable Body Costs**
- 2.11.1 The costs of the Accountable Body for Transport currently form part of the NECA Corporate Budget. The total NECA Corporate costs budget in 2018/19 was £379k, which after interest receipts resulted in a £300k net cost contribution which was shared equally between the seven local authorities.
- 2.11.2 An exercise to estimate the costs of the role of “accountable body for Transport” in 2018/19 produced an estimated gross cost of £104k, which after interest receipts were deducted, arrived at an estimated net cost of £71k, equivalent to £10,143 per authority.
- 2.11.3 The JTC has agreed that NECA will continue to carry out the role of the accountable body for transport. The estimated net cost of this role for 2019/20 is being calculated and will be reported to the NECA Leadership Board for approval on 5th February and will be reported in more detail to the next meeting of the Joint Transport Committee. At this time it is assumed that the cost in 2019/20 will continue to be at or below the estimated cost in 2018/19. The contribution to fund these costs does not form part of the Transport levies and it will need to continue to be funded by all seven councils as a separate contribution in 2019/20.
- 2.12 **Regional Transport Team**
- 2.12.1 The Regional Transport Team budget is to support the Joint Transport Committee and North East LEP as a whole, on a seven authority basis. The budget includes salary costs and the items required to ensure a functional central resource across the JTC area including the development of the Transport Manifesto and Transport Plan and various research projects where value can be added at a regional level including modelling works, major schemes bid development, including Transforming Cities fund, the Freight Quality Partnership and other research studies. During the year the team has also taken on the role of providing support to the Consortium of East Coast Main Line Authorities (ECMA), the costs of which are partly met through a recharge to other member authorities. Staffing costs for 2019/20 assumes that staff within the team currently employed by Newcastle City Council will transfer to the employment of NECA with effect from 1 April 2019. This has the effect of reducing superannuation contributions to 0% from 2019/20 for several years (likely to be at least 4 years).
- 2.12.2 The budget for 2019/20 is proposed to be £0.823m which is a reduction of £0.148m compared to the original budget for 2018/19. This is due mainly to reductions in external funding for the team. This budget is summarised in the table below.

Table 11: Regional Transport Team Budget

	2018/19 Original Budget	2018/19 Revised Forecast	2019/20 Proposed Budget
Expenditure	£000	£000	£000
Staffing	487	368	447
Contribution to Proper Officer for Transport	29	29	40
LTP4 Development	50	11	50
Research and Grant Bid Development	199	145	180
Transforming Cities Fund support	0	0	100
Miscellaneous	6	7	6
Go Smarter Legacy (SUD Bid/Match Funding)	200	6	-
Total Expenditure	971	566	823
Funded by:			
LTP Integrated Transport Block	(500)	(500)	(500)
LGF Programme Management	(150)	(60)	(100)
Go Smarter Legacy Funding	(200)	(6)	(100)
Carried forward balances from previous years	(121)	-	(123)
Total Funding	(971)	(566)	(823)

2.13 Consultation

2.13.1 The draft transport budget proposals for 2019/20 were published in November, commencing the two-month consultation period required by the constitution. Meetings have been held with the NECA Audit and Standards Committee, NECA Overview and Scrutiny Committee, JTC Audit Committee and JTC Overview and Scrutiny Committee, with the North East England Chamber of Commerce and with officer groups including Chief Executives and Finance Directors.

2.13.2 A range of questions were raised and answered at the meetings. Comments received at the time of the preparation of this report are summarised below, with

initial responses. Further comments will be provided at the meeting, including any transport related comments from the public and the North East England Chamber of Commerce.

Comment / Issue	Draft Response
<p>NECA Audit Committee</p> <p>The Committee recognised the budget pressures facing councils and the efforts taken to maintain front line services. Members highlighted the need for levy reductions to be sustainable and highlighted the importance of sufficient officer capacity, particularly at senior level, being available to deliver the objectives of the JTC, and to provide resilience in the delivery of services, particularly by Nexus, given the need to maintain existing services and renew /extend the Metro system.</p>	<p>The issue of sufficient senior capacity within Nexus will be addressed by Nexus and through the establishment of the Proper Transport Officer arrangements and will be the subject of future reports to the Joint Transport Committee.</p> <p>The sustainability of any future levy changes will be a key issue for members of the JTC over the next few years.</p>
<p>JTC Audit Committee</p> <p>The members of the committee asked that further information be provided in the budget report about the assumptions behind the changes in the concessionary travel budgets for each of the three areas in 2019/20.</p> <p>The importance of sustainability of Transport funding in future years was highlighted.</p>	<p>Further details about the assumptions relating to concessionary travel costs have been included in this report and further information will be provide to members of the Audit and the Overview and Scrutiny committees. This will include information about how the settlements for concessionary travel payments are negotiated with the commercial operators.</p>
<p>JTC Overview and Scrutiny Committee</p> <p>Members asked whether the option of providing discretionary travel support for older people aged over 60 who had not reached state pension age and were not entitled to free concessionary travel had been considered. It was noted that discretionary travel had been provided in Merseyside and concessions were also given in London. A request was made that the Committee look at this issue as well as other issues related to concessionary travel as part of their work programme for 2019/20.</p>	<p>The Government had changed the eligibility age for statutory concessionary travel to bring it into line with the state pension age outside of London. This helped to contain the costs of concessionary travel funded by Government grant.</p> <p>While a couple of areas including Merseyside had made discretionary arrangements, this was at a significant additional cost. Although costs are difficult to predict due to uncertainty of the volume of usage, an indicative estimate of cost could exceed £10m a year, requiring a significant increase in</p>

	<p>the Transport Levies and/or considerable cuts in transport services.</p> <p>Information would be provided for the members of the Overview and Scrutiny Committee and the members of the JTC as part of the consideration of options for future years' budgets.</p>
<p>NECA Overview and Scrutiny Committee</p> <p>A range of questions were asked and answered. The background to the funding of the Tyne Tunnels was discussed in some detail, including the reason for the increase in toll income to keep pace with inflation and to cover the increased charges to TT2 the concession operator which increase in line with the RPI index each year.</p>	<p>Additional information is set out in the report ab the appendix about the background to the financing of the Tyne Tunnels by tolls and the need for increases to keep pace with inflation.</p>
<p>North East Chamber of Commerce</p> <p>The importance of maintaining good Transport systems to support business was highlighted. No specific points on the budget proposals were raised at the officer meeting with the NEECC. A written response is due shortly and any transport comments will be circulated.</p>	

3. Reasons for the Proposals

- 3.1 The proposals are presented in this report to enable the Joint Transport Committee to set its budget for 2019/20.

4. Alternative Options Available

- 4.1 Option 1: JTC may accept the recommendations set out in this report.
Option 2: JTC may not accept the recommendations set out in this report.
Option 1 is the recommended option. If the recommendations in this report are not agreed a special meeting of the JTC will need to be urgently arranged in order to agree a 2019/20 Transport Budget and Levies before the statutory date of 15th February.

5. Next Steps and Timetable for Implementation

- 5.1 The Transport Budget and levies agreed by the Joint Transport Committee will be included in the budget reports to the two combined authorities, who will formally issue the levies to the constituent councils. NECA will implement the proposals as the accountable body of the Joint Transport Committee and will produce regular

budget monitoring reports to the Joint Transport Committee during the year about the transport activities undertaken by the various delivery bodies during the year.

- 5.2 In the event that the budget and levies cannot be agreed unanimously at this meeting, a special meeting will be urgently arranged to consider and agree the levies for 2019/20 before the statutory date.

6. Potential Impact on Objectives

- 6.1 The JTC budget reflects the Transport policy objectives of the committee and is set at a level to deliver these objectives, within the funding constraints of the Levies.

7. Financial and Other Resources Implications

- 7.1 Financial and other resource implications are summarised in the main body of the report.

- 7.2 The Chief Finance Officer is required to report to the Authority on the adequacy of proposed level of financial reserves. The proposed levels of reserves of around £0.4m for Tyne and Wear Transport and around £18m for the Tyne Tunnels are considered to be adequate. Reserves are also held separately by the various Transport delivery agencies.

8. Legal Implications

- 8.1 The JTC must approve the transport budget, levies and tolls unanimously. The Leadership Board must approve the final overall budget proposals unanimously (incorporating the budget approved by the JTC). Transport Authorities (NECA and NTCA) are required to set their transport levies by 15 February proceeding 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 joint transport committee.

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.

12. Consultation/Engagement

- 12.1 The NECA Constitution requires that consultation on its budget proposals be undertaken at least two months prior to the budget being agreed. The draft

proposals have been subject to consultation with the Overview and Scrutiny Committee, Audit and Standards Committee, constituent councils and the North East England Chamber of Commerce. Comments raised as part of the consultation process have been taken into account in the preparation of the final report and details are set out in section 2.12.

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 in Tyne and Wear
Appendix 2 – NECA Transport Levy Budget
Appendix 3 – Nexus Budget Proposals 2019/20 Detail
Appendix 4 – Tyne Tunnels 2018/19 Forecast and 2019/20 Budget
Appendix 5 – Government Funding of Concessionary Transport

15. Background Papers

15.1 NECA Leadership Board Budget 2018/19 and Transport Levies report 16 January 2018

<https://northeastca.gov.uk/wp-content/uploads/2018/03/Leadership-Board-16-January-2018-Agenda-Pack.pdf>

JTC Budget and Transport Levies report 20 November 2018

<https://northeastca.gov.uk/wp-content/uploads/2018/11/North-East-Joint-Transport-Committee-20-November-2018-Supplemental-Agenda-Pack.pdf>

MHCLG Consultation paper “A review of local authorities’ relative needs and resources”

16. Contact Officers

16.1 Paul Woods, Chief Finance Officer NECA, (as the accountable body for the Joint Transport Committee), paul.woods@northeastca.gov.uk, 07446936840

Eleanor Goodman, Principal Accountant NECA,
eleanor.goodman@northeastca.gov.uk, 0191 277 7518

17. Sign off

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

Appendix 1 – Transport Levy Arrangements in Tyne and Wear

Transport Levy Arrangements – 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 two years prior to the levying year).

For the 2019/20 levy, this is the 2017 Mid-Year estimates published by the Office for National Statistics. The population estimates for 2016 and 2017 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.

	2016 MYE	2017 MYE	Change	
	People	People	People	Percentage
Gateshead	201,592	202,419	827	0.41%
Newcastle	296,478	295,842	-636	-0.21%
North Tyneside	203,307	204,473	1,166	0.57%
South Tyneside	149,418	149,555	137	0.09%
Sunderland	277,962	277,249	-713	-0.26%
Total Tyne & Wear	1,128,757	1,129,538	781	0.07%

Apportioning the proposed levy of £61,100,000 gives the following figures for Tyne and Wear:

	2018/19 Levy	2019/20 Levy	Saving compared to 2018/19	
	£	£	£	%
Gateshead	11,037,261	10,949,433	-£87,828	-0.80%
Newcastle	16,232,316	16,002,955	-£229,361	-1.41%
North Tyneside	11,131,158	11,060,540	-£70,618	-0.63%
South Tyneside	8,180,709	8,089,866	-£90,843	-1.11%
Sunderland	15,218,556	14,997,206	-£221,350	-1.45%
Total Tyne & Wear	61,800,000	61,100,000	-£700,000	-1.13%

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 decision 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 DCLG 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 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:

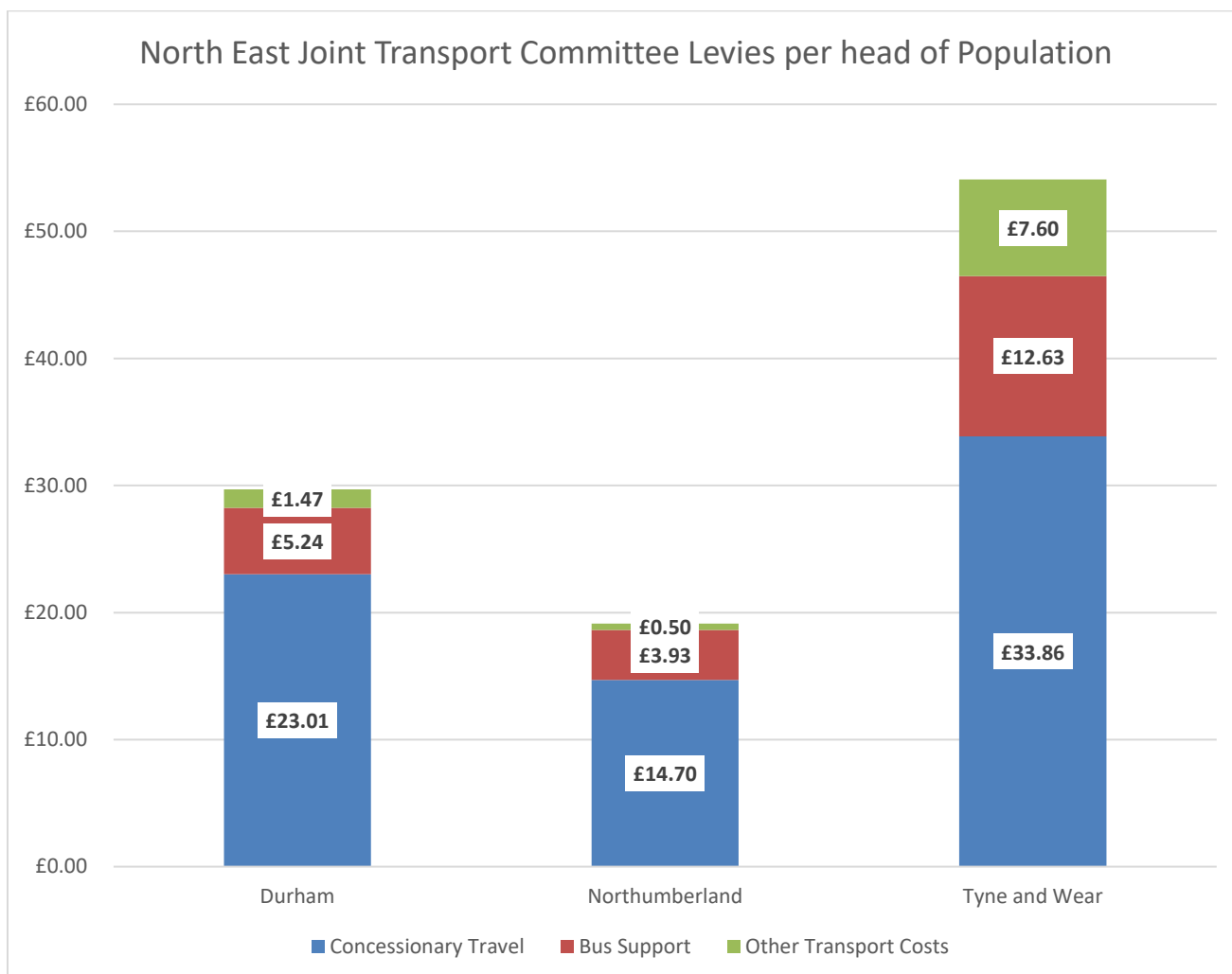
In Northumberland and Durham the vast majority of the Levy relates to grant paid back to the councils as the delivery agents for the operational transport activities in their areas. There is an additional charge to all three levies for cross-cutting transport activities for all parts of the JTC area. The calculation of the proposed charge for 2019/20 is set out below:

	Durham	Northumberland	Tyne & Wear	Total
	£	£	£	£
Internal/External Audit Fee (allocation for Transport)	500	500	34,000	35,000
Finance and Accounting	1,500	1,500	45,000	48,000
JTC Support Costs	3,000	3,000	15,000	21,000
TWSC Support Costs	0	0	11,000	11,000
Proper Officer for Transport	5,000	5,000	25,000	35,000
Total	10,000	10,000	130,000	150,000

Comparative Cost Analysis – Transport Budgets

The relative levels of the levies are shown in the following chart, highlighting the very different cost per head of population in Northumberland and Durham compared with Tyne and Wear, mainly due to the higher costs of concessionary travel; supported bus services and capital financing costs.

Chart 1: JTC Levies per head of population - 2019/20 Proposed Levies

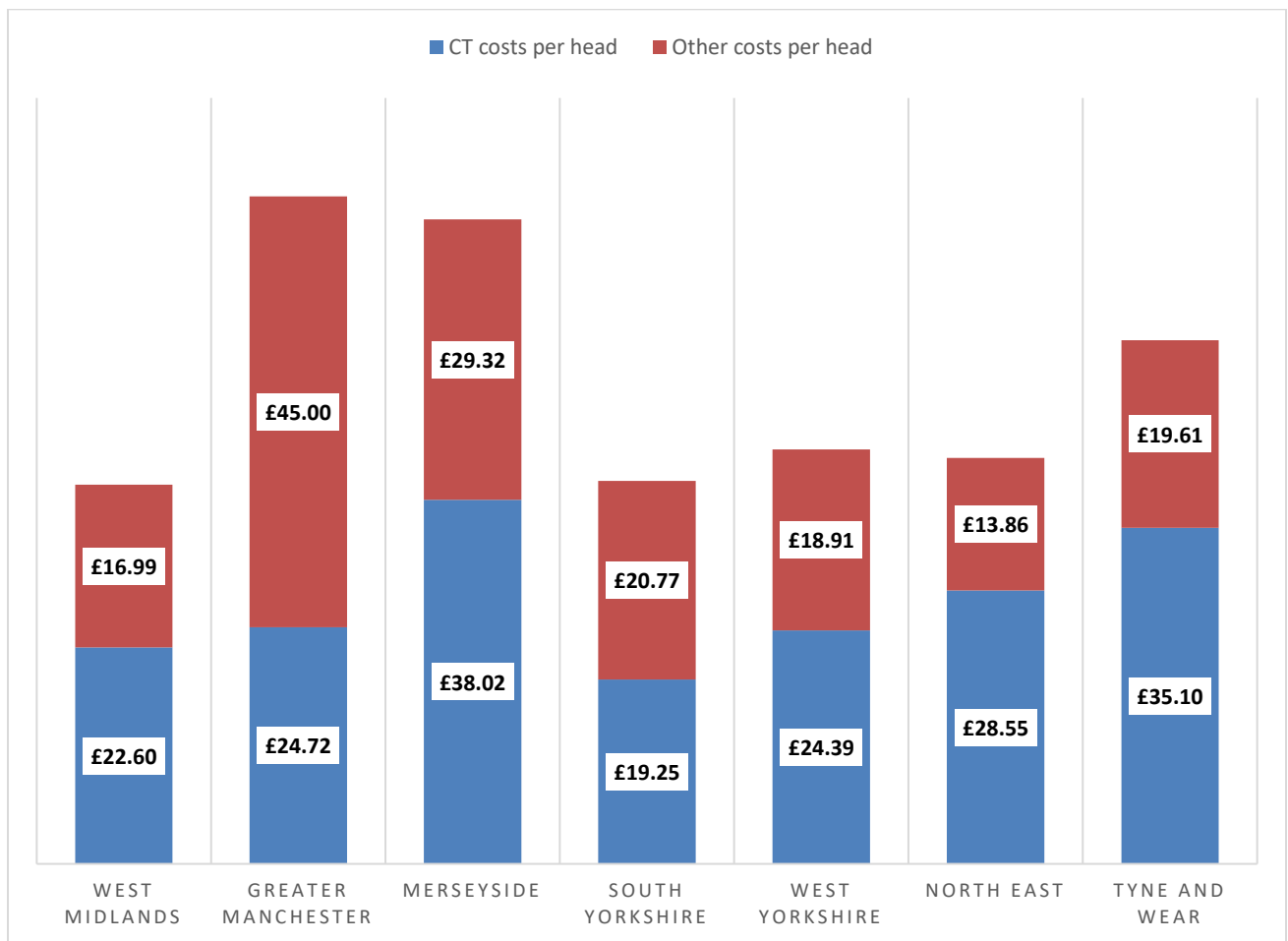


The costs per head of population in Tyne and Wear are higher because they reflect a significantly higher level of concessionary travel activity and the support for secured bus services to provide accessible transport services across the county. 'Other' also includes capital financing costs relating to transport schemes which are not included in the other levies.

In recent years the significant saving to districts in Tyne and Wear from reductions in the levy and retention of concessionary travel grants have resulted in total annual savings of £16m (18.5% in cash terms and over 22% in real terms) since 2011, with no material reduction or detrimental impact on service outcomes. At the same time population has risen slightly by 0.5%.

A comparison of levy per head of population in metropolitan areas for 2018/19 (the most recent year for which data is published) shows that while Tyne and Wear had the third highest levy per person at £55, this was a direct result of the higher concessionary travel costs due to its high proportion of the population who are ENCTS pass holders, and pass holders' extensive use of the pass.

Chart 2: Relative Transport costs per head of population – 2018/19 costs



*Greater Manchester includes capital financing for transport activity and has been adjusted between their Transport and Waste Levy in order to show the true level of transport costs.

Appendix 2 –Transport Levy Budget

	2018/19 Original £	2018/19 Revised £	2019/20 Original £
Transport Levies			
Durham	(15,696,866)	(15,696,866)	(15,561,536)
Northumberland	(6,150,880)	(6,150,880)	(6,104,370)
Tyne and Wear	(61,800,000)	(61,800,000)	(61,100,000)
Total Levies	(83,697,746)	(83,697,746)	(82,765,906)

Transport Grants			
Durham	15,691,866	15,691,866	15,551,536
Northumberland	6,145,880	6,145,880	6,094,370
Tyne and Wear (Nexus)	59,700,000	56,366,667	55,666,667
Metro Fleet Replacement reserve	-	3,333,333	3,333,333
Total	81,537,746	81,537,746	80,645,906

Centrally Held Costs (mainly Tyne and Wear)			
Service Level Agreement	220,000	205,630	200,000
External Audit Fee (Transport element)	13,000	15,000	15,000
Independent Members Allowances and expenses (Transport element)	5,000	5,000	5,000
Conferences, Travel and Subsistence	2,000	500	2,000
IT Development/Website	12,000	12,000	12,000
Supplies and Services	10,000	5,000	10,000
Transport Joint Committee Support	50,000	20,000	70,000
Transforming Cities Fund Bid Support	-	48,870	21,000
Repayment to Tyne Tunnels (for Pension Deficit payment)	240,000	240,000	240,000
Financing Charges – Interest and DME	1,028,900	1,028,600	1,015,900
Financing Charges – MRP	529,100	529,100	529,100
Net Expenditure	2,110,000	2,110,000	2,120,000

Contribution (to)/from Reserves 0 0 0

Tyne and Wear Transport Reserve	2018/19 Original	2018/19 Revised	2019/20 Original
Reserves brought forward	(475,000)	(513,000)	(513,000)
Reserves contribution in year	-	-	
Reserves carried forward	(475,000)	(513,000)	(513,000)

Appendix 3 – Nexus Revenue Budget

Nexus Revenue Budget 2019/20 and Indicative Forecast to 2021/22

A Recap: Nexus Budget Performance 2018/19

1. At its January 2018 meeting, the Leadership Board agreed that Nexus could run a budget deficit amounting to £1.934m in 2018/19, which would be funded using its reserves.
2. In the Revenue Budget Monitoring Report to Transport North East Committee on 11 October 2018, Nexus reported that it had made a permanent reduction to its base budget and it was now reporting a £1.200m surplus for 2018/19. Further to this, another permanent budget adjustment of £0.225m relating to employee costs has been made, reducing the surplus to £0.975m.
3. The adjustments to Nexus' base budget are shown in the table below:

	£m	£m
Base budget deficit 2018/19		1.934
Budget Savings		
Concessionary travel	(0.830)	
Metro fare income	(0.800)	
High voltage power	(0.500)	
Secured services	(0.310)	
Investment income	(0.080)	
Scholars income	(0.200)	
Employees	(0.075)	
Other	(0.257)	(3.052)
Budget Pressures		
Commission income	0.060	
Inflationary adjustments	0.058	
Departure charges	0.025	0.143
Nexus revised base budget surplus 2018/19		(0.975)

Formulation of the 2019/20 Budget and Corporate Objectives

4. The achievement of a range of efficiency savings in the current year has placed Nexus in a good position. Moving into 2019/20, Nexus will be able to set a balanced budget, save for the proposed £0.700m cut to its grant from the Joint Transport Committee, which will be funded from the revenue reserve.
5. This means Nexus will be able to maintain frontline services next year and its corporate objectives, as endorsed by the Joint Transport Committee's Tyne and Wear Sub-

Committee in November 2018 (minute 5 refers) include a range of positive initiatives, whereby during 2019/20 Nexus will:

- Award contracts to design, build and maintain a new fleet of trains for the Tyne and Wear Metro and to design and build a new depot.
- Improve customers' journey experience on Metro.
- Continue the programme to modernise the Metro with track renewal, replacement of overhead power lines and the opening of a new Transport Interchange in South Shields.
- Open the new Learning Centre in South Shields, to provide a step change in how Nexus develops its people and makes Nexus an employer of choice.
- Ensure the North East's priorities for transport are properly reflected in Transport for the North's (TfN's) investment plans.
- Develop plans to expand Metro and local rail services, connecting communities not currently served by either Metro or Northern rail services.
- Implement organisational change to deliver efficiencies, ensuring Nexus achieves value for money.
- Protect levy funded frontline services and discretionary concessionary travel schemes.
- Develop plans to improve the local bus network and the use of new mobility services.
- Deliver technological improvements, which will benefit customers and encourage wider use of public transport.

6. However, without any improvements to its funding over the medium term Nexus will need to work with the Sub-Committee (and the Joint Transport Committee) in regards possible service reductions during 2020/21 and future years.

Budget 2019/20

7. The table below shows the movement 'base on base'.

	£m	£m
Base budget 2018/19		(0.975)
Grant Funding	0.321	
Metro Farebox	(0.743)	
Employees	1.758	
Key Contracts	1.614	
Savings	(1.274)	1.675
Base budget 2019/20		0.700

8. The key movements are discussed in further detail below:

- a. Grant Funding – as previously highlighted, the grant from the Joint Transport Committee is set to reduce by £0.700m whilst Metro Rail Grant which is set to increase, is estimated to do so by a lesser amount (£0.379m);

- b. Metro Farebox – the revenue estimate for 2019/20 includes the impact of the January 2019 fares review as agreed at the Joint Transport Committee, Tyne and Wear Sub Committee on 30 November 2018. Whilst Metro farebox is currently estimated to grow by £0.743m in 2019/20, it should be recognised that there remains a degree of volatility in regards to this budget and a 1% adverse variance would eradicate two-thirds of this estimated growth;
 - c. Employees – comprising pay inflation and incremental progression;
 - d. Key Contracts – comprising inflationary pressures relating to key contracts such as High Voltage Power, the Network Rail Track Access Charge, South Shields Transport Interchange and Secured Bus Services;
 - e. Savings – Other savings have been made across the revenue budget with the major savings being in relation to the English National Concessionary Travel Scheme (ENCTS) and ICT Infrastructure.
9. Outside of the budget highlighted in the table above is an item of expenditure amounting to £1.560m, which in line with accounting treatment at the end of 2017/18, relates to critical investment in the ageing fleet of Metrocars. This cost will be capitalised in 2018/19 (and 2019/20) and earmarked to fund an expected increase in costs during the period in which the Train Services Agreement (TSA) for the maintenance of the new fleet will also extend to the existing fleet, prior to its disposal. This item is being retained within the base revenue budget such that it is available to fund the TSA once the contract for maintenance of the fleet becomes operational from 2020/21.
10. In addition, for the third consecutive year, during 2019/20 there will be a contribution of £3.333m to the Metro Fleet Renewal reserve, funded by a temporary, one-off adjustment to the grant payable to Nexus. This will increase this reserve, which is held by the NECA on Nexus' behalf, to £10.000m thereby achieving the £25.000m match funding contribution required by the DfT (the other £15.000m is held separately by Nexus in its own capital reserve). This expenditure item is also not reflected in the budget detailed in the table above.
11. The table at paragraph 22 and at Annex 1 provides a breakdown of the amount of funding each service area will place reliance on in respect of the Joint Transport Committee grant in 2019/20. This is after internal recharges for indirect activities and overheads, commercial revenue generated in the delivery of the service, government grant and releases from the capital grants deferred account. In regards this latter point, an unusable reserve is established when a fixed asset funded by government grant is acquired, so that in future years, the reserve is released from the balance sheet to match (offset) the depreciation charged to the revenue account reflecting the use of the asset in the provision of services. The majority (but not all) of Nexus' depreciation is offset in this way, reflecting the major reliance upon government grant as a means of investing in its asset base, in particular the Tyne and Wear Metro system.
12. Whilst Annex 1 illustrates how each service area is to be funded from the Joint Transport Committee grant in 2019/20, it does not breakdown the Nexus budget in its entirety. This is provided in more detail at Annexes 2, 3 and 4 which illustrates:-

- The full range of cost centres where income and expenditure is recorded in pursuit of Nexus' business plan objectives (refer to Annex 2)
- The net cost of Nexus' support services and other indirect activities for example, Legal Services, Health and Safety, Retail Sales etc. which are fully allocated across the service areas included in Annex 1 (refer to Annex 3)
- A 'subjective analysis' of Nexus' gross income and expenditure, for example, Employee costs, Premises costs, Transport related expenditure etc. (refer to Annex 4)

13. Further narrative in relation to Joint Transport Committee grant funded expenditure is detailed below:-

- **ENCTS** - £34.529m, comprising the net cost of the 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. TCA's and bus operators utilise DfT guidance in determining the value of payments due but in essence, Nexus has virtually no control over this sizeable burden on its Joint Transport Committee grant funded expenditure.
- **Discretionary CT** - £3.720m, comprising the discretionary add-ons to the ENCTS (the all day disabled pass, the companion pass, post 2300 hour boardings, and pre 0930 hour boardings for the purposes of attending medical appointments), the Metro Gold Card Scheme, the Under 16 Scheme and Teen Travel.
- **Metro** - £1.454m, comprising the contribution that the Joint Transport Committee grant makes to the cost of Metro operations. This also includes a budget for the internal and external resources required for the replacement of the Metrocar fleet, together with the the development of proposals for future extensions.
- **Ferry** - £1.008m, comprising staffing, fuel, maintenance, cleaning and security.
- **Local Rail** - £0.189m, 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 Joint Transport committee.
- **Bus Services** - £11.731m, 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** - £2.531m, comprising staffing, cleaning, maintenance and security of bus interchanges, stations and shelters.
 - **Public Transport Information** - £1.206m, 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.

Nexus' Reserves

14. In agreeing Nexus' revenue budget for 2019/20, particularly bearing in mind that there will be a requirement to use £0.700m of reserves, the Joint Transport Committee will need to pay due regard to Nexus' reserves position and its overall financial standing.
15. Nexus has usable reserves, which are classified as revenue and capital. The balance at 31 March 2018 was £47.900m with £14.747m classified as revenue and £33.153m classified as capital.
16. After taking into account the forecast surplus in 2018/19 together with adjustments relating to one-off items such as ferry landing repairs and the planned release of £1.560m to the fleet transition reserve (paragraph 9 refers) the balance on Nexus' usable revenue reserve as at 31 March 2019 is forecast to be £16.974m. This will increase to £17.834m in 2019/20 following:
- Servicing the planned £0.700m deficit; and
 - A further release of £1.560m to the fleet transition reserve.
17. The table at paragraph 22 below shows the medium term forecast 'at standstill' and with revenue reserves also earmarked for planned commitments such as the release of £4.680m for fleet transition from 2021/22, if expenditure commitments are left unchecked and income does not grow significantly, Nexus' revenue budget is not sustainable.
18. The balance on Nexus' capital reserve as at 31 March 2019 is forecast to be £32.162m. Of this, £15.000m has previously been earmarked to part fund the local contribution necessary to pay for the new fleet of Metrocars and £3.912m to fund expenditure required on digital asset renewals and the Ferry, something that is explained in the capital programme report considered elsewhere on this agenda.
19. Additionally, and as further explained in the capital programme report, because Nexus' existing funding agreement with DfT for the Metro Asset Renewal Programme ends in 2020/21, £8.208m of capital reserves has been set aside in order to provide for over-programming. The implication of having to do this means that Nexus' capital reserves balance at 31 March 2022 is forecast to reduce significantly, to around £6.033m, although capital reserves would be higher than this, should Nexus' application to the government's

next spending review (SR19) be successful. At this point, some of this reserve would be unearmarked and therefore available for other uses, possibly by this time next year.

Balancing the Budget beyond 2019/20

20. Looking towards 2020/21 and 2021/22, without improvements to its current level of funding from the Joint Transport Committee and Nexus' future likely expenditure commitments at 'standstill', it is probable that service reductions will be necessary.

21. It is likely that potential service reductions will need to be in the context of previous consultation carried out by Nexus (under the NECA's Tyne and Wear Transport Subcommittee's direction) during the summer of 2016. Members will recall that because of the way in which Metro is funded i.e. it places little reliance on grant provided by the NECA, it was specifically excluded from the consultation. Of those services that were consulted on, broadly speaking, the consultation showed a preference for the following services, in priority order:-

- i. Bus services, Group travel and Ferry Services
- ii. Public Transport Information
- iii. Local Discretionary Concessions
- iv. Bus Waiting Facilities
- v. Major Projects (although members of the Sub-Committee did express a strong view that Nexus' ability to part fund Major projects and/or pay for their development was vitally important).

22. At 'standstill' Nexus' expenditure requirement will continue to grow and without improvements to the grant it receives from the Joint Transport Committee the base budget imbalance will increase. The base budget imbalance in 2020/21 will therefore be £3.399m, and this could increase to £6.744m by 2021/22. This is shown in the table below with the 2018/19 revised base budget also shown as a comparator:

FINANCIAL SUMMARY	2018/19 Net	2019/20 Net	2020/21 Net	2021/22 Net
Service Area	£m	£m	£m	£m
ENCTS	34.977	34.529	34.594	35.350
Discretionary CT	3.717	3.720	3.679	3.867
Metro	0.572	1.454	3.605	5.283
Ferry	1.027	1.008	1.062	1.128
Local Rail	0.113	0.189	0.199	0.215
Bus Services	11.330	11.731	12.116	12.615
Bus Infrastructure	2.045	2.531	2.576	2.632
Public Transport Information	1.612	1.206	1.234	1.321
TOTAL REQUIREMENT	55.392	56.367	59.066	62.411
JTC GRANT (LEVY)	(56.367)	(55.667)	(55.667)	(55.667)
(SURPLUS)/DEFICIT	(0.975)	0.700	3.399	6.744

23. The reason for the growth in the net budget is largely because 'at standstill' Nexus' expenditure commitments e.g. pay inflation, ENCTS reimbursement, other key contractual obligations (High Voltage Power, the Network Rail Track Access Charge and Secured Bus Services) increase at a faster rate than the growth in fare revenue, whilst grant income continues to reduce. In addition, at this stage, the £3.333m saving referred to in paragraph 10 above has not been factored into the medium term forecast. The extent to which Nexus can reasonably expect to utilise this funding is dependent on the March 2019 pension valuation.

24. Nexus' overall position would be clearly exacerbated should the grant receivable from the Joint Transport Committee reduce any further than the indicative levels set out in this report.

25. And, it should be noted that at this stage, the assumption in 2020/21 and 2021/22 is that Metro (revenue) Rail Grant will continue at the 2019/20 level. However, this is far from certain and is contingent upon further negotiations with the Department for Transport (DfT) and HM Treasury with an application for future funding being made through the next government spending review (SR19). In this regard, work is underway to discuss with the Joint Committee's Tyne and Wear Sub-Committee, the implications of reductions in Nexus' revenue grant funding from DfT. A report will be presented to the Sub-Committee meeting scheduled to take place on 31 January 2019.

26. Further, Nexus is in receipt of over £1m in respect of other DfT grant, namely Bus Service Operator Grant (BSOG) and Rail Administration Grant (RAG) both of which are included

in the medium term financial forecast at current levels, but the certainty surrounding the future of both of these grants remains unclear and represent a further risk in Nexus' budget.

ANNEX 1 – Nexus Summary Revenue Budget Requirement 2019/20

Revenue Budget 2019/20

	Direct Costs	Income	Net Direct Costs	Indirect Costs	Grants	Loan Interest	Capital Adjustments	2019/20 Net
	£m	£m	£m	£m	£m	£m	£m	£m
ENCTS	34.999	(1.094)	33.905	0.647	0.000	0.000	(0.023)	34.529
Discretionary CT	11.193	(7.688)	3.504	0.223	0.000	0.000	(0.008)	3.720
Metro	92.460	(49.640)	42.820	7.904	(26.090)	1.283	(24.463)	1.454
Ferry	1.139	(0.338)	0.801	0.407	0.000	0.017	(0.218)	1.008
Local Rail	0.216	0.000	0.216	0.215	(0.252)	0.017	(0.007)	0.189
Bus Services	13.887	(2.476)	11.410	1.248	(0.891)	0.012	(0.048)	11.731
Bus Infrastructure	2.793	(0.617)	2.176	0.489	0.000	0.279	(0.414)	2.531
Public Transport	0.603	(0.096)	0.507	0.857	0.000	0.035	(0.194)	1.206
TOTAL REQUIREMENT	157.290	(61.951)	95.340	11.990	(27.233)	1.643	(25.373)	56.367
JTC GRANT (LEVY)								(55.667)
DEFICIT								0.700

ANNEX 2 – Detailed Nexus Revenue Budget 2019/20

Service Area	Direct Costs £m	Income £m	Indirect Costs £m	Grants £m	Loan Interest £m	Asset Financing £m	Net £m
ENCTS - Bus	34.999	(1.094)					33.905
ENCTS	34.999	(1.094)	0.000	0.000	0.000	0.000	33.905
Discretionary CT - Bus	4.717	(1.212)					3.504
Discretionary CT - Ferry	0.120	(0.120)					0.000
Discretionary CT - Metro	6.356	(6.356)					0.000
Discretionary CT	11.193	(7.688)	0.000	0.000	0.000	0.000	3.504
METRO							
Fleet Replacement	1.028						1.028
Network Extensions	0.697						0.697
Metro Futures	1.725	0.000	0.000	0.000	0.000	0.000	1.725
Metro Farebox Inc. Car Parks Ticketing & Gating	0.918	(47.920)					(47.002)
Automatic Fare Collection	1.180						1.180
	1.438						1.438
Fare Collection & Revenue	3.536	(47.920)	0.000	0.000	0.000	0.000	(44.384)
Commercial Operations and safety	11.532	(0.743)					10.789
Engineering	10.057	(0.064)					9.993
Customer Services	8.309	(0.007)					8.302
Other	9.719	(1.702)					8.017
	4.287	0.800					5.086
Metro Operations	43.904	(1.717)	0.000	0.000	0.000	0.000	42.187
Metro - Rates	1.650						1.650
Metro - Insurance	1.420						1.420
Metro - Depreciation	25.441						25.441
Metro - Other	28.512	0.000	0.000	0.000	0.000	0.000	28.512
HV Power	6.637						6.637
Planning	1.046						1.046
Performance Programme	0.076						0.076
Assurance Office							

Engineering	0.217						0.217
Buildings & Infrastructure	3.359	(0.002)					3.357
Management & Administration	0.104						0.104
Permanent Way	1.516						1.516
Power Supplies	0.609						0.609
Signalling	1.067						1.067
Stores	0.148	(0.001)					0.147
Renewals	0.005						0.005
Infrastructure Management	14.783	(0.003)	0.000	0.000	0.000	0.000	14.780
Metro	92.460	(49.640)	0.000	0.000	0.000	0.000	42.820
Ferry	1.139	(0.338)					0.801
Ferry	1.139	(0.338)	0.000	0.000	0.000	0.000	0.801
Local Rail	0.216						0.216
Local Rail	0.216	0.000	0.000	0.000	0.000	0.000	0.216
Contract Management	0.245						0.245
Network Management	0.300						0.300
TaxiCard	0.403	(0.078)					0.325
Secured Bus Services	12.938	(2.398)					10.540
Bus Services	13.887	(2.476)	0.000	0.000	0.000	0.000	11.410
Bus Infrastructure	2.793	(0.617)					2.176
Bus Infrastructure	2.793	(0.617)	0.000	0.000	0.000	0.000	2.176
Information	0.603	(0.096)					0.507
Public Transport Information	0.603	(0.096)	0.000	0.000	0.000	0.000	0.507
INDIRECT COSTS							
Pensions and Provisions			1.965				1.965
Investment Income			(0.400)				(0.400)
Democratic & Exec			0.854				0.854
Central Other	0.000	0.000	2.420	0.000	0.000	0.000	2.420
Media & Communications			0.342				0.342

Print and distribution			0.141				0.141
Marketing			0.374				0.374
Customer Services			0.807				0.807
Retail Sales			0.397				0.397
Customer Services and Communications	0.000	0.000	2.060	0.000	0.000	0.000	2.060
Administration & Secretarial			0.125				0.125
Legal Services			0.259				0.259
Finance and Audit			0.798				0.798
Procurement			0.155				0.155
Estates			0.805				0.805
Human Resources			0.523				0.523
ICT			2.780				2.780
Finance and Resources	0.000	0.000	5.445	0.000	0.000	0.000	5.445
Health and Safety			0.965				0.965
Health and Safety	0.000	0.000	0.965	0.000	0.000	0.000	0.965
Corporate Planning			1.101				1.101
Transport Strategy	0.000	0.000	1.101	0.000	0.000	0.000	1.101
Indirect Costs	0.000	0.000	11.990	0.000	0.000	0.000	11.990
Loan Charges					1.643		1.643
Released from:						(1.291)	(1.291)
-Capital Reserves						(24.082)	(24.082)
-Capital Grants							
Asset Financing	0.000	0.000	0.000	0.000	1.643	(25.373)	(23.730)
Bus Operators Grant				(0.891)			(0.891)
Rail Admin Grant				(0.252)			(0.252)
Metro Rail Grant				(26.090)			(26.090)
Grants	0.000	0.000	0.000	(27.233)	0.000	0.000	(27.233)
TOTAL REQUIREMENT	157.290	(61.951)	11.990	(27.233)	1.643	(25.373)	56.367
JTC Grant				(55.667)			(55.667)

JTC Grant ¹	0.000	0.000	0.000	(55.667)	0.000	0.000	(55.667)
DEFICIT / (SURPLUS)	157.290	(61.951)	11.990	(82.900)	1.643	(25.373)	0.700

¹ After retention by the JTC of £3.333m for fleet investment

ANNEX 3 – Overhead Allocation 2019/20

Indirect Cost Centre	£m	Service Area	£m
Investment Income	(0.400)	ENCTS	0.647
Pensions	0.963	Discretionary CT	0.223
Democratic Services & Executive	0.854	Metro	7.904
Administration & Secretarial	0.125	Ferry	0.407
Health and Safety	0.965	Local Rail	0.215
Legal Services	0.259	Bus Services	1.248
Human Resources	0.523	Bus Infrastructure	0.489
Finance	0.798	Public Transport Information	0.857
Corporate Planning	1.101		
Procurement	0.155		
Information Technology	3.782		
Retail & OSS	1.204		
Media & Communications	0.342		
Marketing & Print Unit	0.514		
Property Admin	0.805		
Total Indirect Costs	11.990	Total Indirect Costs	11.990

ANNEX 4 – Subjective Analysis 2019/20

	£m	£m
Expenditure		
Employees Inc. Pensions		45.539
Premises		2.229
Transport		0.347
Supplies & Services / Contracted Services		
Concessionary Fares	46.006	
Secured Bus Services	12.854	
General Supplies and Services	15.234	
High Voltage Power	6.637	
NWR Track Access		
Insurance	1.420	
Policing	1.162	93.614
Depreciation		26.987
Loan Interest		1.643
Contingency		0.565
Total Expenditure		170.924
Income		
Commercial Income	(61.951)	(61.951)
Grants		
JTC	(55.667)	
MRG	(26.090)	
BSOG	(0.891)	
RAG	(0.252)	(82.900)
Deferred Capital Grants		(25.373)
Contribution from Reserves		(0.700)
Total Income		(170.924)

Appendix 4 – Tyne Tunnels Budget 2019/20

The Tyne Tunnels are fully funded from tolls paid by tunnel users. No government funding was made available for the construction of the second Tyne Tunnel (which opened in 2011) and refurbishment of the first tunnel which was completed in the same year. The works were funded by a combination of public sector and private sector borrowing, through a Public Private Partnership contract with a private sector concessionaire who designed and built the new tunnel and operate the tunnels under a concession contract awarded to TT2 Ltd which runs until 2037. The public sector borrowing was taken out by the then Tyne and Wear Integrated Transport Authority, and is to be repaid over a 50 year period. The current balance associated with the Tyne Tunnels is £128.662m.

Contract payments to TT2 are calculated with reference to the traffic using the tunnels, and increase with Retail Price Index (RPI) inflation. As a result, actual tolls levied on users are required to increase to keep pace with these payments, so the toll is maintained in real terms over the life of the contract. Under the River Tyne (Tunnels) (Modification) Order 2011, tolls can be increased in increments of 10p once such an increase has been triggered by an increase in the RPI. Tolls increases have been in line with expectations presented at the development stage of the New Tyne Crossing project.

Tunnels reserves are held in order to manage risks associated with NECA's ownership of the tunnels, to meet any small in-year deficits which may arise on the tunnels revenue account and to deal with any changes which may arise from changes in accounting treatments in future years.

	2018/19 Original	2018/19 Revised	2019/20 Original
	£000	£000	£000
Tolls Income*	(25,970)	(26,730)	(28,090)
Contract payments to TT2	19,480	20,298	21,197
Employees	33	-	-
Pensions	54	50	52
Support Services	80	95	95
Supplies & Services	35	30	35
Community Fund	10	-	10
Financing Charges	6,579	6,594	6,966
Interest/Other income	(50)	(90)	(50)
Repayment from ITA for use of reserves	(240)	(240)	(240)
Deficit (Surplus) on Tyne Tunnels revenue account met from reserves	11	7	(25)

*Toll Income includes an assumed inflation increase in tolls for class 2 vehicles (cars) of 10p and 20p for class 3 (larger vehicles) for 2019/20.

Tyne Tunnels Reserves b/f	(20,003)	(22,302)	(18,452)
Deficit on Tyne Tunnels revenue account met from reserves	11	7	(25)
Capital Expenditure funded from Reserves	3,600	3,540	260
NESTI Expenditure funded from Reserves	303	303	300
Tyne Tunnels Reserves c/f	(16,089)	(18,452)	(17,917)

Appendix 5 - Government Funding of Concessionary Transport

There are significant issues relating to the Government's current and future funding of Concessionary Travel. This appendix highlights specific areas of concern in relation to the level of the current funding of Concessionary Travel for 2019/20, which were reflected in my response to the Provisional Local Government finance settlement for 2019/20, which had to be submitted by 10 January. In addition there are significant issues in relation to the Government's latest proposal for the funding of Concessionary Travel in future years (potentially from 2020/21 onwards), which will need to feature in responses to the consultation on which is due to be submitted by 21 February 2019.

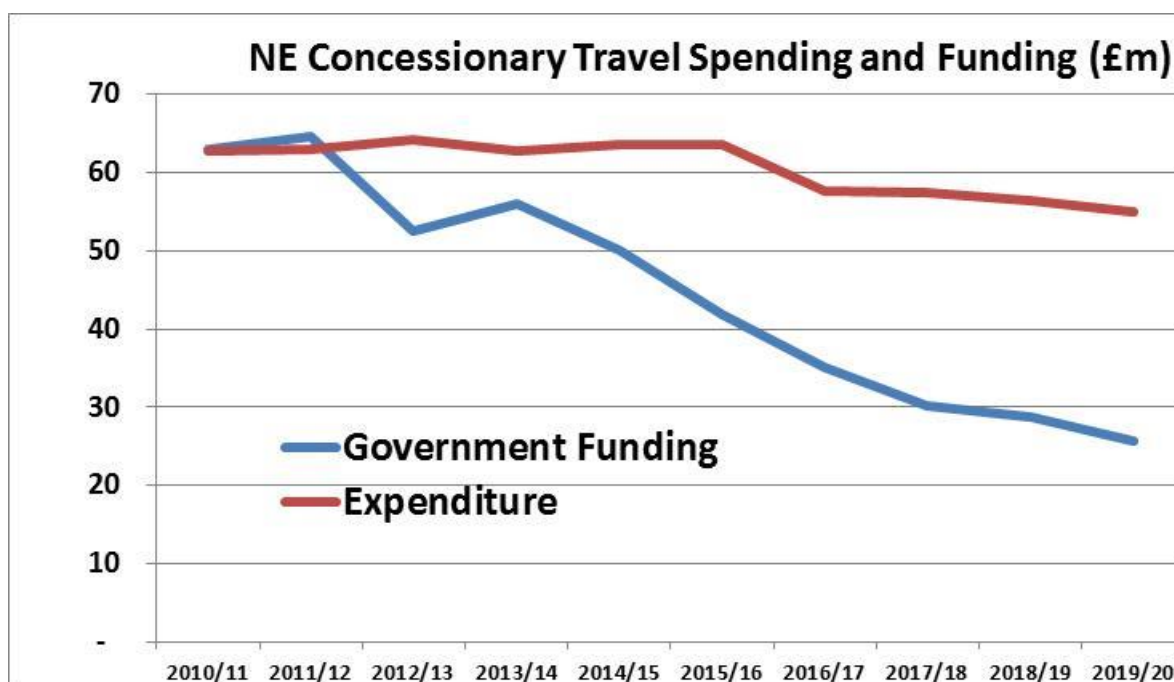
2019/20 LOCAL GOVERNMENT FINANCE SETTLEMENT – TRANSPORT FUNDING

The submission highlighted concerns about the continuing cuts in Government funding for transport services in the Local Government Finance Settlement and in particular the growing funding gap for the statutory national concessionary travel scheme.

The following chart highlights the major problem of the underfunding of concessionary travel costs in the North East, which is reflective of the national position.

While the headline announcement of provisional settlement focusses on an increased spending power for Local Government on 2.8%, the reality of the change in Government formula funding for upper tier services continues to be a significant cut in Government 'funding'. This is a particular concern for services such as Concessionary Travel where the mainly statutory nature of costs mean that there is a growing gap between costs and funding.

It is difficult to be precise about the level of Government Funding as it is not separately identified and transparent in the Local Government settlement. However, I have been able to provide an estimate of the position, which is reflected in the following chart for the NE which also reflects the national position in terms of the profile of cuts in funding.



The chart demonstrates our estimate of how grant has been cut since 2011/12 and our view of a further 10% cut in grant funding for Upper Tier services after excluding the visible lines of grant funding for non-transport services in 2019/20.

The above chart takes into account the funding from localized business rates and we estimate that next year the funding gap is around £29m, with around 47% of costs being funded by Grant or Business rates.

Given that the main cost drivers of statutory concessionary travel are a product of the numbers eligible for the concession and usage of the 'free bus pass' together with the fare that commercial bus operators charge for their services, Councils and in our metropolitan area, the Passenger Transport Executive, have no control over these costs. This is evidenced by the fact that it is one of the few lines of spending that has actually increased nationally and locally over the last five years.

Costs are higher in the North East due to very low car ownership among elderly people. In addition, there are other issues in our metropolitan area which need to be highlighted. For instance, the Tyne and Wear Metro, which offers an alternative to bus travel for many residents also provides a concessionary fares scheme for the elderly and disabled, but the costs associated with this scheme are not recognised. And, work that we have done to estimate the impact of withdrawing the concession on Metro will actually add to our cost base because in those circumstances, demand for the free concession on bus will increase and the associated costs will exceed the income that Metro will generate by charging a commercial fare to those previously eligible for the concession. Further, working to protect secured bus routes in Tyne and Wear has had a perverse effect on the costs of concessionary travel since elderly and disabled residents are often users of these key services.

The Combined Authority will again be cutting its overall Transport Levy next year. Providing accessible transport is a priority for the North East Joint Committee and next year we will be protecting transport services by temporarily using reserves until the funding issues are addressed. However this is clearly not sustainable in future years, particularly when the gradual increase in the age at which people become eligible for the ENCTS reaches 66, at which point we anticipate a significant uplift in our costs as the number of those satisfying the eligibility criteria will at first settle and then begin to increase. We will therefore be developing options and consulting on significant cuts to transport services from 2020 onwards. This would potentially include cuts in discretionary services, such as secured bus services and discretionary fares. This would mean withdrawing non-commercial bus services for all ages, including people trying to get to work outside of peak travel times and from more rural or sparsely populated areas.

The Joint Transport Committee that covers both Combined Authorities would like to understand what the Department will do to reduce the funding gap for the cost of the scheme over the next few years to match the cut in their funding, so that we can avoid particularly damaging cuts to transport services for children, students, workers and the elderly.

We had hoped that the Government would properly fund concessionary travel as part of the Fair Funding review. However, the latest consultation paper fails to mention any of the detailed evidence that the NECA has provided about the reality of the cost drivers for concessionary travel and the importance of fully funding concessionary travel. We are most

concerned that the proposal for the distribution of funding by way of a foundation formula will create an even wider funding gap and create a less fair funding system in future years.

Consultation on “A review of local authorities’ relative needs and resources”

On 13 December then Government published a consultation paper, which set out proposals for the potential distribution of funding for Local Government Services. Responses must be returned by 21 February 2019.

The consultation paper was a detailed paper covering all service areas and resources. A small section of paper covered the treatment of Transport services including Concessionary Travel. The paper proposes that transport services including Concessionary Transport are included in a general Foundation Formula for upper – tier services and Question 3 in the paper asks for views on the best treatment of Home to School transport and concessionary Travel?

The sections in the paper deadline with transport are shown below.

“

Concessionary transport

- 2.2.77. Upper tier local authorities have a statutory responsibility to provide free or concessionary transport for specific groups of people, which means that they have little control over the costs they incur in providing these services.
- 2.2.78. In the case of children, authorities must provide free **Home to School Transport** for a child attending the nearest suitable school if:
- this is over a prescribed distance from their home,
 - they are unable to walk to school because of special educational needs, disability or mobility problems, and
 - they cannot reasonably be expected to walk there because the nature of the route is deemed unsafe.
- 2.2.79. Expenditure across mainstream and special educational needs pupil transport was over £1bn¹⁰ nationally in 2017-18. At present, funding for home-to-school transport is distributed via the ‘Central Education Functions’ relative needs formula, which is part of the Children’s Services block. As with the Children and Young People’s Services formula, the number of children is a significant driver of cost for Home to School Transport. However, other drivers of cost are likely to differ to those for Children’s Social Care, such as the distance to schools and the proportion of special educational needs pupils in an authority.

- 2.2.80. Local authorities also provide elderly and eligible disabled people with free off-peak **Concessionary Travel** on buses, with a wider statutory concession in place in London. In 2017-18, the statutory concession accounted for over £1bn of local authority expenditure. A Concessionary Travel formula has been used in the local government finance settlement since 2011-12 and the current formula uses a 'modelled' bus boardings methodology.
- 2.2.81. Respondents to our December 2017 consultation expressed mixed views regarding the optimum way to fund Concessionary Travel in future. Some argued against deploying a service-specific formula on the basis that there was 'unmet need' for local bus services in some areas and that funding on this basis therefore risked reinforcing existing patterns of provision. Local authorities' support for non-commercial bus routes is a policy issue which merits separate consideration within the review and this is discussed below (see section 2.2.83).
- 2.2.82. In the first instance, the Government is minded to include Home to School Transport and Concessionary Travel within the upper tier Foundation Formula on the basis that this would introduce further simplicity and transparency into the relative needs assessment. We will, however, carry out further analysis on potential alternative approaches in order to determine whether this approach adequately reflects local authorities' relative needs. We will take a final view following the completion of this consultation exercise.

Local Bus Support

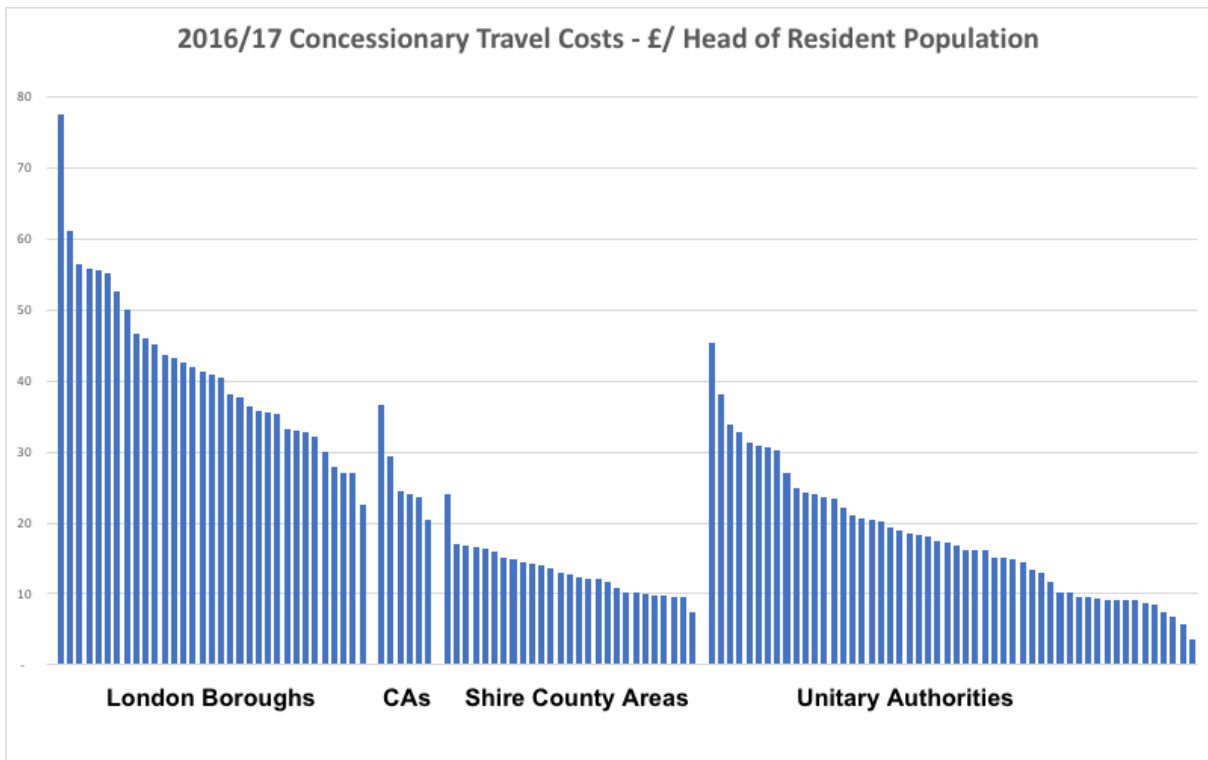
- 2.2.83. Nationally, local authority expenditure on **Local Bus Support** was approximately £250m in 2017-18 (excluding spending by the Greater London Authority), and accounted for more than 1% of total net current expenditure in just 9 local authorities; 6 of which were combined authorities. Outside of the local government finance settlement, the Department for Transport's Bus Service Operators' Grant provides funding to local authorities and bus operators; the main components of

which include £42m paid directly to authorities specifically in relation to non-commercial services they support under tender agreement, and a £197m operator reimbursement grant for some of the fuel duty paid.

- 2.2.84. Historically, Local Bus Support has been included in the 'county-level' Environmental, Protective and Cultural Services formula, although there are currently no specific cost drivers used to calculate Local Bus Support. Local Bus Support was cited by some consultation respondents as an example of 'unmet need', on the basis that local authority funding for rural bus services has reduced and an increasing number of commercial bus services in rural areas have been withdrawn.

2.2.85. Given the overall scale and distribution of expenditure for this service area, the Government does not believe that it is proportionate to introduce a specific funding formula for this service area. Including this in the upper tier Foundation Formula so that it is broadly distributed on a 'per capita' basis, with a new 'Area Cost Adjustment', means that the funding for this service area will be distributed according to the characteristics of local authority areas and not directly linked to historical decisions about funding levels.

The consultation paper makes no reference to the detailed evidence that has been presented to the national Technical Working Group by NECA over the last two years which clearly sets out the importance of a separate formula for concessionary travel. The working group agreed that a separate formula was justified in November 2016. The proposal for a relatively flat distribution of costs in line with resident population does not reflect the national statutory scheme which requires reimbursement of Boarding in the local authority area where the Boardings occur. This results in significant differences in the distribution of cost per head of population in an area. The variation in current cost per head of population was shown in the following chart in our evidence to the working group.



This proposal has the potential to return to a significant underfunding of Concessionary Travel in areas which have higher costs, such as Tyne and Wear, which we experienced from 2006/07 to 2012/13.

The proposal has the potential to produce a less fair funding distribution in order to achieve 'greater simplicity'. This does not appear consistent with a Fair Funding outcome. This warrants a strong response which will need to be submitted by 21 February 2019.

North of Tyne Combined Authority

Treasury Management Strategy 2019/20

Background

The Authority is required to operate a balanced budget, which means that cash raised during the year will meet cash expenditure. A key part of the Authority's treasury management function is to ensure that cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Authority's low risk policy, providing adequate security and liquidity before considering investment return.

Another key element of the treasury management function is the management of the funding associated with the Authority's capital investment plans. These capital plans provide a guide to any borrowing needs of the Authority, essentially the longer term cash flow planning to ensure that the Authority can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. It is not anticipated the Authority will undertake any borrowing during 2019/20 other than in respect of the relevant share of the Joint Transport Committee liabilities.

The contribution the treasury management function makes to the Authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or on larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security and liquidity of the sums invested.

Statutory Requirements

The Authority has a legal obligation under the Local Government Act 2003 to have regard to the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice; the Chartered Institute of Public Finance and Accountancy's Prudential Code: Capital Finance in Local Authorities and the Ministry of Housing, Communities and Local Government (MHCLG) Statutory Guidance on Local Government Investments.

The CIPFA Treasury Management Code requires the Authority to approve a treasury management strategy before the start of each financial year.

In addition, the MHCLG guidance requires the Authority to approve an investment strategy before the start of each financial year.

The CIPFA Treasury Management Code and the Prudential Code are closely linked. The Authority is required to have regard to the Prudential Code when setting limits to

the level of its affordable borrowing. The 2017 update to the Prudential Code drew together the reporting requirements of the Prudential Code and the Treasury Management Code resulting in the requirement for the Authority to produce a capital strategy that includes specific requirements in respect of debt and borrowing and treasury management. An investment strategy will be produced when the Authority has determined potential borrowing limits through dialogue with the Treasury.

Effective Treasury Management

The Authority will create and maintain, as the cornerstones for effective treasury management:

- A treasury management policy statement, stating the policies, objectives and approach to risk management of treasury management activities
- Suitable Treasury Management Practices (TMPs), setting out the manner in which the Authority will seek to achieve its policies and objectives and detail how it will manage and control treasury management activities.

Reporting

The following reports will be issued during the financial year for approval by Cabinet:

- An annual report on the Authority's treasury management strategy and plan to be pursued in the coming year. This will include an investment strategy and will be considered by Cabinet as part of the budget approval process.
- A mid-year review report. This will update members on the progress of the capital position, show amended prudential indicators where required and performance against the strategy.
- An annual report, after year end closure on the performance of the treasury management function, on the effects of decisions taken and the transactions executed in the past year, and any circumstances of non-compliance with the treasury management strategy and TMPs.

Responsibilities

The Authority delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to Cabinet and for the execution and administration of treasury management decisions to the Chief Finance Officer, who will act in accordance with the organisation's policy statement and TMPs.

Responsibility for ensuring effective scrutiny of the treasury management strategy and policies is delegated to Overview and Scrutiny Committee.

The Authority's treasury management function is proposed to be managed under a service level agreement with North Tyneside Council.

The Treasury Management functions of the Joint Transport Committee are approved as part of the North East Combine Authority budget setting process in their role as Accountable Body. A review of the NECA Treasury Management Strategy has been undertaken and is in line with that of the Authority.

Training

The CIPFA Treasury Management 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.

Treasury Management Policy Statement 2019/20

The Authority defines its treasury management activities as:

“The management of Authority’s investments and cash flows, its banking, money market and capital transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.”

Risk Management

The Authority regards the successful identification, monitoring and control of risk to 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 organisation, and any financial instruments entered into to manage those risks.

Value For Money

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.

Borrowing Policy

At this current time the Authority does not have the powers to borrow other than for Transport responsibilities, the borrowing that will be reflected in this Authority’s statement of accounts relates to historic Tyne and Wear Transport activities and the financing and borrowing costs are met by the Tyne and Wear Levy. Details of which are included the Treasury Management Strategy and Prudential Indicators of the North East Combined Authority as the appointed accountable body.

Investment policy

The Authority’s primary objectives for the investment of its surplus funds are to protect the principal sums invested from loss, and to ensure adequate liquidity so that funds are available for expenditure when needed. The generation of investment income to support the provision of the Authority’s services is an important, but secondary, objective.

The Authority will have regard to the MHCLG Guidance on Local Government Investments and will approve an investment strategy each year as part of the treasury management strategy. The strategy will set criteria to determine suitable organisations with which cash may be invested, limits on the maximum duration of such investments and limits on the amount of cash that may be invested with any one organisation.

Treasury Management Strategy for 2019/20

The proposed strategy for 2019/20 in respect of the following aspects of the treasury management function is based upon the treasury management officers' view on interest rates, supplemented with market forecasts provided by to North Tyneside Council's treasury advisor, Link Asset Services. This strategy covers:

- Treasury management consultants
- The current treasury portfolio position;
- Prospects for interest rates;
- The borrowing strategy;
- Sources of borrowing
- Policy on borrowing in advance of need;
- The investment strategy;
- Financial investments;
- Creditworthiness;
- Liquidity management;
- Non-financial investments; and
- Policy on the use of financial derivatives

Treasury Management Consultants

Through a service level agreement with North Tyneside Council, the Authority uses Link Asset Services as its external treasury management advisors.

Whilst the Authority has external treasury management advisors it recognises that responsibility for treasury management decisions remains with the Authority at all times and will ensure that undue reliance is not placed upon the services of our external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, that from our treasury advisers.

It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Authority will 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.

Current Treasury Portfolio Position

This will be updated following the receipt of the £20m devolved funding to the authority

Prospects for Interest Rates

The Authority through its service level agreement with North Tyneside Council for treasury management services has access to Link Asset Services as its external treasury advisor and part of their service is to assist the Authority to formulate a view on interest rates. The table below sets out Link Asset Services professional view of interest rates.

Link Asset Services forecast interest rates – (1 January November 2018)

	Bank Rate %	5 year PWLB %	10 year PWLB %	25 year PWLB %	50 year PWLB %
Dec 2018	0.75	2.00	2.50	2.90	2.70
Mar 2019	0.75	2.10	2.50	2.90	2.70
Jun 2019	1.00	2.20	2.60	3.00	2.80
Sep 2019	1.00	2.20	2.60	3.10	2.90
Dec 2019	1.00	2.30	2.70	3.10	2.90
Mar 2020	1.25	2.30	2.80	3.20	3.00
Jun 2020	1.25	2.40	2.90	3.30	3.10
Sep 2020	1.25	2.50	2.90	3.30	3.10
Dec 2020	1.50	2.50	3.00	3.40	3.20
Mar 2021	1.50	2.60	3.10	3.40	3.20

From time to time, gilt yields, and therefore PWLB rates, can be subject to exceptional levels of volatility due to geo-political, sovereign debt crisis, emerging

market developments and sharp changes in investor sentiment. Such volatility could occur at any time during the forecast period.

Economic and interest rate forecasting remains difficult with so many external influences weighing on the UK. The above forecasts, and MPC decisions, will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year. Geographical developments, especially in the EU, could also have a major impact. Forecasts for average investment earnings beyond the three-year time horizon will be dependent on economic and political developments.

Investment and Borrowing Rates

Investment returns are likely to remain low during 2019/20 but to be on a gently rising trend over the next few years;

Borrowing interest rates have been volatile so far in 2018/19 and have increased modestly since the summer. This increase is expected to continue over the next few years (see table above).

Borrowing Strategy

The Authority currently does not expect to borrow in 2019/20 other than for the Joint Transport Budget the requirements of which are set out in Appendix B to the 5 February Cabinet Report

Annual Investment Strategy

Investment policy

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.

The Authority's investment strategy will give consideration to core balances and cash flow requirements and the outlook for short-term interest rates. Where cash flow identifies cash sums that could be invested for longer periods (potentially obtaining a greater return), the value to be obtained from longer term investments will be carefully assessed.

If it is thought that the Bank Rate is likely to rise significantly within the time horizon being considered, then consideration will be given to keeping most investments as being short term or variable. Conversely, if it is thought that Bank Rate is likely to fall within that time period, consideration will be given to locking in higher rates currently obtainable, for longer periods.

Both the CIPFA Treasury Management Code and MHCLG guidance require the Authority to invest any funds prudently and to have regard to the security and liquidity of its investments before seeking the highest rate of return or yield.

The above Code and guidance also emphasises the importance of the management of risk within treasury management functions. This Authority has adopted a prudent approach to managing risk and defines its risk appetite by the following means:-

- Minimum acceptable credit criteria are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short term and long term ratings.
- Credit ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. Any assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the Authority will engage with its advisors to maintain a monitor on market pricing such as credit default swaps and overlay that information on top of the credit ratings.
- Other information sources used will include the financial press, share prices and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.
- The Authority has defined a list of types of investment instruments that the treasury management function are authorised to use. There are two lists in under the categories of 'specified' and 'non-specified' investments.

Financial Investments

The CIPFA Treasury Management Code and the MHCLG guidance has now extended the meaning of 'financial investments' to include the following:

- Specified investments;
- Loans; and
- Non-specified investments.

Specified Investments

Specified investments are: denominated in sterling; repayable within 12 months (either because of an expiry date or through a non-conditional option); not defined as capital expenditure by legislation; and invested with a body or in an investment

scheme described as high quality or invested with one of: the UK Government; a Local Authority; or a Parish Council or Community Council.

Loans

Loans could be to local enterprises, local charities, wholly owned companies and joint ventures as part of a wider strategy for local economic growth. In some cases these loans may not be seen as prudent if adopting a narrow definition of prioritising security and liquidity. To allow such loans to be made whilst continuing to have regard to the MHCLG guidance Local Authorities must be able to demonstrate in their strategy that:

- Total financial exposure to these types of loans is proportionate;
- That an allowed “expected credit loss” model for loans and receivables as set out in IFRS 9 Financial Instruments has been adopted to measure the credit risk of a portfolio;
- That appropriate credit control arrangements to recover overdue repayments is in place; and
- The Authority has formally agreed the total level of loans by type that it is willing to make and their total loan book is within their self-assessed limit.

Non-specified Financial Investments

Non-specified investments are any investment not meeting the definition of a specified investment (less high credit quality, may be for periods in excess of 12 months, and are more complex instruments which require greater consideration by members and officers before being authorised for use).

The following table provides a list of specified investment instruments that are authorised to be used by the Authority, subject to cash limits and time limits indicated:

	Credit Criteria	Maximum Deposit	Maximum Period
Debt Management Agency Deposit Facility	UK Government backed	£50m	Unlimited
UK Local Authorities	N/A	£10m each	1 year
UK Government Treasury Bills	UK Sovereign Rating	£10m	1 year
Term deposits with banks and building	Blue /Orange Red	£5m each	12 months 6 months

societies	Green No Colour		100 days Not for use
Certificate of Deposits with banks and building societies	Blue /Orange Red Green No Colour	£5m each	12 months 6 months 100 days Not for use
Money Market Funds	AAA	£5m each	Liquid
Local Authority Controlled companies in the NTCA area		£5m	5 years

The following table provides a list of non-specified investment instruments that are authorised to be used by the Authority, subject to the cash limits and time limits indicated:

	Credit Criteria	Maximum Deposit	Maximum Period
UK Local Authorities	N/A	£5m each	3 years

The Authority has determined that it will limit the maximum total exposure to non-specified investments as being 25%

Investments will only be placed with counterparties from countries with a specified minimum sovereign rating.

All investments will be denominated in sterling.

The Authority will pursue value for money in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance. Regular monitoring of investment performance will be carried out during the year.

Creditworthiness Policy

The minimum credit ratings criteria the Authority use 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 they may still be used. In these instances consideration will be given to the whole range of ratings available or other market information, to support their use.

The Authority also applies the creditworthiness service provided by Link Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies; Fitch, Moody's and Standard &

Poor's. Link Asset Services supplement the credit ratings of counterparties with the following overlays:

- Credit watches and credit outlooks from credit rating agencies;
- Credit Default Swap (CDS) spreads to provide early warning of likely changes in credit ratings
- Sovereign ratings to select counterparties from only the most creditworthy countries

This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties and are used by the Authority to determine the suggested duration of investments.

This service uses a wider array of information other than just primary ratings and by using a risk weighted scoring system it does not give undue preponderance to one agency's ratings.

The Authority is alerted to changes to ratings of all three agencies through its use of the Link Asset Services creditworthiness service.

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

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 daily basis via its Passport website. Extreme market movements may result in downgrade of an institution or removal from the Authority's lending list. Sole reliance will not be placed on the use of this external service. In addition this Authority will also use market data and market information on any external support for banks to help support its decision making process.

As a result in the change in accounting standards for 2018/19 under IFRS 9, the Authority will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year.

Liquidity Management

Officers providing treasury management services to the Authority use purpose-built cash flow forecasting software to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk to the authority of being forced to borrow on unfavourable terms to meet its financial commitments.

UK Banks – Ring Fencing

The largest UK banks are required, by UK law, to separate core retail banking services from their investment and international banking activities by 1st January 2019. This is known as ring-fencing. Whilst smaller banks with less than £25bn in deposits are exempt, they can choose to opt up. Several banks are very close to the threshold already and so may come into scope in the future regardless.

Ring-fencing is a regulatory initiative created in response to the global financial crisis. It mandates the separation of retail and small and medium-sized enterprise (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.

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, will be considered for investment purposes.

Non-Financial Investments

The MHCLG guidance defines an investment as all of the financial assets of a Local Authority as well as other non-financial assets that the organisation holds primarily or partially to generate a profit; for example, investment property portfolios. This may therefore include investments that are not managed as part of normal treasury management processes or under treasury management delegations. The definition of an investment also covers loans made by a local authority to one of its wholly-owned companies or associates, to a joint venture, or to a third party.

The Authority recognises that investment in other financial assets and property primarily for financial return, taken for non-treasury management purposes, requires careful investment management. Such activity includes loans supporting service outcomes, investments in subsidiaries, and investment property portfolios.

The Authority will ensure that all the organisation's investments are covered in the investment strategy and will set out, where relevant, the organisation's risk appetite and specific policies and arrangements for non-treasury investments. It will be recognised that the risk appetite for these activities may differ from that for treasury management.

The Authority will maintain a schedule setting out a summary of existing material investments, subsidiaries, joint ventures and liabilities including financial guarantees and the organisation's risk exposure.

Policy on the use of Financial Derivatives

Local Authorities generally have made use of financial derivatives embedded into loans and investments both to reduce interest rate risk and to reduce costs or increase income at the expense of greater risk. The general power of competence in Section 1 of the Localism Act 2011 removes much of the uncertainty over Local Authorities powers to use standalone financial derivatives such as swaps, forwards, futures and options. However, the Authority's policy is not to currently use these instruments.

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Leadership Board

Date: 5th February 2019

Subject: Budget 2019/20

Report of: Head of Paid Service and Chief Finance Officer

Executive Summary

The purpose of this report is to set out the NECA Revenue Budget for 2019/20, for consideration and approval. It also sets out the decisions made by the North East Joint Transport Committee about the Transport revenue budget and the Transport Levies for 2019/20 and recommends that the levies be issued to the constituent authorities in NECA in accordance with the decisions of the Joint Transport Committee (JTC).

This is the first NECA budget being recommended, following the implementation of the orders on 2 November which established the new North of Tyne Combined Authority (NoTCA). The orders reduced the membership of NECA from 7 to 4 councils and established the North East Joint Transport Committee (JTC) to continue to take decisions on Transport Budgets, Levies and matters across the previous LA7 area of NECA.

NECA was appointed the accountable body for the new North East Joint Transport Committee, by that committee on 20 November 2018. NECA remains the accountable body for the North East Local Enterprise Partnership (North East LEP) under the existing legal agreement at this point in time, although this is expected to change once a decision is taken by the North East LEP. This budget report therefore includes proposals for the budget for the accountable bodies for both organisations, which has implications for all seven councils in the North East LA7 area.

The report recommends the contributions to be made to the North East LEP by the Local Authorities in its area, and includes information about the overall budget position for the North East LEP, which is to be considered by the North East LEP Board at its meeting on 31 January 2019.

The key budget proposals for NECA have been subject to consultation and the results of the consultation are set out in the report and have been taken into account in arriving at the proposed recommendations.

Recommendations

The Leadership Board is recommended to:

- i. Receive this report for consideration and comment;
- ii. Note the Budget position for 2018/19 set out in sections 1.5 to 1.10 of this report for information;

Leadership Board

- iii. Note the decision taken by the North East Joint Transport Committee about the Transport Budget and Levies for 2019/20 as set out in sections 1.14 and Appendix A;
- iv. Unanimously agree to issue the following transport levies for 2019/20 in accordance with that decision;-
 - a. Durham County Council £15,561,536;
 - b. Gateshead Council £10,949,433;
 - c. South Tyneside Council £8,089,866; and
 - d. Sunderland City Council £14,997,206.
- v. Note that the North of Tyne Combined Authority will issue the Transport Levies to Newcastle City Council (£16,002,955), North Tyneside Council (£11,060,540) and Northumberland County Council (£6,104,370) that have been agreed by the Joint Transport Committee and will pass the levy income from Newcastle City Council and North Tyneside Council to NECA as the accountable body for the JTC in order to meet costs relating to the Tyne and Wear area;
- vi. Unanimously agree to make arrangements to administer payment of a transport revenue grant of £15,551,536 to Durham County Council for the delivery of transport services, as agreed by the JTC;
- vii. Unanimously agree to make arrangements to administer payment of a transport revenue grant to Nexus for the delivery of transport services in Tyne and Wear of £55,666,667 as outlined in section 2.8 of Appendix A, subject to the receipt of Levy income in respect of Newcastle City Council and North Tyneside Council;
- viii. Unanimously agree to hold £3,333,333 of the Tyne and Wear Levy income in the earmarked account for the Metro Fleet replacement programme, in line with the JTC decision;
- ix. Note that North of Tyne Combined Authority will issue the Transport Grant to Northumberland Country Council (£6,094,370) and make a £10,000 contribution to NECA in respect of Northumberland County Council's contribution to the costs of the JTC;
- x. Note and approve the creation of a post of Managing Director, Transport North East and the deletion of the post Managing Director, Transport Operations from the NECA staffing establishment in accordance with the resolution of the North East JTC on 22 January 2019, as described in section 1.17;
- xi. Unanimously agree to continue a contribution to fund the North East LEP core capacity costs of £250,000 as match funding to secure a £250,000 Government grant, paid for by an equal contribution of £35,714.29 from each of the seven councils in the North East LEP Area, as part of the funding of an estimated budget

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of £3m, as summarised in sections 1.18 to 1.22 and set out in more detail in the report to the North East LEP Board, attached at Appendix B;

- xii. Unanimously agree to continue the budget contribution of £140,000 towards inward investment activity carried out by the Invest North East England team (INEE), which is paid for by an equal contribution of £20,000 from each of the seven councils in NECA, as set out in sections 1.23; and contributions from the North East LEP to a total budget for this activity of £460,000, as set out in Appendix C;
- xiii. Unanimously agree a net budget in respect of the accountable body role for the TJC in 2019/20 of £70,000 (in line with the estimated cost in 2018/19), with the costs being met by equal contributions of £10,000 from the seven local authorities represented on the North East Joint Transport Committee, as set out in section 1.26;
- xiv. Unanimously agree a net budget in respect of the Accountable Body costs of the North East LEP in 2019/20 of £70,000 (broadly in line with the estimated cost in 2018/19), with the costs continuing to be met by an equal contribution of £10,000 from the seven local authorities in the North East LEP area, as set out in section 1.26, with the contributions being made to the accountable body for the North East LEP;
- xv. Unanimously agree a net budget for the corporate costs of the NECA of up to £91,428, paid for by an equal contribution of £21,857 from each of the four councils in NECA, as set out in section 1.27 to 1.29;
- xvi. Unanimously agree that the Treasury Management and Investment Strategy and the statement on Minimum Revenue Provision for borrowing for 2019/20 as described in sections 1.33 to 1.35 and attached at Appendix D; and
- xvii. Note the section on the level of reserves set out in section 1.30 to 1.32 and note that the Chief Finance Officer considers that the level of reserves that may be available after the closedown of the 2018/19 accounts could be relatively low and in need of review at that point, taking into account the level of the reserve at that time and new information available about the financial risks facing NECA and arrangements for managing those financial risks.

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1. Background Information

Revised Budget Process

- 1.1 Previously, all aspects of the Budget were agreed by the NECA Leadership Board. The new arrangements set out in the NECA and NoTCA Orders require decisions about the Transport Revenue Budget and Levies and the Transport Capital Programme to be determined by the new 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 Joint Transport Committee. Accordingly, the Joint Transport Committee is an integral part of the decision-making in relation to the budget of each Combined Authority.
- 1.2 In future the NECA Leadership Board will take the decisions about the non-transport elements of its budget and incorporate the transport elements in its budget, in accordance with the decisions of the Joint Transport Committee. NECA is currently the accountable body for the North East LEP and, it is anticipated, this will continue for a few months in line with the current accountable body agreement until the North East LEP agrees which organisation will be its accountable body in the future. Until the change comes into effect, NECA will continue to be accountable for the North East LEP budget and to report on it.
- 1.3 The issues for consideration by the restructured NECA Leadership Board are therefore contributions from councils to support the North East LEP, contributions from councils to support the INEE team, contributions from councils to the Corporate costs of the reshaped NECA and the Non-Transport Capital Programme.
- 1.4 As the accountable body for the North East LEP at the time when decisions relating to the 2019/20 Budget must be taken, the NECA budget report will include information about the funds available to the North East LEP and its proposed budget for 2019/20, which will be agreed by the North East LEP Board. The budget will need to reflect decisions about the level of government grant available to support North East LEP costs as well as the guidance and resource requirements needed to meet grant conditions.
- 1.5 In terms of the budget process, consultation will begin by the accountable body producing a draft budget and consultation timetable. This will first be shared with the Leadership Board, including assumptions as to the transport budget and outline proposals in relation to levies and tolls in respect to this. The outline transport proposals will then be considered by the Joint Transport Committee. Consultation will continue until the Joint Transport Committee determines the budget, tolls and levies. In doing this, the Joint Transport Committee will be directly exercising the transport functions of each Combined Authority and, in effect, the Joint Transport Committee's decisions can be immediately enacted by the relevant Combined Authority. The decisions of the Joint Transport Committee will be incorporated into the final budget proposals for the Combined Authority

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which will be signed off by the Leadership Board. The process described will, in accordance with past practice, be commenced with the Joint Transport Committee no less than two months before the calculations of the transport levies need to be finalised.

Update in respect of the Budget for 2018/19

- 1.6 The transport budget and transport levies for 2018/19 that were agreed in January 2018 will continue as originally agreed for the remainder of the year.
- 1.7 The contributions from each authority in 2018/19 towards the cost of the North East LEP Team and the Inward Investment Team that were agreed in January 2018, will also continue for the year: -
- a contribution of £35,714.29 from each constituent council to provide a £250,000 match funding contribution to fund North East LEP core activity in 2018/19; and
 - a contribution of £20,000 from each constituent council to provide a £140,000 local authority contribution towards the budget of the Inward Investment Team budget of £460,000, approved in January 2018.
- 1.8 In terms of the contribution from each authority of £42,857 to fund the corporate costs of NECA in 2018/19, it is proposed that the contribution from each of the seven councils continue to be paid during for the current year. This contribution helps cover the accountable body costs of the North East LEP; helps to fund the accountable body costs of Transport; and the cost of finalising the 2018/19 accounts; which will continue to be funded by all seven councils. The corporate costs of the NECA from November 2018 to March 2019 will be met by the four remaining Councils that are members of NECA. Costs savings attributable to the three Councils that have left NECA will help offset additional devolution costs that they would be liable for.
- 1.9 It is intended that costs of each of the activities over the period from November to March will be identified together with any additional devolution costs to be met by the authorities leaving NECA, in accordance with the Deed of Co-operation. Considering the information available to the end of December, it is estimated that the net impact could still result in a small repatriation of resources to the authorities that have left NECA, including their share of repatriated general balances of NECA. This will be calculated when the actual costs attributable to authorities for the year are known and audited as part of the closure of the 2018/19 accounts. Any refund due to the councils that have left NECA, including their share of the corporate reserve, will be made in the summer once the audit of the accounts is complete.
- 1.10 It is estimated that the general unearmarked reserves of NECA itself could fall from £281k at the start of the year to c £100k or less at the year end. This is relatively low and will need to be reviewed in the light of an updated assessment

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of risk once the risks can be better identified. It is additional to the significant reserves held and earmarked for Transport purposes and the reserves held on behalf of the North East LEP at the year end.

The 2019/20 Budget

- 1.11 The draft budget proposals were presented to this committee on 13th November 2018 for consideration and transport proposals were presented and considered by the JTC on 20th November 2018. These have been the subject of consultation and this report sets out the proposed budget in more detail, taking into account the comments received during the budget process and the latest available information.
- 1.12 The 2019/20 budget proposals are presented in four parts –
1. The 2019/20 Transport Budget (sections 1.14 - 1.16);
 2. The Budget for the North East Local Enterprise Partnership and Invest North East England (sections 1.17 - 1.22);
 3. The Corporate costs budget for NECA; its accountable body roles and corporate reserve (sections 1.23 - 1.31);
 4. The Prudential Indicators relating to borrowing and investments (sections 1.33 - 1.3x).
- 1.13 Two Key documents are attached as Appendices –
1. The report on the Transport Budget and Levies 2019/20 to the North East Joint Transport Committee on 22 January (Appendix A); and
 2. The Budget report to the North East LEP on 31 January (Appendix B).

An update on the decisions by the Joint Transport Committee is set out in section 1.14 of this report. An update on the decision of the North East LEP will be reported to the meeting.

Transport Budget Recommendations

- 1.14 As the accountable body for Transport, NECA supports the Joint Transport Committee (JTC) with the production of reports and the implementation of its decisions. The report on the Transport Budget and levies 2019/20 which is attached as Appendix A was considered by the JTC at its meeting on the 22nd January 2019 and the recommendations in the report were approved. It is the responsibility of the two Combined Authorities to issue the levies that have been agreed by the JTC and to administer the payment of grants agreed by the JTC.
- 1.15 For NECA this means issuing the Transport Levies to its authorities as outlined in the report at Appendix A and making arrangements for the administration of the grant payments approved by the JTC to Durham County Council (£15,551,536) and Nexus (£55,666,667). NECA will also add £3,333,333 collected from the

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Tyne and Wear Levy to the earmarked reserve for the Metro Fleet replacement programme.

- 1.16 It will be necessary for the NoTCA, who will issue the levies to the councils North of the Tyne, to agree to the payment to NECA of the levies for the two Tyne and Wear authorities to enable Tyne and Wear costs to be met and for a contribution of £10,000 from the Northumberland levy to cover its share of the costs of the JTC.
- 1.17 At its meeting on 22 January 2019, the North East Joint Transport Committee resolved to create a post of Managing Director, Transport North East to incorporate the roles of the Proper Officer for Transport and the Director General of Nexus. The current post holder of MD Transport Operations, a post within the NECA establishment, will be assimilated into the new role in accordance with the NECA Redundancy Policy. The posts are similarly graded and, at least initially, it is anticipated that there will be no need to increase the budget, with funding sources identified within the 2019/20 budget agreed by the JTC. The post will be paid for under the NECA payroll arrangements with responsibilities to the Lead Chief Executive for Transport, the North East Joint Transport Committee, Nexus (in accordance with the Transport Act 1968) and the Head of Paid Service of NECA (in relation to employment responsibilities).

North East LEP Budget

- 1.18 The North East LEP core team activity is part funded from a Government contribution of £500,000, which is required to be matched by £250,000 local authority contributions. It is proposed that the current match funding contribution of £250,000 continue to be provided in 2019/20 by the seven North East councils contributing £35,714.29 each.
- 1.19 Part of the North East LEP costs of managing the Local Growth Fund (LGF) programme are funded by a top slice from the LGF grant for this purpose, which will continue at £1.1m, which is the same level as in 2018/19.
- 1.20 Other activities are being funded by additional external grants, including business support and skills funding. The North East LEP has recently been successful in securing funding for additional operational skills activity. This is increasing the operational activities that it will be undertaking in the next few months and next year, which will significantly increase the number of staff that will be employed, which will be funded by the additional external income.
- 1.21 The total North East LEP budget in 2018/19 is now estimated to be around £3.3m and this is expected to increase to around £4.1m in 2019/20, when additional operation skills activity and funding is included. The total North East LEP budget is approved by the North East LEP Board which is meeting on 31st January. The Board approval of the budget will be subject to the confirmation of the £250,000 match funding contribution being recommended for approval at this meeting. A

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copy of the North East LEP budget report is attached at Appendix B for information, so that the local authority contributions can be seen in the context of the overall North East LEP budget and to give transparency over the budget as part of the current role of NECA as the accountable body of the North East LEP.

- 1.22 During the budget consultation process the North East England Chamber of Commerce (NEECC) stressed the importance of approving the match funding contribution to the North East LEP to ensure that it had sufficient capacity to help support to delivery of the Strategic Economic Plan. A copy of the letter from the NEECC will be circulated as an Appendix to this report.

Inward Investment (Invest North East England)

- 1.23 In recent years the Invest North East England (INEE) team has been established to help coordinate inward investment activity across the NECA area. The team consists of three people and has a gross budget of £460,000 funded in part from a contribution of £20,000 from each local authority within the North East LEP area, matched by £140,000 funding from the North East LEP, other one-off funds and contributions from Enterprise Zone surpluses for activity supporting and promoting Enterprise Zones. Options for the level of activity and funding for 2019/20 are currently being discussed by North East LEP. At this stage it is recommended that the contribution of £20,000 per council be continued for 2019/20. This provides funding of £140,000, which is matched by a £140,000 contribution from the North East LEP. The North East LEP also contribute up to £170,000 from The Enterprise Zone income account and £10,000 is sourced as private sector contributions. The overall budget of £460,000 is set out in Appendix C.

NECA Corporate Costs

- 1.24 The NECA budget for Corporate costs is required to support corporate operational costs, including costs relating to the Head of Paid Service; Monitoring Officer and legal costs; Chief Finance Officer and finance and accounting costs; support for the Scrutiny and Policy functions of NECA; Human Resources, Communications; IT costs; Internal and External Audit costs; insurance; administration and coordination.
- 1.25 The original budget for 2018/19 identified costs of £379k which were funded by £79k of interest receipts and a contribution of £300k shared equally by the seven councils in NECA, making a contribution of £42,857 each. These costs include activity related to the accountable body for Transport and the accountable body for the North East LEP. These costs are now being separately identified. It is currently estimated that accountable body costs for transport in 2018/19 may be £106k with interest receipts of c £35k reducing the net cost to around £71k for the year. The net cost of the North East LEP accountable body costs is £110k which after interest receipts of £40k also produces a net cost of around £71k.

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- 1.26 In terms of the budget estimate for accountable body costs for 2019/20 it is proposed that a net budget estimate of £70k will be needed for each of the two accountable body roles, with a continuation of equal contributions of £10k from each authority towards the cost of each accountable body role. This is similar to the charges in the current year. When the decision about the accountable body for the North East LEP is confirmed the accountable body charges will be payable to the organisation that is the accountable body, which is assumed to be the NoTCA.
- 1.27 The details of the corporate costs for the reduced NECA with four members is in the process of being developed. For budget purposes at this time it is assumed that the net costs will be no more than the remainder of the current corporate charge for the four remaining members of NECA, which is £22,857 per authority giving a base budget of £91,428. However, it is important that sufficient central Corporate capacity is available to enable NECA to fulfil its statutory and corporate functions as a legal entity effectively. A NECA Corporate budget will be developed and costed in more detail now that key decisions are made about the shape of the organisation and the level of work involved can be better assessed. If additional capacity is required, an additional contribution could be made or councils may decide to make a contribution of services at a reduced cost.
- 1.28 In the event that NECA retains the accountable body for Transport and the accountable body for the North East LEP is transferred to another body a net corporate budget would be £161,428 which includes £70,000 in relation to the accountable body for transport. In addition to the high level strategic corporate accountable body for Transport role there are operation transport activities that are charged to the JTC transport budget, the Tyne and Wear Transport Budget and the Tyne Tunnels budget and these are expected to continue at broadly current levels, as reflected in the Budget Report approved by the Joint Transport Committee. These costs include the costs of administering committee meetings, independent members costs and accounting and audit activity.
- 1.29 The key statutory roles that need to be undertaken are the Head of Paid Service, The Chief Finance Officer, The Monitoring Officer and the Scrutiny Officer. These officers require additional legal and accountancy support. The first three statutory officer roles will be undertaken on a part time basis by existing statutory officers from the four councils within NECA, with a recharge reflecting the estimated cost of their time. Further details of this budget are being developed and are expected to be reported to NECA in March.

Reserves and Contingencies

- 1.30 The Corporate reserve of NECA was originally set at a relatively low level of £350k, which was created by a contribution of £50k from each of the seven local authorities. When the budget for 2018/19 was agreed in January 2018 the level of the NECA general reserve was estimated to be £287k. This level of reserves

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was considered to be adequate given the potential risks involved. The actual level of the reserve as at the end of 2017/18 year amounted to £281k. After repatriating reserves to the councils that have left NECA when the accounts for 2018/19 are closed and audited in July, it is estimated that the level of the NECA reserve will reduce to a relatively low level of £100k or less. When the level of the reserve can be identified NECA will need to consider whether a top up of this reserve is required. For example, bringing the reserve up to £200k would bring it back in line with the original reserve level of £50k per authority.

- 1.31 Once there is more detailed information available about the activities that the reconstituted NECA is to undertake in 2019/20, an assessment of in year financial risk that may be involved will be undertaken by the Chief Finance Officer, and a recommendation can be made about the level of reserves that should be held for the year.
- 1.32 Significant reserves are held for Tyne and Wear Transport activities, including the Tyne Tunnels and Nexus and these reserves are ringfenced for those purposes and considered to be at a satisfactory level. NECA will be managing significant positive cash flow and balances, which means that there should be no negative cash flow issues for NECA to manage in 2019/20.

Treasury Management Information and Prudential Indicators

- 1.33 A mid-year update of the Treasury Management Policy and Strategy was considered by the Audit and Standards Committee on 5 December and is reflected in the latest statement described below and attached at Appendix D. Currently all of the NECA External Borrowing relates to historic Tyne and Wear Transport activities. While the Joint Transport Committee takes decisions in connection with the capital investment programme and its financing, the Treasury Management arrangements are managed by NECA as the accountable body for the Joint Transport Committee and are approved by the two Combined Authorities.
- 1.34 A proportion of the outstanding balance of the loans and investments (based on the share of Tyne and Wear population in each combined authority areas) will be shown in the balance sheets of the two Combined Authorities. It may be necessary for the individual loan agreements with lenders to be amended to reflect the new arrangement for the share of liabilities between the two Combined Authorities. A summary of the Loans outstanding at the date of the change in governance is set out in Table 1 below.

Table 1: Transport (Tyne and Wear) Outstanding Debt, and Capital Financing Requirement at 2nd November 2018

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	Principal	Interest Due	Total	NECA Share	NoTCA Share
	£000	£000	£000	£000	£000
Capital Financing Requirement	193,665		193,665	107,883	85,782
Actual External Debt	167,333	2,274	169,607	94,482	75,125

- 1.35 Also set out in Appendix D is the Minimum Revenue Provision statement for 2019/20 for agreement. This sets out the proposed method by which provision for debt repayments will be made by the Authority, which has been included within the proposed budgets for the Tyne and Wear Transport levy and the Tyne Tunnels. This has been developed in consultation with the Finance Directors in the North East Councils including the Chief Finance Officer of the North of Tyne Combined Authority.

2. Reasons for the Proposals

- 2.1 NECA is required to issue Transport Levies before 15th February 2019 and needs to agree its own budget and contributions to other budgets in advance of the start of the year.

3. Alternative Options Available

- 3.1 The Leadership Board are recommended to agree the proposals set out in this report or suggest amendments or alternative proposals for the NECA budget proposals to be considered as part of the budget consultation process.

4. Next Steps and Timetable for Implementation

- 4.1 The budget proposals will be implemented once they are approved. Feedback will be given to organisations that commented on the budget proposals.

5. Potential Impact on Objectives

- 5.1 The budget proposals aim to help achieve the objectives of NECA, the Joint Transport Committee and the Strategic Economic Plan.

6. Financial and Other Resources Implications

- 6.1 The financial and other resource implications are summarised in this report where they are known. Further details which are developed as part of the NECA

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budget development during the year will be identified in the budget monitoring reports to future Leadership Board meetings.

7. Legal Implications

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

8. Key Risks

8.1 Appropriate risk management arrangements will be put in place and reported as part of the budget monitoring reports during the year. Key issues to consider will be the level of NECA general reserve that is held. This is relatively low and may need to be replenished if it is depleted by unexpected events.

9. Equality and Diversity

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

10. Crime and Disorder

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

11. Consultation/Engagement

11.1 The NECA Constitution requires that consultation on its budget proposals be undertaken at least two months prior to the budget being agreed. The 2019/20 base budget proposals were consulted upon alongside the draft Transport Budget proposals determined by the JTC on 20 November. This included consultation with Overview and Scrutiny Committees, Audit and Standards Committee, JTC Audit Committee and constituent councils and the NEECC. The majority of the comments received were in relation to the Transport budget proposals and the comments are set out in the JTC report at Appendix A (section 2.13). Comments by the NEECC in relation to the North East LEP budget are highlighted in section 1.21 of this report and the letter from the NEECC will be circulated once received as Appendix E.

11.2 The North East LEP will approve its budget for 2019/20 on 31st January, subject to the confirmation of the contributions from the Local Authorities. The North East LEP will be developing a three year medium term position for consideration in May 2019, which will take into account the estimated outturn for 2018/19. The report will also be published on the North East LEP website.

11.3 North of Tyne authorities have been consulted about the level of contributions to be made by all seven councils towards the North East LEP; INEE; and accountable body activities and have been asked to confirm that the proposed charges are acceptable.

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12. Other Impact of the Proposals

12.1 There are no other impacts arising from this report.

13. Appendices

13.1 Appendix A: Transport Budget and Levies Report to the Joint Transport Committee on 22 January 2019

Appendix B: Revenue Budget 2018/19 and 2019/20, report to the North East Local Enterprise Partnership Board 31 January 2019

Appendix C: Invest North East England Team – Budget 2018/19 and 2019/20

Appendix D: Treasury Management and Prudential Indicators and Minimum Revenue Provision Statement 2019/20

Appendix E: Budget Consultation letter from the North East England Chamber of Commerce (to follow)

14. Background Papers

NECA Constitution.

Budget and 2019/20 Budget Setting Process - Report to NECA Leadership Board 13 December 2018.

15. Contact Officers

15.1 Paul Woods, Chief Finance Officer, paul.woods@northeastca.gov.uk, 07446936840

16. Sign off

- 16.1
- Head of Paid Service: ✓
 - Monitoring Officer: ✓
 - Chief Finance Officer: ✓



North East Joint Transport Committee

Date: 22 January 2019

Subject: Transport Budget and Levies 2019/20

Report of: Chief Finance Officer, NECA

Executive Summary

The purpose of this report is to set out the 2019/20 Transport Revenue Budget and Transport Levies for the North East Joint Transport Committee, for consideration and approval. This report takes into account comments received during consultation on the outline proposals presented to this committee in November 2018.

The Combined Authorities are required under the Transport Levying Bodies regulations to set the Revenue Budget and Transport Levies before 15 February 2019, in order 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 issue the levies that are agreed by the Joint Transport Committee at their meetings on 5th February.

This report also provides an update on the Revenue Budget for 2018/19 and sets out the revenue resources planned to be used in 2019/20 to deliver the objectives of the Joint Transport Committee. A separate report on this agenda sets out the 2019/20 Transport Capital Investment Programme and Treasury Management information related to Transport.

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 2018/19 and approve the revised estimates for the year;
- ii. Agree a Transport net revenue budget for 2019/20 of £82.766m, as set out in sections 2.4 to 2.9 of this report;
- iii. Agree the following Transport Levies for 2019/20:

a. Durham County Council	£15,561,536
b. Northumberland County Council	£6,104,370
c. Tyne and Wear councils (detailed in table 7)	£61,100,000

- iv. Agree a transport revenue grant to Durham County Council for the delivery of transport services of £15,551,536, as outlined in section 2.6;
- v. Agree a transport revenue grant to Northumberland County Council for the delivery of transport services of £6,094,370 outlined in section 2.7;
- vi. Agree a transport revenue grant to Nexus for the delivery of transport services in Tyne and Wear of £55,666,667 and a contribution to the Metro Fleet Replacement Reserve of £3,333,333 as outlined in section 2.8;
- vii. Approve the budget for the Tyne Tunnels set out in section 2.10 and appendix 4, 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 31 January 2019; and
- viii. Agree the continuation of funding for the Regional Transport Team as set out in section 2.12;
- ix. Note the response made to the Government consultation on the Provisional Local Government Finance Settlement by the deadline of 10th January, expressing concern at a further cut in Government funding for concessionary travel in 2019/20; and agree that the Chair (in consultation with the Proper Officer for Transport and Chief Finance Officer, NECA) be given delegated authority to submit a response to Ministry of Housing, Communities and Local Government (MHCLG) consultation on future funding by 21st February, expressing a strong preference to keep a specific formula for concessionary travel funding, which recognises the different patterns of boardings around the country, as opposed to the current proposal to simply merge the funding into a foundation formula based mainly on resident population. Further information is set out in Appendix 5; and
- x. Note and take into account the comments received during consultation set out in section 2.13 and agree that a response be provided to the North East England Chamber of Commerce by the Chair on behalf of the Committee.

1. Background Information

- 1.1 This report sets out the proposed Transport revenue budget and levies for 2019/20 for consideration and approval. The draft budget proposals were presented to this committee on 20 November 2018. These have been the subject of consultation and this report sets out the proposed budget in more detail, taking into account the comments received during the budget process and the latest available information, including the recent provisional Local Government Finance Settlement for 2019/20.
- 1.2 The provisional Local Government Finance Settlement was announced on 13 December 2018. The national Settlement headlines were an extra £1.3bn for councils (including £650m for Social Care), with an average 2.8% cash terms increase in core councils' 'spending power' in 2019/20. Spending power is a combination of Government grants, retained business rate income and estimated income from the maximum increase in council tax income within the referendum limits that have been announced. There is a cash cut in Government funding, with an assumed increase in general council tax of 3%, (plus changes in the council tax base) and an additional increase in council tax to pay for adult social care.
- 1.3 The average increase in the North East area covered by the Joint Transport Committee was a lower 2.1% cash increase in 'spending power'. Once the additional funding for social care is excluded, the underlying change in cash spending power for all services including transport averages a cash reduction in Tyne and Wear of -0.7%; a 0% change in Durham and a 0.3% change in Northumberland. Part of the variation in the change in spending power is due to Government assumptions about changes in council's tax bases and changes in new homes bonus. It is clear that Government funding for Transport services is continuing to be cut once again, with cuts partly being offset by council tax income. It is in this context of continuing austerity related funding cuts and increasing social care cost pressures that the transport levy proposals that are set out in this report have been developed.
- 1.4 A response to the MHCLG consultation on the Provisional Local Government Finance Settlement for 2019/20 was submitted by the deadline of 10th January. This raised concerns about the further (7%) cut in the Government Funding for Upper Tier services, which includes a (10%) cut in the block that includes grant funding for Concessionary Travel. This brings the cut in grant funding for concessionary Travel to around 41% since 2015/16 and to over 60% since 2011/12, with no change in the statutory concessionary scheme. The funding gap in the North East is estimate to be c £29m.
- 1.5 MHCLG have also published a consultation paper about "A review of local authorities' relative needs and resources", which is likely to change the distribution of Local Government Funding in future years from 2020/21, with a deadline for response by 21 February 2019. A strong response is needed to the consultation paper's proposed treatment of Concessionary Travel funding. The paper proposes to replace the current formula, which reflect the different patterns of concessionary travel usage and simply include the funding within a foundation formula distributed mainly in line with resident population. This could result in a significant loss of funding for the Tyne and Wear area, further increasing the funding gap. Detailed evidence has been provided to the national Fair Funding Technical Working Group and the discussion at the group

supported the retention of a specific formula. It is disappointing that none of this work or evidence is reflected in the latest consultation paper. It is proposed that the Chair be given delegated authority to agree a response to the consultation paper in consultation with senior officers. Summary information is provided in Appendix 5 and a more detailed report on the implications of the consultation paper will be submitted to a future JTC meeting.

2. Proposals

Transport Revenue Budgets 2018/19 Forecast

- 2.1 This report provides a progress update in relation to the transport revenue budgets for the delivery agencies [Durham, Nexus (Tyne and Wear) and Northumberland] for 2018/19 of £83.647m. It presents the proposed budget for 2019/20 of £82.766m for approval, following a two-month consultation period.
- 2.2 As the Transport levies and revenue grants are normally fixed for the year, there is no change in Levies payable and minimal change in the Joint Transport Committee revenue budget itself. 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.
- 2.3 As the Transport levies and revenue grants are normally fixed for the year, there is no change in Levies payable and minimal change in the Joint Transport Committee revenue budget itself. 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.

The one significant change is a £3.333m reduction in the grant payable to Nexus in 2018/19, with £3.333m being held instead in a Metro Fleet Replacement Reserve as a second year contribution towards the match funding contribution that is required by the Department for Transport.

Table 1: 2018/19 Transport Levies and Grants

	2018/19 Original Budget	2018/19 Revised Forecast	Spend to date Nov 2018
	£000	£000	£000
Total Transport Levies	(83,648)	(83,648)	(55,765)
Grant to Durham	15,692	15,692	10,461
Grant to Northumberland	6,146	6,146	4,097
Grant to Nexus	59,700	56,367	39,800
Contribution to Metro Fleet Replacement Reserve	-	3,333	-
Retained Transport Levy Budget	2,110	2,110	1,139
Contribution (to)/from NECA Transport reserves	-	-	(268)

Budget and Levy Proposals for 2019/20

- 2.4 The overall total proposed net revenue budget for transport levies in 2019/20 is £82.766m as set out in Table 2 below. This represents a net reduction of £0.882m (1.1%) when compared to 2018/19.

Table 2: Transport Levies 2019/20

	Transport Levy	Change from 2018/19	Levy per person
	£	£	£/person
Durham	15,561,536	(135,330)	£29.72
Northumberland	6,104,370	(46,510)	£19.13
Tyne and Wear	61,100,000	(700,000)	£54.09
Total	82,766,370	(881,840)	

- 2.5 The variation in the figures for the levy per person reflect the higher costs of concessionary travel demand and capital financing costs in urban areas and demonstrates why three separate levies are required. The following table sets out a summary of the transport net revenue spending planned for 2019/20. Over £54.9m (66%) is planned to be spent on concessionary travel and over £15.5m 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.

Table 3: Summary of the 2019/20 Transport Budget

	Durham	Northum-berland	Tyne & Wear	Total
	£000	£000	£000	£000
Statutory Concessionary Travel	12,048	4,690	34,529	51,267
Discretionary Concessionary Travel	-	-	3,720	3,720
Subsidised Bus Services	2,583	1,230	11,731	15,544
Bus Stations/Infrastructure	163	24	2,531	2,718
Public Transport Information	89	25	1,206	1,320
Metro (incl. Discretionary Travel)	-	-	1,454	1,454
Heavy Rail	-	-	189	189
Ferry	-	-	1,008	1,008
Staffing in Durham/Northumberland	668	125	-	793
Use of Nexus Reserves	-	-	(700)	(700)
Contribution to Metro Fleet Replacement Reserve	-	-	3,333	3,333
Transport Grants	15,552	6,094	59,000	80,646
JTC General Transport Costs	10	10	50	70
Former T&WITA Costs	-	-	2,050	2,050
Transport Levy	15,562	6,104	61,100	82,766

2.6 Durham Transport Budget 2019/20

2.6.1 The budget and levy for public passenger transport activity in Durham is £15.552m and £15.562m respectively for 2019/20. This compares with an original budget of £15.697 for 2018/19 and a revised forecast for 2018/19 estimated at £15.412m. The budget and levy for 2019/20 are set out below. The budget for concessionary fares in Durham will rise from £11.940m to £12.048m. A negotiated settlement was reached with the bus operators taking into account expected usage and average fares, which resulted in an increase of 0.9%.

Table 4: Durham Transport Budget 2019/20

	Gross Expenditure	Income	Net Expenditure
	£	£	£
Concessionary Fares	12,057,795	(9,500)	12,048,295
Subsidised Services	4,389,971	(1,806,551)	2,583,420
Bus Stations	457,791	(314,211)	143,580
Bus Shelters	31,350	(12,120)	19,230
Passenger Transport Information	184,440	(95,514)	88,926
Staffing	668,085	-	668,085
Total Grant	17,789,432	(2,237,896)	15,551,536
Share of JTC Transport Costs	10,000	-	10,000
Net Expenditure	17,799,432	(2,237,896)	15,561,536

2.7 Northumberland Transport Budget 2019/20

2.7.1 The budget and levy for public passenger transport activity in Northumberland is £6.094m and £6.104m respectively for 2019/20. This compares with an original budget of £6.146m for 2018/19. The budget and levy for 2019/20 are set out below.

Table 5: Northumberland Transport Budget 2019/20

	Gross Expenditure	Gross Income	Net Expenditure
	£	£	£
Concessionary Fares	4,702,940	(12,940)	4,690,000
Subsidised Bus Services	1,776,740	(546,340)	1,230,400
Bus Stations	23,930	0	23,930
PT Information	25,000	0	25,000
Staffing	125,040	0	125,040
Total Grant	6,653,650	(559,280)	6,094,370
Share of JTC Transport Costs	10,000	0	10,000
Transport Levy	6,663,650	(559,280)	6,104,370

2.7.2 The net budget for 2019/20 is less than the comparable budget for 2018/19. The Concessionary Fares budget includes a small saving of £32k as a result of inflation, offset by a small (c2%) reducing passenger numbers. Increases in cost for inflation have been offset by a The budget for Bus Services is unchanged from its current level with no significant investment in the county's bus stations planned for 2019/20 and minor changes on staffing due to vacancies, restructures and an analysis of time spent on combined authority activities. The budgets assume that the grant received in respect of Bus Service Operators Grant will remain unchanged.

2.8 Tyne and Wear Transport Budget 2019/20

2.8.1 The budget and levy for Tyne and Wear is proposed to be £61.1m for 2019/20, which is a reduction of £0.7m when compared with the budget for the current year.

2.8.2 The revenue budget is made up of a retained budget for centrally held Tyne and Wear transport costs (primarily relating to the former Tyne and Wear Integrated Transport Authority (TWITA)), a Transport grant to Nexus and a contribution to the Metro Fleet Replacement Reserve, as summarised in Table 6.

Table 6: Allocation of Tyne and Wear Levy for 2019/20

	2018/19	2019/20	Change
Tyne and Wear Transport	2,100,000	2,100,000	-
Grant to Nexus	59,700,000	55,666,667	(4,033,333)
Contribution to Metro Fleet Replacement Reserve	-	3,333,333	3,333,333
Total Levy	61,800,000	61,100,000	(700,000)

2.8.3 The allocation of the Tyne and Wear transport levy between the constituent authorities is based on mid-2017 population estimates. The new levy proposed for 2019/20 is set out in the table below and outlined in more detail in Appendix 1.

Table 7: Tyne and Wear Transport Budget and Levy 2019/20

District	Population (2017 Mid- Year Estimate)	2019/20 Proposed Levy	Saving compared to 2018/19
Gateshead	202,419	£10,949,433	(£87,828)
Newcastle	295,842	£16,002,955	(£229,361)
North Tyneside	204,473	£11,060,540	(£70,618)
South Tyneside	149,555	£8,089,866	(£90,843)
Sunderland	277,249	£14,997,206	(£221,350)
Total	1,129,538	£61,100,000	(£700,000)

2.8.4 This £0.7m reduction would bring the overall reduction in the annual transport levy since 2010 to £16.9m, which has largely been achieved through efficiency savings and use of reserves, whilst protecting service outcomes to date. This level of saving while protecting service outcomes is a significant achievement, particularly in the light of the cost pressures that have been contained in respect of Concessionary Travel and outcomes in other areas of the country where there have been significant cuts in transport services.

Nexus Revenue Budget

2.8.5 The achievement of a range of efficiency savings in the current year has placed Nexus in a good position. Moving into 2019/20, Nexus will be able to set a balanced budget, save for the proposed £0.7m reduction in its grant from the levy, which will be funded from its revenue reserve in the first instance.

2.8.6 This means Nexus will be able to maintain frontline services in 2019/20 and its corporate objectives, as endorsed by the Tyne and Wear Sub Committee in November 2018, include a range of positive initiatives, whereby during 2019/20 Nexus will:

- Award contracts to design, build and maintain a new fleet of trains for the Tyne and Wear Metro and to design and build a new depot.
- Improve customers' journey experience on Metro.
- Continue the programme to modernise the Metro with track renewal, replacement of overhead power lines and the opening of a new Transport Interchange in South Shields.
- Open the new Learning Centre in South Shields, to provide a step change in how Nexus develops its people and makes Nexus an employer of choice.
- Ensure the North East's priorities for transport are properly reflected in Transport for the North's (TfN's) investment plans.
- Develop plans to expand Metro and local rail services, connecting communities not currently served by either Metro or Northern rail services.
- Implement organisational change to deliver efficiencies, ensuring Nexus achieves value for money.
- Protect levy funded frontline services and discretionary concessionary travel schemes.
- Develop plans to improve the local bus network and the use of new mobility services.

Deliver technological improvements, which will benefit customers and encourage wider use of public transport.

2.8.7 However, without any improvements to its funding over the medium term Nexus will need to work with the JTC and Tyne and Wear Sub Committee in regards possible service reductions during 2020/21 and future years.

2.8.8 A summary of the draft Nexus budget for 2019/20 and the use of the Transport grant is set out below, with further details given in Appendix 3.

Table 8: Summary of Nexus net budget for 2019/20

Service Area	Gross Expenditure	Grants and Income	2019/20 Net
	£000	£000	£000
Statutory Concessionary Travel	35,646	(1,117)	34,529
Discretionary Concessionary Travel	11,416	(7,696)	3,720
Metro	101,647	(100,193)	1,454
Ferry	1,563	(555)	1,008
Local Rail	448	(259)	189
Bus Services	15,147	(3,416)	11,731
Bus Infrastructure	3,561	(1,030)	2,531
Public Transport Information	1,495	(290)	1,205
Total Requirement	170,923	(114,556)	56,367
JTC Grant (Levy)			(55,667)
Use of Reserves			700

2.9 Retained Tyne and Wear Transport Budget

2.9.1 This budget relates primarily to activity inherited from the former Tyne and Wear Integrated Transport Authority TWITA, as well as some costs such as external audit and the cost of servicing the Joint Transport Committee, which relate to the whole JTC area. Further information on this is provided in Appendix 1. The majority of the budget relates to financing charges on historic supported borrowing debt. Additionally, there is budget provision to pay for support services, other supplies and services, and a repayment to the Tyne Tunnels account for use of reserves in 2013/14 to pay off the Tyne and Wear pension deficit.

2.9.2 The budget for this area of activity for 2019/20 is maintained at the same level as 2018/19. Scope for further savings is limited since the majority of the budget is for financing charges, and any savings cannot be fully confirmed until the position and

costs of a new Proper Officer for Transport post and the support required for the JTC is identified and agreed.

- 2.9.3 The proposed budget for 2019/20 is summarised in the table below with further detail in Appendix 2.

Table 9: Retained Transport Budget

	2018/19 Original Budget	2018/19 Forecast	2019/20 Proposed Budget
	£000	£000	£000
Support Services/Staffing	220	205	210
Administration and Governance	42	38	44
Financing Charges	1,798	1,798	1,785
Transport Joint Committee	50	20	70
TCF bid support	-	49	11
Total Expenditure	2,110	2,110	2,120
Contribution to JTC cost from Durham and Northumberland Levies	(10)	(10)	(20)
Contribution from Tyne and Wear Levy	(2,100)	(2,100)	(2,100)
Total Contribution from Levies	(2,110)	(2,110)	(2,120)

- 2.9.4 The Tyne and Wear (former TWITA) Transport Revenue reserves are estimated to be £0.513m at the year-end as a result of a breakeven forecast for the year. Up to £0.100m of this reserve could be available to support the bid preparation for the Transforming Cities Fund Bid in addition to the specific allocation of £0.06m shown above and this will be the subject of a future report to the Joint Transport Committee. Support to the Transport Joint Committee includes a contribution to the costs of the Proper Officer for Transport as set out in a separate paper on this agenda.

2.10 Tyne Tunnels

- 2.10.1 The Tyne Tunnels are accounted for as a ring-fenced account, meaning that all costs relating to the tunnels are wholly funded from the tolls and Tyne Tunnels reserves, with no call on the levy, council tax payers or Government funding at all.

Table 10: Tyne Tunnels Revenue Budget

	2018/19 Original Budget	2018/19 Forecast	2019/20 Proposed Budget
	£000	£000	£000
Tolls Income	(25,970)	(26,730)	(28,090)
Contract payments to TT2	19,480	20,298	21,197
Employees	33	-	-
Pensions	54	50	52
Support Services	80	95	95
Supplies & Services	45	30	45
Financing Charges	6,579	6,594	6,966
Interest/Other Income	(50)	(90)	(50)
Repayment from TWITA for temporary use of reserves	(240)	(240)	(240)
(Surplus)/Deficit on Tyne Tunnels revenue account met from reserves	11	7	(25)

- 2.10.2 The operational management from the client side is currently carried out by Newcastle City Council on behalf of NECA. This support is currently under review and there is the potential for arrangements to change to reflect changes in regional Transport governance during 2019/20. Details of these arrangements will be reported to the Tyne and Wear Sub Committee.
- 2.10.3 The 2019/20 budget figures shown in the table above assumes an increase in tolls for both Class 2 and Class 3 vehicles in line with inflation as measured by the Retail Price index. It is proposed that the toll for Class 2 Vehicles (cars and light goods vehicles) be increased by 10p from £1.70 to £1.80 and that the toll for Class 3 vehicles (Heavy Goods Vehicles) be increased by 20p from £3.40 to £3.60 in spring 2019. This has been discussed in greater detail with the Tyne and Wear Sub Committee and is recommended for approval at the meeting on 31 January 2019.
- 2.10.4 The increase in toll income in 2019/20 as a result of the increase in tolls is estimated to be £1.56m. Without an increase in tolls the Tyne Tunnels account would operate at a deficit of £1.54m, next year which would be unsustainable over the life of the concession.

- 2.10.5 In terms of the formal process for the increase in Tolls, the proposed increase has been recommended by the Tyne and Wear Sub-Committee (TWSC) and a decision to increase tolls will be taken by the TWSC in January. It is proposed that the JTC approves the budget for the Tunnels which includes the effect of the toll increase recommended by TWSC. NECA, as the Host Combined Authority for Transport will implement the decision by advertising the proposed increase and notifying the Department for Transport, and the increase will be implemented by TT2 Ltd at a date to be determined, anticipated to be in March or April 2019.
- 2.11 **Transport Accountable Body Costs**
- 2.11.1 The costs of the Accountable Body for Transport currently form part of the NECA Corporate Budget. The total NECA Corporate costs budget in 2018/19 was £379k, which after interest receipts resulted in a £300k net cost contribution which was shared equally between the seven local authorities.
- 2.11.2 An exercise to estimate the costs of the role of “accountable body for Transport” in 2018/19 produced an estimated gross cost of £104k, which after interest receipts were deducted, arrived at an estimated net cost of £71k, equivalent to £10,143 per authority.
- 2.11.3 The JTC has agreed that NECA will continue to carry out the role of the accountable body for transport. The estimated net cost of this role for 2019/20 is being calculated and will be reported to the NECA Leadership Board for approval on 5th February and will be reported in more detail to the next meeting of the Joint Transport Committee. At this time it is assumed that the cost in 2019/20 will continue to be at or below the estimated cost in 2018/19. The contribution to fund these costs does not form part of the Transport levies and it will need to continue to be funded by all seven councils as a separate contribution in 2019/20.
- 2.12 **Regional Transport Team**
- 2.12.1 The Regional Transport Team budget is to support the Joint Transport Committee and North East LEP as a whole, on a seven authority basis. The budget includes salary costs and the items required to ensure a functional central resource across the JTC area including the development of the Transport Manifesto and Transport Plan and various research projects where value can be added at a regional level including modelling works, major schemes bid development, including Transforming Cities fund, the Freight Quality Partnership and other research studies. During the year the team has also taken on the role of providing support to the Consortium of East Coast Main Line Authorities (ECMA), the costs of which are partly met through a recharge to other member authorities. Staffing costs for 2019/20 assumes that staff within the team currently employed by Newcastle City Council will transfer to the employment of NECA with effect from 1 April 2019. This has the effect of reducing superannuation contributions to 0% from 2019/20 for several years (likely to be at least 4 years).
- 2.12.2 The budget for 2019/20 is proposed to be £0.823m which is a reduction of £0.148m compared to the original budget for 2018/19. This is due mainly to reductions in external funding for the team. This budget is summarised in the table below.

Table 11: Regional Transport Team Budget

	2018/19 Original Budget	2018/19 Revised Forecast	2019/20 Proposed Budget
Expenditure	£000	£000	£000
Staffing	487	368	447
Contribution to Proper Officer for Transport	29	29	40
LTP4 Development	50	11	50
Research and Grant Bid Development	199	145	180
Transforming Cities Fund support	0	0	100
Miscellaneous	6	7	6
Go Smarter Legacy (SUD Bid/Match Funding)	200	6	-
Total Expenditure	971	566	823
Funded by:			
LTP Integrated Transport Block	(500)	(500)	(500)
LGF Programme Management	(150)	(60)	(100)
Go Smarter Legacy Funding	(200)	(6)	(100)
Carried forward balances from previous years	(121)	-	(123)
Total Funding	(971)	(566)	(823)

2.13 Consultation

2.13.1 The draft transport budget proposals for 2019/20 were published in November, commencing the two-month consultation period required by the constitution. Meetings have been held with the NECA Audit and Standards Committee, NECA Overview and Scrutiny Committee, JTC Audit Committee and JTC Overview and Scrutiny Committee, with the North East England Chamber of Commerce and with officer groups including Chief Executives and Finance Directors.

2.13.2 A range of questions were raised and answered at the meetings. Comments received at the time of the preparation of this report are summarised below, with

initial responses. Further comments will be provided at the meeting, including any transport related comments from the public and the North East England Chamber of Commerce.

Comment / Issue	Draft Response
<p>NECA Audit Committee</p> <p>The Committee recognised the budget pressures facing councils and the efforts taken to maintain front line services. Members highlighted the need for levy reductions to be sustainable and highlighted the importance of sufficient officer capacity, particularly at senior level, being available to deliver the objectives of the JTC, and to provide resilience in the delivery of services, particularly by Nexus, given the need to maintain existing services and renew /extend the Metro system.</p>	<p>The issue of sufficient senior capacity within Nexus will be addressed by Nexus and through the establishment of the Proper Transport Officer arrangements and will be the subject of future reports to the Joint Transport Committee.</p> <p>The sustainability of any future levy changes will be a key issue for members of the JTC over the next few years.</p>
<p>JTC Audit Committee</p> <p>The members of the committee asked that further information be provided in the budget report about the assumptions behind the changes in the concessionary travel budgets for each of the three areas in 2019/20.</p> <p>The importance of sustainability of Transport funding in future years was highlighted.</p>	<p>Further details about the assumptions relating to concessionary travel costs have been included in this report and further information will be provide to members of the Audit and the Overview and Scrutiny committees. This will include information about how the settlements for concessionary travel payments are negotiated with the commercial operators.</p>
<p>JTC Overview and Scrutiny Committee</p> <p>Members asked whether the option of providing discretionary travel support for older people aged over 60 who had not reached state pension age and were not entitled to free concessionary travel had been considered. It was noted that discretionary travel had been provided in Merseyside and concessions were also given in London. A request was made that the Committee look at this issue as well as other issues related to concessionary travel as part of their work programme for 2019/20.</p>	<p>The Government had changed the eligibility age for statutory concessionary travel to bring it into line with the state pension age outside of London. This helped to contain the costs of concessionary travel funded by Government grant.</p> <p>While a couple of areas including Merseyside had made discretionary arrangements, this was at a significant additional cost. Although costs are difficult to predict due to uncertainty of the volume of usage, an indicative estimate of cost could exceed £10m a year, requiring a significant increase in</p>

	<p>the Transport Levies and/or considerable cuts in transport services.</p> <p>Information would be provided for the members of the Overview and Scrutiny Committee and the members of the JTC as part of the consideration of options for future years' budgets.</p>
<p>NECA Overview and Scrutiny Committee</p> <p>A range of questions were asked and answered. The background to the funding of the Tyne Tunnels was discussed in some detail, including the reason for the increase in toll income to keep pace with inflation and to cover the increased charges to TT2 the concession operator which increase in line with the RPI index each year.</p>	<p>Additional information is set out in the report ab the appendix about the background to the financing of the Tyne Tunnels by tolls and the need for increases to keep pace with inflation.</p>
<p>North East Chamber of Commerce</p> <p>The importance of maintaining good Transport systems to support business was highlighted. No specific points on the budget proposals were raised at the officer meeting with the NEECC. A written response is due shortly and any transport comments will be circulated.</p>	

3. Reasons for the Proposals

- 3.1 The proposals are presented in this report to enable the Joint Transport Committee to set its budget for 2019/20.

4. Alternative Options Available

- 4.1 Option 1: JTC may accept the recommendations set out in this report.
Option 2: JTC may not accept the recommendations set out in this report.
Option 1 is the recommended option. If the recommendations in this report are not agreed a special meeting of the JTC will need to be urgently arranged in order to agree a 2019/20 Transport Budget and Levies before the statutory date of 15th February.

5. Next Steps and Timetable for Implementation

- 5.1 The Transport Budget and levies agreed by the Joint Transport Committee will be included in the budget reports to the two combined authorities, who will formally issue the levies to the constituent councils. NECA will implement the proposals as the accountable body of the Joint Transport Committee and will produce regular

budget monitoring reports to the Joint Transport Committee during the year about the transport activities undertaken by the various delivery bodies during the year.

- 5.2 In the event that the budget and levies cannot be agreed unanimously at this meeting, a special meeting will be urgently arranged to consider and agree the levies for 2019/20 before the statutory date.

6. Potential Impact on Objectives

- 6.1 The JTC budget reflects the Transport policy objectives of the committee and is set at a level to deliver these objectives, within the funding constraints of the Levies.

7. Financial and Other Resources Implications

- 7.1 Financial and other resource implications are summarised in the main body of the report.

- 7.2 The Chief Finance Officer is required to report to the Authority on the adequacy of proposed level of financial reserves. The proposed levels of reserves of around £0.4m for Tyne and Wear Transport and around £18m for the Tyne Tunnels are considered to be adequate. Reserves are also held separately by the various Transport delivery agencies.

8. Legal Implications

- 8.1 The JTC must approve the transport budget, levies and tolls unanimously. The Leadership Board must approve the final overall budget proposals unanimously (incorporating the budget approved by the JTC). Transport Authorities (NECA and NTCA) are required to set their transport levies by 15 February proceeding 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 joint transport committee.

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.

12. Consultation/Engagement

- 12.1 The NECA Constitution requires that consultation on its budget proposals be undertaken at least two months prior to the budget being agreed. The draft

proposals have been subject to consultation with the Overview and Scrutiny Committee, Audit and Standards Committee, constituent councils and the North East England Chamber of Commerce. Comments raised as part of the consultation process have been taken into account in the preparation of the final report and details are set out in section 2.12.

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 in Tyne and Wear
Appendix 2 – NECA Transport Levy Budget
Appendix 3 – Nexus Budget Proposals 2019/20 Detail
Appendix 4 – Tyne Tunnels 2018/19 Forecast and 2019/20 Budget
Appendix 5 – Government Funding of Concessionary Transport

15. Background Papers

15.1 NECA Leadership Board Budget 2018/19 and Transport Levies report 16 January 2018

<https://northeastca.gov.uk/wp-content/uploads/2018/03/Leadership-Board-16-January-2018-Agenda-Pack.pdf>

JTC Budget and Transport Levies report 20 November 2018

<https://northeastca.gov.uk/wp-content/uploads/2018/11/North-East-Joint-Transport-Committee-20-November-2018-Supplemental-Agenda-Pack.pdf>

MHCLG Consultation paper “A review of local authorities’ relative needs and resources”

16. Contact Officers

16.1 Paul Woods, Chief Finance Officer NECA, (as the accountable body for the Joint Transport Committee), paul.woods@northeastca.gov.uk, 07446936840

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17. Sign off

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

Appendix 1 – Transport Levy Arrangements in Tyne and Wear

Transport Levy Arrangements – 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 two years prior to the levying year).

For the 2019/20 levy, this is the 2017 Mid-Year estimates published by the Office for National Statistics. The population estimates for 2016 and 2017 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.

	2016 MYE	2017 MYE	Change	
	People	People	People	Percentage
Gateshead	201,592	202,419	827	0.41%
Newcastle	296,478	295,842	-636	-0.21%
North Tyneside	203,307	204,473	1,166	0.57%
South Tyneside	149,418	149,555	137	0.09%
Sunderland	277,962	277,249	-713	-0.26%
Total Tyne & Wear	1,128,757	1,129,538	781	0.07%

Apportioning the proposed levy of £61,100,000 gives the following figures for Tyne and Wear:

	2018/19 Levy	2019/20 Levy	Saving compared to 2018/19	
	£	£	£	%
Gateshead	11,037,261	10,949,433	-£87,828	-0.80%
Newcastle	16,232,316	16,002,955	-£229,361	-1.41%
North Tyneside	11,131,158	11,060,540	-£70,618	-0.63%
South Tyneside	8,180,709	8,089,866	-£90,843	-1.11%
Sunderland	15,218,556	14,997,206	-£221,350	-1.45%
Total Tyne & Wear	61,800,000	61,100,000	-£700,000	-1.13%

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 decision 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 DCLG 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 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:

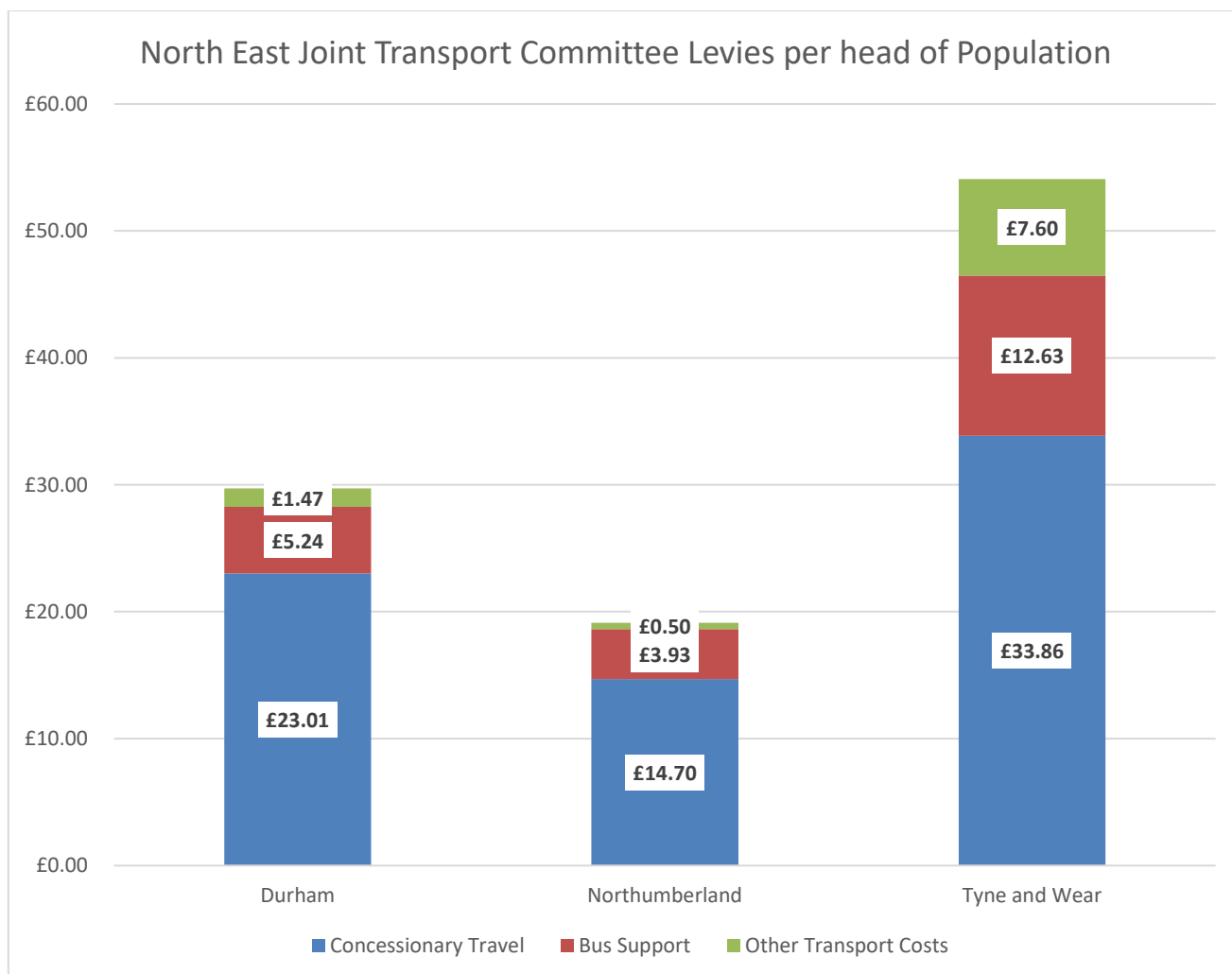
In Northumberland and Durham the vast majority of the Levy relates to grant paid back to the councils as the delivery agents for the operational transport activities in their areas. There is an additional charge to all three levies for cross-cutting transport activities for all parts of the JTC area. The calculation of the proposed charge for 2019/20 is set out below:

	Durham	Northumberland	Tyne & Wear	Total
	£	£	£	£
Internal/External Audit Fee (allocation for Transport)	500	500	34,000	35,000
Finance and Accounting	1,500	1,500	45,000	48,000
JTC Support Costs	3,000	3,000	15,000	21,000
TWSC Support Costs	0	0	11,000	11,000
Proper Officer for Transport	5,000	5,000	25,000	35,000
Total	10,000	10,000	130,000	150,000

Comparative Cost Analysis – Transport Budgets

The relative levels of the levies are shown in the following chart, highlighting the very different cost per head of population in Northumberland and Durham compared with Tyne and Wear, mainly due to the higher costs of concessionary travel; supported bus services and capital financing costs.

Chart 1: JTC Levies per head of population - 2019/20 Proposed Levies



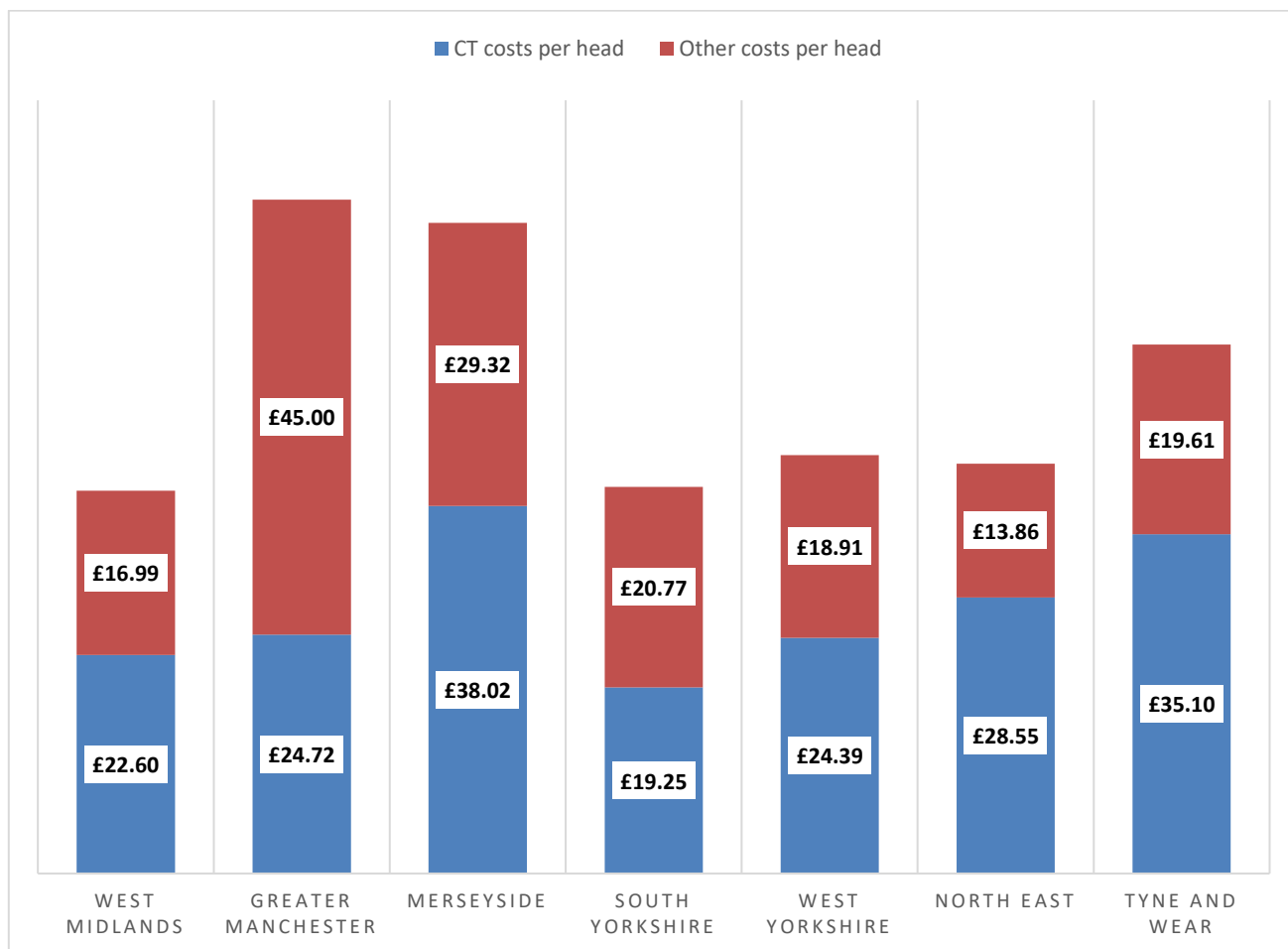
The costs per head of population in Tyne and Wear are higher because they reflect a significantly higher level of concessionary travel activity and the support for secured bus services to provide accessible transport services across the county. 'Other' also includes capital financing costs relating to transport schemes which are not included in the other levies.

In recent years the significant saving to districts in Tyne and Wear from reductions in the levy and retention of concessionary travel grants have resulted in total annual savings of £16m (18.5% in cash terms and over 22% in real terms) since 2011, with no material reduction or detrimental impact on service outcomes. At the same time population has risen slightly by 0.5%.

A comparison of levy per head of population in metropolitan areas for 2018/19 (the most recent year for which data is published) shows that while Tyne and Wear had the third highest levy per person at £55, this was a direct result of the higher concessionary travel

costs due to its high proportion of the population who are ENCTS pass holders, and pass holders' extensive use of the pass.

Chart 2: Relative Transport costs per head of population – 2018/19 costs



*Greater Manchester includes capital financing for transport activity and has been adjusted between their Transport and Waste Levy in order to show the true level of transport costs.

Appendix 2 –Transport Levy Budget

	2018/19 Original £	2018/19 Revised £	2019/20 Original £
Transport Levies			
Durham	(15,696,866)	(15,696,866)	(15,561,536)
Northumberland	(6,150,880)	(6,150,880)	(6,104,370)
Tyne and Wear	(61,800,000)	(61,800,000)	(61,100,000)
Total Levies	(83,697,746)	(83,697,746)	(82,765,906)

Transport Grants			
Durham	15,691,866	15,691,866	15,551,536
Northumberland	6,145,880	6,145,880	6,094,370
Tyne and Wear (Nexus)	59,700,000	56,366,667	55,666,667
Metro Fleet Replacement reserve	-	3,333,333	3,333,333
Total	81,537,746	81,537,746	80,645,906

Centrally Held Costs (mainly Tyne and Wear)			
Service Level Agreement	220,000	205,630	200,000
External Audit Fee (Transport element)	13,000	15,000	15,000
Independent Members Allowances and expenses (Transport element)	5,000	5,000	5,000
Conferences, Travel and Subsistence	2,000	500	2,000
IT Development/Website	12,000	12,000	12,000
Supplies and Services	10,000	5,000	10,000
Transport Joint Committee Support	50,000	20,000	70,000
Transforming Cities Fund Bid Support	-	48,870	21,000
Repayment to Tyne Tunnels (for Pension Deficit payment)	240,000	240,000	240,000
Financing Charges – Interest and DME	1,028,900	1,028,600	1,015,900
Financing Charges – MRP	529,100	529,100	529,100
Net Expenditure	2,110,000	2,110,000	2,120,000

Contribution (to)/from Reserves 0 0 0

Tyne and Wear Transport Reserve	2018/19 Original	2018/19 Revised	2019/20 Original
Reserves brought forward	(475,000)	(513,000)	(513,000)
Reserves contribution in year	-	-	
Reserves carried forward	(475,000)	(513,000)	(513,000)

Appendix 3 – Nexus Revenue Budget

Nexus Revenue Budget 2019/20 and Indicative Forecast to 2021/22

A Recap: Nexus Budget Performance 2018/19

1. At its January 2018 meeting, the Leadership Board agreed that Nexus could run a budget deficit amounting to £1.934m in 2018/19, which would be funded using its reserves.
2. In the Revenue Budget Monitoring Report to Transport North East Committee on 11 October 2018, Nexus reported that it had made a permanent reduction to its base budget and it was now reporting a £1.200m surplus for 2018/19. Further to this, another permanent budget adjustment of £0.225m relating to employee costs has been made, reducing the surplus to £0.975m.
3. The adjustments to Nexus' base budget are shown in the table below:

	£m	£m
Base budget deficit 2018/19		1.934
Budget Savings		
Concessionary travel	(0.830)	
Metro fare income	(0.800)	
High voltage power	(0.500)	
Secured services	(0.310)	
Investment income	(0.080)	
Scholars income	(0.200)	
Employees	(0.075)	
Other	(0.257)	(3.052)
Budget Pressures		
Commission income	0.060	
Inflationary adjustments	0.058	
Departure charges	0.025	0.143
Nexus revised base budget surplus 2018/19		(0.975)

Formulation of the 2019/20 Budget and Corporate Objectives

4. The achievement of a range of efficiency savings in the current year has placed Nexus in a good position. Moving into 2019/20, Nexus will be able to set a balanced budget, save for the proposed £0.700m cut to its grant from the Joint Transport Committee, which will be funded from the revenue reserve.
5. This means Nexus will be able to maintain frontline services next year and its corporate objectives, as endorsed by the Joint Transport Committee's Tyne and Wear Sub-

Committee in November 2018 (minute 5 refers) include a range of positive initiatives, whereby during 2019/20 Nexus will:

- Award contracts to design, build and maintain a new fleet of trains for the Tyne and Wear Metro and to design and build a new depot.
- Improve customers' journey experience on Metro.
- Continue the programme to modernise the Metro with track renewal, replacement of overhead power lines and the opening of a new Transport Interchange in South Shields.
- Open the new Learning Centre in South Shields, to provide a step change in how Nexus develops its people and makes Nexus an employer of choice.
- Ensure the North East's priorities for transport are properly reflected in Transport for the North's (TfN's) investment plans.
- Develop plans to expand Metro and local rail services, connecting communities not currently served by either Metro or Northern rail services.
- Implement organisational change to deliver efficiencies, ensuring Nexus achieves value for money.
- Protect levy funded frontline services and discretionary concessionary travel schemes.
- Develop plans to improve the local bus network and the use of new mobility services.
- Deliver technological improvements, which will benefit customers and encourage wider use of public transport.

6. However, without any improvements to its funding over the medium term Nexus will need to work with the Sub-Committee (and the Joint Transport Committee) in regards possible service reductions during 2020/21 and future years.

Budget 2019/20

7. The table below shows the movement 'base on base'.

	£m	£m
Base budget 2018/19		(0.975)
Grant Funding	0.321	
Metro Farebox	(0.743)	
Employees	1.758	
Key Contracts	1.614	
Savings	(1.274)	1.675
Base budget 2019/20		0.700

8. The key movements are discussed in further detail below:

- a. Grant Funding – as previously highlighted, the grant from the Joint Transport Committee is set to reduce by £0.700m whilst Metro Rail Grant which is set to increase, is estimated to do so by a lesser amount (£0.379m);

- b. Metro Farebox – the revenue estimate for 2019/20 includes the impact of the January 2019 fares review as agreed at the Joint Transport Committee, Tyne and Wear Sub Committee on 30 November 2018. Whilst Metro farebox is currently estimated to grow by £0.743m in 2019/20, it should be recognised that there remains a degree of volatility in regards to this budget and a 1% adverse variance would eradicate two-thirds of this estimated growth;
 - c. Employees – comprising pay inflation and incremental progression;
 - d. Key Contracts – comprising inflationary pressures relating to key contracts such as High Voltage Power, the Network Rail Track Access Charge, South Shields Transport Interchange and Secured Bus Services;
 - e. Savings – Other savings have been made across the revenue budget with the major savings being in relation to the English National Concessionary Travel Scheme (ENCTS) and ICT Infrastructure.
9. Outside of the budget highlighted in the table above is an item of expenditure amounting to £1.560m, which in line with accounting treatment at the end of 2017/18, relates to critical investment in the ageing fleet of Metrocars. This cost will be capitalised in 2018/19 (and 2019/20) and earmarked to fund an expected increase in costs during the period in which the Train Services Agreement (TSA) for the maintenance of the new fleet will also extend to the existing fleet, prior to its disposal. This item is being retained within the base revenue budget such that it is available to fund the TSA once the contract for maintenance of the fleet becomes operational from 2020/21.
10. In addition, for the third consecutive year, during 2019/20 there will be a contribution of £3.333m to the Metro Fleet Renewal reserve, funded by a temporary, one-off adjustment to the grant payable to Nexus. This will increase this reserve, which is held by the NECA on Nexus' behalf, to £10.000m thereby achieving the £25.000m match funding contribution required by the DfT (the other £15.000m is held separately by Nexus in its own capital reserve). This expenditure item is also not reflected in the budget detailed in the table above.
11. The table at paragraph 22 and at Annex 1 provides a breakdown of the amount of funding each service area will place reliance on in respect of the Joint Transport Committee grant in 2019/20. This is after internal recharges for indirect activities and overheads, commercial revenue generated in the delivery of the service, government grant and releases from the capital grants deferred account. In regards this latter point, an unusable reserve is established when a fixed asset funded by government grant is acquired, so that in future years, the reserve is released from the balance sheet to match (offset) the depreciation charged to the revenue account reflecting the use of the asset in the provision of services. The majority (but not all) of Nexus' depreciation is offset in this way, reflecting the major reliance upon government grant as a means of investing in its asset base, in particular the Tyne and Wear Metro system.
12. Whilst Annex 1 illustrates how each service area is to be funded from the Joint Transport Committee grant in 2019/20, it does not breakdown the Nexus budget in its entirety. This is provided in more detail at Annexes 2, 3 and 4 which illustrates:-

- The full range of cost centres where income and expenditure is recorded in pursuit of Nexus' business plan objectives (refer to Annex 2)
- The net cost of Nexus' support services and other indirect activities for example, Legal Services, Health and Safety, Retail Sales etc. which are fully allocated across the service areas included in Annex 1 (refer to Annex 3)
- A 'subjective analysis' of Nexus' gross income and expenditure, for example, Employee costs, Premises costs, Transport related expenditure etc. (refer to Annex 4)

13. Further narrative in relation to Joint Transport Committee grant funded expenditure is detailed below:-

- **ENCTS** - £34.529m, comprising the net cost of the 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. TCA's and bus operators utilise DfT guidance in determining the value of payments due but in essence, Nexus has virtually no control over this sizeable burden on its Joint Transport Committee grant funded expenditure.
- **Discretionary CT** - £3.720m, comprising the discretionary add-ons to the ENCTS (the all day disabled pass, the companion pass, post 2300 hour boardings, and pre 0930 hour boardings for the purposes of attending medical appointments), the Metro Gold Card Scheme, the Under 16 Scheme and Teen Travel.
- **Metro** - £1.454m, comprising the contribution that the Joint Transport Committee grant makes to the cost of Metro operations. This also includes a budget for the internal and external resources required for the replacement of the Metrocar fleet, together with the the development of proposals for future extensions.
- **Ferry** - £1.008m, comprising staffing, fuel, maintenance, cleaning and security.
- **Local Rail** - £0.189m, 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 Joint Transport committee.
- **Bus Services** - £11.731m, 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** - £2.531m, comprising staffing, cleaning, maintenance and security of bus interchanges, stations and shelters.
 - **Public Transport Information** - £1.206m, 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.

Nexus' Reserves

14. In agreeing Nexus' revenue budget for 2019/20, particularly bearing in mind that there will be a requirement to use £0.700m of reserves, the Joint Transport Committee will need to pay due regard to Nexus' reserves position and its overall financial standing.
15. Nexus has usable reserves, which are classified as revenue and capital. The balance at 31 March 2018 was £47.900m with £14.747m classified as revenue and £33.153m classified as capital.
16. After taking into account the forecast surplus in 2018/19 together with adjustments relating to one-off items such as ferry landing repairs and the planned release of £1.560m to the fleet transition reserve (paragraph 9 refers) the balance on Nexus' usable revenue reserve as at 31 March 2019 is forecast to be £16.974m. This will increase to £17.834m in 2019/20 following:
- Servicing the planned £0.700m deficit; and
 - A further release of £1.560m to the fleet transition reserve.
17. The table at paragraph 22 below shows the medium term forecast 'at standstill' and with revenue reserves also earmarked for planned commitments such as the release of £4.680m for fleet transition from 2021/22, if expenditure commitments are left unchecked and income does not grow significantly, Nexus' revenue budget is not sustainable.
18. The balance on Nexus' capital reserve as at 31 March 2019 is forecast to be £32.162m. Of this, £15.000m has previously been earmarked to part fund the local contribution necessary to pay for the new fleet of Metrocars and £3.912m to fund expenditure required on digital asset renewals and the Ferry, something that is explained in the capital programme report considered elsewhere on this agenda.
19. Additionally, and as further explained in the capital programme report, because Nexus' existing funding agreement with DfT for the Metro Asset Renewal Programme ends in 2020/21, £8.208m of capital reserves has been set aside in order to provide for over-programming. The implication of having to do this means that Nexus' capital reserves balance at 31 March 2022 is forecast to reduce significantly, to around £6.033m, although capital reserves would be higher than this, should Nexus' application to the government's

next spending review (SR19) be successful. At this point, some of this reserve would be unearmarked and therefore available for other uses, possibly by this time next year.

Balancing the Budget beyond 2019/20

20. Looking towards 2020/21 and 2021/22, without improvements to its current level of funding from the Joint Transport Committee and Nexus' future likely expenditure commitments at 'standstill', it is probable that service reductions will be necessary.

21. It is likely that potential service reductions will need to be in the context of previous consultation carried out by Nexus (under the NECA's Tyne and Wear Transport Sub-committee's direction) during the summer of 2016. Members will recall that because of the way in which Metro is funded i.e. it places little reliance on grant provided by the NECA, it was specifically excluded from the consultation. Of those services that were consulted on, broadly speaking, the consultation showed a preference for the following services, in priority order:-

- i. Bus services, Group travel and Ferry Services
- ii. Public Transport Information
- iii. Local Discretionary Concessions
- iv. Bus Waiting Facilities
- v. Major Projects (although members of the Sub-Committee did express a strong view that Nexus' ability to part fund Major projects and/or pay for their development was vitally important).

22. At 'standstill' Nexus' expenditure requirement will continue to grow and without improvements to the grant it receives from the Joint Transport Committee the base budget imbalance will increase. The base budget imbalance in 2020/21 will therefore be £3.399m, and this could increase to £6.744m by 2021/22. This is shown in the table below with the 2018/19 revised base budget also shown as a comparator:

FINANCIAL SUMMARY	2018/19 Net	2019/20 Net	2020/21 Net	2021/22 Net
Service Area	£m	£m	£m	£m
ENCTS	34.977	34.529	34.594	35.350
Discretionary CT	3.717	3.720	3.679	3.867
Metro	0.572	1.454	3.605	5.283
Ferry	1.027	1.008	1.062	1.128
Local Rail	0.113	0.189	0.199	0.215
Bus Services	11.330	11.731	12.116	12.615
Bus Infrastructure	2.045	2.531	2.576	2.632
Public Transport Information	1.612	1.206	1.234	1.321
TOTAL REQUIREMENT	55.392	56.367	59.066	62.411
JTC GRANT (LEVY)	(56.367)	(55.667)	(55.667)	(55.667)
(SURPLUS)/DEFICIT	(0.975)	0.700	3.399	6.744

23. The reason for the growth in the net budget is largely because ‘at standstill’ Nexus’ expenditure commitments e.g. pay inflation, ENCTS reimbursement, other key contractual obligations (High Voltage Power, the Network Rail Track Access Charge and Secured Bus Services) increase at a faster rate than the growth in fare revenue, whilst grant income continues to reduce. In addition, at this stage, the £3.333m saving referred to in paragraph 10 above has not been factored into the medium term forecast. The extent to which Nexus can reasonably expect to utilise this funding is dependent on the March 2019 pension valuation.
24. Nexus’ overall position would be clearly exacerbated should the grant receivable from the Joint Transport Committee reduce any further than the indicative levels set out in this report.
25. And, it should be noted that at this stage, the assumption in 2020/21 and 2021/22 is that Metro (revenue) Rail Grant will continue at the 2019/20 level. However, this is far from certain and is contingent upon further negotiations with the Department for Transport (DfT) and HM Treasury with an application for future funding being made through the next government spending review (SR19). In this regard, work is underway to discuss with the Joint Committee’s Tyne and Wear Sub-Committee, the implications of reductions in Nexus’ revenue grant funding from DfT. A report will be presented to the Sub-Committee meeting scheduled to take place on 31 January 2019.
26. Further, Nexus is in receipt of over £1m in respect of other DfT grant, namely Bus Service Operator Grant (BSOG) and Rail Administration Grant (RAG) both of which are included

in the medium term financial forecast at current levels, but the certainty surrounding the future of both of these grants remains unclear and represent a further risk in Nexus' budget.

ANNEX 1 – Nexus Summary Revenue Budget Requirement 2019/20

Revenue Budget 2019/20

	Direct Costs	Income	Net Direct Costs	Indirect Costs	Grants	Loan Interest	Capital Adjustments	2019/20 Net
	£m	£m	£m	£m	£m	£m	£m	£m
ENCTS	34.999	(1.094)	33.905	0.647	0.000	0.000	(0.023)	34.529
Discretionary CT	11.193	(7.688)	3.504	0.223	0.000	0.000	(0.008)	3.720
Metro	92.460	(49.640)	42.820	7.904	(26.090)	1.283	(24.463)	1.454
Ferry	1.139	(0.338)	0.801	0.407	0.000	0.017	(0.218)	1.008
Local Rail	0.216	0.000	0.216	0.215	(0.252)	0.017	(0.007)	0.189
Bus Services	13.887	(2.476)	11.410	1.248	(0.891)	0.012	(0.048)	11.731
Bus Infrastructure	2.793	(0.617)	2.176	0.489	0.000	0.279	(0.414)	2.531
Public Transport	0.603	(0.096)	0.507	0.857	0.000	0.035	(0.194)	1.206
TOTAL REQUIREMENT	157.290	(61.951)	95.340	11.990	(27.233)	1.643	(25.373)	56.367
JTC GRANT (LEVY)								(55.667)
DEFICIT								0.700

ANNEX 2 – Detailed Nexus Revenue Budget 2019/20

Service Area	Direct Costs £m	Income £m	Indirect Costs £m	Grants £m	Loan Interest £m	Asset Financing £m	Net £m
ENCTS - Bus	34.999	(1.094)					33.905
ENCTS	34.999	(1.094)	0.000	0.000	0.000	0.000	33.905
Discretionary CT - Bus	4.717	(1.212)					3.504
Discretionary CT - Ferry	0.120	(0.120)					0.000
Discretionary CT - Metro	6.356	(6.356)					0.000
Discretionary CT	11.193	(7.688)	0.000	0.000	0.000	0.000	3.504
METRO							
Fleet Replacement	1.028						1.028
Network Extensions	0.697						0.697
Metro Futures	1.725	0.000	0.000	0.000	0.000	0.000	1.725
Metro Farebox Inc. Car Parks	0.918	(47.920)					(47.002)
Ticketing & Gating	1.180						1.180
Automatic Fare Collection	1.438						1.438
Fare Collection & Revenue	3.536	(47.920)	0.000	0.000	0.000	0.000	(44.384)
Commercial Operations and safety	11.532	(0.743)					10.789
Engineering	10.057	(0.064)					9.993
Customer Services	8.309	(0.007)					8.302
Other	9.719	(1.702)					8.017
Metro Operations	4.287	0.800	0.000	0.000	0.000	0.000	5.086
Metro Operations	43.904	(1.717)	0.000	0.000	0.000	0.000	42.187
Metro - Rates	1.650						1.650
Metro - Insurance	1.420						1.420
Metro - Depreciation	25.441						25.441
Metro - Other	28.512	0.000	0.000	0.000	0.000	0.000	28.512
HV Power	6.637						6.637
Planning Performance Programme	1.046						1.046
Assurance Office	0.076						0.076

Engineering	0.217						0.217
Buildings & Infrastructure Management & Administration	3.359	(0.002)					3.357
Permanent Way	1.516						1.516
Power Supplies	0.609						0.609
Signalling	1.067						1.067
Stores	0.148	(0.001)					0.147
Renewals	0.005						0.005
Infrastructure Management	14.783	(0.003)	0.000	0.000	0.000	0.000	14.780
Metro	92.460	(49.640)	0.000	0.000	0.000	0.000	42.820
Ferry	1.139	(0.338)					0.801
Ferry	1.139	(0.338)	0.000	0.000	0.000	0.000	0.801
Local Rail	0.216						0.216
Local Rail	0.216	0.000	0.000	0.000	0.000	0.000	0.216
Contract Management	0.245						0.245
Network Management	0.300						0.300
TaxiCard	0.403	(0.078)					0.325
Secured Bus Services	12.938	(2.398)					10.540
Bus Services	13.887	(2.476)	0.000	0.000	0.000	0.000	11.410
Bus Infrastructure	2.793	(0.617)					2.176
Bus Infrastructure	2.793	(0.617)	0.000	0.000	0.000	0.000	2.176
Information	0.603	(0.096)					0.507
Public Transport Information	0.603	(0.096)	0.000	0.000	0.000	0.000	0.507
INDIRECT COSTS							
Pensions and Provisions			1.965				1.965
Investment Income			(0.400)				(0.400)
Democratic & Exec			0.854				0.854
Central Other	0.000	0.000	2.420	0.000	0.000	0.000	2.420
Media & Communications			0.342				0.342

Print and distribution			0.141				0.141
Marketing			0.374				0.374
Customer Services			0.807				0.807
Retail Sales			0.397				0.397
Customer Services and Communications	0.000	0.000	2.060	0.000	0.000	0.000	2.060
Administration & Secretarial			0.125				0.125
Legal Services			0.259				0.259
Finance and Audit			0.798				0.798
Procurement			0.155				0.155
Estates			0.805				0.805
Human Resources			0.523				0.523
ICT			2.780				2.780
Finance and Resources	0.000	0.000	5.445	0.000	0.000	0.000	5.445
Health and Safety			0.965				0.965
Health and Safety	0.000	0.000	0.965	0.000	0.000	0.000	0.965
Corporate Planning			1.101				1.101
Transport Strategy	0.000	0.000	1.101	0.000	0.000	0.000	1.101
Indirect Costs	0.000	0.000	11.990	0.000	0.000	0.000	11.990
Loan Charges					1.643		1.643
Released from:						(1.291)	(1.291)
-Capital Reserves						(24.082)	(24.082)
-Capital Grants							
Asset Financing	0.000	0.000	0.000	0.000	1.643	(25.373)	(23.730)
Bus Operators Grant				(0.891)			(0.891)
Rail Admin Grant				(0.252)			(0.252)
Metro Rail Grant				(26.090)			(26.090)
Grants	0.000	0.000	0.000	(27.233)	0.000	0.000	(27.233)
TOTAL REQUIREMENT	157.290	(61.951)	11.990	(27.233)	1.643	(25.373)	56.367
JTC Grant				(55.667)			(55.667)

JTC Grant ¹	0.000	0.000	0.000	(55.667)	0.000	0.000	(55.667)
DEFICIT / (SURPLUS)	157.290	(61.951)	11.990	(82.900)	1.643	(25.373)	0.700

¹ After retention by the JTC of £3.333m for fleet investment

ANNEX 3 – Overhead Allocation 2019/20

Indirect Cost Centre	£m	Service Area	£m
Investment Income	(0.400)	ENCTS	0.647
Pensions	0.963	Discretionary CT	0.223
Democratic Services & Executive	0.854	Metro	7.904
Administration & Secretarial	0.125	Ferry	0.407
Health and Safety	0.965	Local Rail	0.215
Legal Services	0.259	Bus Services	1.248
Human Resources	0.523	Bus Infrastructure	0.489
Finance	0.798	Public Transport Information	0.857
Corporate Planning	1.101		
Procurement	0.155		
Information Technology	3.782		
Retail & OSS	1.204		
Media & Communications	0.342		
Marketing & Print Unit	0.514		
Property Admin	0.805		
Total Indirect Costs	11.990	Total Indirect Costs	11.990

ANNEX 4 – Subjective Analysis 2019/20

	£m	£m
Expenditure		
Employees Inc. Pensions		45.539
Premises		2.229
Transport		0.347
Supplies & Services / Contracted Services		
Concessionary Fares	46.006	
Secured Bus Services	12.854	
General Supplies and Services	15.234	
High Voltage Power	6.637	
NWR Track Access		
Insurance	1.420	
Policing	1.162	93.614
Depreciation		26.987
Loan Interest		1.643
Contingency		0.565
Total Expenditure		170.924
Income		
Commercial Income	(61.951)	(61.951)
Grants		
JTC	(55.667)	
MRG	(26.090)	
BSOG	(0.891)	
RAG	(0.252)	(82.900)
Deferred Capital Grants		(25.373)
Contribution from Reserves		(0.700)
Total Income		(170.924)

Appendix 4 – Tyne Tunnels Budget 2019/20

The Tyne Tunnels are fully funded from tolls paid by tunnel users. No government funding was made available for the construction of the second Tyne Tunnel (which opened in 2011) and refurbishment of the first tunnel which was completed in the same year. The works were funded by a combination of public sector and private sector borrowing, through a Public Private Partnership contract with a private sector concessionaire who designed and built the new tunnel and operate the tunnels under a concession contract awarded to TT2 Ltd which runs until 2037. The public sector borrowing was taken out by the then Tyne and Wear Integrated Transport Authority, and is to be repaid over a 50 year period. The current balance associated with the Tyne Tunnels is £128.662m.

Contract payments to TT2 are calculated with reference to the traffic using the tunnels, and increase with Retail Price Index (RPI) inflation. As a result, actual tolls levied on users are required to increase to keep pace with these payments, so the toll is maintained in real terms over the life of the contract. Under the River Tyne (Tunnels) (Modification) Order 2011, tolls can be increased in increments of 10p once such an increase has been triggered by an increase in the RPI. Tolls increases have been in line with expectations presented at the development stage of the New Tyne Crossing project.

Tunnels reserves are held in order to manage risks associated with NECA's ownership of the tunnels, to meet any small in-year deficits which may arise on the tunnels revenue account and to deal with any changes which may arise from changes in accounting treatments in future years.

	2018/19 Original	2018/19 Revised	2019/20 Original
	£000	£000	£000
Tolls Income*	(25,970)	(26,730)	(28,090)
Contract payments to TT2	19,480	20,298	21,197
Employees	33	-	-
Pensions	54	50	52
Support Services	80	95	95
Supplies & Services	35	30	35
Community Fund	10	-	10
Financing Charges	6,579	6,594	6,966
Interest/Other income	(50)	(90)	(50)
Repayment from ITA for use of reserves	(240)	(240)	(240)
Deficit (Surplus) on Tyne Tunnels revenue account met from reserves	11	7	(25)

*Toll Income includes an assumed inflation increase in tolls for class 2 vehicles (cars) of 10p and 20p for class 3 (larger vehicles) for 2019/20.

Tyne Tunnels Reserves b/f	(20,003)	(22,302)	(18,452)
Deficit on Tyne Tunnels revenue account met from reserves	11	7	(25)
Capital Expenditure funded from Reserves	3,600	3,540	260
NESTI Expenditure funded from Reserves	303	303	300
Tyne Tunnels Reserves c/f	(16,089)	(18,452)	(17,917)

Appendix 5 - Government Funding of Concessionary Transport

There are significant issues relating to the Government's current and future funding of Concessionary Travel. This appendix highlights specific areas of concern in relation to the level of the current funding of Concessionary Travel for 2019/20, which were reflected in my response to the Provisional Local Government finance settlement for 2019/20, which had to be submitted by 10 January. In addition there are significant issues in relation to the Government's latest proposal for the funding of Concessionary Travel in future years (potentially from 2020/21 onwards), which will need to feature in responses to the consultation on which is due to be submitted by 21 February 2019.

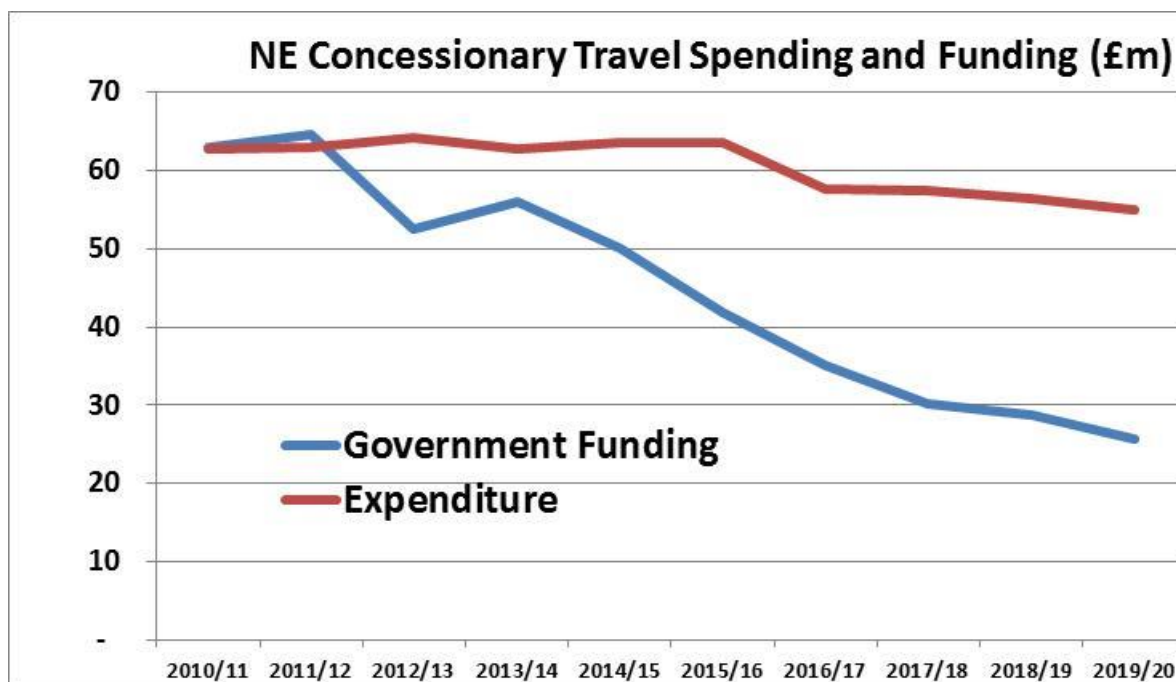
2019/20 LOCAL GOVERNMENT FINANCE SETTLEMENT – TRANSPORT FUNDING

The submission highlighted concerns about the continuing cuts in Government funding for transport services in the Local Government Finance Settlement and in particular the growing funding gap for the statutory national concessionary travel scheme.

The following chart highlights the major problem of the underfunding of concessionary travel costs in the North East, which is reflective of the national position.

While the headline announcement of provisional settlement focusses on an increased spending power for Local Government on 2.8%, the reality of the change in Government formula funding for upper tier services continues to be a significant cut in Government 'funding'. This is a particular concern for services such as Concessionary Travel where the mainly statutory nature of costs mean that there is a growing gap between costs and funding.

It is difficult to be precise about the level of Government Funding as it is not separately identified and transparent in the Local Government settlement. However, I have been able to provide an estimate of the position, which is reflected in the following chart for the NE which also reflects the national position in terms of the profile of cuts in funding.



The chart demonstrates our estimate of how grant has been cut since 2011/12 and our view of a further 10% cut in grant funding for Upper Tier services after excluding the visible lines of grant funding for non-transport services in 2019/20.

The above chart takes into account the funding from localized business rates and we estimate that next year the funding gap is around £29m, with around 47% of costs being funded by Grant or Business rates.

Given that the main cost drivers of statutory concessionary travel are a product of the numbers eligible for the concession and usage of the 'free bus pass' together with the fare that commercial bus operators charge for their services, Councils and in our metropolitan area, the Passenger Transport Executive, have no control over these costs. This is evidenced by the fact that it is one of the few lines of spending that has actually increased nationally and locally over the last five years.

Costs are higher in the North East due to very low car ownership among elderly people. In addition, there are other issues in our metropolitan area which need to be highlighted. For instance, the Tyne and Wear Metro, which offers an alternative to bus travel for many residents also provides a concessionary fares scheme for the elderly and disabled, but the costs associated with this scheme are not recognised. And, work that we have done to estimate the impact of withdrawing the concession on Metro will actually add to our cost base because in those circumstances, demand for the free concession on bus will increase and the associated costs will exceed the income that Metro will generate by charging a commercial fare to those previously eligible for the concession. Further, working to protect secured bus routes in Tyne and Wear has had a perverse effect on the costs of concessionary travel since elderly and disabled residents are often users of these key services.

The Combined Authority will again be cutting its overall Transport Levy next year. Providing accessible transport is a priority for the North East Joint Committee and next year we will be protecting transport services by temporarily using reserves until the funding issues are addressed. However this is clearly not sustainable in future years, particularly when the gradual increase in the age at which people become eligible for the ENCTS reaches 66, at which point we anticipate a significant uplift in our costs as the number of those satisfying the eligibility criteria will at first settle and then begin to increase. We will therefore be developing options and consulting on significant cuts to transport services from 2020 onwards. This would potentially include cuts in discretionary services, such as secured bus services and discretionary fares. This would mean withdrawing non-commercial bus services for all ages, including people trying to get to work outside of peak travel times and from more rural or sparsely populated areas.

The Joint Transport Committee that covers both Combined Authorities would like to understand what the Department will do to reduce the funding gap for the cost of the scheme over the next few years to match the cut in their funding, so that we can avoid particularly damaging cuts to transport services for children, students, workers and the elderly.

We had hoped that the Government would properly fund concessionary travel as part of the Fair Funding review. However, the latest consultation paper fails to mention any of the detailed evidence that the NECA has provided about the reality of the cost drivers for

concessionary travel and the importance of fully funding concessionary travel. We are most concerned that the proposal for the distribution of funding by way of a foundation formula will create an even wider funding gap and create a less fair funding system in future years.

Consultation on “A review of local authorities’ relative needs and resources”

On 13 December then Government published a consultation paper, which set out proposals for the potential distribution of funding for Local Government Services. Responses must be returned by 21 February 2019.

The consultation paper was a detailed paper covering all service areas and resources. A small section of paper covered the treatment of Transport services including Concessionary Travel. The paper proposes that transport services including Concessionary Transport are included in a general Foundation Formula for upper – tier services and Question 3 in the paper asks for views on the best treatment of Home to School transport and concessionary Travel?

The sections in the paper deadline with transport are shown below.

“

Concessionary transport

- 2.2.77. Upper tier local authorities have a statutory responsibility to provide free or concessionary transport for specific groups of people, which means that they have little control over the costs they incur in providing these services.
- 2.2.78. In the case of children, authorities must provide free **Home to School Transport** for a child attending the nearest suitable school if:
- this is over a prescribed distance from their home,
 - they are unable to walk to school because of special educational needs, disability or mobility problems, and
 - they cannot reasonably be expected to walk there because the nature of the route is deemed unsafe.
- 2.2.79. Expenditure across mainstream and special educational needs pupil transport was over £1bn¹⁰ nationally in 2017-18. At present, funding for home-to-school transport is distributed via the ‘Central Education Functions’ relative needs formula, which is part of the Children’s Services block. As with the Children and Young People’s Services formula, the number of children is a significant driver of cost for Home to School Transport. However, other drivers of cost are likely to differ to those for Children’s Social Care, such as the distance to schools and the proportion of special educational needs pupils in an authority.

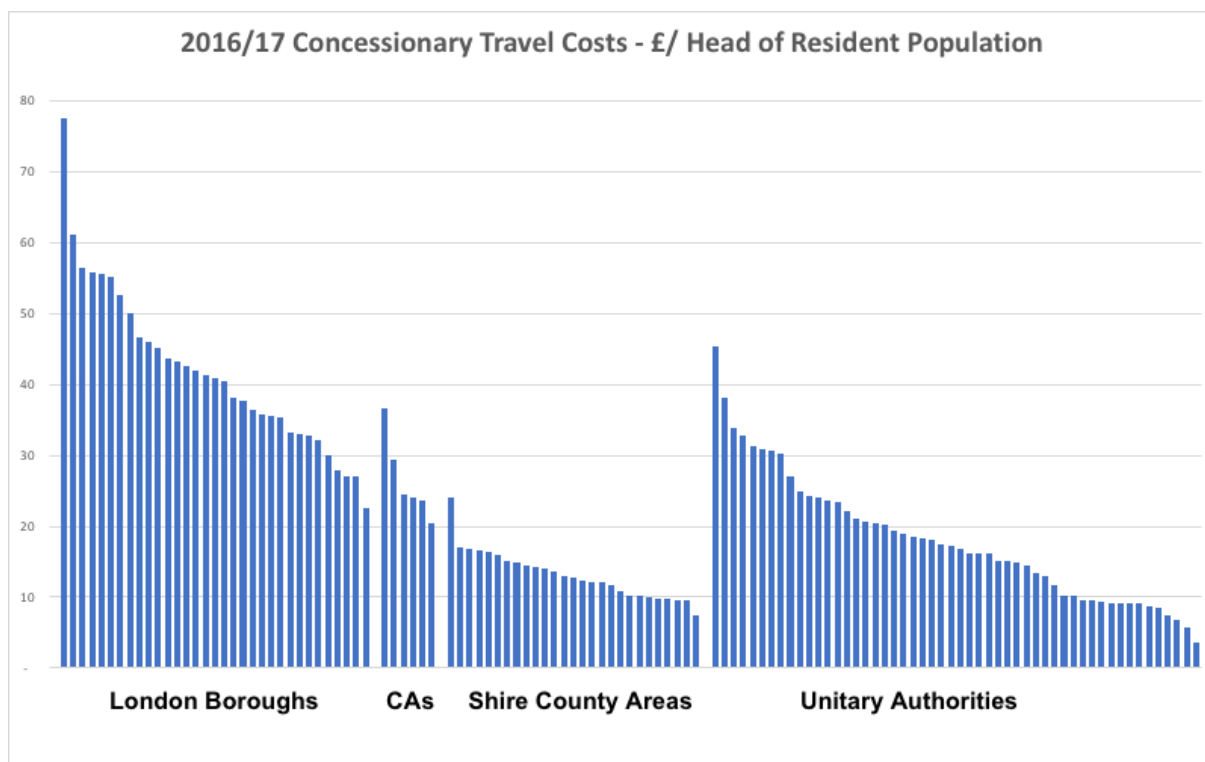
- 2.2.80. Local authorities also provide elderly and eligible disabled people with free off-peak **Concessionary Travel** on buses, with a wider statutory concession in place in London. In 2017-18, the statutory concession accounted for over £1bn of local authority expenditure. A Concessionary Travel formula has been used in the local government finance settlement since 2011-12 and the current formula uses a 'modelled' bus boardings methodology.
- 2.2.81. Respondents to our December 2017 consultation expressed mixed views regarding the optimum way to fund Concessionary Travel in future. Some argued against deploying a service-specific formula on the basis that there was 'unmet need' for local bus services in some areas and that funding on this basis therefore risked reinforcing existing patterns of provision. Local authorities' support for non-commercial bus routes is a policy issue which merits separate consideration within the review and this is discussed below (see section 2.2.83).
- 2.2.82. In the first instance, the Government is minded to include Home to School Transport and Concessionary Travel within the upper tier Foundation Formula on the basis that this would introduce further simplicity and transparency into the relative needs assessment. We will, however, carry out further analysis on potential alternative approaches in order to determine whether this approach adequately reflects local authorities' relative needs. We will take a final view following the completion of this consultation exercise.

Local Bus Support

- 2.2.83. Nationally, local authority expenditure on **Local Bus Support** was approximately £250m in 2017-18 (excluding spending by the Greater London Authority), and accounted for more than 1% of total net current expenditure in just 9 local authorities; 6 of which were combined authorities. Outside of the local government finance settlement, the Department for Transport's Bus Service Operators' Grant provides funding to local authorities and bus operators; the main components of
- which include £42m paid directly to authorities specifically in relation to non-commercial services they support under tender agreement, and a £197m operator reimbursement grant for some of the fuel duty paid.
- 2.2.84. Historically, Local Bus Support has been included in the 'county-level' Environmental, Protective and Cultural Services formula, although there are currently no specific cost drivers used to calculate Local Bus Support. Local Bus Support was cited by some consultation respondents as an example of 'unmet need', on the basis that local authority funding for rural bus services has reduced and an increasing number of commercial bus services in rural areas have been withdrawn.

2.2.85. Given the overall scale and distribution of expenditure for this service area, the Government does not believe that it is proportionate to introduce a specific funding formula for this service area. Including this in the upper tier Foundation Formula so that it is broadly distributed on a 'per capita' basis, with a new 'Area Cost Adjustment', means that the funding for this service area will be distributed according to the characteristics of local authority areas and not directly linked to historical decisions about funding levels.

The consultation paper makes no reference to the detailed evidence that has been presented to the national Technical Working Group by NECA over the last two years which clearly sets out the importance of a separate formula for concessionary travel. The working group agreed that a separate formula was justified in November 2016. The proposal for a relatively flat distribution of costs in line with resident population does not reflect the national statutory scheme which requires reimbursement of Boarding in the local authority area where the Boardings occur. This results in significant differences in the distribution of cost per head of population in an area. The variation in current cost per head of population was shown in the following chart in our evidence to the working group.



This proposal has the potential to return to a significant underfunding of Concessionary Travel in areas which have higher costs, such as Tyne and Wear, which we experienced from 2006/07 to 2012/13.

The proposal has the potential to produce a less fair funding distribution in order to achieve 'greater simplicity'. This does not appear consistent with a Fair Funding outcome. This warrants a strong response which will need to be submitted by 21 February 2019.

North East Local Enterprise Partnership (NELEP) Revenue Budget 2018/19 and 2019/20

A detailed update on the forecast revenue outturn position for the North East LEP core budget for 2018/19 and proposed 2019/20 revenue budget has been provided in the North East Local Enterprise Partnership (North East LEP) Board report for 31 January 2019. A high level summary is provided below.

2018/19 Forecast Revenue Position

The 2018/19 forecast revenue position for the North East LEP is showing gross expenditure of £3.233m with income of £3.226m, resulting in an overall deficit of £0.007m. When compared against the estimated drawdown of £0.283m at the beginning of the financial year, this equates to a £0.276m favourable movement.

The majority of the £276k improvement can be attributed to two main factors. Firstly, increased interest earned from LGF funds, which has risen to £254k from the original estimate of £50k, reflecting the latest estimate of cash flow. Secondly, Transport LGF Monitoring costs have fallen from £215k to £60k, which is a £155k reduction due to reduced level of external consultancy support to deliver business case assessments as a result of the majority of Transport LGF projects being underway. As a direct result this has been offset by a £100k overall reduction in LGF funding.

The North East LEP has been awarded an additional £200k of funds which has to be spent by 31st March 2019, to undertake a North East LEP review and the development of the North East Local Industrial Strategy (LIS).

2019/20 Revenue Budget Position

A gross budget of £4.155m is being proposed for 2019/20. Given the gross income estimate of £3.813m a drawdown from the LEP reserve of £0.342m is being projected, maintaining a LEP reserve balance of £0.300m. Although the LEP is permitted to use up to £0.500m of Enterprise Zone surplus in any financial year, to date this facility has not been utilised. However, it remains a vital contingency given the uncertainty over future funding. In order to ensure a £300k reserve is maintained an £18k EZ surplus contribution is being proposed for 2019/20. This use of the EZ surplus may not be required if costs reduce or income increase in 2019/20.

The NECA pension fund is in surplus and the employers' superannuation contribution rate was set at 0% for the 3 year period 2017/18 to 2019/20. When compared to the contribution rate in 2016/17 of 20.5% this provides a significant budget saving to the North East LEP of just over £400k for 2019/20. The devolution Deed of Co-operation provides that the North East LEP will continue to benefit from NECA's low employers' superannuation rate and the saving in the event of a change in accountable body. This saving will apply for the whole of 2019/20 and is also expected to apply for the following three years following the next triennial pension revaluation.

Table 1: Latest Estimate for 2018/19 and Proposed Budget for 2019/20

	2018/19 Original Budget	2018/19 Latest Estimate	2019/20 Draft Budget
	£'000	£'000	£'000
Employees	1,483	1,603	2,403
Premises	95	95	190
Communications	247	247	247
Transport LGF Monitoring	215	60	100
Growth Hub Operational Costs	243	243	138
Invite (Horizon 2020) Operational Costs	0	34	66
LIS (Local Industrial Strategy)	0	127	0
Other Operational Costs	614	634	820
Inward Investment Contribution	140	140	140
Other LGF Costs - Legal Finance	50	50	50
GROSS EXPENDITURE	3,087	3,233	4,155
LEP Core & Strategy Grant from DCLG	(500)	(500)	(500)
Local Authority Match Contributions	(250)	(250)	(250)
Local Authority Contributions re ESIF Co-ordinator	0	(9)	(20)
BEIS - LIS production and LEP review	0	(200)	0
CORE FUNDING	(750)	(959)	(770)
Local Growth Fund (programme management costs)	(1,100)	(1,000)	(1,100)
Interest Generated on Funds to fund INEE team	(50)	(254)	(50)
Gatsby Grant	(33)	(96)	0
Growth Hub	(410)	(410)	(410)
Enterprise Adviser grant - CEC	(84)	(66)	(173)
Energy Strategy BEIS TVCA	(80)	(43)	(57)
Invite (Horizon 2020)	(66)	(65)	(102)
ERDF + Digital Catapult	(50)	(24)	(63)
NEIF Contribution to cover activity costs	(50)	(66)	(63)
EZ Contribution to cover activity costs	(50)	(52)	(55)
Contribution from NECA	(30)	(60)	0
NECOP	(45)	(41)	(106)
European Social Fund	0	(62)	(579)
LGF match North East Ambition ESF project	0	(21)	(280)
Other Income	(6)	(6)	(6)
EXTERNAL FUNDING	(2,054)	(2,267)	(3,043)
GROSS INCOME	(2,804)	(3,226)	(3,813)
NET BUDGET	283	7	342
BROUGHT FORWARD BALANCE	(631)	(631)	(624)
Use or (Contribution) LEP Reserves	283	7	342
EZ Contribution	0	0	(18)
CARRY FORWARD BALANCE	(348)	(624)	(300)

Invest North East England Team – Latest Projection 2018/19 and Budget for 2019/20

Categories	2018/19 Latest Estimate (£'000)	2019/20 Draft Budget (£'000)
Salaries	160	162
Staff training	1	2
Travel and subsistence (includes international travel)	5	8
Web, telecoms, computers	5	10
Marketing/Comms/Events	100	100
Membership Fees (e.g. Sector bodies)	3	3
Visit hospitality costs	10	10
Professional consultancy	20	20
Lead generation/representation (London)	40	110
Research resource licenses	25	25
Propositions refresh	10	10
GROSS EXPENDITURE	379	460
Funding Source		
Local Authorities @ £20k per authority	(140)	(140)
Private Sector (contributions to events)	(15)	(10)
North East LEP	(140)	(140)
Enterprise Zone (Marketing) Contribution	(93)	(170)
GROSS INCOME	(388)	(460)
NET POSITION	(8)	0
BROUGHT FORWARD BALANCE	(22)	(30)
USE OR (CONTRIBUTION) TO RESERVES	(8)	0
CARRY FORWARD BALANCE	(30)	(30)

Treasury Management Strategy and Prudential Indicators**Introduction**

The Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (The CIPFA Code) requires the Authority to approve a treasury management strategy before the start of each financial year. In addition, the Statutory Guidance on Local Government Investments (3rd Edition, applicable to financial years commencing on or after 1 April 2018) requires the Authority to approve an investment strategy before the start of each financial year. This report fulfils the Authority's legal obligation under the Local Government Act 2003 to have regard to both the CIPFA Code and the Statutory Guidance. The Authority has borrowed and invested sums of money and is therefore exposed to financial risks, including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Authority's treasury management strategy.

Currently all external borrowing held by NECA 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. The Joint Transport Committee (JTC) has an advisory role in connection with the borrowing limits relating to transport. Treasury Management arrangements are managed by NECA as the accountable body for the JTC and are therefore included in this report for approval. The indicators and the strategy have been developed in consultation with Finance of the North East councils and the chief Finance Officer of the North of Tyne Combined Authority who will be reporting the information to their meeting on 5th February. A proportion of the outstanding balance of the loans and investments (based on the share of Tyne and Wear population in each Combined Authority area) will be shown in the balance sheets of the two Combined Authorities as part of their year-end accounts. A summary of the actual loans outstanding and authorised borrowing limit at the date of the preparation of this report is shown in the table below.

Table 1: The Authority's Treasury Portfolio at 31 December 2018

	Actual Borrowing			Authorised Borrowing Limit		
	NECA	NTCA	Total	NECA	NTCA	Total
	£m	£m	£m	£m	£m	£m
Level of external loans at April 2018	93.401	74.266	167.667	133.695	106.305	240.000
New loans taken out in first 9 months of year	0.000	0.000	0.000			n/a
Loans repaid in first 9 months of year	-0.186	-0.147	-0.333			n/a
Level of external loans as at 31 December 2018	93.215	74.119	167.334			n/a
Net increase / (decrease) in external loans	-0.186	-0.147	-0.333			n/a
Forecast level of external loans at 31 March 2019	98.786	78.548	177.334	122.554	97.446	220.000

The Authority currently holds £167.667m of long term loans. The balance at 31 March 2019 is forecast to be up to £177.334m after principal repayments on Equal Instalment of Principal (EIP) loans. This includes a potential estimated additional borrowing of £10m within the Capital financing requirement for transport, with a reduction in the use of internal funds in place of external borrowing for transport. This will enable NECA to fund part of the enterprise zone refinancing activity that is required as part of the Business Rate Growth Income pooling agreement. The timing of this external borrowing is uncertain and it may occur by the end of March 2019 or it may fall into the first quarter of 2019/20.

The budget for debt interest in 2019/20 is £8.195m with an average interest rate of 4.29%. This includes borrowing undertaken on behalf of Nexus, borrowing charged to the Tyne Tunnels revenue account and interest on the Authority's historic capital financing debt. All historic borrowing relates to Tyne and Wear only. Any historic borrowing for transport purposes in Durham and Northumberland remains the responsibility of those authorities and was not transferred to the Combined Authorities.

Borrowing Strategy 2019/20

The Authority's capital financing requirement (CFR, or underlying need to borrow to finance capital expenditure) as at 31 March 2019 is expected to be £203.665m and is currently forecast to decrease to £200.364m by 31 March 2020 as funds are set aside to meet principal repayments and grants and internal resources are used to fund capital investment. This borrowing requirement will be further reviewed in light of capital expenditure plans including Enterprise Zones infrastructure requirements and reports brought back to the Leadership Board should a change be required.

Sources of Borrowing

The approved sources of long-term and short-term borrowing will be:

- Public Works Loan Board (PWLB)
- UK Local Authorities
- Any institution approved for investments (see below)
- Any other bank or building society authorised by the Prudential Regulation Authority to operate in the UK
- Pension funds and other corporate investors
- Special purpose companies created to enable joint Local Authority bond issues

With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either borrow short-term loans or variable-rate loans. However, with long-term rates forecast to rise in the coming years, any such short-term savings will need to be balanced against the potential longer-term costs. The Authority has previously raised a significant proportion of its long-term borrowing from the Public Works Loans Board but other sources of finance, such as bond issues and bank loans, may be considered.

Debt Rescheduling

The PWLB allows local authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Some bank lenders may also negotiate premature redemption terms. The Authority may take advantage of this opportunity where this is expected to lead to an overall saving or a reduction in risk. Early repayments of some PWLB debt took place in 2015/16, leading to a reduced overall external borrowing position. Should further opportunities for refinancing or early repayment present themselves during 2019/20, they will be considered by the Chief Finance Officer.

Authorised Limit

It is proposed to reduce the Authorised Limit for borrowing from £240m to £220m with effect from 1 April 2019. The Limit has been maintained at the same level for a number of years, and with the reducing capital financing requirement of the authority, this level is no longer considered to be required. £220m is in excess of the forecast capital financing requirement of the Authority over the next 5 years, and allows sufficient headroom for additional borrowing or temporary borrowing if required.

Investment/Lending Strategy

The primary objective of the Authority's investment strategy is to ensure the security of the funds invested, and to achieve a reasonable rate of return commensurate with the level of security required.

Since rates of interest return remain extremely low, the Authority will seek to minimise the levels of investments with third parties by using internal balances to fund capital expenditure.

The current rates of external interest receivable range from 0.38% on short term balances to 1.06% on external investments held for longer periods. Higher interest rates of 2% or

more for use of internal funds to finance Enterprise Zone Account borrowing requirements. Investments of cash balances can be placed for up to 12 months in order to secure a slightly higher rate of return, with interest income used to help fund the costs of the Authority.

The following table shows the different organisations the Authority will lend its surplus funds to and the appropriate financial and time limits. There is no change currently proposed to the existing investment limits or counterparties at this time.

Table 2: Authority Lending Limits

Type of institution	Financial Limit	Time Limit
UK central government (Debt Management Office)	Unlimited	Unlimited
UK banks with AAA, AA+, AA, AA-, A+, A credit ratings	£15m each	1 year
UK banks with A- credit ratings	£10m each	1 year
UK Local authorities	£10m each	3 years
UK building societies whose lowest published long-term credit rating is BB <u>and</u> societies without credit ratings with assets greater than £250m	£5m each	1 year
UK money market funds and similar pooled vehicles whose lowest published credit rating is AAA	£5m each	1 year
Local Authority controlled companies in the NECA area	£10m each	20 years

Money Market Funds

Money Market Funds are pooled investment vehicles consisting of money market deposits and similar instruments. They have the advantage of providing wide diversification of investment risk, coupled with the services of a professional fund manager. Fees of between 0.1% and 0.2% are deducted from the interest payable to the Authority. The Authority uses funds that offer same-day liquidity as an alternative to instant access bank accounts.

Credit Ratings

The Authority uses long-term credit ratings from the three main rating agencies (i.e. Fitch's, Moody's and Standard and Poor) to assess the counterparty risk. The lowest available counterparty credit rating will be used to determine credit quality, unless an investment-specific rating is available. Credit ratings are obtained and monitored by treasury management advisers to Newcastle City Council (who, at the time of writing this report, provide treasury management services to NECA), who notify officers of any changes in rating as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- No new investments will be made
- Any existing investments that can be recalled or sold at no cost will be
- Full consideration will be given to the recall of all other existing investments with the affected counterparty

Where a credit rating agency announces that a rating is on review for possible downgrade (also known as 'rating watch negative' or 'credit watch negative') so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

The Authority understands that credit ratings are a good, but not perfect, predictor of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support and reports in the quality financial press. No investments will be made with an organisation if there are any doubts about its credit quality, even though it may meet the credit rating criteria. In these circumstances, the Authority will restrict its investments to those organisations of higher credit quality, and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that an insufficient number of high quality credit organisations are available, then the surplus will be deposited with the UK government, via the Debt Management Office, or with other local authorities. This will cause a reduction in the level of investment income earned, but will protect the principal sum invested.

Specified/Non-Specified Investments

The DCLG Guidance on Local Authority Investments defines specified investments as those denominated in pounds sterling, due to be repaid within 12 months of arrangement, not defined as capital expenditure by legislation, and invested with either the UK government, a UK local authority, parish council or community council, or a body or investment scheme of 'high-credit quality' (for example minimum credit rating of A-).

Liquidity Management

Officers providing Treasury Management services to the authority use purpose-built cash flow forecasting software to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the Authority being forced to borrow on unfavourable terms to meet its financial commitments.

Other Matters:

Policy on Use of Financial Derivatives

Local authorities generally have made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (for example interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (for example LOBO loans and callable deposits). The general power of competence in Section 1 of the Localism Act 2011 removes much of the uncertainty over local authorities' powers to use standalone financial derivatives such as swaps, forwards, futures and options. However, the Authority's policy is not to currently use these instruments.

Treasury Management Advisers

Newcastle City Council contracts with Arlingclose Limited to provide advice and information relating to its investment and borrowing activities, which Treasury Management officers may also draw on for NECA matters. However, responsibility for final decision making remains with the Authority and its officers.

The services received include:

- Advice and guidance on relevant policies, strategies and reports
- Advice on investment decisions
- Notification of credit ratings and changes
- Other information on credit quality
- Advice on debt management decisions
- Accounting advice
- Reports on treasury performance
- Forecast of interest rates

Training

Newcastle City Council currently provides Treasury Management services to NECA. The needs of Treasury Management staff for training in investment management are assessed every year as part of the staff appraisal process, and additionally when the responsibilities of individual members of staff change.

Staff regularly attended training courses, seminars and conferences provided by Arlingclose Limited and CIPFA, and meet regularly with Treasury Management Officers from other Core Cities. Relevant staff are encouraged to study for professional qualifications from CIPFA, the Association of Corporate Treasurers and other appropriate organisations.

The training needs of members are determined by self-assessment and training will be provided where a training need is indicated.

Investment of money borrowed in advance of need

The Authority may, from time to time, borrow in advance of spending need, where this is expected to provide the best long-term value for money. Since amounts borrowed will be invested until spent, the Authority is aware that it will be exposed to the risk of loss of the borrowed sums, and the risk that investment and borrowing interest rates may change in the intervening period. There are no current plans to do this in 2019/20. These risks will be managed as part of the Authority's overall management of its treasury risks.

The total amount borrowed will not exceed the proposed authorised borrowing limit of £210m. The maximum period between borrowing and expenditure is expected to be two years, although the Authority does not link particular loans with particular items of expenditure.

Table 3: Prudential Indicators

	2018/19 estimate	2019/20 estimate	2020/21 estimate	2021/22 estimate
	£m	£m	£m	£m
Capital expenditure (Transport capital programme)	64.823	83.395	80.000	80.000
Financing costs to Net Revenue Stream				
Tyne & Wear Transport levy	61.800	61.100	61.100	61.100
Tyne & Wear Transport financing costs	1.516	1.494	1.458	1.436
%	2.5%	2.4%	2.4%	2.4%
Nexus grant plus direct grants and external income	144.416	143.716	143.016	143.016
Nexus interest and principal repayments to NECA	3.294	3.196	3.066	3.007
%	2.3%	2.2%	2.1%	2.1%
Tunnels tolls income	26.730	28.090	28.500	29.000
Tunnels financing costs	6.594	6.966	6.900	6.950
%	24.7%	24.8%	24.2%	24.0%
CFR at end of year				
Tyne Tunnels and Tyne & Wear Transport	153.727	152.062	150.364	148.628
Nexus	39.938	38.302	36.726	35.209
Enterprise Zones Transport Infrastructure	10.000	10.000	20.000	20.000
Total	203.665	200.364	207.090	203.837
Incremental impact of CF decisions (impact on Transport levy)	-0.023	-0.022	-0.036	-0.022
Operational Boundary for External Debt	235	210	215	210
Authorised Limit for External Debt	240	220	220	220
Actual External Borrowing	167	177	186	186

Minimum Revenue Provision Statement 2019/20

Background

The Authority is required to produce a statement which sets out how it will provide for the repayment of debt each year through a revenue charge known as the Minimum Revenue Provision (MRP). The Ministry of Housing, Communities and Local Government has provided statutory guidance on the methodology to use in calculating the appropriate MRP charge, which authorities must 'have regard to'. The guidance recommends that authorities must submit their highest decision making level (in NECA's case the Leadership Board) an annual statement of its policy on making MRP in respect of the following financial year and highlight which of the various options set out in their guidance will be followed. The principle to which local authorities must follow is to calculate an amount of MRP, which *they consider to be prudent*.

Options available

The four suggested options for calculating MRP which were set out in the guidance can be summarised as follows:

- Option 1 – Regulatory Method: applying the statutory formula set out in the 2003 Regulations before it was revoked in 2008. Can only be used in relation to capital expenditure before 1 April 2008 or Supported Capital Expenditure.
- Option 2 – Capital Financing Requirement (CFR) Method: multiplying the CFR at the end of the preceding financial year by 4%. Can only be used in relation to capital expenditure before 1 April 2008 or Supported Capital Expenditure.
- Option 3 – Asset Life Method: amortising expenditure over an estimated useful life for the relevant assets created. An assessment must be made of the asset life at the outset of the capital scheme and MRP is charged to revenue in either equal annual instalments or by an annuity method over the estimated life of the asset. The MRP charge will commence in the financial year following the one in which the asset comes into service.
- Option 4 – Depreciation Method: making charges to revenue in accordance with the standard rules for depreciation accounting for the particular asset being created or enhanced.

In addition, authorities may use *any other method which they deem to result in a prudent level of provision*.

2019/20 Recommendation

Having considered the guidance, it is recommended to agree the adoption for MRP arrangements in 2019/20 as follows:

- Supported capital borrowing (pre-2008) debt – minimum revenue provision to be made on a 2% straight line basis.
- Option 1 for 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.
- Option 3 for unsupported capital borrowing (Prudential Borrowing), making provision for the debt in equal annual instalments over the estimated life of the asset.

- Option 3 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, the use of option 3 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.

Provision has been made with the transport revenue budget for MRP charges. All MRP charges currently relate to Tyne and Wear Transport activity and are therefore met from the Tyne and Wear levy budget and the Tyne Tunnels account as appropriate.

The Authority is able to make voluntary extra provision in any year should it wish to do so. The regulations provide that the MRP Statement can be revised by the Authority at any stage.

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