

North of Tyne Combined Authority, Overview and Scrutiny Committee

Tuesday 5 December 2023 at 1.00 pm

Meeting to be held: Chamber 0.02, North Tyneside Council, Quadrant, The Silverlink North, Cobalt Business Park, North Tyneside, NE27 0BY

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SUPPLEMENTAL AGENDA

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In attendance: Janice Gillespie, Director of Finance

Attached: Report and appendices

Contact Officer: Helen Delap
Tel: 0191 2115121
Email: helen.delap@northoftyne-ca.gov.uk

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Title: North East Mayoral Combined Authority Initial Budget Proposals
Report of: Senior Governance Officer and Scrutiny Officer

Report Summary

The purpose of this report is to present the initial budget proposals for the proposed North East Mayoral Combined Authority (NEMCA) and to provide details of the budget consultation and approval process, including the role of the Overview and Scrutiny Committee. The report invites members to comment on the initial proposals and to agree its approach to considering the final budget proposals in January.

Recommendations

The Overview and Scrutiny Committee is recommended to:

- a) examine and consider the North East Mayoral Combined Authority 2025-2029 Initial Draft Budget and Medium Term Financial Plan Proposals, which were submitted to and approved by NTCA's Cabinet and the NECA Leadership Board on 28 November 2023;
- b) make any comments and/or recommendations to the Director of Finance in relation to the initial proposals to be taken into account in formulating the final proposals;
- c) convene a budget workshop to be held on 16 January 2024 to enable members of the Committee to examine in more detail the final budget proposals;
- d) invite members of the North East Combined Authority's Overview and Scrutiny Committee and the Joint Transport Committee's Overview and Scrutiny Committee to attend the workshop; and
- e) authorise the Chair and/or Vice Chair of the Committee, to formulate the wording of any observations and/or recommendations arising from the workshop for submission to the NTCA Cabinet to be held on 30 January 2024.

A. Context

1. Background

- 1.1 The North East Devolution Deal proposes a significant shift of powers, funding and responsibility to a new Combined Authority and it is expected to provide at least £4.2 billion of additional investment to the region over 30 years, including a £1.4bn investment fund alongside significant funding for transport, education and skills, housing, and regeneration. The North of Tyne Combined Authority (NTCA), the North East Combined Authority (NECA) and the seven constituent local authorities have now given their consent to the making of a statutory order to establish the North East Mayoral Combined Authority (NEMCA). It is anticipated that the Secretary of State will lay the Order before Parliament early in 2024 so that NEMCA can come into existence on 7 May 2024.
- 1.2 To deliver the deal there is a need to be ready with a single budget and corporate plan for the new authority for the period 7 May 2024 through to 31 March 2025. Subject to the necessary order being laid, the deal provides a framework for the development of the initial budgets and financial plans for the new authority, however until the new authority comes into existence, the current decision-making arrangements apply; therefore the single budget and corporate plan are to be formulated, considered and approved in a manner that fits current decision making arrangements across NECA, NTCA and the Joint Transport Committee (JTC) and can be seen as a combined budget in May 2024.

- 1.3 The NTCA Constitution states that the Cabinet will produce its initial budget proposals and refer these to the Overview and Scrutiny Committee together with:
- i. a summary of information that has been taken into account in producing the initial proposals (including specific reference to consideration of any reviews/studies previously carried out by the Overview and Scrutiny Committee);
 - ii. detailed information on how it is intended to consult with the Members, Constituent Authorities, stakeholders, residents and others;
 - iii. a timetable for the consultation and the preparation of final proposals for consideration by the Overview and Scrutiny Committee and Cabinet; and
 - iv. proposals on the extent of virement permitted within the relevant budget.
- The Committee has previously considered the proposed timetable and consultation process at its meeting on 10 October 2023.
- 1.4 The Cabinet considered and approved the initial North East Mayoral Combined Authority 2025-2029 Initial Draft Budget and Medium Term Financial Plan Proposals on 28 November 2023. These proposals are attached as an appendix to this report. The Committee is invited to examine and consider the proposals and make any comments and/or recommendations to the Director of Finance in relation to the initial proposals so that they may be taken into account in formulating the final proposals.
- 1.5 Having regard to any recommendations from the Committee and the outcomes of the consultation process, the Cabinet may amend its proposals. The Cabinet's final proposals must be referred to the Committee, together with the relevant background information on which the revised proposals have been based. This will form the basis of the information presented to the Budget Workshop on 16 January 2024.
- 1.6 The Committee agreed in July that as part of its work programme it would hold a workshop in January 2024 to consider in detail the final budget proposals and formulate any observations and/or recommendations to Cabinet. This workshop is scheduled to be held on Tuesday 16 January 2024. In view of the fact that the budget and corporate plan proposals relate to the NEMCA, it is suggested that an invitation be extended to members of the Overview and Scrutiny Committees of NECA and the JTC so that scrutiny of a combined budget can be brought together and duplication avoided.
- 1.7 Any observations and/or recommendations arising from the workshop will be referred to the Cabinet to be considered at its meeting to be held on 30 January 2024 when Cabinet will be asked to approve the budget. Due to the short timeframe between the workshop and the Cabinet meeting, the Committee is recommended to authorise the Chair and/or Vice Chair of the Committee, to formulate the final wording of any observations or recommendations arising from the workshop for submission to Cabinet. The Committee will have agreed the recommendations in principle at the workshop.

B. Impact on NTCA Objectives

1. The Committee may wish to consider how the Devolution Deal, the establishment of the NEMCA and its budget and corporate plan proposals will impact on the strategic objectives set out in NTCA's existing Corporate Plan.

C. Equalities implications

1. In considering the proposals the Committee ought to have regard to the Authority's responsibilities under the Equality Act 2010 and Public Sector Equality Duty. Part of this is to ensure that the potential effects of decisions on those protected by the equality's legislation are considered prior to any decision being made.

D. Inclusive Economy and Wellbeing implications

1. The Committee should note NTCA’s inclusive economy ambitions and the five characteristics of an inclusive economy: participation; equity; growth; stability and sustainability and when scrutinising the proposals it may wish to consider whether these have been fully into account.

E. Climate Change implications

NTCA and its three constituent Local Authorities have declared a Climate Emergency. The Committee may wish to examine the extent to which the budget and Council Plan proposals have taken climate change into account.

F. Consultation and engagement

1. Details of the consultation process were presented to the Committee at its previous meeting on 10 October 2023.

G. Appendices

Appendix – Report to NTCA Cabinet – 28 November 2023 – North East Mayoral Combined Authority 2025-2029 Initial Draft Budget and Medium Term Financial Plan Proposals

H. Background papers

The following background papers have been used in the compilation of this report:

- NTCA Constitution – Budget and Policy Framework Rules
- Report to NTCA Cabinet – 28 November 2023 – North East Mayoral Combined Authority 2025-2029 Initial Draft Budget and Medium Term Financial Plan Proposals
- Report to Overview and Scrutiny Committee – 10 October 2023 – Budget and Council Plan Process

I. Contact officer(s)

Michael Robson, Senior Governance Officer, Michael.robson@northoftyne-ca.gov.uk
Janice Gillespie, Director of Finance, Janice.gillespie@northoftyne-ca.gov.uk

J. Glossary

NEMCA	North East Mayoral Combined Authority
NTCA	North of Tyne Combined Authority
JTC	Joint Transport Committee

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Title:	North East Mayoral Combined Authority 2025-2029 Initial Draft Budget and Medium Term Financial Plan Proposals
Report of:	Chief Finance Officer
Portfolio:	Finance and Resources

Report Summary

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

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

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

The timing of this report is such that the initial budget proposals have been developed prior to the announcement of the Autumn Statement, any implications flowing from this announcement will be reflected in the Final Budget Proposals to Cabinet in January 2024.

Recommendations

The Cabinet are recommended to:

1. Agree the draft NEMCA Corporate Budget for 2024/25 as set out in section 3 which will then be subject to consultation with Overview and Scrutiny Committee.
2. Agree the overarching delivery budgets as set out in section 4, which will then be subject to consultation with Overview and Scrutiny Committee.
3. Note the Transport levies will be agreed by the North East Joint Transport Committee on the 16 January 2024 and issued by the Combined Authorities preceding the commencement of the financial year in respect of which they are to be issued, in line with the Transport Levying Bodies Regulations.
4. Note the reserves position as set out in section 5 which will be kept under review while consideration

of NEMCA developments and additional information becomes available about the financial risks facing authority and the proposed arrangements for managing those risks.

A. Context

1. Background

- 1.1 On 28 December 2022 HM Government announced a “minded to” devolution deal with NTCA and the seven councils across the North East (i.e., Durham, Gateshead, Newcastle, North Tyneside, Northumberland, South Tyneside, and Sunderland). The “minded to” devolution deal would see a significant shift of powers, funding and responsibility which would enable the Councils to pursue their ambitions for inclusive growth. In total, it is expected to provide at least £4.2 billion of additional investment to the region over 30 years, including a £1.4bn investment fund alongside significant funding for transport, education and skills, housing, and regeneration. This would enable investment into projects which reflect local needs and opportunities, making a real difference for residents, communities, and the local economy.
- 1.2 The deal requires the councils to establish a new mayoral combined authority. This will be dependent on the Secretary of State making a statutory order under the Local Democracy, Economic Development and Construction Act 2009 to deliver the following proposals:
- a. the abolition of the two existing combined authorities, i.e., North of Tyne Combined Authority (NTCA) and the North East Combined Authority (NECA); and
 - b. the creation of a new mayoral combined authority which covers the area of all 7 councils, which will be called the North East Mayoral Combined Authority (NEMCA).
- (NB: the changes above would also entail the abolition of the Joint Transport Committee (JTC) as NEMCA would be responsible for the exercise of transport functions across the regions in the future.)
- 1.3 Discussions have taken place with DLUHC officials over several months regarding the content of the statutory order. The order will provide for the election of a mayor for the new combined authority in May 2024 and for the new combined authority to come into existence when the mayor is due to take office on 7 May 2024 (with the existing combined authorities being abolished at that point). To this end the NTCA and NECA will extend their financial current year end to 6 May 2024.
- 1.4 To deliver the deal there is a need to be ready with a single corporate plan and budget for the first period of 7 May 2024 through to 31 March 2025. Subject to the necessary order being laid, the deal provides a framework for the development of the initial budgets and financial plans for the new authority, however until the new authority comes into existence, the current decision-making arrangements apply; therefore the single corporate plan and budget are set out in this report for consideration in line with the current decision-makers(NECA, NTCA and Joint Transport Committee (JTC)) in a manner that fits current arrangements and can be seen as a combined budget in May 2024.
- 1.5 The timing of this report is such that the initial budget proposals have been developed prior to the announcement of the Autumn Statement, any implications flowing from this announcement will be reflected in the Final Budget Proposals to Cabinet.

2. Implications for NTCA, NECA and the Joint Transport Committee

- 2.1 To establish the new regional NEMCA, the existing combined authorities – NTCA and NECA – will need to be abolished. The Mayor and Cabinet of NTCA and the Cabinet of NECA will need to consent to the statutory order which provides for their abolition and the creation of NEMCA, which will take place simultaneously when the elected mayor for NEMCA takes office in early May 2024.
- 2.4 The Mayor and Cabinet are aware that the draft statutory order provides appropriate continuity and transitional arrangements so that any acts of the existing combined authorities are to be treated as the

acts of the new mayoral combined authority. The order will also provide for the staff, assets, rights, and liabilities of the existing combined authorities to transfer to NEMCA. This will ensure that the existing funding programmes of NTCA (and the regional transport arrangements which are currently overseen by the Joint Transport Committee) are maintained by NEMCA without interruption. Officers from both combined authorities and the local authorities are liaising on the operational requirements of the transition, which will include the arrangements for Transport North East (TNE) and the integration of the North East LEP (NELEP) in line with central government policy.

- 2.5 Implementing the devolution deal would enable the region to access over £4bn of funding over a 30-year deal cycle, together with new powers to better shape local skills provisions to ensure these meet the needs of the local economy. This would include devolution of adult education functions and the core adult education budget, as well as input into the new local skills improvement plans. The “minded to” deal also secures significant investment in regional transport. Over time the region would also expect to benefit from access to additional funding streams reserved for mayoral combined authorities. Detailed discussions will be progressed with the existing combined authorities and the other councils regarding the financial arrangements associated with the transition to the new arrangements.
- 2.6 An initial Corporate Plan for 2024 (Appendix A) has been agreed through the transition governance arrangements by the six Local Authority Leaders and the Mayor of North Tyneside. The plan sets out the seven interim portfolio areas and early priorities that will be supported by the various funding streams, which are detailed in Section 4 of this report. The plan also describes the various roles the Combined Authority undertakes as part of its remit to deliver the North East devolution deal and that has formed some of the consideration in developing the Corporate Budget.

3. Developing the Corporate Budget

- 3.1 This draft budget as set out in Table 1 below is based on the following central assumptions and worked through the current Transition Governance arrangements, with collaborative work across the Chief Executives and Financial Directors and using experience of what it takes to run an effective MCA.
- a) A balanced budget is proposed for the 11-month period between May 2024 and March 2025 – the first operating year of NEMCA.
 - b) Constituent authorities will see no material increase in revenue funding to establish NEMCA – and will thus continue to contribute the current 2023-24 funding arrangements across NTCA, NECA, NELEP, INEE and TNE.
 - c) Additional funding for costs is secured from new income into the region through prudent top slicing of the investment fund and additional income, in line with the approach taken by other Mayoral Combined Authorities.
 - d) The budget enables the integration of five organisations. Most of this activity is already funded by the region; this budget identifies the marginal budget growth needed to enable key new senior posts that are required to deliver the outcomes set out in the devolution deal.
 - e) It is a prudent year one budget that enables a TUPE process and ‘day 1’ continuity for NEMCA, but with opportunities for integration anticipated to deliver efficiencies for investment where capacity gaps are identified.

Additional budget assumptions:

- a) Prudent assumption on staff turnover of less than 3%. Recently staff turnover rates have been as high as 10% being representative of the market conditions in respect of recruitment and retention and will be kept under review as part of the usual financial management and resource management actions of NEMCA.
- b) The current employer pension contributions rates for NECA and NTCA differ. NECA being 0% and NTCA being £15.1%. The draft budget included a blended rate across the new organisation while dialogue progresses with the Tyne and Wear Pension fund regarding a rate for the new authority, it is reasonable to expect the new contribution rate to be lower than currently assumed.
- c) The budget assumes a £400k contribution to an Election Reserve to start the build-up for 2029.

d) The budget is prudent, it is reasonable to anticipate upside from higher interest earning reflecting higher cash balances, and from the possibility of additional in-year income that has been realised for each year of the NTCA to date.

3.2 The preparation of these initial budget proposals has taken into consideration the existing organisations (under the rubric of NECA and NTCA) that will transfer to NEMCA. Consideration has been given to the NEMCA being the “sum of its parts” of the 5 organisations coming together but being cognisant of any known additional capacity requirements where there are known increased delivery requirements. The draft corporate plan sets out some clear priority areas for early delivery and there will be programme/project activity that whilst started in NTCA, the NELEP and TNE will continue into future years. Current indications are that total investment funding for 2024-25 will be in the region of £388m, so the relatively small amount of additional staffing capacity at £0.835m delivers an excellent return on investment.

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

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

Table 1 Initial Operational Budget	2024-25 Full year estimate	7 May 2024- 31 March 2025
Expenditure	£m	£m
Employees Baseline	12.649	11.595
Employees Growth	0.911	0.835
Transport	0.174	0.159
Premises	0.625	0.573
Supplies and Services	2.024	1.771
Programme delivery costs	1.027	0.941
Support Services	0.797	0.731
Cost of Capital	9.445	8.658
Contribution to Election Reserves	0.400	0.367
Total Expenditure	28.052	25.629
Income		
Top-slice	(8.623)	(8.451)
Transport Grants	(1.405)	(1.288)
Other grants, reimbursements, and contributions ECMA and Levies, TNE	(2.145)	(1.966)
Grants	(2.930)	(2.686)
Mayoral Capacity Fund	(1.000)	(1.000)
Direct Grant Recharges	(1.501)	(1.376)
Tyne Tunnel	(8.357)	(7.661)
Interest	(0.384)	(0.352)
Recharges - Nexus and Northumberland	(0.186)	(0.171)

Local Authority Contributions	(0.741)	(0.679)
Total Income	(27.272)	(25.629)
Net Budget	0.779	0.000

4. Developing an Investment Plan for the North East

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

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

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

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

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

4.4 For capital projects specifically:

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

5. Funding Streams Financial Year 2024-25 through to 2028/29

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

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

Table 2 Draft Investment Fund

This Table starts by illustrating the programme commitments made by NTCA over the course of the first five years. Activity continues over most programme areas, but some examples include projects such as Access to Finance, North Bank of the Tyne Walker Key phase II, ongoing Skills programmes in respect of the Inclusive Economy Programme and on-going delivery of the Culture, and Creative Zones.

Draft Investment Fund	2024-25	2025-26	2026-27	2027-28	2028-29	Total
	£m	£m	£m	£m	£m	£m
NTCA – current programme commitments Revenue and Capital into future years	25.234	15.525	5.854	1.138	6.020	53.770
Funded by NTCA Investment fund Reserve forecast as of 6 May 2024	(19.525)	0.000	0.000	0.000	0.000	(19.525)
Balance of funding requirement 2024-25 and future years	5.709	15.525	5.854	1.138	6.020	34.245
NEMCA Capital Funding						
Capital top slice	14.000	14.000	14.000	14.000	14.000	70.000
Early Capital match	(1.400)	(1.400)	(-1.400)	(-1.400)	(-1.400)	(71.400)
Available for New Investment	0.000	17.010	15.400	15.400	15.400	71.400
NEMCA Revenue Funding						
Revenue top slice	34.000	34.000	34.000	34.000	34.000	170,000
Cost of Borrowing – currently based on an £50m borrowed in 24-25	(3.400)	(3.400)	(3.400)	(3.400)	(3.400)	(17.000)
Funding NTCA current programme commitments	(1.125)	(2.504)	(2.513)	(2.523)	(2.532)	(11.197)
Available for New Investment	(5.709)	(15.525)	(5.854)	(1.138)	(6.020)	(34.245)
Available for New Investment	23.766	12.571	22.233	26.939	22.048	107.557

Table 3 Strategic Place based funding -Brownfield Housing Fund: 2024-25 will be the final year of funding for NTCA for the North of Tyne sites bringing the total investment to £31.820m by 31 March 2025. As part of the early priorities in negotiation the NEMCA deal £35.400m has been secured for Brownfield housing sites across the South of Tyne Local Authorities area. This year sites have been proposed and are currently progressing through the NTCA Assurance process that will allow the project to start in 2023-2 and conclude delivering of the expenditure during 2024-25. Currently 2024-25 this is the final year of allocation of Brownfield Housing funding but again it is anticipated further funding will be provided for the NEMCA geography over the course of 2024-25.

Brownfield Housing Fund - Year 2

	2024-25	2025-26	2026-27	2027-28	2028-29	Total
	£m	£m	£m	£m	£m	£m
NTCA	8.669	0.000	0.000	0.000	0.000	8.669
NEMA	15.400	0.000	0.000	0.000	0.000	15.400
Total	24.069	0.000	0.000	0.000	0.000	24.069

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

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

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

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

Table 6 Indicative Overall Skills Funding: this table sets out the range of funds to deliver skills and adult education across the first 5 years. Currently Bootcamps funding is secured through an annual process with no indication of funding beyond 2024-25 financial year – albeit the case is being made by the region to

Government to provide additional assurance as to future funding rounds. It is anticipated more funds will be made available to deliver skills over the course of 2024-23.

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

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

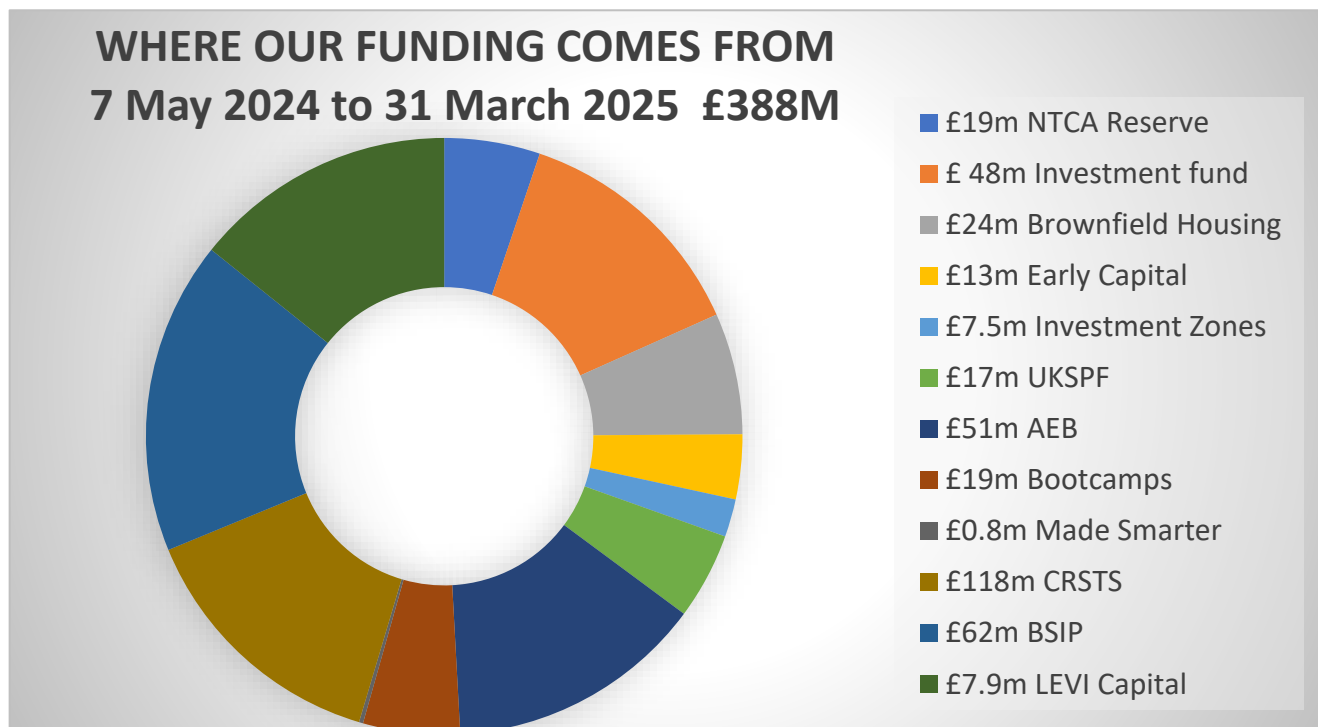
	2024-25	2025-26	2026-27	Total
	£m	£m	£m	£m
CRSTS Revenue	2.841	0.000	0.000	2.841
CRSTS Capital	49.000	49.000	49.000	147.000
BSIP Revenue	29.300	0.000	0.000	29.300
BSIP Capital	32.776	0.000	0.000	32.776
Highways Maintenance Block Capital (CRSTS)	52.143	52.143	52.143	156.429
LTP Integrated Transport Block Capital (CRSTS)	14.057	14.057	14.057	42.171
Indicative LEVI Capital	7.900	7.900	0.000	15.800
Total	188.017	123.100	115.200	426.317

6. Final Year Funding Programmes for North of Tyne

6.1 In terms of UKSPF 2024-25 will be the final year for the current round of allocations. NEMCA will be the accountable body for this final year of delivery of the North of Tyne allocation with indicative spend of £13.788m Revenue and £3.372m capital. The 7 local authorities will continue to deliver their own UKSPF programmes through their direct awards, all with the expectation that all expectation nationally that all spend is completed by 31 March 2025. At the current time, the NTCA programme is substantially committed with projects in delivery.

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

6.3 The picture below illustrates for 2024-25 a total Investment Pot of £388m.



7. NELEP – Ongoing Programmes

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

Table 8 NELEP ongoing programmes

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

Get Building Fund	Balance to fund closure	Programme closure and performance reporting.
EZ Programme	Business Rates Retention.	Ongoing –will transition into NEMCA see paragraph 4.8 below.
North East Investment Fund (NEIF)	Evergreen Loans fund	Programme monitoring and performance management with FW capital – fund managers, and fund returns continuing – see paragraph 4.9 below.

8. Enterprise Zones

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

Table 9 Forecast BRGI in the Enterprise Zones.

	23/24	24/25	25/26	26/27	27/28	28/29
	£m	£m	£m	£m	£m	£m
BRGI Income (Excluding Cat 4)	8.570	11.990	15.970	17.720	19.020	19.700
Capital Financing Costs	(4.200)	(6.240)	(8.440)	(9.630)	(9.990)	(9.960)
Net Revenue Costs	(0.140)	(0.180)	(0.160)	(0.100)	(0.110)	(0.150)
Annual Surplus	4.230	5.570	7.370	7.990	8.930	9.600
Cumulative Surplus b/f	11.540	13.510	15.540	19.070	23.550	29.690
Current assumption -use for LEP Budget Support	(0.410)	(0.500)	(0.500)	(0.500)	(0.500)	(0.500)
Agreed Performance Incentive Reward	(0.960)	(0.960)	(0.960)	(0.960)	(0.960)	(0.960)
Provision for CPIF Incentives	(1.000)	(1.000)	(1.000)	(1.000)	(1.000)	(1.000)
Funding GBF Top Up	0.000	(1.000)	(1.000)	0.000	(1.000)	0.000
Provision for Strategic Grants	(1.000)	(1.000)	(1.000)	(1.000)	(1.000)	0.000
Repayment of Project development fund	(0.230)	(0.730)	0.000	0.000	0.000	0.000
LGF swaps	0.000	(0.150)	0.000	0.000	0.000	0.000
Retained Surplus after uses	7.940	8.170	11.080	14.610	20.090	27.230

9. The North East Investment Fund

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

Table 10 North East Investment Fund – 30 September 2023

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

*Earmarked for the Commercial Property Investment fund (CPIF)

10. Capital Investment and Borrowing

- 10.1 The range of funds set out above illustrate the significant level of resources for both revenue and capital investment across the region in 2024-25 and beyond. However, like existing combined authorities NEMCA will secure borrowing power for all activities including non- transport activities. In securing those powers the authority will be required to negotiate a debt cap with Treasury giving an indication of the type of activity the authority may wish to borrow for. NTCA currently has a debt cap of £21.5million which is starting point for early negotiations with Treasury.
- 10.2 A draft Treasury management strategy and Prudential Indicators are set out as Appendix D to this report. These will be finalised and updated once the debt cap has been secured.

11. Reserves

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

B. Impact on NTCA Objectives

The new mayoral combined authority will build on the work and objectives of NTCA. Cabinet has been clear and consistent as to the need for close collaboration with colleagues across the North East region. This was evident through the response to the coronavirus pandemic and recovery, in the development of transport priorities through the Joint Transport Committee, and in the development of the North East Devolution Deal. This willingness to commit time, resource and expertise has provided an important platform for securing the new Deal and will continue through the transition period over the next 12 months, as reflected in the 2023/24 Corporate Plan.

C. Key risks

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

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

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

D. Financial and other resources implications

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

E. Legal implications

The Authority is required to agree a balanced budget annually and to monitor that budget throughout the year. NEMCA also has a fiduciary duty not to waste public resources and to secure value for money. 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.

F. Equalities implications

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

G. Inclusive Economy and Wellbeing implications

The North East Devolution Deal sets out clear ambitions to support an inclusive and sustainable economy that improves productivity and reduces health inequalities across the region. Numerous policy provisions and funding streams within the deal reflect this intent – including a broader devolved adult education settlement, an 'inclusive innovation deal' and a joint-framework for employment support with DWP. The Deal also provides for the continuation of a number of North of Tyne inclusive economy programmes. These include the Poverty Prevention and School Improvement Programmes, and the Inclusive Economy Board.

H. Climate Change implications

The green agenda is a critical element of the minded to devolution deal and therefore the governance changes proposed in this report, if implemented, would help to deliver those initiatives identified in the minded to deal and make a positive contribution to the Climate Change Emergency Response plans developed by each of the constituent authorities.

I. Consultation and engagement

The overall devolution proposals have been developed from close collaborative working across the local authorities and specifically the LA7 Chief Executives, Finance Directors and Economic Development Directors and a wide range of stakeholders and the public. Engagement continues among key stakeholders across the region.

J. Appendices

Appendix A Draft 2024-25 Corporate Plan

Appendix B Budget Analysis of 5 organisations

Appendix C Reserves and Balances

Appendix D Draft Treasury Management Strategy and Prudential Indicators

Appendix E Joint Transport Committee Report

Appendix F Timetable

K. Background papers

Report to Cabinet – 7 November 2023 North East Devolution

L. Contact officer(s)

Janice Gillespie Director of Finance NTCA

Email janice.gillespie@northoftyne-ca.gov.uk

Paul Darby Corporate Director of Resources Durham CC and S73 Officer for NECA

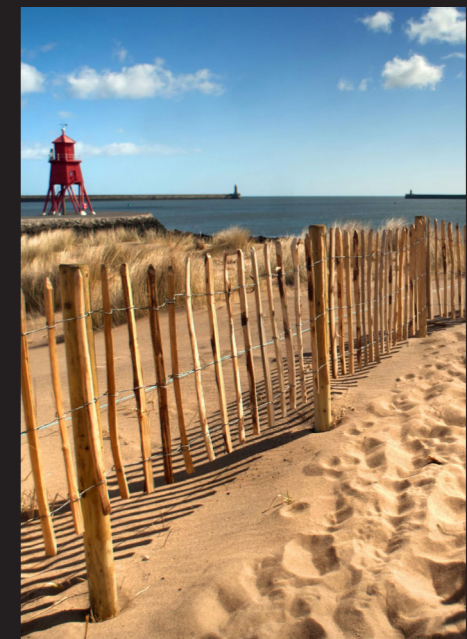
Email paul.darby@durham.gov.uk

M. Glossary

INEE	Invest North East England
LA7	Seven North East local authorities i.e., Durham, Gateshead, Newcastle, North Tyneside, Northumberland, South Tyneside, and Sunderland
NECA	North East Combined Authority
NELEP	North East Local Enterprise Partnership
NEMCA	North East Mayoral Combined Authority
NTCA	North of Tyne Combined Authority
TNE	Transport North East

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North East Devolution



Interim Corporate Plan for a new
North East Mayoral Combined Authority



Introduction

A historic devolution deal means more funding and local decision-making powers are coming to the North East. The deal involves the creation of a new Mayoral Combined Authority covering County Durham, Gateshead, Newcastle, North Tyneside, Northumberland, South Tyneside and Sunderland. Following an order being laid in Parliament to establish the new Mayoral Combined Authority an election will take place in May 2024 to elect a Mayor for the region. The new authority will be formed on May 7.

Dame Norma Redfearn DBE

Chair of the Combined Authority Steering Group and Elected Mayor of North Tyneside.



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

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

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

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



Dr Henry Kippin

Interim Chief Executive for the new Mayoral Combined Authority

“This Corporate Plan sets out how we will turn our devolution deal into a reality, through establishing a North East Mayoral Combined Authority that is innovative, collaborative and fit for purpose.

“Our organisational design principles are driven by the deal and our shared commitments. They are underpinned by a strong set of values that guide what we do and why we do it.

“The new Combined Authority will have clear governance and accountability that demonstrates strong public value and clear commitments to maximising impact for our economy, people and places.

“Collaboration is key to our success. We will convene at scale and across sectors to deliver on the vision and ambition of the political team.”

What does NEMCA need to do?

Convening – at scale & across sectors

Commissioning and delivering

Managing multi-billion investment

Making and shaping policy

NORTH EAST DEVOLUTION DEAL

Stimulating & investing in innovation

Leading on behalf of the region

Supporting and enabling

Driving social and economic impact

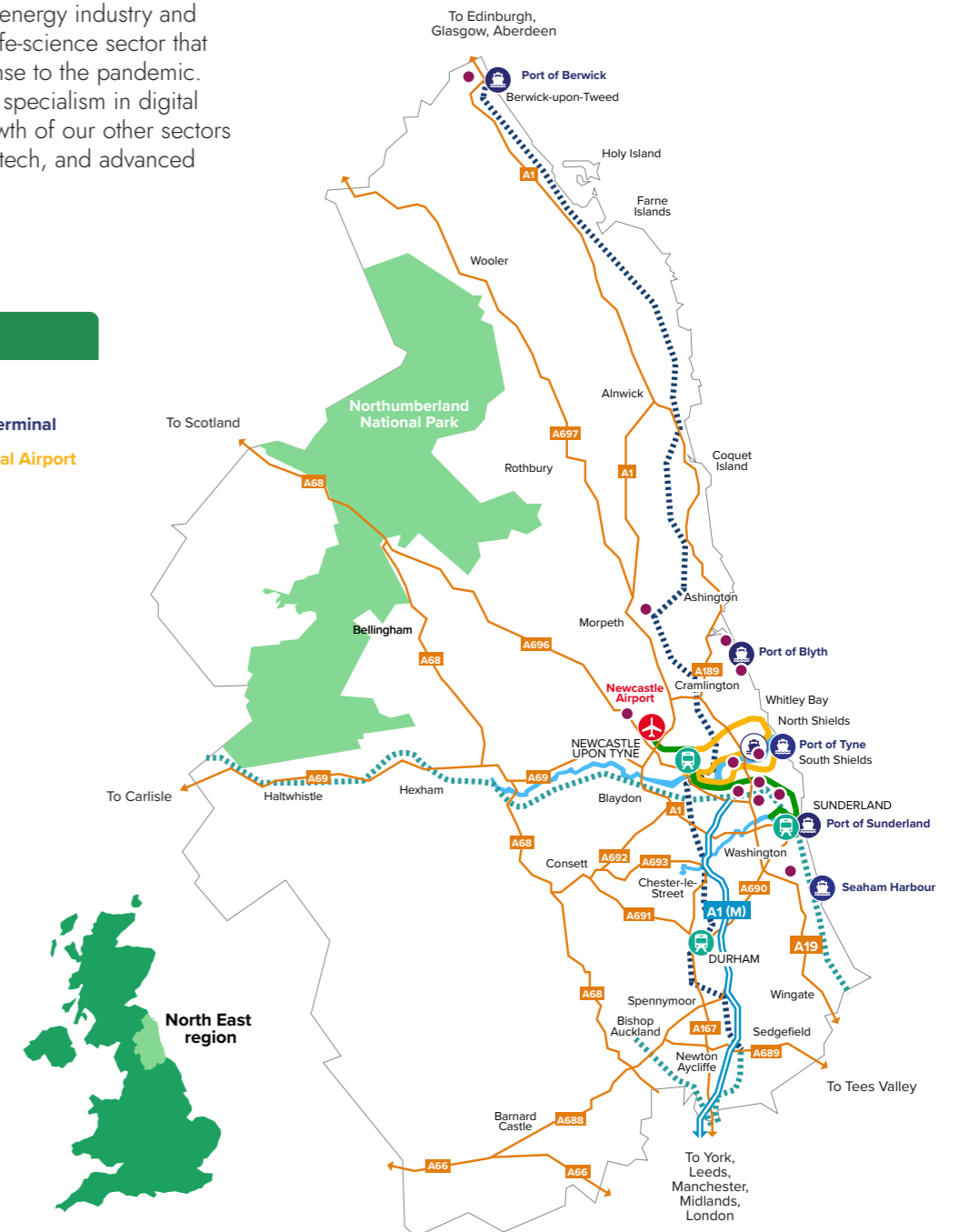
The region

A diverse geography with strong urban, rural and coastal communities - the North East has enormous potential. We have four universities, innovation centres in offshore wind and manufacturing and nine further education colleges. The region has great connectivity through Newcastle International Airport and deep-water ports, alongside mainline rail and road connections. Challenges include having below national average growth, productivity and skills and wages, as well as relatively high inactivity and poor health outcomes.

There are multiple economic opportunities, including a thriving clean energy industry and an innovative health and life-science sector that supported the UK’s response to the pandemic. The region has a growing specialism in digital and data that catalyse growth of our other sectors such as cyber security, fintech, and advanced manufacturing.

Key

- Ports
- Port of Tyne – Ferry Terminal
- Newcastle International Airport
- Tyne and Wear Metro
- Railway Line
- East Coast Main Line
- Motorway
- Major Road Network
- National Park




A snapshot of the region



Jobs **820,000**



Population of **1,968,000**



48.8m
Annual visitors
to the
North East



An economy
worth
£40.7bn



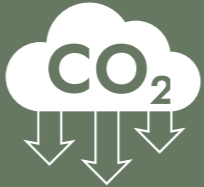
Business
population of
55,340



105,000 Residents who are
unemployed or inactive and want a job



£25,404
Median Gross Annual Salary



Halved Annual CO₂
emissions since 2005

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How we will deliver

The transition is being led by the leaders of the seven local authorities. Dame Norma Redfearn, DBE, Elected Mayor of North Tyneside, chairs a steering group and each leader has an interim portfolio. There are a number of cross-cutting themes and strong collaboration across portfolios.

In May 2024 the people of the North East will elect a new Mayor who will work with portfolio leads to further develop areas of focus, in line with their election manifesto.

STRONG COLLABORATION ACROSS PORTFOLIOS WITH ENVIRONMENT, DIGITAL, PUBLIC SECTOR REFORM AND ADDRESSING HEALTH INEQUALITIES AS CROSS CUTTING AND FUNDAMENTAL TO ALL PORTFOLIOS

	Cllr Graeme Miller Leader Sunderland City Council	FINANCE & INVESTMENT
	Cllr Tracey Dixon Leader South Tyneside Council	EDUCATION, SKILLS & INCLUSION
	Cllr Nick Kemp Leader NewcastleCity Council	ECONOMY
	Mayor Norma Redfearn DBE Mayor of North Tyneside	HOUSING & LAND
	Cllr Martin Gannon Leader Gateshead Council	TRANSPORT
	Cllr Amanda Hopgood Leader Durham County Council	CULTURE, CREATIVE, TOURISM & SPORT
	Cllr Glen Sanderson Leader Northumberland County Council	ENVIRONMENT, COASTAL AND RURAL

Interim portfolios

TRANSPORT

Ambition

Through a transport plan move to a green, healthy, dynamic and thriving North East.

Scope – What is in the Deal?

The Deal recognises and builds on the work of the Joint Transport Committee and conveys a wide range of powers and funding to the Combined Authority including the City Region Sustainable Transport Fund and the Bus Services Improvement Plan funding.

The Deal also highlights the significant economic and social benefits of the Tyne and Wear Metro, conveys new powers related to developing a strategy for the Key Route network, smart ticketing and improving bus services.

FINANCE AND INVESTMENT

Ambition

Ensure that investment decisions are underpinned by a clear investment strategy that maximises leverage of the investment fund, set within a plan for generating positive jobs, skills and inclusive growth outcomes.

Scope – What is in the Deal?

This portfolio provides the overarching financial and assurance frameworks that underpin all the activities of the new authority.

The portfolio will ensure that the collective financial, legislative and convening powers, including the North East Investment Fund, are squarely focused on achieving positive economic, social and environmental outcomes across all portfolios. This includes the development of proposals for inward investment co-ordination alongside fiscal and financial innovation.

The deal sets out a requirement to develop an Assurance Framework, to be agreed with government.

ENVIRONMENT, COASTAL AND RURAL

Ambition

Place the environment, the coast, and the growth of our rural areas at the core of the economic strategy for the North East.

Scope – What is in the Deal?

The deal recognised the unique natural assets and complex coastal and rural environment of the North East and the work already done in the North Of Tyne to embed stewardship and rural growth in overall economic policy. The deal sets out additional powers and measures to further build on this including:

- Proactive collaboration with government to stimulate housing and economic growth in rural areas.
- Promoting close collaboration with Scotland along the North East Coast Corridor.
- Agreeing priorities for and increased investment in nature recovery.

CULTURE, CREATIVE, TOURISM AND SPORT

Ambition

Seek to deliver a vibrant and inclusive regional economy with culture, creativity, the visitor economy, leisure and sport at its heart.

Scope – What is in the Deal?

The deal recognises and builds on regional opportunities to drive inclusive and sustainable growth through investment in cultural, creative and visitor economy sectors by:

- Supporting the development of an ambitious cultural framework that makes the most of our distinctive natural, cultural and heritage assets.
- Aligning government and government funding with the authority and promoting joint investment and collaboration and decision making
- Promoting grassroots sport and physical activity.
- Investing in the film and media sector.
- Coordinating activity across the region to promote the visitor economy.
- Promoting the region as a location for world-class events.

ECONOMY

Ambition

A bold overall economic strategy that guides investment in the region, boosts growth and productivity and proactively guides our economic transition while reducing inequality.

Scope – What is in the Deal?

The deal sets out three key areas where the economy portfolio must lead:

- The development of an overall economic strategy and narrative underpinned by an ambitious industrial strategy.
- The establishment of an economic intelligence and insights hub to support decision making.
- The provision of ongoing economic policy and influencing positions to support priorities.
- Progress that builds on the economic priorities, assets and potential across the seven local authority areas.

HOUSING AND LAND

Ambition

Set out bold and ambitious plans for the North East: to improve the range, quality and affordability of housing; drive economic growth and productivity; and, support the most vulnerable.

Scope – What is in the Deal?

The deal sets out a broad set of powers and functions that – alongside partners - will drive growth and regeneration and will enable the authority to:

- Acquire and dispose of land to assemble sites and build homes and commercial space.
- Designate mayoral development areas and create mayoral development corporations.
- Drive place-based economic regeneration across key sites in the region.
- Take a collaborative approach to infrastructure investment and place shaping.
- Support a sustainable future for our high streets, towns, and city centres.
- Develop infrastructure plans and collaborative approaches to funding and investment in affordable homes.

EDUCATION, SKILLS AND INCLUSION

Ambition

Build an inclusive and sustainable economy that everyone can contribute to and benefit from, equipping residents with the skills and support needed for our economy to thrive.

Scope – What is in the Deal?

The deal provides an expansive range of powers and investment opportunities to promote inclusive growth and a skilled, motivated workforce.

These include:

- A fully devolved Adult Education Budget.
- A commitment to provide local leadership of the overall skills system across the region including support for Local Skills Improvement Plans.
- Ensuring collaboration across the local education system to improve standards.
- A commitment to tackle and prevent child poverty.
- Measures to work collaboratively on improving employability and future employment programmes.
- An expanded inclusive economy approach for the North East.

Resources

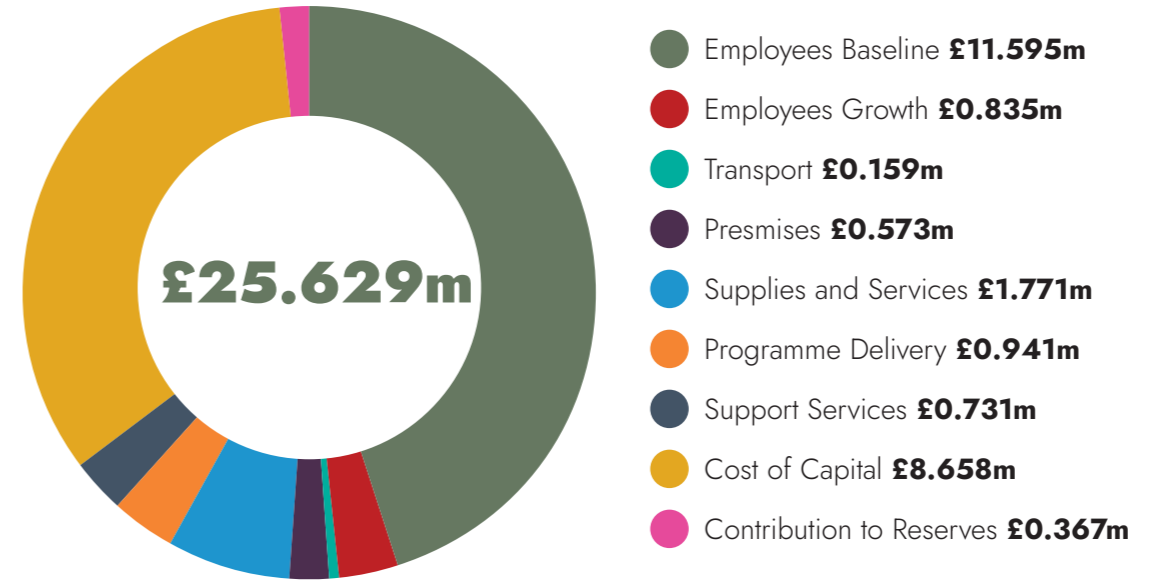
In preparing a draft budget, investment plans are designed for delivery of the portfolio activity that has been set out in this plan.

The budget enables the integration of five organisations that will be disbanded and reformed as the new authority.

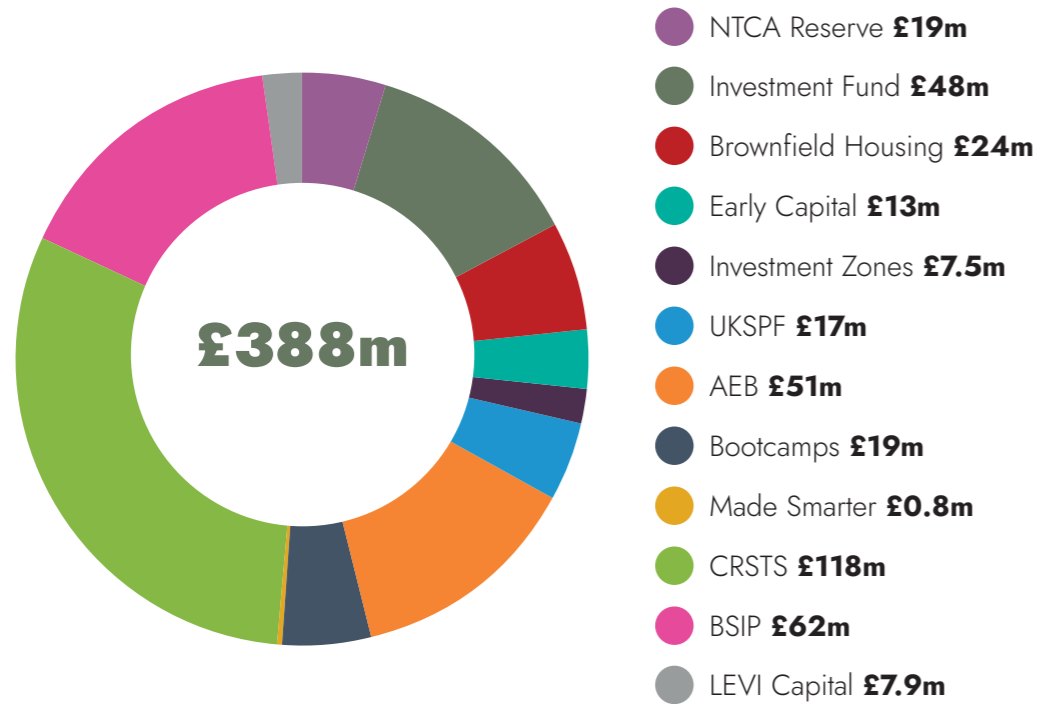
These are:

- The North of Tyne Combined Authority
- The North East Local Enterprise Partnership
- Transport North East
- Invest North East England
- The North East Combined Authority

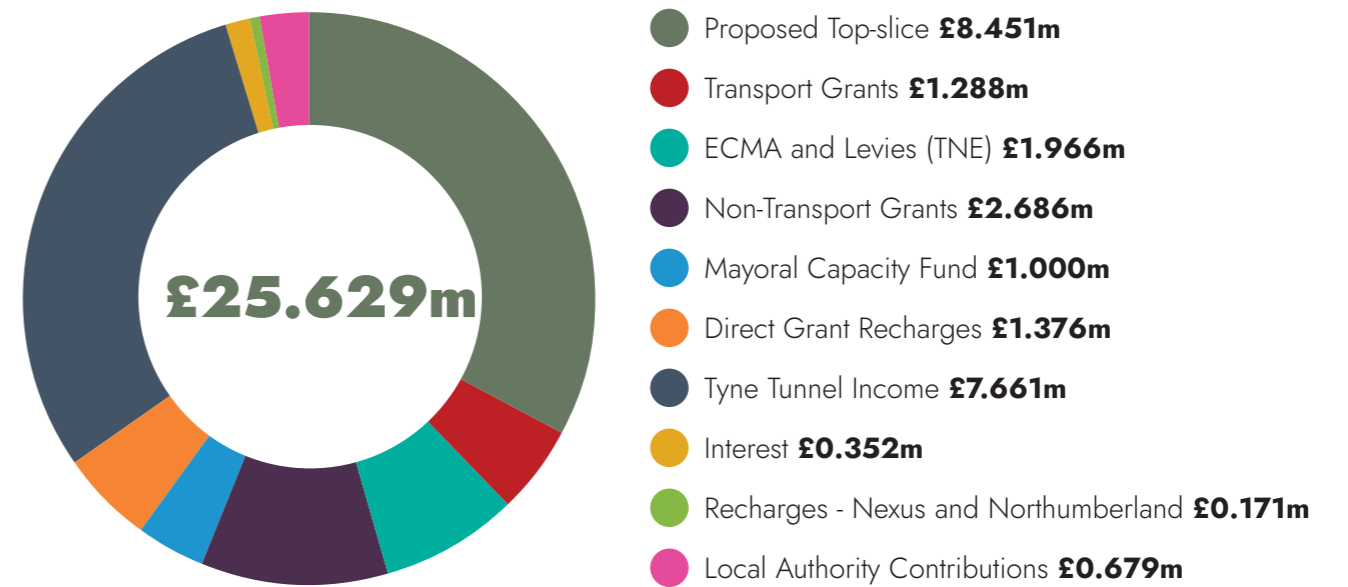
Corporate Budget



What the authority will invest



Funding of the corporate budget



Organisational design principles

We will operate to a set of design principles that guide an ethos for the new combined authority through effective leadership, governance, organisational design, resources and processes.

LEVEL 1 DESIGN PRINCIPLES – THE ETHOS OF THE NEW MCA

LEADERSHIP	<ul style="list-style-type: none"> Highly collaborative, inclusive and joined up Delivering shared strategic priorities through strong relationships and high-quality standards Innovative, forward looking and constantly learning
GOVERNANCE	<ul style="list-style-type: none"> Mayor-and-Cabinet model which maximises collaboration and cross-party, cross-regional working Pulling down – not drawing up – powers from the region and achieving more through collaboration Fit for purpose but not over-bureaucratized
ORGANISATIONAL DESIGN	<ul style="list-style-type: none"> Driven by policy, purpose and values – with innovation in staffing and delivery models Efficient, effective and agile structures that enable streamlined decision making and delivery A resilient and flexible organisation which attracts top talent through being an exciting and different place to work
RESOURCES	<ul style="list-style-type: none"> Investment framed by coherent long-term planning – making the biggest possible economic, social and environmental impact Enabling high performance, quality delivery and achieving things that would otherwise be impossible Inclusion, equalities and a strong value-set at the heart of everything we do
PROCESSES	<ul style="list-style-type: none"> Strong alignment to strategic outcomes and policy intent High levels of collaboration, integration and streamlined, cross-silo working Clear governance, scrutiny and business processes linked to appropriate political oversight

Our principles are driven by the deal, our shared commitments, agreed ways of working and experience of what 'fit for purpose' looks like given the scale and nature of what is to be done.

We will deliver through a clear ethos – a balance between ambition, high performance and capability – and the need to demonstrate public value and delivery through collaboration and clear value-add.

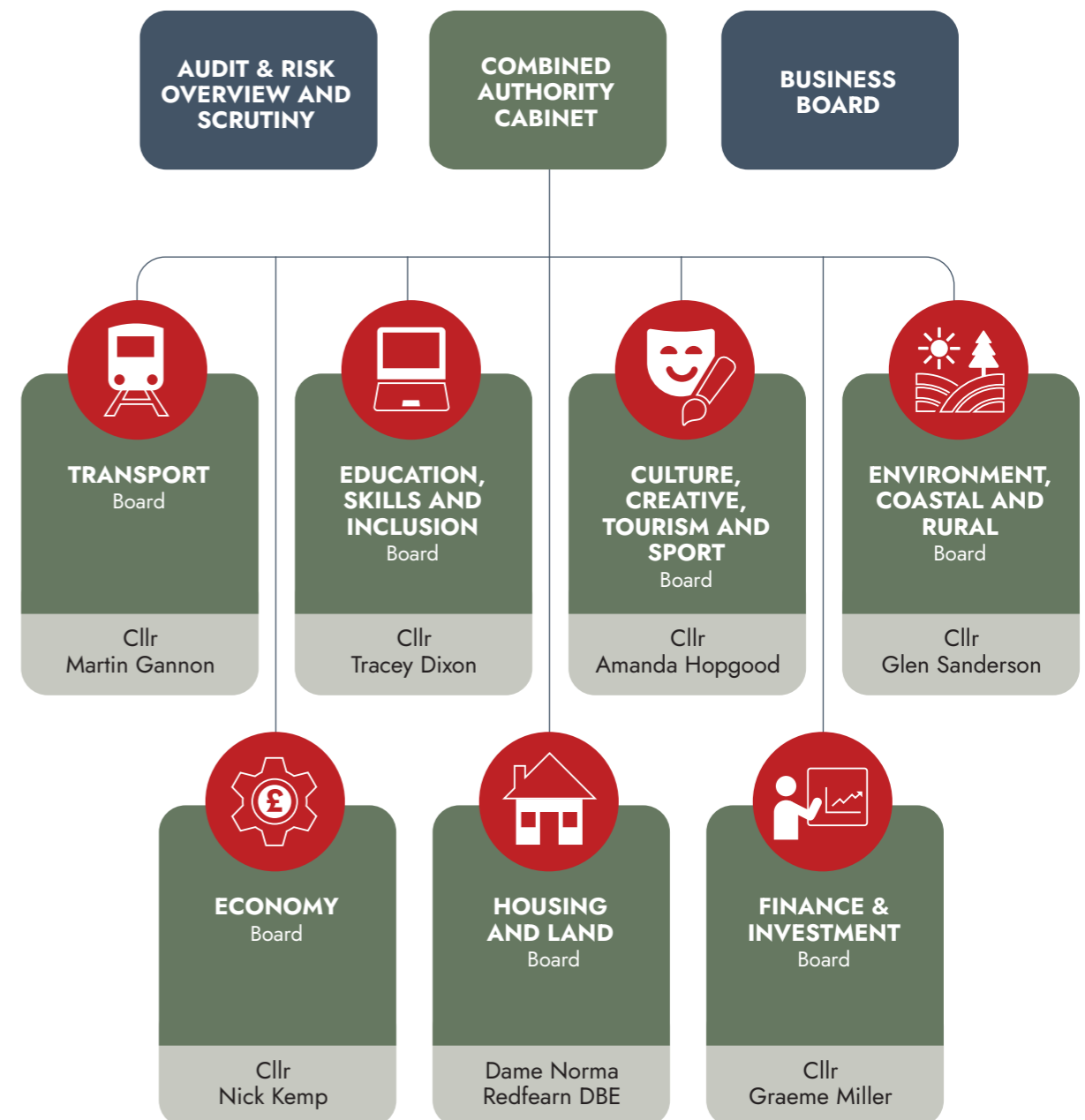
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Governance

The combined authority Cabinet will comprise of the newly-elected Mayor, seven elected members with one appointed from each constituent council. There will also be the Chair of the Business Board and a representative of the community and voluntary sector. These two members will be non-voting.

We will work with the current Local Enterprise Partnership board to ensure a smooth transition in setting up a business board.

Advisory boards will be chaired by portfolio leads from constituent councils, with strong links to sector stakeholders.



Timeline

2023

JANUARY 2023

Deal is signed with the Secretary of State for Levelling Up, Housing and Communities

NOVEMBER 2023

Each council and the two combined authorities gave local approval for the formation of a new combined authority

MARCH 2024

The order will be made in Parliament

JUNE 2024

First meeting of the new combined authority

MARCH 2023

A public consultation ends with overall support for the changes

2024

EARLY 2024

An order will be laid in Parliament paving the way for the new authority

MAY 2 2024

The public will elect a new Mayor

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	NECA	TNE/JTC	NTCA	LEP	INEE	Total	Proposed adjustments. Note 1	Estimated Growth	Estimated Gross NEMCA cost
Expenditure	£	£	£	£	£	£	£	£	£
Employees Baseline	71,330	2,220,000	6,518,653	3,271,536	237,000	12,318,519	330,890		12,649,409
New Funding Streams employee growth								910,599	910,599
Transport	1,000	81,575	70,000	20,000	1,000	173,575			173,575
Premises	0	120,150	350,000	154,576	0	624,726			624,726
Supplies and Services	35,640	432,670	926,624	794,945	209,000	2,398,879	(395,000)	20,000	2,023,879
Programme Delivery Costs	0	0	245,000	782,507	0	1,027,507			1,027,507
Support Services	154,000	428,760	433,610	109,000	3,000	1,128,370	(330,890)		797,480
Capital Financing Costs	0	9,444,680	0	0	0	9,444,680			9,444,680
Election Reserve	0	0	0	0	0	0	400,000		400,000
Total Expenditure	261,970	12,727,835	8,543,887	5,132,564	450,000	26,491,530	5,000	910,500	28,051,855

Note 1 cost adjustments

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

Adjust for LEP pension contribution ££395,000

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

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Appendix C
Draft Reserves and Balances Position at 31 March 2024

Reserve/Balance	Opening Balance 2023/24 £m	Forecast Balance on Reserves at 31/03/2024 £m
NTCA		
Strategic Reserve	0.200	0.200
Investment Fund Reserve	50.046	19.779
Election Fund Reserve	0.000	1.100
Adult Education Budget Grant	8.760	8.760
DLUHC Capital Grant	12.302	0.000
Create Growth Programme	0.425	0.163
United Kingdom Social Prosperity Fund	3.950	4.177
Strategic Capacity Reserve	1.252	1.252
Bootcamp Wave 3	1.134	0.000
Net Zero North East England	0.151	0.000
Brownfield Housing Fund	12.763	2.545
Reserves less than £0.100m	0.333	0.086
Total Reserves NTCA	91.316	38.063
NECA and JTC		
NECA Corporate	0.416	0.413
JTC Unallocated	1.096	1.096
JTC Tyne Tunnels	9.626	9.339
JTC Metro and Local Rail Studies	1.963	0.943
JTC Nexus POP Truth on Server	0.461	0.000
JTC Transport Devolution Preparation	2.573	1.655
Nexus Metro Reinvigoration	8.267	2.967
Nexus Metro Fleet Replacement	10.367	5.456
Total Reserves NECA and JTC	34.769	21.869
NELEP		
NIEF Reserve	12.156	12.156
EZ Reserve	7.431	7.431
LGF SWAP Reserve	-0.350	0.000
Tyne Tunnel Reserve (LEP)	0.350	0.000
GBF Reserve	1.390	0.000
DFE Funding	0.117	0.000
North East Ambition Reserve	0.341	0.000
LEP General reserves	0.675	0.128
CEC Enterprise Advisor	0.128	0.000
Collaboration of Digital Expertise	0.386	0.000
Balances < £0.100m	0.048	0.048
Total NELP Reserves	22.672	19.763
General Fund Balances (LEP)	0.613	1.202
Total Reserves and Balances	149.370	80.897

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Purpose

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

Background

- 2 Treasury management is defined as 'the management of the local authority's investments and cash flows, its banking, money market and capital market transactions, the effective control of the risks associated with those activities and the pursuit of optimum performance consistent with those risks'.
- 3 The Authority operates a balanced budget, which broadly means that cash raised during the year will meet cash expenditure incurred. Part of the treasury management operation is to ensure this cash flow is adequately planned, with surplus monies being invested in low-risk counterparties, with the main aims of providing sufficient liquidity and security, with the achievement of the best possible investment returns ranking as less important.
- 4 The second main function of the treasury management service is to arrange the funding of the Authority's capital programme, which will support the provision of the Authority's services. The capital programme provides a guide to the borrowing need of the Authority, and there needs to be longer term cash flow planning to ensure capital spending requirements can be met. The management of longer-term cash may involve arranging long or short-term loans, utilising longer term cash flow surpluses and, occasionally, debt restructuring to meet the Authority's risk or cost objectives. The North East Mayoral Combined Authority ('The Authority') will have powers to borrow for Transport responsibilities inherited from the former Tyne and Wear Integrated Transport Authority and will have powers to borrow for other activities subject to the negotiation of a debt cap with His Majesty's Treasury.
- 5 The Authority adopts the latest CIPFA Code of Practice on Treasury Management (the Code) which is regarded as best practice in ensuring adequate monitoring of the Authority's capital expenditure plans and its Prudential Indicators (PIs). This requires that Members agree the following reports, as a minimum:
- i. An annual Treasury Management Strategy in advance of the year (this report);
 - ii. A mid-year Treasury Management Review;
 - iii. An annual review following the end of the year describing the activity compared to the strategy.

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

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

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

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

Borrowing Strategy

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

9 NECA held £169.333m of loans at 31 March 2023. The balance had decreased to £149.667m at 30 September 2023 and is expected to be £149.333m at 31 March 2024, as detailed below:

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

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

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

the generally most cost-effective option. However, in the medium term the Authority may need to borrow to fund its capital programme.

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

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

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

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

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

Policy on Borrowing in Advance of Need

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

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

Debt Rescheduling

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

- generating cash savings and / or discounted cash flow savings;
- helping to fulfil the treasury strategy;

- enhancing the balance of the portfolio (amend the maturity profile and / or the balance of volatility).

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

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

Other Debt and Long Term Liabilities Plans

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

Cash Investment Strategy

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

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

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

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

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

incurring losses from defaults and the risk of receiving unsuitably low investment income.

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

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

Specified Investments

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

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

Non-Specified Investments

27 These are investments which do not meet the specified criteria as outlined above. The Authority is therefore required to examine non-specified investments in more detail. As well as any of the above sterling investments that are of more than one-year maturity, non-specified investments include the following sterling investments:

- gilt edged securities with a maturity of greater than one year. These are Government bonds and so provide the highest security of interest and the repayment of principal on maturity;
- deposits with the Authority’s own banker if it fails to meet the basic credit criteria. In this instance balances will be minimised as far as is possible;

- loans and shares in local businesses, in order to encourage regeneration and economic development in the area. Any new investments will only be agreed after significant due diligence checks have been carried out;
- Any other funds.

Creditworthiness Policy

- 28 The primary principle governing the Authority's investment criteria is the security of its investments; although the yield or return on the investment is also a key consideration. After this main principle, the Authority will ensure that:
- it maintains a policy covering the categories of investment types it will invest in, the criteria for choosing investment counterparties with adequate security and arrangements for monitoring their security; and
 - it has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Authority's prudential indicators covering the maximum principal sums invested.
- 29 The Chief Finance Officer will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit these to the Leadership Board for approval as necessary. These criteria provides an overall pool of counterparties considered to be high quality which the Authority may use, rather than defining what types of investment instruments are to be used.
- 30 The Combined Authority uses Link Group, Treasury solutions as its external treasury management advisors. The Combined Authority recognises that responsibility for treasury management decisions remains with the organisation and seeks to ensure that undue reliance is not placed upon external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisors. The Combined Authority recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Combined Authority will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed, documented, and subjected to regular review
- 31 Typically the minimum credit ratings criteria used by the Authority will be a short term rating (Fitch or equivalent) of F1 and a Long Term rating of A-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances, consideration will be given to the whole range of ratings available or other topical market information to support their use.
- 32 All credit ratings will be monitored regularly. The Authority is alerted to changes to ratings of all three agencies (Fitch, Moody's and Standard and Poor's) through its use of Link's creditworthiness service.
- 33 If a downgrade results in the counterparty / investment scheme no longer meeting the Authority's minimum criteria, its further use as a new investment will be withdrawn immediately.

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

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

Investment Criteria

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

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

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

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

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

- Banks 2 – Part nationalised UK banks - Royal Bank of Scotland. This bank can be included if it continues to be part nationalised or meets the ratings in Banks 1 above;
- Banks 3 – The Authority’s own banker for transactional purposes if the bank falls below the above criteria, although in this case, balances will be minimised in both monetary size and time;
- Bank subsidiary and treasury operation. The Authority will use these where the parent bank has provided an appropriate guarantee or has the necessary ratings outlined above;
- UK Government (including gilts and the Debt Management Account Deposit Facility [DMADF]);
- Local authorities, parish councils etc.;
- Building societies. The Authority will use societies which:
 - i. Meet the ratings for banks outlined above; or
 - ii. Have assets in excess of £1 billion;
- Money market funds;
- Ultra-Short Dated Bond Funds;
- Property Funds.

Time and Monetary Limits applying to Investments

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

Investment Type	Long Term Rating	Money Limit	Time Limit
Banks / Building Societies*	AA-	£20m	1 year
Banks / Building Societies*	A	£20m	1 year
Banks / Building Societies*	A-	£15m	6 months
Banks – part-nationalised*	N/A	£20m	1 year
Banks– Council's banker*	A-	£20m	3 months
DMADF / Treasury Bills	AAA	unlimited	unlimited
Local Authorities	N/A	£10m each	3 years
Investment Type	Asset Size	Money Limit	Time Limit
Building Societies	+£1 billion	£10m	6 months
Investment Type	Fund Rating	Money Limit	Time Limit
Money Market Funds	AAA	£40m total	liquid
Money Market Funds CNAV	AAA	£10m each	liquid
Money Market Funds LVNAV	AAA	£10m each	liquid
Money Market Funds VNAV	AAA	£10m each	liquid

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

UK Banks – Ring Fencing

- 38 An additional factor must be taken into account when making investments with some UK banks from 1 January 2019. From this date the largest UK banks, (those with more than £25bn of retail / Small and Medium-sized Enterprise (SME) deposits), are required, by UK law, to separate core retail banking services from their investment and international banking activities. This is known as “ring-fencing”. Whilst smaller banks with less than £25bn in deposits are exempt, they can choose to opt to be included in the arrangements. Several banks are very close to the threshold already and so may come into scope in the future regardless.
- 39 Ring-fencing is a regulatory initiative created in response to the global financial crisis. It mandates the separation of retail and SME deposits from investment banking, in order to improve the resilience and resolvability of banks by changing their structure. In general, simpler, activities offered from within a ring-fenced bank, (RFB), will be focused on lower risk, day-to-day core transactions, whilst more complex and “riskier” activities are required to be housed in a separate entity, a non-ring-fenced bank, (NRFB). This is intended to ensure that an entity's core activities are not adversely affected by the acts or omissions of other members of its group.
- 40 While the structure of the banks included within this process may have changed, the fundamentals of credit assessment have not. The Authority will continue to assess

the new-formed entities in the same way that it does others and those with sufficiently high ratings, (and any other metrics considered), will be considered for investment purposes.

Non-Treasury Investments

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

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

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

Treasury Management Indicators

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

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

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

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

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

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

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

a) Prudential Indicators

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

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

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

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

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

52 Gross Debt and the Capital Financing Requirement – in order to ensure that debt will only be held for capital purposes, the Authority should ensure that debt does not, except in the short term, exceed the total of capital financing requirement in the

preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. This is a key indicator of prudence. The table below shows how the Authority plans to comply with this requirement, which shows gross borrowing continues to be less than the CFR:

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

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

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

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

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

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

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

MRP Policy Statement

- 55 The CIPFA Prudential Code for Capital Finance in Local Authorities requires the Leadership Board to agree an annual policy for the Minimum Revenue Provision (MRP).
- 56 The MRP is the amount that is set aside each year to provide for the repayment of debt. The regulations require the authority to determine an amount of MRP which it considers to be prudent. The broad aim of a prudent provision is to ensure that debt is repaid over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Revenue Support Grant (RSG), reasonably commensurate with the support provided through the RSG. The guidance provides recommended options for the calculation of a prudent provision but local authorities have significant discretion in determining the level of MRP which they consider to be prudent.
- 57 The Government updated its Statutory Guidance on MRP on 2 February 2018, with some elements of the guidance taking effect from 1 April 2018.
- 58 The Authority's annual MRP policy has been set in line with the following principles:
- Supported capital borrowing (pre-2008) debt – minimum revenue provision to be made on a 2% straight line basis.
 - Supported capital borrowing undertaken on behalf of Nexus, being a 4% minimum revenue provision – this relates to historic debt (prior to 1 April 2008) only.
 - For unsupported capital borrowing (Prudential Borrowing) undertaken on behalf of Nexus, making provision for the debt in equal annual instalments over the estimated life of the asset.
 - For unsupported capital borrowing for the New Tyne Crossing, making provision for the debt over the life of the asset on an annuity basis. This basis is suitable for use on this particular project as it is consistent with the financial model which reflects an increase in traffic and tolls over the life of the concession contract. A 50-year asset life is assumed.
 - For unsupported capital borrowing (prudential borrowing) in relation to Enterprise Zones, making provision for the repayment of debt over the life of the asset on an annuity basis (maximum of 25 years); or making provision for the repayment of the debt over a shorter period on an annuity basis for a period agreed by the CFO with reference to the estimate of business rates income receivable to repay the debt.
 - For new (unsupported) borrowing for the Combined Authority's capital plans, the Combined Authority intends to take a more nuanced, principles-based approach to the calculation of MRP. The approach to the calculation will be guided by whether the borrowing is related to the creation or enhancement of an asset or whether the borrowing is to support the provision of a loan or other form of investment within another organisation.
- 59 Where the borrowing underpins the acquisition and enhancement of assets funded through borrowing, an Asset Life Method will be used to calculate MRP (Option 3

under the guidance). Under the guidance, there are two approaches that can be applied: Equal Instalments or the Annuity Method. The Authority will make the decision as to the specific approach to be adopted on a case-by-case basis determining what is most appropriate and prudent based on the underlying asset.

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

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

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

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

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

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

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

Other Matters

Training

65 The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny and

training will be arranged as required. There is a further requirement that the training needs of treasury management officers are periodically reviewed.

Policy on use of external advisers

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

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

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

North East Joint Transport Committee

Date: 21 November 2023

Subject: Revenue Budget Proposals 2024/25 and Updated Forecast of Outturn 2023/24

Report of: Chief Finance Officer

Executive Summary

This report provides the North East Joint Transport Committee (JTC) with an updated forecast of outturn for the transport revenue budgets for 2023/24, based on the position to 30 September 2023 and a summary of the draft transport budget and levies for 2024/25.

The transport levies and grants to Durham, Northumberland and Nexus are fixed for the current year so the outturn is in line with the original budget allocations.

Durham County Council are forecasting an overspend of £0.185m in the current year which will be funded by their own reserves. This relates to increased costs on subsidised bus services. Work is under way on finalising the budget estimates for 2024/25 and these will be reported to JTC in January.

Northumberland County Council forecast of outturn shows a projected underspend against the transport grant of £0.387m relating to concessionary fares reimbursement. Work is under way on finalising the budget estimates for 2024/25 and these will be reported to JTC in January.

Nexus is forecasting an improved financial position for 2023/24, with improvements in Metro fare revenue and the generation of greater interest income on investment balances being the most significant factors. Nexus is now forecasting it will need to use £0.258m of reserves to balance the budget for the current year, which is a reduction of £7.734m against the amount originally budgeted. The outturn position is after the use of £6.300m of one-off Metro Rail Grant, which falls out next year. The 2024/25 forecasts indicate that if Nexus is to protect front line services, an increase in the 2024/25 Tyne and Wear Transport levy of £2.5m (3.7%) will be required, which is in line with the MTFP forecasts presented to the JTC in January 2023.

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

It is proposed to continue the contribution of £10,000 per authority towards TNE which is retained from the Durham and Northumberland levies, and which contributes towards the team's work on behalf of the region. The contribution from the Tyne and Wear levy to fund central activity next year will be £2.1m (in line with current budgets) which also contributes to the work of TNE but is mainly used to meet costs relating to the former Tyne and Wear Integrated Transport Authority, namely charges for historic debt.

It is proposed that funding for TNE from the Local Transport Plan Integrated Transport Block is continued at £500,000 (£62,500 per council and Nexus).

Increased interest on revenue balances is forecast and it is proposed that £8.125m is held in an earmarked reserve at the end of this financial year to be applied to support Transport activity in future years following transition to the proposed North East MCA.

Recommendations

The North East Joint Transport Committee is recommended to:

- i) Receive the report for information and comment;
- ii) Note the updated forecast of outturn for the 2023/24 Transport Revenue Budgets, as set out in the report;
- iii) Consider the budget assumptions and proposals set out in the report, forming the basis of consultation on the 2024/25 Transport Revenue Budget;
- iv) Note that the budget proposals for Transport will be subject to a consultation process including reports to the JTC Overview and Scrutiny Committee, relevant officer groups and the Leadership Board of NECA and the NTCA Cabinet; and
- v) Note the intention to consider and approve the final budget proposals and agree the Transport levies at the meeting of the JTC on 16 January 2024.

1. Background Information

- 1.1 The JTC receives funding from a variety of sources including the levies on Durham, Northumberland and Tyne and Wear councils, Tyne Tunnels income, grant funding and interest on the investment of its cash balances. This funding is used to deliver the transport objectives of the Committee through the provision of revenue grants to Durham and Northumberland councils and Nexus for the delivery of public transport services, the funding of the Tyne Tunnels and the central strategic support provided by Transport North East (TNE).
- 1.2 In line with the Transport Levying Bodies Regulations 1992, the transport levies must be issued by 15 February preceding the commencement of the financial year in respect of which they are to be issued.
- 1.3 This report provides the JTC with an updated forecast of outturn for the transport revenue budgets for 2023/24, based on the position to 30 September 2023, and an update on the budget planning assumptions and proposals for the levies and other aspects of the Transport revenue budget for 2024/25, decisions on which will be taken by the JTC on 16 January 2024. Decisions on Tyne Tunnels tolls and Metro Fares will be taken by the Tyne and Wear Sub Committee (TWSC) on 18 January 2024.

2. Proposals

Transport Levies 2023/24 and Indicative Levies 2024/25

- 2.1 As the transport levies and revenue grants are normally fixed for the year there is no change in the levies payable and the grants payable between the original budget and the forecast outturn, and minimal change in the retained transport levy budget. 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 that organisation.
- 2.2 A proportion of the levies is retained to support the work of the JTC through TNE and to meet historic costs relating to the former Tyne and Wear Integrated Transport Authority (TWITA), which primarily relate to historic debt charges. This area of the budget is expected to break even in the current year.
- 2.3 The updated forecast of outturn for the current year, together with initial budget proposals for 2024/25 are set out in table 1 below, with further explanations provided in the sections that follow.

Table 1: 2023/24 Forecast and indicative 2024/25 Transport Levies and Grants

	2023/24 Original Budget	Spend to Date Q2	2023/24 Forecast Outturn	2023/24 Forecast Variance	2024/25 Initial Draft Budget
	£m	£m	£m	£m	£m
Total Levy Income	(91.170)	(45.157)	-	-	(93.670)
Grant to Durham	16.902	8.451	16.902	-	16.902
Grant to Northumberland	6.448	3.224	6.448	-	6.448
Grant to Nexus	65.700	32.850	65.700	-	68.200
Levy contribution to JTC central costs	2.120	0.632	2.120	-	2.120
Total Expenditure	91.170	45.157	91.170	-	93.670
Contribution (to)/from JTC reserves	0.000	0.000	0.000	-	0.000

Tyne and Wear Levy

- 2.4 The majority of the Tyne and Wear levy is paid as a revenue grant to Nexus for the delivery of public transport services on behalf of the five Tyne and Wear Councils. The budget proposals for next year include an increase in the levy on Tyne and Wear councils from £67.800m to £70.300m, an increase of £2.500m or approximately 3.7%. This would increase the grant paid to Nexus for the provision of public transport services from £65.700m to a proposed £68.200m. The centrally retained budget of £2.100m, retained to fund Tyne and Wear transport costs (primarily relating to the former TWITA debt charges) and contribute to the central TNE budget would be held at the current level next year.

Nexus Revenue Budget

Updated Forecast of Outturn 2023/24

- 2.5 The JTC approved Nexus' revenue budget for 2023/24 on 17 January 2023. The budget included a levy increase of £2.6m, the utilisation of £8.0m Nexus' reserves and the use of £3.3m of additional Metro Rail Grant received in 2021/22.
- 2.6 When the 2023/24 was set, significant budget pressures in relation to HV power costs existed, with costs being incurred outstripping the budget. Although this remains the case (paragraph 2.12 refers), additional Metro Rail Grant was received at the end of 2022/23 totalling £3.0m to assist with this pressure which has been reflected within the updated forecast of outturn.

- 2.7 Over the last few months Nexus has continued to see an improvement in the financial position for 2023/24, particularly relating to the recovery of Metro fare revenue and the generation of greater interest income on investment balances. The updated forecasts show that Nexus is now expecting to need to use only £0.258m of its reserves to balance the budget this year, which is a reduction of £7.724m against the amount originally expected. The updated forecast reflects the use of £6.300m of one-off Metro Rail Grant (referred to in paragraph 2.5 and 2.6 above) which is non-recurrent.
- 2.8 Detailed budget setting for 2024/25 is well underway and despite the more positive position in respect of the current year, the position for next financial year has worsened relative to the Medium-Term Financial Plan (MTFP) presented to the JTC in January 2023. It is now expected that a greater reliance on reserves will be required next year, as well as in the following two years up to 2026/27. It is clear that Nexus' financial outlook remains very challenging, and it will be necessary to earmark reserves that were previously expected to be used in 2023/24 to balance the budget across the MTFP.
- 2.9 The table below shows expenditure to the end of period 6 (16 September 2023), together with the forecast to the year end (based on current estimates of the likely outturn) against budget. There is narrative following the table explaining the variances against budget against the main service areas.

Table 2: Nexus forecast of outturn 2023/24

	Original Budget	Spend to P6	Forecast at P6	Variance
	£m	£m	£m	£m
Concessionary Fares	30.791	14.016	29.895	(0.896)
Metro	25.661	9.022	23.238	(2.423)
Bus Services	14.969	6.492	15.754	0.785
Other	5.571	2.259	5.052	(0.519)
	76.992	31.789	73.939	(3.053)
Grant from Levy	(65.700)	(30.337)	(65.700)	-
MRG 2021/22 (reserves)	(3.300)	(0.961)	(3.300)	-
MRG 2022/23 (reserves)	-	-	(3.000)	(3.000)
LTF	-	(0.276)	(1.053)	(1.053)
BSIP	-	(0.215)	(0.628)	(0.628)
	7.992	-	0.258	(7.734)
Reserves	(7.992)	-	(0.258)	7.734
	-	-	-	

Metro

- 2.10 At the end of period 6, financial performance on Metro shows net expenditure at £2.423m better than budget, before application of one-off grant and reserves. Metro fare revenue (including car park and PFN income) at the end of period 6 was £21.888m which exceeded the budget by £2.272m (12%). This includes a one-off adjustment of £0.250m in relation to Network Ticketing (NTL) share of revenue redistribution for the prior year.

- 2.11 The year end Metro fare revenue forecast is a positive variance of £2.233m. Given the uncertainties surrounding Metro performance and patronage growth since the pandemic, the forecast continues to be cautious and reflects actual growth against the profiled budget at the end of period 6. The introduction of the £6.00 NTL multi-modal BSIP funded fare could have a detrimental impact on Metro fare revenue in the second part of the year because of the need to reduce the price of the all zone daysaver product, as well as the risk associated with Metro customers switching to the NTL product. The forecast for the year therefore remains prudent and careful monitoring of this budget will continue as the year progresses.
- 2.12 The Metro forecast reflects the continued pressure on HV power costs for the year, which is estimated to be £2.398m higher than the £15.230m original budget. At this stage 86% of the required electricity for the year has been purchased. This creates a level of budget certainty, although as the remainder is purchased there is still scope for further movement in the forecast. As outlined in paragraph 2.6, £3.0m of additional Metro Rail Grant was received in the previous financial year to assist with this pressure and is also now reflected within the forecast.
- 2.13 The forecast includes net additional cost pressures of £0.573m directly relating to Metro. This reflects the deployment of additional security on the Metro to tackle anti-social behaviour in the evenings and investment in front-line teams to operate gatelines for longer, address backlogs in maintenance and provide greater capacity and resilience in Metro's Control Room. It also includes additional contractual inflation, where this has been higher than was included at the time of budget setting, particularly in respect of the Stadler contract for the maintenance of Metrocars, although this has been offset by additional income in relation to penalties being imposed for non-delivery of key contracts.
- 2.14 All service areas receive a share of interest income, and at the end of period 6, interest income was £1.945m better than budget. Interest rates are higher than they were at the time of budget setting, and cash balances are also higher than was anticipated, due to the sizeable amount of capital grants that Nexus has access to which are paid in advance. It is currently expected that interest income may be as high as £4.400m for the year, representing a £4.000m improvement against the original budget which is reflected in the updated forecasts. £2.916m of this improvement is allocated to Metro.
- 2.15 Metro also benefits from savings in overheads (which are also applicable to other service areas) which have increased since the previous report and include areas such as ICT licencing, support services costs and unused contingencies. The overhead savings reflected in the forecast for Metro are currently £0.245m.

Concessionary Fares

- 2.16 At the end of period 6, concessionary fares include higher than budgeted school income of £0.138m and £0.024m of lower concessionary travel payments made to operators. The forecast outturn for the year reflects £0.150m of additional school income, a £0.400m prior year adjustment for the reimbursement of concessionary travel payments relating to 2021/22 and £0.132m of reductions in concessionary

travel payments to operators. In addition, the share of increased interest income and overhead savings allocated within the forecast is £0.214m.

Bus Services

- 2.17 At the end of period 6, the forecast outturn for bus services is £0.785m higher than budget. This reflects additional expenditure in relation to those services funded by the Local Transport Fund (LTF) and the Bus Services Improvement Plan (BSIP). The total LTF included within the forecast for the year is £1.053m, and in addition, there is spend amounting to £0.628m relating to BSIP.
- 2.18 The forecast also reflects higher than budgeted secured services revenue of £0.192m, as well as savings on secured services contracts of £0.117m and a saving of £0.022m relating to the Taxi Card scheme. In addition to this, the share of additional interest income and overhead savings allocated within the forecast is £0.565m.

Other

- 2.19 Other includes Ferry, Bus Infrastructure and Passenger Transport Information and at the end of period 6, financial performance shows net expenditure at £0.519m better than the revised budget, before application of one-off grant and reserves. The forecast reflects £0.067m of higher than budgeted income relating to the ferry, departure charges and bus information, offset by £0.023m of additional ferry operating costs and bus shelter installation costs. In addition to this, the share of additional interest income and overhead savings allocated within the forecast is £0.475m.

Nexus Revenue Budget 2024/25

Background

- 2.20 If Nexus is to continue to protect front line services, an increase in the Tyne and Wear Transport levy commensurate with that which was signalled in the budget and MTFP report to the JTC in January 2023 will be required next year, with further increases forecast to be necessary in 2025/26 and 2026/27.

2023/34 Budget and Forecast Outturn

- 2.21 At its January 2023 meeting, the JTC approved a levy increase of 4% (£2.6m) and agreed a contribution of £8.0m from Nexus' reserves in 2023/24, to allow for a balanced budget and enable Nexus' services to be maintained.
- 2.22 The cost of high voltage power, higher levels of inflation and the need for further investment in safety and security across the Metro network are all contributing to the challenges Nexus is facing in managing its revenue budget. However, Nexus received additional Metro Rail Grant (MRG) from the DfT at the end of 2022/23 which is being applied to offset the increased cost of high voltage power in the current year. In addition, Nexus has seen a recovery in Metro patronage and fare box revenue beyond that which was anticipated in the 2023/24 budget and will also generate more

investment income than budget, because of both the rapid increase in interest rates and the extent of cash balances it is currently holding.

- 2.23 It is therefore expected that Nexus will use less reserves in the current year than originally planned, as set out earlier in this report. The position is summarised in the table below:

Table 3: Reconciliation between original Nexus deficit and forecast outturn 2023/24

	£m	£m
Original Deficit		8.0
Additional Budget Pressures		
Metro high voltage power	2.2	
Additional inflation	0.4	
Investment in security/frontline	1.0	3.6
		11.6
Efficiencies/Income		
Metro fare revenue	(2.2)	
Interest on balances	(4.0)	
Other efficiencies	(2.1)	(8.3)
		3.3
Funded By:		
Additional MRG	(3.0)	
Use of reserves	(0.3)	(3.3)
Revised Surplus/Deficit		-

- 2.24 Despite this improvement, Nexus' underlying deficit will continue into subsequent years. The pressures highlighted in the table above are all permanent, whereas the efficiencies / additional income is largely temporary or one off. For example, the additional MRG is a one-off grant allocation, interest on balances is expected to reduce in future years as interest rates and cash balances reduce and the efficiencies being delivered in the current year are also largely one-offs e.g. salary slippage from employee turnover and penalties being imposed for non-delivery of key contracts. The recovery in Metro fare revenue should however continue.

Understanding Nexus' Structural Deficit

- 2.25 Nexus has had an underlying, structural deficit for some time. This was highlighted in the budget report considered by the JTC in January 2020, prior to the outbreak of the Covid pandemic. At that time JTC acknowledged that further discussions in relation to resourcing and service levels were necessary.
- 2.26 During the pandemic and at the outset of the cost of living / energy crisis, Nexus benefited from a significant amount of financial support from central government, which has had the effect of masking the underlying deficit, with a break-even position achieved in 2020/21 and surpluses (underspends) generated in 2021/22 and 2022/23.
- 2.27 For the 2022/23 financial year, the Tyne and Wear transport levy was increased by 6.75% (£4.1m) to compensate and offset the loss of fare revenue, which remained below pre-pandemic levels from 2021/22 onwards. The levy increased again in the

current year by 4.0% or £2.6m. However, Nexus' budget has been under considerable pressure from a combination of the ongoing impact of Covid, the cost-of-living crisis and high inflation, impacting on pay and energy costs in particular.

2.28 The table below shows a reconciliation from 2020/21 through to the budget estimate that has been compiled for 2024/25.

Table 4: Movements in Nexus budget 2020/21 to 2024/25

	£m	£m
Inflation		
Cost Pressures	24.8	
Funding Uplift	(14.0)	10.8
Savings/Redirection of resources		
Investment in services	10.7	
Efficiencies/Savings Delivered	(16.7)	(6.0)
Net Position		4.8

2.29 As can be seen, cost pressures have outstripped available funding (including £9.2m of additional levy support granted during the period)¹ and although Nexus has delivered significant base budget efficiencies, the need to invest in safety and security as well as front line services has meant that the underlying deficit has not been eradicated.

Strategic Approach to Development of the MTFP

2.30 When the JTC endorsed Nexus' 2023/24 budget and MTFP forecasts in January 2023, the call on reserves in 2022/23 was expected to be £0.5m. As reported to the JTC in July 2023, Nexus achieved a surplus of £7.0m in 2022/23 (acknowledging that total unbudgeted grant support amounted to £19.4m and had it not been for this, Nexus would have reported a deficit of over £10.0m).

2.31 As at 31 March 2023, Nexus' total reserves amounted to £62.5m, the majority of which is earmarked in general reserves, to accommodate any unforeseen pressures arising in-year or for capital investment. Nexus has earmarked £19.7m of its total reserve to underpin the MTFP.

2.32 Should the financial performance in the year to date be maintained to the year-end (refer to paragraph 2.23), Nexus will have sufficient reserves to underpin its revenue budget across the period of the revised MTFP (to 2026/27), thereby helping to protect fare revenue, operational performance and maintain key transport services. This is shown in the table below, which attempts to forecast the call on reserves across this timeframe² :

Table 5: Nexus forecast use of reserves 2023/24-2026/27

	As at Oct 2023
	£m
Reserves earmarked to support the revenue budget	19.7

¹ This includes £4.1m in 2022/23, £2.6m in 2023/24 and an estimated yet to be agreed £2.5m in 2024/25

² The estimates for 2025/26 and 2026/27 are still being refined

2023/24	0.3
2024/25	4.8
2025/26	5.5
2026/27	5.2
Reserves Requirement	15.8

2.33 It should be recognised that these forecasts include an increase in the levy in each of the three years commencing 2024/25, in line with the current MTFP assumptions. Should Nexus' financial performance across the period of its MTFP prove to be better than is currently estimated and its base position were to improve, consideration will be given to whether future levy increases will still be required, as opposed to Nexus adding to the reserves it has earmarked to underpin the MTFP. In determining whether this is possible, the Committee will need to carefully consider that Nexus is still forecasting budget deficits in each of the next three financial years, even with the levy increases that are proposed. Any future changes to the levy will also need to consider the affordability impact upon councils balanced against the effect upon transport services.

2.34 Should the JTC endorse this approach, the benefits are that in addition to Nexus being able to protect fare revenue, operational performance and the delivery of key transport services, it will also provide stability surrounding the introduction of the Mayoral Combined Authority; the alternative to this would be the need to immediately address the underlying, structural deficit which would likely require cuts to key transport services.

Budget Preparation 2024/25 to 2026/27

2.35 During budget setting for 2023/24, it was highlighted that it may be necessary to increase the Tyne and Wear Transport Levy in 2024/25 by 3.7% (£2.5m).

2.36 The table below outlines how the budget for 2024/25 is taking shape (Nexus is currently finalising its budget estimates for 2024/25). This demonstrates that after various interventions, it is still necessary to increase the Tyne and Wear transport levy to enable services to be maintained (NB – at 3.7% this is below the prevailing rate of inflation):

Table 6: Initial Nexus Budget 2024/25

	£m	£m
Base Deficit		6.1
Pressures		
Inflationary pressures	1.6	
Investment in security/frontline and statutory services	2.9	
Impact of delay in new fleet (net incl. high voltage power)	2.2	6.7
Efficiencies/Additional Income		
Fare revenue (incl. secured bus and ferry)	(3.1)	
Interest on balances	(2.4)	
Levy increase (3.7%)	(2.5)	(8.0)

		4.8
Use of reserves		(4.8)
Surplus/Deficit		-

2.37 In terms of cost pressures:

- i. Inflationary pressures relate to contract price adjustments and employee costs;
- ii. The investment in security/frontline and statutory services reflects the ongoing impact of additional security to tackle anti-social behaviour on the Tyne and Wear Metro together with investment in train operations and infrastructure maintenance;
- iii. In addition, provision has been made for an increase in concessionary fares, although this will be assessed against a backdrop of concessionary journeys still forecast to be lower than pre-pandemic levels;
- iv. The delay in the introduction of the new fleet will have an adverse impact on expected revenues and high voltage power consumption, although this is offset by a reduction in the unit price of high voltage power.

2.38 In terms of efficiencies/income:

- i. Growth in Metro fare revenue is expected to continue into the following year, which together with the annual fares review that the Tyne and Wear Sub-Committee will consider in January 2024, will generate additional income;
- ii. Interest on balances will continue to accrue at a higher rate, although not at the level of the prior year, mainly because cash balances will be lower, given that some of Nexus' major capital investment has been delivered, e.g. Metro Flow.

2.39 Taking all of this into account means that after a levy increase of 3.7%, the deficit for 2024/25 is forecast at £4.8m, which represents a reduction of £1.3m on the underlying, structural deficit.

Impact on Tyne and Wear Councils in 2024/25

2.40 The table below shows the provisional impact on the Tyne and Wear Councils from a proposed 3.7% increase in the levy:

Table 7: Initial estimates 2024/25 Tyne and Wear Levy

	2023/24 Levy (before population change)	Proposed increase (3.7%)	2024/25 Proposed Levy
	£m	£m	£m
Gateshead	11.814	0.436	12.250
Newcastle	17.964	0.663	18.627
North Tyneside	12.597	0.464	13.061
South Tyneside	8.909	0.328	9.237

Sunderland	16.516	0.609	17.125
Total	67.800	2.500	70.300

2.41 It should be noted that the 2022 mid-year population estimates, which is the basis upon which the 2024/25 levy will be apportioned amongst the Tyne and Wear Councils have not yet been published, so depending on changes in population, some Councils might see an increase on their 2023/24 share of the levy that is higher or lower than 3.7%. It is understood that the Office of National Statistics (ONS) will not release the 2022 mid-year population estimates until later in November or possibly even into December 2023.

2.42 Further work is being undertaken in relation to the development of budget estimates for 2025/26 and 2026/27 to better inform the MTFP and these will be brought to the JTC in January 2024 (as well as the final budget for 2024/25, once this has been finalised). At this point in time, as signalled in paragraph 2.33, increases in the levy are anticipated in each of the next three years as outlines in the table below:

Table 8: Expected Tyne and Wear Levy Increases 2024/25-2026/27

Expected Levy Increases	£m	%
2024/25	2.5	3.7
2025/26	2.1	3.0
2026/27	2.2	3.0

Key Risks

2.44 There are several risks associated with Nexus' 2024/25 budget and MTFP forecasts, not least of which is the Tyne and Wear levy itself. If it does not increase at the level proposed / required, the alternative would be to immediately address the underlying, structural deficit which would likely require cuts to transport services.

2.45 Other key risks relate to the following:

- i. Fare Revenue – which has growth targets associated with annual fares reviews and the delivery of key interventions, for example when the new fleet of Metrocars is fully operational;
- ii. Metro Rail Grant – which is assumed to increase in line with inflation;
- iii. Concessionary Fares – which could be subject to upward pressures arising from technical work that the DfT commissioned during the early part of 2023; and
- iv. Inflation – which is forecast to reduce across the timeframe of the MTFP, something that will adversely affect key contracts and employee costs if it does not reduce in accordance with current forecasts.

Durham

- 2.46 The Q2 forecast of outturn for Durham shows an estimated overspend of £0.185m. As usual, any projected over or underspends at the year end will be retained by Durham County Council.

Table 9: Durham Updated Forecast of Outturn 2023/24

	2023/24 Original Budget	Spend to Date Q2	2023/24 Forecast Outturn	Variance	2024/25 Initial Draft Budget
	£m	£m	£m	£m	£m
Concessionary Fares	11.155	2.211	9.255	(1.900)	1.155
Subsidised Services	4.888	3.381	6.785	1.897	4.888
Bus Stations	0.276	0.589	0.292	0.016	0.276
Bus Shelters	(0.278)	0.077	(0.088)	0.180	(0.278)
Passenger Transport Information	0.089	0.066	0.081	(0.008)	0.089
Staffing	0.762	0.381	0.762	0.000	0.793
Share of JTC central costs	0.010	0.010	0.010	0.000	0.010
Net Expenditure	16.912	6.715	17.097	0.185	16.933
JTC Grant	(16.912)	(8.456)	(16.912)	0.000	(16.933)
(Surplus)/Deficit for the Year	-	(1.741)	0.185	0.185	-

- 2.47 The main reasons for the reported variances are shown below:
- i. Concessionary Fares -£1.900 million – Due to the reduction in Concessionary travel passengers post Covid, an underspend is anticipated. These underspends are offsetting the additional support being provided to the Passenger Transport Network through subsidised services.
 - ii. Subsidised Services £1.897 million – Overspend relates to increased contract costs to bus operators for services that are deemed as no longer being commercially viable to the operator. Concessionary Fares underspends are being utilised to offset these costs and support the Passenger Transport Network.
 - iii. Bus Stations £0.016 million – Overspend relates to an increase in security and repairs and maintenance costs in bus stations.
 - iv. Bus Shelters £0.180 million – Overspend relates to an increase in repairs and maintenance costs and a loss of advertising income on bus shelters.

- v. Passenger Transport Information -£0.008 million – There is an anticipated overspend of £0.030 million against revised budget which relates to additional software costs.

2.48 Work is underway on preparation of the 2024/25 budget for Durham which is shown for the time being as largely in line with 2023/24, although changes are anticipated by the time of the report to this committee in January 2024.

Northumberland

2.49 The following table provides a detailed breakdown of expenditure on public transport services by Northumberland County Council against the grant awarded by the JTC:

Table 10: Northumberland Updated Forecast of Outturn 2023/24

	2023/24 Original Budget	Spend to Date Q2	2023/24 Forecast Outturn	Variance	2024/25 Initial Draft Budget
	£m	£m	£m	£m	£m
Concessionary Fares	5.020	1.784	4.620	(0.400)	5.020
Subsidised Services	1.230	1.097	1.230	0.000	1.230
Bus Stations	0.027	0.005	0.040	0.013	0.027
Passenger Transport Information	0.025	0.000	0.025	0.000	0.025
Staffing	0.146	0.073	0.146	0.000	0.146
Share of JTC central costs	0.010	0.010	0.010	0.000	0.010
Net Expenditure	6.458	2.969	6.071	0.000	6.458
JTC Grant	(6.458)	(1.075)	(6.458)	0.000	(6.458)
(Surplus)/Deficit for the Year	-	1.894	(0.387)	(0.387)	-

2.50 The forecast outturn position for 2023/24 is an underspend of £0.387m. Concessionary Travel is forecast to underspend by £0.400 million as a result of suppressed demand for public transport journeys. Journeys relating to Concessionary Travel are currently at seventy-five percent of pre-Covid levels although they are starting to rise. A regional review of the provision of supported services is underway and passenger behaviour in the longer term following the removal of restrictions cannot yet be predicted.

2.51 The budget for 2024/25 is currently in the process of being developed with figures unavailable at this time. These will be reported to the January meeting of the committee. It is therefore shown in the table below as in line with the 2023/24 budget although updated budget estimates are anticipated by the time of the January meeting.

Tyne Tunnels

- 2.52 The Tyne Tunnels are operated as a ringfenced account, so all costs associated with the tunnels are fully met from toll income and Tyne Tunnels reserves, with no call on the levy or other public funding.
- 2.53 The JTC receives all toll income from the vehicle tunnels in the first instance and a payment under the contract with TT2 is determined based on traffic levels. The balance retained by the JTC is to meet other costs associated with the Tyne Tunnels, primarily interest and principal repayments on borrowing taken out to fund the New Tyne Crossing project, and other client costs associated with the management of the contract with the concessionaire.
- 2.54 The original 2023/24 budget, forecast outturn for 2023/24 and initial draft budget for 2024/25 are presented in the table below.

Table 11: Tyne Tunnels Forecast of Outturn 2023/24 and initial draft budget 2024/25

	2023/24 Original Budget	Spend to Date Q2	2023/24 Forecast Outturn	2023/24 Forecast Variance	2024/25 Initial Draft Budget
	£m	£m	£m	£m	£m
Tolls Income	(35.991)	(21.091)	(36.642)	(0.651)	(39.033)
TT2 Contract	28.032	14.631	28.628	0.596	30.226
Employees	0.147	0.074	0.146	(0.001)	0.153
Historic Pensions	0.065	0.024	0.045	(0.020)	0.047
Premises	0.114	0.001	0.114	0.000	0.014
Support Services	0.160	0.071	0.175	0.015	0.179
Supplies and Services	0.347	0.167	0.626	0.279	0.403
Financing Charges	7.928	6.316	7.102	(0.835)	8.401
Interest/Other Income	(0.150)	(0.033)	(0.239)	(0.089)	(0.150)
Repayment from TWITA for temporary use of reserves	(0.240)	(0.240)	(0.240)	0.000	(0.240)
Capital Expenditure Funded from Revenue – Tyne Pedestrian and Cycle Tunnels	0.000	0.080	0.285	0.285	0.000

Net Expenditure to be funded from Reserves	0.412	0.000	0.000	(0.412)	0.000
Contribution to/(from) Reserves	(0.412)	0.000	0.000	0.412	0.000

- 2.55 The forecast tolls income for 2023/24 is higher than was originally budgeted due to higher than forecast traffic levels over the first two quarters. This is also the reason for the forecast TT2 contract payment being higher than the original budget. The 2023/24 forecast outturn for Supplies and Services exceeds the budgeted amount by approximately £0.280m due to additional requirement for technical services relating to completion of the Tyne Pedestrian and Cyclist Tunnel (TPCT) refurbishment works and several engineering projects, above and beyond that anticipated.
- 2.56 Budget estimates for 2024/25 are provided in the table above and are based on the assumption that the Joint Transport Committee Tyne & Wear Subcommittee (TWSC) will decide to increase the tolls in line with the Retail Prices Index (RPI), as set out in the legislation. Decisions on toll charges are reserved for the TWSC and the mechanism for revising the tolls is detailed in the River Tyne Tunnels Order 2005. The TWSC are able to increase the toll paid by customers (the 'Real Toll') once every 12 months, based on the RPI from the application of the last increase, rounded to the nearest 10 pence. Budget estimates for the Usage Payment are derived from traffic levels, which are subject to revision as TT2 finalise their traffic estimates through their own budget process.
- 2.57 Separately, a 'Shadow Toll' sets the amount paid to TT2 per journey, also based on RPI. It is considered every January and is a contractual commitment as set out in the Project Agreement agreed in 2007. The Shadow Toll is also required to be rounded to the nearest 10 pence, and an increase is only possible in 10 pence increments.
- 2.58 The legislation does not provide for any alternative to the RPI based increase in the Real Toll and assumes that the authority will increase user charges in line with the RPI calculation. The Project Agreement similarly prescribes the calculation for the Shadow Toll increase without any alternative.
- 2.59 The Real Toll charged to users' needs to be the same amount or similar to the Shadow Toll paid to TT2 per journey, otherwise the JTC would incur a loss on each tunnel journey because the income generated would fall short of the expenditure incurred in servicing the debt charges and meeting the contractual obligations to TT2.
- 2.60 The current Real Toll lags slightly behind the Shadow Toll (10p lower) due to a decision taken by the Tyne and Wear Integrated Transport Authority (TWITA) in August 2011. This came about because of a conflict between the construction period and the date that the Shadow Toll increased, where the TWITA felt it was inappropriate to raise tolls for tunnel users during a period of major road disruption. However, this has been the position for several years and is accounted for each year within the budget.

- 2.61 The current Real Toll is £2.20 for Class 2 Vehicles and £4.40 for Class 3 Vehicles, and the Shadow Toll is £2.30. TT2 has confirmed that the Shadow Toll will increase to £2.50 on 1 January 2024. The TT2 contract payment for the 2024/25 budget is based on this increase to the Shadow Toll and therefore to ensure the Tyne Tunnels account remains balanced, an increase will be required to the tolls in 2024/25. It is forecast that the actual tolls will need to increase to £2.40 for Class 2 Vehicles and £4.80 for Class 3 Vehicles, representing a 20p and 40p rise respectively.
- 2.62 The earliest date an increase of the actual tolls can be applied is May 2024 because of the decision taken by the TWSC last year to delay increasing the toll for Class 2 vehicles in 2023 until May to provide relief for tunnels users during the winter period taking into account winter fuel bills and the cost-of-living crisis. The income lost during that period was funded from Tyne Tunnel reserves. Delaying implementation of tolls increases in this way is not a sustainable long-term solution.
- 2.63 The 2024/25 budget for Employee Costs and Support Services is based on assumed inflationary cost increases. The 2024/25 budget for Supplies and Services is less than the 2023/24 forecast outturn, however it is still greater than the 2023/24 budget value due to ongoing technical advice required on multiple projects and cost increases introduced by several suppliers.
- 2.64 The costs associated with Premises are largely related to the operations of the Tyne Pedestrian and Cyclist Tunnel (TPCT). Electricity costs for the lighting systems, CCTV and security systems, and the lifts at either end are substantial. Therefore, the proposed budget for Premises is less than in 2023/24 because the TPCT operational costs will be transferred to TT2 as part of the handover which is planned for this financial year on the basis that the refurbishment works are completed.

Transport North East

- 2.65 TNE provides strategy, planning and delivery services on behalf of the JTC and works to implement the vision of 'moving to a green, healthy, dynamic and thriving North East'. The TNE Core budget is funded through contributions from the Transport Levies which are retained to support JTC activity and a topslice of the Local Transport Plan (LTP) Integrated Transport Block grant which is awarded to the JTC plus external contributions to fund specific posts and external grants for specific programmes and projects.
- 2.66 Forecast outturn expenditure for 2023/24 is £1.125m against the original budget of £1.037m, with outturn income forecast to be £1.156m resulting in a small surplus of £0.031m which will be taken to reserves to fund expenditure in future years.

Table 12: TNE Core Budget Forecast of Outturn 2023/24 and initial draft budget 2024/25

	2023/24 Original Budget	Spend to Date Q2	2023/24 Forecast Outturn	2023/24 Forecast Variance	2024/25 Initial Draft Budget
	£m	£m	£m	£m	£m
Employee Costs	0.806	0.416	0.903	0.097	1.012

Transport Plan / Strategy Work	0.085	0.021	0.067	(0.018)	0.067
Research and Development	0.090	0.125	0.092	0.002	0.164
Travel and Miscellaneous	0.024	0.005	0.025	0.001	0.025
IT / Equipment	0.004	0.000	0.003	(0.001)	0.003
Contingency	0.018	0.000	0.015	(0.003)	0.015
Organisational Development	0.010	0.016	0.02	0.010	0.02
Total Expenditure	1.037	0.583	1.125	0.088	1.306
LTP Topslice	(0.500)	(0.500)	(0.500)	0.000	(0.500)
Retained Transport Levy	(0.284)	(0.373)	(0.373)	(0.089)	(0.373)
External Funding for Specific Posts	(0.178)	(0.029)	(0.189)	(0.011)	(0.189)
LA Capability Fund Grant	0.000	(0.016)	(0.034)	(0.034)	(0.034)
LEVI Revenue Grant	0.000	0.000	0.000	0.000	(0.148)
LTA Capacity Revenue Grant	(0.010)	0.000	(0.020)	(0.010)	(0.020)
CRSTS Revenue	0.000	0.000	(0.040)	(0.040)	(0.040)
Total Income	(0.972)	(0.918)	(1.156)	(0.184)	(1.304)
Net (Surplus)/Deficit	0.065	(0.335)	(0.031)	(0.096)	0.002

2.67 Draft estimates for 2024/25 are included in the table above. These are being further developed in line with the work programme for 2024/25 and updated estimates will be provided at the January 2024 meeting.

2.68 As noted in the July meeting of the JTC, the revenue grants and contributions funded work by TNE includes BSIP and CRSTS revenue activity. Expenditure is now forecast to be £88.976, funded by £88.736m of external revenue grants, with a balance of £0.240m to be funded from reserves relating to expenditure on Metro and Local Rail Studies and the Regional Freight Study. Estimates for 2024/25 are being prepared and will be included at the January JTC report.

Table 13: TNE Revenue Grants and Contributions Forecast Outturn 2023/24 and Initial Budget 2024/25

	2023/24 Revised Budget	Spend to Date Q2	2023/24 Forecast Outturn	2023/24 Forecast Variance	2024/25 Initial Draft Budget
	£m	£m	£m	£m	£m
Active Travel Capability Fund	0.065	0.004	1.748	1.683	0.000

Active Travel Planning	1.206	0.001	0.477	(0.729)	0.326
Active Travel Fund Tranche 4	0.000	0.000	0.324	0.324	0.000
BSIP/Enhanced Partnership	76.891	4.148	75.688	(1.203)	14.074
CRSTS	6.773	0.000	6.773	0.000	0.000
Freight Study	0.040	0.025	0.040	0.000	0.000
LEVI Capability Fund	0.000	0.105	0.810	0.810	0.570
Levelling Up Fund Capacity	0.000	0.000	0.070	0.070	0.000
LTF October-December extension	1.312	1.360	1.360	0.048	0.000
Local Transport Authority Capability	0.062	0.032	0.051	(0.011)	0.000
Metro and Local Rail Studies	1.043	0.102	1.020	(0.023)	0.753
Rail Development	0.227	0.089	0.210	(0.017)	0.245
TCF Programme Management	0.317	0.064	0.405	0.088	0.000
Total Expenditure	87.936	5.930	88.976	1.040	15.968
Active Travel Capability Fund grant	(0.065)	(0.004)	(1.748)	(1.683)	0.000
ATF Revenue grant	(1.206)	(0.001)	(0.477)	0.729	(0.326)
ATF Revenue Tranche 4	0.000	0.000	(0.324)	(0.324)	0.000
DfT BSIP Grant	(76.891)	(4.148)	(75.688)	1.203	(14.074)
City Regional Sustainable Transport Settlement (CRSTS)	(6.773)	0.000	(6.773)	0.000	0.000
LEVI Capability Fund	0.000	(0.105)	(0.810)	(0.810)	(0.570)
Levelling up Fund Capacity	0.000	0.000	0.070	(0.070)	(0.000)
Local Transport Authority Capability grant	(0.062)	(0.032)	(0.051)	0.011	0.000
Local Transport Fund	(1.312)	(1.360)	(1.360)	(0.048)	0.000

Metro & Local Rail Studies	(1.043)	(0.102)	(0.820)	0.223	(0.423)
Rail Administration Grant	(0.227)	(0.089)	(0.210)	0.017	(0.245)
Transforming Cities Fund	(0.317)	(0.064)	(0.405)	(0.088)	0.000
Total Grants and Contributions	(87.896)	(5.905)	(88.736)	(0.840)	(15.638)
Net Expenditure to be funded from Reserves	0.040	0.025	0.240	0.200	0.330

2.69

As agreed at the July meeting of the JTC, a budget was set aside for Devolution workstreams, funded by earmarked reserves created from the receipt of higher than forecast interest on revenue balances in 2022/23, and CRSTS revenue grant where expenditure is eligible to do so. An update against this budget is shown in the table below, which highlights that forecast expenditure in 2023/24 is now £1.548m against the budget of £1.797m, due to delays in recruitment to some posts and procurement of external support.

Table 14: Transport Devolution Workstreams Forecast of Outturn 2023/24 and initial budget 2024/25

	2023/24 Revised Budget	Spend to Date Q2	2023/24 Forecast Outturn	2023/24 Forecast Variance	2024/25 Initial Draft Budget
	£m	£m	£m	£m	£m
Highways	0.267	0.000	0.018	(0.249)	0.382
Making the Right Travel Choices	0.033	0.000	0.033	0.000	0.017
Transport Plan Refresh	0.100	0.000	0.100	0.000	0.050
Bus Reform	0.900	0.020	0.900	0.000	0.450
ZEV Infrastructure	0.233	0.148	0.233	0.000	0.117
Data – Project Management	0.080	0.000	0.080	0.000	0.040
Finance and Funding Strategy	0.067	0.000	0.067	0.000	0.033
Overall Project Management	0.067	0.000	0.067	0.000	0.033
Transport Devolution Benchmarking	0.050	0.000	0.050	0.000	0.000

Total Expenditure	1.797	0.168	1.548	(0.249)	1.122
CRSTS Revenue	(0.207)	0.000	(0.207)	0.000	(0.133)
LEVI grant	(0.233)	(0.148)	(0.233)	0.000	(0.117)
Devolution Earmarked Reserve	(1.357)	(0.020)	(1.108)	0.249	(0.872)
Total Funding	(1.797)	(0.168)	(1.548)	0.249	(1.122)

Interest on Revenue Balances

- 2.70 A significant level of interest on revenue balances attributable to high cash balances is forecast to be received in 2023/24, over and above that already budgeted levels. This is due to both the much higher interest rates now compared with at the time of setting the original budget, and significantly higher cash balances held on behalf of the JTC during the year as a result of receipts of large capital grants relating to BSIP, Active Travel and TCF in advance of expenditure being defrayed. A total of £9.018m is forecast, of which £0.893m will be applied to earmarked reserves held on behalf of Nexus and the Tyne Tunnels. It is proposed that the remaining £8.125m is held in an earmarked reserve at the end of this financial year to be applied to support Transport activity in future years following transition to the proposed MCA. The CRSTS capital settlement requires 15% local match funding to be provided which must not come from government funds, and these interest balances would be a useful source of match funding.

3. Reasons for the Proposals

- 3.1 The NECA Constitution requires that consultation on budget proposals be undertaken at least two months prior to the budget being agreed. The information included in this report is presented to update the JTC on the preparation of the 2024/25 Transport budgets. The report also provides updated forecasts for the current year based on the latest available information.

4. Alternative Options Available

- 4.1 The update forecasts and indicative budget proposals presented in this report are intended to inform the JTC of work on the preparation of the 2024/25 Transport budget and begin the formal budget consultation process in line with the requirements set out in the NECA constitution in its role as Accountable Body for Transport.
- 4.2 Option 1 – the North East Joint Transport Committee may accept the recommendations set out in the report.
- 4.3 Option 2 – the North East Joint Transport Committee may suggest amendments or alternative proposals to be considered. Option 1 is the recommended option.

5. Next Steps and Timetable for Implementation

5.1 The NECA Constitution requires that consultation on budget proposals be undertaken at least two months prior to the budget being agreed. The draft proposals will be subject to consultation with the Overview and Scrutiny Committee, relevant officer groups and constituent councils. Comments raised as part of the consultation process will be considered in the preparation of the final reports.

5.2 Proposals are at an initial stage and work will be ongoing in developing these further over the coming weeks. Decisions on the levies and other aspects of the Transport budget will be taken by the JTC on 16 January 2024.

6. Potential Impact on Objectives

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

7. Financial and Other Resources Implications

7.1 The financial and other resource implications are summarised in detail in the body of the report where they are known. Further details which are developed as part of the budget development and consultation process will be identified in the January 2024 report to the Committee.

8. Legal Implications

8.1 The JTC must approve the transport budget and levies unanimously. It will be recommended to make this decision at its meeting in January 2024.

9. Key Risks

9.1 Financial risks associated with the authority's activities, and actions taken to mitigate these, will be factored into strategic risk management processes for the JTC.

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 (in its role as accountable body for the JTC) requires that consultation on its budget proposals be undertaken at least two months prior to the budget being agreed.

13. Other Impact of the Proposals

13.1 There are no other impacts arising from this report.

14. Appendices

14.1 Appendix 1 – Nexus Services and Deliverables

15. Background Papers

15.1 Revenue Budget 2023/24 – JTC Report 17 January 2023 ([Public Pack](#))[Agenda Document for North East Joint Transport Committee, 17/01/2023 14:30](#) (northeastca.gov.uk)

15.2 Revenue Budget Update – JTC Report 18 July 2023 ([Public Pack](#))[Agenda Document for North East Joint Transport Committee, 18/07/2023 14:30](#) (northeastca.gov.uk)

16. Contact Officers

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

17. Sign off

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

Appendix 1 – Nexus Services and Deliverables

Nexus Services and Deliverables that its MTFP provides are detailed below:

1. **Metro** - comprising the operation and maintenance of the Tyne and Wear Metro. Patronage is currently estimated at just under 32 million journeys per annum and revenue that is generated is estimated to be in excess of £46 million. On a typical weekday, the Metro delivers over 97% of scheduled journeys which amounts to over 15,000 kilometres operated. Maintenance activities cover all assets that comprise the system e.g. the fleet of Metrocars, track, overhead line, stations, embankments, bridges, viaducts, tunnels, communications systems, fare collection systems, lifts and escalators.

Metro connects the key centres of population in Tyne and Wear. Many employment sites are accessible by Metro, either directly or via interchange. Universities and Further Education Colleges can be easily accessed by Metro, along with many retail facilities, hospitals, GP surgeries and clinics. Metro is readily accessible (defined as those who live within 800m of a Metro Station) to 350,000 individuals. Customer surveys suggest that approximately one quarter of the Tyne and Wear population uses Metro, with many Metro stations serving as interchanges with other modes of public transport, mainly local bus services but also taxi, national and local rail services as well as air transportation. Research Nexus previously commissioned shows that Metro plays a critical role as an economic enabler:

- Metro contributes up to £224 million of Gross Value Added (GVA) to the North East economy each year;
- In a wider measure of GDP and welfare benefits, the overall contribution increases to up to £437million per annum; and
- The current network delivers an economic value of £11.80 per passenger.

2. **Statutory Concessions** - comprising the net cost of the English National Concessionary Travel Scheme (ENCTS) in Tyne and Wear which is a statutory obligation placed upon Nexus as the Travel Concession Authority (TCA). Expenditure is dependent upon the numbers of passengers using the Scheme, the fare that would have been paid (to the bus operator) if the Scheme did not exist and an estimate of the additional costs of meeting the increased demand caused by the existence of the Scheme. 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 NECA grant funded expenditure.
3. **Discretionary Concessions** - comprising the discretionary add-ons to the ENCTS (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. It might be possible to reduce expenditure on these discretions if the fare that is charged were to be increased, for example the price of the Under 16 All Day Ticket (which currently retails at £1.10 for use on any mode and any operator's services).

4. **The Shields Ferry** - is the only cross-Tyne ferry operating in the region, providing a vital link between North and South Tyneside for leisure, commuting, tourism, and education, offering a sustainable alternative to the Tyne Tunnel. Nexus currently operates two vessels on the crossing, The Pride of the Tyne built in 1993 and the Spirit of the Tyne, built in 2007. Both the ferries and landings are owned by Nexus. The costs to deliver the service comprise staffing, fuel, maintenance, cleaning and security.
5. **Bus Services** – these are typically socially necessary services that Nexus secures when commercial operators do not consider routes to be profitable. Typically, such services include the following types of provision:-
 - All day services;
 - Scholars services;
 - Works / Early Morning services;
 - Evenings and weekend extensions;
 - Route diversions; and
 - Taxibus and Community Transport.
6. **Bus Infrastructure** - comprising staffing, cleaning, maintenance and security of bus interchanges, stations and shelters.
7. **Public Transport Information** - comprising website design and maintenance, printed material including Bus, Metro and Ferry timetables (including bus stop liners), call handling and the provision of electronic information for journey planning.

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North East Mayoral Combined Authority – Initial Draft Budget setting Timetable

DATE	EVENT/MEETING	ACTION
Over the course of September and October	Combined Authority Steering Group (CASG)	Initial proposals in relation to the NEMCA corporate plan and budget, and the Investment Plan – comprising the portfolio plans for investment, and the early priorities for NEMCA will be produced for consideration over September and October
21 November 2023	Joint Transport Committee	Consider and agree draft transport budget/levy for consultation.
28 November 2023	Cabinet Meeting NECA and NTCA	NECA Leadership Board and NTCA Cabinet consider and agree the draft Budget and Financial, Corporate and Investment Plans for the NEMCA.
29 November 2023	Consultation and Engagement events	Budget consultation events begin
December 2023	NTCA, (5 th) NECA (14 th) and JTC (14 th) Overview and Scrutiny Committee	Receive and consider the NEMCA's draft Budget and Financial Plan
16 January 2024	Joint Transport Committee	Approve Transport Revenue Budget and Transport Levies.
23 January 2024	NECA Leadership Board	NECA Leadership Board formally issue Transport Levy agreed by JTC, and agree the proposed 2024-25 NEMCA Budget and Financial Corporate and Investment Plans
30 January 2024	NTCA Cabinet	NTCA Cabinet meets to agree formally agree the proposed 2024-25 NEMCA Budget and Financial, Corporate and Investment Plans.
May/June 2024	NEMCA Mayor and Cabinet	Approval 2024-25 NEMCA Budget, Financial, Corporate and Investment Plans

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