north east combined authority

North East Leadership Board

Tuesday 20th January, 2015 at 2.00 pm

Members' Pre-meeting at 1.00 pm

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

www.northeastca.gov.uk

SUPPLEMENTAL AGENDA 2

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To All Members

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North East Combined Authority

Leadership Board

DATE: **20 January 2015**

SUBJECT: **2015/16 Revenue Budget and Transport Levies**

REPORT OF: **Head of Paid Service and Chief Finance Officer**

1 EXECUTIVE SUMMARY

1.1 The purpose of this report is to set out the 2015/16 Revenue Budget and Transport Levies for the North East Combined Authority (NECA) for consideration and approval by the Leadership Board. This report takes into account the revenue implications of the capital programme, which is the subject of a separate report on this agenda, and takes into account the views of the Transport North East Committee (TNEC) and comments received during consultation on the proposals that were agreed as a basis for consultation in October.

1.2 This is the first formal Budget process that is being undertaken since the new North East Combined Authority (NECA) was established in April 2014 and it builds upon the budget that was inherited for the current transitional year. NECA is required by law to set its Revenue Budget and Transport levies for 2015/16 before 15th February 2015 at the latest, in order to enable the seven constituent councils to be able to take the levies into account in setting their own budgets for 2015/16. It has been agreed that the Leadership Board would set the Budget and levies at this meeting, which will provide the information about levies in good time for the seven constituent authorities to include it within their budgets.

1.3 This report sets out the revenue resources planned to be used in 2015/16 to help deliver the Objectives of NECA and the North East Strategic Economic Plan. It is a policy led budget, which has also to be set in the context of the national position of austerity, which requires further savings to be achieved in local authority revenue spending; while also making available additional capital funding to help deliver investment in transport and infrastructure and to provide incentives to help secure economic growth.

1.4 The proposed 2015/16 net revenue budget for NECA amounts to £89,797,328, including a transport budget of £89,177,328. Total gross revenue expenditure before applying income and funding from external grants is expected to be in excess of £220m. The NECA capital programme is expected to be around £119m and the latest estimate is set out in a separate report on this agenda. Total investment in capital schemes will be higher as a result of match funding from a number of other sources secured by the respective projects.

2 RECOMMENDATIONS

2.1 It is recommended that the Leadership Board –

a) receive this report for consideration and approval;

b) agree a transport revenue budget for 2015/16 of £89,177,328, as set out in section 5 of this report;

c) agree the following Transport Levies for 2015/16 : –

i.	Durham County Council	£16,076,449
ii.	Northumberland County Council	£5,900,879
iii.	Tyne and Wear Councils (detailed in table 7)	£67,200,000

d) agree a transport revenue grant to Durham County Council for the delivery of transport services of £16,071,510, as outlined in section 5.5.2;

e) agree a transport revenue grant to Northumberland County council for the delivery of transport services of £5,895,940, as outlined in section 5.5.6;

f) agree a transport revenue grant to Nexus for the delivery of transport services in Tyne and Wear of £64,500,000, as outlined in section 5.5.13;

g) agree to continue an annual contribution to fund the North East LEP core capacity costs of £250,000 as match funding to secure a £250,000 Government grant, paid for by an equal contribution of £35,714.29 from each of the seven councils in the NECA, as set out in section 6.1;

h) agree to continue a base budget of £70,000 for core inward investment activity paid for by an equal contribution of £10,000 from each of the seven councils in NECA, as set out in section 6.7;

i) agree a budget for the corporate costs of the NECA of £300,000, paid for by an equal contribution of £42,857.14 from each of the seven councils in NECA, as set out in section 7;

j) agree the Treasury Management and Investment Strategy set out in Appendix F and approve the statement on minimum revenue provision repayments for borrowed capital expenditure for 2015/16 as set out in Appendix G; and

k) agree to hold the level of reserves set out in section 11 and to note that the Chief Finance Officer considers this level of reserve to be satisfactory, given the information currently available about the arrangements for managing financial risks facing the Combined Authority.

3 Background Information – Budget Process

3.1 Levying Bodies regulations require Transport Authorities to set their budgets and levies before 15th February each year. This report sets out the transport revenue budget for the NECA area and the levies to be made for the Durham, Northumberland and Tyne and Wear areas.

3.2 The Budget also includes corporate and non-transport costs including costs relating to the delivery of economic regeneration and skills.

3.3 As the Accountable body for the North East Local Enterprise Partnership (NELEP) the Budget includes information about the funds available to finance the joint Combined Authority/NELEP Support team and the delivery of the NELEP responsibilities for 2015/16. Further guidance is expected shortly about the monitoring, accounting and governance requirements to be operated by LEPs and Accountable Bodies as part of the grant conditions relating to the release of the additional Growth Deal Funding secured from Government in 2015/16.

3.4 It is good practice for all organisations to develop a Medium Term Financial Strategy and it is intended that this be developed during 2015 as more information is available about potential external resources, spending pressures and capital investment plans and proposals. The Tyne and Wear transport budget and levy has been set in the context of a medium term financial model of the Quality Contract scheme proposal.

3.5 The capital investment programme includes schemes that have been approved so far with funding that has been secured. The detailed capital programme is a dynamic document that will be updated on a regular basis as information about projects and funding approvals is received. It will be considered and updated in periodic monitoring reports to the Leadership Board.

3.6 Key decisions in the Revenue Budget are the level of the 2015/16 Transport Levy for Tyne and Wear and for Durham and Northumberland and the level of the contribution from all seven constituent councils for non-transport costs, including the contribution to fund capacity and for corporate costs.

3.7 The constitution of the Combined Authority requires an early consultation on Budget Proposals, which commenced in October. This report takes into account comments received to date, including comments from the Governance and Overview and Scrutiny Committees, the seven constituent councils, and consultation with the North East Chamber of Commerce. Further details of comments received during the consultation are included at Appendix H. The Transport budget was considered by Transport North East Committee at their meeting on 4 December.

4 Context of Austerity Measures

4.1 The budget is being developed in the context of significant revenue funding cuts for local government as part of the delivery of the national austerity measures. While final Government Revenue grant levels have not yet been confirmed, the Government's provisional funding allocations for 2015/16 announced on 18th December indicated a significant extra cash cut in total revenue spending power for the seven councils in the NECA area in 2015/16 of - £89m (excluding any Better Care Funding), which is around 80% higher than the headlined national average cut in spending power. The national grant for county level services, which includes transport service and social care is being cut by 17.2% next year, despite considerable cost pressures in these services.

4.2 As part of the consultation process in relation to the national grant settlement, the NECA has raised concerns about the adequacy and visibility of funding to meet the cost of statutory concessionary travel scheme.

4.3 The Government has made more capital resources available nationally to help deliver improvements to infrastructure transport and economic development through Growth Deal Funding and the bids submitted by NELEP and NECA were particularly successful, with indicative funding amounting to £41m announced for 2015/16. The Grant approval letters are expected to be signed off in February and the section 31 grant paid at the beginning of April 2015.

5 Transport Revenue Budget and Levies

5.1 This report provides a progress update in relation to the transport related revenue budgets for the delivery agencies for 2014/15, which is estimated at £89.28m. It also sets out the proposed Transport Revenue Budget and Levies for 2015/16 of £89.177m.

5.2 In the current year 2014/15, the overall budget position is broadly in line with the original budget, with an additional pressure on concessionary fare costs in Durham and Northumberland. The estimated net increased costs for Durham County Council of £264k and of £24k for Northumberland County Council will be met from their reserves at the year end. There is a saving in Tyne and Wear costs of £345k. The revised estimate of net expenditure is £89.28m, which is slightly lower than the original budget of £89.34m. In Tyne and Wear, the grant to Nexus is fixed for the year so there is no change compared with the original budget. However, there is a significant improvement within the Nexus Budget for the year, where the estimated deficit to be funded by use of reserves has reduced from £4.77m to £2.98m as a result of a reduction in costs and higher income from Metro fares than budget.

5.3 For 2015/16, Transport net revenue budgets are proposed to slightly reduce in overall terms by £0.9m, with a further reduction in the Tyne and Wear levy of just over £1.0m, a relatively small increase of £0.49m in the budget in Durham County and a relatively small reduction of £0.39m in Northumberland County. All areas are facing inflationary and demand pressures on concessionary travel costs, with savings having to be found in other budget areas. For the first time transport levies are being set in Durham and Northumberland under the requirements of the new Combined Authority as set out in the Order. Details of the proposed budgets and levies for each area for 2015/16 are set out in section 5.5 below.

5.4 Update on Transport Revenue Budgets for 2014/15

5.4.1 At its meeting on 29 April 2014, the North East Combined Authority received a report from the Chief Finance Officer setting out the Authority's proposed base net revenue budget of £90.555m for 2014/15, of which £90.09m related to transport activity.

5.4.2 In 2014/15, revenue expenditure will be accounted for within a range of existing transport budgets as follows:

Table 1: Summary of original Gross and Net Revenue Budget 2014/15

Original budget for 2014/15	Gross Revenue Expenditure	External Income/ Grants/ Reserves	Net Revenue Expenditure
	£000	**£000**	**£000**
Transport			
Tyne & Wear (Nexus Grant)	171,922	(107,002)	64,920
Tyne & Wear (non-Nexus)	3,287	-	3,287
Tyne & Wear (Tyne Tunnels)	25,146	(25,146)	-
Northumberland	6,522	(224)	6,298
Durham	17,076	(1,486)	15,590
Total	**223,953**	**(133,858)**	**90,095**

5.4.3 The latest budget monitoring statements indicated slight pressures on concessionary travel budgets; a reduced pressure on expenditure and use of reserves within the Nexus accounts. The revised estimate for 2014/15 is summarised below.

Table 2: Summary of revised Net Revenue Budget 2014/15

Revised budget for 2014/15 (forecast outturn)	Net Revenue Expenditure	Variance from Original Budget
	£000	**£000**
Transport		
Tyne & Wear (Nexus Grant)	64,920	0
Tyne & Wear (non-Nexus)	2,942	(345)
Tyne & Wear (Tyne Tunnels)	0	0
Northumberland	6,322	24
Durham	15,854	264
Total	**90,038**	**(57)**

5.4.4 The Grant to Nexus is fixed for the year and adjusted in the following year. Within the Nexus budget for 2014/15 there is a significant improvement with the planned deficit of £4.77m being reduced to around £2.98m, as described in 5.5.15 below. The position in respect of the Tyne Tunnels' account has also improved slightly due to additional income when compared to budget.

5.5 Transport Revenue Budgets 2015/16

5.5.1 The overall total proposed net revenue budget for transport in 2015/16 is £89.1m. This represents a net reduction of £0.918m (-1.0%) on the overall transport net revenue budget for 2014/15. Information about the draft budget and the levy for each of the three areas in NECA are summarised in the table below and set out in more detail in the following sections and in the appendices.

Table 3: Summary of transport budgets and levies 2015/16

Area	**Transport Budget and Levy**	**Change from 2014/15**
	£	**£**
Durham	16,076,449	486,449
Northumberland	5,900,879	(396,991)
Tyne and Wear	67,200,000	(1,007,230)
Total	**89,177,328**	**(917,772)**

Durham

5.5.2 The budget and levy for public passenger transport activity in County Durham is expected to be in the region of £16.076m for 2015/16. This compares with a budget of £15.590m in 2014/15. The budget and levy for 2015/16 is summarised in the table below.

Table 4: Durham Transport Budget and Levy 2015/16

	Gross Expenditure	Gross Income	Net Expenditure
	£	**£**	**£**
Grant to Durham			
Concessionary Fares	11,901,730	(10,500)	11,891,230
Subsidised Bus Services	5,114,380	(1,885,895)	3,228,485
Bus Stations	476,906	(293,100)	183,806
Bus Shelters	80,000	0	80,000
PT Information	171,119	(92,159)	78,960
Staffing	629,251	(20,222)	609,029
Total Grant	**18,373,386**	**(2,301,876)**	**16,071,510**
Share of NECA Transport Costs	4,939	0	4,939
Transport Levy	**18,378,325**	**(2,301,876)**	**16,076,449**

5.5.3 Following a recent retendering exercise there has been a reduction in overall tendered bus service costs. However, this is being offset by continued pressure on concessionary fare reimbursement to operators, in line with fares inflation and general increase in the number of concessionary travel journeys.

5.5.4 After a number of years of major changes in the commercially operated bus services, the overall bus network in County Durham appears to have now stabilised. There has been a modest growth in passenger numbers over the past 12 months and this trend is forecast to continue over the coming year. There are no significant commercial changes anticipated in 2015/16 and only a very small number of planned contract renewals. The focus of spend will therefore be on maintaining the current contracts, which provide a level of accessibility in rural and semi-rural areas and supplement the daytime commercial network with early and later journeys.

5.5.5 The other main area of work for the transport team in Durham will be to continue to deliver efficiency savings against the home to school transport budget. This will continue to involve working closely with schools, education colleagues and transport operators with a focus on developing the interface between scholar services and the public transport network.

Northumberland

5.5.6 The budget and levy for public transport activity in Northumberland is £5.901m in 2015/16 as shown in the table below. This compares with a budget of £6.610m in 2014/15.

Table 5: Northumberland Transport Budget and Levy 2015/16

	Gross Expenditure	Gross Income	Net Expenditure
	£	£	£
Grant to Northumberland			
Concessionary Fares	4,378,630	(12,940)	4,365,690
Subsidised Bus Services	2,014,740	(696,340)	1,318,400
Bus Stations	-	-	-
PT Information	36,300	-	36,300
Staffing	175,550	-	175,550
Total Grant	**6,605,220**	**(709,280)**	**5,895,940**
Share of NECA Transport Costs	4,939	-	4,939
Transport Levy	**6,610,159**	**(709,280)**	**5,900,879**

5.5.7 The change is largely based on a forecast saving within the Subsidised Bus Services budget due to a forthcoming retendering exercise, with the efficiencies being derived through a better alignment to the equivalent processes for Home to School Transport. This review will also explore the current criteria by which bus service routes are selected for inclusion in the tender. It is hoped that following this exercise, the overall bus network in Northumberland will become more stable.

5.5.8 With regard to the Council's approach to Home to School travel, the Council has in the current financial year agreed to remove the previous free Post-16 travel scheme whilst continuing to provide support to students on low incomes. The current provision of free home to school transport will continue for mainstream students and we will continue to carry out a rolling programme of route reviews to ensure provision of an efficient service.

5.5.9 The Concessionary Travel budget remains at broadly the same level, but it is recognised that there is increasing pressure in this area, due to fares inflation and a general increase in the number of concessionary travel journeys.

Tyne and Wear

5.5.10 It is proposed that the Transport Budget and Levy for Tyne and Wear be set at £67,200,000. This is a reduction of £1,007,132 on the 2014/15 levy. The reduction will be achieved by efficiency and other cost savings of £0.511m in the former ITA budget; £0.420m in the Nexus Budget and the use of £0.076m former ITA reserves in 2015/16. This will maintain service outcomes while improving value for money provided to the districts and help them to meet national funding cuts, as well as fully funding any increase in contributions to non-transport NECA budgets for Tyne and Wear councils. A summary of the budget for 2014/15 and 2015/16 is set out below, with more detail provided for the Tyne and Wear (non-Nexus) budget elements at Appendix C and more detail about the Nexus budget elements set out at Appendix B. A summary of the Tyne and Transport Budget is set out below.

Table 6 : Summary Tyne and Wear Revenue Budget 2014/15 and 2015/16

	2014/15 Original Budget	2014/15 Revised Estimate	2015/16 Proposed Budget
	£	£	£
ITA and NECA Transport Costs	3,287,132	2,942,430	2,776,450
Revenue Grant to Nexus	64,920,000	64,920,000	64,500,000
Contribution to/ (from) Reserves	0	344,702	(76,450)
LEVY / Expenditure	68,207,132	68,207,132	67,200,000

5.5.11 The ITA element of the Budget amounts to £2,776,450, which is 4% of the Tyne and Wear Transport budget. This is a reduction of -£510,682 (-16%) from the original 2014/15 budget, with savings in pension, support services and subscription costs and a reduction in the contingency budget. To balance the budget in 2015/16 £76,450 will be drawn from the ITA transport reserve. The largest single element of the ITA transport budget is £2,236,450 of capital financing costs relating to historic transport capital infrastructure investment.

5.5.12 The distribution of the Levy within Tyne and Wear is based upon population as required by regulations and the levy will reflect changes in population as well as the cut in the overall levy amount. The indicative levy for 2015/16 for each of the Tyne and Wear districts and the population statistics used is shown in the Table below and described in more detail in Appendix B.

Table 7 : Tyne and Wear Levy - Population Based Distribution

	2014/15 Levy	Indicative 2015/16 Levy	Change			
			Population Change	Levy Reduction	Total	
	£	£	£	£	£	%
Gateshead	£12,318,818	£12,069,094	-£68,844	-£180,880	-£249,724	-2.0%
Newcastle	£17,383,460	£17,308,521	£184,466	-£259,404	-£74,939	-0.4%
North Tyneside	£12,398,399	£12,199,080	-£16,490	-£182,829	-£199,319	-1.6%
South Tyneside	£9,135,299	£8,962,961	-£38,010	-£134,328	-£172,338	-1.9%
Sunderland	£16,971,156	£16,660,344	-£61,122	-£249,690	-£310,812	-1.8%
Tyne & Wear	£68,207,132	£67,200,000	£0	-£1,007,132	-£1,007,132	-1.5%

Nexus Budget Proposal

5.5.13 The Nexus budget proposal for 2015/16 is being formulated taking into account the recommendation made to the Leadership Board when it agreed the report that set out the key issues, principles and proposals that are likely to be included in the NECA's 2015/16 budget. For Nexus, this will mean a reduction in its grant funding from the NECA by £0.420m from £64.92m in 2014/15 to £64.5m in 2015/16. The gross expenditure of Nexus before fare income and Government Grants is £176.2m.

5.5.14 This continues the budget strategy previously agreed whereby £9.229m (a cumulative 12.5% cash reduction) has been removed from the grant payable to Nexus from the Tyne and Wear transport levy since April 2011, which together with a further reduction in the form of £1.435m of concessionary fares funding redirected to the five districts, is being managed through a combination of efficiency savings and use of reserves. This strategy has been adopted in order to protect service outcomes in the medium term, subject to a more sustainable package of savings linked to the delivery of the bus strategy being achieved. In this regard, NECA took a key decision in October 2014 to proceed to the Bus Quality Contract Scheme Board.

2014/15 Forecast Budget

5.5.15 As reported to TNEC in October 2014, the Nexus budget deficit for 2014/15 has reduced from the original budget estimate of £4.770m and is currently forecast to be £2.983m, a positive variance of £1.787m. The main reasons for this variance are summarised in the table below:

Table 8 : Summary of Nexus 2014/15 Budget Variations

	£000	£000	£000
Budgeted deficit			4,770
Metro Revenue	-1,000		
Secured Bus Services	-679		
Bus Infrastructure	-208		
Loan interest	-103		
Metro Concession	-96		
		-2,086	
Investment Income	100		
Smart Ticketing	78		
Rates	71		
Metro Rail Grant	39		
Other	11		
		299	
			-1,787
Latest Forecast Deficit			2,983

5.5.16 As far as savings being made during the current year are concerned, it should be noted that some of these variances are one-off in nature and do not carry forward to 2015/16. This is particularly apparent in relation to Secured Bus Services, where although savings have been made during 2014/15, in the interests of maintaining service outcomes, cost pressures will have to be accommodated in 2015/16.

5.5.17 In terms of the net costs to be met from the Levy funded Grant of £64.92m, the largest single element continues to be Concessionary Travel costs (£47.6m – 73%), followed by the costs of supported bus services and bus infrastructure (£15.1m – 23%), which together account for 96% of the Levy funding received by Nexus.

2015/16 Base Budget

5.5.18 The Nexus 2015/16 budget has been formulated so that pay and price inflationary pressures will be offset by a combination of increased commercial revenues and further efficiency savings as well as ensuring that the proposed further reduction in grant from the NECA of £0.420m becomes a permanent feature of the base budget requirement. In this regard, a further review of staffing arrangements is being planned, including a review of senior management structures.

Table 9 summarises the (NECA grant funded) estimated base budget for

2015/16 as compared to the 2014/15 base:

Table 9: Nexus budget 2014/15 compared with 2015/16

	2014/15	2015/16
	£m	£m
Concessionary Travel	47.644	47.058
Metro	-0.381	-2.641
Ferry	0.796	0.775
Rail	-	-
Bus Services	12.494	12.548
Bus Infrastructure	2.587	2.442
Information/Promotion	2.752	3.296
Business Development	1.450	1.776
RCCOs	2.349	2.349
	69.691	67.603
NECA grant	-64.920	-64.500
Deficit budget	**4.771**	**3.103**

5.5.19 Table 9 illustrates that the Nexus budget for 2015/16 is currently forecasting an estimated deficit of £3.103m which represents an improvement of £1.668m on 2014/15. It should be noted that this is consistent with earlier forecasts presented to Treasurers prior to the NECA deciding to proceed to the Quality Contracts Scheme Board at its meeting held on 21 October 2014. Table 10 explains the reasons for this favourable movement ‘base on base’.

Table 10 : Summary of Movement in Nexus Base Budget

	£m	£m
Base deficit 2014/15		4.771
Contractual inflation	1.297	
Employees	0.447	
Committed growth	0.269	
Changes to grants	0.537	2.550
Commercial income	-2.520	
Corporate savings	-1.698	-4.218
Base deficit 2015/16		**3.103**

5.5.20 An explanation of the movements above and a summary of the 2015/16 provisional Budget figures is set out in Appendix C, which shows the provisional estimated use of the £64.5m Levy funded Grant to Nexus from the NECA. The majority of this grant (96%) funds the costs of concessionary travel and supported Bus Services. The draft 2015/16 budget assumes a continued draw on reserves of £3.1m, which is consistent with previous estimates contained within the financial modelling for the Bus Quality Contracts Scheme.

Impact on Usable Reserves of Nexus

5.5.21 The financial strategy has enabled the maintenance of service outcomes since the introduction of cuts to Nexus' grant funding via the transport levy. It is dependent on a mix of efficiency savings and use of revenue reserves for which retention of a minimum value of circa £5.0m was previously established. This strategy therefore continues to provide an appropriate balance between these competing objectives, in particular the retention of a minimum, prudent level of revenue reserves.

	£000
Balance at 31st March 2014	15,265
Forecast Deficit 2014/15	-2,983
Balance at 31st March 2015	12,282
Forecast Deficit 2015/16	-3,103
Balance at 31st March 2016	9,179

5.5.22 Usable capital reserves held by Nexus are earmarked for current and future investment purposes. In the short term, residual costs relating to the Metro Ticketing and Gating scheme, a provision for match funding for capital works associated with Nexus projects receiving support from the Strategic Economic Plan, the Bus Strategy project, Metro re-launch and above ground works at Sunderland railway station are all currently earmarked to be met from usable capital reserves. In the medium to longer term, Nexus has also earmarked usable capital reserves in order to provide for developmental costs associated with the Metro Strategy 2030.

5.5.23 As with its usable revenue reserves, Nexus have also established the need to provide £5.0m as a strategic balance in order to accommodate any unforeseen and uninsurable losses across its estate.

5.5.24 In addition, £11.425m was held on behalf of Nexus by the Tyne and Wear ITA and earmarked for the Metro Asset Renewal Plan as at 31 March 2014. This is now held by the NECA on Nexus' behalf (as agreed by the Tyne and Wear ITA at its January 2014 meeting) and is necessary to part fund the required 10% local contribution (with the remainder coming from the Local

Transport Plan Integrated Transport Block grant from DfT).

Tyne and Wear (non-Nexus)

5.5.25 This budget relates to activity inherited from the former Tyne and Wear ITA. The vast majority (around 80%) relates to financing charges on historic debt. Additionally, there is budget provision to pay for support services/Transport SLAs, other supplies and services, the external audit fee and a repayment to the Tyne Tunnels for use of reserves in 2013/14 to pay off the pension deficit.

5.5.26 The Tyne and Wear (former ITA) Transport Revenue reserves are estimated to reduce from £574k at the start of 2014/15 to £479k at the year end. The budget for 2015/16 shows a planned reduction in reserves of £76k to £403k.

5.5.27 Further details are set out in Appendix D.

Tyne Tunnels

5.5.28 The Tyne Tunnels are accounted for as a ringfenced trading account within the accounts of NECA, meaning that it is wholly funded from the tolls and Tyne Tunnels reserves, with no call on the levy or government funding at all.

5.5.29 The forecast for 2014/15 shows an increase in toll income as traffic has been higher than predicted (some of the recent increase appears to be due to roadworks affecting the Tyne Bridge and the A1). This increased income is largely offset by increased payments to the concessionaire, TT2 Ltd., as their payments are calculated based on the traffic figures. The forecast deficit position is likely to be largely in line, or slightly below, the original estimate, and will be met from the Tyne Tunnels reserves which have been built up from tolls income.

5.5.30 The annual deficit on the account to be met from the Reserves balance is expected to increase slightly in 2015/16. This is because although tolls are due to increase from January 2016, the shadow toll paid to the concessionaire increases by inflation with effect from January 2015, so there is a full year inflationary cost pressure while only a quarter year inflationary increase in toll income. As a result the draw on the Tyne Tunnel Financing Reserve will increase in 2015/16 to up to £1.5m. This is expected to leave around £26.3m in the Tyne Tunnels financing reserve.

5.5.31 Further details are set out in Appendix E.

NECA Highway and Strategic Transport Team and Capacity

5.5.32 The NECA transport agenda needs to sustain sufficient capacity to support its functions, to influence external partnerships and investment decisions by national government, to coordinate funding opportunities and assess projects, to deliver collectively-agreed projects, and to provide policy advice to members of the Leadership Board, LEP and Transport North East Committees. This capacity is transitioning from disparate support arrangements working at different levels of geography and on behalf of different governance arrangements, to a coordinated team working on behalf of the North East Combined Authority. A NECA Transport Officers Group has been established to oversee this work programme, and access to programme funding for project development and delivery. The current cost of this capacity is around £1.1m. NECA Transport Officers have been reviewing the resource requirements for the whole region with the aim of making financial savings and it is now estimated that the core cost in 2015/16 will be reduced to around £0.99m, with no accommodation charge being made for the team in line with other NECA SLA arrangements. This budget includes the cost of Staffing (£0.489m), the cost of LTP4 Development (£0.180m, including modelling options, consultation etc.), Research, Development and Monitoring (£0.315m) and miscellaneous expenses (£0.006m).

5.5.33 This capacity will be funded through a combination of charges against the capital programme - as part of the 2.5% topslice of the Local Growth Fund Transport schemes (estimated at £0.3m), and through a top-slice of resources provided by the DfT through the Local Transport Plan (LTP) arrangements. The cost of the remaining £0.69m budget would be allocated between the seven authorities on the basis of arrangements which are currently under discussion by Transport Officers.

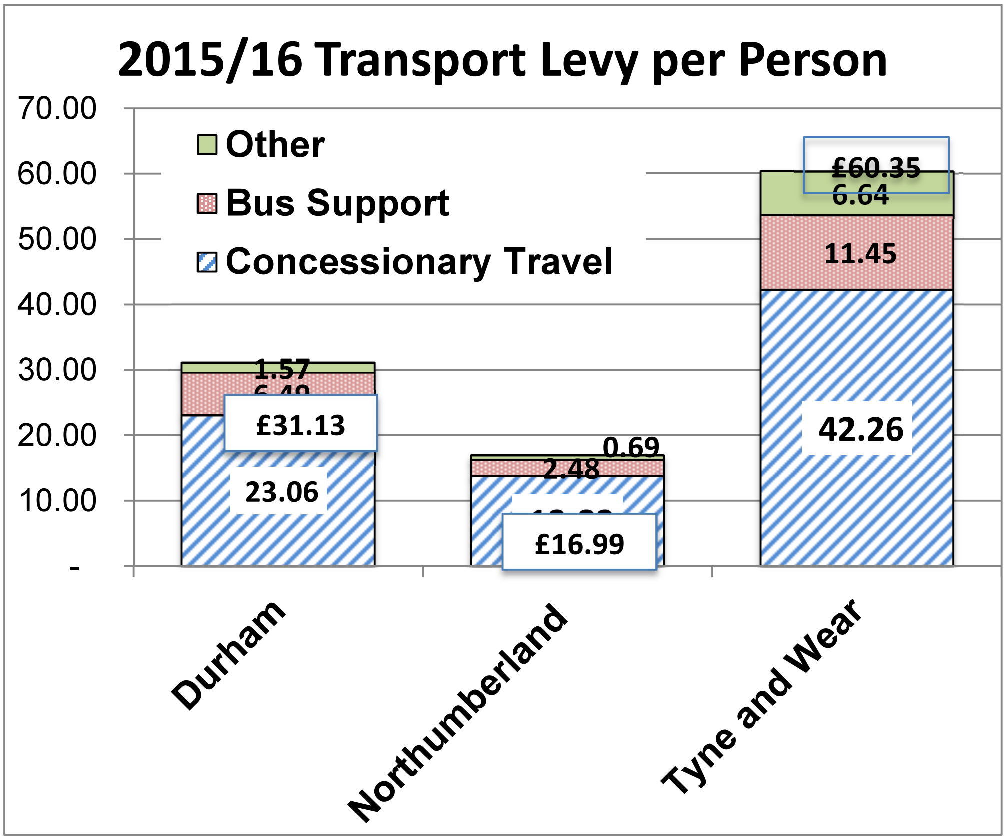
5.5.34 The LTP IT allocation has been announced by DfT for Northumberland (£1.695m), Durham (£2.789m) and Tyne & Wear (£9.465m); although in practice we expect these sums to be paid as a single grant into the Combined Authority. The current practice is to assign the majority of this funding to the individual districts (after the top-slice described above), to fund local priorities, and to provide match-funding for Local Growth Fund projects. It would be appropriate to use the DfT's own allocation formula to determine the funding for the Durham and Northumberland (with separate figures having already been announced) and for Tyne & Wear an existing formula can be applied, updated where new data is available. The move to an updated approach is proposed to be phased in over two years. This includes an allocation to Nexus, which would need to be sufficient to meet commitments to part-fund the Metro Reinvigoration Project. Further details of the allocation to Tyne and Wear districts are set out in the capital programme report.

5.5.35 This budget is recommended for agreement for 2015/16 only. Looking forward to 2016/17 and beyond, it should be possible to establish a more strategic and plan-led approach, using funding more effectively and efficiently to deliver collectively agreed priorities. During 2015/16 the approach to NECA transport funding (including the resourcing and activity of the NECA transport team) will be reviewed, informed by the new Local Transport Plan to be agreed by all constituent authorities.

Value for Money Analysis – Transport Budgets

5.5.36 The relative levels of the levies are shown in the following Chart, with relatively low cost per head of population in Northumberland and Durham.

Chart 1: NECA Transport Levies per Head of Population



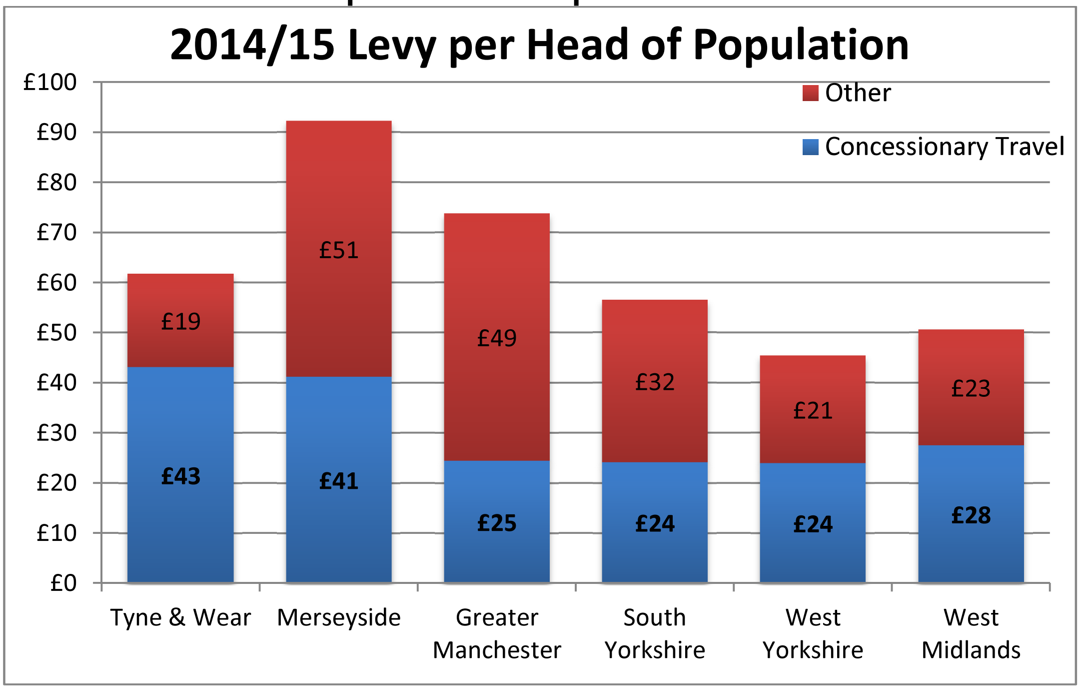
5.5.37 The costs per head of population in Tyne and Wear are higher because they reflect a significantly higher level of concessionary travel activity and the support for secured bus services to provide accessible transport services across the county. They also include capital financing costs relating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

5.5.38 In recent years the significant saving to districts in Tyne and Wear from reductions in the levy and retention of concessionary travel grants have resulted in total annual savings of £10.7m (12.5% in cash terms and over 20% in real terms) since 2011, with no material reduction or detrimental impact on service outcomes. At the same time population has risen slightly by 0.6%. A reduction of £10.7m is equivalent to a reduction in the levy per head of population of £10 per person, which is a significant improvement in recent years.

5.5.39 A comparison of levy per head of population in 2014/15 for the other metropolitan ITAs shows that while Tyne and Wear has the 3rd highest levy per person at £60.15, this is a direct result of the higher volume of concessionary travel undertaken. It should be noted that Tyne and Wear has the highest cost per head of population for concessionary travel but the lowest cost per head of population for all other transport costs. In summary:

- The proportion of the population that are ENCTS pass holders is higher in Tyne and Wear than any other metropolitan district;
- Tyne and Wear pass holders make more extensive use of the pass than pass holders in any other metropolitan district (around 50% more trips are made on average)

Chart 2: Relative Cost per Head of Population 2014/15



5.6 Home to School Transport

5.6.1 In addition to the Concessionary Travel costs described above, there is an estimated £34.4m of expenditure incurred across the NECA area for the transportation of children to and from school. Some of this expenditure (around £4.3m) is funded from the transport levies; although the majority (around £30.1m) is incurred by the seven councils in their capacity as Local Education Authorities. This spend relates to special needs provision and to statutory distance related provision (e.g. for children who live more than three miles from their nearest suitable school).

5.6.2 This is set out in the table 11 below for information, to provide context around the wider costs of transport in the region.

Table 11: Scholars / Home to School Transport Costs (for information)

	Tyne & Wear	Durham	Northumberland	Total
	£	**£**	**£**	**£**
Scholars Services	3,500,000	50,000	754,000	4,304,000
Scholars Passes	800,000	1,300,000	595,000	2,695,000
LEA Home to School	8,294,000	10,026,000	9,040,000	27,360,000
	12,594,000	**11,376,000**	**10,389,000**	**34,359,000**

Economic Development, Skills and / LEP Capacity

6.1 The LEP core team is part funded from a Government contribution of £250,000 matched by an equal contribution from the constituent authorities. The Government has announced a continuation of their grant in 2015/16 and match funding is proposed to continue to be provided equally by the seven constituent authorities. It is important to secure greater certainty about the available funding over the medium term period of up to 5 years, to ensure that effective capacity can be put in place to deliver the Combined Authority's ambitions for economic growth in the region. It is important that CA has access to the resources that will be needed to take full advantage of future funding opportunities. A dedicated resource is needed to progress a work programme that will include a strategic platform for future funding decisions and the development of competitive funding bids.

6.2 Additional external funding sources are also being identified to cover project and programme related activity that will support the development of the Combined Authority's thematic priorities and in particular the Regional Investment Plan and Inward Investment function. This includes the potential for a 2.5% topslice of the Local Growth Funding capital programme and the potential to bid for technical assistance funding from the European programme later in 2015 as well as other alternative funding sources.”

6.3 NECA has the ability to provide considerable funding flexibility in 2015/16 by being able to convert some ‘capital’ funding into ‘revenue’ funding if needed as well as being able to manage cash flow where grants have been agreed but not yet received.

6.4 The LEP has access to significant loan funds for economic development purposes and access to some grant funds. The latest information about the availability of funds this year and next is set out below. This will be updated after the LEP Board meeting.

6.5 A summary of the forecast against the 2014/15 budget is set out in the table below.

Summary of NELEP revised Net Revenue Budget 2014/15

Revised budget for 2014/15 (forecast outturn)	**Forecast Net Revenue Expenditure**	**Variance from Original Net Budget**
	£000	**£000**
LEP Executive Core Team	382	132
Growth Strategy Development	0	0
Regional Improvement & Efficiency Partnership	(127)	(127)
ERDF Policy, Strategy & Co-ordination	0	0
NELEP Skills Advice	0	0
Growing Places Fund Administration	0	0
Regional Growth Fund Administration	0	0
TOTAL	**255**	**5**

6.6 Employability and Inclusion

6.6.1 Future funding for the Combined Authority’s employability and inclusion programme will largely be built round the forthcoming European Social Fund Programme for 2014-20. This includes an allocation, subject to the appropriate level of match, of just under £100m for employability and inclusion related interventions. The programme of eligible activity is currently being developed together with agreements as to the national and local sources of funding that will underpin this activity.

6.6.2 Subsequent to this, however, the Combined Authority is one of four national pilots chosen by the Government to operate a Mental Health and Integration Trailblazer over the next two years. Its aim will be to test whether better co-ordination of mental health and employment services could help thousands of people find and stay in employment as well as improve their mental health.

6.6.3 The Department of Communities and Local Government has approved funding of £1.1m to implement this initiative, which is expected to be matched locally to provide a total budget for £2.2m for new activity in 2015/16. It is anticipated that this match will be sourced from the European Social Fund.

6.7 Inward Investment

6.7.1 Each local authority in the area is engaged in activities that are designed to generate and convert inward investment enquiries. These local arrangements have been supplemented by the creation of the Inward Investment Gateway that is able to provide a considered regional response to potential inward opportunities generated by UKTI and other activities. The work is being led by a dedicated resource that acts as the regional contact point for enquiries and coordinates the regional response. This development of the Invest North East England brand has also brought opportunities to introduce regional initiatives that add significant value to local activities.

6.7.2 Currently the seven councils are contributing £10,000 each to provide a core budget of £70,000 for co-ordination of inward investment activity. Within the Enterprise zone budgets, a provision of £180,000 has been made to support activity in the local councils aimed at securing occupation of the enterprise zone sites. Given the recognition of the importance of inward investment activity, this core contribution of £70,000 is proposed to be continued into 2015/16. Options for enhancing inward investment activity are currently being considered, that will strengthen capacity and enable the region to compete on a more equal footing with other regions, which would include the option of utilising other external funding. These new arrangements will be implemented during 2015/16.

6.7.3 For the 2014/15 financial year, a six-month secondment arrangement with UKTI was agreed, with a total cost of up to £60,000. Half of this cost is met by UKTI with the balance being split equally between NELEP and NECA, resulting in a cost of £2,143 per authority.

7 NECA Corporate Costs

7.1 When NECA was established, the LA7 support budget was increased by around £60k to create a relatively small corporate budget of £140k for the transitional year (£20k for each council). It is now clear that the corporate costs are to be higher than this, particularly as a result of the additional activity and responsibilities that the Government expects NECA to carry out as the Accountable body to the NELEP as a result of the additional Growth Deal funding and its grant conditions. Councils providing support services will restrict their charges in 2014/15 and £50,000 will be drawn from reserves to fund an estimated revised cost in 2014/15 of £190,000.

7.2 The main areas of cost relate to support and input from the Lead Chief Executive, Monitoring Officer and legal costs, Chief Finance Officer and Finance costs, HR support, Internal and External Audit, administration and co-ordination costs continued from previous years and other operating costs. At this stage an indicative budget envelope of up to £300k (an extra £160k - £23.8k for each authority) is proposed. The details of this budget will be confirmed as more information is available on capacity requirements will be considered and evaluated in more detail over the next month. Given the scale of the organisation and its responsibilities, this level of costs is relatively low.

7.3 In Tyne and Wear compensating savings have been found in the transport budget, but it is not simply possible to transfer the funds between transport and corporate budgets. This is because separate accounts must be maintained for transport, with is funded by the transport levy, and non-transport costs, which are funded by separate contributions. The reductions in the Tyne and Wear transport levies produce significant savings of between £75k and £311k per council, some of which can be used to fund the increase in corporate costs for Tyne and Wear authorities. Opportunities for offsetting savings are being explored in Durham and Northumberland and at this stage there appear to be opportunities for savings relating to treasury management costs through a pooled mechanism, which could help offset the increase in corporate costs. Further details of this are current being considered by Directors of Finance / Treasurers and the Chief Finance Officer of NECA.

8 NECA Funding Flexibilities

8.1 A number of opportunities have been identified following the creation of NECA to deliver improved funding flexibilities to help achieve economic objectives within the SEP (through revenue/capital funding swaps and cash flow management); to deliver treasury management savings for constituent net authorities and to boost resources availability to help achieve the SEP objectives.

8.2 A report commissioned by NELEP from DTZ about the Enterprise Zones was reported to the LEP Board in November. The flexibilities of treasury management arrangements by NECA should help increase surplus resources which can be used to support economic development initiatives by saving up to £5.6m over the life of the scheme as well as by generating extra interest on revenue balances for NECA and its constituent authorities. The details of this arrangement are being developed by the Treasurers/Finance Directors of NECA and the seven councils.

9 Fees and Charges

9.1 The main fees and charges that feature as part of the NECA/Nexus Budget relate to Metro Fares, the Gold Card for concessionary Travel on Metro and the Tyne Tunnel Tolls.

9.2 In the past, in order to meet budget targets and to align with national rail fare increases, Metro fares have traditionally been reviewed with changes coming into effect from January each year. Tyne and Wear Sub-Committee agreed to a proposal by Nexus to increase Metro fares from 2nd January 2015 by a weighted average of 2.2%; this figure is slightly below the level of the Retail Price Index of 2.5% as at July 2014 (July RPI being the index used annually to consider Metro fares, in line with national rail fare setting processes).

9.3 This increase is necessary in order to help meet the financial targets required by the Nexus Medium Term Financial Strategy and will build on the improvements identified as part of the January 2014 fares review. In particular, it is anticipated that there will be proposals to introduce new customer benefits associated with the roll out of smart ticketing technology; notably the 'Pop Pay As You Go' product and daily price capping for multiple journeys using a smartcard. In addition, the review is exploring ways of further enhancing the offer to young people, particularly 16 to 18 year olds as well as freezing the fare for one zone single journeys.

9.4 No increase is planned for the Gold Card next year, with the cost of the Card having been significantly reduced earlier this year

9.5 In terms of the Tyne Tunnel Tolls, the toll for cars of £1.60 was set in January 2013 and the tolls for Heavy Goods Vehicles (HGV) of £3.20 was set in January 2014. The tolls are due to rise to keep pace with inflation as measured by the Retail Price Index (RPI), with increases limited to whole 10p figures and the ratio between HGV and Car tolls being preserved at 2:1. RPI figures for August 2014 mean that no increase is needed in January 2015. (August RPI is the index used annually, in line with the setting of the Concession Toll.) The date of future toll increases will depend in the increase in inflation as measured by RPI each year. Payments to the operator also rise with inflation. Based on forecast future RPI increases, the next date for a toll increase looks likely to be January 2016, when tolls for cars may rise by 10p and tolls for HGVs may rise by 20p. Any increase in future years will be reflected in the budget consultation for 2016/17 onwards.

10 Treasury Management and Investment Strategy

10.1 The Authority is required to approve a Treasury Management and Investment Strategy each year, before the beginning of the financial year. This sets out projections for borrowing and investments, and the guidelines under which Treasury Management officers will operate to ensure the security and liquidity of NECA's funds.

10.2 A number of Treasury Management Indicators and Prudential Indicators are set out to be agreed to enable monitoring of the delivery of this strategy.

10.3 The full Treasury Management and Investment Strategy and Prudential Indicators are set out in Appendix F.

11 Risk Management, Reserves and Contingencies

11.1 The General Reserve of NECA was set at £350,000 for 2014/15. It looks likely that this reserve will be drawn upon with £50,000 to fund corporate costs in the year. The revised estimate of the likely outturn reserves at the end of 2014/15 is likely to be around £300,000. In view of the arrangements in place to manage financial risk; the transport reserves that exist; and the increased funding being made available to meet corporate costs, this level of reserve, while relatively low, is considered to be adequate for 2015/16.

11.2 The Tyne and Wear Transport accounts also include a contingency. It estimated that this will amount to £342k by the end of 2014/15. This will be reduced over the next three years to part fund the proposed cut in the Levy from 2015/16. Other significant reserves are ringfenced for the financing of the Tyne Tunnels, for capital investment or being held on behalf of the region for the North East Smart Ticketing Initiative (NESTI) and it is estimated that this ringfenced reserve will fall to around £26.3m by 31st March 2016.

11.3 Nexus are planning to use some of their general reserves (as set out in section 5.5.22-24) to help balance their budget over the next three years as part of their medium term plan.

11.4 The transport levy and transport grant arrangements themselves also provide a mechanism for managing in-year financial pressures and risks. This is because the levies and grant payments are fixed for the year in 2015/16 and any variations would be made to levy and grant levels in 2016/17.

11.5 To help manage the cash flow pressure on the NECA corporate reserve it is proposed that contributions from councils are paid in April 2015.

12 Potential Impact on Objectives

12.1 The budget and Medium Term Financial Strategy will reflect the Policy Objectives of the Combined Authority including the delivery of the Strategic Economic Plan. The future reports will set out revenue and capital budget proposals that will help deliver the Objectives on the Combined Authority

13 Finance and Other Resources

13.1 The financial and other resource are summarised in this report, where they are known. Further detail of the LEP Budget will be reported for information after the LEP Board meeting on 29th January.

14 Legal

14.1 The NECA is required by virtue of the Transport Levying Bodies Regulations 1992 to issue the transport levy before 15 February preceding the commencement of the financial year in respect of which it is issued.

14.2 In accordance with the Budget and Policy Framework Rules of Procedure of the NECA's Constitution, at least 2 months before the calculations on the Revenue Budget and transport levy are required to be finalised, the Leadership Board will produce initial outline proposals to the NECA's Overview and Scrutiny Committee. The accompanying information will include details of how it is intended to consult with the Constituent Authorities, stakeholders and residents as well as the timetable for the consultation and preparation of the final proposals. The Overview and Scrutiny Committee after considering the consultation proposals and timetable can make appropriate recommendations to the Leadership Board in that regard.

14.3 Once the consultation process has been completed, details of the final proposals in relation to the Revenue Budget and levy will be referred to the Overview and Scrutiny Committee. The Leadership Board when considering the final proposals will take into account the recommendations and/or observations of the Overview and Scrutiny Committee. The Leadership Board must approve the final proposals unanimously.

15 Other Considerations

Consultation/Community Engagement

15.1. The NECA constitution requires that consultation on its budget proposals to be undertaken at least two months prior to the budget being agreed. The 2015/16 Budget Proposals were reported to the Leaders Board on 21 October to start a consultation process, which included consideration by the Overview and Scrutiny Committee and the North East Chamber of Commerce as well as comments from individual councils. The comments received have been taken into account. Specific comments are set out in Appendix H. NELEP will be considering its budget from November to January and is due to agree its budget on 29th January 2015.

15.2 **Human Rights**

Any human rights issue will be reflected in the future reports on budget proposals.

15.3 **Equalities and Diversity**

There are no specific issues arising directly from this report.

15.4 **Risk Management**

15.4.1 Appropriate risk management arrangements have been put in place. Key issues include the level of reserves and mitigation measures that can be put in place.

15.5 **Crime and Disorder**
There are no crime and disorder implications directly arising from this report.

15.6 **Environment and Sustainability**

There are no specific issues arising directly from this report. The Budget reports will set out environment and sustainability implications.

16 Background Documents

16.1 NECA constitution; Growth Deal announcement; NECA 2014/15 Budget Report

17 Links to Plans in the Policy Framework

17.1 The Budget Report itself will reflect all of the NECA Plans and Policies and links to the policies are set out in the report.

18 Appendices

18.1 Appendix A – Revenue Budget Summary 2014/15 and 2015/16

Appendix B – Transport Levy Arrangements 2015/16

Appendix C – Nexus 2015/16 Budget

Appendix D – Former Tyne & Wear ITA Budget Elements 2014/15 forecast and 2015/16 Budget

Appendix E – Tyne Tunnels 2014/15 forecast and 2015/16 Budget

Appendix F – Treasury Management and Investment Policy

Appendix G – Minimum Revenue Provision Statement

Appendix H – Consultation Comments

19 Contact Officers

19.1 Paul Woods, Chief Finance Officer, paul.woods@northtyneside.gov.uk, Tel: 07446936840

20 Sign off

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

Appendix A – Summary of Revenue Budget Information 2014/15 and 2015/16

	2014/15			2015/16
	Total Gross Revenue Expenditure	**External Income / Direct Grants / Reserves**	**Net Revenue Expenditure**	**Indicative Figures – Net Revenue Expenditure**
	£000	**£000**	**£000**	**£000**
Transport				
Tyne & Wear (Grant to Nexus)	115,318	-50,398	64,920	64,500
Tyne & Wear (non-Nexus)	3,287	0	3,287	2,700
Tyne Tunnels	25,146	-25,146	0	0
Northumberland	6,298	0	6,298	5,901
Durham	15,590	0	15,590	16,076
Transport Sub Total	**165,639**	**-75,544**	**90,095**	**89,177**
NELEP				
LEP Executive Core Team	525	-275	250	250
Growth Strategy Development	250	-250	0	0
Regional Improvement and Efficiency Partnership	190	-190	0	0
ERDF Policy Strategy and Co-ordination	28	-28	0	0
NELEP Skills Advice	55	-55	0	0
Growing Places Fund Administration	90	-90	0	0
Regional Growth Fund Admin.	294	-294	0	0
NELEP Sub Total	**1,432**	**-1,182**	**250**	**250**
Inward Investment	**70**	**0**	**70**	**70**
Core Team & Admin.				
Combined Authority Corporate Costs Budget	140	0	140	300
Total	**167,281**	**-76,726**	**90,555**	**89,797**

The NELEP are considering their budget figures on 29th January and the figures for use of NELEP funds will be updated when information is available.

Appendix B – Transport Levy Arrangements – Apportionment on Population Basis in Tyne and Wear

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

For the 2015/16 levy, this is the 2013 Mid-Year estimates published by the Office for National Statistics. The population estimate figures for 2012 and 2012 are set out below.

	2012 MYE	2013 MYE	Change	
	No.	**No.**	No.	%
Gateshead	200,153	199,998	-155	-0.1%
Newcastle	282,442	286,821	4,379	1.6%
North Tyneside	201,446	202,152	706	0.4%
South Tyneside	148,428	148,526	98	0.1%
Sunderland	275,743	276,080	337	0.1%
Total Tyne & Wear	**1,108,212**	**1,113,577**	5,365	0.5%

Apportioning the proposed levy of £67.2m gives the following figures for Tyne and Wear:

	2014/15 Levy	Indicative 2015/16 Levy	Change			
			Population Change	Levy Reduction	Total	
	£	£	£	£	£	%
Gateshead	£12,318,818	£12,069,094	-£68,844	-£180,880	-£249,724	-2.0%
Newcastle	£17,383,460	£17,308,521	£184,466	-£259,404	-£74,939	-0.4%
North Tyneside	£12,398,399	£12,199,080	-£16,490	-£182,829	-£199,319	-1.6%
South Tyneside	£9,135,299	£8,962,961	-£38,010	-£134,328	-£172,338	-1.9%
Sunderland	£16,971,156	£16,660,344	-£61,122	-£249,690	-£310,812	-1.8%
Tyne & Wear	£68,207,132	£67,200,000	£0	-£1,007,132	-£1,007,132	-1.5%

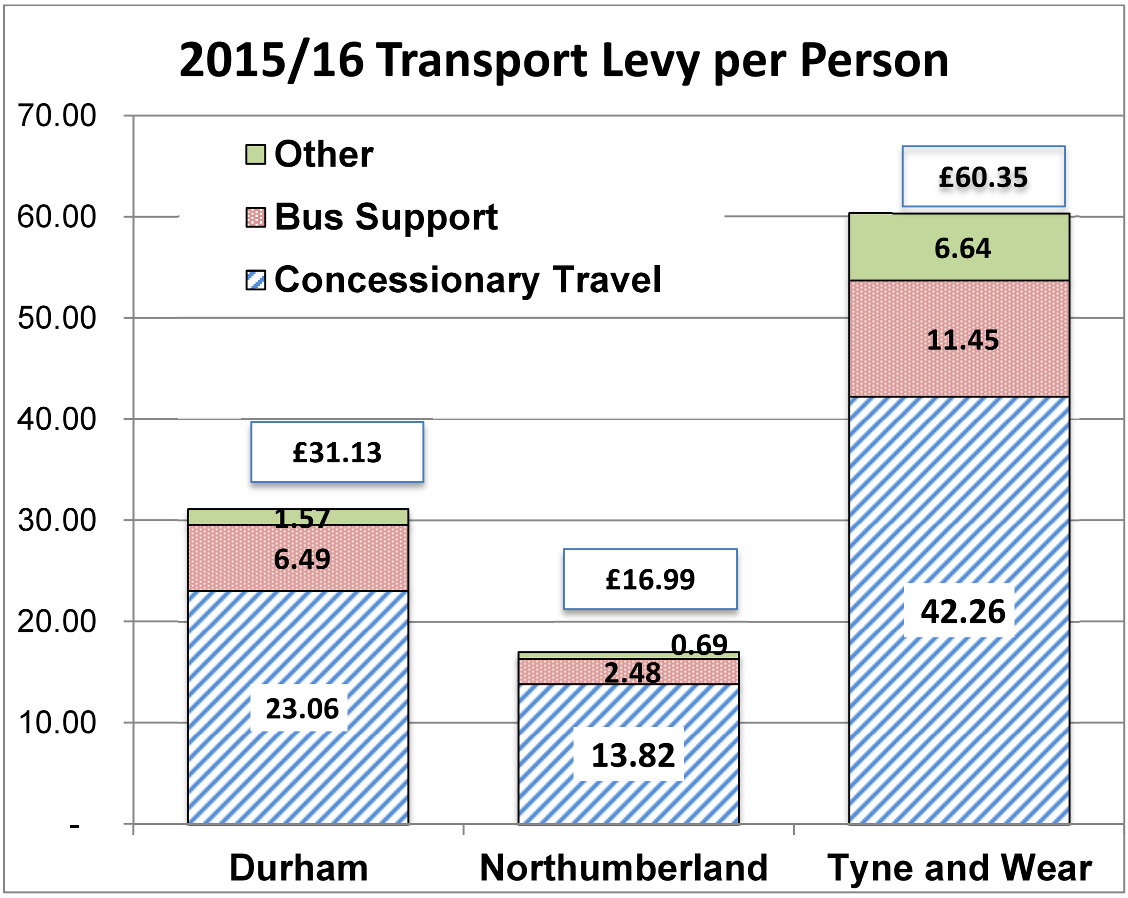
Background to Levy Arrangements

Public Transport has traditionally been seen as a County-wide level service, due to the wider geographic nature of transport services. County-wide precepts for Transport costs were replaced in 1990 with levying arrangements, which reflected Government decisions about how the public transport grant support was to be provided – within the Revenue Support Grant paid to metropolitan districts as opposed to revenue support grant paid directly to PTAs. The levying arrangements which specified a population apportionment were set out in The Transport Levying Bodies Regulations 1992 (1992 No.2789), which is to be amended by The Transport Levying Bodies (Amendment) order 2014 – which is expected to be made shortly, and reflected the principle that all residents in a county area should contribute equally to access to transport services. In recent years concessionary travel costs have also been classified by DCLG and DfT as a countywide level service.

In establishing Combined Authorities with levying powers, the Government required population to continue to be used as the basis of levy apportionment. The NECA area includes three county areas with very different levels of cost and different levels of grant funding. The difference in costs relates particularly to the cost of concessionary travel reimbursement, which is considerably higher in Tyne and Wear due to the high levels of travel on an urban transport network as well as higher levels of historic public transport borrowing costs. Both these items are reflected in higher grants paid to Tyne and Wear districts within their revenue support grant. It was not therefore possible to have a single transport levy covering the whole of the NECA area and the amended levy arrangements established three separate levies: one for Durham County Council, one for Northumberland County Council and one for Tyne and Wear.

The difference in the transport costs and levies between the three areas can clearly be seen in the chart below.

<u>Chart : NECA Transport Levies per Head of Population</u>



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

	Durham	Northumberland	Tyne & Wear	Total
	£	£	£	£
External Audit Fee (allocation for Transport)	300	300	14,400	15,000
Finance and Accounting	1,300	1,300	37,400	40,000
Democratic Services TNEC	2,304	2,304	27,642	32,250
IT Development, expenses and general costs	1,035	1,035	26,930	29,000
Total	4,939	4,939	106,372	116,250

The Tyne and Wear charge is a slight reduction on the charge in previous years and reflects the complexity and volume of the Tyne and Wear activity and accounts, including the Tyne Tunnel accounts and the incorporation of the Nexus accounts into the NECA group accounts.

Costs relating to the new Transport Director will be funded from within the Nexus Budget for 2015/16, with an assessment of cross cutting costs made during the year for consideration as part of the budget setting process for 2016/17.

The relevant wording relating to the apportionment of levies in the draft Transport Levying bodies (Amendment)Regulations 2014 is shown below.

“Apportionment of levies

1.—(1) In regulation 7(4)—

(a) the word “and” after subparagraph (a) is omitted; and

(b) after subparagraph (a) there is inserted—

i(ab) in the case of the levies to be issued pursuant to article 5(3) of the Durham, Gateshead, Newcastle Upon Tyne, North Tyneside, Northumberland, South Tyneside and Sunderland Combined Authority Order 2014, in accordance with regulation 7B, and

(2) After regulation 7 there are inserted the following regulations—

Apportionment of levies issued by the Durham, Gateshead, Newcastle Upon Tyne, North Tyneside, Northumberland, South Tyneside and Sunderland Combined Authority

7B.—(1) The amounts of the levies to be issued by the Durham, Gateshead, Newcastle Upon Tyne, North Tyneside, Northumberland, South Tyneside and

Sunderland Combined Authority ("the Authority") under article 5(3) of the Durham, Gateshead, Newcastle Upon Tyne, North Tyneside, Northumberland, South Tyneside and Sunderland Combined Authority Order 2014 ("the 2014 Order") to its constituent councils for the financial year 2015 to 2016, or any subsequent financial year, are to be determined in accordance with the following provisions of this regulation.

(2) The Authority shall apportion its estimated relevant expenditure for the financial year in question between—

(a) expenditure which it estimates will be attributable to the exercise of its functions in relation to the county of Tyne and Wear ("the Tyne and Wear component");

(b) expenditure which it estimates will be attributable to the exercise of its functions in relation to the county of Durham ("the Durham component"); and

(c) expenditure which it estimates will be attributable to the exercise of its functions in relation to the county of Northumberland ("the Northumberland component").

(3) The Tyne and Wear component must be met by means of the levy issued to the district councils in the county of Tyne and Wear under article 5(3)(a) of the 2014 Order.

(4) The Durham component must be met by means of the levy issued to the Durham county council under article 5(3)(b) of the 2014 Order.

(5) The Northumberland component must be met by means of the levy issued to the Northumberland county council under article 5(3)(c) of the 2014 Order.

(6) Where, as respects any financial year, the authority estimates that the apportionment of its actual expenditure between the Tyne and Wear, Durham and Northumberland components will differ from that estimated under paragraph (2), the Authority must make appropriate adjustments to its estimates under paragraph (2) for the ensuing financial year.

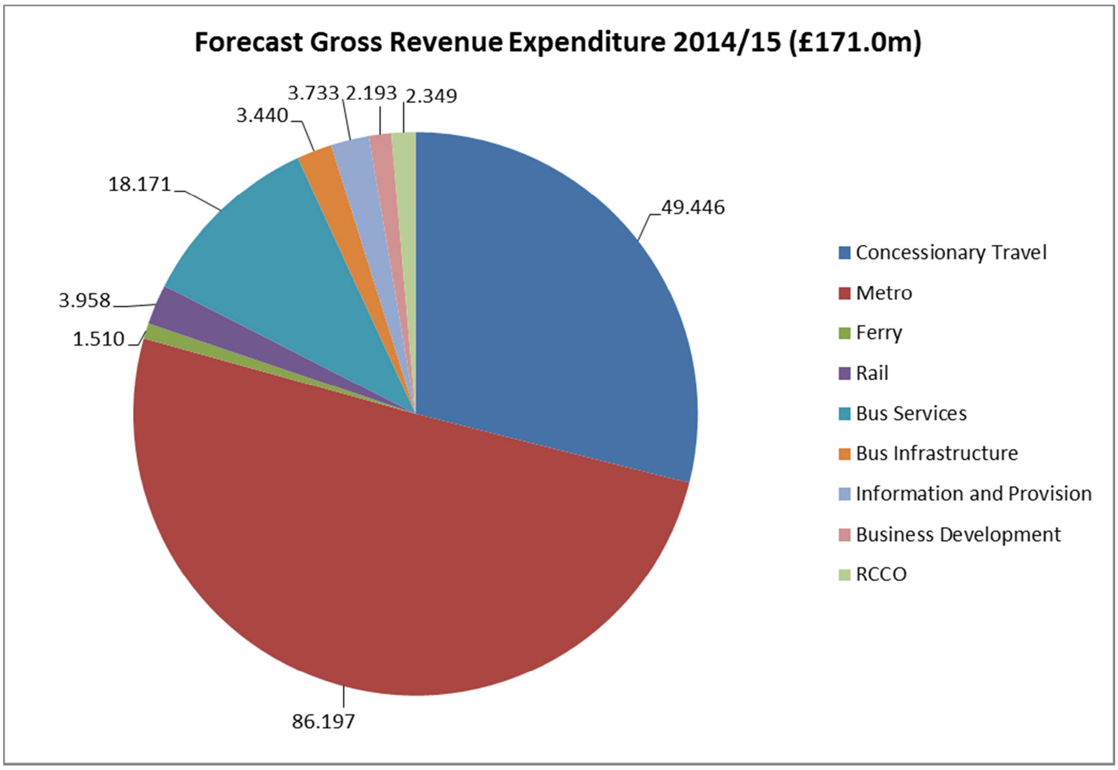
(7) Those adjustments must be made with a view to ensuring that, so far as practicable and taking one year with another, the proportions in which relevant expenditure is met by the levies under article 5(3)(a), 5(3)(b) and 5(3)(c) of the 2014 Order reflect the actual expenditure of the Authority on the Tyne and Wear, Durham and Northumberland components.

(8) The proportions in which the levy issued to the district councils under paragraph (3) is to be shared among those councils shall be determined in the same way as proportions determined under regulation 7(3) in the case of a levy issued by an integrated transport authority."

Appendix C – Nexus Budget

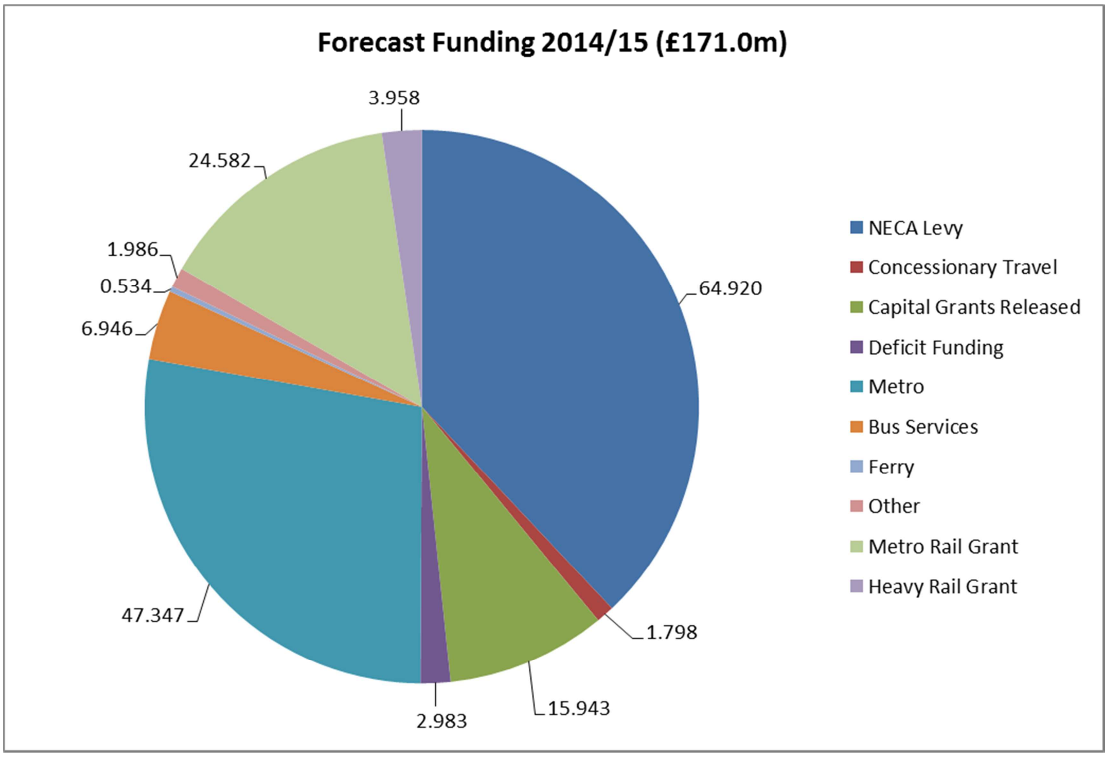
2014/15 Forecast

Nexus' current forecasted gross revenue expenditure requirement for 2014/15 is set out in the pie chart below:



This shows that the largest areas of gross expenditure are in relation to Metro and Bus services including concessionary travel. The majority of this £171.0m is funded by £103.1m of fare income and external grants; £64.9m of Levy funded Grant, leaving a £3.0m budget deficit to be funded from reserves.

The funding for this Gross Revenue Expenditure is summarised in the chart below:



The grant paid to Nexus by the NECA is minimised through commercial income and other direct grants, particularly in relation to Metro and the Northern Rail franchise. The release from capital reserves offsets depreciation on those fixed assets previously funded from government grant and the majority of these costs are attributable to Metro.

Services which are most impacted by the volatility in the grant paid by NECA are concessionary travel, which is a largely statutory service relating to bus, secured bus services, bus infrastructure, the provision of public transport information and the cross Tyne ferry service. The sustainability of the reduction in the grant paid by NECA to Nexus is therefore heavily dependent on being able to deliver long term savings in the cost of the bus network for which a strategy was initially agreed at the November 2011 meeting of the Tyne and Wear ITA. Due to the improved position being reported in 2014/15, there is a reduced call on usable revenue reserves across the medium term which therefore allows the continuation of this strategy in line with the decision of the NECA to proceed to the Bus Quality Contract Scheme Board.

The Government has chosen to provide national grant funding to support transport services in Tyne and Wear in two different ways. Metro rail grant is paid directly to Nexus, which reduced the net cost of Metro to a small revenue surplus. Government funding for concessionary travel, bus support and capital financing costs is paid to the Metropolitan District councils as part of their unringfenced general revenue grant. In recent years the changes to the grant system has meant that it is no longer possible to identify the level of grant received specifically for transport services. The levy charged to districts is therefore funded by national grant as well as by local taxpayers.

Nexus have updated the information previously provided about the analysis of activity provided in the area of each district and this will be circulated to councils and will be the subject of a future policy seminar for Tyne and Wear Sub-committee members.

2015/16 Budget

Contractual inflation mainly relates to the Metro Concession payment due to DB Regio Tyne and Wear Limited, which is currently forecast to increase by £0.366m as a result of the terms of the concession agreement between Nexus and its contractor. There is a £0.500m pressure in respect of HV Power and the rating demand (most of which relates to the Metro infrastructure) is estimated to increase by £0.121m during 2015/16. Bus Services are estimated to increase by £0.284m because of contractual inflation.

There is small a provision for pay inflation and incremental progression within the 2015/16 budget.

Committed growth relates to the second phase of the Metro re-launch campaign as well as the planned increase in the number of apprentices from twenty to thirty in the autumn of 2015.

A net reduction in grant income of £0.537m is estimated. This takes into account the proposed £0.420m reduction in grant paid from NECA together with a marginal decrease in Metro Rail Grant paid by the Department for Transport.

Commercial revenues are estimated to be some £2.520m higher in 2015/16 than the 2014/15 base. This is largely in respect of Metro revenue where members will recall that the second quarter monitoring report to TNEC in October 2014 estimated that the Metro fare box was expected to be some £1.0m better than the 2014/15 base (this is also depicted in table 8 above). Additional growth in fare income is anticipated in the remainder of 2014/15 and this will be reported as part of the third quarter monitoring report later in the year. This, together with the fares review which the Tyne and Wear Sub-Committee agreed to at its November 2014 meeting which (outside of targeted growth resulting from the introduction of new smart products, the Metro re-launch referred to in paragraph 4.22 and other marketing activities) is expected to yield an additional £0.7m in 2015/16, which all results in an estimate of fare box revenue that is estimated at £2.7m over the

2014/15 base. Elsewhere within this particular budget, Nexus will need to accommodate a loss of income estimated at £0.3m as a result of a reduction in the sale of scholars' passes to those local authorities that have elected to cut these budgets in response to government austerity measures. A compensating increase in gold card income of £0.3m will help offset lost income in relation to sales of local authority scholars passes.

Nexus continues to examine ways in which it can reduce its cost base, whilst looking to protect and preserve service outcomes. A saving in its pension deficit payment of £0.9m accounts for most of this saving. A further £0.8m will be saved from a reduction in 'controllable costs' where all Heads of Service will be required to deliver cash savings in 2015/16, thereby continuing a strategy initially adopted when the levy was first cut in 2011.

The following table sets out the (provisional) estimated net expenditure of Nexus that is funded by the Levy or Reserves in 2015/16:

	Gross Costs £m	Comm. Income £m	Net Costs (1) £m	Govt. Grants £m	Net Costs (2) £m	Capital Adjust £m	Locally Funded £m
Cost centre							
Concessionary Travel	48.891	(1.833)	47.058	0.000	47.058	0.000	47.058
Metro	90.553	(48.935)	41.618	(24.503)	17.115	(19.756)	(2.641)
Ferry	1.478	(0.497)	0.981	0.000	0.981	(0.206)	0.775
Northern Rail	2.901	0.000	2.901	(2.901)	0.000	0.000	0.000
Bus Services	18.994	(6.437)	12.557	0.000	12.557	(0.009)	12.548
Bus Infrastructure	3.361	(0.637)	2.724	0.000	2.724	(0.282)	2.442
Information/Promotion	4.416	(0.785)	3.631	0.000	3.631	(0.335)	3.296
Business Development	3.257	(1.396)	1.861	0.000	1.861	(0.085)	1.776
TOTAL OPERATIONS	173.851	(60.520)	113.331	(27.404)	85.927	(20.673)	65.254
Revenue Contributions to Capital	2.349	0.000	2.349	0.000	2.349	0.000	2.349
Net Movement in Capital Reserve	0.000	0.000	0.000	(20.673)	(20.673)	20.673	0.000
TOTAL NEXUS REQUIREMENT	176.200	(60.520)	115.680	(48.077)	67.603	0.000	67.603
GRANT from NECA							(64.500)
DEFICIT							3.103

Appendix D – Former Tyne & Wear ITA Budget Elements

	2014/15 Original Budget	2014/15 Revised Estimate	2015/16 Proposed Budget	Comments
Service Level Agreement	266,400	250,000	250,000	SLA costs subject to outcome of review and revision
External Audit Fee	19,560	18,000	15,000	Assumes c.50% fee attributed to Tyne and Wear Transport activity
Members Allowances and Expenses	86,300	5,000	5,000	Expenses and independent members
Conferences, Travel and Subsistence	4,000	4,000	3,000	25% saving assumed
Subscriptions	30,000	0	0	LGA subscription - no longer applicable
IT Development / Website costs	20,000	20,000	10,000	Assumes c.50% website cost attributed to transport activity
Supplies and Services	15,000	10,000	10,000	
Scrutiny Advisory Group	4,700	0	0	
Repayment to Tyne Tunnels (for Pension Deficit payment)	240,000	240,000	240,000	Repayment over 14 years to Tyne Tunnels
Financing Charges - Interest and DME	1,245,200	1,201,950	1,155,030	Savings due to reduced loans outstanding
Financing Charges – Principal	1,126,500	1,126,480	1,081,420	Savings due to reduced loans outstanding
Interest Income	-3,000	-3,000	-3,000	
Contingency / Bus Strategy costs	232,472	70,000	10,000	Assumes some costs of Bus Strategy in 2014/15, reduced contingency for 2015/16
Net Expenditure	**3,287,132**	**2,942,430**	**2,776,450**	
TRANSPORT LEVY	**-68,207,132**	**-68,207,132**	**-67,200,000**	
Grant to Nexus	**64,920,000**	**64,920,000**	**64,500,000**	
Contribution to (-) or from Reserves	**0**	**-344,702**	**76,450**	

TYNE AND WEAR TRANSPORT RESERVE	**2014/15 Original Budget**	**2014/15 Revised Estimate**	**2015/16 Proposed Budget**
Reserves brought forward	-574,494	-574,494	-479,196
Reserves refund in year	440,000	440,000	0
Reserves contribution in year	0	-344,702	76,450
Reserves carried forward	-134,494	-479,196	-402,746

Appendix E – Tyne Tunnels Account Estimates

	2014/15 Original Budget £000	2014/15 Revised Budget £000	2015/16 Original Budget £000
Tolls Income	-24,720	-25,315	-27,100
Contract Payments to TT2	18,400	19,040	21,907
Employees	35	35	36
Pensions	50	50	50
Support Services	130	130	120
Supplies & Services	50	50	50
NTC Community Fund	10	10	10
Financing Charges	6,861	6,812	6,793
Interest Income	-150	-150	-200
Repayment from ITA for use of reserves	-240	-240	-240
(Surplus)/Deficit on Tyne Tunnels Account	426	422	1,426
Tyne Tunnels Reserves b/f	-28,171	-28,171	-27,749
Tyne Tunnels Reserves c/f	-27,745	-27,749	-26,324

Appendix F – Treasury Management and Investment Strategy

Background information

In January 2013, the Tyne and Wear Integrated Transport Authority adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice,* which requires the Authority to approve a Treasury Management strategy before the start of each financial year. In addition, guidance issued by the Department for Communities and Local Government (CLG) requires the Authority to approve an investment strategy before the start of each financial year. This report fulfils the Combined Authority's legal obligation under the Local Government Act 2003 to have regard to both the CIPFA Code and the CLG Guidance.

Current and Expected Treasury Portfolios

The Authority's treasury portfolio at 30 September 2014 was as follows:

	Actual Borrowing	Authorised Borrowing Limit
	£m	**£m**
Level of external loans at April 2014	**202.893**	**240.000**
New loans taken out in first 6 months of year	-	n/a
Loans repaid in first 6 months of year	(4.593)	n/a
Level of external loans as at 30 September 2014	198.300	n/a
Net increase / (decrease) in external loans	(4.593)	n/a
Forecast level of external loans at 31 March 2015	**196.967**	**240.000**

The budget for debt interest in 2015/16 is £8.76m, based on an average interest rate of 4.25%. This includes borrowing undertaken on behalf of Nexus, borrowing charged to the Tyne Tunnels trading account and interest on the authority's historic capital financing debt. All historic borrowing relates to Tyne and Wear. Any historic borrowing for transport purposes in Durham and Northumberland remains the responsibility of those authorities and was not transferred to the Combined Authority.

Investment Strategy

The Authority may, at times, hold surplus funds representing income received in advance of expenditure plus balances and reserves held. Both the CIPFA Code and the CLG Guidance require the Authority to invest its funds prudently, and to have regard to the **security** and **liquidity** of its investments before seeking the highest rate of return, or **yield**.

The Authority is asked to approve the following investment criteria and limits:

Type of Institution	Financial Limit	Time Limit
UK Central Government (Debt Management Office)	Unlimited	Unlimited
UK banks with AAA, AA+, AA, AA-, A+ credit ratings	£15m each	1 year
UK banks with A and A- credit ratings	£10m each	1 year
UK Local authorities	£10m each	3 years
UK building societies whose lowest published long-term credit rating is BB and societies without credit ratings with assets greater than £250m	£5m each	1 year
NECA current account (Co-operative Bank)	See Note 1	See Note 1

Note 1 – Co-operative Bank
Following the downgrading of the Co-operative Bank during 2013, Treasury Management officers clear the current accounts with the Co-operative Bank to nil at the close of each day. In practice some income may be received after this cut-off point, and this will be invested with the Co-operative Bank overnight and then invested with another third party the following day.

NECA's (formerly TWITA's) bank account is with the Co-operative Bank, who in November 2013 announced their intention to withdraw from providing banking services to local authorities. Since financial services are currently being provided to NECA by Newcastle City Council, a new banking provider is being sought through a procurement process in conjunction with that authority.

Risk Assessment and Credit Ratings

The Authority uses long-term credit ratings from the three main rating agencies: Fitch Ratings Ltd., Moody's Investors Service Inc. and Standard and Poor's Financial Services LLC to assess the risk of investment default. The lowest available credit rating will be used to determine credit quality.

Long-term ratings are expressed on a scale from AAA (the highest quality) through to D (indicating default). Ratings of BBB- and above are described as investment grade, while ratings of BB+ and below are described as speculative grade. The Authority's credit rating criteria are set to ensure that it is unlikely that the Authority will hold speculative grade investments.

Credit ratings are obtained and monitored by the Authority's treasury advisers, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

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

Where a credit rating agency announces that a rating is on review for possible downgrade (also known as “rating watch negative” or “credit watch negative”) so that it is likely to fall below the above criteria, then no further investments will be made in that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks.

Other information on the security of investments

The Authority understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will be therefore be given to other available information on the credit quality of the organisation in which it invests, including credit default swap prices, financial statements and reports in the quality financial press. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the above criteria.

When deteriorating financial market conditions affect the creditworthiness of all organisations, as in 2008 and 2011, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Authority will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions.

If these restrictions mean that insufficient commercial organisations of “high credit quality” are available to invest the Authority’s cash balances, then the surplus will be deposited with the UK Government, via the Debt Management Office for example, or with other local authorities. This will cause a reduction in the level of investment income earned, but will protect the principal sum invested.

Non-specified investments

The CLG Guidance defines specified investments as those:

- Denominated in pound sterling
- Due to be repaid within 12 months of arrangement
- Not defined as capital expenditure by legislation
- Invested with one of:
    - The UK Government
    - A UK Local Authority, Parish Authority or Community Authority
    - A body or investment scheme of “high credit quality”

Any investment not meeting the definition of a specified investment is classed as non-specified. The Authority does not intend to make any investments denominated in foreign currencies, nor with any low credit quality bodies, nor any that are defined as capital expenditure by legislation, such as company shares. Non-specified investments will therefore be limited to long-term investments, i.e. those that are due to mature 12 months or longer from the date of arrangement.

The limit on long-term investments and the total limit on non-specified investments is £30m.

Liquidity Management

Treasury Management services are provided to NECA by Newcastle City Council under a Service Level Agreement. Officers use purpose-built cash flow forecasting software to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a pessimistic basis, with receipts under-estimated and payments over-estimated to minimise the risk of the Authority being forced to borrow on unfavourable terms to meet its financial commitments.

Limits on long-term investments are set by reference to the Authority's medium term financial plan and cash flow forecast.

Planned Investment Strategy for 2015/16

Surplus funds cover three categories:

- Short-term – cash required to meet known cash outflows in the next month, plus a contingency to cover unexpected cash flows over the same period.
- Medium-term – cash required to manage the annual seasonal cash flow cycle, including amounts to cover forecast shortages, planned use of reserves, and a longer-term contingency.
- Long-term – cash not required to meet cash flows, and used primarily to generate investment income.

Short-term funds are required to meet cash flows occurring in the next month or so, and the preservation of capital and liquidity is therefore of paramount importance. Generating investment returns is of limited concern here, although it should not be ignored. Instant access AAA-rated money market funds and bank deposit accounts will be the main methods used to manage short-term cash.

Medium-term funds which may be required in the next one to twelve months will be managed concentrating on security, with less importance attached to liquidity but a slightly higher emphasis on yield. The majority of investments in this period will be in the form of fixed term deposits with banks and building societies. A wide spread of counterparties and maturity dates will be maintained to maximise the diversification of credit and interest rate risks; this may be achieved by the use of suitable medium-term money market funds. Deposits with lower credit quality names will be made for shorter periods only, while deposits with higher quality names can be made for longer durations.

Cash that is not required to meet any liquidity need can be invested for the longer term with a greater emphasis on achieving returns that will support spending on Local Authority services. Security remains important, as any losses from defaults will impact on the total return, but this can be managed over the long term within a diversified portfolio. Liquidity is of lesser concern, although it should still be possible to sell investments, with due notice, if large spending commitments arise unexpectedly. A wider range of instruments, including structured deposits, certificates of deposit, gilts and corporate bonds may be used to diversify the portfolio. The Authority may consider employing external fund managers that have the skills and resources to manage the risks inherent in a portfolio of long-term investments.

With short-term interest rates currently much lower than long-term rates, due consideration will also be given to using surplus funds to make early repayments of long-term borrowing. In addition to the savings on the interest rate differential, this strategy will also reduce the Authority's exposure to credit risk and interest rate risk.

Borrowing Strategy

The Authority currently holds £198m of long-term loans. The balance at 31 March 2015 is forecast to be £197m after new borrowing and maturing loans, but before any decision to repay debt early. The Authority's capital financing requirement (CFR, or underlying need to borrow to finance capital expenditure) as at 31 March 2015 is expected to be £206m, and is forecast to decrease to £202m by March 2015 as funds are set aside to meet principal repayments.

Sources of borrowing

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

- Public Works Loans Board
- Any institution approved for investments above
- Any other bank or building society approved by the Financial Services Authority
- Capital market bond investors
- Pension funds and other corporate investors
- Special purpose companies created to enable joint Local Authority bond issues

Planned Borrowing Strategy for 2015/16

With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either borrow short-term loans or variable-rate loans. However, with long-term rates forecast to rise in the coming years, any such short-term savings will need to be balanced against the potential longer-term costs.

The Authority has previously raised a significant proportion of its long-term borrowing from the Public Works Loans Board but other sources of finance, such as bond issues and bank loans, may be considered. However, there are no plans for additional borrowing next year.

The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. The Chief Finance Officer is considering the option of early repayment of some loans when the time is right to do so, where this is expected to lead to an overall net revenue saving. If this were to happen before 31st March 2015 the estimated level of external debt would be lower than the £197m set out in the table above.

Work will be carried out during 2015 by LA7 Treasurers on a potential arrangement for pooled Treasury Management arrangements relating to the financing of infrastructure investment for Enterprise Zones. This could lead to substantial savings in borrowing costs for NECA constituent authorities. This arrangement would be subject to approval following a report to a future Leadership Board meeting.

Policy on use of Financial Derivatives

Local Authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans).

The Localism Bill 2011 includes a general power competence that removes the uncertain legal position over Local Authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment). The latest CIPFA Code requires authorities to clearly detail their policy on the use of derivatives in the annual strategy.

The Authority will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Authority is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

Derivative counterparties

Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit.

Treasury Management Indicators

The Authority measures and manages its exposures to treasury management risks using the following indicators. The Authority is asked to approve the following indicators:

Security: average credit rating

The Authority has adopted a voluntary measure of its exposure to credit risk by monitoring the weighted average credit rating of its investment portfolio.

	Target
Portfolio average credit rating	A-

For the purpose of this indicator, unrated local authorities are assumed to hold an AA+ rating.

Liquidity: cash available within 3 months

The Authority has adopted a voluntary measure its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three month period.

	Target (£m)
Total potential cash available without borrowing	20

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 an amount of net principal borrowed will be:

	2015/16	2016/17	2017/18
Upper limit on fixed interest rate exposures	100%	100%	100%
Upper limit on variable interest rate exposures	100%	100%	100%

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 will be:

	Upper	Lower
Under 12 months	25%	0%
12 months and within 24 months	50%	0%
24 months and within 5 years	100%	0%
Five years and within 10 years	100%	0%
10 years and above	100%	0%

Principal sums invested for periods longer than 364 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. The limits on the total principal sum invested to final maturities beyond the period will be:

	2015/16	2016/17	2017/18
Limit on principal invested beyond year end	£50m	£50m	£50m

Gross and net debt

The upper limit on net debt indicator was introduced in 2011 and is intended to highlight where the Authority is borrowing in advance of need.

	2015/16	2016/17	2017/18
Upper limit on net debt	100%	100%	100%

Borrowing limits

The Authority is asked to approve the following borrowing limits:

	2015/16	2016/17	2017/18
Operational boundary	£235m	£235m	£235m
Authorised limit	£240m	£240m	£240m

Maintaining the authorised limit at the current level of £240m, which is above the level of the Capital Financing Requirement and level of actual external debt will allow the authority the flexibility to explore opportunities for pooled treasury management arrangements, and to carry out any additional borrowing or debt restructuring which could achieve savings for NECA and authorities across the NECA area. These indications will be reviewed during 2015/16.

Other Matters

The CLG Investment Guidance requires the Authority to note the following three matters each year as part of the investment strategy:

Treasury Management Advisers

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

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

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

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

Investment of money borrowed in advance of need

The Authority may, from time to time, borrow in advance of spending need, where this is expected to provide the best long term value for money. Since amounts borrowed will be invested until spent, the Authority is aware that it will be exposed to the risk of loss of the borrowed sums, and the risk that investment and borrowing interest rates may change in the intervening period. There are no current plans to do this in 2015/16. These risks will be managed as part of the Authority's overall management of its treasury risks.

The total amount borrowed will not exceed the authorised borrowing limit of £240m. The maximum period between borrowing and expenditure is expected to be two years, although the Authority does not link particular loans with particular items of expenditure.

Other Options Considered

The CLG Investment Guidance and the CIPFA Code of Practice do not prescribe any particular treasury management strategy for local authorities to adopt. The ITA Treasurer believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below:

Alternative	Impact on income and expenditure	Impact on risk management
Adopt a narrower definition of "high credit quality" and/or shorter time limits	Interest income will be lower	Reduced risk of losses from credit related defaults
Adopt a wider definition of "high credit quality" and/or longer time limits	Interest income will be higher	Increased risk of losses from credit related defaults
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs will be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long term costs will be less certain

Treasury Management Policy Statement

The Authority's financial regulations require it to create and maintain a treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury activities, as a cornerstone for effective treasury management.

Definition

The Authority defines its treasury management activities as: the management of the 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.

Value for Money

The Authority greatly values revenue budget stability and will therefore borrow the majority of its long-term funding needs at long-term fixed rates of interest. Short-term and variable rate loans will only be borrowed to the extent that they either offset short-term and variable rate investments or can be shown to produce revenue savings.

The Authority will set an affordable borrowing limit each year in compliance with the Local Government Act 2003, and will have regard to the CIPFA Prudential Code for Capital Finance in Local Authorities when setting that limit. It will also set limits on its exposure to changes in interest rates and limits on the maturity structure of its borrowing in the treasury management strategy report each year.

Investment Policy

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

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

Prudential Indicators 2015/16

	2014/15 forecast	**2015/16 estimate**	**2016/17 estimate**	**2017/18 estimate**
Capital expenditure (Transport in Tyne and Wear)	66.350	61.219	54.000	54.000
Financing costs to Net Revenue Stream				
Tyne & Wear Transport levy	68.207	67.200	67.200	67.200
Tyne & Wear Transport financing costs	2.328	2.236	2.132	2.047
%	3.4%	3.3%	3.2%	3.0%
Nexus levy plus direct grants	93.224	92.931	92.500	92.500
Nexus financing costs	3.868	3.717	3.572	3.432
%	4.1%	4.0%	3.9%	3.7%
Tunnels tolls income	25.315	27.100	28.546	30.051
Tunnels financing costs	6.812	6.793	6.774	6.757
%	26.9%	25.1%	23.7%	22.5%
CFR at end of year				
Tyne Tunnels and Tyne & Wear Transport	161.117	158.978	156.854	154.744
Nexus	45.236	43.403	41.637	39.938
Total	**206.353**	**202.380**	**198.492**	**194.682**
Incremental impact of CF decisions (impact on Transport levy)	(0.070)	(0.092)	(0.104)	(0.085)
Operational Boundary for External Debt	**235**	**235**	**235**	**235**
Authorised Limit for External Debt	**240**	**240**	**240**	**240**
Actual External Borrowing	**197**	**194**	**192**	**190**

Appendix G – Minimum Revenue Provision Statement

North East Combined Authority Annual Minimum Revenue Provision (MRP) statement for 2015/16 under the Capital Financing and Accounting Amendment Regulations 2008

1. Summary

The Authority is required to produce a MRP statement which sets out how it will provide for the repayment of any debt. This statement recommends which options will be used to calculate the MRP. The regulations provide four options (detailed in Section 5 below).

2. Recommendation

The MRP guidance offers four options on how to calculate MRP, which is the minimum revenue provision set aside for the repayment of debt. Having considered the options it is recommended to agree the adoption for MRP arrangements in 2015/16 of:

- Option 1 for supported capital borrowing, which is a continuation of the previous practice of a 4% minimum revenue provision;
- Option 3 on unsupported capital borrowing (known as Prudential Borrowing), repaying the debt in equal annual instalments over the estimated life of the asset;
- Option 3 on unsupported capital borrowing for the New Tyne Crossing, repaying the debt over the life of the asset on an annuity basis. This basis is beneficial for use in the New Tyne Crossing project as the back-loading of the MRP using the annuity method is consistent with the principal repayment of debt included in the New Tyne Crossing model which will be repaid at the end of a 30 year period. The New Tyne Crossing model reflects an increase in traffic and tolls over the 30 year life which is consistent with back loading the principal repayments.

The North East Combined Authority has no supported capital expenditure which requires borrowing in 2015/16, since from 1 April 2008 the Integrated Transport Allocation has been provided in the form of capital grant. Supported borrowing debt therefore relates to historic allocations only.

More details on the regulations are provided below:

3. Background

Under regulation 27 of the 2003 Regulations, Local Authorities are required to charge to their revenue account for each financial year an amount of MRP to account for the cost of their debt in that year. Prior to its amendments by the 2008 regulations, regulation 28 set out the method authorities were required to follow in calculating MRP. From 2008, the detailed calculation was replaced with a requirement that local authorities calculate an amount of MRP *which they consider to be prudent*. This guidance is issued under section 21 (1A) of the 2003 Act.

4. Previous Practice

Prior to 2007/08 the calculation of MRP was done via the Regulatory Method under regulation 28, i.e. MRP is equal to 4% of the Capital Financing Requirement (CFR) at the end of the preceding financial year.

5. Options for calculation of Minimum Revenue Provision

The Revised MRP Guidance offers four options for prudent provision. These four options are:

<u>Option 1 – Regulatory Method</u>
For debt which is supported by Revenue Support Grant (RSG), authorities will be able to continue to use the formulae in the current regulations 28 and 29 of the 2003 Regulations, since the RSG is calculated on that basis. This option will be available for all capital expenditure prior to 1 April 2008.

<u>Option 2 – CFR Method</u>
This can be used on supported debt and is similar to Option 1. While still based on the concept of the CFR, which is easily derived from the balance sheet, it avoids the complexities of the formulae in Regulation 28. This option will be available for all capital expenditure prior to 1 April 2008.

<u>Option 3 – Asset Life Method</u>
For new borrowing under the Prudential system for which no government support is given and is therefore self-financed, there will be two options. Option 3 is to make MRP provision using either:

- Equal annual instalments over the estimated life of the asset for which the borrowing is undertaken. The original estimate of the life is determined at the outset and should not be changed in later years, even if in reality the asset has changed significantly; or
- Annuity method – this method has the advantage of linking the MRP to the flow of benefits from an asset where the benefits are expected to increase in later years.

The formula allows an Authority to make voluntary extra provision in any year. Freehold land cannot have a life attributed to it and should be treated as a maximum of 50 years.

<u>Option 4 – Depreciation Method</u>
MRP is to be equal to the provision required in accordance with depreciation accounting in respect of the asset on which expenditure has been financed by borrowing or credit arrangements.

For this purpose standard depreciation accounting procedures should be followed, except in the following respects:

a. MRP should continue to be made annually until the cumulative amount of the provision is equal to the expenditure originally financed by borrowing or credit arrangements. After that, the Authority may cease to make MRP;
b. On disposal of the asset, the amount of the capital receipt cannot be taken to the revenue account and the Authority must comply with the normal requirements of the 2003 Act on the use of capital receipts, i.e. receipts go to the balance sheet;
c. Where the percentage of the expenditure on the asset financed by borrowing or credit arrangements is less than 100%, MRP should be equal to the same percentage of the provision required under depreciation accounting.

Conditions

Options 1 and 2 can only be used in relation to:

a. Capital expenditure before 1 April 2008, and
b. Capital expenditure incurred on or after that date which the Authority is satisfied forms part of its Supported Capital Expenditure.

Options 3 and 4 should be used on all capital expenditure incurred on or after 1 April 2008 which is financed by borrowing or credit arrangements and which does not form part of the Authority's Supported Capital Expenditure, i.e. Prudential Borrowing.

Option 3 can be used for all capital expenditure.

Appendix H – Consultation Comments

This appendix set out comments and responses received during the budget consultation process and provisional responses to issues raised.

North East Chamber of Commerce

Following a meeting with the Chair on 9th December 2014 the attached letter was received from the Chamber. The opportunity of a further meeting has also been offered in January prior to this meeting.

Comment	Response
It is essential that a sufficient level of Executive Capacity is created and supported at the level of the Combined authority. The team should draw on resources of the local authorities and should be fully integrated with the work of the LEP.	The 2015/16 Budget includes additional funding of £160,000 to help support the corporate capacity of the Combined Authority and funding to support capacity within the LEP. NECA draws on senior capacity and experience of its constituent authorities from Leaders and Elected Mayor; Chief Executives; Economic Development Officers; Finance; Legal; and HR capacity.
We seek assurance that NECA has the capacity and willingness to prioritise strategic investments over smaller local schemes where appropriate.	This is demonstrated by the decisions taken to support larger strategic projects as part of the Growth Fund and LTP bidding process with joint involvement of the LEP and local authorities. Major schemes were supported including the Bridge in Sunderland and the continuing match funding for the Metro Reinvigoration programme. NECA also used its influence to advocate for investment in large scale road and rail projects funded by other bodies – including improvements to the A1 and A19 and to the North East rail services and infrastructure.
North East Education Challenge must be ambitious in its outlook and have the full backing of all parts of the education sector and involve the business community it its design. Sufficient resources must be allocated to the Challenge in the long term in order to achieve lasting improvements.	NECA is working with NELEP to ensure that an ambitious Education Challenge which has the full backing of the education sector and business community is put in place for the north east region.
Greater clarity is needed on Inward Investment Plans.	The 2015/16 Budget proposes to continue a core budget of £70,000, plus support for investment in enterprise zone

	areas. NECA and the LEP are aware of the importance of Inward Investment and further proposals are being developed for consideration in the next few months, which could include using existing resources and access to external funding.
Issues of spatial planning and housing should be more prominent.	The initial focus of NECA and its 2015/16 Budget is to deliver its statutory functions of Economic Development, Skills and Transport, in a co-ordinated and joined up way, which has important links with spatial planning and housing development.

The Governance Committee met on 9th December 2014 and issues raised at the meeting are outlined below.

While being very impressed with the number and range of partners on board, there does remain an issue of their governance, and whether it matches up to those issues of transparency and accountability expected of other Council partners.	The relationship with partners will be addressed as part of the annual governance statement. Funding agreements with partners can set out conditions in relation to the use of public funds and these can be scrutinised and be subject to internal or external audit.
Many of the projects involving skills development, apprenticeships etc., depend on the engagement of commercial bodies and private companies. Could we have an update on the current and expected level of that involvement?	NECA continues to work with the NELEP Employment and Skills Board to ensure that the business community is actively involved and engaged in skills development and other work-based initiatives.
With the considerable increase in public funding that the LEP have responsibility for in terms of decision making, what's their current situation regarding governance, accountability, recording of decisions and declarations of interest.	Key decisions on the use of public funding that are the responsibility of the LEP are generally taken by the LEP Board. As the Accountable body for the use of public funds NECA has the responsibility for accounting for the expenditure, which will form part of its Annual accounts and subject to external audit and public scrutiny. The LEP and NECA will in 2015/16 need to comply with the grant conditions for the release of growth deal funding which include much clearer governance and accountability requirements.

North East Combined Authority

Leadership Board

The Overview and Scrutiny Committee met on 9th December 2014 and issues raised at the meeting are outlined below.

Concerns were raised about the impact of cuts in funding to local authorities for statutory and discretionary services that currently help support the delivery of the strategic objectives of NECA.	Representations have and will continue to be made about the significant cuts in funding for transport services including statutory concessionary travel responsibilities. NECA has sought to achieve savings and use reserves where possible to minimise the impact of funding cuts and inflationary spending pressures on front line services. There is a net cash reduction in the transport levies and use of reserves in Tyne and Wear in 2015/16, while longer term savings are secured to help balance the budget while also securing services that meet transport objectives.
The alignment of transport policies across the whole NECA area was discussed, with particular reference to the alignment of policies on discretionary travel arrangements.	The 2015/16 Budget reflects the current historic concessionary travel arrangements that were in place in the three separate concessionary travel arrangements that were inherited by NECA. The differences in these arrangements reflect past decisions and the different circumstances facing each area. Harmonising the arrangements could have significant financial implications. This issue was reflected in a report to the Leadership Board on concessionary travel arrangement in October. This is an issue that will receive further consideration over the next year as part of the development of NECA transport policy and operational arrangements.

necc
North East Chamber of Commerce

11 December 2014

Cllr Simon Henig
Durham County Council
County Hall
Durham
DH1 5UL

Dear Simon,

North East Combined Authority (NECA) Budget 2015/16

Following our meeting on 9 December I am writing to set out the views of the North East Chamber of Commerce (NECC) on NECA's proposed budget plans for 2015/16.

NECC is the North East's leading business membership organisation and the only regional Chamber of Commerce in the country. We represent more than 4,000 businesses located in Northumberland, Tyne and Wear, Durham and Tees Valley, covering both local enterprise partnership areas in the North East. Our members are drawn from all sizes of business across all sectors and employ about 30% of the region's workforce.

NECC supported the creation of NECA and we believe strongly that the Combined Authority model is the best model to provide a more effective, co-ordinated approach across local authority boundaries to issues including economic development, skills, transport, inward investment and planning.

In order to achieve these aims, it is essential that a sufficient level of executive team capacity is created and supported at the level of the Combined Authority. We are not yet confident that this is happening quickly enough. This team should be able to draw upon the resources and expertise that exists within the constituent local authorities wherever possible, yet should also be empowered to both act and engage externally on behalf of all seven authorities. This team should also be fully integrated with the work of the Local Enterprise Partnership (LEP).

The North East has made significant progress in securing major investments in transport infrastructure in recent years; with a number of key business priorities being addressed during this Parliament. We are therefore pleased that NECA's budget contains proposals to support transport projects committed to in July's Local Growth Deal.

However, we seek reassurances that NECA has the capacity and willingness to prioritise strategic investments over smaller local schemes when appropriate. In a competitive

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funding environment, it is vital that NECA demonstrates leadership by supporting schemes that deliver the greatest economic benefit for the region, rather than solely seeking to ensure local areas each get their 'fair share'.

NECC also welcomes the ongoing commitment to establishing a North East Education Challenge. Our members have backed this idea since it was proposed in Lord Adonis' North East Economic Review in 2013 and cited it as one of the most important elements of the Strategic Economic Plan. This Challenge must be ambitious in its outlook, have the full backing of all parts of the education sector and involve the business community in its design. Both educational attainment and relationships between businesses and schools must improve if the region is to fulfil its economic potential. Sufficient resources must be allocated to the Challenge in the long term in order to achieve lasting improvements.

NECC believes that, despite some notable successes, the North East significantly underperforms when it comes to inward investment. The lack of a cohesive offer and a single 'front door' to coordinate inquiries hinders our ability to compete with other parts of the UK. While NECA's plans contain a commitment to Inward investment support provided by the local authorities, UKTI and coordinated through the Combined Authority, far greater clarity is needed on these plans before the business community can fully support them.

We are also disappointed that the issues of spatial planning and housing do not feature more prominently in NECA's proposals. While not a statutory responsibility of the Combined Authority, we believe there is a far greater scope for Local Authorities to work together under the auspices of NECA in order to develop a strategic approach to development across the area and share expertise as planning budgets are reduced. This would allow better coordination of housing plans throughout travel to work areas and give outside observers a clearer picture of the allocation of new developments.

NECC is pleased to have been consulted on NECA's budget proposals for next year. We recognise that the organisation is relatively young and that its role and structures will take time to fully develop. However, as other regions in England develop similar structures, NECA must ensure this area is not left behind. We therefore urge NECA to be vocal and transparent in communicating its plans to the business community going forwards; something NECC is more than willing to facilitate.

Yours sincerely

Jonathan Walker
Head of Member Relations

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