



north east combined authority

North East Leadership Board (Extraordinary Meeting)

Tuesday 17th February 2015 at 2.00 pm

Meeting to be held at County Hall, Durham, DH1 5UL

www.northeastca.gov.uk

SUPPLEMENTAL AGENDA

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To All Members

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North East Combined Authority

Leadership Board

DATE: 17 February 2015

SUBJECT: 2015/16 Revenue Budget – Outstanding Issues

REPORT OF: Head of Paid Service and Chief Finance Officer

1 EXECUTIVE SUMMARY

- 1.1 At its meeting in January the Leadership Board agreed the 2015/16 Capital programme and the majority of the recommendations in respect of the 2015/16 revenue budget, including the transport budget and levies. This report provides an update about the two items that were not agreed: – the recommended level of revenue transport grant to Nexus [recommendation (f)], and the recommendation about proposed budget and funding for inward investment activity [recommendation (h)].
- 1.2 Section 3 of this report provides a response to the questions raised at the last meeting about the grant to Nexus and the report recommends approval of the transport grant to Nexus of £64,500,000 in line with the recommendation in the budget report of 20th January.
- 1.3 Section 4 outlines the approach to developing the governance and funding for inward investment activity. This report recommends that the initial base budget of £70,000 is funded equally between the seven councils and that a report is presented to the next formal meeting setting out more detail of the governance arrangements and recommendations to increase the level of funding for inward investment.

2 RECOMMENDATIONS

- 2.1 It is recommended that the Leadership Board –
 - a) note the legal advice received and confirm a transport revenue grant to Nexus for the delivery of transport services in Tyne and Wear of £64,500,000, as outlined in section 3; and
 - b) note the proposed Economic Development and Regeneration Portfolio arrangements outlined in section 4 of the report and agree that the current £70,000 base budget for inward investment continues and is funded by equal contributions from all seven councils, with a further more detailed report on arrangements and recommendations for increasing the level of investment to be presented to the next formal meeting of the Leadership Board.

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3 Transport Grant to Nexus

- 3.1 On 20th January the Leadership Board agreed the overall Transport Budget, and the Transport levies for 2015/16, including a transport levy for Tyne and Wear of £67,200,000. This met the legal requirement to set a transport budget and transport levies before 15th February.
- 3.2 The intended make up and change to the 2015/16 Tyne and Wear Transport budget and Levy of £67,200,000, was set out in the following table.

Table 1 : 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

- 3.3 The operational transport activity in Tyne and Wear is delivered by Nexus under the Transport Act 1968 powers. The gross cost of transport activities is £176.2m as set out in Appendix 1. These costs are part funded by fare income and direct transport grants (such as the Metro Rail Grant received from DfT). The net cost of £67.603m is funded by the proposed revenue grant from NECA of £64.500m and the planned use of Nexus reserves of £3.103m.
- 3.4 At the Leadership meeting on 20th January, one of the seven councils raised questions about the Revenue Grant to Nexus and voted against the recommendation to agree a grant of £64.5m. The key issues that were raised related to –
- Understanding the Nexus Board arrangements and the controls around the Authority's grant to Nexus, including the financial regulations of Nexus that applied to the grant it received from the Authority;
 - Information about expenditure that had not been the subject of competitive tender processes, including payments to charities; and
 - Information that could provide assurance that value for money was being secured and could be demonstrated.
- 3.5 The response to these questions is summarised in the following sections, with additional information about value for money set out in Appendix 2.

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3.6 The Nexus Board and its financial regulations

3.6.1 The legal status of Nexus did not change as a result of the creation of the NECA when the former TWITA was abolished and its powers transferred to the NECA. Nexus is a Passenger Transport Executive (PTE) and derives its powers from the Transport Act 1968 (as amended). It is a legal entity in its own right.

3.6.2 The 1968 Act gave PTEs wide-ranging powers, including the ability to secure the provision of public transport services in their areas. Nexus is a 'delivery agency' of the NECA and also an 'officer' of the NECA. This means that responsibilities in relation to transport services can be delegated to Nexus to undertake on behalf of the NECA. This includes:-

- Being the statutory Travel Concessionary Authority for its area with a responsibility for the reimbursement of bus operators for revenue forgone in the carriage of concessionary passengers;
- Contracting for subsidised bus services in its area;
- Providing any form of water transport – e.g. the Shields Ferry; and
- Constructing and operating the Metro system, as provided for in the Tyneside Metropolitan Railway Act 1973 (as amended).

3.6.3 The 1968 Act provides that a board of a PTE should consist of:-

- A Director General appointed by the NECA and;
- Not less than 2 nor more than 8 other members appointed by the NECA after consultation with the Director General.

Currently the Nexus Board consists of a Director General plus two other Executive Directors and two non-Executive Directors.

3.6.4 The newly appointed Director General of Nexus (appointed in accordance with Part II of Schedule 5 of the Transport Act 1968) is also the NECA's Managing Director (Transport Operations) and this role is designed to promote the development and delivery of high quality transport services and responsibilities across the whole of the NECA area. In this regard, the Managing Director (Transport Operations) is fully committed to working with Leaders and Chief Executives in order to further enhance Nexus' reporting and accountability to the NECA. A report is being prepared for discussion at the February meetings of TWSC and TNEC with a view to establishing a new set of working arrangements for Nexus by the summer of 2015.

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3.6.5 Within the NECA's financial regulations, Nexus is acknowledged as being a separate accountable public body with its own financial regulations to be adhered to by its directors and officers and which apply to its Leadership Board approved revenue and capital spending plans. In this regard, Nexus' general remit is to 'procure or provide public transport services and facilities, plan for future service development and promote the use and convenience of public transport'

3.6.6 Nexus' financial regulations (which outline the financial guidelines to be followed e.g. budget monitoring arrangements, expenditure and payments arrangements etc.) form part of its Standing Orders which set out how decisions are made and the procedures which are followed to ensure that Nexus operates lawfully, efficiently and effectively as well as being both transparent and accountable.

3.6.7 Nexus' Standing Orders also include:-

- The Governance Framework – which outlines governance and internal committee arrangements; and
- The Corporate Procurement Manual – which outlines the process to be taken when procuring goods and services.

3.6.8 In terms of financial accountability, Nexus is required to report quarterly on its financial performance in connection with its revenue budget and capital programme to TNEC and its statutory accounts are subject to external audit and are incorporated within the group accounts of the NECA. Copies of the financial regulations have been provided to each council in Tyne and Wear.

3.7 Competitive Tendering Arrangements and Payments to Charities

3.7.1 Nexus does not provide grant aid to charities although it does participate within the wider community it serves e.g. membership of the North East Chamber of Commerce.

3.7.2 It has in the past provided grant funding to commercial operators e.g. acting on behalf of the North East Smart Ticketing Initiative, it has grant aided large and small bus operators for the acquisition of smart ticketing machines. This type of activity is closely controlled and governed by state aid legislation and in all cases subject to prescriptive grant conditions.

3.7.3 In terms of tendering arrangements, Nexus follows relevant legislation governing public sector procurement:-

- The Public Contracts Regulations 2006 (as amended); and
- The Utilities Contracts Regulations 2006

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- 3.7.4 In addition to its statutory obligations in respect of the above Regulations, Nexus has a set of internal rules and regulations governing its tendering processes. These rules and regulations are outlined in its Standing Orders and detailed procedures are listed in its Corporate Procurement Manual. In order to ensure Value for Money in all its tendering activities, all tendering exercises where the value of the tender exceeds £25,000 are processed by Nexus Corporate Procurement Section and require a minimum of four tenders. Any tender exercise where the value is over £50,000 requires a minimum of five tenders. Whilst spend under £25,000 is not required to be processed via the Corporate Procurement Section, any spend over £1,000 requires a 'quotation process' to be followed.
- 3.7.5 The tendering of Secured Bus Services is also undertaken following this process, with the exception of what is known as 'De Minimis' services whereby in accordance with the Service Subsidy Agreements (Tendering) Regulations 2004, a Local Transport Authority is exempted from the tendering process to a maximum value of 25% of its annual (gross) Secured Bus Service budget. Currently Nexus spends around 12% (£2.2m) of this budget on 'De Minimis' services. The reasons for this are consistent with being able to provide an efficient secured bus network where often elements of commercial services are de-registered and instead funded by the LTA. It is not unusual for a commercial bus operator to only provide certain parts of a route or service and/or the times at which it operates leaving the LTA with an inability to tender the 'socially necessary' elements of the route or service in a meaningful way because of the clear financial advantage that the incumbent operator has. De Minimis arrangements also extend to ensuring through ticketing arrangements and convenience for passengers are maintained.
- 3.7.6 The majority of the grant provided to Nexus is spent on concessionary fares reimbursement, which is not subject to competitive tendering arrangements. As with all Travel Concession Authorities (which includes County Durham and Northumberland), Nexus is compelled statutorily to reimburse bus operators for the carriage of elderly and disabled passengers and has regard to DfT guidance and formulae in order to inform these payments.
- 3.7.7 The operation of Metro Services was also subject to external competition, although the recent increase in fare income means that the revenue costs of Metro are no longer funded from the NECA revenue grant to Nexus.

3.8 Value for Money

- 3.8.1 Transport services are provided at a county wide level and it is difficult to accurately allocate costs and benefits to individual districts due to the nature of cross boundary travel within the county. In response to requests for information over the past five years, Nexus has developed, in conjunction with finance and transport officers from across Tyne and Wear, an indicative approach to identifying service provision and associated costs at a district level.

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- 3.8.2 Whilst this approach has been used to disseminate information to the districts about the cost of services Nexus provides, relative to the levy they receive, the methodology was not considered to be sufficiently robust to be an alternative to the population split of the levy, which is set by statutorily determined regulations.
- 3.8.3 The methodology has been generally accepted as being capable of providing a broad indication of where resources are being directed. The latest information was presented to the Tyne and Wear Sub-Committee members' policy seminar in December 2014. A copy of the Analysis is set out in Appendix 2.
- 3.8.4 Comparative information about the levy costs in metropolitan areas was included in the Budget report on 20 January and is set out in Chart 2 in Appendix 1. This showed that Tyne and Wear had the third highest levy of the six metropolitan transport areas. This was due to the high level of concessionary travel take up and costs – with Tyne and Wear having the lowest car ownership and highest concessionary travel usage of all the areas. In terms of 'Other' non-concessionary travel costs, the levy per head of population in Tyne and Wear was the lowest of all six areas.
- 3.8.5 The Transport in Levy in Tyne and Wear is being reduced again by just over £1.0m in 2015/16 and the proposed Nexus Grant is reduced by £0.42m compared with 2014/15 to help achieve this. The levy has been reduced by over £10m in cash terms over the past 5 years, delivering improved value for money while maintaining service outcomes.
- 3.9 It is important that the recommended Transport Revenue Grant to Nexus is agreed, so that Nexus can set a balanced budget for the year and continue to provide transport services. Without confirmation of a balanced budget, Nexus will need to consider urgent actions that they would have to take to reduce discretionary spending, which is likely to have significant adverse impacts on contracts, staff and service users; as well as incurring additional unnecessary costs. The advice set out in section 7 of the report confirms that the award of the transport grant to Nexus is an operational matter and therefore may be determined on a majority basis. As the requisite majority was achieved at the meeting of the Leadership Board on 20 January the earlier decision must now be formally endorsed.

4 Inward Investment Activity

- 4.1 The report to the Leadership Board on 20th January recommended the continuation of the current base budget of £70,000; highlighted the additional £180,000 being provided for activity in enterprise zones and recognised the need for additional funding that would be the subject of a future report, as outlined in section 6.7.2 of that report, shown below.

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“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.”

4.2 The North East Chamber of Commerce had commented about their concerns about the co-ordination of inward investment activity and these are set out in section 8 in this report.

4.3 At the meeting on 20th January concerns were expressed that the level of funding for inward investment was inadequate and was insufficient to meet statutory duties. Concerns were also raised regarding delay in progressing potential solutions to this issue and in providing formal support to this Thematic area. As a result recommendation (h) was not agreed on a unanimous basis.

4.4 The NECA statutory duties in relation to economic development and therefore inward investment are co-terminus with the statutory duties of the seven constituent authorities of the NECA.

4.5 Since the Leadership Board’s meeting in January progress has been made towards the establishment of an Advisory Board for Economic Development and Regeneration. The key elements that have been agreed in principle are summarised below –

- The advisory Board will be chaired by the Thematic Lead for Economic Regeneration and Development, plus an elected member representative from each other Council;
- Additional non-voting members to be co-opted subject to agreement of the Leadership Board;
- The Advisory Board to be supported by the Economic Directors Group – providing necessary officer support and ensuring preparation of reports; and
- The Board’s role is to advise the Leadership Board on economic strategy, project pipelines and funding, future priorities, and to monitor and oversee collaborative initiatives to promote Inward Investment.
- These arrangements, including the terms of reference for the Advisory Board, will be set out in proposals for amendment to the NECA Constitution, to be considered by the Leadership Board at its next meeting.

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- 4.6 The Inward investment focus should be on developing added value at NECA level, complementing local arrangements. This would build on existing NECA / NELEP arrangements, focusing on better understanding sectoral strengths and marketing opportunities to better promote the area as well as streamlining the relationship with UKTi. Monitoring and oversight would be carried out by the Advisory Board. Operational delivery and reporting would be to the joint team and group of Economic Directors.
- 4.7 There is a commitment to funding the required resources as agreed by the Leadership Board within the budget available and to identify additional external resources to support the development and delivery of thematic requirements. There is an agreed need for additional funding to develop the approach to inward investment. The LEP Board, at its meeting on 29th January 2015, approved a budget of £2.15m to support the delivery of the Strategic Economic Plan. The LEP Board also agreed that a proportion of the budget should be used to support an enhanced level of Inward Investment activity.
- 4.8 The governance and additional funding arrangements for inward investment will be the subject of a report to the Leadership Board meeting in April. In the interim it is proposed that the funding of the £70,000 base budget by equal contributions of £10,000 from each authority be agreed thereby enabling the current support arrangements to continue.

5 Potential Impact on Objectives

- 5.1 The two areas of spending in this report contribute to the policy objectives of NECA including its Key Transport and Economic Development and Regeneration objectives and the delivery of the Strategic Economic Plan.

6 Finance and Other Resources

- 6.1 The financial and other resource are summarised in this report, where they are known. Failure to agree the transport grant to Nexus at this time could involve additional financial costs, which are difficult to accurately assess.

7 Legal

- 7.1 In accordance with the requirements of the NECA Order 2014 and associated Transport Levying Bodies Regulations 1992 (as amended) the Leadership Board agreed the three Transport Levies, in respect of Northumberland, Tyne and Wear and Durham on 20 January 2014. Specific Transport Grants were also made to Northumberland County Council and Durham County Council however at that time the proposed grant to Nexus to enable them to provide transport services in the Tyne and Wear area was not agreed on a unanimous basis.

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- 7.2 Following legal advice, it is clear that the decision to make such a grant is not required to be made by a unanimous vote in favour by all Constituent Authorities, but may be decided on a majority vote.
- 7.3 Although it is now apparent that the matter must be decided on the basis of a majority decision, in the light of advice received, the issue should be reviewed by the Leadership Board and a further decision taken to make the transport grant based on the majority decision taken on 20 January 2015.
- 7.4 In relation to Inward Investment as the identified provision of £70k was minimal, and in the event was not agreed, this does not now form part of the Annual Budget of the NECA. The question of resources to be made available for Inward Investment is recommended in this report to be further considered by the Leadership Board at the next formal meeting and appropriate revised provision can be agreed at that time. Such revised resources are to be provided in accordance with the Order creating the NECA and in the absence of any other agreement, by payment of equal amounts by each Constituent Authority. Such a decision will be on a majority basis.

8 Other Considerations

Consultation/Community Engagement

- 8.1. 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 were set out in Appendix H. There were no specific comments relating to the Grant to Nexus. The following comment was included in the letter from the North East Chamber of Commerce and the section in Appendix H is shown below.

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.

Extract From Appendix H -

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.
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8.2 Human Rights

There are no specific human rights issues arising directly from this report.

8.3 Equalities and Diversity

There are no specific issues arising directly from this report.

8.4 Risk Management

The main budget report put in place reserves to manage risk relating to the NECA budget.

There are significant risks to the finances of Nexus and to the delivery of NECA transport policy objectives of any further delay in agreeing the Revenue Grant to Nexus. Without the revenue grant Nexus will not be able set to set a balanced budget for 2015/16. This would mean that the Nexus Board would need to consider and take urgent actions to curtail discretionary spending, which would have adverse impacts on contracts, staff and service users. It could result in additional costs being incurred. In the event of the grant recommendation in this report not being agreed, the Nexus Board would consider specific actions at its March meeting, which would be reported to TWSC and TNEC and to a special meeting of the Leadership Board, which would again be recommended to approve a revenue grant to Nexus for 2015/16.

8.5 Crime and Disorder

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

8.6 Environment and Sustainability

There are no specific issues arising directly from this report.

9 Background Documents

9.1 Combined Authority Order, NECA constitution. NECA 2015/16 Budget Report

10 Links to Plans in the Policy Framework

10.1 There are clear links to Transport and Economic Development policies.

11 Appendices

11.1 Appendix 1 – Nexus' Revenue Budget - extract from the Budget Report of 20 January

Appendix 2 – Nexus Activity Analysis information.

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12 Contact Officers

12.1 Paul Woods, Chief Finance Officer, Paul.Woods@northtyneside.gov.uk, Tel: 07446936840

13 Sign off

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

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Appendix 1: Extract form 20 January Leadership Board Report

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 with 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

	<u>£000</u>	<u>£000</u>	<u>£000</u>
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			<u>2,983</u>

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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	0.755
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

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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

	<u>£m</u>	<u>£m</u>
Base deficit 2014/15		4.771
Contractual inflation	1.297	
Employees	0.447	
Committed growth	0.269	
Changes to grants	0.537	2.550
	<hr/>	
Commercial income	-2.520	
Corporate savings	-1.698	-4.218
	<hr/>	
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.

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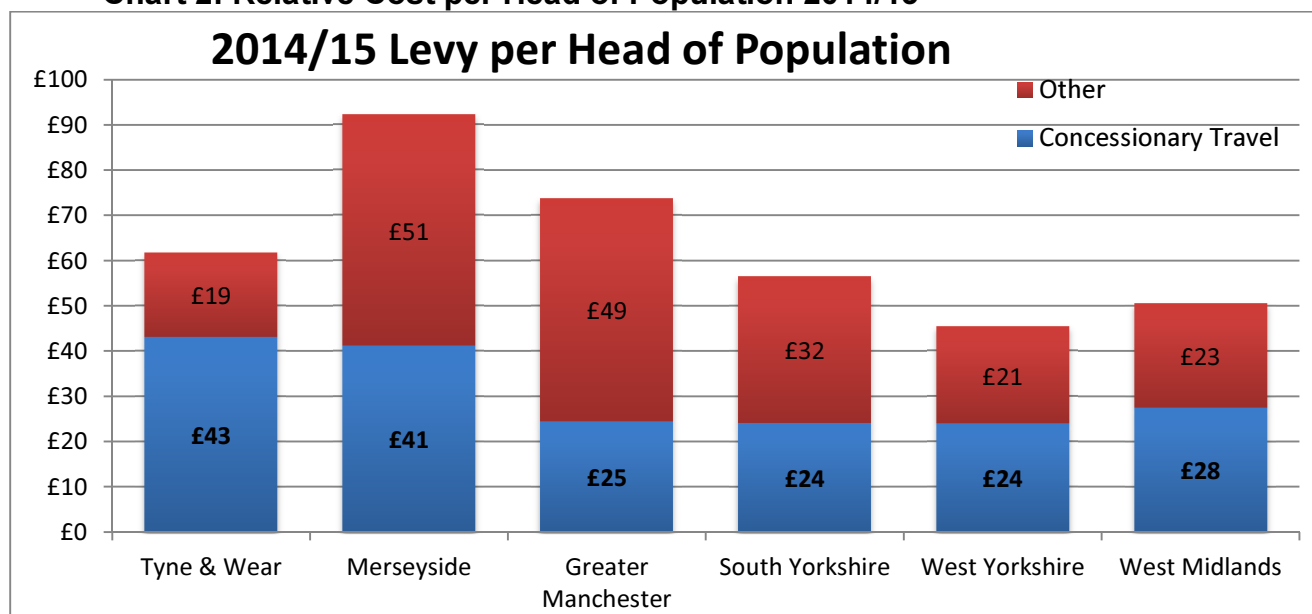
	£000
Balance at 31st March 2014	15,265
Forecast Deficit 2014/15	-2,983
Balance at 31st March 2015	<u>12,282</u>
Forecast Deficit 2015/16	-3,103
Balance at 31st March 2016	<u>9,179</u>

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).

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



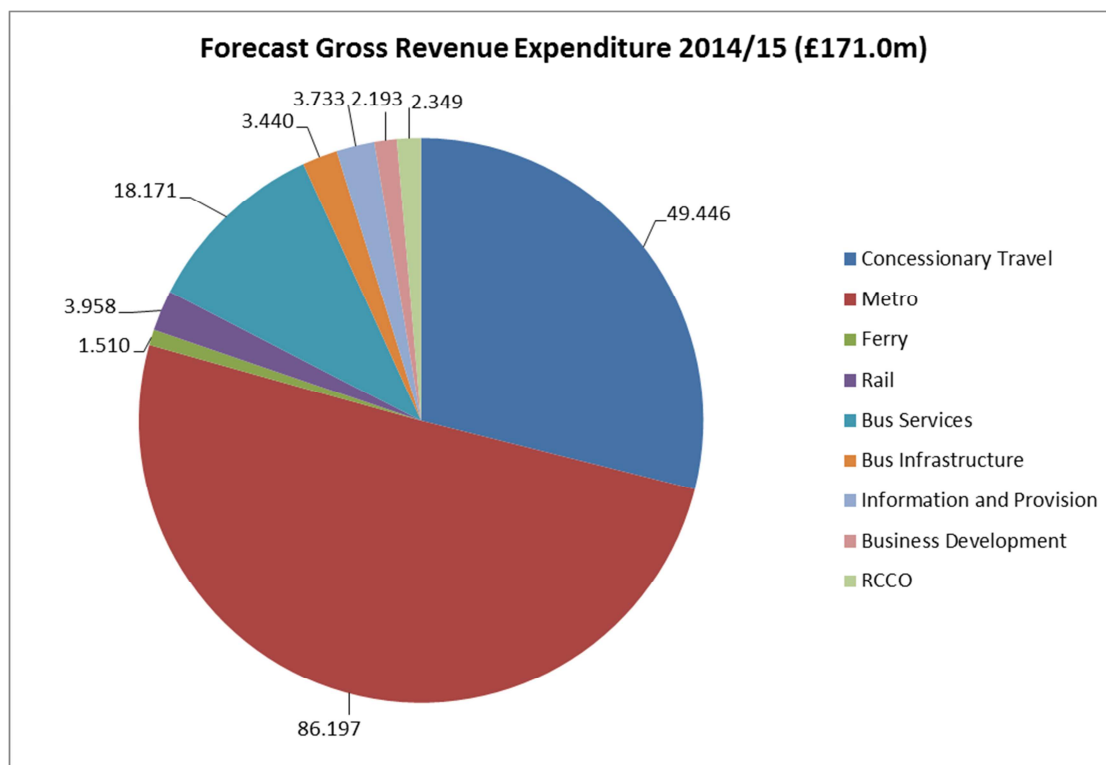
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Appendix C – Nexus Budget

2014/15 Forecast

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

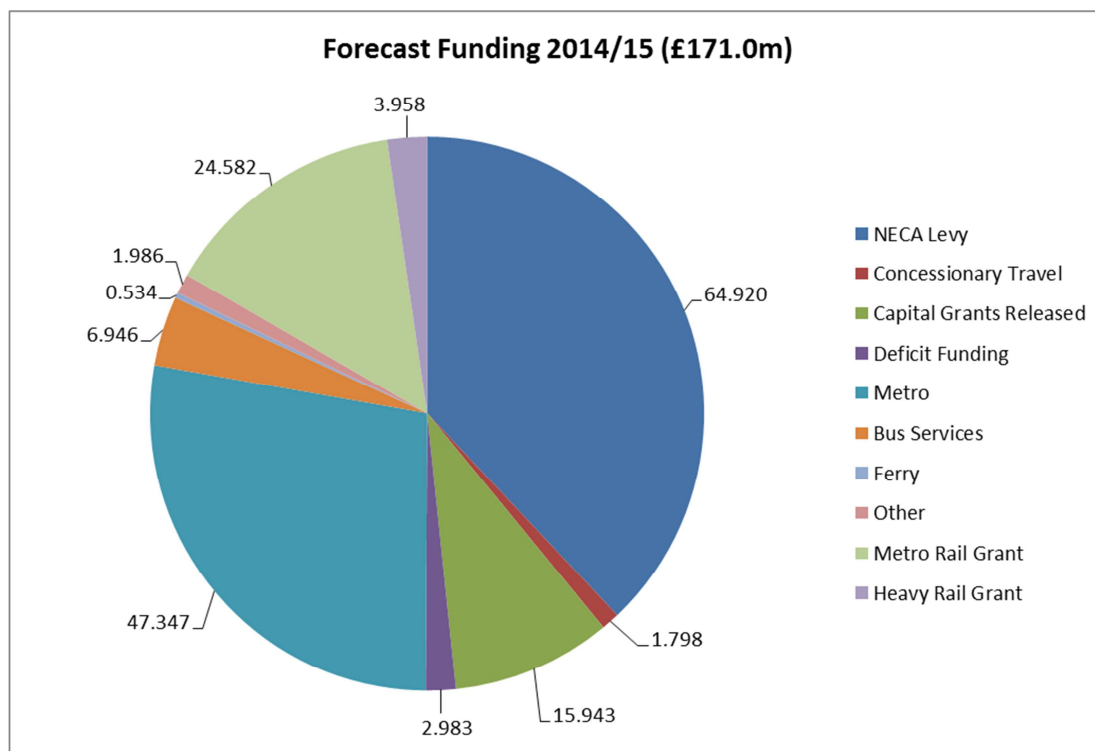


This shows that the largest areas of gross expenditure are in relation to Metro and Bus services including concessionary travel. The majority of this £171.0m is funded by £103.1m of fare income and external grants; £64.9m of Levy funded Grant, leaving a £3.0m budget deficit to be funded from reserves.

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

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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

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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

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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:

Cost centre	Gross Costs £m	Comm. Income £m	Net Costs (1) £m	Govt. Grants £m	Net Costs (2) £m	Capital Adjust £m	Locally Funded £m
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

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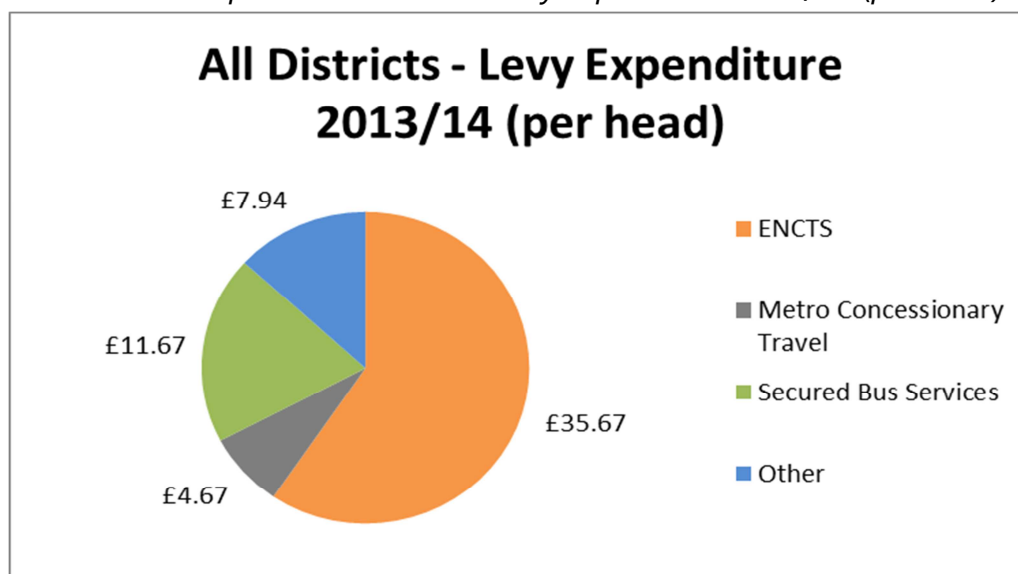
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Appendix 2 : Report on Tyne and Wear Transport Activity Analysis

The following information was part of the presentation to the Tyne and Wear Sub Committee

1. Over the past five years, Nexus has developed, in conjunction with finance and transport officers from across Tyne and Wear, an approach to identifying service provision and associated costs at a district level.
2. Whilst this approach has been used to disseminate information to the districts about the cost of services Nexus provides, relative to the levy they receive, the methodology was not considered to be sufficiently robust to be an alternative to a population split of the levy which is based on a set of statutorily determined regulations.
3. That said, the methodology has been generally accepted by all districts as being capable of providing a broad indication of where resources are being directed.
4. As presented to the TWSC members policy seminar in December 2014, during 2013/14, levy funded expenditure (expressed in £'s per head of population) was incurred on the following services (where 'other' is a combination of bus infrastructure, the Shields ferry, provision of public transport information, child concessions on bus and Taxicard):-

Graph 1: All Districts – Levy Expenditure 2013/14 (per head)



5. As Graph 1 clearly depicts, it is important to recognise that the levy is used in the main to fund the English National Concessionary Travel Scheme (ENCTS) which is a statutory requirement and based on two factors that Nexus has little control over

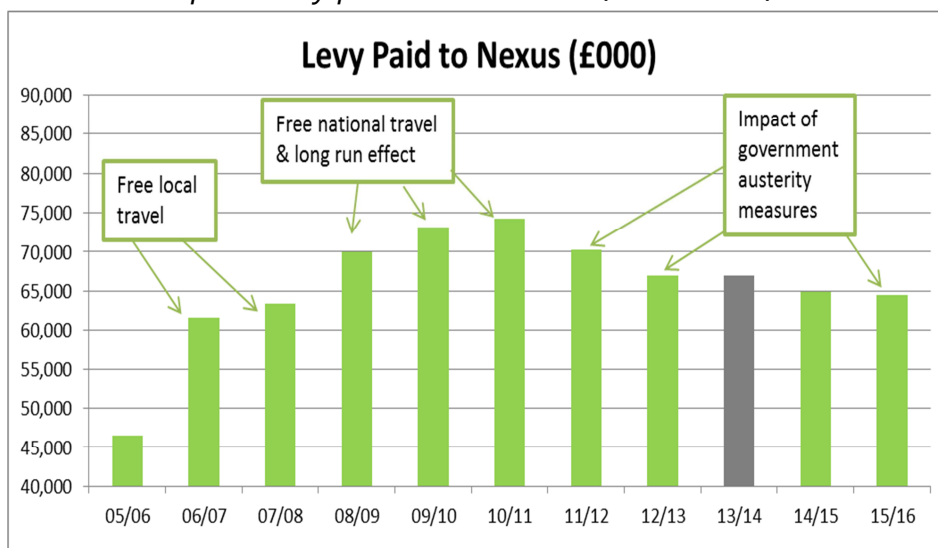
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namely, the numbers of older and disabled people accessing bus services and the fare they would be charged by bus operators in the absence of the scheme.

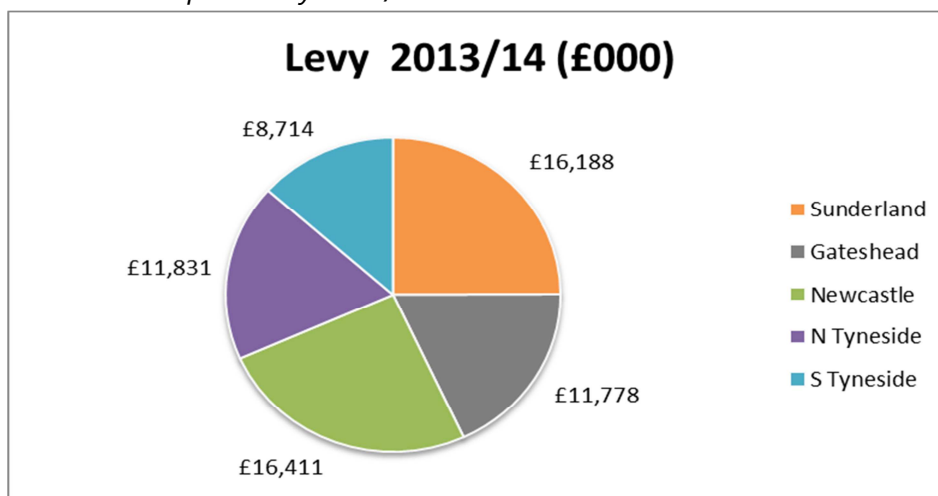
- The following graph shows that the levy increased dramatically (by just over 50%) between 2005/06 (the year before free local travel was introduced) and 2008/09 when the scheme was extended to free national travel, falling back again in 2011 when central government grant was cut as a response to austerity.

Graph 2: Levy paid to Nexus 2005/06 to 2015/16



- The levy paid to Nexus in 2013/14 was provided by the five districts in the following way:-

Graph 3: Levy 2013/14



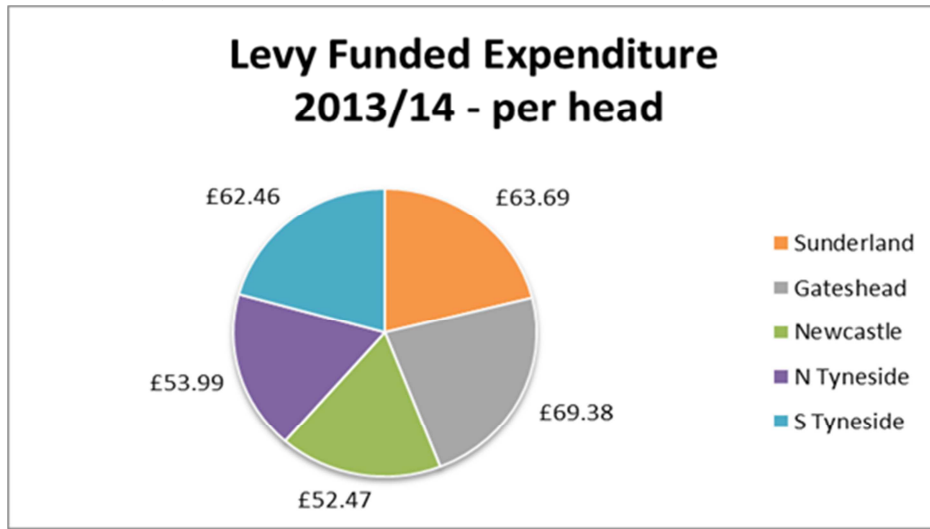
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8. On a per capita basis, this equated to **£58.80 per resident of Tyne and Wear.**

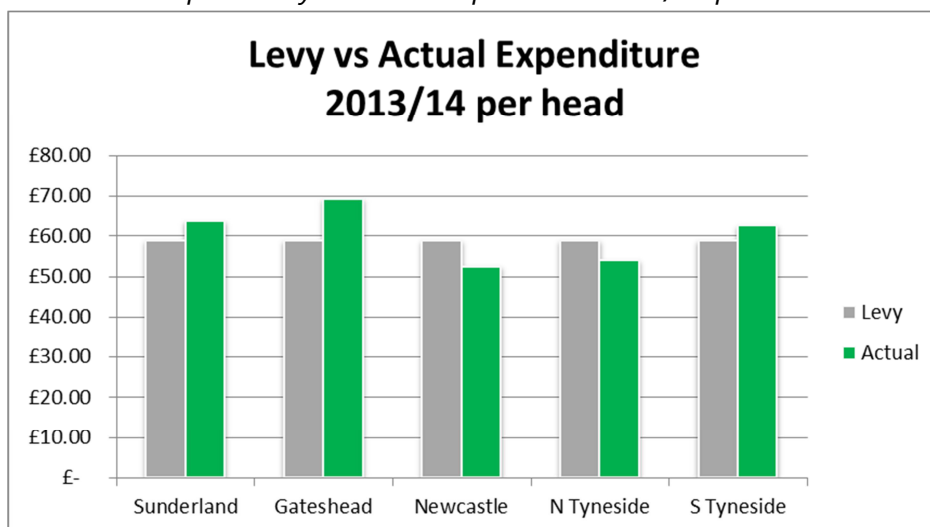
9. The following graph estimates the value attributed to each district on a per capita basis using the methodology that has been developed over the past five years:-

Graph 4: Levy Funded Expenditure 2013/14



10. This can also be illustrated in the following way:-

Graph 6: Levy vs Actual Expenditure 2013/14 per head

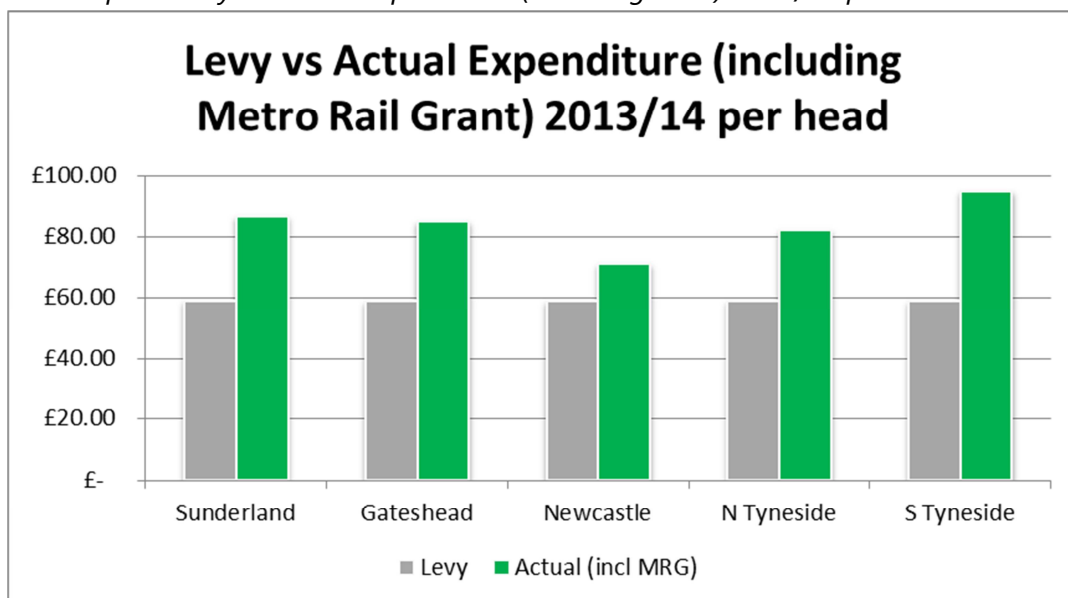


11. Whilst, using the accepted methodology, this indicates that two districts receive services equating to a financial value that is perhaps less than the levy they contribute, adding Metro Rail Grant (MRG) into the equation has the following effect:

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Graph 7: Levy vs Actual Expenditure (including MRG) 2013/14 per head



12. This illustrates that all districts, when combining levy and Metro Rail Grant receive a greater value of service provision than the levy they contribute.

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