



North East Combined Authority, Governance Committee

Friday 27th February, 2015 at 2.00 pm

Meeting to be held: Town Hall and Civic Offices, Westoe Road, South Shields, Tyne and Wear, NE33 2RL

www.northeastca.gov.uk

AGENDA

Page No

1. **Apologies for absence**
2. **Declarations of Interest**

Please remember to declare any personal interest where appropriate both verbally and by recording it on the relevant form (to be handed to the Democratic Services Officer).

Please also remember to leave the meeting where any personal interest requires this.
3. **Minutes of Previous Meeting held on 12 September 2014 and Notes of Inquorate Meeting held on 9 December 2014** 1 - 12
4. **Business Items to consider from In quorate Meeting held on 9 December 2014**
 - (a) **Request for Dispensations** 13 - 22
 - (b) **Request for Dispensation** 23 - 28
5. **Accounting Policies Update 2014-15** 29 - 48
6. **Budget Update 2015-16** 49 - 154

- | | | |
|-----|---------------------------------------|------------------|
| 7. | Internal Audit Progress Report | 155 - 166 |
| 8. | Partnership Assurance | 167 - 176 |
| 9. | Risk Management | 177 - 180 |
| 10. | Date and Time of Next Meeting | |

Proposed Dates:

Friday 10 July 2015 at 2pm - Sunderland
Friday 11 September 2015 at 2pm - Durham
Friday 11 December 2015 at 2pm - Gateshead
Friday 12 February 2016 at 2pm - Newcastle

Contact Officer: Christine Patterson Tel: 0191 211 6156
E-mail: christine.patterson@newcastle.gov.uk

To: All Members

North East Combined Authority, Governance Committee

12 September 2014

(2.00 pm - 2.50 pm)

Meeting held Committee Room 1 - Northumberland County Council, County Hall, Morpeth NE61 2EF

Present:

Independent Chair: M Scrimshaw

Councillors: E Bell, B Coates, A Dale, H Franks, J O'Shea and H Trueman

Independent Member: G Clark

10 APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillor A McMillan and Ms S Gardner, the Independent Person.

11 DECLARATIONS OF INTEREST

The declaration of interest procedure was noted.

12 MINUTES OF PREVIOUS MEETING HELD ON 27 JUNE 2014

RESOLVED – That the Minutes of the previous meeting held on 27 June 2014 were agreed as a correct record and signed by the Chair.

Matters Arising:

Minute 5 – Annual Governance Statement 2013/14: Reference was made to the request for the framework for seeking internal/external assurance and a timetable and arrangements. The Committee was informed that a draft would be presented to the proposed additional Committee meeting to be scheduled to take place in December 2014.

13 THE ESTABLISHMENT OF A SUB-COMMITTEE OF THE GOVERNANCE COMMITTEE

Submitted: A report by the Monitoring Officer (previously circulated and a copy attached to official minutes), which provided information on the terms of reference for a Sub-Committee and process for determining complaints of breaches of the Code of Conduct for Members, the grant of dispensations from non-participation in a meeting or voting at the meeting because of a dis-closable pecuniary interest held by a Member.

Reference was made to the assessment of complaints with comments being raised about whether a Member could potentially be investigated by both the Combined

Authority as well as the Authority they were elected to. It was explained that although no guarantee could be given that this would not happen, the Assessment Criteria had been established so that the Monitoring Officer had a degree of flexibility to determine the best route for the complaint to be investigated. The Assessment Criteria would be checked to ensure it was robust enough so that it provided for the rejection of a complaint, which was more appropriately addressed by another body or more particularly the Authority from which the subject member of the complaint was nominated.

A short discussion was held around the size and composition of the Sub Committee to be recommended to the Leadership Board. A comment was expressed about ensuring the Sub Committee did not comprise of a Member from the same Authority as the subject member complaint.

RESOLVED – That the Committee:

- (i) Noted the report.
- (ii) Agreed the Membership of the Sub Committee as 3 Members with a Quorum of 2, in addition to each meeting being Chaired by one of the non-voting Co-opted Independent Members.
- (ii) Invited the Leadership Board to amend the Constitution to create a Sub-Committee for the purposes of determining complaints of breaches of the Code of Conduct for Members and for granting dispensations for Members with registerable and non-registerable personal interests to enable Members to participate and vote at Committees where otherwise this would be prohibited, as detailed in the report.

14 **REQUEST FOR DISPENSATIONS**

Submitted: A report by the Monitoring Officer (previously circulated and a copy attached to official minutes), which provided information for determining requests for dispensations from Members and substitute Members of the Leadership Board in relation to their registerable and non-registerable personal interests.

The Committee was advised that a further five requests had been received since the report was circulated; details of which were reported.

In response to clarification on the recommended period of time that the dispensations were to be granted, it was explained that this would be for an initial two years but could be extended, if considered appropriate on expiry of the two year period.

The Chair suggested that if further dispensations were received, that he along with the Monitoring Officer be given authority to grant the dispensation on the grounds identified, inviting the Committee to consider his suggestion.

RESOLVED – That:

- (i) The requests for dispensation circulated with the agenda and the additional requests received and reported at the meeting be granted to enable the Members and Substitute Members to remain in relevant Leadership Board meetings when considering matters relating to funding agreements between the NECA and the Member's Authority but not to vote on the matter.
- (ii) The Monitoring Officer in conjunction with the Chair of the Governance Committee be authorised to grant dispensations for further requests received from the Members and substitute Members of the Leadership Board.
- (iii) Where dispensations were granted that the Monitoring Officer be authorised to issue a certificate of dispensation to Members concerned.

15 **ANNUAL REPORT AND ACCOUNTS 2013/14**

Submitted: A report by the Chief Finance Officer (previously circulated and a copy attached to official minutes), which summarised the findings of the audit and presented details of the final accounts for consideration.

During the presentation of the main highlights, appreciation was extended to the Senior Accountant, Newcastle City Council and her team for all the hard work in preparing and auditing the accounts and the Governance Statement.

The Committee was informed about a potential contingency liability relating to the Tyne Tunnel toll exemptions, which arose during July/August and which had been reported to the Auditors. Further information about this would be provided to Members in due course.

The Chair asked for a letter of thanks on behalf of the Committee to be sent to Councillor David Wood, Chairman of the Former Tyne and Wear Integrated Transport Authority, expressing the Committee's appreciation for his efforts. He also requested that thanks be recorded in the Minutes for the support of from Mr Anthony Atkinson and Ms Elizabeth Green during their term of office as Independent Members.

RESOLVED – That

- (i) The Annual Report and Accounts for 2013/14 be recommended to the Leadership Board for sign-off.
- (ii) The Annual Governance Statement 2013/14 be recommended to the Leadership Board for sign-off.
- (iii) A letter of thanks and appreciation be sent to the Chair of the Former Tyne and Wear Integrated Transport Authority on behalf of the Committee.

16 **EXTERNAL AUDITOR'S REPORT TO THE GOVERNANCE COMMITTEE OF THE NORTH EAST COMBINED AUTHORITY**

Submitted: A report by the External Audit (previously circulated and a copy attached to official minutes), which provided details of the audit of the Tyne and Wear

Integrated Transport Authority 2013/14, by the Authority's independent external auditors, Deloitte.

The principal matters arisen from the Audit for the year ending 31 March 2014, and the judgemental areas were highlighted. Appreciation was extended to the management team for their assistance and cooperation during the course of their audit work.

Members welcomed the report.

On points of clarification, it was explained that in future there would be one set of accounts for the Combined Authority, which would include information on the Tyne and Wear transport. Deloitte would continue as the External Auditors for the Combined Authority for the transition period 2014/15 with Mazars taking over the role from 2015.

RESOLVED – That the External Auditor's report be received and noted.

At this point in the proceedings, the Chair announced that an additional short verbal update was to be provided, seeking Committee's agreement.

17 **BUDGET 2014/15 - ADDITIONAL ITEM**

The Committee was informed that NECA Leadership Board would be considering the 2015/16 Budget in January 2015; however, a report on the process and timetable for the preparation, consultation of the 2015/16 Budget and the Medium Term Financial Strategy was being for consideration the NECA Leadership Board on Tuesday 16 September and a copy of this report, for information purposes, would be circulated to Governance Committee.

RESOLVED – That the Budget 2014/15 Process and Timetable report being considered by the NECA Leadership Board on Tuesday 16 September 2014 be circulated for information to Governance Committee members.

Councillor Dale left the meeting at 2.45pm

18 **INTERNAL AUDIT PROGRESS REPORT**

Submitted: A report by Audit, Risk and Insurance Service Manager (Newcastle City Council) (previously circulated and a copy attached to official minutes), which provided members with an updated Internal Audit Plan for the Combined Authority for 2014/15 and detailed progress against the delivery of the plan and implementation of audit recommendations.

In response to questions asked, the Committee was appraised in detail about the processes and risk management strategy relating to the Tyne Tunnel Toll Income.

A discussion took place on the level of detail and information to be provided in the Audit Activity schedule.

The Committee was reminded that there was some capacity set within the Plan to undertake additional activity should it arise throughout the year.

RESOLVED – That the Committee:

- (i) Noted the revised Internal Audit Plan for 2014/15 and internal audit activity to date.
- (ii) Agreed the level of detail and information to be provided in the report, as that presented, in addition to the following points being highlighted in the schedule:
 - Aggregate number of days expected for each audit activity
 - Date the audit activity was due to Governance Committee for consideration

19 **DATE AND TIME OF NEXT MEETING**

The Committee was invited to consider the following in terms of future meetings:

- Holding an additional meeting on 9 December, 2014 to coincide with the meeting of the NECA Overview and Scrutiny Committee to enable members to attend part of this meeting to hear the briefing on transport.
- To find an alternative date to that scheduled in February 2015.

RESOLVED – That:

- (i) Members to be invited to attend the Transport briefing session scheduled to take place at the NECA Overview and Scrutiny Committee meeting on 9 December 2014.
- (ii) An additional meeting of the Committee to be scheduled on 9 December 2014, possibly following the close of business of the NECA Overview and Scrutiny Committee.
- (iii) The meeting scheduled to take place on 13 February 2015 be cancelled and an alternative date be found and notified to all concerned.

This page is intentionally left blank

Notes of Inquorate meeting of North East Combined Authority, Governance Committee

9 December 2014

(12.00 pm - 1.20 pm)

Meeting held Committee Room, Civic Centre, Barras Bridge, Newcastle upon Tyne NE1 8QH

Present:

Independent Chair: M Scrimshaw (Chair)

Councillors: A Dale, H Franks, and D Trueman

Independent Person: S Gardner

20 APOLOGIES FOR ABSENCE

Apologies were received from Councillors E Bell, B Coates, A McMillan, J O'Shea and G Clark

21 DECLARATIONS OF INTEREST

None

At this point the Committee was advised that the meeting was inquorate; however, it would still be useful to hold an informal meeting to discuss the items, in particular the NECA Budget to enable comments to be forwarded to the NECA Leadership Board in January 2015.

On a point of clarification, V Geary advised that the quorum for Governance Committee was 5, not including the co-opted Independent Members or the Independent Person. The NECA Leadership Board was actively considering the appointment of substitutes and once the detail was agreed the Constitution would be amended accordingly.

22 MINUTES OF PREVIOUS MEETING HELD ON 12 SEPTEMBER 2014

The Committee reviewed the Minutes of the previous meeting held on 12 September 2014 and those present agreed their accuracy.

It was agreed: that the Minutes would formally be approved and signed by the Chair at the next scheduled meeting on 27 February 2015.

23 REQUEST FOR DISPENSATIONS

It was agreed: that that the report would be re-submitted for approval at the next meeting scheduled to be held on 27 February 2015.

24 REQUEST FOR DISPENSATION

It was agreed: that the report would be re-submitted for approval at the next meeting scheduled to be held on 27 February 2015.

25 NORTH EAST COMBINED AUTHORITY BUDGET 2015/16

P Woods introduced the report indicating that it provided up-to-date information about the financial position of the Combined Authority. Any comments and/or suggestions raised at this meeting would be taken into account when the budget was being finalised. He referred to the budget process, circulating a further copy of the timetable which he advised had not been printed correctly in the Agenda pack. The formal budget would be agreed by NECA Leadership Board on 20 Jan 2015; however, several things would be happening before reaching this stage. The Committee's attention was drawn to the main elements with details being reported on e.g. the budget preparation; the draft budget before consultation; the consultation on the draft budget and the consideration and agreement of the budget. A copy of the TNEC budget papers presented at their meeting on 4 December 2014 would be circulated so members would be fully briefed about the budget. Members were informed that the NELEP Board had been arranged for 15 January 2015 but had been postponed to 29 January 2015. This was later than NECA Leadership Board but it was considered that not having their final budgetary information was not necessary.

P Woods referred to the report, outlining the following key elements:

- A new process, which established an indicative transport budget levy for Durham County and Northumberland County.
- Provisional transport revenue budget and levies for 2015/16 were estimated at £89M; this was a small cash reduction compared with the current year.
- T&W transport budget and levy proposed at £67.2M; a reduction of £1.0M achieved through efficiency and ITA cost savings, thus protecting front line services.
- The national austerity measures and a budget being developed in the context of significant revenue funding cuts for local government.
- The Government's provisional revenue grant level funding announcements indicating significant extra cash cut for the seven Councils in 2015/16.
- Medium term financial strategy and the information required to develop this.
- There was a slight increase in budget levy for transport activity in Durham but this was being offset by continued pressure on concessionary fare reimbursement to operators and an increase in number of concessionary travel journeys.
- The NEXUS budget having a potential increase for 2015/16 resulting from Tyne Tunnel Tolls.
- Reserves to be drawn on, estimated to be around £200-£250K for 2015/16.
- NEXUS use of some general reserves to help balance their budget.

In concluding, P Woods referred to the fact that there was appropriate management arrangements being put in place to mitigate risk; officers were planning ahead but with the difficult times e.g. austerity being at the forefront of everyone's minds. It was anticipated that the impact to front line service users would be minimised and through the development of a successful strategy.

During discussions the following points were made:

- Reference was made to the revenue and corporate costs and how these related to NELEP. It was explained that in the transition year officers were keen to avoid putting these together. Since April 2014, a number of things had happened with more funding and more activity than had been expected but this had not been sufficient to meet corporate activity. Each local authority agreed in principle to fund these costs. In 2015/16, there was to be an increase from current monetary envelope of £140,000 to £300,000 to cover costs for legal, finance, audit, HR etc. Further conversations would be necessary around how the seven local authorities could better work together. NECA were looking at their own arrangements to see if improvements could add real value. The LEP and NECA together need to identify a range of opportunities for LEP capital resources to be converted to revenue.
- A question was asked about how the LEP was governed. It was explained that the governance arrangements were not quite the same as NECA. There was to be a national review of governance arrangements being undertaken. This should prevent any duplication of efforts.
- A question was asked about whether the LEP were on board with the accountancy and transparency issues. It was explained that the accountable body had been Sunderland. For audit purposes, LEP accounts were not required to be part of the process so had not appeared; however, in moving forward and as part of a step improvement change this current year, LEP transactions were now to be included into the annual accounts bringing matters back into proper governance arrangements e.g. accountable and more transparent. It was emphasised that it should be noted that there was nothing incorrect in terms of the previous arrangements. On a point of clarification, P Slater explained that in terms of internal audit, Sunderland had been reviewing the management arrangements and had come back with assurances on the new process.
- In response to a query around the LEP and the wider quality and shared workforce, it was explained that there had been a joint exercise, which resulted in much of the policy being developed which had formed this report.
- Reference was made to the governance framework and how all seven Councils, including the LEP were working together and sight of how the governance was being met through the LA7 would be useful.
- A comment was made about the importance in setting governance arrangements with all local authority partnerships.

At this point, representatives from NEXUS were invited to comment on their budget elements. The following summarised the points made:

- Reference was made to the old T&W ITA reserve funding remaining until the establishment of the Bus Quality Contract Scheme, which started in 2017/18 financial year.
- The budget 2014/15 forecast was better than deficit budget of ITA reducing from around £4.8M to just under £3M.
- The base deficit for 2015/16 was estimated to be just over £3.1M – this being consistent with earlier forecasts and that contained in the financial modelling for the Bus Quality Contracts Scheme.
- Commercial revenues estimated to be higher in 2015/16 largely due to Metro revenue e.g. Metro fare box
- Reference was made to the grant funding from NECA which was funding the costs of concessionary travel and supported Bus Services.
- The strategy being adopted in order to protect services outcomes in the medium term.

During discussions the following questions were asked:

- Whether the cuts would enable the services to continue to be sustainable? It was explained without the plan and reliance of reserves, the cuts were not sustainable. The Bus Quality Contract Scheme was hugely significant and would be carefully monitored and progress reported.
- What were the percentage statutory costs? It was explained that 2/3rds of the levy was on statutory schemes e.g. elements to fund the Gold Card; and Under 16 Travel etc.

At this point in the meeting, P Woods referred to the T&W fund scheme and the various pressures imposed. He also made reference to the failings by Government Departments in distributing monies fairly and to cash cuts of 14% to 25% for the statutory scheme.

- In response to queries around fares increases and concessionary fares, the operations and setting were explained. It was also explained that ¼ of journeys were concessionary travel. There were approximately 135million bus journeys in T&W with 40million using concessionary travel.
- Reference was made to page 36 paragraphs 3.9 - employability and inclusion and 3.10 - economic assets and infrastructure and a question asked about how the range of partners could be improved. It was explained that the local authorities were all taking a lead on the different NECA priority areas e.g. Sunderland was leading on economic development and Northumberland on skills and employability. NECA were reliant on a number of partners. A request was made for more information on this.
- Reference was made to the definite improvement in apprenticeship opportunities in the region. Opposing comments were raised about how schools and colleges did not appear to be preparing young people for the transition into employment e.g. interviewing skills. A suggestion was made about how this gap could be bridged. A request was made for an update on this.

At this point in the meeting, P Woods referred to the comments being made and indicated that as part of the LEP strategy plan, regular progress updates on the

various themes. There was one on the education focus challenge and this could be shared with Governance Committee.

A brief discussion was held around current apprenticeships offered in Newcastle City Council Audit and Risk team and the success of them.

It was agreed: that

- (i) The reports be received and noted.
- (i) That notes to be summarised in Budget Report to be submitted to NECA Leadership Board – 20 January 2015.
- (iii) NECA TNEC Budget reports to be circulate Governance Members for information.
- (iv) A progress report on the Education and Skills Focus Challenge to be submitted to next business meeting - Forward Plan deadline 28 January 2015.

26 **ANNUAL AUDIT LETTER 2013/14**

D Wilkinson, Deloitte introduced the report, referring to the key messages contained with page 82 of the agenda.

A vote of thanks was given to Deloitte for undertaking the work in respect of the audit of the financial statements and to Eleanor Goodman for her efforts in pulling together all the detail.

It was agreed: that the Annual Audit Letter for 2013/14 be noted.

27 **ANNUAL GOVERNANCE STATEMENT**

P Slater introduced the report and informed the Committee about the assurance framework. He advised that the draft Annual Government Statement and supporting evidence was anticipated to be submitted for approval May/June 2015.

In response to a questions asked, it was confirmed that in future the process of developing an assurance framework would be carried out in conjunction with the Governance Committee and that all partners were asked to give assurances and evidence of their operations; however, this was not in the form of a Governance Statement.

It was agreed: that the assurance framework be resubmitted for approval when seeking approval of the draft Annual Governance Statement and supporting evidence.

28 **STRATEGIC RISK APPROACH AND NEXT STEPS**

P Slater introduced the report and highlighted the following:

- Resulting from a workshop the biggest risks and opportunities facing the delivery of the NECA aims and ambitions were determined.
- Three key themes had evolved:
 - Devolutions – sharing economic development in North East
 - Partnership – strengthening partnerships via communication
 - Finances – delivery and if not delivered what impact would result. P Woods further clarified this as including resources e.g. human capacity and skills to deliver.
- A strategic risk register would be developed and presented back in February 2015.

In response to a question asked, it was pointed out that there was still a piece of work to complete around the development of a partnership register.

It was agreed: that a report be submitted on strategic risks and opportunities to next business meeting scheduled in February 2015.

29 INTERNAL AUDIT PROGRESS REPORT

P Slater introduced the report highlighting the following key elements:

- Reports relating to the risk management and strategic transport in County Durham were still in progress so would now be reported to February 2015.
- Referred to Appendix 2 – the Governance and Performance Arrangements, updating on the medium priority findings, as follows:
 - Senior Information Risk Owner was to be made in January 2015
 - Service level agreements would be finalised/agreed in April 2015
 - Register of partnerships arrangements to be established in January 2015.

During discussions, the following points were made:

- In response to a question, it was explained that although the Governance Committee was not specifically mentioned within the Audit Activity, it was inadvertently included as part of the NE Leadership Board and Committee responsibility for functions part of the review.
- Concerns expressed around the transparency and accountability of NELEP. It was explained that this was a piece of work still to be progressed.
- In response to a comment made about the review all risks together, it was explained that the action plan was not fixed and had scope for change. If additional work was required throughout the year then this could be included in the action plan.
- Comments were made to the grant funding from NECA to NEXUS; Durham County and Northumberland County and the additional safeguards and assurances being put in place to ensure the money was used properly.

It was agreed: that the progress report and comments be noted.

30 DATE AND TIME OF NEXT MEETING

Friday 27 February 2015 at 2.00pm at South Tyneside Council

North East Combined Authority

Governance Committee

DATE: 9 December 2014

SUBJECT: Request for Dispensations

REPORT OF: Monitoring Officer

EXECUTIVE SUMMARY

The purpose of this report is to consider and determine requests for dispensations from three Members of the Leadership Board in relation to their registerable personal interests as Directors of the Newcastle International Airport Limited.

RECOMMENDATIONS

The Committee is requested to:

- (1) determine the requests for dispensation submitted by Members of the Leadership Board; and
- (2) authorise the Monitoring Officer to issue a certificate of dispensation to the Member concerned where dispensations are granted; and
- (3) authorise the Monitoring Officer to grant dispensations to the Members of the Leadership Board who are also Directors of Newcastle International Airport Limited where such requests are not received in time for consideration by the Governance Committee.

1 Background Information

- 1.1 At the Annual Meeting of the NECA, Members of the Leadership Board and those nominated by the Constituent Authorities are appointed to the various Committees and Sub-Committees of the Authority. The Members of the Leadership Board and the Members of the Constituent Authorities are required to register their registerable and non-registerable personal interests under the NECA's Code of Conduct for Members. Those interests may relate to any item of business considered at a NECA meeting and may mean that a Member is required to declare an interest in an item of business and leave the meeting.
- 1.2 The Localism Act 2011 introduced a more generous regime of dispensations to that which existed under the previous arrangements. Such dispensations enable a Member to participate in a meeting dealing with a matter relating to a Member's registerable interest provided that an appropriate dispensation is in place. Where such a matter arises Members may now be given a dispensation either to speak but not vote, or to speak and vote, on several grounds, including that it would be in the interests of local people to allow a

North East Combined Authority

Governance Committee

dispensation, or even that it is simply “appropriate to grant a dispensation”. Dispensations may last for up to four years.

- 1.3 There are three Members of the Leadership Board who are also Directors of Newcastle International Airport Limited (NIAL). Items of business for consideration by the Leadership Board may arise that relate to the NIAL. Although it is possible for Substitute Members to attend such meetings instead of the Leaders, if such Substitutes are not available there are material risks that the Leadership Board will not be able to proceed to consider that item of business. The quorum for the Leadership Board is high with 6 of the 7 voting members required to attend with some items of business requiring a unanimous decision.
- 1.4 As a result Members of the Leadership Board who are also Directors of the NIAL have sought dispensations from the requirements of the Code of Conduct, under Section 33(2)(c) and (e) of the Localism Act 2011. The dispensation sought is to enable the Member to remain in the meeting during the consideration of the item and participate on the discussion but not to vote on the item. If a dispensation is granted it will enable the Member to speak on any item of business considered at the Leadership Board relating to NIAL. The letters from Members seeking dispensations are attached at Appendix 1.
- 1.5 A dispensation can be granted in the following circumstances –
 - (1) So many Members of the decision-making body have interests that require them not to take part in a matter that it would “impede the transaction of the business”. Effectively this means the decision-making body would be inquorate as a result;
 - (2) Without a dispensation, no member of the Leadership Board would be able to participate on the matter;
 - (3) Without the dispensation, the representation of different political groups on the body transacting the business would be so upset as to alter the outcome of any vote on the matter;
 - (4) the NECA considers that a dispensation is in the interests of persons living in its area;
 - (5) the NECA considers that it is otherwise appropriate to grant a dispensation.

In view of the potential for the Leadership Board not to be quorate when business relating to the NIAL are to be considered it is recommended that dispensations are granted on the ground that the dispensation is in the

North East Combined Authority

Governance Committee

interests of persons living in the area and it is otherwise appropriate to grant the dispensation.

- 1.6 The dispensation can be granted for up to a period of 4 years, however in accordance with previous practice adopted by the Committee Members may wish to grant the for a period of 2 years. The period can be extended if considered appropriate on expiry.
- 1.7 The Committee should note that the Code of Conduct for Members includes pre-existing dispensations in relation to the matters listed below but these are not areas that are likely to be considered by the Leadership Board or Members of the Constituent Authorities save perhaps for indemnities to Members and the setting of the annual precept. The pre-existing dispensations are:-
 - Housing
 - School meals or transport
 - Statutory sick pay
 - An allowance, payment or indemnity given to Members
 - Any ceremonial honour given to Members and
 - Setting the Council Tax or precept.

2 Proposals

- 2.1 That the Committee consider and determine the requests for dispensations.

3 Next Steps

- 3.1 If the dispensations are granted then a certificate of dispensation will be forwarded to the Members concerned by the Monitoring Officer.

4 Potential Impact on Objectives

- 4.1 The issue of dispensations relates to the good governance of the Authority and its decision-making.

5 Finance and Other Resources

- 5.1 There are no specific financial implications arising in relation to this report.

6 Legal

- 6.1 Where a written request for a dispensation is submitted by a Member to the Monitoring Officer the Governance Committee may grant a dispensation to enable a Member to participate or participate and vote where they have an interest in the at item which would otherwise require them to leave the meeting. The power to grant such dispensations is contained within the Localism Act 2011.

North East Combined Authority

Governance Committee

7 Other Considerations

7.1 Consultation/Community Engagement

The Leadership Board and Chief Officers have been made aware of this report and its contents.

7.2 Human Rights

There are no human rights implications directly arising from this report.

7.3 Equalities and Diversity

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

7.4 Risk Management

There are no risk management implications directly arising from this report.

7.5 Crime and Disorder

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

7.6 Environment and Sustainability

There are no environment and sustainability implications directly arising from this report.

8 Background Documents

8.1 None.

9 Links to Plans in the Policy Framework

9.1 There are no links to plans in the policy framework.

10 Appendices

10.1 Appendix 1 Dispensation Request Letters

11 Contact Officers

11.1 Vivienne Geary, Monitoring Officer – Tel: 0191 643 5339 –
vivienne.geary@northtyneside.gov.uk

North East Combined Authority

Governance Committee

12 Sign off

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

This page is intentionally left blank

Contact: Cllr Simon Henig
Direct Tel: 03000 268 820
Fax: 0191 383 3662
email: simon.henig@durham.gov.uk
Your ref:
Our ref: CAL/SH/PC



Ms V Geary
Monitoring Officer
North East Combined Authority
Quadrant, The Silverlink North
Cobalt Business Park
North Tyneside
NE27 0BY

11 November 2014

Dear Ms Geary

Re: Application to Governance Committee for a Dispensation

I am the Leader of Durham County and the Council's representative on the Leadership Board of the North East Combined Authority ("NECA"). I am also a Director of Newcastle International Airport Limited ("NIAL").

As a result of my role as a Director of NIAL, when the Leadership Board meets to consider an item of business that relates to the NIAL, I must declare my interest in that item and leave the meeting. This impacts on the proper operation of the NECA as my absence from the meeting may lead to the meeting being inquorate. The quorum for the Leadership Board is 6 out of 7 voting members and if one other such member is unable to attend the meeting, in the absence of substitutes being available, the meeting will not be quorate and therefore unable to proceed with that business.

I therefore request a dispensation under section 33(2)(c) and (e) of the Localism Act 2011 to enable me to remain in the meeting during the consideration of such an item of business. This will enable relevant business affecting the NIAL to proceed however, I am not seeking a dispensation to enable me to vote on such business to avoid assertions that any improper influence over a decision has arisen. The grant of a dispensation is appropriate and in the interests of persons living in the area of the NECA as it will enable the meeting to continue to progress the business referred for decision efficiently.

Yours sincerely,

Councillor Simon Henig
Leader of the Council

12 NOV 2014

Leader of the Council

Durham County Council, County Hall, Durham DH1 5UL
Customer Services 03000 26 0000 Minicom 0191 383 3802

This page is intentionally left blank

Ms V Geary
Monitoring Officer of the NECA
North Tyneside Council
Quadrant, The Silverlink North
Cobalt Business Park
North Tyneside NE27 0BY

Office of the Deputy Leader
P.O. Box 100, Civic Centre,
Sunderland SR2 7DN

Telephone: 0191 561 1321
Fax: 0191 553 1323
Web: www.sunderland.gov.uk

Date: 12 September 2014
Our ref: PW/SC
Your ref:

Dear Ms Geary

APPLICATION TO GOVERNANCE COMMITTEE FOR DISPENSATION

I am the Leader of Sunderland City Council (the "Council") and the Council's representative on the Leadership Board of the North East Combined Authority ("NECA"). I am also a Director of Newcastle International Airport Limited ("NIAL").

As a result of my role as a Director of NIAL, when the Leadership Board meets to consider an item of business that relates to the NIAL, I must declare my interest in that item and leave the meeting. This impacts on the proper operation of the NECA as my absence from the meeting may lead to the meeting being inquorate. The quorum for the Leadership Board is 6 out of 7 voting members and if one other such member is unable to attend the meeting, in the absence of substitutes being available, the meeting will not be quorate and therefore unable to proceed with that business.

I therefore request a dispensation under section 33(2)(c) and (e) of the Localism Act 2011 to enable me to remain in the meeting during the consideration of such an item of business. This will enable relevant business affecting the NIAL to proceed however, I am not seeking a dispensation to enable me to vote on such business to avoid assertions that any improper influence over a decision has arisen. The grant of a dispensation is appropriate and in the interests of persons living in the area of the NECA as it will enable the meeting to continue to progress the business referred for decision efficiently.

Yours sincerely



Councillor Paul Watson
Leader of the Council
Direct Line 0191 561 1320
E-mail cllr.paul.watson@sunderland.gov.uk

Residence: 17 Bink Moss, Mayfield, Washington NE37 1GD

Delivering services for a better future

This page is intentionally left blank

North East Combined Authority

Governance Committee

DATE: 9 December 2014
SUBJECT: Request for Dispensation
REPORT OF: Monitoring Officer

EXECUTIVE SUMMARY

The purpose of this report is to determine a request for a dispensation for Councillor John Eagle in relation to his registerable interest i.e. his employment status.

RECOMMENDATIONS

The Committee is requested to:

- (1) determine the request for a dispensation submitted by Councillor Eagle; and
- (2) If granted, authorise the Monitoring Officer to issue a certificate of dispensation to the Member concerned.

1 Background Information

- 1.1 Councillor John Eagle is the Gateshead Council representative on the North East combined Authority (NECA) Overview and Scrutiny Committee (OSC). He is also the OSC Vice-Chair for the current year. He is employed by Nexus Rail as a signals supervisor on the Metro, which is a pecuniary interest and registered as such in the register of members interests. NECA obviously plays a major strategic role with regard to transport in its area and it is inevitable that the OSC will be dealing with transport related matters. It is likely, therefore, that Councillor Eagle will have a technical pecuniary interest particularly where reports deal with the Metro or Nexus. Such an interest would require him to take no part in any discussion at relevant meetings and not vote. Councillor Eagle has submitted a request for a dispensation which is attached at Appendix 1.
- 1.2 The Localism Act 2011 introduced a more generous regime of dispensations to that which existed under the previous arrangements that enables a Member to participate in a meeting relating to a Member's registerable interest provided that the Member has an appropriate dispensation. Members may now be given a dispensation either to speak but not vote, or to speak and vote, on several grounds, including that it would be in the interests of local people to allow a dispensation, or even that it is simply "appropriate to grant a dispensation".

North East Combined Authority

Governance Committee

1.3 A dispensation can be granted in the following circumstances –

- (1) So many Members of the decision-making body have interests that require them not to take part in a matter that it would “impede the transaction of the business”. Effectively this means the decision-making body would be inquorate as a result;
- (2) Without a dispensation, no member of the Leadership Board would be able to participate on the matter;
- (3) Without the dispensation, the representation of different political groups on the body transacting the business would be so upset as to alter the outcome of any vote on the matter;
- (4) the NECA considers that a dispensation is in the interests of persons living in its area;
- (5) the NECA considers that it is otherwise appropriate to grant a dispensation.

Councillor Eagle is not in a position of direction or control within his employing organisation but could bring his knowledge of transport related issues to any discussion. It is therefore considered that it would be in the interests of persons living in the area, and that it would be otherwise appropriate, to grant the dispensation. He requests a dispensation from the need to desist from taking part in a discussion at a meeting, but is not requesting a dispensation with regard to voting as he would not expect to vote where there is a potential conflict as a result of reports dealing with Metro or Nexus.

1.4 The dispensation can be granted for up to a period of 4 years, and this is considered appropriate in the current circumstances

2 Proposals

2.1 That the Committee consider and determine the requests for a dispensation.

3 Next Steps

3.1 If the dispensations is granted then a certificate of dispensation will be forwarded to Councillor Eagle by the Monitoring Officer.

4 Potential Impact on Objectives

4.1 The issue of dispensations relates to the good governance of the NECA and its Overview and Scrutiny function.

5 Finance and Other Resources

5.1 There are no particular financial implications in relation to this report.

6 Legal

6.1 The Governance Committee on behalf of the NECA may on a written request to the Monitoring Officer from a Member of the Leadership Board or other member of a NECA Committee, grant a dispensation relieving the member from either or both of the restrictions in section 31(4) of the Localism Act 2011, namely the member being unable to (a) participate, or participate further, in any discussion of the matter at the meeting, or (b) participate in any vote, or further vote, taken on the matter at the meeting in relation to a matter that concerns a registerable or non-registerable interest.

7 Other Considerations

7.1 Consultation/Community Engagement

The Leadership Board and Chief Officers have been made aware of this report and its contents.

7.2 Human Rights

There are no human rights implications directly arising from this report.

7.3 Equalities and Diversity

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

7.4 Risk Management

There are no risk management implications directly arising from this report.

7.5 Crime and Disorder

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

7.6 Environment and Sustainability

There are no environment and sustainability implications directly arising from this report.

8 Background Documents

8.1 None.

9 Links to Plans in the Policy Framework

9.1 There are no links to plans in the policy framework.

10 Appendices

10.1 Appendix 1 Dispensation Request Letters

11 Contact Officers

11.1 Vivienne Geary, Monitoring Officer
Tel: 0191 643 5339
vivienne.geary@northtyneside.gov.uk

12 Sign off

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

North East Combined Authority

Governance Committee

APPENDIX 1

Ms V Geary
Monitoring Officer
North East Combined Authority
Quadrant
The Silverlink North
Colbalt Business Park
North Tyneside
NE27 0BY

My Ref. MEH/SLH
Your Ref:

Date: 29 October 2014

Dear Ms Geary

Application to Governance Committee for a Dispensation

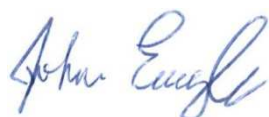
I am a member of the North East Combined Authority's (NECA) Overview and Scrutiny Committee (OSC) and it's vice-chair for the current year. I am also employed by Nexus Rail as a signal supervisor.

NECA obviously plays a major strategic role with regard to transport in the region and it is inevitable that the OSC will be dealing with transport related matters. It is likely, therefore, because of my employment position that I will have a technical pecuniary interest particularly where reports deal with the Metro or Nexus. I am not in a position of direction or control within my employer or those they are contracted with and feel it would be to the detriment of the people of the NECA area if I were not able to bring my knowledge of transport (along with my experience of OSC's) to bear on such matters.

I am therefore requesting that you proceed to ask the Governance Committee to grant me a dispensation from the need to desist from taking part in a discussion about these matters at a meeting. I am not requesting a dispensation with regard to voting as I would not expect to vote where there is a potential conflict as a result of reports dealing with Metro or Nexus.

I would be grateful for your assistance with these matters.

Yours sincerely



Councillor John Eagle

This page is intentionally left blank

North East Combined Authority

Governance Committee

DATE: 27 February 2015
SUBJECT: Accounting Policies 2014/15
REPORT OF: Chief Finance Officer

EXECUTIVE SUMMARY

This report updates Governance Committee on the Authority's accounting policies to be applied in the preparation of the Annual Report and Accounts for 2014/15, and an update on changes to UK accounting and reporting standards and guidance which may have an impact on the Authority's accounts for the year ending 31 March 2015.

RECOMMENDATIONS

Governance Committee is recommended to review the accounting policies presented with this report and approve their use in the preparation of the 2014/15 accounts.

North East Combined Authority

Governance Committee

1 Background Information

- 1.1 The purpose of this report is to update Governance Committee on the Authority's accounting policies to be applied in the preparation of the Annual Report and Accounts for 2014/15.
- 1.2 This report also provides an update on any changes to the Code of Practice on Local Authority Accounting published by CIPFA ("the Code") and any other changes to UK accounting and reporting standards which may have an impact on NECA's Accounts for the year ending 31 March 2015.
- 1.3 The full detailed accounting policies can be found in Appendix 1 to this report.

2 Proposals

2.1 Code of Practice Update 2014/15

- 2.1.1 There are no changes to the 2014/15 Code which will require restatement of prior year comparative figures. Some minor updates and clarifications that have been incorporated into the draft accounting policies may alter the disclosures within the accounts, and these are set out below.
- 2.1.2 The 2014/15 Code includes amendments to section 3.4 on the presentation of financial statements to reflect the amendments to IAS 1 as required by the Annual Improvements to IFRS 2009–2012 Cycle issued in May 2012 and also to include local authority statutory reporting requirements in the complete list of financial statements. The 2014/15 code clarifies the complete list of financial statements. These will be included within the NECA draft accounts.
- 2.1.3 Section 7.4 of the 2014/15 Code includes the amendments to IAS32 *Financial Instruments: Presentation (Offsetting Financial Assets and Liabilities)*, December 2011, requiring reference to the amended application guidance for offsetting financial assets and liabilities, where applicable. The accounting policy of NECA is to disclose financial assets and liabilities separately so there will be no changes required.
- 2.1.4 Chapter nine of the Code includes the introduction of the requirements of the five new or amended standards introduced by the IASB in May 2011, i.e. IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Ventures*, IFRS 12 *Disclosure of Interests in Other Entities*, IAS 27 *Separate Financial Statements* (as amended in 2011) and IAS 28 *Investments in Associates and Joint Ventures* (as amended in 2011). These changes deal with the consolidation of financial statements and the publication of group accounts. All arrangements which the Combined Authority is party to have been reviewed, and it will prepare Group Accounts consolidating the accounts of Nexus, as was previous practice for the Tyne and Wear ITA accounts.

North East Combined Authority

Governance Committee

2.1.5 A new Appendix has been introduced in the 2014/15 Code to confirm for authorities the changes to the future editions of the Code for the measurement of transport infrastructure assets. Depreciated Replacement Cost is to be adopted from 2016/17 for the measurement of transport infrastructure assets (currently these are valued at Historic Cost). However, opening balances as at 1st April 2015 will need to be restated to aid comparatives. The 2015/16 accounts will need to disclose this change in accounting policy but there is no impact on the 2014/15 accounts.

2.2 Other Accounting Updates

2.2.1 The Combined Authority will be moving to a new banking provider in 2015/16, following the decision by the Co-operative Bank to withdraw from local authority banking. The new contract has been procured in conjunction with Newcastle City Council, and will come into effect early in the new financial year.

2.2.2 2014/15 Annual Report and Accounts will be the first to include income and expenditure relating to the North East Local Enterprise Partnership (NELEP), which will be based on figures produced by Sunderland City Council who currently act as Host Authority for NELEP. From 2015/16 the intention is for all transactions to go through NECA's financial systems from the beginning of the year.

3 Next Steps

3.1 The accounting policies presented at Appendix 1 will be applied in the production of the 2014/15 accounts, which will be presented to this committee later in the year. The 2014/15 accounts are the first to include figures for the North East Local Enterprise Partnership, the host authority for which is currently Sunderland City Council. From 1 April 2015 the intention is to move

4 Potential Impact on Objectives

4.1 There are no direct impacts on objectives as a result of this report. Sound financial stewardship improves the ability of the Authority to meet all of its objectives.

5 Finance and Other Resources

5.1 The views of the Chief Finance Officer are reflected in the body of the report.

North East Combined Authority

Governance Committee

6 Legal

- 6.1 It is a requirement of the Local Government Act 2003 and the Accounts and Audit (England) Regulations 2011 for the Statement of Accounts to be produced in accordance with proper accounting practices.

7 Other Considerations

7.1 Consultation/Community Engagement

There are no community engagement implications from this report. Governance Committee are consulted on the accounting policies prior to their use in the preparation of the 2014/15 accounts.

7.2 Human Rights

There are no human rights implications directly arising from this report.

7.3 Equalities and Diversity

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

7.4 Risk Management

There are no risk management implications directly arising from this report.

7.5 Crime and Disorder

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

7.6 Environment and Sustainability

There are no environment and sustainability implications directly arising from this report.

8 Background Documents

- 8.1 Code of Practice on Local Authority Accounting 2014/15
8.2 Accounts and Audit (England) Regulations 2011

9 Links to Plans in the Policy Framework

- 9.1 There are no links to plans in the policy framework

10 Appendices

- 10.1 Appendix 1: North East Combined Authority Accounting Policies 2014/15.

North East Combined Authority

Governance Committee

11 Contact Officers

11.1 Eleanor Goodman, Senior Accountant, eleanor.goodman@newcastle.gov.uk,
Tel: 0191 277 7518

12 Sign off

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

North East Combined Authority

Governance Committee

APPENDIX 1

North East Combined Authority Accounting Policies 2014/15 - DRAFT

1. General Principles

The Statement of Accounts summarises the North East Combined Authority's transactions for the 2014/15 financial year and its position at the year-end of 31 March 2015. The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit (England) Regulations, which those Regulations require to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15, supported by International Financial Reporting Standards (IFRS). The accounting convention adopted in the Statement of Accounts is principally historic cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

2. Accruals of Income and Expenditure

The financial statements, other than the cash flow statement, are prepared on an accruals basis. This means that transactions are reflected in the accounts of the period in which they take place, as opposed to the period in which payments are made or received.

3. Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in no more than three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value. In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Authority's cash management.

4. Exceptional Items

Where items of income and expense are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts, depending on how significant the items are to an understanding of the Authority's financial performance.

5. Prior Period Adjustments, Changes in Accounting Policies and Estimates, and Errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

North East Combined Authority

Governance Committee

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Authority's financial position or financial performance.

Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

6. Charges to Revenue for Non-Current Assets

Services, support services and trading accounts are debited with the following amounts to record the cost of holding fixed assets during the year:

- Depreciation attributable to the assets used by the relevant service
- Revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off.

The Authority is not required to raise the levy to fund depreciation, revaluation and impairment losses or amortisations. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement, equal to an amount calculated on a prudent basis determined by the Authority in accordance with statutory guidance.

Depreciation, revaluation and impairment losses and amortisations are therefore replaced by the contribution in the General Fund Balance (Minimum Revenue Provision), by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

7. Employee Costs

The North East Combined Authority has one formal employee, with other staff being provided through Service Level Agreement (SLA) and secondment arrangements. The full cost of the employee, including holidays, is charged to the accounts of the period within which the employee worked.

Employee costs in the Comprehensive Income and Expenditure Statement include the direct salaries and employers' contributions for National Insurance and contributions to the Local Government Pension Scheme in respect of that member of staff. Officers of the Authority and other professional and technical support staff are primarily employed by the constituent authorities. Their costs are charged to NECA, together with a proportion of overhead costs, on the basis of estimated time spent on NECA business by the staff involved.

North East Combined Authority

Governance Committee

Under the Code, an accrual is required for the cost of holiday entitlements (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. Since NECA only has one employee, this amount is not material and so an accrual will not be made.

8. Pensions

NECA is a member of the Local Government Pension Scheme, which provides members with defined benefits relating to pay and service. Its pension obligations relate primarily to former employees.

The relevant fund is the Tyne and Wear Pension Fund administered by South Tyneside Metropolitan Borough Council, from whom a copy of the annual report may be obtained. The Fund website may be visited at www.twpf.info

The Local Government Pension Scheme

The Local Government Scheme is accounted for as a defined benefits scheme:

- The liabilities of the pension fund attributable to the Authority are included in the Balance Sheet on an actuarial basis using the projected unit method - i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of projected earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate determined annually, based on the indicative rate of return on high quality corporate bonds.
- The assets of the pension fund attributable to the Authority are included in the Balance Sheet at their fair value:
 - Quoted securities at current bid price.
 - Unquoted securities based on professional estimate.
 - Unitised securities at current bid price.
 - Property at market value.

The change in the net pensions liability is analysed into the following components:

- a) Current service cost - the increase in liabilities as a result of years of service earned this year - allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked.

North East Combined Authority

Governance Committee

- b) Past service cost - the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years - debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs.
- c) Net interest on the net defined liability, i.e. net interest expense for the Authority, the change during the period in the net defined benefit liability that arises from the passage of time charged to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure statement. This is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability at the beginning of the period taking into account any changes in the net defined benefit liability during the period as a result of contribution and benefit payments.
- d) Remeasurements comprising:
 - the return on plan assets, excluding amounts included in net interest on the net defined benefit liability, charged to the Pensions Reserve as Other Comprehensive Income & Expenditure
 - actuarial gains and losses, changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions, charged to the Pensions Reserve as Other Comprehensive Income and Expenditure
- e) Contributions paid to the pension fund - cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Authority to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

Further details are provided in a Note to the Accounts.

9. Events After the Balance Sheet Date

North East Combined Authority

Governance Committee

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- Those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events; and
- Those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

10. Financial Instruments

Financial Liabilities

Financial Liabilities are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For most of the borrowings that the Authority has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement. Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase / settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Authority has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of

North East Combined Authority

Governance Committee

amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Financial Assets

Financial assets are classified into two types:

- Loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market; and
- Available for sale assets – assets that have a quoted market price and / or do not have fixed or determinable payments.

Loans and Receivables

Loans and receivables are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Authority has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement. Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the relevant service (for receivables specific to that service) or the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate. Any gains and losses that arise on the derecognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

Available for Sale Assets

Available-for-sale assets are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Authority has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the

North East Combined Authority

Governance Committee

Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the relevant service (for receivables specific to that service) or the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate. Any gains and losses that arise on the derecognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any accumulated gains or losses previously recognised in the Available-for-Sale Reserve. Where fair value cannot be measured reliably, the instrument is carried at cost (less any impairment losses).

11. Government Grants and Contributions

The provisions relating to Grants and Contributions apply to both revenue and capital grants and contributions. Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Authority when there is reasonable assurance that:

- The Authority will comply with the conditions attached to the payments; and
- The grants or contributions will be received.

Amounts recognised as due to the Authority are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor. Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions and capital grants used to fund Revenue Expenditure Financed from Capital Under Statute) or Taxation and Non-Specific Grant Income (non-ringfenced revenue grants and all capital grants except for those used to fund Revenue Expenditure Financed from Capital Under Statute) in the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied Reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital

North East Combined Authority

Governance Committee

Grants Unapplied Reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

12. Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant and equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

NECA's contractual arrangements have been reviewed and it is not currently party to any lease arrangements.

a) The Authority as Lessee Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a rent-free period at the commencement of the lease).

b) The Authority as Lessor Operating Leases

Where the Authority grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the long term on the same basis as rental income.

13. Property, Plant and Equipment

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

North East Combined Authority

Governance Committee

Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Authority and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

Measurement

Assets are initially measured at cost, comprising:

- The purchase price;
- Any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management; and
- The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have commercial substance (i.e. it will not lead to a variation in the cash flows of the Authority). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Authority.

Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the Taxation and Non-Specific Grant Income line of the Comprehensive Income and Expenditure Statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the Donated Assets Account. Where gains are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance to the Capital Adjustment Account in the Movement in Reserves Statement. Assets are then carried in the Balance Sheet using the following measurement bases:

- Infrastructure, community assets and assets under construction – depreciated historical cost;
- All other assets – fair value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

Where there is no market-based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of fair value.

Where non-property assets that have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for fair value.

North East Combined Authority

Governance Committee

Assets included in the Balance Sheet at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum every five years. The work is carried out on behalf of the Authority by the Property Services Division of Newcastle City Council. These revaluations are detailed within the Notes to the Core Financial Statements. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.

Where decreases in value are identified, they are accounted for as follows:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains); and
- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line (s) in the Comprehensive Income and Expenditure Statement.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

De Minimis Levels

The use of a de-minimis level for capital expenditure means that in the above categories assets below the de-minimus level are charged to the revenue account and are not classified as capital expenditure, i.e. the asset is not included in the balance sheet unless they are part of an overall project costing more than the established de-minimis level. For all capital expenditure the de-minimis level is £10,000.

Impairment

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for as follows:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains); and
- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

North East Combined Authority

Governance Committee

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land) and assets that are not yet available for use (i.e. assets under construction). Depreciation on all Property, Plant and Equipment assets is calculated by taking the asset value at 31 March 2015, divided by remaining life expectancy. Depreciation is therefore charged in the year of acquisition, but not the year of disposal. Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation that would have been chargeable based on their historic cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Where an item of Property, Plant and Equipment assets has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately. In the most recent valuations of the Tyne Tunnels, it was assessed that, although Mechanical and Electrical Services and the Toll Plaza have an economic life of 20 years, these formed less than 20% of the overall valuation and have not therefore been classed as significant components.

Disposals

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Authority's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

14. Public Private Partnership (PPP) Contracts

Public Private Partnerships are agreements to receive services and provide capital jointly with the private sector. The New Tyne Crossing Partnership is judged to be such an arrangement.

The Code requires these arrangements to be assessed under an application of the principles within International Financial Reporting Interpretation Committee 12 (IFRIC 12) 'Service Concessions'.

Arrangements fall in the scope of the Application where both of the following 'IFRIC 12' criteria are met:

North East Combined Authority

Governance Committee

- The public sector entity ('grantor') controls or regulates the services that the operator must provide with the infrastructure, to whom it must provide them, and at what price; and
- The grantor controls, through ownership, beneficial entitlement or otherwise, any significant residual interest in the infrastructure at the end of the service arrangement.

For any service concession within the scope of the Application, the grantor will recognise the cost of the property, plant and equipment underlying the service concession as a tangible fixed asset. The New Tyne Crossing is considered to meet both of the IFRIC 12 criteria, and NECA therefore recognises the costs of the new tunnel on its Balance Sheet.

In most arrangements within the scope of the Application, the grantor will account for the arrangement's financing by recording and measuring a long term liability in accordance with IAS17. This treatment reflects an obligation to pay the operator for the full value of the asset along with the operator's cost of finance. However in the New Tyne Crossing Project, TT2 Ltd. (the Operator) receives a defined proportion of the total toll revenue and uses this to meet its cost of constructing and operating the new tunnel and the existing tunnel. NECA may therefore have no long term obligation to transfer economic resources to TT2 Ltd., and hence should not recognise a liability.

The provisions within the Payment Mechanism for payment of toll revenue to the operator are as follows:

- In each month NECA pays a Shadow Toll to the Operator; this being a fixed amount per vehicle adjusted for changes in RPI;
- Throughout the Term, Formula Tolls for each vehicle type are defined to equal the corresponding vehicle type Shadow Tolls;
- The Formula Tolls are the initially-defined sequence of tolls to be charged to users and collected by NECA. If NECA varies a Real Toll from its corresponding Formula Toll beyond a certain level, the Operator is compensated for the effect of this adjustment on demand.

NECA therefore has no exposure to any risk and reward associated with the Operator revenue, but only an executor contract to transfer the Operator's share of total revenues to the operator as it is collected.

It therefore follows from this conclusion that NECA has no long-term obligation to transfer economic resources to the Operator, since the Operator revenue is in substance transferred directly to it. NECA therefore should not recognise a long term liability to finance the project assets.

In relation to such an arrangement, the Code and the accompanying guidance do not provide clear guidance. However, the guidance notes accompanying the Code suggest that the credit that matches the asset should be a deferred income balance.

North East Combined Authority

Governance Committee

NECA has therefore recognised a deferred credit balance, added to as each of Phase 1 and Phase 2 were completed, and equal to the fair value of the asset addition under each Phase. This balance is then released to the Comprehensive Income and Expenditure Statement over the life of the contract.

15. Provisions

Provisions are made where an event has taken place that gives the Authority a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential and a reliable estimate can be made of the amount of the obligation. For example, the Authority may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation. Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Authority becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probably that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service. Where some or all of the payment required to settle the provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the Authority settles the obligation.

16. Contingent Liabilities

A contingent liability arises where an event has taken place that gives the Authority a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Authority. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probably that an outflow of resources will be required or the amount of the obligation cannot be measured reliably. Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

17. Reserves

The Authority sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against the levy for the expenditure.

North East Combined Authority

Governance Committee

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirement and employee benefits and do not represent usable resources for the Authority – these reserves are explained in the relevant policies.

18. Revenue Expenditure Funded from Capital Under Statute

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Authority has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reversed out the amounts charged so that there is no impact on the levy.

19. VAT

VAT payable is included as an expense only to the extent that it is not recoverable from HM Revenue and Customs. VAT receivable is excluded from income.

20. Overheads

The costs of central support services e.g. Finance and Legal Services have been allocated to NECA on the basis of Service Level Agreements in accordance with guidance given by the Chartered Institute of Public Finance and Accountancy (CIPFA). A percentage is allocated to the different areas of NECA activity (e.g. Transport, Economic Development, Corporate) in accordance with estimated work done on each area.

21. Tyne Tunnel Income

The majority of the income from tolls is received on a cash basis and so no accruals are necessary. However, prepayments on permit accounts are also received. The balance outstanding on the permit account has been accrued.

22. Group Accounts

NECA is required by the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 to produce Group Accounts to include services provided to Council Tax payers in the North East by organisations other than the Authority itself in which the Authority has an interest.

Although there has been no definitive ruling by CIPFA or central government in relation to Combined Authorities and Passenger Transport Executives, it is recognised that the accounts of Nexus fall within the definition of a subsidiary. As such, group accounts have been prepared on the basis of a full consolidation of the financial transactions and balances of NECA and Nexus. Nexus has been incorporated as a subsidiary, whereby the accounts of the two organisations are combined and any intra-group transactions are cancelled out.

North East Combined Authority

Governance Committee

For the 2014/15 accounts, NECA has fully complied with the requirements of the Code, providing Group figures for the 2014/15 accounts and comparators for 2013/14. From 2010/11, Passenger Transport Executives have been required to produce their accounts under International Financial Reporting Standards, and as if the proper practices in relation to accounts applicable to a local authority were, so far as appropriate, applicable to an Executive. The group financial statements are prepared in accordance with the policies set out in the Statement of Accounting Policies above.

North East Combined Authority

Governance Committee

DATE: 27 February 2015

SUBJECT: Budget Update 2015/16

REPORT OF: Chief Finance Officer

EXECUTIVE SUMMARY

This report updates Governance Committee on progress with the setting of the 2015/16 budget. I will also provide members with a verbal update on progress with the budget development at the meeting.

RECOMMENDATIONS

Governance Committee is recommended to receive this report for information and comment.

1 Background Information

- 1.1 The purpose of this report is to update Governance Committee on the 2015/16 budget. Reports to the Leadership Board meeting on 20th January and 17th February are attached.

2 Proposals

- 2.1 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. Two of the recommendations were not agreed at that meeting and, at the time of writing this report, are anticipated to be agreed at a meeting scheduled for 17 February 2015.
- 2.2 The three reports concerned are attached as appendices to this report, and the Chief Finance Officer will provide an update at the Governance Committee meeting on the latest progress.

3 Next Steps

- 3.1 The budget for 2015/16 will be monitored throughout the year and progress reported on a regular basis.

North East Combined Authority

Governance Committee

4 Potential Impact on Objectives

- 4.1 There is no specific impact on objectives arising from this report, which is for information only. The revenue budget and capital programme reports presented 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.

5 Finance and Other Resources

- 5.1 The views of the Chief Finance Officer are reflected in the body of the report.

6 Legal

- 6.1 The Authority has a duty to ensure it can deliver a balanced budget. The Local Government Act 2003 imposes a duty on an Authority to monitor its budgets during the year and consider what action to take if a potential deterioration is identified.

7 Other Considerations

7.1 Consultation/Community Engagement

The 2015/16 budget proposals were subject to a period of consultation and engagement, including with the Governance Committee.

7.2 Human Rights

There are no human rights implications directly arising from this report.

7.3 Equalities and Diversity

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

7.4 Risk Management

There are no additional risk management implications directly arising from this report, the attached reports highlight the budget risk management issues.

7.5 Crime and Disorder

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

7.6 Environment and Sustainability

There are no environment and sustainability implications directly arising from this report.

8 Background Documents

- 8.1 Appendices listed below.

North East Combined Authority

Governance Committee

9 Links to Plans in the Policy Framework

9.1 There are no links to plans in the policy framework

10 Appendices

10.1 North East Leadership Board report – 2015/16 Revenue Budget and Transport Levies, 20 January 2015

10.2 North East Leadership Board report – 2015/16 Capital Programme, 20 January 2015

10.3 North East Leadership Board report – 2015/16 Revenue Budget – Outstanding Issues, 17 February 2015

11 Contact Officers

11.1 Eleanor Goodman, Senior Accountant, eleanor.goodman@newcastle.gov.uk,
Tel: 0191 277 7518

12 Sign off

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

This page is intentionally left blank

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.

North East Combined Authority

Leadership Board

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.

North East Combined Authority

Leadership Board

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.

North East Combined Authority

Leadership Board

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.

North East Combined Authority

Leadership Board

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
<u>Transport</u>			
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.

North East Combined Authority

Leadership Board

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
<u>Transport</u>		
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)

North East Combined Authority

Leadership Board

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.

North East Combined Authority

Leadership Board

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.

North East Combined Authority

Leadership Board

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.

North East Combined Authority

Leadership Board

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:

North East Combined Authority

Leadership Board

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	<u>-96</u>		
		-2,086	
Investment Income	100		
Smart Ticketing	78		
Rates	71		
Metro Rail Grant	39		
Other	<u>11</u>		
		<u>299</u>	
			-1,787
Latest Forecast Deficit			<u>2,983</u>

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

North East Combined Authority

Leadership Board

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
	-2.520	
Commercial income	-1.698	-4.218
Corporate savings		
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

North East Combined Authority

Leadership Board

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	<u>-2,983</u>
Balance at 31st March 2015	12,282
Forecast Deficit 2015/16	<u>-3,103</u>
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

North East Combined Authority

Leadership Board

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.

North East Combined Authority

Leadership Board

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

North East Combined Authority

Leadership Board

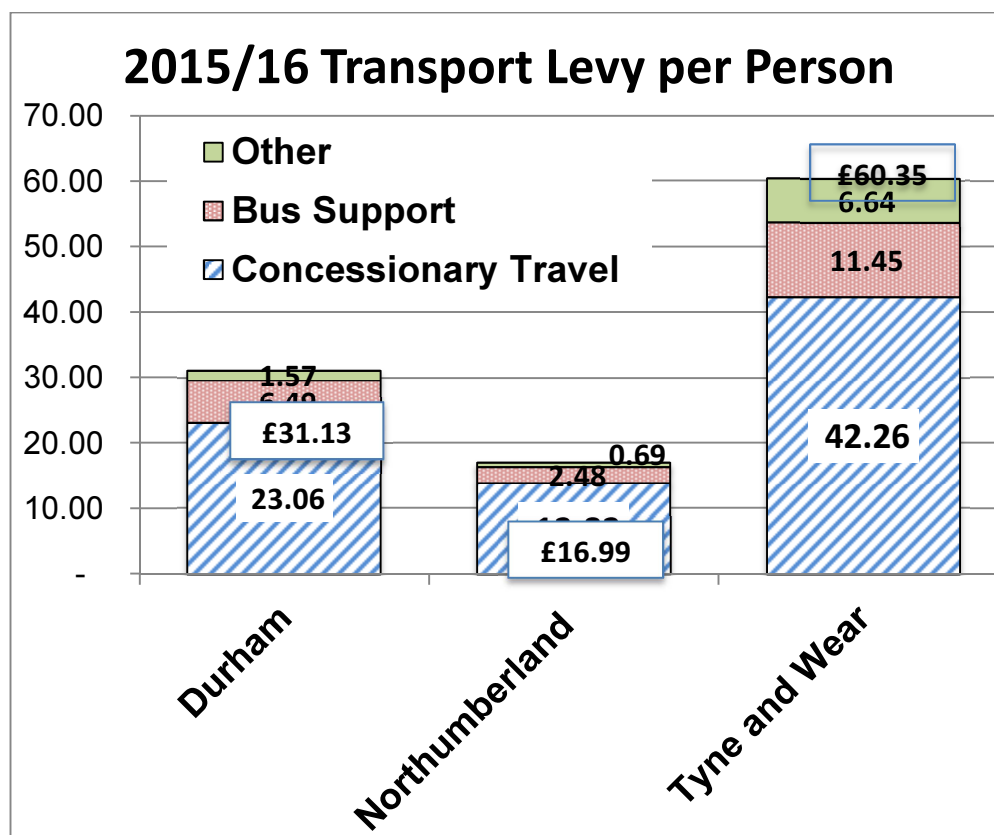
includes an allocation to Nexus, which would need to be sufficient to meet commitments to part-fund the Metro Reinvigoration Project. Further details of the allocation to Tyne and Wear districts are set out in the capital programme report.

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

North East Combined Authority

Leadership Board

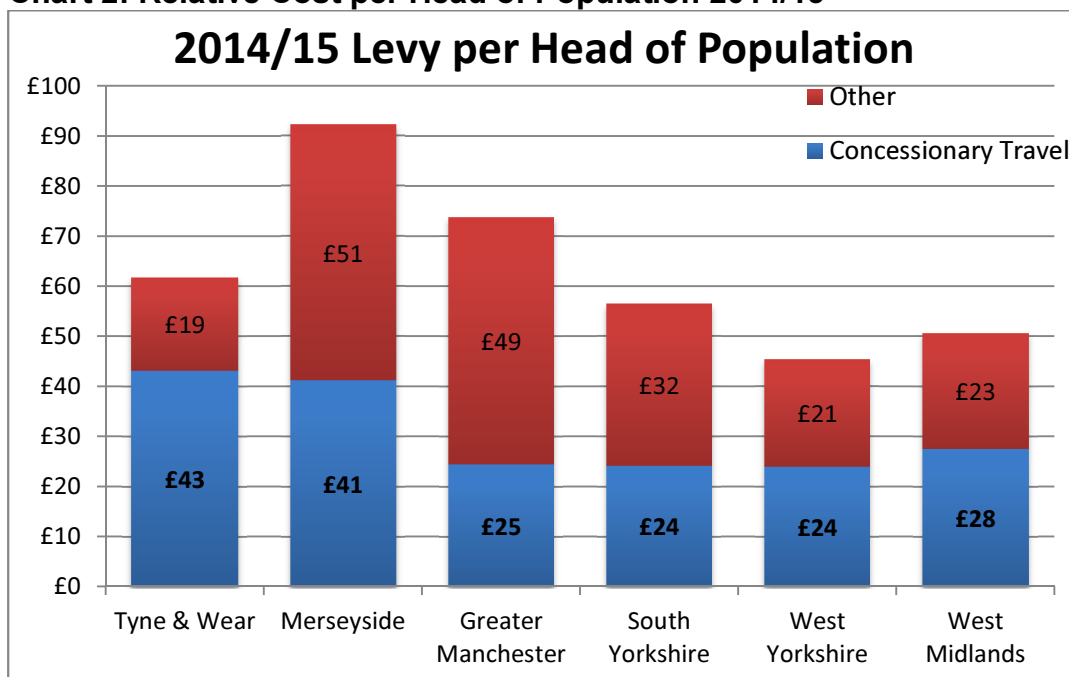
the support for secured bus services to provide accessible transport services across the county. They also include capital financing costs relating to transport schemes which are not included in the other levies.

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



North East Combined Authority

Leadership Board

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

North East Combined Authority

Leadership Board

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

North East Combined Authority

Leadership Board

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

North East Combined Authority

Leadership Board

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, which 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

North East Combined Authority

Leadership Board

- 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.

North East Combined Authority

Leadership Board

- 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 is 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

North East Combined Authority

Leadership Board

- 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.

North East Combined Authority

Leadership Board

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

North East Combined Authority

Leadership Board

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 ✓

North East Combined Authority

Leadership Board

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
<u>Transport</u>				
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
<u>NELEP</u>				
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
<u>Core Team & Admin.</u>				
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.

North East Combined Authority

Leadership Board

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,

North East Combined Authority

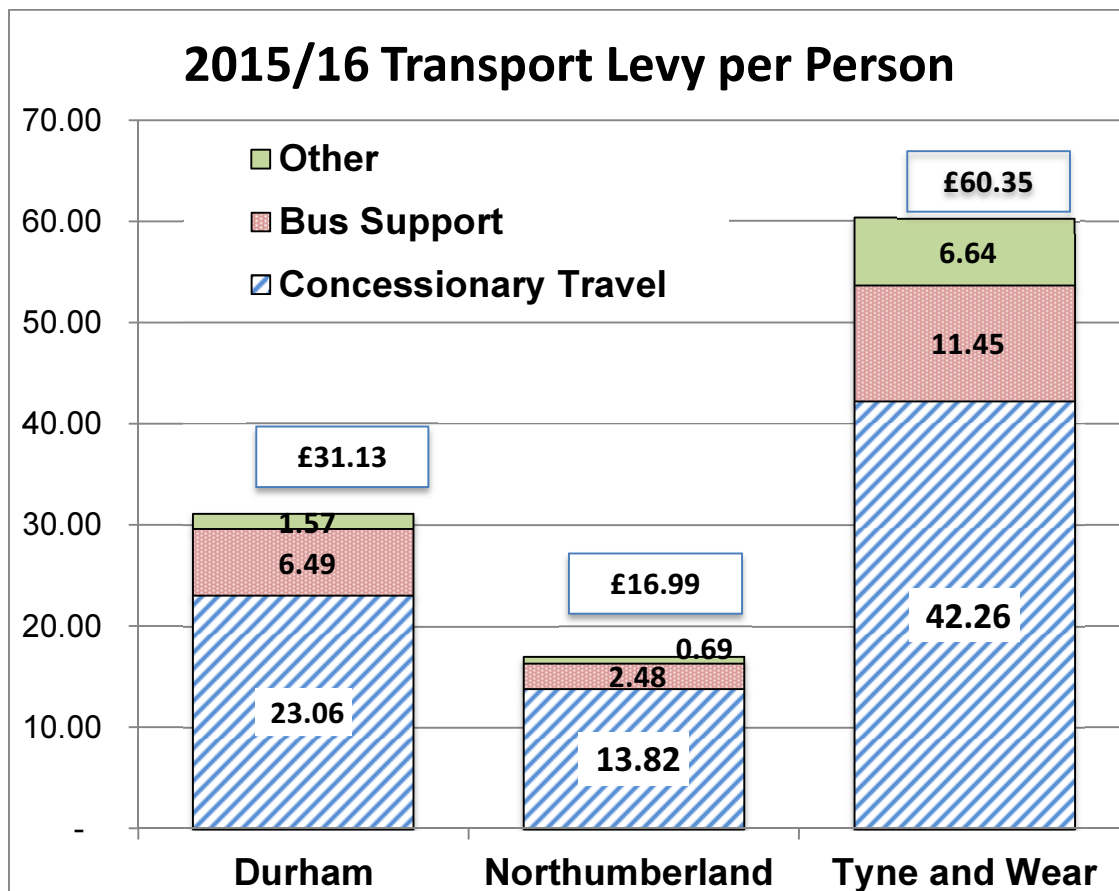
Leadership Board

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.

Chart : NECA Transport Levies per Head of Population



North East Combined Authority

Leadership Board

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

North East Combined Authority

Leadership Board

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.”

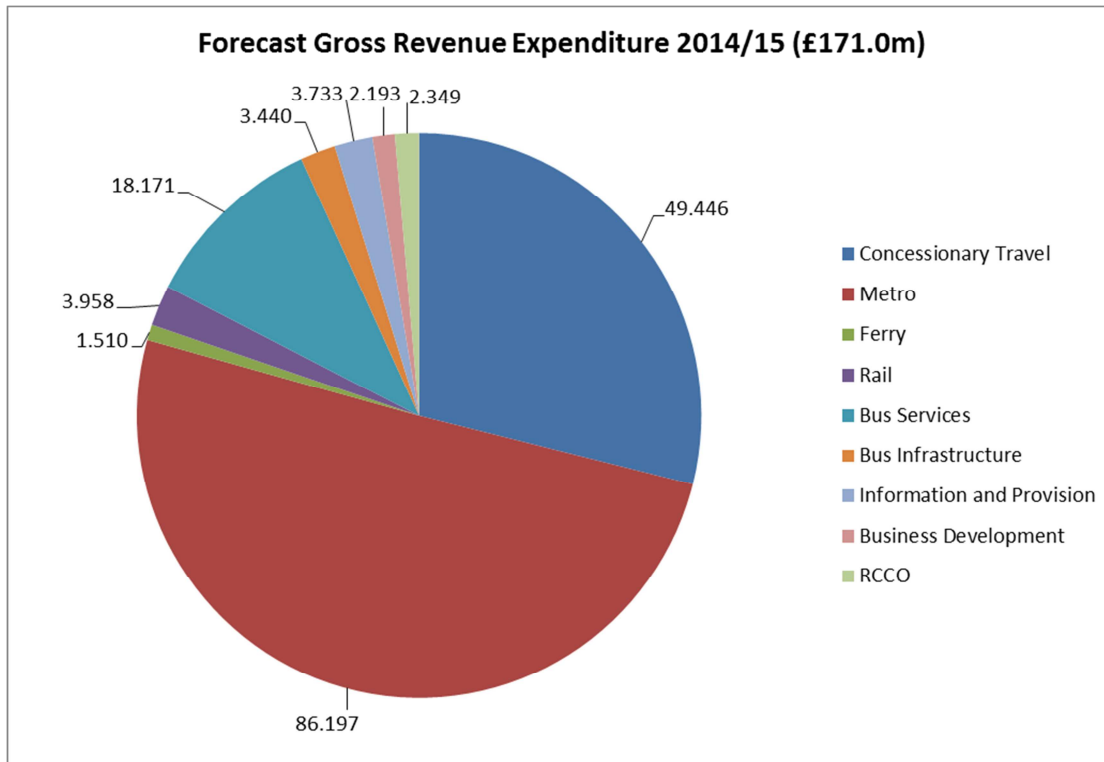
North East Combined Authority

Leadership Board

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:

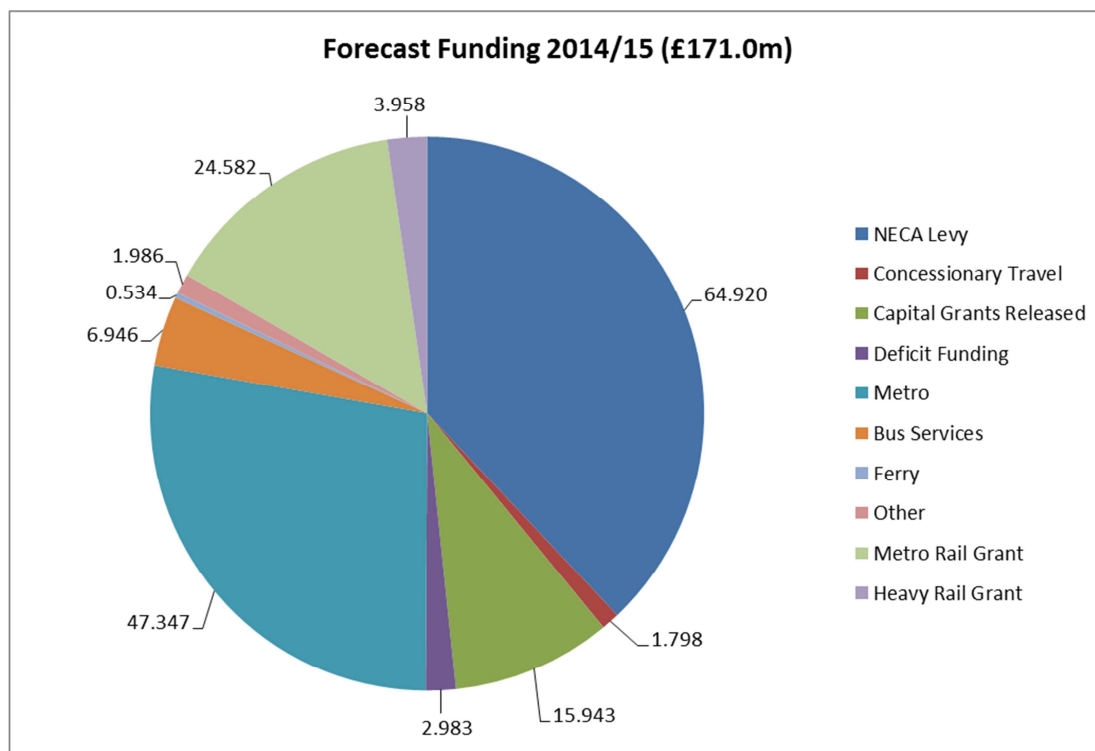


This shows that the largest areas of gross expenditure are in relation to Metro and Bus services including concessionary travel. The majority of this £171.0m is funded by £103.1m of fare income and external grants; £64.9m of Levy funded Grant, leaving a £3.0m budget deficit to be funded from reserves.

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

North East Combined Authority

Leadership Board



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

North East Combined Authority

Leadership Board

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

North East Combined Authority

Leadership Board

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

North East Combined Authority

Leadership Board

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	<u>-27,745</u>	<u>-27,749</u>	<u>-26,324</u>

North East Combined Authority

Leadership Board

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**.

North East Combined Authority

Leadership Board

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 <u>and</u> 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:

North East Combined Authority

Leadership Board

- 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”

North East Combined Authority

Leadership Board

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 underestimated 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.

North East Combined Authority

Leadership Board

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.

North East Combined Authority

Leadership Board

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.

North East Combined Authority

Leadership Board

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

North East Combined Authority

Leadership Board

upper and lower limits on the maturity structure of fixed rate borrowing will be:

	<u>Upper</u>	<u>Lower</u>
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

North East Combined Authority

Leadership Board

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

North East Combined Authority

Leadership Board

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

North East Combined Authority

Leadership Board

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.

North East Combined Authority

Leadership Board

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

North East Combined Authority

Leadership Board

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

North East Combined Authority

Leadership Board

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:

Option 1 – Regulatory Method

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.

Option 2 – CFR Method

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.

Option 3 – Asset Life Method

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.

Option 4 – Depreciation Method

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.

North East Combined Authority

Leadership Board

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.

North East Combined Authority

Leadership Board

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 in 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

North East Combined Authority

Leadership Board

	<p>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.</p>
<p>Issues of spatial planning and housing should be more prominent.</p>	<p>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.</p>

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

<p>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.</p>	<p>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.</p>
<p>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?</p>	<p>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.</p>
<p>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.</p>	<p>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.</p>

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.

<p>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.</p>	<p>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.</p>
<p>The alignment of transport policies across the whole NECA area was discussed, with particular reference to the alignment of policies on discretionary travel arrangements.</p>	<p>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.</p>

North East Combined Authority

Leadership Board



11 December 2014

Clr 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

NECC
The Stamp Exchange
Westgate Road
Newcastle upon Tyne NE1 1SA
Tel: 0300 303 6322
E-mail: customerservices@necc.co.uk www.necc.co.uk

North East Chamber of Commerce Trade and Industry
A Company Limited by Guarantee. Registered in England No. 2938084
Registered Office: Aylkley Heads Business Centre, Aylkley Heads, Durham DH1 5TS

Accredited by



Supporters of
north east
england

North East Combined Authority

Leadership Board



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

NECC
The Stamp Exchange
Westgate Road
Newcastle upon Tyne NE1 1SA
Tel: 0300 303 6322
E-mail: customerservices@necc.co.uk www.necc.co.uk

North East Chamber of Commerce Trade and Industry
A Company Limited by Guarantee. Registered in England No. 2538064.
Registered Office: Aylkay Heads Business Centre, Aylkay Heads, Durham DH1 6TS

Accredited by



INVESTOR IN PEOPLE



Supporters of



This page is intentionally left blank

North East Combined Authority

North East Leadership Board

DATE: 20 January 2015

SUBJECT: Capital Programme 2015/16

REPORT OF: Chief Finance Officer

EXECUTIVE SUMMARY

This report outlines the capital programme proposals for 2015/16 and the funding sources identified to deliver the programme, which covers a wide range of transport improvements and economic and regeneration initiatives.

The programme currently amounts to at least £119m, made up of £93.3m of Transport projects and at least £25.7m of capital grant for economic development/employment projects. In addition, £26m of capital expenditure on economic development / employment projects is funded by match funding from other bodies and does not appear in our own capital programme.

This represents the latest information about the capital programme, which will be updated as new information becomes available and will be subject to regular monitoring reports during the year.

RECOMMENDATIONS

The Leadership Board is recommended to agree the capital programme and its funding as set out in the body of this report.

North East Combined Authority

North East Leadership Board

1 Executive Summary

- 1.1 This report outlines the proposals for the Capital Programme during 2015/16 and the funding sources identified to deliver the programme, which covers a wide range of transport improvements and initiatives and economic development projects. The draft programme for Transport was considered by the Transport North East Committee at their meeting on 4 December 2014. Since then, work on refining the estimates has taken place which has resulted in additional projects being added to next year's programme to ensure an adequate level of over-programming so that the DfT target grant spending level is achieved. The additional projects include bringing forward the Spring 2016 blockade slightly and additional station refurbishment work.

2 Background Information

- 2.1 The capital programme for transport includes a wide range of schemes which are summarised in the detail below and the attached appendices.
- 2.2 Funding shown as available for the programme is based on reasonable assumptions and existing approvals. However, the programme will continue to be subject to continuous review to ensure commitments do not exceed available resources, after allowing for a reasonable level of overprogramming to ensure programme delivery.

3 Transport Capital Programme 2015/16

3.1 Summary

Current estimates indicate that a total of up to £93m capital investment will be delivered by partners with funding NECA in 2015/16 on the following elements of the Transport programme:

Table 1: Summary of NECA Transport Capital Programme 2015/16

	2015/16 Programme
	£m
Metro Asset Renewal Programme	45.271
Nexus Major Projects – Sunderland Station	3.500
Tyne Tunnels Capital Programme	3.100
LTP Integrated Transport Block (less Metro ARP local contribution included above)	11.309
Local Growth Deal Transport Schemes	30.150
Total	93.330

North East Combined Authority

North East Leadership Board

3.2 Tyne and Wear Metro Asset Renewal Programme (ARP)

During the 2015/16 financial year Nexus will be continuing with Year 6 of its 11 year Metro ARP. As in previous years this will cover a wide range and large number of projects spread across all asset groups. However, there are a number of significant projects planned to be delivered that are worthy of particular mention and these are detailed below. More detail is provided in Appendix 1.

3.2.1 Civils

Earthworks from South Gosforth to Jesmond are scheduled to take place early in the financial year. Works to install collision protection measures to three low bridges in South Tyneside is due to take place over the summer of 2015. This will ensure that Metro services can continue to run in the event that these bridges are struck by road vehicles and hence reduce delays to passengers. Designs for a major bridge replacement project at Killingworth Road in Gosforth will be progressed, including a design option which would complement junction improvement works at Haddricks Mill to further assist in alleviating a pinch point on the A189 by widening the span of the existing bridge. In addition, the programme provides for extensive bridge works between Gateshead and South Shields, working in conjunction with Network Rail where there is shared responsibility for certain of these structures.

3.2.2 Permanent Way

Re- railing of the Queen Elizabeth II Bridge across the river Tyne is planned to take place over two weekends in May 2015. This will be followed in July/August by the replacement of switches and crossings at Regent Centre then similar work in the tunnels at St. James station in October. These latter two projects are also planned to be completed during weekend closures. During the course of the year planning and preparation work for major track renewal between Tynemouth and Northumberland Park in North Tyneside will take place. The first phase is due to be delivered in spring 2016 during a two week blockade of the line. The second phase is due to be delivered in October 2016.

3.2.3 Overhead Line

Preparatory works to replace the overhead line will commence in 2015/16. This will be carried out by the internal Capital Delivery Team and is expected to take around four years to complete. The process of purchasing specialist equipment for this project is already underway.

3.2.4 Stations

Refurbishment projects at Gateshead Stadium, Felling and Heworth are planned to be completed. Work to refurbish Central Station is due to commence in October 2015 and take about one year to complete. This will be funded by a combination of ARP and Single Local Growth funding. In conjunction with work on the ground, designs for Cullercoats, Monkseaton, West Monkseaton, Manors and Gateshead will be progressed. Furthermore,

North East Combined Authority

North East Leadership Board

Nexus will continue working with South Tyneside Council and their development partner on a new Bus/Metro interchange in South Shields and will also progress the refurbishment of Chichester and Tyne Dock stations.

Nexus is also working with Sunderland City Council and Network Rail to progress the redevelopment of the above ground part of Sunderland Station. The scheme will focus on redeveloping the concourse area with improved access, retail offering and passenger information. The exterior of the building will provide a light and bright focal point for the area incorporating artwork. Wider public realm improvements are being considered by the City Council as a second phase to the scheme. Design work is underway and it is anticipated that construction will commence during 2015/16. The scheme will be part funded by Nexus who are contributing £3.5m.

3.2.5 Communications

During 2015/16 the project to install a new radio system across the network will continue and is due to be completed. This is a safety critical system and whilst not obvious to the travelling public is a fundamental part of Metro operations. The project involves fitting equipment to the metro cars as well as installing new transmission masts and antennae around the system and also new equipment at the Metro control centre in South Gosforth and Network Rail's Tyneside Integrated Electronic Control Centre in Gateshead.

3.2.6 Signalling

Another system which is not obvious to the passenger is the PTI (Positive Train Identification) system. This system uses a variety of technologies to route trains around the system, automatically set signals and measure train performance. A project to replace the existing, obsolete, bespoke system will commence and progress throughout the next two years with completion anticipated in 2017 at the earliest.

3.2.7 Mechanical and Electrical

Next year's programme includes for the replacement of the escalators at Four Lane Ends and Manors Station.

3.2.8 Metro Cars

The Metro Cars refurbishment programme is due to be concluded. The final 6 cars are planned to be completed by July 2015.

The programme is being established at a level that is in excess of the 2015/16 total available funding (including the 10% local contribution) of £37.900m. Experience shows that effective management of the programme requires a degree of re-profiling and re-phasing of planned works in order to keep within prescribed funding levels.

North East Combined Authority

North East Leadership Board

Table 2: Indicative Metro ARP Capital Programme 2015/16

Capital Scheme	Indicative Programme 2015/16 £m
Civils	9.484
Permanent Way	11.803
Overhead Line	1.986
Stations	11.164
Communications	4.643
Signalling	4.652
Mechanical and Electrical	1.847
Metro Cars	1.256
Capital Maintenance	1.612
Miscellaneous	0.324
Total Metro Programme	48.771

3.3 Tyne Tunnels Capital Programme

3.3.1 New Tyne Crossing - £0.600m

There are a small number of pieces of work still underway on the New Tyne Crossing project which are included in the project budget requirement for 2015/16.

The main outstanding item of spend included within the programme is the contribution to the Hexham Fish Pass works agreed with Northumberland County Council. This was a requirement under the environmental obligations of the approval for the project.

There remain a number of outstanding Part 1 Land Compensation Claims. These relate to properties where the owners feel the value of the property has been detrimentally affected by the project. Budget provision is included for anticipated claims to be settled during 2015/16.

There is some work ongoing in relation to land transfers with North and South Tyneside Councils and other organisations. Professional fees and costs associated with this work and work on variations to the Project Agreement are also included within the 2015/16 budget.

3.3.2 Tyne Pedestrian and Cycle Tunnels - £2.500m

2015/16 will be the final year of this project, as the refurbishment works and installation of the new inclined lifts are due to be completed and the tunnels

North East Combined Authority

North East Leadership Board

re-opened to the public.

A full review of the project and programming is currently underway by the contractors and the project team. The results of this review and any impact on the budget and programme will be reported in detail to the next meeting of the Tyne & Wear Sub Committee on 29 January 2015. The costs of this scheme will be funded from the Tyne Tunnels reserves.

3.4 Local Transport Plan Integrated Transport Block

3.4.1 Core Local Transport Plan (LTP) funding is made available by the Department for Transport (DfT). Changes have been made to the funding formula for the Integrated Transport block for the 2015/16 to 2020/21 period (with a “break point” after three years at 2017/18, where the formula will be recalculated across the authorities using updated data).

The Maintenance Block will continue to be allocated by the DfT. The DfT recently sent out settlement letters to local authorities, notifying them of individual allocations for 2015/16 and beyond.

The Integrated Transport Block grant has been awarded by DfT to NECA in three blocks comprising Durham, Northumberland and Tyne and Wear.

Total confirmed allocations for the NECA area are as follows:

Table 3: LTP IT Block Allocations 2015/16-2017/18

	2015/16	2016/17	2017/18
	£m	£m	£m
Durham	2.789	2.789	2.789
Northumberland	1.695	1.695	1.695
Tyne & Wear	9.465	9.465	9.465
Total	13.949	13.949	13.949

3.4.2 Tyne & Wear LTP IT Block Distribution

The overall level of the Integrated Transport block award from DfT has been reduced significantly as a result of a cut in the total amount available nationally in order to partly fund the increased allocations for the Growth Deal and a change to the distribution formula. The 2015/16 allocation for Tyne and Wear is £9.465m, compared with £17.426m in 2014/15.

The Tyne and Wear allocation was previously distributed across the Districts and Nexus according to a locally agreed formula. The formula used several data sources that have been superseded by more recent data sets. The proposal is that the Tyne and Wear grant is distributed using the previous

North East Combined Authority

North East Leadership Board

formula updated for current data sets, with half of the adjustment suggested by the updated data, thereby reducing the variation that the new data would otherwise create. This would give the following distribution for 2015/16:

Looking forward to 2016/17 and beyond, it should be possible to establish a more strategic and plan-led approach, using funding more effectively to deliver collectively agreed priorities. This should be possible from April 2016, when more progress will have been made in establishing a common NECA Transport Plan, which can guide resource allocation. It is therefore recommended that this budget is established for 2015/16, and fundamentally reviewed for future years in the light of this progress.

Table 4: Tyne and Wear LTP IT Block Distribution 2015/16

Integrated Transport Block Allocation	2015/16
	£
Gateshead	1,328,537
Newcastle	1,649,703
North Tyneside	1,088,437
South Tyneside	842,722
Sunderland	1,605,793
Nexus and Public Transport Schemes	2,949,808
Tyne & Wear Total	9,465,000

The Nexus and Public Transport Schemes allocation is primarily used to meet the match funding requirements of the Metro Asset Renewal Programme. The remaining balance is distributed among the five Tyne and Wear districts and Nexus to fund small public transport schemes.

North East Combined Authority

North East Leadership Board

Table 5: Tyne and Wear Public Transport Schemes Distribution 2015/16

Public Transport Allocation	2015/16
	£
Gateshead	26,924
Newcastle	33,433
North Tyneside	22,058
South Tyneside	17,078
Sunderland	32,543
Nexus – Metro ARP Contribution	2,640,000
Nexus – Public Transport Schemes	59,780
4% topslice	117,992
Tyne & Wear Total	2,949,808

3.5 Local Growth Deal Capital Schemes

3.5.1 The North East Growth Deal announced in July 2014 included funding for a number of transport schemes, including the devolution of Local Major Schemes funding previously agreed.

3.5.2 The following schemes are proposed for a 2015/16 start:

A1 Local Junctions Improvement Package

A1 Corridor Scotswood Bridgehead Improvements – Improvements will ensure access over this crucial river crossing bridge for all modes to the employment opportunities on both sides of the river Tyne. This scheme will support the development of Metro Green in Gateshead (850 new homes and 15000sqm of office accommodation) and the Scotswood Masterplan site (1300 new homes). It will also benefit from being upgraded to support traffic from housing developments in the West of Newcastle, including Callerton (approx. 3000 homes); Dinnington (approx. 250 homes); Newcastle Great Park (up to 1200 homes) and Newcastle International Airport (50ha

North East Combined Authority

North East Leadership Board

development site).

A1056/A189 Weetslade Roundabout and A1/A19 Link – Improvements to flows in the A188/A189 corridor and linkages to future employment development at Weetslade and existing employment sites in Killingworth. Facilitates Indigo Park, an 82 acre strategic employment site with the potential for 1000 new jobs.

Central Gateway Regeneration Initiative

Newcastle Central Station to Stephenson Quarter – Direct link from Newcastle Central Station to the Stephenson Quarter regeneration site. This proposal addresses a major physical barrier that currently reduces accessibility from the main rail station in the North East LEP area to a major regeneration site. The scheme is designed to accelerate development in Newcastle's historic Stephenson Quarter. The Stephenson Quarter is a development that will create 2,431 gross additional jobs in the local economy, resulting in a net GVA contribution per annum of £97.3m.

Central Metro Station – Central Metro station is based in the centre of Newcastle and is a key transport interchange between Metro and heavy rail as well as providing connections to local bus services for the region. This scheme proposes the complete refurbishment of the station concourse and platforms in a style in keeping with the recently refurbished Haymarket Metro station.

Haddricks Mill Strategic Junction Improvement

Northern Access Corridor (Phase 2) Osborne Road to Haddricks Mill – The Haddricks Mill junction is located approximately 2km to the north of Newcastle City Centre close to the Newcastle/North Tyneside district boundary. The junction is a major pinchpoint on the boundary of several major employment sites, including the large employment site at Benton Park View (home of HMRC and DWP), the Freeman Hospital and Quorum Business Park. It is proposed to remove the existing mini roundabout junctions and provide a roundabout with a larger circulatory. This will be signalised and will incorporate the full signalisation of secondary junctions.

A19 Local Junctions Improvement Package

A19 Lindisfarne Roundabout - South Tyneside Council are intending to undertake a carriageway improvement scheme that will improve traffic movements at Lindisfarne Roundabout thus providing improved connectivity (economic growth opportunities) to the Port of Tyne and South Shields town centre. South Tyneside Council will also deliver localised improvements to the A1300/A194 roundabout, as well as improving access to the Strategic Highway Network.

A191 Junctions Coach Lane and The View Park - Improved access to Tyne

North East Combined Authority

North East Leadership Board

View Park employment site and improved flows in A191 corridor. The Tyne View Park junction currently operates at 124% of capacity in the AM peak and 121% in the PM peak. The planned improvements to flows will have benefits for the wider A19 corridor.

A19 access improvements Silverlink North – Facilitates economic development in the A19 corridor including the occupation of the remaining units at Cobalt Business Park (former Enterprise Zone site), a regionally significant location for skilled employment. It will address capacity issues in the area (the roundabout of A191 and The Silverlink North currently operates at 94% of capacity in the AM peak): significant additional traffic is expected from committed development as remaining units on the business park are occupied.

Local Sustainable Transport Fund Capital Interventions

LA7 LSTF 2015/16 Capital Package – Comprehensive upgrade to Durham and Tyne and Wear Urban Traffic Management and Control systems, with linked functionality in order to provide improved journey time reliability for public transport and to reduce instances of congestion. ‘Gateway Improvements’ to four major heavy rail station and improved linkages between Newcastle International Airport and the Tyne and Wear Metro, Strategic Cycle package linking to key public transport gateways.

- 3.5.3 The revised programming for 2015/16 and 2016/17 is currently with DfT for review, so the split of these figures is not yet confirmed.

Appendix 2 shows details of the schemes planned for a 2015/16 start.

3.6 Transport Capital Programme Financing

The proposed financing of the 2015/16 programme is summarised in the table below. This shows that the majority of the programme (around 86%) is to be funded from external grant.

Table 6: Proposed Financing of Capital Programme

Financing	2015/16 Total (£m)
Grants from Central Government	78.198
Reserves	7.750
Over-programming*	7.382
Total	93.330

*A level of over-programming is included within the Metro ARP, to ensure full delivery of the required level of spend as set out in the agreement with DfT.

North East Combined Authority

North East Leadership Board

4 Non –Transport Capital Programme

The North East Growth Deal includes 13 non-transport schemes which are to commence in 2015/2016. Table 7 below provides the breakdown of the £51.81m investment to take place in 2015/16; this will be funded from £25.70m Local Growth Fund (LGF) support and £26.11m from a number of other sources secured by the respective projects. The NELEP are currently carrying out a detailed appraisal of each scheme;

A skills improvement package - five projects to increase skills levels in key sectors: (1) Tyne Met College; (2) South Tyneside College; (3) Port of Blyth Offshore and Wind Energy Training Facility; (4) Newcastle College Group: Low Carbon Tech Centre; (5) East Durham College.

A North East innovation programme - a package of five projects to support and drive innovation in the LEP area: (1) Newcastle Life Sciences Incubation Hub; (2) NETPark Infrastructure Phase 3; (3) Low Carbon Energy Centre; Newcastle Science Central; (4) Sunderland Enterprise and Innovation Hub; (5) The Centre for Innovation in Formulation.

Infrastructure at Merchant Park - to support inward investment and supply chain development adjacent to the future home of Hitachi Rail Europe.

NE Rural Growth Network infrastructure - a project to plug infrastructure gaps in key rural market towns and to grow the innovative, community-led network of rural enterprise hubs to support rural business growth.

Swans Wet Berth Infill - to create development land with quay frontage within the Swans site of the North East Enterprise Zone, thereby increasing availability of commercial land available for priority sectors.

Table 7: Local Growth Fund – Non Transport Schemes

Project Title	Total Project Cost (£m)	In Principle LGF Total (£m)	Other Funding Total (£m)	LGF 2015/2016 (£m)	Other Funding 2015/2016 (£m)
Tyne Met College – STEM & Innovation Centre	1.20	1.00	0.20	1.00	0.20
South Tyneside College – Facilities for Marine & Offshore Engineering	3.35	1.10	2.25	1.10	2.25

North East Combined Authority

North East Leadership Board

East Durham College – Rural Skills Development	11.11	10.00	1.11	5.00	1.11
Newcastle College Group – Low Carbon Tech Centre	30.00	9.90	20.10	4.70	13.30
Port of Blyth Offshore and Wind Energy Training Facility	1.20	0.40	0.80	0.40	0.65
Centre for Innovation in Formulation	14.40	7.40	7.00	0.60	3.00
Newcastle Laboratory and Life Sciences Incubation Hub	11.00	5.55	5.45	2.80	0.00
Sunderland Enterprise & Innovation Hub	10.62	3.50	7.12	1.50	3.50
Low Carbon Energy Centre at Science Central	5.50	2.80	2.70	1.40	0.00
NetPark Infrastructure Phase 3	8.00	6.83	1.17	0.50	0.00
Infrastructure for Merchant Park, Newton Aycliffe	10.00	10.00	0.00	3.50	0.00
North East Rural Growth Network	22.50	6.00	16.50	1.20	2.10
Swans Wet Berth Infilling	18.00	8.00	10.00	2.00	0.00
TOTAL	146.88	72.48	74.40	25.70	26.11

Appendix 3 provides a breakdown of LGF contributions over the life of each scheme.

5 Next Steps

- 5.1 Progress against the 2015/16 capital programme will be reported regularly throughout the year and monitored carefully by officers at the various delivery bodies.

North East Combined Authority

North East Leadership Board

6 Potential Impact on Objectives

- 6.1 The capital programme and proposed financing set out above will enable the North East Combined Authority to make a positive impact on its objectives, particularly in relation to Transport connectivity.

7. Finance and Other Resources

- 7.1 The finance implications are set out in detail in the body of the report.

8 Legal

- 8.1 The Authority has a duty to ensure it can deliver a balanced budget. The Local Government Act 2003 imposes a duty on an Authority to monitor its budgets during the year and consider what action to take if a potential deterioration is identified.

9 Other Considerations

9.1 Consultation/Community Engagement

This report forms part of the consultation period for the 2015/16 budget and capital programme, which has included reports to the Leaders Board, Governance Committee, Overview and Scrutiny Committee and the North East Chamber of Commerce.

9.2 Human Rights

There are no specific human rights implications arising from this report.

9.3 Equalities and Diversity

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

9.4 Risk Management

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

9.5 Crime and Disorder

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

9.6 Environment and Sustainability

There are no specific environment and sustainability implications arising from this report.

North East Combined Authority

North East Leadership Board

10 Background Documents

- 10.1 Budget report to NELB 21 October 2014.
Capital Programme Report to TNEC 4 December 2014

11 Links to Plans in the Policy Framework

- 11.1 This report has no direct link to plans in the Policy Framework.

12 Appendices

- 12.1 Appendix 1 – Indicative Metro ARP Schemes 2015/16
Appendix 2 – Local Growth Deal Transport Schemes starting in 2015/16
Appendix 3 – Local Growth Deal non-Transport Schemes

13 Contact Officers

- 13.1 Paul Woods, Chief Finance Officer, paul.woods@northtyneside.gov.uk ,
07446936840

14 Sign off

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

North East Combined Authority

North East Leadership Board

Appendix 1 – Metro Capital Programme 2015/16

Project	Capital Scheme	Proposed Budget 2015/16 (Year 6) £
	Civils	
BC204	Earthworks - South Gosforth to Jesmond	2,098,037
BC971	Earthworks – Tynemouth to South Gosforth	627,530
BC212	Bridges - Wallsend to Walkergate	551,328
BC213	Retaining Walls	30,000
BC215	Bridges - Benton	346,860
BC217	Bridges – Bede and Shiremoor	452,000
BC972	Bridges Gateshead to South Shields	3,140,000
BC283	Bridges Percy Main to South Gosforth	40,552
BC407	Asbestos revisited works - Central area tunnels	643,758
BC634	DC power cable ducting	308,279
BC666	Gosforth Depot - Roof and Gutter Repairs	16,000
BC974	Drainage – Tynemouth to Northumberland Park	1,000,392
BC975	Drainage for Plain Line	20,000
BC226	Duct Route - South Gosforth to Jesmond	52,636
BC229	Duct Route - Gateshead Stadium to South Shields	156,500
	Total Civils	9,483,872
	Permanent Way	
BC232	Plain Line - South Gosforth to Jesmond	35,496
BC233	Plain Line - Jesmond to Gateshead Stadium	1,147,850
BC976	Plain Line - Tynemouth to Northumberland Park	6,367,128
BC978	Plain Line - Northumberland Park to South Gosforth	28,800
BC410	Plain Line - Gateshead Stadium to South Shields	68,680
BC412	Plain Line - Manors to St James	68,680
BC238	Switches & Crossings - St James	1,218,183
BC967	Switches & Crossings- Regent Centre	2,868,161
	Total Permanent Way	11,802,978
	Overhead Line	
BC240	OLE - System Development/Replacement	1,985,624
	Total Overhead Line	1,985,624
	Stations	
BC249	Central Station	2,500,000
BC981	South Shields	1,121,650

North East Combined Authority

North East Leadership Board

BB005	Sunderland (contribution to above ground works)	3,500,000
BC982	Felling and Gateshead Stadium	488,288
BC983	Heworth Interchange	1,710,260
BC988	West Monkseaton, Cullercoats and Monkseaton	342,600
BC989	Manors	285,800
BC990	Gateshead	403,200
BC314	Tyne Dock	300,000
BC324	Chichester	500,000
BC101	Northumberland Park	12,600
	Total Stations	11,164,398
	Communications	
BC256	Radio	2,928,465
BC259	IP Network	300,000
BC840	CCTV	1,094,307
BC956	PA	320,000
	Total Communications	4,642,772
	Signalling	
BC264	North Shields Interlocking Area	356,000
BC267	Manors Interlocking Area	150,000
BC272	Depot Interlocking Area	147,000
BC273	Positive Train Identification (PTI)	3,874,130
BC274	Future Signalling System	125,000
	Total Signalling	4,652,130
	Mechanical and Electrical	
BC939	Escalator - Manors	800,000
BC940	Escalator - Four Lane Ends	700,000
BC997	DC Feeder Cable	217,600
BC286	Fire Alarm	9,450
BC805	Otn-Ups Support Power Supply	120,000
	Total Mechanical and Electrical	1,847,050
	Metro Cars	
BC288	3/4 Life Refurbishment	1,156,028
BC527	Metro car study	100,000
	Total Metro Cars	1,256,028
	Capital Maintenance	
BC550	Rail Grinding	100,000
BC587	Vehicle Replacement Programme	135,000
BC617	Lifts Refurbishment	40,000
BC703	Plain Line Refurbishment	400,000
BC954	Fleet Capital Maintenance	892,000

North East Combined Authority

North East Leadership Board

BC532	Escalator Refurbishment	45,000
	Total Capital Maintenance	1,612,000
	Miscellaneous / Unallocated Overheads	
BC960	Asset Knowledge	50,000
BC296	Metro Farebox recovery	250,000
	Other Projects	24,100
	Total Miscellaneous	324,100
	Total Programme	48,770,952

Funding	
DfT Grant (maximum available)	34,100,000
10% Nexus Contribution	3,788,889
Other Funding (Sunderland Station)	3,500,000
Over-programming	7,382,063
Total ARP Funding	48,770,952

Minimum/Maximum Spend (assuming no b/f or c/f)	
Minimum Spend	31,000,000
Maximum Spend	37,888,889

ARP Target Spend	34,444,444
-------------------------	-------------------

North East Combined Authority

North East Leadership Board

Appendix 2 – Local Growth Deal Transport Schemes

Promoter	Description	Expenditure profile (NECA SEP contribution only) (£m)		
		2015/16	2016/17	2017/18
Durham	Horden (Peterlee) Station	0.67	2.67	0.00
North Tyneside Council	A1058 Coast Road major scheme (Billy Mill – Norham Road Improvements)	4.84	1.00	0.00
Sunderland City Council	Low Carbon Zone Infrastructure	2.75	3.20	0.00
South Tyneside Council/Nexus	South Shields Transport Hub: Consolidation of Metro and bus terminals in the heart of South Shields.	2.07	4.83	0.00
Newcastle City Council	Northern Access Corridor (Gosforth Transport Improvements Phase 2), Cowgate to Osborne Road.	3.50	0.59	0.00
Gateshead Council	A167 Park and Ride corridor	1.00	3.99	0.00
Newcastle City Council	A1 Corridor Scotswood Bridgehead Improvements	1.70	2.00	0.00
North Tyneside Council	A1056-A189 Weetslade roundabout improvements and A1-A19 link (A1056)	0.68	1.40	2.24
Newcastle City Council	Newcastle Central Station to Stephenson Quarter	1.00	3.00	2.00
Nexus	Central Metro Station Refurbishment	2.51	0.00	0.00
Newcastle City Council	Northern Access Corridor (Gosforth Transport Improvements Phase 3), Osborne Road to Haddricks Mill.	0.50	3.93	0.00
South Tyneside Council	A194/A185 (The Arches) Junction	0.50	5.33	0.00
South Tyneside Council	A19/A194/A1300 Lindisfarne Roundabout	2.93	0.50	0.00
North Tyneside Council	A191 junctions including coach lane and Tyne View Park	0.80	0.70	0.00
North Tyneside Council	A19 employment corridor access improvements e.g. the roundabout of A191 and The Silverlink North	0.70	2.20	1.80
LA7 LSTF 2015/16 Capital Package	UTMC, 'Gateway Improvements', Cycle package to complement revenue bids for A1/A19 corridor, Northumberland and Durham	4.00	3.52	0.00
TOTAL		30.15	38.86	6.04

North East Combined Authority

North East Leadership Board

Appendix 3 – Local Growth Deal Non Transport Schemes

SEP Theme	Description	Expenditure profile (NECA SEP contribution only) (£m)		
		2015/16	2016/17	2017/18
Skills	Tyne Met College – STEM and Innovation Centre	1.00	0.00	0.00
Skills	South Tyneside College – Facilities for Marine & Offshore Engineering	1.10	0.00	0.00
Skills	East Durham College – Rural Skills Development	5.00	5.00	0.00
Skills	Newcastle College Group – Low Carbon Tech Centre	4.70	5.20	0.00
Skills	Port of Blyth Offshore and Wind Energy Training Facility	0.40	0.00	0.00
Innovation	Centre for Innovation in Formulation	0.60	1.80	2.50
Innovation	Newcastle Laboratory and Life Sciences Incubation Hub	2.80	2.75	0.00
Innovation	Sunderland Enterprise & Innovation Hub	1.50	2.00	0.00
Innovation	Low Carbon Energy Centre at Science Central	1.40	1.40	0.00
Innovation	NetPark Infrastructure Phase 3	0.50	3.33	3.00
Economic Assets	Infrastructure for Merchant Park, Newton Aycliffe	3.50	3.50	3.00
Economic Assets	North East Rural Growth Network	1.20	1.20	1.20
Economic Assets	Swans Wet Berth Infilling	2.00	6.00	0.00
TOTAL		25.70	32.18	9.70

This page is intentionally left blank

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.

North East Combined Authority

Leadership Board

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.

North East Combined Authority

Leadership Board

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.

North East Combined Authority

Leadership Board

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

North East Combined Authority

Leadership Board

- 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.

North East Combined Authority

Leadership Board

- 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.

North East Combined Authority

Leadership Board

“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.

North East Combined Authority

Leadership Board

- 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.

North East Combined Authority

Leadership Board

- 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.
---	--

North East Combined Authority

Leadership Board

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.

North East Combined Authority

Leadership Board

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 ✓

North East Combined Authority

Leadership Board

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>

North East Combined Authority

Leadership Board

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

North East Combined Authority

Leadership Board

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.

North East Combined Authority

Leadership Board

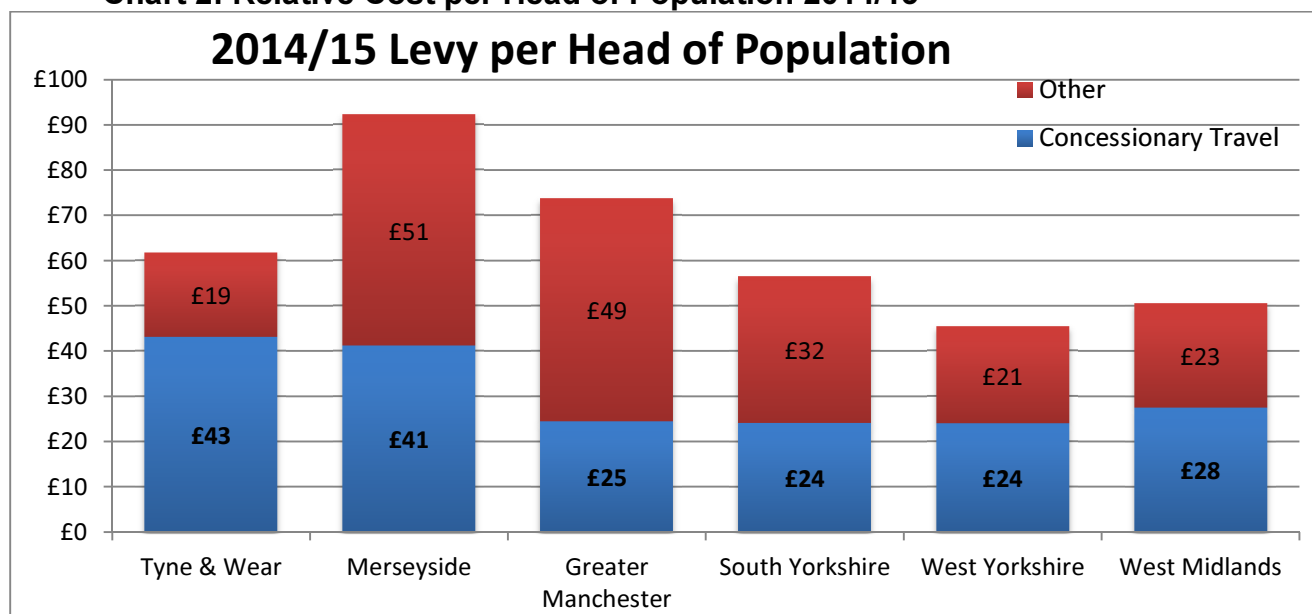
	£000
Balance at 31st March 2014	15,265
Forecast Deficit 2014/15	-2,983
Balance at 31st March 2015	<u>12,282</u>
Forecast Deficit 2015/16	-3,103
Balance at 31st March 2016	<u>9,179</u>

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



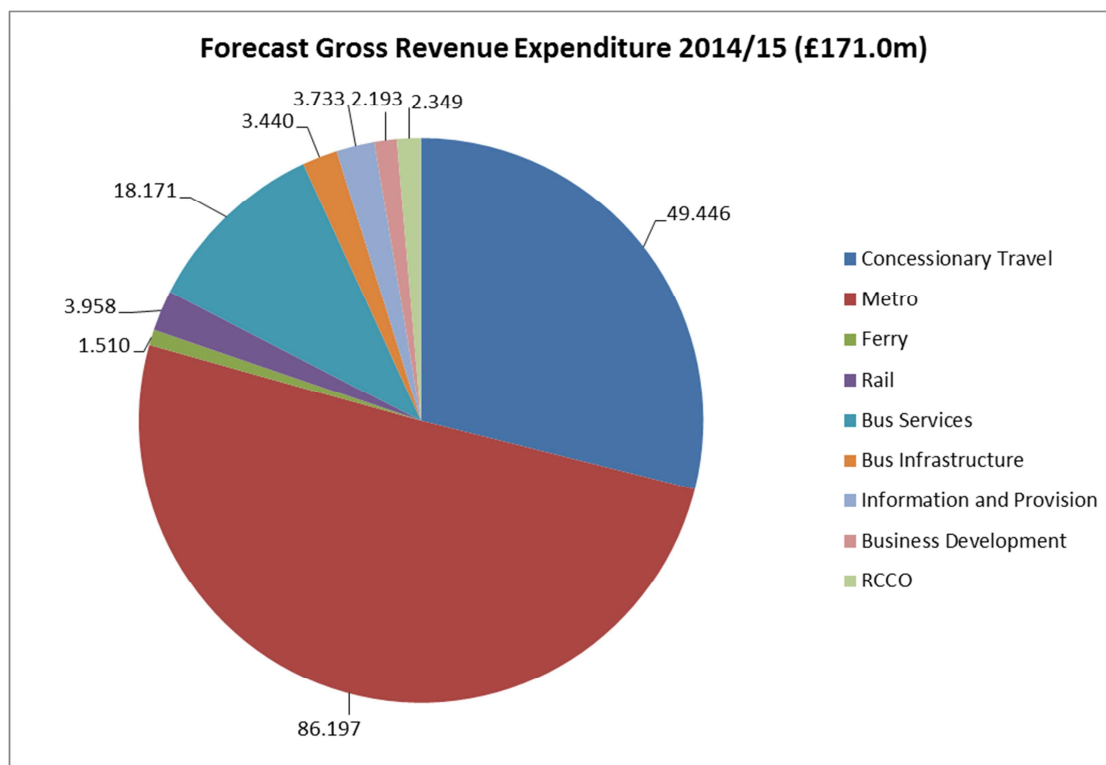
North East Combined Authority

Leadership Board

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:

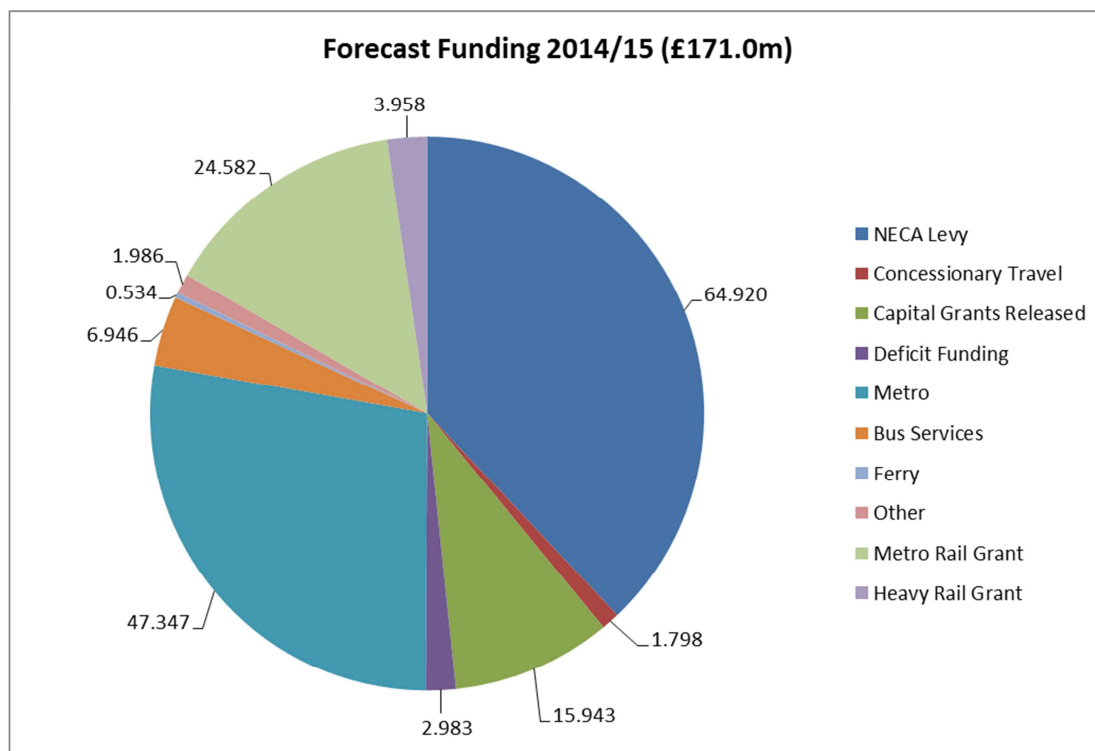


This shows that the largest areas of gross expenditure are in relation to Metro and Bus services including concessionary travel. The majority of this £171.0m is funded by £103.1m of fare income and external grants; £64.9m of Levy funded Grant, leaving a £3.0m budget deficit to be funded from reserves.

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

North East Combined Authority

Leadership Board



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

North East Combined Authority

Leadership Board

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

North East Combined Authority

Leadership Board

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

North East Combined Authority

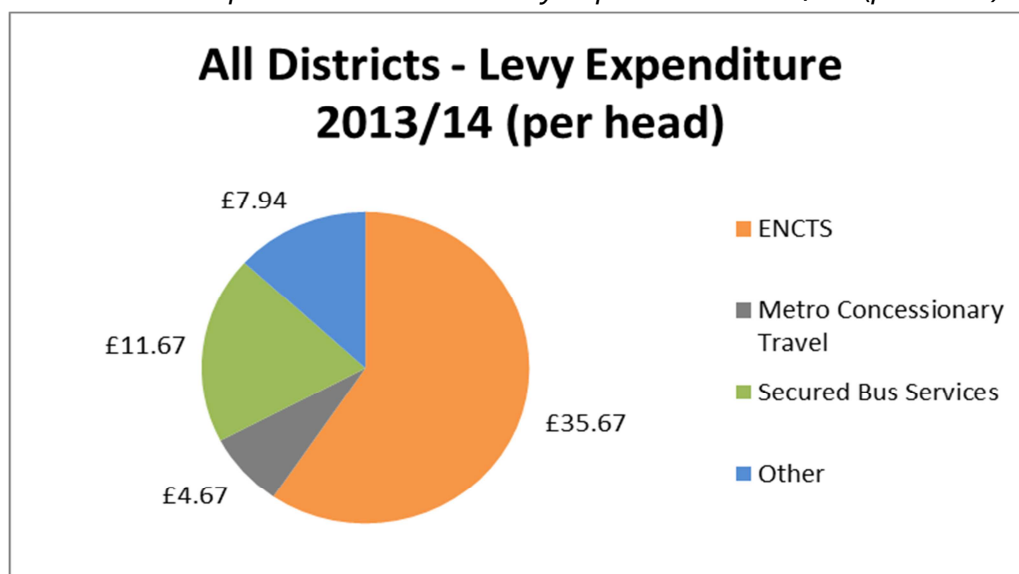
Leadership Board

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

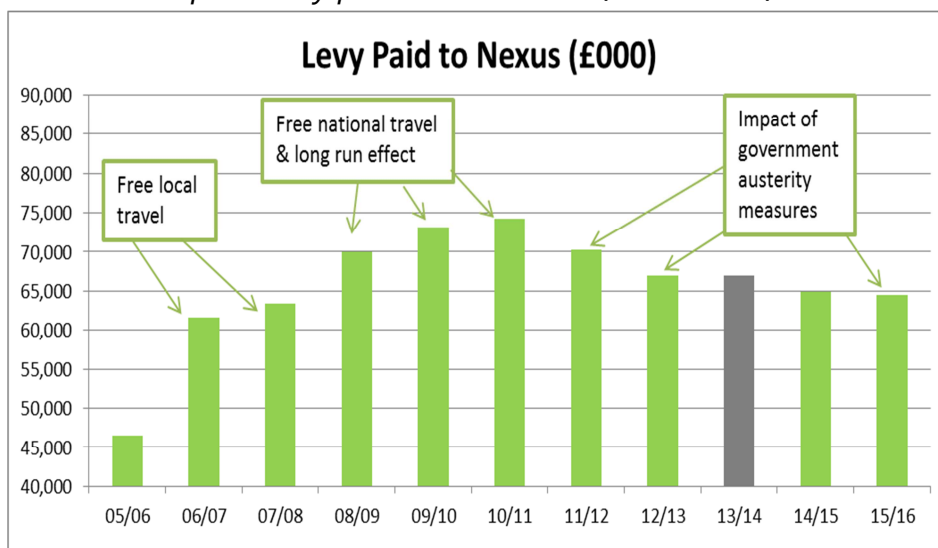
North East Combined Authority

Leadership Board

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.

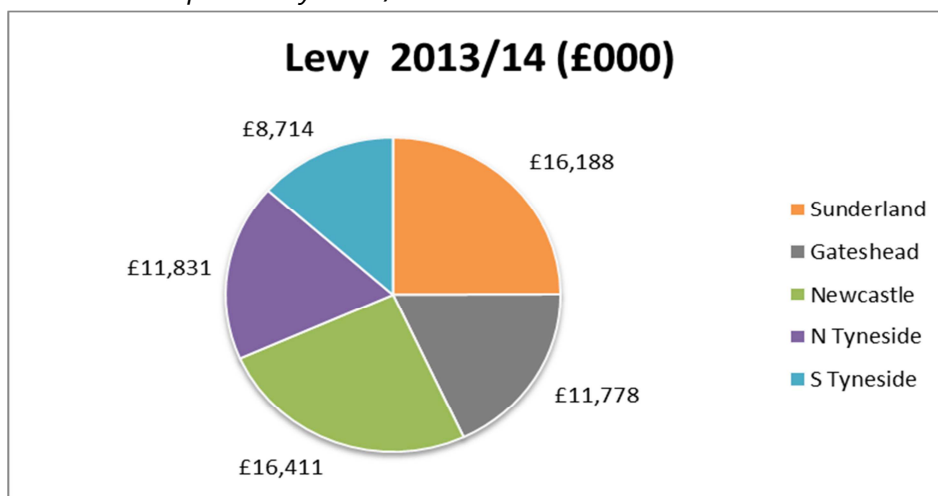
- The following graph shows that the levy increased dramatically (by just over 50%) between 2005/06 (the year before free local travel was introduced) and 2008/09 when the scheme was extended to free national travel, falling back again in 2011 when central government grant was cut as a response to austerity.

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



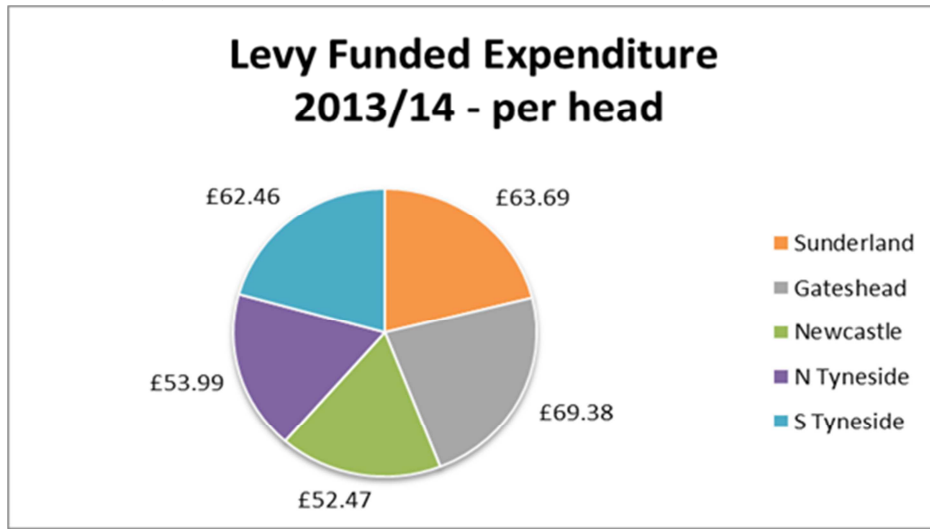
North East Combined Authority

Leadership Board

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

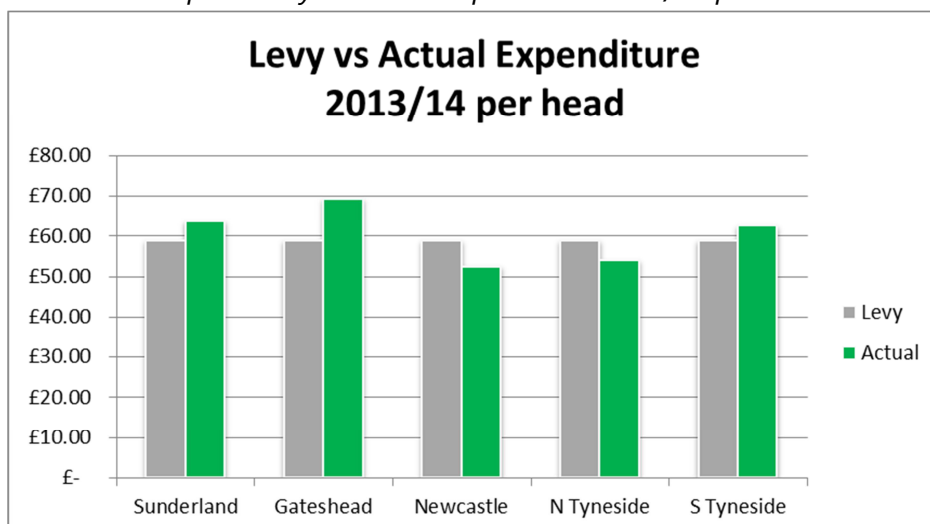
9. The following graph estimates the value attributed to each district on a per capita basis using the methodology that has been developed over the past five years:-

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

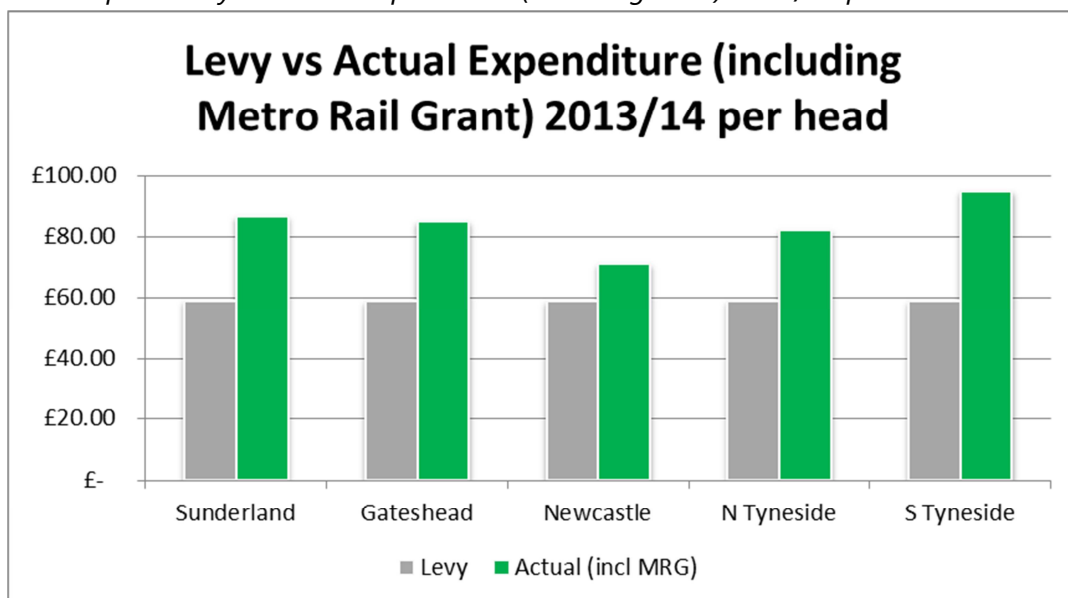


11. Whilst, using the accepted methodology, this indicates that two districts receive services equating to a financial value that is perhaps less than the levy they contribute, adding Metro Rail Grant (MRG) into the equation has the following effect:

North East Combined Authority

Leadership Board

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.

This page is intentionally left blank

North East Combined Authority

Governance Committee

DATE: 27 February 2015

SUBJECT: Internal Audit Progress Report

REPORT OF: Audit, Risk and Insurance Service Manager (Newcastle City Council)

EXECUTIVE SUMMARY

The purpose of this report is to provide Members with progress against the delivery of the 2014/15 internal audit plan and the implementation of audit recommendations.

One audit has been completed since the last Governance Committee in December 2014 covering Strategic Transport Integrated Transport Block Funding for Durham, which concluded that substantial assurance was in place. This audit is summarised in this report.

RECOMMENDATIONS

It is recommended that the Committee note the internal audit activity to date.

North East Combined Authority

Governance Committee

1 Background Information

Progress with Delivery of the Plan

- 1.1 Appendix 1 shows the 2014/15 Internal Audit Plan agreed by the Governance Committee which includes the number of days estimated to complete each audit and the proposed Governance Committee the audit will be reported to.
- 1.2 The table below details the audit work completed since the last committee in December 2014 and Appendix 2 provides an executive summary of the audit.

Audit	Level of Assurance
Strategic Transport Integrated Transport Block Funding	Substantial

- 1.3 Appendix 3 includes definitions for the overall assessments and recommendation ratings used in audit reports. These definitions have been developed for the Combined Authority and will be used in all reports regardless of which Council's Internal Audit Service has delivered the work.
- 1.4 Management is responsible for implementing all audit recommendations. Internal Audit will follow up all high and medium priority recommendations to verify implementation. This provides assurance that those recommendations which are both fundamental and important to the Authority's system of control are addressed. The current position as regards recommendations raised in 2014/15 is detailed below:

Audit and Recommendation	Implementation due date	Progress update
Tyne Tunnel Toll Income The NECA Bank Account / Cash Book Control Account, was not promptly reconciled and cleared to the relevant revenue account at the time of the audit. (Medium)	September 2014	Implemented
Governance and Performance Arrangements		
An appointment to the post of Senior Information Risk Owner (SIRO) for the Combined Authority has not been made. (Medium)	31 January 2015	Implemented The Monitoring Officer for the Combined Authority has been made SIRO.

North East Combined Authority

Governance Committee

Service Level Agreements covering the support services provided to the Combined Authority have not been finalised or agreed. (Medium)	April 2015	Not yet due
A Register of the Combined Authority's Partnerships does not exist. (Medium)	Original date - 31 January 2015 Revised date – 30 March 2015	Partially Implemented A draft register has been drawn up and was discussed at a meeting of Economic Directors on 13 February 2015. It will be discussed at further meetings during February 2015 to move it to completion.

2 Next Steps

- 2.1 The Governance Committee will continue to receive reports detailing progress against the audit plan, outcomes from audit work and information on the implementation of recommendations. This work will feed into the Internal Audit Annual Report and Annual Governance Statement for 2014/15.

3 Potential Impact on Objectives

- 3.1 No direct impact on objectives.

4 Finance and Other Resources

- 4.1 Internal Audit is provided principally by Newcastle City Council and an SLA has been developed to cover this as well as risk management and preparation of the Annual Governance Statement. Sunderland has developed an SLA with the North East Local Enterprise Partnership and Durham and Northumberland's internal audit work will be covered through devolved funding.

5 Legal

- 5.1 No legal implications.

6 Other Considerations

6.1 Consultation/Community Engagement

No external consultation or community engagement required.

North East Combined Authority

Governance Committee

6.2 Human Rights

No implications under the Human Rights Act 1998 (or as amended).

6.3 Equalities and Diversity

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

6.4 Risk Management

A risk assessment has taken place to identify key areas for inclusion within the Internal Audit Annual Plan. Members assess the plan to determine if key risks are covered by the planning process.

6.5 Crime and Disorder

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

6.6 Environment and Sustainability

There are no environment and sustainability implications directly arising from this report.

7 Background Documents

7.1 Final Internal Audit Reports

8 Links to Plans in the Policy Framework

8.1 No direct link to the Policy Framework.

9 Appendices

- 9.1 Appendix 1 – Internal Audit Annual Plan 2014/15
- Appendix 2 – Audit Activity since December 2014
- Appendix 3 - Definitions

10 Contact Officers

- 10.1 Philip Slater, Audit, Risk and Insurance Service Manager
E mail: philip.slater@newcastle.gov.uk
Tel: 0191 2116511

North East Combined Authority

Governance Committee

11 Sign off

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

North East Combined Authority

Governance Committee

2014/15 Internal Audit Plan					Appendix 1
Audit	Delivered by	Audit scope and coverage	Estimated Days	Status	Date to Report to Governance Committee
Governance and Performance	Newcastle City Council	Review of the operation of governance and performance arrangements in place and being developed for the Combined Authority and provide appropriate advice to officers establishing processes for reporting and monitoring.	8	Complete	December 2014
Financial Management	Newcastle City Council	Audit coverage will include: <ul style="list-style-type: none"> The adequacy of financial arrangements for the overall Combined Authority. Processes in place within Newcastle City Council in relation to Tyne and Wear transport financial systems. The development and design of new arrangements. 	8	In progress	July 2015
Tyne Tunnels Contract Monitoring	Newcastle City Council	Assess the adequacy and effectiveness of arrangements for receipt of Tyne Tunnels toll income.	5	Complete	September 2014
Risk Management	Newcastle City Council	To review and assist in the development risk management arrangements for the Combined Authority. The work in March 2015 will audit progress in the development of the risk management approach.	5	To start March 2015	July 2015

North East Combined Authority

Governance Committee

Concessionary Travel	Nexus	Assurance obtained from Nexus' Internal Audit service to confirm the adequacy and effectiveness of controls in relation to this area.	*	March 2015	July 2015
Metro Re-Invigoration	Nexus	Assurance obtained from Nexus' Internal Audit service to confirm the adequacy and effectiveness of controls in relation to this area.	*	March 2015	July 2015
North East Local Enterprise Partnership	Sunderland City Council	Accounting arrangements, the process for allocating grants/loans to third parties, the monitoring arrangements and the quarterly claims process.	15	Complete	December 2014
Strategic Transport - Integrated Transport Block - Durham	Durham County Council	Review spend and governance relating to the Local Transport Capital Block Funding	10	Complete	February 2015
Strategic Transport - Northumberland	Northumberland County Council	Review spend and governance particularly relating to the Local Transport Capital Block Funding (Integrated Transport and Highways Maintenance).	10	To start March 2015	July 2015
Contingency	As required	Provision to cover emerging risks, grant certification work and general advice.	5	As and when required	
Governance Committee Support	Newcastle City Council	<ul style="list-style-type: none"> Development and monitoring delivery of the Internal Audit Annual Plan. Preparation of reports and attendance at 	4	As and when required	

North East Combined Authority

Governance Committee

		<p>Governance Committee.</p> <ul style="list-style-type: none">• Follow up on the implementation of recommendations made within Internal Audit reports.			
--	--	---	--	--	--

* Nexus – this work is undertaken as part of Nexus’s internal audit plan delivered by their Internal Audit Service but the outcomes of the work are provided to Newcastle City Council for the Combined Authority.

North East Combined Authority

Governance Committee

Audit Activity since December 2014

Appendix 2

Responsible Council	Name of Audit	Level of Assurance	Number of Recommendations			
			High	Medium	Low	
Durham County Council	Strategic Transport - Integrated Transport Block Funding	Substantial	0	0	1	
Audit objectives and scope						
<p>The objective of the audit was to determine the level of assurance that can be provided on the high level arrangements in place for ensuring the delivery of the Local Transport Plan – Integrated Transport Block.</p> <p>The scope of the audit included the following:</p> <ul style="list-style-type: none">• Documentation and review of objectives• Identification of interventions• Funding arrangements• Compliance with contract procedure rules• Project management arrangements• Review of the capital programme• Target setting and monitoring• Reporting arrangements• Process for review of completed schemes/interventions						

North East Combined Authority

Governance Committee

Internal Audit work undertaken was as shown below

- Following discussions with management, the key risk to the achievement of the objectives of the area under review was identified. The audit then assessed the controls designed to manage this risk.
- The audit testing covered the period of the Local Transport Plan from 2011 to December 2014.

Effective controls and good practice

- Page 104
- The Local Transport Plan (LTP3) clearly sets out the objectives in relation to the Integrated Transport Block, and those interventions which have been identified to achieve these objectives.
 - There were controls and procedures in place to ensure that interventions were being effectively managed including the assigning of a named project manager, allocation and control of an appropriate budget, and a centralised monitoring of progress through regular service meetings.
 - Highway works identified from the interventions are carried out, or subcontracted out, by Technical Services at Durham County Council and other services are procured through a procurement framework via the North East Purchasing Organisation (NEPO) to comply with Contract Procedure Rules, and achieve value for money.

High or medium priority findings

No high or medium priority findings were made

North East Combined Authority

Governance Committee

- Spend against the LTP3 budget is reported to the Member and Officer Working Group (MOWG) on a monthly basis as part of the Authority's overall capital programme.
- There is no requirement to report to the Department of Transport; however meetings take place twice a year with the Department for broad based discussions. Reporting to NECA is being developed, presentations to Overview and Scrutiny, MOWG and Highways Committee to discuss issues and objections to proposals take place.

North East Combined Authority

Governance Committee

Appendix 3 - Definitions

Overall Opinion

Full Assurance

There is a highly effective system of internal control in place designed to achieve the Authority's objectives with no issues being identified.

Substantial Assurance

There is an effective system of internal control in place designed to achieve the Authority's objectives with only minor issues being identified which require improvement.

Moderate Assurance

There is a sound system of internal control in place with some weaknesses being present which may put some of the Authority's objectives at risk. Issues require management attention.

Limited Assurance

The system of internal control in place has some major weaknesses which may put the achievement of the Authority's objectives at risk. Issues therefore require prompt management attention.

No Assurance

There are significant weaknesses in the system of control which could result in failure to achieve the Authority's objectives. Immediate management action is therefore required.

Findings and Recommendations

High

A fundamental control weakness which could have a significant impact on the achievement of the Authority's objectives and reputation.

Medium

A control weakness which could have a major impact on the achievement of the Authority's objectives and reputation.

Low

An issue which if addressed would bring some improvement to the effectiveness of the control system.

North East Combined Authority

Governance Committee

DATE: 27 February 2015

SUBJECT: Partnership Assurance

REPORT OF: Audit, Risk and Insurance Service Manager (Newcastle City Council)

EXECUTIVE SUMMARY

The purpose of this report is to present the Committee with a template to be issued to the Combined Authority's significant partners to seek assurance on the effectiveness of their governance arrangements.

The feedback from the returned assurance statements will be reported to the Governance Committee and will feed into the Combined Authority's Annual Governance Statement for 2014/15.

RECOMMENDATION

It is recommended that the Committee agree the template and to receive feedback, along with other sources of assurance relevant to the Annual Governance Committee, at their next meeting.

North East Combined Authority

Governance Committee

1 Background Information

- 1.1 At the December 2014 meeting of the Governance Committee Members discussed the need to receive assurance on the effectiveness of governance arrangements and controls in operation within the Combined Authority's significant partners.
- 1.2 A significant partnership is one where the partnership is entirely or substantially responsible for delivering or managing an outcome for the Combined Authority.

2 Proposals

- 2.1 The template at appendix 1 has been developed to capture evidence of control mechanisms in place at significant partners which will provide assurance that they are effective in the delivery of service on behalf of the Combined Authority. If evidence suggests that systems are not effective then remedial action will be required and depending on its significance will need to be considered for inclusion in the Annual Governance Statement for 2014/15.
- 2.2 A draft register of significant partnerships has been drawn up following the recent internal audit of governance arrangements and this was discussed at the Economic Directors' meeting of 13 February 2015. The register will be considered at further meetings during February 2015 to move it to finalisation. The draft register currently includes such partnerships as the North East Local Enterprise Partnership, Association of Northern Transport Authorities, North East Smart Ticketing Initiative (NESTI) and Rail North Limited, although additional partnerships may be included before it is finalised.
- 2.3 The template will be issued to each body defined as a significant partnership. It covers key areas in the governance of any organisation such as risk management, performance information and compliance, and asks for the officer completing the form to assess whether systems provide full, partial or limited assurance. Where anything other than full assurance is provided comments including remedial actions need to be noted.
- 2.4 From these submissions the quality of evidence can be assessed and if it is felt necessary internal audit can be tasked to check the evidence provided. There is no provision in the 2014/15 audit plan for this however but it could be considered for inclusion in the 2015/16 plan.

3 Next Steps

- 3.1 Once agreed the Head of Internal Audit will issue the template to significant partnerships of the Combined Authority in early March 2015 and will report feedback from the completed templates to the next Governance Committee. This will feed into the Annual Governance Statement for 2014/15.

North East Combined Authority

Governance Committee

4 Potential Impact on Objectives

4.1 No direct impact on objectives

5 Finance and Other Resources

5.1 This work will be carried out by Newcastle City Council under the SLA for 2014/15

6 Legal

6.1 No legal implications.

7 Other Considerations

7.1 Consultation/Community Engagement

No external consultation or community engagement required.

7.2 Human Rights

No implications under the Human Rights Act 1998 (or as amended).

7.3 Equalities and Diversity

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

7.4 Risk Management

Risk management will be considered as part of the development of the Annual Governance Statement but there are no specific risk implications from the report.

7.5 Crime and Disorder

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

7.6 Environment and Sustainability

There are no environment and sustainability implications directly arising from this report.

8 Background Documents

8.1 There are no background documents

North East Combined Authority

Governance Committee

9 Links to Plans in the Policy Framework

9.1 No direct link to the Policy Framework

10 Appendices

10.1 Appendix 1 – Partnership Assurance Template

11 Contact Officers

11.1 Philip Slater, Audit, Risk and Insurance Service Manager
E mail: philip.slater@newcastle.gov.uk
Tel: 0191 2116511

12 Sign off

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

North East Combined Authority

Governance Committee

Appendix 1 - Annual Partnership Assurance Statement for 2014/15

What is the Annual Governance Statement?

We conduct an annual review of our main governance and internal control systems in order to ensure that we continue to meet these standards and to ensure that aims and objectives will be achieved, key risks managed and significant weaknesses addressed – the outcome of the review is published in the Annual Governance Statement which is part of our Annual Report and Accounts.

This is a regulatory requirement and an important source of public information, demonstrating that we have a sound system of governance and internal control and are taking active steps to address any concerns.

How is the Annual Governance Statement compiled and why is this assurance statement required?

This assurance statement aims to support the review process. Where the Authority has key arrangements with partners and other bodies for the delivery of its objectives it is required to obtain assurance from those organisations that they have adequate arrangements in place.

The information provided will be centrally reviewed along with other key sources of assurance provided by Authority systems, external inspectors and internal auditors.

Considering these assurance sources will provide an indication of the strength of governance and internal control arrangements in place to identify weaknesses and ensure the most significant weaknesses are disclosed.

A draft Annual Governance Statement will be produced for review by the Governance Committee in July 2015 and signed by the Leader of the Authority and Head of Paid Service, and published as part of the Annual Report and Accounts.

The Annual Governance Statement (and therefore this assurance statement) must be up to date when the final accounts are published in September 2015.

What is the required timescale?

To achieve the above timescale please return the completed statement to Head of Internal Audit, Newcastle City Council by xx April 2015 at the following:

Newcastle City Council, Room 506, Civic Centre, Newcastle upon Tyne, NE1 8QH
Tel no. 0191 211 6511, E-mail: philip.slater@newcastle.gov.uk

Should any significant issues occur between this statement's submission and the final approval of the Annual Governance Statement in September 2015 the Authority should be informed, via the Head of Internal Audit.

North East Combined Authority

Governance Committee

SECTION A: REVIEW OF EFFECTIVENESS

Guidance - For each area listed below, please specify:

1. In column (a), for each system list the key evidence used to inform management's judgement on the system's effectiveness. These will generally involve internal methods (e.g. meetings, management review, policies and plans) or independent assessment (e.g. internal or external audit, inspectors, audit committees); and
2. In column (b), give an overall assessment rating based on these sources of evidence by indicating the level of assurance they provide. (Definitions are in appendix A)
3. In column (c), give comments or details of actions to be taken if further assurance is required i.e. if partial or limited assurance is given.

(a) Evidence of assurance for key systems	(b) Overall assessment			(c)
	Full assurance	Partial assurance	Limited assurance	Comments / Actions
Systems for establishing and monitoring the achievement of objectives and outcomes includes:				
Systems to identify, assess and manage the risks in achieving the objectives include:				
Systems for establishing policy and ensuring adequate decision making include:				
Systems for ensuring the effective use of resources and assets include:				
Systems for ensuring compliance with established policies, procedures, laws and regulations include:				
Systems for securing financial management and accurate financial reporting include:				

North East Combined Authority

Governance Committee

(a) Evidence of assurance for key systems	(b) Overall assessment			(c)
	Full assurance	Partial assurance	Limited assurance	Comments / Actions
Systems for performance management and accurate performance management reporting include:				
Systems to ensure we promote and demonstrate values of good governance and uphold high standards of conduct and behaviour include:				
Systems to develop the capacity and capability of officers to be effective include:				
Systems for engaging with local people and other stakeholders to ensure robust public accountability include:				

SECTION B – SIGNIFICANT GOVERNANCE / CONTROL ISSUES

The following questions aim to **identify any weaknesses** in 2014/15 which might represent **significant governance or control issues**. Please state whether any event or situation has arisen which:

<p>Has seriously prejudiced or prevented achievement of a principal objective</p> <p>If yes, give details:</p>	Yes/No
<p>Has resulted in the need to seek significant additional funding or resources to allow it to be resolved</p> <p>If yes, give details:</p>	Yes/No
<p>Has had a material or significant impact on your accounts</p> <p>If yes, give details:</p>	Yes/No

North East Combined Authority

Governance Committee

<p>Has resulted in Internal Audit or another relevant auditor or inspector identifying it as “significant”, including fraud activity</p> <p>If yes, give details:</p>	Yes/No
<p>Has resulted in significant public interest or has seriously damaged reputation</p> <p>If yes, give details:</p>	Yes/No
<p>Has resulted in formal actions being taken by a Statutory Officer of your organisation.</p> <p>If yes, give details:</p>	Yes/No
<p>Please use this box to highlight whether there are governance or internal control issues / concerns not already covered by Sections A and B above:</p>	Yes/No

SECTION C: CONCLUSION AND ACTION PLAN

Governance / Control Issue <i>(Insert details of governance weaknesses / issues highlighted in Sections A and B above)</i>	Planned Action / Timescales <i>(How and by when will these be addressed)</i>	Improvements Made / Progress <i>(How has the governance / internal control issue been addressed (what improvements have been made)</i>

I confirm that the above is a fair reflection of the governance, internal control and risk management arrangements in place during the period for *(your organisation’s name)* and that governance and internal control systems are **in place/not in place*** (delete as appropriate) and operating effectively with the exception of the items noted in section C above.

I confirm that the above should be considered when assessing significant governance and internal control issues for reporting in the North East Combined Authority’s Annual Governance Statement.

Signature:

Print Name:

Position:

Date:

North East Combined Authority

Governance Committee

Appendix A – Definitions

Full Assurance

There is an adequate and effective system of control and governance in place to ensure that the objectives of the system are met. There is no additional action required to improve systems in place.

Partial Assurance

The system of control provides management with some assurance however systems improvements are required in a number of areas to increase the adequacy and effectiveness of risk management, control and governance and ensure objectives are met

Limited Assurance

Control and governance systems are weak and there is a real and substantial risk that the system will fail to meet its objectives. Significant improvements are required to increase the adequacy and effectiveness of control and governance

This page is intentionally left blank

North East Combined Authority

Governance Committee

DATE: 27 February 2015

SUBJECT: Strategic Risk and Opportunities – Development of a Strategic Risk Register and Next Steps

REPORT OF: Audit, Risk and Insurance Service Manager, (Newcastle City Council)

EXECUTIVE SUMMARY

A risk identification workshop has taken place, which acknowledged the most significant risks and opportunities facing the delivery of the Combined Authority's aims and ambitions.

The officers agreed the biggest risk was around the devolution of funding and project delivery; however establishment of the Combined Authority will bring real opportunities to strengthen our existing partnership arrangements.

A summary of the risks and opportunity topics were circulated to Economic Directors for information. They have been endorsed by the Directors, however they have agreed that a further detailed discussion will take place at their meeting on 6 March 2015, where it is anticipated that additional strategic risk areas will be raised.

RECOMMENDATIONS

Governance Committee are asked to:

- Acknowledge and agree the strategic risks and opportunity areas that have been identified at the workshop
- Note the approach taken with Economic Directors to identify additional risk areas to investigate further
- Agree to receive a progress report at the next Governance Committee based on the outcome of the Economic Directors' meeting on 6 March 2015

North East Combined Authority

Governance Committee

1 Background Information

- 1.1 A risk identification workshop took place on 28 November 2014 with statutory officers and a representative from the skills and inclusion theme. A summary of the risks and opportunities highlighted during the workshop was endorsed by the Economic Directors in February 2015, however they have proposed a further detailed discussion on 6 March 2015, where it is anticipated additional risk areas will be raised. The outcome of the workshop is summarised below:

Opportunity - to raise the national profile of the North East

There is an opportunity to raise the profile of the North East Combined Authority nationally, which through NECA's success will help shape the economic future of the North East through greater devolution of funding and responsibilities

Opportunity - to strengthen partnerships

The establishment of the Combined Authority provides us with an opportunity to strengthen the existing partnership arrangements in the region and across the public and private sectors

Risk – due to the lack of Finance and Resources

Following receipt of the North East Growth Deal funding, the Combined Authority are unable to demonstrate to government and partners their ability to successfully deliver the agreed projects and schemes within funding allocation, timeframes and to satisfy key criteria

- 1.2 Each local authority and delivery agency will continue to manage risks and opportunities within their own organisations. However, there will be continued collaboration with all stakeholders, to ensure the Governance Committee and ultimately the Leadership Board has an awareness of the most significant risks and opportunities which may influence their decision making.

2 Proposals

- 2.1 Newcastle City Council will develop a strategic risk register to record, monitor and report the strategic risks and opportunities to the Governance Committee at 6 monthly intervals.

3 Next Steps

- 3.1 Newcastle City Council will work with nominated lead officers to develop the strategic risk register which will include the risks highlighted at the workshop and additional risk areas identified by the Economic Directors. The Committee will receive a progress report at their July 2015 meeting.

North East Combined Authority

Governance Committee

4 Potential Impact on Objectives

- 4.1 The development of the strategic risk register will not impact directly on the objectives of the Authority's policies and priorities; however the approach to strategic risk management will support delivery of aims and ambitions by acknowledging the biggest threats and putting plans in place to manage them.

5 Finance and Other Resources

- 5.1 There are no direct financial implications for the North East Leadership Board regarding the development of the Strategic Risk Register.

6 Legal

- 6.1 There are no legal implications

7 Other Considerations

7.1 Consultation/Community Engagement

Following development of the strategic risk register, a risk management agenda item will be added to the Governance Committee's forward plan and the risks and opportunities will be reviewed every 6 months.

7.2 Human Rights

There are no Human Rights implications directly arising from this report

7.3 Equalities and Diversity

There are no equalities and diversity implications directly arising from this report

7.4 Risk Management

There are no direct risk management implications from this report. The approach to risk management is documented within the agreed policy and strategy.

7.5 Crime and Disorder

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

7.6 Environment and Sustainability

There are no environment and sustainability implications directly arising from this report.

8 Background Documents

- 8.1 There are no background documents

North East Combined Authority

Governance Committee

9 Links to Plans in the Policy Framework

- 9.1 The Risk Management Policy and Strategy and approach to strategic risk management going forward, will support delivery of the Strategic Economic Plan and Local Transport Plans, by acknowledging the biggest threats to their delivery.

10 Appendices

- 10.1 There are no supporting appendices

11 Contact Officers

- 11.1 Philip Slater - Audit, Risk and Insurance Service Manager - Newcastle City Council.
Philip.slater@newcastle.gov.uk. Telephone - 0191 2116511

12 Sign off

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