

Title:	Draft budget 2026-27 and Medium-Term Financial Plan
Portfolio:	Finance and Investment
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Purpose of the report

The purpose of this report is to present the initial draft 2026-27 budget and medium-term financial plan (MTFP) for the North East Combined Authority (North East CA). This sets out the financial framework within which the North East CA will deliver against its missions and priorities over the period 2026-27 to 2028-29. It provides an initial view of the North East CA's expected funding, expenditure and reserves, ensuring resources are aligned with strategic objectives and that financial sustainability is maintained in the medium term.

The balanced budget presented in this report fulfils the statutory duty of the Authority; and underpins the ambitious programme of investment, growth and social change led by the North East Mayor and Cabinet. It enables progress against the outcomes within the Mayor's Local Growth Plan, Local Transport Plan, New Deal for North East Workers, Child Poverty Action Plan and against the North East CA's Corporate Plan. This includes regional investments in transport, housing, regeneration, economic innovation, skills and child poverty reduction totalling over £500m; and new funding secured for the region of almost £2 billion.

Recommendations:

Cabinet is recommended to:

1. Agree for consultation the delivery budgets set out in section 2.
2. Agree for consultation the draft Transport Levies set out in section 3.
3. Note the Tyne Tunnels position set out in section 3.
4. Note the reserves position as set out in section 3.
5. Agree for consultation the initial draft North East CA Corporate Budget for 2026-27 as set out in section 4.
6. Support the opportunity of participating in the NE Electric Vehicle Cluster programme and delegate authority to the Director of Finance and Investment to accept the grant funding.
7. Delegate authority to the Chief Executive to approve any subsequent commissioning of activity and award of funding or contracts for the NE Electric Vehicle Cluster programme, in accordance with procurement regulations and the approval thresholds set out within the North East CA Single Assurance Framework.
8. Delegate authority to the Chief Executive to approve the commissioning of activity and award of funding or contracts for Economic Inactivity Trailblazer year two funding, in accordance with procurement regulations and the approval thresholds set out within the North East CA Single Assurance Framework.

Executive Summary

This draft budget and medium-term financial plan report sets out planned revenue and capital expenditure over the three-year period commencing 1 April 2026. It has been prepared at a point before full confirmation of funding has been received, and it should therefore be taken as a preliminary view of the investments and activities the Combined Authority expects to undertake over that period. All figures in this report are therefore subject to change. It should also be noted that,

while a reasonably clear view of activities exists for the 2026-27 financial year, there is greater uncertainty for the financial years beyond.

Notwithstanding the above, this report envisages a significant programme of investment, firmly aligned with the North East CA's five missions, over the three-year MTFP period. The provisional proposed capital and revenue programmes for that period are planned at £805m and £918m respectively.

A. Context

1. Outline

- 1.1. This year's budget and MTFP are being developed during a period of transition, as the North East CA moves to an Integrated Settlement with government from 1 April 2026, as an Established Mayoral Strategic Authority. The settlement will bring together a range of funding streams, historically individually ring-fenced, into a multi-year allocation formed of broad themes, providing greater flexibility, longer-term certainty and increased local control for the Mayor and Cabinet over investment decisions. Certain funding streams remain for now outside of the integrated settlement, including the Investment Fund, but it is anticipated that, over time, the integrated settlement will become the default funding mechanism for all government grant funding.
- 1.2. Integrated settlement is a benefit of 'Established Mayoral Strategic Authority' status – itself the result of demonstrable Mayoral and executive leadership; a culture of cross-regional and cross-party collaboration; a strong delivery track record; and audit and scrutiny arrangements that demonstrate a strong local accountability framework and judicious use of public resources.
- 1.3. Final details of the North East CA's first integrated settlement, commencing 1 April 2026, are not yet confirmed, so there are some gaps in funding amounts in this report as a result and, as described in the executive summary, all values are subject to change. A final version for approval will be brought to Cabinet in February 2026.
- 1.4. The Authority continues to operate in a challenging fiscal environment, with ongoing pressures from inflation, uncertainty in national public finances, challenging local government financial positions – not least in the North East CA's constituent authorities – and growing demand for investment to support inclusive growth, transport connectivity and increased skills across the North East. Against this backdrop, the 2026-27 budget and MTFP aim to ensure that resources are targeted effectively to deliver maximum impact, while maintaining a sustainable financial position.
- 1.5. The report sets out the financial context and key assumptions underpinning the budget and MTFP, the proposed revenue and capital budgets for 2026-27 and medium-term forecasts to 2028-29, the reserves strategy and risk framework supporting the financial framework and the next steps in finalising the budget ahead of its presentation for approval in February 2026.

2. North East CA Delivery Programme 2026-27 to 2028-29

- 2.1. Since the election of the Mayor and formation of the North East CA in May 2024, the North East CA Cabinet has approved 137 investment proposals, allocating £265m in funding from the North East CA Investment Fund, Early Capital Regeneration, Investment Zones, Brownfield Housing Fund, Connect to Work and Economic Inactivity Trailblazer; and 26 transport investments totalling over £346m.
- 2.2. During that period, significant new funding has been secured, providing the foundation for delivery of the North East CA's missions. That includes:
 - a) Securing the status of the North East CA as an **established mayoral strategic authority** – a significant step that confers the highest level of devolution and funding flexibility.

- b) **£1.8bn of Transport for City Regions** funding, enabling the North East CA to invest in regional transport projects including Metro to Washington, the Metro Asset Renewal Programme, and bringing the region's buses back under public control.
- c) A **£25m regional growth fund** for the region's creative industries, the North East's share of a £150m fund available only to Mayoral Strategic Authorities. The fund will support and enable innovation, access to finance, R&D, skills and regional growth for creative organisations from grassroots music venues to world-class film studios.
- d) The continuation of the North East CA's **£1.4bn, 30-year investment fund**, a fully flexible approach to delivering long-term, transformational investment.
- e) **£50m Connect to Work programme**, supporting disabled individuals, those with health conditions, and those facing barriers to employment to find sustainable work. The programme is supplemented by a further **£20m economic inactivity trailblazer** programme, which funds the design of tailored solutions that tackle the root causes of economic inactivity.
- f) **£50m North East Electric Vehicle Cluster Programme**, providing support for companies transitioning their offer to the EV supply chain, help attract new investment and support companies to increase their productivity. This results from the confirmation of the North East as a priority region for EV manufacturing.
- g) [Skills and employability to be confirmed pending funding announcement.]

2.3. As the 'purpose' section of this report notes, this budget underpins an investment and delivery programme that is long-term, evidence-based, and politically led through a directly elected Mayor and cross-party Cabinet. This programme is aligned to five missions, set out below, which are consistently reflected in each of our subject matter strategies, corporate plan and ways of working as an officer team within the CA and partner Local Authorities.

- Home of real opportunity
- A North East we are proud to call home
- Home to a growing and vibrant economy for all
- Home of the green energy revolution
- A welcoming home to global trade

2.4. Our long-term goal is to ensure that our budget – including the 'pillars' and 'outcomes' reflected in the Integrated Settlement – are aligned to these missions. But for this budget we have necessarily taken a pragmatic approach, recognising both the alignment to missions and their over-arching importance, and the need for fidelity and transparency as to funding streams that are currently in place. That is why the budget is set out as presented here.

2.5. Integrated Settlement

2.5.1. As noted above, the Integrated Settlement represents a very meaningful change in the financial relationship between the North East CA and central government, consolidating a range of existing funding streams into a three-year allocation.

2.5.2. Integrated Settlement funds will in fact be awarded through six 'pillars': Housing and Strategic Planning; Economic Development and Regeneration; Skills and Employment Support; Transport and Local Infrastructure; Environment and Climate Change and Health and Public Service Reform.

2.5.3. It is not all-inclusive; the North East CA will continue to receive funding outside the settlement, most notably its 30-year Investment Fund as agreed through the North East's devolution deal.

2.5.4. The Integrated Settlement brings with it some important flexibilities. In summary those are:

- the ability to carry over funding from one financial year to the next;
- to move up to 100% of revenue funding within each pillar to capital;
- to move up to 10% of capital funding within each theme to revenue; and
- to move up to 10% of funding between pillars.

2.5.5. A structured framework enabling the use of the flexibilities is being developed.

2.5.6. There remains a continued requirement to deliver clear value for money, alongside a shift towards emphasis on longer-term outcomes and impact than on short term outputs. For example, employment and training support funding will focus on demonstrating labour market outcomes as a result of an intervention, as opposed to number of learners.

2.5.7. Appendix C lists the functional responsibilities conferred on mayoral strategic authorities in receipt of the integrated settlement. This is a draft list that will be confirmed with government as part of final agreement of the financial settlement. Appendix D lists the funding pillars and component parts.

2.5.8. The table below outlines the draft budget for 2026-27 and plan for the two subsequent financial years. This includes funding from all sources, including those outside of the integrated settlement.

Table 2: Summary of Expected Service Delivery¹

Pillar	Fund	2026-27	2027-28	2028-29
		Budget	Plan	Plan
Housing and Strategic Planning	Revenue	TBC	TBC	TBC
	Capital	£31,939,508	£27,540,440	£48,690,000
Economic Development and Regeneration	Revenue	£27,185,482	£24,018,543	£21,148,333
	Capital	£31,208,333	£28,858,333	£37,358,333
Skills and Employment Support ²	Revenue	£117,597,863	£110,323,066	£109,764,255
Environment and Climate Change	Revenue	£185,000	£185,000	£185,000
	Capital	TBC	TBC	TBC
Investment Fund	Revenue	£31,582,482	£33,374,513	£31,830,887
	Capital	£26,871,409	£9,832,471	£8,490,092
Transport and Local Infrastructure	Revenue	£122,874,968	£141,272,385	£146,037,987
	Capital	£184,935,767	£206,164,890	£163,310,312
Total revenue		£299,425,795	£309,173,507	£257,848,737
Total capital		£274,955,017	£272,396,134	£209,158,737
Total		£574,380,812	£581,569,641	£566,815,199

2.5.9. The expected spend and profile for the 2026-27 financial year will be finalised for the final budget report in February.

¹ Where available, profiles are set out based on expected delivery. These profiles will continue to evolve between the draft and final budget papers as more information becomes available. Where no profile is yet available, an assumed funding profile has been applied.

² Figures are indicative, based on steer from government to plan on flat-cash basis until funding is confirmed. Variation between years arises from the planned phasing of Connect to Work delivery.

2.6. Housing and Strategic Planning: A North East we are proud to call home

Table 3: Expected Housing and Strategic Planning planned pillar delivery

Programme Fund	2026-27	2027-28	2028-29
Integrated Settlement (NHDF)	£21,850,000	£20,000,000	£48,690,000
Brownfield Housing - capital	£10,089,508	£7,540,440	TBC
Capital	£31,939,508	£27,540,440	£48,690,000

- 2.6.1. Housing and strategic planning investment supports the **A North East we are proud to call home mission**. Investments of this funding focus not simply on building new homes, but on delivering affordable, social housing.
- 2.6.2. The integrated settlement funding for Housing & Strategic Planning was confirmed with the Budget on 26 November. A substantial allocation of the National Housing Delivery Fund has been confirmed for the North East, focused on enabling affordable, social, energy-efficient housing. £143.130m capital grant has been allocated across the four year period to 2029-30, with the profile still to be confirmed.
- 2.6.3. Outside of integrated settlement, a further £17.6m Brownfield Housing Fund was awarded to the North East CA in April 2025. A pipeline of 12 projects has been agreed to benefit from this funding, with delivery commencing in April 2026. Of the 1,190 new homes forecast, 443 will be classed as affordable.
- 2.7. **Economic Development and Regeneration:** A growing and vibrant economy for all; A welcoming home to global trade

Table 4: Expected Economic Development and Regeneration planned pillar delivery

Programme Fund	2026-27	2027-28	2028-29
Integrated Settlement	£27,185,482	£24,018,543	£21,148,333
Revenue	£27,185,482	£24,018,543	£21,148,333
Integrated Settlement	£14,608,333	£17,358,333	£22,358,333
Early Capital Regeneration	£9,100,000	£0	£0
NE Electric Vehicle Cluster programme – Capital	£7,500,000	£11,500,000	£15,000,000
Capital	£31,208,333	£28,858,333	£37,358,333

- 2.7.1. Estimates relating to the AI Growth Zone, Mayoral Growth Fund and High Streets are not included as the programmes of work have not yet been agreed. The Business Support programme, which is under development and led by the economic development team, is discussed in the Investment Fund section of this report (see 2.10) and therefore not included above, though the Local Growth Fund amounts above may form part of the funding of that programme.
- 2.7.2. It has been confirmed that each of the UK's two AI Growth Zones, including the North East, will receive £5 million in support at local level for business adoption and skills, ensuring the sites deliver for the working people of our region.
- 2.7.3. The £25 million Creative Places Growth Fund, which forms part of the North East's integrated settlement, is the region's share of a £150 million fund to boost the creative industries. The fund aims to provide access to finance, mentoring, and networking opportunities for creative enterprises; drive economic growth and jobs creation in areas such as film, TV, music and the arts outside

London; and encourage creativity and innovation, with a goal to double business investment in the creative sector by 2035.

- 2.7.4. The Mayor secured the region as a priority area for EV manufacturing, and Government has announced their intention to support the NE Electric Vehicle Cluster Programme over the next three years through a dedicated programme. The programme will provide support for companies transitioning their offer to the EV supply chain, help attract new investment and support companies to increase their productivity. The dedicated nature of this fund, as described above, means that it sits outside of the integrated settlement and is ringfenced for these activities.
- 2.7.5. Cabinet is asked to support the opportunity of participating in the NE Electric Vehicle Cluster programme, and delegate authority to the Director of Finance and Investment to accept the grant funding. Delegated authority is also requested for the Chief Executive to approve any subsequent commissioning of activity and award of funding or contracts, in accordance with procurement regulations and the approval thresholds set out within the North East CA Single Assurance Framework.
- 2.7.6. The Early Capital Regeneration Programme comprised £20m allocated by MHCLG in December 2022 as part of the devolution deal negotiations, the additional £35m for development of the Sunderland Riverside (Crown Works Studio), Forth Yards and Health Innovation Neighbourhood sites; and £14m of Investment Funding allocated by NTCA in September 2023. The programme is fully delivered with the exception of £9.1m profiled into 2026-27 relating primarily to Sunderland Riverside (£6.9m) and Gateshead Public Infrastructure (£2m). This is the final year of delivery of an historical fund, which therefore sits outside the integrated settlement.
- 2.7.7. The Mayor's Local Growth Plan sets out the key role of innovation in creating growth and opportunity in the region. The Combined Authority is working closely with UKRI, regional universities, and businesses to develop proposals for the £30m North East allocation of Local Innovation Partnerships Funding, with the funding itself being administered by UKRI.

2.8. Skills and Employment Support: Home of real opportunity

Table 5: Expected delivery by programme fund

Programme Fund	2026-27	2027-28	2028-29
Integrated Settlement	£107,597,863	£110,323,066	£109,764,255
Economic Inactivity Trailblazer Phase 2	£10,000,000	TBC	TBC
Revenue total	£117,597,863	£110,323,066	£109,764,255

- 2.8.1. Integrated settlement investment will support ongoing Adult Skills Funding (ASF), Skills Bootcamp and Connect to Work programmes, started in 2025-26. The current ASF and Bootcamp contracts extend to 2026-27; Connect to Work contracts run to 2029-30. Under the proposed formula, the North East will receive significantly less funding for Skills Bootcamps than it has historically. There is therefore a risk that funding assumptions set out above are overstated, with a consequent impact on delivery.
- 2.8.2. In December 2024, the North East CA was identified as an Economic Inactivity Trailblazer region, bringing together health, employment, and skills services and develop innovative new approaches to improve the support available to those who are economically inactive due to ill health to help them return to, and stay in, work. The programme has a strong emphasis on innovation to achieve better local labour market outcomes. Removing barriers to employment is a key component of the North East CA's ambition to make the North East the home of real opportunity and delivering the

draft Local Growth Plan. Funding of £10 million was received in 2025-26 to develop and test new and innovative ways of addressing at the regional level the persistent causes of economic inactivity.

- 2.8.3. DWP has recently confirmed that the North East CA will receive a further £10 million in 2026-27 to continue the trailblazer activity for a further 12 months. DWP expects the second year programme to continue on as an iteration of year one – expanding on innovations that can be demonstrated to deliver strong value for money, outcomes, and amending or pivoting away from those with lower demonstrable labour market success. This approach reflects the pilot nature of this initiative.
- 2.8.4. The Economic Inactivity Trailblazer will be a key part of the 2026-27 Pathways to Work employment support announced in a Green Paper in March and will inform the design of and support the transition to the longer-term design of that suite of support. A draft delivery plan was submitted to DWP at the end of September 2025 for assessment in December. It is anticipated that a Grant Funding Agreement will be in place early in 2026 to ensure that current activity can be continued from April 2026.
- 2.8.5. To enable delivery at pace, delegated authority is requested for the Chief Executive to approve the commissioning of activity and award of funding or contracts for Economic Inactivity Trailblazer year two funding, in accordance with procurement regulations and the approval thresholds set out within the North East CA Single Assurance Framework.

2.9. Environment and Climate Change: Home of the green energy revolution

Programme Fund	2026-27	2027-28	2028-29
Local Nature Recovery Plans	£185,000	£185,000	£185,000
Revenue	£185,000	£185,000	£185,000

- 2.9.1. The development of Local Nature Recovery Plans is the only programme confirmed to date in the environment and climate change pillar. Further Defra funding through the integrated settlement, including homes retrofit, is anticipated but not yet confirmed. The North East CA's mission 'Home of the green energy revolution' is otherwise supported through investment fund programmes (see section 2.10)
- 2.10. **Investment Fund: supporting all of the North East CA's missions**

Table 7: Planned Investment Fund delivery

Programme Fund	2026-27	2027-28	2028-29
North East CA Investment Fund	£27,100,018	£32,850,726	£31,830,887
Legacy NTCA Investment Fund	£4,482,464	£523,787	£0
Revenue	£31,582,482	£33,374,513	£31,830,887
North East CA Investment Fund	£23,787,643	£8,942,471	£8,490,092
Legacy NTCA Investment Fund	£3,083,766	£890,000	£0
Capital	£26,871,409	£9,832,471	£8,490,092

- 2.10.1. As outlined above, the North East CA will continue to receive funding streams outside the integrated settlement, including the Investment Fund. This is the North East CA's 30-year investment fund, agreed with HM Government as part of the devolution deal. This is paid annually to the Combined Authority as a fixed amount of £48 million (revenue of £34 million and capital of £14 million).

2.10.2. This fund provides the Combined Authority with flexible funding to deliver investments and pursue long-term strategic opportunities aligned with the Mayor's and Cabinet's missions. It also serves as a vital mechanism to address resource gaps, acting as a funder of last resort where other funding sources are unavailable or insufficient.

2.10.3. The following strategic projects and programmes have already been approved by Cabinet and will be delivered over the next three years:

- **Child Poverty Action Plan:** £30m commitment, £22.7m of which is to be delivered next 3 years.
- **High Streets Transformation:** South Shields (South Tyneside College £18.3m) [and wider high streets programme].
- **Create Talent:** a £4m, innovative, industry-led skills programme to support the North East's thriving creative sector, focusing on the music, arts, writing and publishing and the screen industry.
- **Access to Finance schemes:** including the North East Accelerate, North East Elevate and North East Spin Out Funds with £24.3m forecast expenditure over the next three years to March 2029.
- **Support for regional businesses:** Including Rural Growth Programme (£8.5m to support Food, Agriculture & Forestry, and rural business support); and a wider regional business support programme, which is in development with our local authority partners and the business community. An indicative amount of £33m is included in the investment fund figures in table 7 for the three year period to support this programme pending confirmation from HM Government of the Local Growth Fund element of the integrated settlement. The latter will reduce the call on the Investment Fund for business support. A proposed programme of business support will be brought to February Cabinet (see 2.10.4 below).

2.10.4. The North East CA is developing a new Business Support Framework to modernise and integrate how business support is delivered across the region. The Framework will provide a single, consistent and evidence-led system aligned to the UK Government's Industrial Strategy, the Small Business Plan, and the North East Local Growth Plan. Its purpose is to create a cohesive regional brand and a seamless customer journey for businesses, ensuring support is accessible, trusted, and strategically aligned with national priorities through the Business Growth Service. It will be targeted at long-standing economic challenges around low start-up rates, productivity, and scale-up performance, while supporting inclusive and sustainable growth in key sectors such as clean energy, digital, manufacturing, and creative industries.

2.10.5. Development of the Framework will be guided by shared principles agreed with local authority economic leads and partners: co-production with stakeholders, evidence-based design, efficiency through digital and AI-enabled delivery, and a focus on inclusivity, transparency, and measurable impact. Engagement with businesses, delivery partners, universities, and the Department for Business and Trade will continue throughout 2025 to shape the detailed design, governance, and delivery model.

2.10.6. The North East CA intends to develop a series of investment programmes aligned with the Corporate Plan. These include a Green Jobs Delivery Plan, a Housing Retrofit Programme, a Regional Pride Inward Investment Campaign and further investment in the region's Creative Industries. These initiatives are not currently included, as they are subject to agreement.

2.11. Transport and Local Infrastructure: A North East we are proud to call home

Table 8: Transport delivery plans

Programme Fund¹	2026-27	2027-28	2028-29
Transport for City Regions (TCR)	N/A	£41,942,592	£46,152,692
Bus Service Revenue Grant	£48,682,257	£23,637,653	£23,637,653
City Regional Sustainable Transport Grant	£5,510,903	£5,510,903	£5,510,903
Nexus Operations Grant	£30,079,800	£30,681,396	£31,295,024
Tyne Tunnels	£35,425,000	£37,129,000	£37,288,000
Bus Reform (ringfenced reserves)	£1,890,715	£1,890,715	£1,890,715
Other Transport Revenue Grants	£1,286,293	£480,126	£263,000
Revenue	£122,874,968	£141,272,385	£146,037,987
Transport for City Regions	£19,100,000	£113,632,160	£113,632,160
Bus Service Capital Grant	£27,000,000	£26,592,419	£0
City Regional Sustainable Transport Settlement (reprofiled)	£113,160,000	£53,505,500	£43,855,500
Other Transport Capital Grants	£25,675,767	£12,434,811	£5,822,652
Capital	£184,935,767	£206,164,890	£163,310,312

¹ From 1 April 2026 the majority of transport funding will be received through Integrated Settlement. Separate funding lines have been retained above since the profile reflects planned expenditure timings which includes funding received prior to 2026-27.

- 2.11.1. The transport funding set out above is the foundation on which the North East Combined Authority will deliver the Mayor's Local Transport Plan, which outlines the Mayor's blueprint for a connected network that is simple, affordable, and built to last.
- 2.11.2. The Mayor's plan is intended to make sustainable travel the first choice for more people and businesses, helping reduce emissions and improve connections between communities, giving people the skills they need to succeed and creating better wellbeing for all.
- 2.11.3. The delivery programme set out above will be delivered through multi-year, consolidated funding settlements and support the maintenance requirement within the region through funding the highways and Metro maintenance.
- 2.11.4. Other key investments include the continuation of critical revenue programmes such as the Bus Service Improvement Plan, including the Mayor's Fares programme, the Bus Reform programme focusing on the franchising scheme assessment, and the Tyne Tunnels contract for the operation of the vehicle and pedestrian tunnels linking North and South Tyneside.
- 2.11.5. The Mayor's Fares programme has improved the affordability of bus travel and grown bus patronage by capping single fares for adults at £2.50 and for people aged 21 and under at £1, along with a range of multi-trip regional products. This scheme has to date been funded through Bus Service Improvement (BSIP) Revenue Grant from Government, which is scheduled to end in March 2026. In a separate report on this agenda Cabinet will be asked to consider the extension of key elements of this scheme until April 2027, but with a reduced scope in order to match a funding envelope of £31.81 million which will be sourced from Bus Revenue Grant (which is also used to support tendered services) and CRSTS.

2.11.6. There are also important investments in relation to capital programmes including the Local Electric Vehicle Infrastructure and Active Travel Funds which provide key capital infrastructure improvements to the transport network focusing on the bus network, electric vehicle charging infrastructure and the cycling, walking and wheeling infrastructure throughout the region. These are noted in the table above as 'Other transport capital grants'.

3. Transport services funded through levies

- 3.1 The North East CA receives levies from its constituent local authorities that are then redistributed primarily through the provision of revenue grants to Durham and Northumberland County Councils in order to deliver those transport activities delegated to them by Cabinet; and to Nexus, for the delivery of public transport services in Tyne and Wear. The transport levying bodies regulations set out that the levies must be agreed by 15 February prior to the financial year to which they relate.
- 3.2 Budget estimates which will inform the levies and transport grants for Durham County Council and Northumberland County Council are currently being developed by those councils and will be reported to Cabinet in February.
- 3.3 A proportion of the levy raised from the Tyne and Wear local authorities is retained by the North East CA to meet historical capital financing charges. This amount is currently £2.1m per annum and it is proposed this be maintained for the period covered by this medium term financial plan.
- 3.4 The remainder of the Tyne and Wear levy funds the grant to Nexus, the Tyne and Wear Passenger Transport Executive. In 2025-26, this grant was set at £70.246m of a total levy of £72.409m (the difference being the capital financing costs referred to in paragraph 3.4). At the time the levy was set, it was indicated that an increase of 3% would be required in 2026-27. Alongside that increase, £25.4m of Nexus reserves will be used over the period 2025-26 to 2028-29, enabling Nexus to maintain services, invest in safety and security and complete the roll-out of the new Metro fleet.
- 3.5 Nexus's ownership of the Tyne and Wear Metro means it carries a wide range of responsibilities including being a train operating company and infrastructure manager. In addition to operating the Metro, Nexus also operates the cross Tyne Ferry service as well as securing around 20% of the bus market within Tyne and Wear. Nexus also provides public transport information in written and digital form as well as owning and operating bus infrastructure. Nexus employs 1,100 people.
- 3.6 Nexus is a critical partner in delivering the Mayor's Local Transport Plan, which sets out objectives for transport across the region. Nexus focuses on:
- Planning journeys / informing users / supporting customers;
 - Ticketing and fares;
 - Reach and resilience of infrastructure;
 - Safety, especially of women and girls, and other improvements in service quality; and
 - Connections between different transport types.
- 3.7 Nexus delivers:
- 360 scheduled Metro services per operational day, on average;
 - Maintenance of the Metro network: mixed fleet, overhead line, track, structures, tunnels, communications equipment;
 - 170 secured bus service contracts (including schools / works services) which provide socially necessary links;
 - 60 scheduled ferry crossings per operational day (on average);
 - Smart ticketing and the provision of public transport information;
 - Management of 6 major bus stations and interchanges, and 6,000 bus stops and shelters; and

- Delivery of major investment programmes across transport modes, including the delivery of the new Metro fleet and signalling system, bringing the Metro to Washington, and a new ferry landing at North Shields.

3.8 The proposed Tyne and Wear levy and the apportionment between the Tyne and Wear councils is set out in the table below. In accordance with transport levying bodies regulations, this apportionment must be based on ONS mid-year population estimates. Changes within the population apportionment mean that the headline increase of 3% does not apply evenly across the councils.

Table 9: Tyne and Wear Transport Levy

	2025-26 Levy £m	2026-27 Proposed £m	Change (%)	Change £m
Gateshead	12.504	12.833	2.6%	0.329
Newcastle	19.589	20.291	3.6%	0.703
North Tyneside	13.297	13.609	2.3%	0.312
South Tyneside	9.373	9.582	2.2%	0.209
Sunderland	17.647	18.266	3.5%	0.619
Total	72.410	74.581	3.0%	2.172

- 3.9 Full details of Nexus's activities and funding are set out in appendix A. This also discusses the actions that Nexus has taken, and is taking, to manage its running costs, protect its revenues and use its reserves to supplement and mitigate increases to the levies on local authorities.
- 3.10 In recognition of the significant financial challenges being experienced by local authorities at present, but also the need for Nexus' base income to increase over the long term, it is proposed that an amount equivalent to the 2026-27 levy increase be rebated to councils as a one-off cash sum, to be used for the development of transport projects. This will be met from Nexus reserves.
- 3.11 In January 2025, when Cabinet approved Nexus' capital programme (2025-26 to 2027-28), an estimated £221.1m of investment was planned through a combination of renewing life expired assets across the Metro network and the completion of the rollout of the new Metro fleet, together with a range of other projects, some of which Cabinet noted at the time still needed to secure funding.
- 3.12 Whilst grant funding for 2025-26 and 2026-27 for Metro asset renewals had been previously announced by the Department for Transport (£39.3m and £19.1m respectively), the expectation is that funding for 2027-28 onwards will be instead provided to Nexus via the Combined Authority's Transport for City Regions (TCR) allocation.
- 3.13 In consultation with officers from the Combined Authority, Nexus has been working up a proposal that would attract grant funding of £50 million per annum across the timeframe of the TCR, necessary to not only provide certainty of funding so that investment can be properly planned, designed, procured and delivered, but also to address a backlog in essential renewals. The allocation of headline TCR funding amounts to defined activities such as Metro renewals will be considered by Cabinet in due course.

Transport Fares and Tolls 2026-27

- 3.14 A separate report to this meeting of Cabinet sets out the proposed approach to and costs of the "Mayor's Fares" for 2026-27, namely the £1 fare for 21 and under, the £2.50 adult single fare and

regional day tickets. A report setting out proposals for fares on the Tyne and Wear Metro, Shields Ferry and Tyne Tunnels tolls will be brought to the February 2026 Cabinet meeting. The proposed approach to the Tyne Tunnel tolls, which is consistent with previous years, is set out below.

- 3.15 The North East CA owns the Tyne Tunnels, comprising the two vehicle tunnels and the pedestrian and cyclist tunnels. The Tyne Tunnels receive no central government funding nor any local subsidy, with all operational costs and debt financing costs being met from the tolls charged to the users of the vehicle tunnels.
- 3.16 The 'shadow' toll paid to TT2, the company that operates the tunnels, will increase on 1 January 2026, by virtue of contract terms, in line with the Retail Prices Index (RPI) measure of inflation. In turn, the tolls charged to users of the vehicle tunnels may be increased in line with RPI. In order to set a break-even budget for the Tyne Tunnels, an increase of 10p in the tolls charged to Class 2 vehicles (cars) and 20p in the tolls charged to Class 3 vehicles (HGVs) will be recommended for approval by Cabinet in February 2026. This increase would come into effect no earlier than 1 May 2026.
- 3.17 The above approach maintains the Tyne Tunnel reserves at a level considered appropriate to a significant infrastructure asset.

Table 10: Tyne Tunnels budget and reserves summary

	2025-26	2026-27	2027-28	2028-29
	£m	£m	£m	£m
Reserve brought forward	(9.946)	(9.946)	(9.946)	(9.946)
Income	(42.792)	(44.952)	(46.685)	(48.757)
Capital financing charges	8.960	9.527	9.556	11.470
Contract payments	32.969	34.543	35.989	36.128
Other Tunnels costs	0.864	0.882	1.140	1.160
Reserve carried forward	(9.946)	(9.946)	(9.946)	(9.946)

4 Corporate Overheads Budget

- 4.1 The initial draft Corporate Budget has been prepared following review of the 2025-26 budget, which has included funding realignments and growth in capacity agreed by Cabinet to deliver against the North East CA's missions.
- 4.2 A summary of the proposed initial draft Corporate Budget setting out overall expenditure estimates and how it is proposed these are funded is set out in the table below:

Table 11: Draft Corporate Budget 2026-27

Description	2025-26	Pay Award	Pension	Known headcount	Operating model	Transport Levy	Inflation	2026-27
	£m	£m	£m	£m	£m	£m	£m	£m
Employees	17.272 ³	0.650	0.552	2.913	1.778			23.165
Admin Costs	4.322						0.234	4.556
Contingency	3.661				1.000			4.661
Capital Financing	8.789							8.789
Transport levy grants	87.173					2.172		89.345
Expenditure total	121.217	0.650	0.552	2.913	2.778	2.172	0.234	130.516
Grant top-slice	(10.291)	(0.650)		(2.913)	(2.778)		(0.234)	(16.866)
Grant funding	(2.885)							(2.885)

³ Employee budget shown includes costs of 2025-26 local government pay award and the costs of the senior management restructure, which were previously shown in the budget as contingency.

Recharged to Projects	(3.100)							(3.100)
Interest	(6.800)							(6.800)
Transport levies	(89.356)					(2.172)		(91.528)
Income total	(112.432)	(0.650)	0.000	(2.913)	(2.778)	(2.172)	(0.234)	(121.179)
Overheads net total	8.785	0.000	0.552	0.000	0.000	0.000	0.000	9.337
Contribution from earmarked pension reserve	0.000		(0.552)					(0.552)
Tyne Tunnels tolls	(8.785)							(8.785)
Grand total	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000

4.3 The budget is based on the following assumptions:

- A 3.5% pay award for 2026-27 and in each of the future years in the plan, increasing budget by £0.650m in 2026-27;
- A pension provision of 3.2% which is based on draft contribution rate arising from the triennial valuation of the Tyne and Wear Pension Fund. This will be funded from the earmarked reserve already held for this purpose.
- Admin costs inflation at 5%; and
- Transport levy costs increased by 3%, offset by an increase in levy income.

4.4 Over the course of 25-26, the Combined Authority has been through a four-stage process in relation to its team.

- The bringing together of five regional organisations and the TUPE transfer that enabled it, in advance of the Mayoral election.
- The hiring of an executive team, which was completed in March 2025.
- Harmonisation of terms and conditions.
- Changes to the structure and senior team that reflect the Corporate Plan and delivery agenda that the CA has agreed at a political and official level.

4.5 The cost impact of the above was budgeted for, and the full year impact of it is included in the 25/26 budget column included in the table above.

4.6 A further exercise will take place between now and March 2026 to ensure that the Combined Authority has the appropriate resource at working levels to continue to deliver the Mayor's manifesto, the Authority's missions, and manage new areas of responsibility. Part of this is complete for areas such as Programme Assurance and Legal, and the costs of these shown in the 'Known headcount' column above. Some parts of the organisation are still evolving and require further consideration, and therefore an informed estimate of the impact is included in the 'Operating Model' column.

4.7 In carrying out this next stage of team development, the use of technology, data and AI will be prioritised, and all proposed resourcing plans developed through this lens. This approach will ensure that the organisation remains lean, agile, efficient, and able to operate at pace. Specialist appointments have already been made at leadership levels to ensure that the organisation has the capability necessary for this transformation – with a focus on increasing the capacity of the organisation through investment in technology, data and systems rather than simply headcount.

4.8 Notwithstanding the increase in headcount, net running costs represent on average just over 4% per annum of the North East CA's total funding for the period of this plan (noting that funding is not yet fully confirmed). This, alongside the amount of investment the Combined Authority delivers to the region per full time equivalent employee, will form key performance metrics in the North East CA performance management framework. Cabinet will note that the Performance Management

Framework, approval of which is sought in a paper on this agenda, contains 'Organisational Health' as one of its key pillars. This is so that, alongside measuring the impact that the organisation is having on the region, it is also measuring how well it is performing in terms of efficiency.

- 4.9 It is proposed to fund any investment required as a result of the work described in paragraph 4.7 from the Combined Authority's Strategic Capacity Reserve; this will be confirmed in due course and progressed in line with agreed governance arrangements, including appropriate political oversight.
- 4.10 Draft results of the triennial actuarial valuation of the Tyne and Wear Pension Fund have been received which demonstrate an employers' contribution rate of 3.2% for the period 1 April 2026-31 March 2029 (due to amortisation of the surplus). This cost will be met through a contribution from the earmarked Pension Reserve which is forecast to be £2.1m at 31 March 2026 and is sufficient to cover forecast pension contributions for the whole three year period.

5 Reserves and Risk

- 5.1 The current forecast of reserves to be held on 31 March 2026 is set out in Appendix B, and this will be reviewed and updated as the 2025-26 year end approaches.
- 5.2 Many of the reserves held by the North East CA are earmarked for specific programmes and grant activity (i.e. earmarked reserves) but the CA holds a General Fund balance which is unallocated.
- 5.3 The General Fund unallocated reserve balance is forecast to be £27.841m at the end of 2025-26 once unallocated interest income has been taken into account. The intention is for around £12.841m based on current forecasts be set aside as an interest reserve as a source of funding for projects which can be brought through the Single Assurance Framework, overseen by the Mayor and Cabinet; and £15m maintained as an unallocated reserve to help manage financial risks. A final position will be confirmed as part of the 2025-26 outturn, and a recommendation to create the reserve included within the outturn report to Cabinet in July 2026.
- 5.4 The Strategic Capacity Reserve, valued at £5.760m, was set aside at 2023-24 Outturn to provide for the ongoing costs of transition to the new CA in 2024-25 and to create a financial resource available for development work in respect of the Corporate Plan and the Local Growth Plan. This work was accommodated within in-year resources in 2024-25 and 2025-26 and it is proposed that the Strategic Capacity Reserve is therefore prioritised to deliver work on the digital and transformation strategy and process improvement projects during 2026-27 and mitigate risks around the triennial valuation.
- 5.5 Key financial risks have been highlighted in the body of the report and are in line with the Strategic Risks previously identified and reported to Cabinet in September.

B. Impact on North East Combined Authority Objectives

The budget proposed will enable the North East CA to properly discharge its functions and support delivery of the missions.

C. Key Risks

Key risks are highlighted throughout the report and will be reviewed and updated regularly as part of the Risk Management Framework.

D. Corporate Implications

- D.1. Finance and other resources implications
This is a financial report with implications set out in the detail of the report.

D.2. Legal implications

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

The setting of the Transport Levies is governed by the Transport Levying Bodies Regulations 1992, which state that the levies must be agreed by the 15 February preceding the financial year to which they relate.

D.3. Equalities implications

In developing these proposals, the North East CA has taken account of its obligations under section 149 of the Equality Act 2010 (i.e. the public sector equality duty). It is not expected that the proposals described in this report will have any adverse impacts on people with protected characteristics. Any specific investment decisions will be underpinned by an Equality Impact Assessment.

D.4. Consultation and engagement

Draft proposals set out in this report will be subject to consultation and engagement as final budgets are developed, including with the Overview and Scrutiny Committee, Chief Executives and Finance Directors groups.

E. Appendices

Appendix A – Nexus revenue budget and capital programme

Appendix B – summary of reserves

Appendix C – functional responsibilities

F. Background papers

2025-26 Budget and Medium Term Financial Strategy – January 2025 Cabinet

<https://www.northeast-ca.gov.uk/downloads/3383/cabinet-supplementary-pack-28-january-2025.pdf>

G. Glossary

AI – Artificial Intelligence

ASF – Adult Skills Fund

CRSTS – City Region Sustainable Transport Settlement

DfT – Department for Transport

ENCTS – English National Concessionary Travel Scheme

EV – Electric Vehicle

HGV – Heavy Goods Vehicle

JTC – Joint Transport Committee

LRRRG – Light Rail Revenue Recovery Grant

MRG – Metro Rail Grant

MTFP – Medium Term Financial Plan

NICS – National Insurance Contributions

PTE – Passenger Transport Executive

RPI – Retail Prices Index

TCR – Transport for City Regions

TUPE – Transfer of Undertakings (Protection of Employment)

TWPF – Tyne and Wear Pension Fund

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Appendix A – Nexus Revenue Budget and Capital Programme

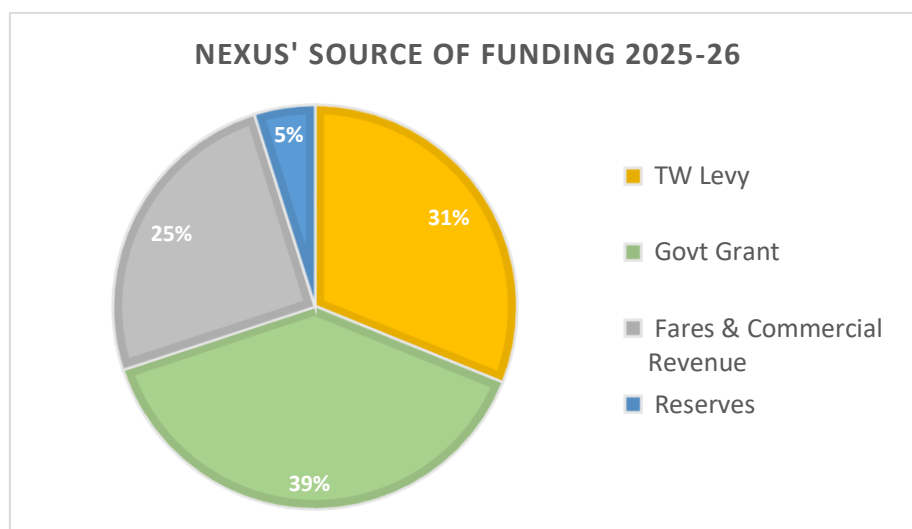
Background

1. Nexus is the Passenger Transport Executive (PTE) for Tyne and Wear. Its ownership of the Tyne and Wear Metro means it carries a wide range of responsibilities including being a train operating company and infrastructure manager. In addition to operating the Metro, Nexus also operates the cross Tyne Ferry service as well as securing around 20% of the bus market within Tyne and Wear. Nexus also provides public transport information in written and digital form as well as owning and operating bus infrastructure. Nexus employs 1,100 people in pursuit of the services it delivers.
2. The North East Transport Plan sets out objectives for transport across the region and Nexus is tasked by the North East Mayor and North East Combined Authority to deliver the policies and objectives set out in the Plan, with a focus on:
 - Planning journeys/ informing users/ supporting customers;
 - Ticketing and fares;
 - Reach and resilience of infrastructure;
 - Safety, especially of women and girls, and other improvements in service quality; and
 - Connections between different transport types.
3. The North East Local Growth Plan sets out over-arching regional objectives, within which good public transport plays an enabling role. The five key themes outlined by the North East Combined Authority within the North East Local Growth Plan are:
 - The home of real opportunity;
 - A North East we are proud to call home;
 - Home to a growing and vibrant economy;
 - Home of the green energy revolution; and
 - A welcoming home to global trade.
4. These commitments are also supported by a series of transport-based Manifesto pledges made by the North East Mayor, which Nexus contributes to.
5. Nexus' mission is 'by working together, we will make public transport great for the environment, our economy and our communities'. Its Corporate Business Plan is built around five core themes – safety always, customer service, our people, innovation & growth and sustainability, and it aligns with the regional objectives set out in the North East Transport Plan and North East Local Growth Plan, meaning its outputs are vital in enabling economic growth, connections to jobs, skills and education, and achieving the Mayor's ambitions.
6. Nexus requires adequate funding to ensure the availability of the assets and resources it needs to deliver the following services that underpin over 40 million journeys in our region each year:
 - 360 scheduled Metro services per operational day (on average);
 - Maintenance of the Metro network - mixed fleet, overhead line, track, structures, tunnels, communications equipment;
 - 170 secured bus service contracts (including schools / works services) which provide socially necessary links;
 - 60 scheduled ferry crossings per operational day (on average);
 - Smart ticketing and the provision of public transport information;
 - Management of 6 major bus stations and interchanges, and 6,000 bus stops and shelters; and
 - Delivery of major investment programme across modes including the delivery of the new Metro fleet and signalling system, an extension to Washington, the replace of a ferry landing.

7. In addition, as the travel concession authority for Tyne and Wear, Nexus has a responsibility to fund the reimbursement of 27 million concessionary travel journeys per annum for young persons, the elderly and disabled.

Proposal

8. Nexus' gross expenditure requirement in the current year is £225.7m. Over two-thirds of Nexus' gross expenditure requirement relates to the operation of the Tyne and Wear Metro, with almost 17% relating to concessionary fares and 12% for the provision of bus services and infrastructure. Nexus' funding comes from four main sources as the following chart shows:



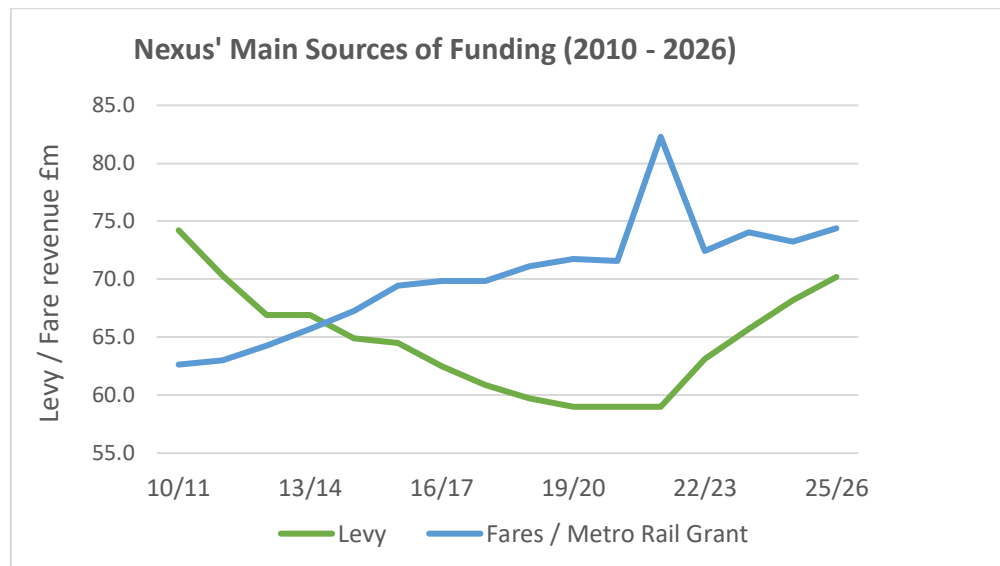
9. There is a significant reliance on reserves (£10.9m), which was also the case before the Covid pandemic, when in January 2020 the North East Joint Transport Committee (JTC) acknowledged that whilst Nexus had presented a balanced budget for 2020-21, deficits of £3.7m and £6.5m were forecast in the following two years.
10. At that time, the JTC was also advised that Nexus had managed successive reductions in grant from the Tyne and Wear transport levy for a decade. Despite these reductions, which amounted to £15.2m, Nexus generated a cumulative surplus of £11.0m, of which £7.0m had been invested in transport infrastructure, with the balance held in reserves, available to support frontline services. The JTC heard that this had been possible because of a combination of factors, namely:
- Prudent financial management and the ongoing delivery of efficiency savings;
 - Growth in Metro fare revenue;
 - Growth in DfT Metro Rail Grant;
 - A relatively stable secured bus network; and
 - A reduction in concessionary fares patronage.
11. The Covid pandemic changed the financial landscape that Nexus had previously operated in:
- The reduction in Metro patronage (and fare revenue) that Nexus suffered during the pandemic hasn't recovered, with Nexus budgeting £44.9m in 2025-26, some £0.5m less than budgeted for in 2020-21, prior to Covid;
 - This means that the Tyne and Wear transport levy now part funds the delivery of Metro operations, whereas before the pandemic, Metro's funding came exclusively from a combination of DfT Metro Rail Grant, fares and commercial revenue; and

- To compensate, the Tyne and Wear transport levy has increased during this period from £59.0m payable to Nexus in 2020-21 to £70.2m in 2025-26, a positive movement of 19.0% (although it should be recognised that RPI inflation during this period was a cumulative 37.5%).

12. During the pandemic, Nexus received £53.9m from DfT for Metro operations in the form of Light Rail Revenue Recovery Grant (LRRRG) to compensate for a reduction in fare and commercial revenue. Nexus also received two further tranches of grant funding from DfT in March 2022 and March 2023 amounting to £6.3m in total. Other support was received in connection with secured buses and energy costs.

13. This financial support has enabled Nexus to protect services as well as increase its reserves, which are now being applied to support the medium-term financial plan (£0.5m was applied in 2023-24 and £4.7m was applied in 2024-25).

14. The following chart shows Nexus' main sources of funding since 2010



15. This illustrates the additional support received from DfT referred to in paragraph 12, and shows how the Tyne and Wear transport levy has increased since 2020-21. However, what is also evident is that the Tyne and Wear transport levy is less than it was in 2010 when it was £74.2m against the 2025-26 value of £70.2m, an estimated £56m reduction in real terms.

16. As highlighted in paragraph 10, in line with the experiences of the local authorities who provide grant funding to the North East Combined Authority and Nexus, Nexus has responded to the challenges of austerity. Since Covid, maintaining those key services referred to in paragraphs 6 and 7 has been a priority, and has been possible because of efficiency savings, both cash and non-cash. Whilst the focus has traditionally been on cost control and doing more for less, Nexus is now also focusing on income generation.

17. Specific, but not exhaustive examples of actions taken to reduce costs and improve efficiencies include:

- During the current budget round, Nexus has undertaken a zero-based approach to scrutinise every line of expenditure across the organisation and to realign budgets where there has been duplication and/or a lack of clarity regarding cost drivers.

- A review of personnel has resulted in a reduction in headcount through the removal of certain posts as they have become vacant in several directorates. Also, additional responsibilities have been absorbed within current establishment e.g. skilled maintainers transferring from rail operations to maintain bus infrastructure without backfill, and multi-skilling customer relations teams to prevent growth in this staffing cohort. Significant changes to training processes and protocols have also allowed the learning and development team to deliver far more within the same resource;
- Contract and service specifications have been revised to respond to the increase in market costs, with two recent external examples reducing costs by £0.207m in next year's budget. Reductions in the cost of internal audit and insurance, whilst still obtaining the appropriate cover and assurances have totalled £0.141m. Consolidation of ICT contracts and proactive hardware replacement has resulted in an annual saving to the base budget totalling £0.234m. Also, data led negotiations with bus operators reduced the level of concessionary fares reimbursement by an estimated £0.543m next year;
- Insourcing certain activities has improved value for money. Recent examples include the internal development of ICT systems using the Microsoft platform rather than incurring development, licensing and whole life costs for discrete external systems, estimated at £0.360m, whilst insourcing business resilience saved a minimum of £0.030m. In addition, claims handling transferring in-house has saved an estimated £0.425m over the past five years, with a planned £0.050m reduction in next years budget;
- There has been extensive focus on process simplification and increased efficiency to deliver more, despite increasing cost pressures. For example, in the infrastructure directorate, risk-based maintenance, remote condition monitoring, improved access planning and drone analysis allow us to understand our assets better, plan our works more effectively and focus resources in the areas that have best impact on performance. We are also changing the approach to vehicle allocation to ensure greater efficiency in travelling to site and between jobs to support greater productivity and utilisation. In the commercial directorate, we are taking advantage of recent changes in procurement legislation, as well as challenging traditional routes to market to introduce more agile methods to reduce time and cost. In customer services, we are trialling Co-pilot to improve efficiency;

18. Specific but not exhaustive examples of actions taken to reduce protect revenue, generate income and invest to save initiatives include:

- Our revenue protection strategy has led to a reduction in fraudulent travel year and year, with an estimated 120,000 additional journeys per annum now being paid for, which equates to circa £0.170m in additional revenue. We have also issued an additional 1,512 penalty fare notices, which has generated further income of £0.075m this year. We are also introducing more gate lines at Metro stations, with Regents Centre to be installed before the end of 2025-26, something that will improve safety and continue tackling fare evasion.
- Income generation relies on performance, and much is being done in that space for Metro with improvements in punctuality and reliability, the implementation of the new fleet and preparations to renew the signalling system. We are also preparing new ticketing products and timetables to maximise the benefits of the relocation of HMRC and other government departments into Newcastle City Centre, reviewing and digitising car parking charging to attract customers and reduce cash collection costs, utilising our Learning Centre to host conferences and offer room bookings and progressing Metro merchandising. Paragraph 24 shows the expected growth in Metro fare revenue over the medium term.
- Investment is also being made in certain areas to generate ongoing savings in future years. For example, the procurement of digital advertising boards to provide a long-term revenue stream of £0.088m per annum, refurbishment of retail units on the Metro network to attract and retain

tenants and generate a higher income in future years e.g. Regents Centre. Other examples include the ongoing adoption of LED lighting at stations, the procurement of a second-hand rail grinding machine to avoid significant specialist plant hire costs and participation in an early payment supplier discount scheme, consistent with how local authorities within the region have benefited from such an initiative.

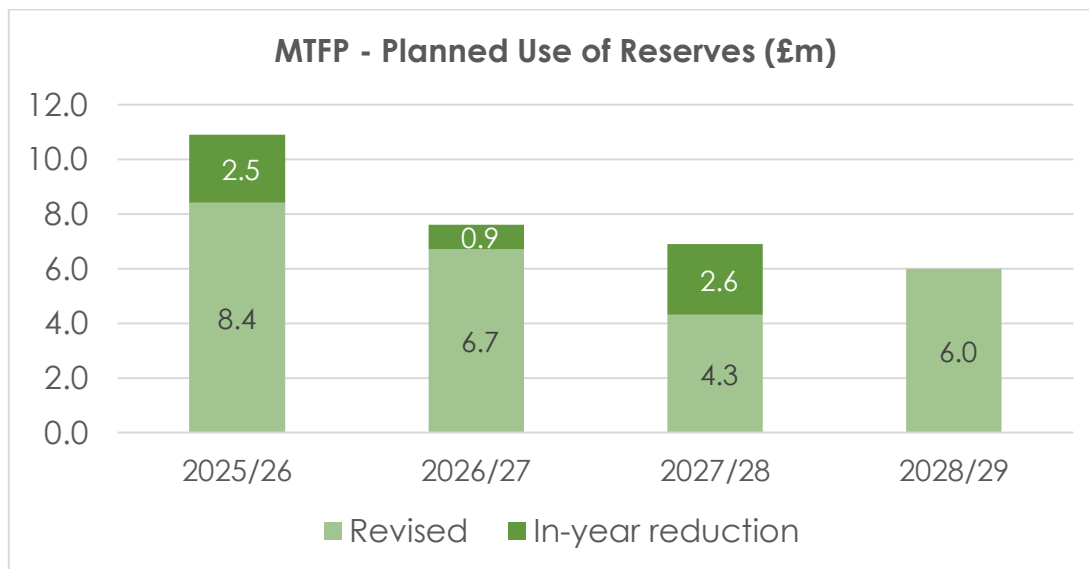
Budget and Medium-Term Financial Plan

19. Following a refresh of the MTFP, the proposal is to stretch the £25.4m of reserves previously set aside to underpin the MTFP for a further year to 2028-29, pending structural changes that might evolve.

20. This re-allocation of reserves has been possible for several reasons:

- Efficiencies being delivered as outlined in paragraphs 17 and 18;
- Metro fare revenue is outperforming budget in the current year (having taken £4.0m out of the base and accommodated pushing the 2025 fares review back three months);
- Since the NECA Cabinet in January 2025, it has been confirmed that the impact of the increase in employer National Insurance Contributions (NICs), as they relate to Nexus employees, will largely be funded (albeit this issue has caused cost increases in Nexus' supply chain); and
- Interest on cash balances continues to outperform expectations due to the Bank of England base rate trending above previous estimates.

21. The graph below shows the changes in the planned use of reserves and the expected level of reserves needed in 2028-29.



22. Nexus' MTFP has the following assumptions built in:

- The Tyne and Wear transport levy will increase by 3.0%;
- Metro Rail Grant (MRG) will be provided direct from the Combined Authority in future and will be indexed at 2.0% (this reflects previous discussions with DfT, as opposed to Nexus' real indexation need)
- Metro fares will be subject to a review, with revised fares, broadly keeping pace with inflation being introduced from April 2026

- Metro patronage will grow, in line with forecasts relating to the new fleet being fully implemented, a more robust timetable being introduced and other external factors e.g. growth in city centre office accommodation
- Inflation is 0.5% higher than previously assumed and major contracts are adversely affected by the Real Living Wage and NICs

23. Metro fare revenue is outperforming budget in the current year. As such, the budget for 2026-27 has been rebased. Assuming an inflationary increase in fares (subject to Cabinet's agreement) and an anticipated uplift in patronage driven by the full introduction of the new fleet, together with other factors e.g. revisions to the timetable (also refer to paragraph 18), Metro fare revenue factored into this MTFP is as follows:

	26-27	27-28	28-29
	£m	£m	£m
Base	45.8	49.9	53.5
Rebase (in-year betterment)	1.7	-	-
Fares Review	1.0	1.0	1.0
New Timetable	-	0.8	0.2
External Factors	1.4	1.8	0.3
Total	49.9	53.5	55.0

24. Further work is being undertaken in relation to the development of budget estimates for 2027-28 and 2028-29 to better inform the MTFP and these will be brought to the Cabinet in February 2026 (as well as the estimated outturn for 2025-26, once this has been finalised).

25. The table below shows the impact on Tyne and Wear Councils from a proposed 3.0% increase in the levy):

	2025-26	Proposed	Change	Change
	Levy	2026-27	(%)	£m
	£m	£m		
Gateshead	12.504	12.833	2.6%	0.329
Newcastle	19.589	20.291	3.6%	0.703
North Tyneside	13.297	13.609	2.3%	0.312
South Tyneside	9.373	9.582	2.2%	0.209
Sunderland	17.647	18.266	3.5%	0.619
Total	72.410	74.581	3.0%	2.172

Alternatives to a 3.0% levy increase

26. Two options, other than to increase the levy by 3.0% have been identified and discounted, if the stated aim is to protect services:

- Option 1 – consider impact of a levy freeze in 2026-27. This takes £2.1m out of the base (£6.3m across MTFP to March 2029); and
- Option 2 – increase the levy by 1.5% in 2026-27. This takes £1.0m out of the base (£3.1m across the MTFP to March 2029).

27. For both options, it is assumed that the levy would still increase in the remainder of the MTFP.

28. The opportunity to push the funding cliff edge back to April 2029 would be lost with Option 1 and to a lesser extent with Option 2, although with Option 2, the size of the deficit at this point would likely be unsustainable. With Option 1, deeper cuts would be needed before the existing cliff edge is reached i.e. before April 2028. The impact of this is discussed in paragraphs 33 and 34 below.

Protection of Key Services

29. The latest forecast for 2025-26 in respect of Nexus' revenue budget agreed by the Cabinet in January 2025 is set out below:

	Gross Exp⁴ £m	Commercial Revenue £m	Grants (excl Levy) £m	Net position £m
Statutory Concessions	34.0	(0.3)	-	33.7
Discretionary Concessions	3.3	(0.9)	-	2.4
Metro	151.8	(58.2)	(68.0)	25.6
Ferry	2.9	(0.7)	(0.2)	2.0
Bus Services	25.5	(5.6)	(9.0)	10.9
Bus Infrastructure	4.1	(0.7)	(0.4)	3.0
Public Transport Information	1.3	(0.3)	-	1.0
TOTAL	222.9	(66.7)	(77.6)	78.6
North East CA Grant / TW Levy				(70.2)
Deficit (reserves funded)				8.4

30. Paragraph 20 outlines reasons for the improvement in the forecast for 2025-26.

31. Continuing the strategy of using reserves to maintain services allows for improvements in service delivery to continue. For example, despite funding constraints, challenges arising because of the transition to the new fleet and other infrastructure that is past its expected useful life e.g. the signalling system, Metro performance in the current year has seen improvements in areas such as scheduled kilometres operated, punctuality and customer satisfaction.

32. Without funding increases assumed within the MTFP, it would be extremely challenging for improvements in performance to continue and the opportunity for positive interventions such as the introduction of a more robust timetable would be lost.

Challenges arising if levy funding does not increase and services are reduced

33. The services that Nexus provides are an integral part of the policy areas set out in the Local Transport Plan as they relate to public transport (travelling by metro, bus and ferry) and therefore make an invaluable contribution to the missions of the Combined Authority.

34. The challenges arising if levy funding does not increase and services are reduced are set out below:

- Most of the Metro cost base is fixed. Operating the Metro requires a certain number of drivers and high voltage power consumption to deliver the timetable. Although a diminution in the timetabled service will generate savings, this would be at the expense of a reduction in fare revenue. Similarly, whilst savings can be delivered through a reduction in customer services and security, this would have a negative impact on fare revenue. The control function is required irrespective of the number of services operated. In terms of maintenance of the network, whilst savings are possible, safety and operational implications would need to be carefully considered.
- The position in respect of the cross Tyne ferry service is even more problematic because of its scale. Savings in headcount to aid a reduction in service provision will call into question the

⁴Including central support service costs and overheads.

whole viability of the service because of minimum staffing levels. This would be counter to the investment North East CA has agreed to in respect of the relocation of the north landing.

- The English National Concessionary Travel Scheme (ENCTS) is a statutory function, and Nexus has no control over demand or cost. Discretionary concessions could be removed e.g. the concession for Under 16s, but this runs counter to the mayors' desire to improve fares for young people.
- In many respects, this would leave secured bus services as being the most susceptible to service cuts, although this would likely adversely impact disadvantaged communities.

Capital Programme

35. In January 2025 when Cabinet approved Nexus' capital programme (2025-26 to 2027-28), an estimated £221.1m of investment was planned through a combination of renewing life expired assets across the Metro network and the completion of the rollout of the new fleet of Metrocars, together with a range of other projects, some of which Cabinet noted at the time still needed to secure funding.
36. It is also the case that whilst grant funding for 2025-26 and 2026-27 for Metro asset renewals had been previously announced by the Department for Transport (£39.3m and £19.1m respectively), the expectation is that funding for 2027-28 (and beyond) will be instead provided to Nexus via the Combined Authority's Transport for City Regions (TCR) allocation.
37. In consultation with officers from the Combined Authority, Nexus has been working up a proposal that would attract grant funding from the Authority of £50.0 per annum across the timeframe of the TCR, necessary to not only provide surety of funding so that investment can be properly planned, designed, procured and delivered, but also to address a backlog in essential renewals that has grown since the eleven year funding agreement with DfT ended in 2021, and which because of the Covid pandemic, has resulted in annual funding settlements less than had been previously signalled.
38. Whilst indications are that Nexus' TCR allocation won't be confirmed until next Spring, Nexus has been working up proposals consistent with an allocation of £50.0m per annum being approved.
39. This has given Nexus additional confidence and it has continued to develop its work bank and the costs associated (renewable debt). Within this work bank, there are several sizeable projects which include inter alia, a continuation of track and overhead line renewals, renewal of high voltage power systems, and the replacement of lifts and escalators, all of which require significant lead times to successfully plan, design and procure ahead of delivery.
40. To support its application for funding from the TCR, Nexus has been asked to develop an outline business case. This will follow the standard five case model covering strategic, management, economic, financial and commercial arrangements.
41. In addition, the 2026-27 allocation, previously notified by DfT (£19.3m) will now be provided to Nexus by the Combined Authority from within the TCR allocation.
42. The remainder of Nexus' capital programme will cover the residual investment in the new Metro fleet, together with enhancements e.g. additional gate lines at Metro stations, smart ticketing, enhancements to the cross Tyne Ferry, as well as new and improved bus infrastructure, all of which improve the reach and resilience of infrastructure, improve safety, especially of women and girls, enable better ticketing for journey planning, informing and supporting customers, and to improve connections. Where such initiatives are not yet funded, separate funding applications will be submitted to the North East Combined Authority and where applicable, other funding bodies.

Appendix B – Summary of Reserves

The table below sets out a summary of the forecast reserves position at 31 March 2026.

Reserve	Reserve at 1 April 2025	Forecast 31 March 2026
	£m	£m
Unallocated – General Fund	16.394	27.841
Strategic Capacity Reserve	5.760	5.760
Bus Reform Reserve	8.027	5.891
Election Reserve	3.000	3.000
Enterprise Zones	9.291	9.291
Nexus – Metro Asset Renewal Programme	9.063	9.380
Nexus – Metro Fleet Replacement	11.355	11.753
Pensions Triennial Valuation	1.100	2.100
Tyne Tunnels Reserve	9.946	9.946
Metro to Washington	8.529	7.729
Capital Grants Unapplied	275.122	275.122
Revenue Grants Unapplied	124.484	124.484
Total Usable Reserves	482.071	486.406

Appendix C – draft functional responsibilities

Integrated Settlement Functional Responsibilities

The scope of the Integrated Settlement is made up of thematic policy areas ('themes') which remain consistent across SRs. Each theme is defined by specific ('functional') responsibilities, confirmed at each SR, setting out the specific devolved responsibilities MSAs have under these themes.

Theme	Functional Responsibilities for 2025-26	Functional Responsibilities for SR25
Economic development and regeneration	Activity that promotes place-based economic development, improves productivity, and aims to reduce inter-and-intra regional spatial economic disparities.	Activity that promotes place-based economic development including growth in the visitor economy, improves productivity, and aims to reduce inter-and-intra regional spatial economic disparities.
	Coordination and delivery of local programmes to drive business productivity whilst ensuring integration between local and national business support activity, enabling businesses to access support.	No change
	Regeneration, place-making, and improvements to local infrastructure.	No change
	Activities that promote pride in place, including but not limited to measures to improve social cohesion, the improvement of public facilities and the public realm, for instance on high streets.	No change
Transport and local infrastructure	Oversight and delivery of the area's transport strategy. This includes developing local transport plans and considering how transport will support wider objectives such as employment, housing and net zero.	No change
	Working with their Local Highway Authorities on delivery of local transport capital projects, including but not limited to highways maintenance and small-scale renewals as well as transformational local projects. This excludes strategic national transport infrastructure.	No change
	Managing local public transport services, including but not limited to the local bus network, mass transit, local rail integration,	No change

	integrated multimodal fares, network information and branding, promoting safety and tackling anti-social behaviour.	
	Delivery of the local active travel strategy and schemes.	No change
	Strategic oversight of the local road network and promotion of road safety.	No change
	Undertaking scalable, feasible, and tangible transport innovation, including trialling new transport-related products and processes, improving existing services via technological upgrades, and implementing regulatory changes or best practice.	No change
Skills and Employment Support	<p>All non-apprenticeship adult skills funding and functions, including but not limited to:</p> <ul style="list-style-type: none"> Ensuring that residents aged 19 and over in their area, who are eligible for funding, have access to appropriate education and training Encouraging and providing adults with the skills and learning they need to equip them to progress into, or within, work; or equip them for an apprenticeship or other learning Provision of statutory entitlements to provide free courses for adults 	<p>All non-apprenticeship adult skills funding and functions, including but not limited to:</p> <ul style="list-style-type: none"> Ensuring that residents aged 19 and over in their area, who are eligible for funding, have access to appropriate education and training Encouraging and providing adults with the skills and learning they need to equip them to progress into, or within, work; or equip them for an apprenticeship or other learning Provision of statutory entitlements to provide free courses for adults
	<p>Responsibility for supporting disabled people, people with long-term health conditions, and other agreed disadvantaged groups with complex barriers who are economically inactive, or at high risk of becoming economically inactive, to sustain work through delivery of supported employment.</p>	<p>Working with employers and education providers in the construction sector to deliver bespoke training and increase provision to grow the local construction workforce.</p>

	<p>DWP and the CA will work together on the design of how the new national Jobs and Careers Service will work in their area, and management of wider employment support, to deliver an integrated and locally responsive system that maximises outcomes for residents and employers.</p>	<p>Ensuring that residents who are over compulsory school age but under 19 or who are aged 19 or over, and for whom an Education, Health and Care plan is in place, have access to suitable education and training (sufficiency of places).</p> <p>Leadership and co-ordination and provision of services in the area to support young people (aged 19+) who are NEET, or who are at risk of becoming NEET, to access skills support which enables them to move into education, employment or training.⁵</p> <p>Responsibility for supporting disabled people, people with long-term health conditions, and other agreed disadvantaged groups with complex barriers who are economically inactive, or at high risk of becoming economically inactive, to sustain work through delivery of supported employment. [No change]</p> <p>DWP and the CA will work together on the design of how the new national Jobs and Careers Service will work in their area, and management of wider employment support, to deliver an integrated and locally responsive system that maximises outcomes for residents and employers. [No change]</p>
Housing and strategic planning	Regeneration via enabling and improving local housing supply.	No change
	Delivery of capital investments to unlock additional housing and regeneration.	No change

⁵ To note, we have included a new Functional Responsibility for provision for people not in education, employment or training (NEET). This is to reflect that MSAs have previously used local growth funding to support this cohort; there is not a new funding line linked to the responsibility.

	Remediation and development of brownfield sites.	No change
Environment and climate change	Retrofitting social housing; and all other residential buildings focusing on households at risk of fuel poverty in the local area.	<i>TBC subject to Ministerial clearance</i>
	Decarbonising public sector buildings managed by the MCAs or their constituent authorities and, where deemed reasonably practicable by the DESNZ Secretary of State, by wider public sector actors.	<i>TBC subject to Ministerial clearance</i>
	[No previous wording]	Overseeing the Local Nature Recovery Strategy to coordinate action, funding and monitoring for nature recovery and wider environmental delivery across the range of delivery partners in the region.
Health, Wellbeing and Public Service Reform	[No previous wording]	<i>TBC subject to Ministerial clearance</i>

Appendix D: Funds confirmed in scope of Integrated Settlement

Pillar	Funds in scope (quantum unknown unless otherwise stated)
Housing and Strategic Planning	National Housing Delivery Fund (NHDF) – Programme designed to boost housing supply. This includes funding for land remediation and is expected to be complementary to funding available through the National Housing Bank. MHCLG and Homes England will work with Mayors and local partners to understand priorities for this investment and will set out further detail on funding later this year.
Economic Development and Regeneration	Investment Zones – Funds to facilitate investment zones Local Growth Fund – successor funding to UKSPF, Levelling Up Fund and Towns Fund. Creative Places Regional Growth Fund – funds to boost creative industries. £25m over 3 years allocated to North East CA. Growth Hubs – services to support businesses Made Smarter – fund to support manufacturing/engineering businesses
Skills and Employment Support	Skills Bootcamps – Employability skills Adult Skills Fund – Funds to gain new employment skills. Includes what was previously called the Adult Education Budget and Free Courses for Jobs. Connect to Work – a programme helping disabled and disadvantaged people find sustainable work. £50 million over 4 years.
Transport and local infrastructure	CRSTS (2026-27) – City Region Sustainable Transport Funding TCR (Transport for City Regions) – formerly referred to as CRSTS2 – next round of city transport funding is £1,849 million over 7 years. Bus Grant – grant to support local bus services, successor to Bus Service Improvement Plan (BSIP) and Local Transport Authority Bus Service Operators Grant (LTA BSOG) Commercial BSOG – grant to support operators and their fuel costs Active Travel Fund – funds walking and cycling infrastructure Active Travel Capability Fund – supports local authority planning for active travel Local Electric Vehicle Infrastructure Fund (LEVI) – funds electric vehicle charging points and we have received £15.8 million. Rail Admin Grant, Nexus Metro Asset Renewal for 2026-27, Nexus Operations Grant (MRG)
Environment and Climate Change	Local Nature Recovery Plan