



North East Combined Authority

**DURHAM • GATESHEAD • SOUTH TYNESIDE • SUNDERLAND**

## Overview and Scrutiny Committee

Thursday 14 December 2023 at 2.00pm

Meeting to be held at: Council Chamber, South Shields Town Hall, NE33 2RL

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## AGENDA

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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 the Previous Meeting Held on 16 March 2023** **1-6**

**4. Minutes of the Previous Meeting Held on 27 July 2023** **7-10**

Items 3 and 4 for approval as a correct record.

**5. NEMCA Budget 2024/25** **11-90**

**6. Forward Plan and Scrutiny Work Programme Update** **91-115**

**7. Date and Time of Next Meeting:** There are no further scheduled meetings for this committee.

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### North East Combined Authority Overview and Scrutiny Committee

#### DRAFT MINUTES TO BE APPROVED

16 March 2023

(2.00pm – 3.05pm)

Meeting held at: Committee Room 1A, Durham County Hall, DH1 5UZ

#### Present:

Independent Members: Mr D Taylor-Gooby (Chair)

Councillors: Deinali, Eagle, Elmer, Hartnack, Snowdon, Robson, Watson  
(Councillors Robson and Watson attended as a member of public)

#### Also Present:

Gavin Armstrong (Policy and Scrutiny Officer, NECA) and Toby Ord (Strategy and Democratic Services Assistant, NECA)

#### 1 APOLOGIES FOR ABSENCE

Apologies for absence were received from Cllr Hall, Cllr Kilgour, Stephen Gwilym, Simon Hart and Nicola Robason.

#### 2 DECLARATIONS OF INTEREST

The Chair declared an interest in Item 4 as a former member and supporter of the North East Assembly Campaign in 2003. As no decisions were to be made, there was no subsequent inhibition to discuss the report.

#### 3 MINUTES OF THE PREVIOUS MEETING HELD ON 15 DECEMBER 2022

The minutes of the previous meeting held on 15 December 2022 were approved as a correct record.

## 4 NORTH EAST DEVOLUTION – UPDATE

Submitted: Report of Monitoring Officer (previously circulated and copy attached to the official minutes).

Gavin Armstrong delivered the report on behalf of the Monitoring Officer which outlined the 'minded to' Devolution Deal previously approved by the seven relevant Authorities.

It was noted that following the conclusion of the public consultation, results will be processed internally by each Authority, who will then decide how they wish to progress. Results will ultimately be relayed back to the Secretary of State in a formulaic report which is likely to influence any proposals along with other components outlined in the 'minded to' deal. A final decision will need to be made, then once agreed proposals will be put to Cabinet, legal components will be enacted, NECA and NTCA will cease to exist at the very moment NEMCA is created. It was added that Officers will be working on this transition immediately, though discussions are currently ongoing in the to lay groundwork.

Following questions from a member, it was clarified that NECA's budget is relatively small – 90% of staff fall under Transport North East, while only three staff members are employed directly by NECA. Staffing arrangements will be transferred over to the new Combined Authority, and all NECA functions will be assimilated into the new Authority.

This opportunity was denoted as an exciting prospect, with exciting times ahead for the region as the door opens to a plethora of new funding avenues.

Councillor Elmer added that NECA's current value is in it's strategic focus on the local area and queried whether these functions would be assumed by the Mayor's Office within the new Authority, though it was clarified that the current structure in unsure at present. Discussions regarding the structure of Scrutiny Committees are ongoing, with the necessity for a separate Scrutiny Committee for each aspect of the Authority's functions, such as transport, being likely. The Mayor and Cabinet will most likely be the ultimate decision making body similar to other regions nationwide. The overview and scrutiny function will be written into the order.

Councillor Eagle expressed concerns over the uncertainty regarding the situation, particularly in the way of funding, querying whether funding supplied to the new Combined Authority will be new money, or rather reallocated from other sources. He added that the Committee needs clarity on what this means for NECA, how powers will be transferred, and how democratic the Mayoral process will be. It was noted that the Mayor won't possess overarching veto powers – while there will be an ability to conduct a

strategic plan in consultation with Cabinet, there won't wide-ranging autocratic powers. Cabinet could overturn decisions should they so desire.

Councillor Robson added concerns over an inability to access online consultation tools for certain members of the public, to which the Chair concurred, adding that there was an in-person consultation which he attended held in County Durham, though this was difficult to access, especially for those with no access to private travel.

The Chair continued, adding that the Mayor of the new Combined Authority is a representative of the area; an ambassador who has powers to lobby in the regions favour. Using Andy Burnham of Greater Manchester and Steve Rotherham of the Liverpool City Region as examples, the Chair reminded the Committee that the potential candidate is likely to be a figurehead for the North East who may possess the ability to open up new opportunities for the region. With many up and coming areas within the North East such as Newton Aycliffe and Sunderland, candidates won't just be centralised around Newcastle.

Members expressed further concerns regarding the Mayor and Cabinet exercising their powers to serve their own priorities. The new Combined Authority was said to run the risk of gifting power to a single person or group without sufficient reason to believe they will exercise it responsibly. It was added that as opposed to regional devolution, the move is in the nature of regional centralisation.

Following a query from the Committee, Gavin Armstrong clarified that money for transport grants comes directly from the Government, whereas other funding such as industrial grants are attained through the LEP.

**AGREED – That:**

- i. the report be noted.

**5 WORKING GROUP UPDATE**

Submitted: Report of the Policy and Scrutiny Officer (previously circulated and copy attached to the official minutes).

In absence of the Vice-Chair, the Chair opened up the discussion, giving a brief update on the current progress of the Working Group.

Due to a lack of significant activity in NECA's recent history, it was noted that there hasn't been much to scrutinise. Subsequently, the Chair and Vice-Chair felt that it would be appropriate for the Committee to conduct some of and investigation into how adult health and wellbeing effects individuals in

the North East, proposing to look at how our own public health and social service sectors can work better together. It was noted that prospective work has attracted interest from experts on health inequalities, as well as Director of Public Health for Gateshead, Alice Wiseman.

Gavin Armstrong picked up the discussion, adding that the previously large remit has now been narrowed to something the working group can apply focus to. Current aims are to progress tangible work which can be produced within the next year and be delivered to the new Combined Authority with ease. Gavin stressed that the Committee must be clear about the roles, responsibilities and what is desired from the work. Work will commence in April 2023.

The Chair warned the committee of studying too broadly, adding that should anyone wish to remain or join the working group, they should contact Toby Ord to register interest.

Councillor Robson expressed concerns over the possibility of overlapping work with other bodies in the region, though it was clarified that the group is liaising with other Authorities and Institutions to avoid conflation.

Following a query from Councillor Deinali, it was noted that mental health problems will also be a part of the study – mental health problems were a key issue noted by the Director of Public Health. The effects on ability to work encompasses all aspects of health.

Councillor Elmer questioned whether the overarching purpose of the remit is to assess how health and wellbeing is impacting economic development within the region, though the Chair was quick to refute this, noting that the value and the focus of the study is resident wellbeing. Continuing, Councillor Elmer added that health and wellbeing is a benefit to the economic area. He also added that housing and particularly private rentals can be a detriment to public health, with houses being built with a lack of room or green spaces. It was stated that rentals are being marketed whilst covered in harmful mould, asserting that 40% of hospital cases wouldn't be here today if we improved public health. Councillor Robson added that licencing authorities are currently examining existing housing standards off of the back of Councillor Elmer's comments.

Gavin thanked both Councillors, adding that such discussions will be useful in evidence gathering sessions.

**AGREED – That:**

- i. the report be noted.

## 6 FORWARD PLAN AND SCRUTINY WORK PROGRAMME UPDATE

Submitted: Report of the Policy and Scrutiny Officer (previously circulated and copy attached to the official minutes).

The Policy and Scrutiny Officer gave his routine work programme update, asking Members to take the written report as read, and reminding them that this is a living document. Should anything be requested to be added, removed or altered in any way, the Scrutiny Officer should be contacted.

The Chair requested whether the Digital Inclusion update can be brought to the front of the queue, though it was noted that Michelle Rainbow and her colleagues from INEE will return to the Committee soon.

### **AGREED – That:**

- i. the report be noted.

## 7 DATE AND TIME OF NEXT MEETING

20 July 2023 at 2.00pm.  
(To be agreed at AGM)





### **North East Combined Authority Overview and Scrutiny Committee**

#### **DRAFT MINUTES TO BE APPROVED**

27 July 2023

(2.03pm – 2.30pm)

Meeting held at: Whickham Room, Gateshead Civic Centre, NE8 1HH

#### **Present:**

Independent Members: Mr D Taylor-Gooby (Chair)

Councillors: Beadle, Dodds, Eagle

#### **Also Present:**

Stephen Gwilym (Principal Overview and Scrutiny Officer), Gavin Armstrong (Policy and Scrutiny Officer, NECA) and Toby Ord (Strategy and Democratic Services Assistant, NECA)

#### **1 APOLOGIES FOR ABSENCE**

Apologies for absence were received from Councillors Charlton, Crute, Donaldson, Leask, Lines, Mason-Gage, McHugh, and Walsh, as well as Nicola Robason and Paul Darby.

#### **2 DECLARATIONS OF INTEREST**

None.

#### **3 MINUTES OF THE PREVIOUS MEETING HELD ON 16 MARCH 2023**

The minutes of the previous meeting held on 16 March 2023 could not be approved as a correct record due to the meeting being inquorate.

## 4 ESTABLISHMENT OF A WORKING GROUP

Submitted: Report of the Policy and Scrutiny Officer (previously circulated and copy attached to the official minutes).

The Vice-Chair opened with discussions regarding the state of the working group originally setup by previous Members of the Committee. It was noted that the Committee had previously discussed the capability to achieve objectives set out for the working group and whether there were or would be any impediments to said objectives.

With a strong focus on health and wellbeing due to the national concern and pressure on public services. It was noted that the Committee was conscious that NECA's life was coming to a close, though credible work produced by the group could be helpful to the successor Combined Authority.

Following advice from Officers and Director's of Public Health, it was agreed that the works subject would be refined to the impacts of adult's mental health on their capacity to work. It was originally planned that there would be four evidence giving sessions, with a preference for meetings to be held via Microsoft Teams with Members located from across the NECA Constituent Authorities.

Evidence is to be gathered from Economic Directors, Directors of Public Health, local universities NHS. The purpose of the sessions was said to be to analyse and challenge the way in which partners are collaborating to deal with difficulties authorities are facing. The hope is to conduct four meeting before the end of this year should a group be set up. This would provide the opportunity to develop a report which could be presented to the Leadership Board prior to the Combined Authority's closure. The Leadership Board were said to be keen to have this prepared to pass on to NECA's successor.

Gavin Armstrong continued, noting the issue with quorum, stating that the previous carnations of the Overview and Scrutiny Committee have been accepting of the prospect of a working group – such Members still work with the Committee where possible. Due to a reduction in decisions from the Leadership Board, there has been a reduction in frequency of meetings due to a lack of items to scrutinise.

It was noted that we can and do still liaise with historical Members who previously expressed interest – valuable work will be continued whether in a formal manner or not. Once a quorate Committee is assembled to endorse these works, a formal report can be tabled. Gavin Armstrong noted that an email would be circulated to get a sense of how many Members would be committed.

Councillor Beadle queried whether the inability to work would be assessed on adults' mental health as well, to which it was clarified that this would be the case. Beadle continued, posing the value of a fifth session where the group talks to

employment agencies about novel initiatives, they've used to help people with mental health diagnoses into employment. The Vice-Chair endorsed the idea adding that this work can be greatly opened up, noting that Councillor Graeme Miller and Patrick Melia were interested in other lines of enquiry that may lead to long term work programmes for overview and scrutiny arrangements going forward.

Stephen Gwilym queried the progress in identifying and contacting people who are willing to give evidence, adding that Durham's Director of Public Health is keen to participate. Gavin Armstrong noted that key representatives had been identified across the board, awareness is there and this goes for key contacts also. The Chair was said to hold academic contacts while the Director of Public Health network will be utilised to ensure their attendance.

**AGREED – That:**

- i. the report be noted.

**5 FORWARD PLAN AND SCRUTINY WORK PROGRAMME UPDATE**

Submitted: Report of the Policy and Scrutiny Officer (previously circulated and copy attached to the official minutes).

**AGREED – That:**

- i. the report be noted.

**6 DATE AND TIME OF NEXT MEETING**

14 December 2023 at 2.00pm.



# Overview and Scrutiny Committee

**Date:** 14 December 2023  
**Subject:** NEMCA Budget 2024/25  
**Report of:** Chief Finance Officer

## Executive Summary

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

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

This report provides the Overview and Scrutiny Committee with an update on the North East Mayoral Combined Authority (NEMCA) initial draft budget and medium term financial plan proposals 2025-2029 as part of the budget consultation process. A report on was presented to the Leadership Board on 28 November 2023. The full report is attached as an appendix to this report for consideration and comment.



North East Combined Authority

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## **Overview and Scrutiny Committee**

The views of the Overview and Scrutiny Committee will be considered in the development of the final budget report and reported to the NECA Leadership Board when it sets the budgets for 2024/25 at its meeting in January 2024.

### **Recommendations**

The Overview and Scrutiny Committee is recommended to receive the report for information and provide comment for consideration as part of the consultation process.

## Overview and Scrutiny Committee

### 1. Background Information

- 1.1 The purpose of this report is to seek the views of the Overview and Scrutiny Committee on the proposals for the NEMCA 2025-2029 Initial Draft Budget and Medium Term Financial Plan, as part of the consultation process. The report on the draft budget was presented to the Leadership Board on 28 November and is attached to this report.

### 2. Proposals

- 2.1 The draft budget proposals for 2024/25 and future years are set out in the report attached at Appendix 1.
- 2.2 Key proposals for the draft Corporate Budget presented to the NECA Leadership Board on 28 November include:
- a) A balanced budget is proposed for the 11-month period between May 2024 and March 2025 – the first operating year of NEMCA.
  - b) Constituent authorities will see no material increase in revenue funding to establish NEMCA – and will thus continue to contribute the current 2023/24 funding arrangements across NECA, NTCA, NELEP, INEE and TNE.
  - c) Additional funding for costs is secured from new income into the region through prudent top slicing of the investment funding and additional income, in line with the approach taken by other Mayoral Combined Authorities.
  - d) The budget enables the integration of five organisations. Most of this activity is already funded by the region; this budget identifies the marginal budget growth needed to enable key new senior posts that are required to deliver the outcomes set out in the devolution deal.

It is a prudent year one budget that enables a TUPE process and ‘day 1’ continuity for NEMCA, but with opportunities for integration anticipated to deliver efficiencies for investment where capacity gaps are identified.

- 2.3 The report sets out existing and new delivery funding streams, including a draft Investment Fund, Brownfield Housing Fund, Early Capital Funding, Indicative Investment Zones Funding, Indicative Overall Skills Funding, Transport Programmes Funding and NELEP Ongoing Programmes.
- 2.4 The report also includes a summary of forecast reserves which will transfer to NEMCA once it comes into existence, and a draft Treasury Management Strategy and Prudential Indicators.

### 3. Reasons for the Proposals

## Overview and Scrutiny Committee

3.1 As part of the process for setting its budget, NECA must ensure appropriate and effective consultation takes place with all Members and other stakeholders on the content of the Budget. This includes consultation with the Overview and Scrutiny Committee and this report provides an opportunity for such consultation to take place.

### 4. Alternative Options Available

4.1 This report is presented for information.

### 5. Next Steps and Timetable for Implementation

5.1 Comments made as part of the consultation process will be considered in the development of the final, detailed budget proposals for 2024/25 and future years which will be presented to the NECA Leadership Board for approval in January 2024.

### 6. Potential Impact on Objectives

6.1 There are no impacts on objectives arising from this report.

### 7. Financial and Other Resources Implications

7.1 The financial and other resource implications are set out in detail in the individual reports contained as appendices.

### 8. Legal Implications

8.1 There are no legal implications arising from this report.

### 9. Key Risks

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

### 10. Equality and Diversity

10.1 There are no equality and diversity implications arising from this report.

### 11. Crime and Disorder

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

### 12. Consultation/Engagement

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



## Overview and Scrutiny Committee

### 13. Other Impact of the Proposals

13.1 There are no other impacts arising from this report which is for information.

### 14. Appendices

14.1 Appendix 1: NECA Leadership Board 28 November 2023 – North East Mayoral Combined Authority 2025-2029 Initial Draft Budget and Medium Term Financial Plan Proposals

### 15. Background Papers

15.1 None

### 16. Contact Officers

16.1 Paul Darby, NECA Chief Finance Officer, [paul.darby@durham.gov.uk](mailto:paul.darby@durham.gov.uk)  
Janice Gillespie, Director of Finance NTCA, [janice.gillespie@northoftyne-ca.gov.uk](mailto:janice.gillespie@northoftyne-ca.gov.uk)

### 17. Sign off

- 17.1
- Head of Paid Service: ✓
  - Monitoring Officer: ✓
  - Chief Finance Officer: ✓

### 18. Glossary

18.1 JTC – Joint Transport Committee  
NECA – North East Combined Authority  
NELEP – North East Local Enterprise Partnership  
NEMCA – North East Mayoral Combined Authority  
NTCA – North of Tyne Combined Authority



## Leadership Board

**Date:** 28 November 2023

**Subject:** North East Mayoral Combined Authority 2025-2029 Initial Draft Budget and Medium Term Financial Plan Proposals

**Report of:** Chief Finance Officer

### Executive Summary

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

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

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

## Leadership Board

NTCA and Joint Transport Committee (JTC)) in a manner that fits current arrangements and can be seen as a combined budget in May 2024.

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

### Recommendations

The Leadership Board is recommended to:

- i. Agree the draft NEMCA Corporate Budget for 2024/25 as set out in section 2.5-2.8 which will then be subject to consultation with Overview and Scrutiny Committee;
- ii. Agree the overarching delivery budgets as set out in section 2.13-2.26, which will then be subject to consultation with Overview and Scrutiny Committee;
- iii. Note the Transport Levies will be agreed by the North East Joint Transport Committee on the 16 January 2024 and issued by the Combined Authorities preceding the commencement of the financial year in respect of which they are to be issued, in line with the Transport Levying Bodies Regulations; and
- iv. Note the reserves position as set out in section 2.29 which will be kept under review in consideration of NEMCA developments and new information becomes available about the financial risks facing the authority.

## Leadership Board

### 1. Background Information

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

## Leadership Board

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

## 2. Proposals

### Implications for NECA, NTCA and the Joint Transport Committee

- 2.1 To establish the new regional NEMCA, the existing combined authorities – NECA and NTCA – will need to be abolished. The Leadership Board of NECA and the Mayor and Cabinet of NTCA will need to consent to the statutory order which provides for their abolition and the creation of NEMCA, which will take place simultaneously when the elected mayor for NEMCA takes office in early May 2024.
- 2.2 The Leadership Board are aware that the draft statutory order provides appropriate continuity and transitional arrangements so that any acts of the existing combined authorities are to be treated as the acts of the new mayoral combined authority. The order will also provide for the staff, assets, rights and liabilities of the existing combined authorities to transfer to NEMCA. This will ensure that the existing funding programmes of NTCA and the regional transport arrangements which are currently overseen by the JTC are maintained by NEMCA without interruption. Officers from both combined authorities and the local authorities are liaising on the operational requirements of the transition, which will include the arrangements for Transport North East (TNE) and the integration of the North East Local Enterprise Partnership (NELEP) in line with central government policy.
- 2.3 Implementing the devolution deal would enable the region to access over £4bn of funding over a 30-year deal cycle, together with new powers to better shape local skills provisions to ensure these meet the needs of the local economy. This would include devolution of adult education functions and the core adult education budget, as well as input into the new local skills improvement plans. The "minded to" deal also secures significant investment in regional transport. Over time the region would also expect to benefit from access to additional funding streams reserved for mayoral combined authorities. Detailed discussions will be progressed with the existing combined authorities and the other councils regarding the financial arrangements associated with the transition to the new arrangements.
- 2.4 An initial Corporate Plan for 2024 (Appendix A) has been agreed through the transition governance arrangements by the 7 Local Authority Leaders and the

## Leadership Board

Mayor of North Tyneside. The plans sets out the seven interim portfolio areas and early priorities that will be supported by the various funding streams, which are detailed in Section 2.13-2.26 report. The plan also describes the various roles the Combined Authority undertakes as part of its remit to deliver the North East devolution deal and that has formed some of the consideration in developing the Corporate Budget.

### Developing the Corporate Budget

2.5 This draft budget as set out in Table 1 below is based on the following central assumptions and worked through the current Transition Governance arrangements, with collaborative work across the Chief Executives and Financial Directors and using experience of what it takes to run an effective Mayoral Combined Authority.

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

Additional budget assumptions:

- a) Prudent assumption on staff turnover of less than 3%. Recently staff turnover rates have been as high as 10% being representative of the market conditions in respect of recruitment and retention and will be kept under review as part of the usual financial management and resource management actions of NEMCA.
- b) The current employer pension contributions rates for NECA and NTCA differ; NECA being 0% and NTCA being 15.1%. The draft budget includes a blended rate across the new organisation while dialogue progresses with the Tyne and Wear Pension fund regarding a rate for the new authority. It is

## Leadership Board

reasonable to expect the new contribution rate to be lower than currently assumed.

- c) The budget assumes a £400k contribution to an Election Reserve to start the build-up for 2029.
- d) The budget is prudent, it is reasonable to anticipate upside from higher interest earning reflecting higher cash balances, and from the possibility of additional in-year income that has been realised for each year of the NTCA to date.

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

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

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

Table 1 Initial Operational Budget	2024-25 Full year estimate	7 May 2024- 31 March 2025
Expenditure	£m	£m
Employees Baseline	12.649	11.595
Employees Growth	0.911	0.835
Transport	0.174	0.159
Premises	0.625	0.573
Supplies and Services	2.024	1.771



## Leadership Board

Programme delivery costs	1.027	0.941
Support Services	0.797	0.731
Cost of Capital	9.445	8.658
Contribution to Election Reserves	0.400	0.367
<b>Total Expenditure</b>	<b>28.052</b>	<b>25.629</b>
<b>Income</b>		
Top-slice	(8.623)	(8.451)
Transport Grants	(1.405)	(1.288)
Other grants, reimbursements, and contributions ECMA and Levies, TNE	(2.145)	(1.966)
Grants	(2.930)	(2.686)
Mayoral Capacity Fund	(1.000)	(1.000)
Direct Grant Recharges	(1.501)	(1.376)
Tyne Tunnel	(8.357)	(7.661)
Interest	(0.384)	(0.352)
Recharges - Nexus and Northumberland	(0.186)	(0.171)
Local Authority Contributions	(0.741)	(0.679)
<b>Total Income</b>	<b>(27.272)</b>	<b>(25.629)</b>
<b>Net Budget</b>	<b>0.779</b>	<b>0.000</b>

### Developing an Investment Plan for the North East

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

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

## Leadership Board

- 2.10 An Investment Strategy for NEMCA will be brought together which considers the future deployment of the Investment Fund (e.g., £48m per annum) alongside the other funding streams inherent to the Combined Authority – such as for brownfield housing, economic development, and inclusive growth. The purpose of the NEMCA investment fund is to improve the trajectory of the North East economy – improving productivity and public services, not substituting, or displacing existing investment. The following financial principles are designed to support that aim.
- 2.11 Specifically for the £1.4bn (£48m per annum Investment Fund), the financial principles to be followed – as discussed and agreed with a steering group of political leaders, in lieu of a NEMCA establishment, – include:
- **Value for money** – projects must make a tangible contribution to our strategic objectives and provide good value for money in terms of outputs and outcomes.
  - **Social value** – investments will meet established social value requirements, as well as articulating their relationship to the strategic outcomes set out in the investment plan and assurance framework. e.g., a commitment to good work
  - **Additionality** – investments will be in addition to existing funding available at regional and local levels, avoiding displacement, deadweight, leakage, and substitution.
  - **A programme approach** – we will develop coherent programmes of investments. This includes looking for opportunities to take a pan-regional approach to sectoral growth whilst considering how more localised initiatives can work together to address the opportunities and challenges of specific places and communities.
  - **Novel approaches** – the authority will explore opportunities to introduce new financial instruments (for instance tax increment finance, land value capture, energy delivery vehicles, etc where their introduction could increase outcomes within the region, with appropriate review by scrutiny and the investment board to manage risk.
- 2.12 For capital projects specifically:
- **Co-investment and leverage** – investments will be made in ways that maximise private sector leverage, either through up-front co-investment commitments, or through additional investment unlocked by funding.
  - **Recyclability** – the expectation will be that where returns on investment are collected, they will be used to service any debt accrued in financing the upfront investment, and then will be recycled into the regional investment fund for re-investment.

## Leadership Board

- **Borrowing** – borrowing against the investment fund will only be pursued for strategic regional investments with substantial co-investment of and expected returns on investment as set out in the forthcoming Investment Strategy.

### Funding Streams Financial Year 2024/25 through to 2028/29

- 2.13 The Tables below set out indicative funding streams for 2024/25 and across the first four years of the MCA. It is reasonable to expect (based on NTCA and wider MCA performance to date) that the funding streams will grow and future allocations of UKSPF and Brownfield Housing Funding, for example, are confirmed beyond 2024/25.
- 2.14 These are clearly delivery funding streams and will be split between revenue and capital programmes and projects as illustrated in the Tables.

**Table 2 Draft Investment Fund:** This Table starts by illustrating the programme commitments made by NTCA over the course of the first five years. Activity continues over most programme areas, but some examples include projects such as Access to Finance, North Bank of the Tyne Walker Key phase II, ongoing Skills programmes in respect of the Inclusive Economy Programme and on-going delivery of the Culture, and Creative Zones

Draft Investment Fund	2024-25 £m	2025-26 £m	2026-27 £m	2027-28 £m	2028-29 £m	Total £m
NTCA – current programme commitments Revenue and Capital into future years Funded by NTCA	25.234	15.525	5.854	1.138	6.020	53.770
Investment fund Reserve forecast as of 6 May 2024	(19.525)	0.000	0.000	0.000	0.000	(19.525)
<b>Balance of funding requirement 2024-25 and future years</b>	<b>5.709</b>	<b>15.525</b>	<b>5.854</b>	<b>1.138</b>	<b>6.020</b>	<b>34.245</b>
<b>NEMCA Capital Funding</b>	14.000	14.000	14.000	14.000	14.000	70.000
Capital top slice	(1.400)	(1.400)	(-1.400)	(-1.400)	(-1.400)	(71.400)
Early Capital match	(12.600)	(1.610)	0.000	0.000	0.000	(14.210)
<b>Available for New Investment</b>	<b>0.000</b>	<b>17.010</b>	<b>15.400</b>	<b>15.400</b>	<b>15.400</b>	<b>71.400</b>
<b>NEMCA Revenue Funding</b>	34.000	34.000	34.000	34.000	34.000	170,000

## Leadership Board

Revenue top slice	(3.400)	(3.400)	(3.400)	(3.400)	(3.400)	(17.000)
Cost of Borrowing – currently based on an £50m borrowed in 24-25	(1.125)	(2.504)	(2.513)	(2.523)	(2.532)	(11.197)
Funding NTCA current programme commitments	(5.709)	(15.525)	(5.854)	(1.138)	(6.020)	(34.245)
<b>Available for New Investment</b>	<b>23.766</b>	<b>12.571</b>	<b>22.233</b>	<b>26.939</b>	<b>22.048</b>	<b>107.557</b>

- 2.15 **Table 3 Strategic Place based funding – Brownfield Housing Fund: 2024/25** will be the final year of funding for NTCA for the North of Tyne sites bringing the total investment to £31.820m by 31 March 2025. As part of the early priorities in negotiation the NEMCA deal £35.400m has been secured for Brownfield housing sites across the South of Tyne Local Authorities area. This year sites have been proposed and are currently progressing through the NTCA Assurance process that will allow the project to start in 2023/24 and conclude delivering of the expenditure during 2024/25. Currently 2024/25 this is the final year of the allocation of Brownfield Housing funding but again it is anticipated further funding will be provided for the NEMCA geography over the course of 2024/25.

Brownfield Housing Fund - Year 2	2024-25	2025-26	2026-27	2027-28	2028-29	Total
	£m	£m	£m	£m	£m	£m
NTCA	8.669	0.000	0.000	0.000	0.000	8.669
NEMCA	15.400	0.000	0.000	0.000	0.000	15.400
<b>Total</b>	<b>24.069</b>	<b>0.000</b>	<b>0.000</b>	<b>0.000</b>	<b>0.000</b>	<b>24.069</b>

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

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

## Leadership Board

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

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

- 2.18 **Table 6 Indicative Overall Skills Funding:** this table sets out the range of funds to deliver skills and adult education across the first 5 years. Currently Bootcamps funding is secured through an annual process with no indication of funding beyond 2024/25 financial year – albeit the case is being made by the region to Government to provide additional assurance as to future funding rounds. It is anticipated more funds will be made available to deliver skills over the course of 2024/25.

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

- 2.19 **Table 7 Transport Programmes Funding:** the table below gives a high-level summary of the transport funding to be channelled through NEMCA up to the year ending 31 March 2027. Recent announcements following the abandonment of the HS2 project have indicated a significant increase of funding from April 2027, but indicative allocations and capital/revenue splits are not yet confirmed. It is

## Leadership Board

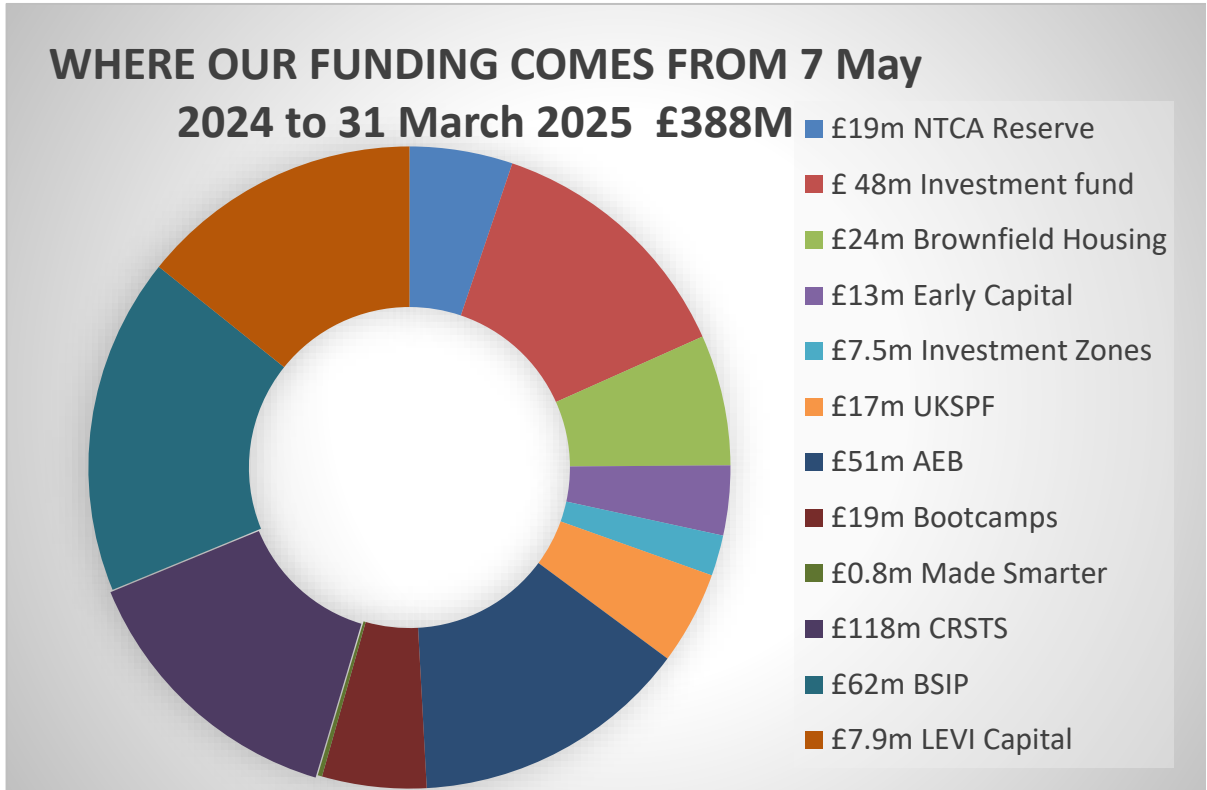
anticipated these can be made clearer in the report to the Mayor and Cabinet in January 2024. The Joint Transport Committee Report that sets out the proposed budget for 2024/25 across the Transport programme is attached at Appendix E.

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

### Final Year Funding Programmes for North of Tyne

- 2.20 In terms of UKSPF 2024/25 will be the final year for the current round of allocations. NEMCA will be the accountable body for this final year of delivery of the North of Tyne allocation with indicative spend of £13.788m Revenue and £3.372m capital. The 7 local authorities will continue to deliver their own UKSPF programmes through their direct awards, all with the expectation that all expectation nationally that all spend is completed by 31 March 2025. At the current time, the NTCA programme is substantially committed with projects in delivery.
- 2.21 North of Tyne CA is the accountable body for the LA7 for the Creative Growth Programme funded by DCMS. 2024/25 is the final year of funding of £0.588m.
- 2.22 The picture below illustrates for 2024/25 a total investment pot of £388m.

## Leadership Board



### NELEP – Ongoing Programmes

2.23

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

**Table 8 NELEP ongoing programmes**

Programme	Funded by	Period of activity/c onfirmed funding	Notes/ MTFP Implications
North East Growth Hub	UKSPF/ Gov £420k/ann um	To March 2024	Value to be confirmed for 2024-25 A review in March 2025 and decision made then on future options and direction of travel.

## Leadership Board

Made Smarter	£800k/ann um	To March 2025	Includes Tees Valley CA– promotes digital adoption by advanced manufacturers. Confirmation of funding for 2024-25 has been received. The programme will continue to 2030 with awards confirmed during 2024-25.
Challenge North East	£880k	To March 2024	Collaboration with Innovation SuperNetwork – independent appraisal of performance due January 2024.
Local Growth Fund	Balance to fund closure		Programme closure and performance reporting.
Get Building Fund	Balance to fund closure		Programme closure and performance reporting.
EZ Programme	Business Rates Retention.		Ongoing –will transition into NEMCA see paragraph 4.8 below.
North East Investment Fund (NEIF)	Evergreen Loans fund		Programme monitoring and performance management with FW capital – fund managers, and fund returns continuing – see paragraph 4.9 below.

### Enterprise Zones

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

**Table 9 Forecast BRGI in the Enterprise Zones**

2.25

	23/24	24/25	25/26	26/27	27/28	28/29
	£m	£m	£m	£m	£m	£m
BRGI Income (Excluding Cat 4)	8.570	11.990	15.970	17.720	19.020	19.700
Capital Financing Costs	(4.200)	(6.240)	(8.440)	(9.630)	(9.990)	(9.960)



## Leadership Board

Net Revenue Costs	(0.140)	(0.180)	(0.160)	(0.100)	(0.110)	(0.150)
Annual Surplus	4.230	5.570	7.370	7.990	8.930	9.600
Cumulative Surplus b/f	11.540	13.510	15.540	19.070	23.550	29.690
Current assumption - use for LEP Budget Support	(0.410)	(0.500)	(0.500)	(0.500)	(0.500)	(0.500)
Agreed Performance Incentive Reward	(0.960)	(0.960)	(0.960)	(0.960)	(0.960)	(0.960)
Provision for CPIF Incentives	(1.000)	(1.000)	(1.000)	(1.000)	(1.000)	(1.000)
Funding GBF Top Up	0.000	(1.000)	(1.000)	0.000	(1.000)	0.000
Provision for Strategic Grants	(1.000)	(1.000)	(1.000)	(1.000)	(1.000)	0.000
Repayment of Project development fund	(0.230)	(0.730)	0.000	0.000	0.000	0.000
LGF swaps	0.000	(0.150)	0.000	0.000	0.000	0.000
<b>Retained Surplus after uses</b>	<b>7.940</b>	<b>8.170</b>	<b>11.080</b>	<b>14.610</b>	<b>20.090</b>	<b>27.230</b>

### The North East Investment Fund

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

2.26 **Table 10 North East Investment Fund – 30 September 2023**

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

### Capital Investment and Borrowing

## Leadership Board

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

### Reserves

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

## 3. Reasons for the Proposals

- 3.1 The report is provided to enable initial budget proposals for NEMCA to be agreed and subject to consultation with Overview and Scrutiny Committee.

## 4. Alternative Options Available

- 4.1 There are no alternative options proposed.

## 5. Next Steps and Timetable for Implementation

- 5.1 Final budget proposals for 2024/25 will be presented to the NECA Leadership Board and NTCA Cabinet in January 2024. A timetable is set out in Appendix F.

## 6. Potential Impact on Objectives

- 6.1 The potential impact on objectives is set out in the body of the report.

## 7. Financial and Other Resources Implications

- 7.1 Implementing the devolution deal would enable the region to access over £4bn of funding over a 30-year deal cycle, together with new powers to better shape local skills provisions to ensure these meet the needs of the local economy. This would include devolution of adult education functions and the core adult

## Leadership Board

education budget, as well as input into the new local skills improvement plans. Over time the region would also expect to benefit from access to additional funding streams reserves for mayoral combined authorities as set out in this report.

### 8. Legal Implications

- 8.1 The Authority is required to agree a balanced budget annually and to monitor that budget throughout the year. NEMCA also has a fiduciary duty not to waste public resources and to secure value for money. The Authority must also make provision for an adequate level of un-earmarked reserves. It is also required to ensure that good financial governance arrangements are in place.

### 9. Key Risks

- 9.1 It is considered that failure to establish the mayoral combined authority would risk the region falling behind other major city regions such as Greater Manchester, Liverpool City Region and Tees Valley, which have received new powers and funding.
- 9.2 Prudent financial planning assumptions have been made in terms of forecasting the base budget pressures and issues NEMCA will face in 2024/25 and over the coming years. The budget and corporate plan will be underpinned by a robust Assurance Framework and process.
- 9.3 Key risks underpinning the budget estimates include inflation risk and deliverability/slippage in expected programmes of work. Service Level Agreements costing is still underway, and this may change the budget estimates once completed.

### 10. Equality and Diversity

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

### 11. Crime and Disorder

## Leadership Board

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

### 12. Consultation/Engagement

12.1 The overall devolution proposals have been developed from close collaboration working across the local authorities and specifically the LA7 Finance Directors and a wide range of stakeholders and the public. Engagement continues among key stakeholders across the region.

### 13. Other Impact of the Proposals

13.1 The green agenda is a critical element of the minded to devolution deal and therefore the governance changes proposed in this report, if implemented, would help to deliver those initiatives identified in the minded to deal.

### 14. Appendices

14.1 Appendix A – Draft 2024-25 Corporate Plan

Appendix B – Budget Analysis of 5 organisations

Appendix C – Reserves and Balances

Appendix D – Draft Treasury Management Strategy and Prudential Indicators

Appendix E – Joint Transport Committee Report

Appendix F – Timetable

### 15. Background Papers

15.1 Report to Leadership Board 7 November 2023 – North East Devolution [Leadership-Board-extraordinary-7-November-2023.pdf \(northeastca.gov.uk\)](#)

### 16. Contact Officers

16.1 Paul Darby, Chief Finance Officer NECA – [paul.darby@durham.gov.uk](mailto:paul.darby@durham.gov.uk)

Janice Gillespie, Director of Finance NTCA –

[janice.gillespie@northoftyne-ca.gov.uk](mailto:janice.gillespie@northoftyne-ca.gov.uk)

### 17. Sign off

- 17.1
- Head of Paid Service:
  - Monitoring Officer:
  - Chief Finance Officer:



North East Combined Authority

**DURHAM • GATESHEAD • SOUTH TYNESIDE • SUNDERLAND**

## **Leadership Board**

### **18. Glossary**

#### **18.1 INEE – Invest North East England**

LA7 – Seven North East local authorities i.e. Durham, Gateshead, Newcastle, North Tyneside, Northumberland, South Tyneside and Sunderland

NECA – North East Combined Authority

NELEP – North East Local Enterprise Partnership

NEMCA – North East Mayoral Combined Authority

NTCA – North of Tyne Combined Authority

TNE – Transport North East





Interim Corporate Plan for a new  
North East Mayoral Combined Authority

# Introduction

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

## Dame Norma Redfearn DBE

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



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

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

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

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



## Dr Henry Kippin

Interim Chief Executive for the new Mayoral Combined Authority

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

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

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

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

## What does NEMCA need to do?

Convening – at scale & across sectors

Commissioning and delivering

Managing multi-billion investment

Making and shaping policy

### NORTH EAST DEVOLUTION DEAL

Stimulating & investing in innovation

Leading on behalf of the region

Supporting and enabling

Driving social and economic impact

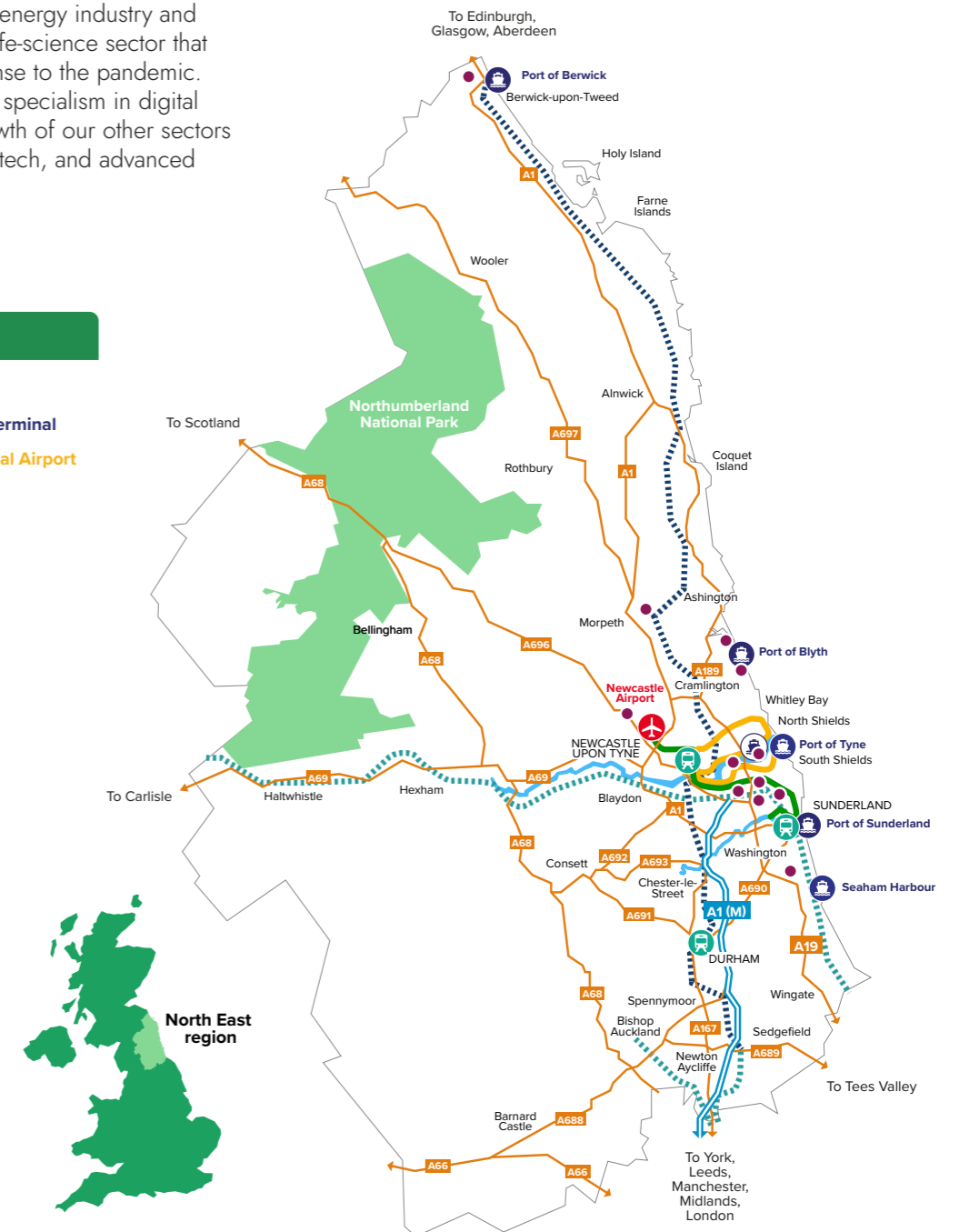
# The region

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

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

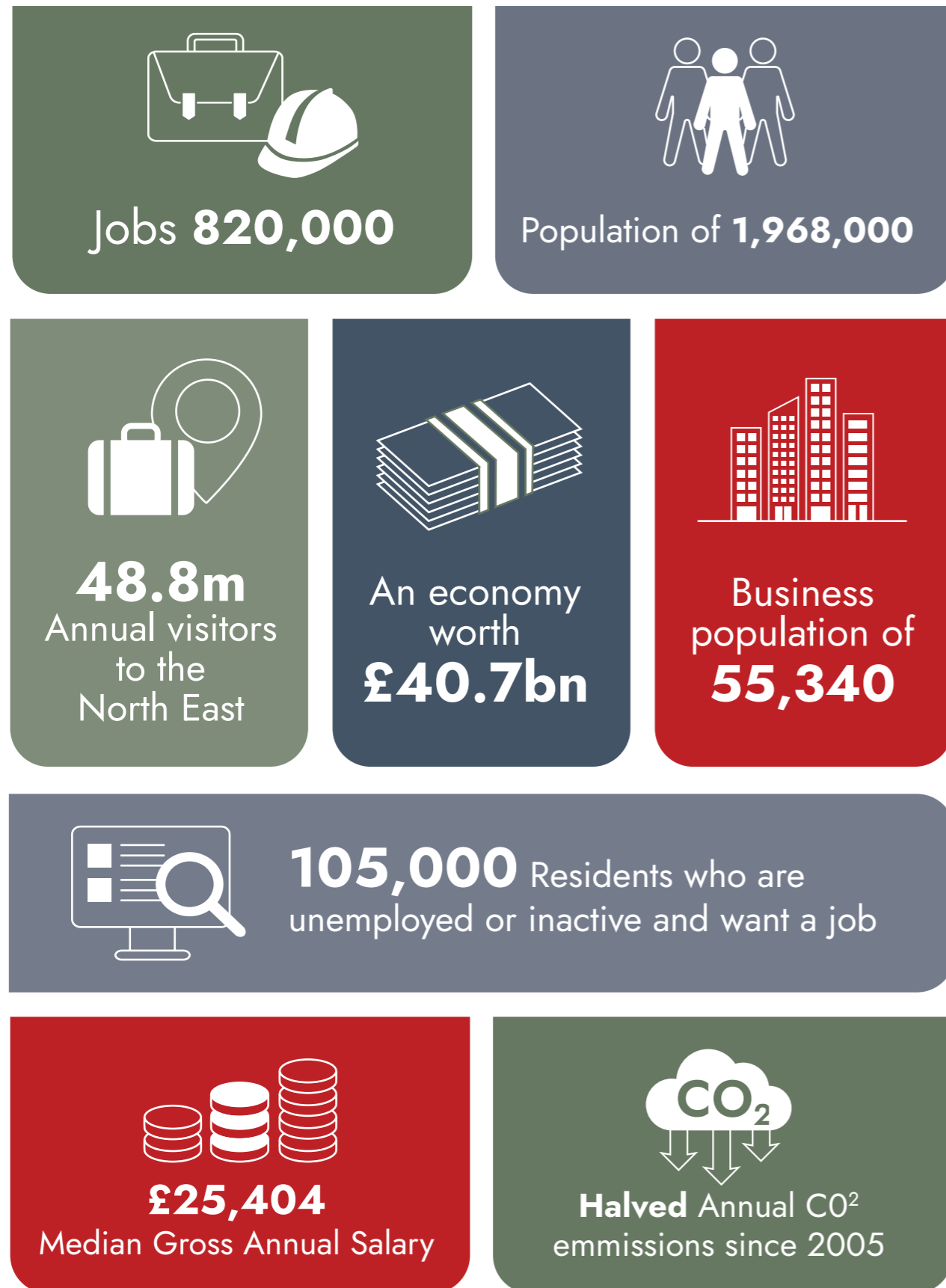
**Key**

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





## A snapshot of the region



## How we will deliver

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

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

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

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

## Interim portfolios

### TRANSPORT

#### Ambition

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

#### Scope – What is in the Deal?

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

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

### FINANCE AND INVESTMENT

#### Ambition

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

#### Scope – What is in the Deal?

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

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

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

### ENVIRONMENT, COASTAL AND RURAL

#### Ambition

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

#### Scope – What is in the Deal?

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

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

### CULTURE, CREATIVE, TOURISM AND SPORT

#### Ambition

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

#### Scope – What is in the Deal?

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

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

### ECONOMY

#### Ambition

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

#### Scope – What is in the Deal?

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

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

### HOUSING AND LAND

#### Ambition

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

#### Scope – What is in the Deal?

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

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

### EDUCATION, SKILLS AND INCLUSION

#### Ambition

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

#### Scope – What is in the Deal?

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

These include:

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

# Resources

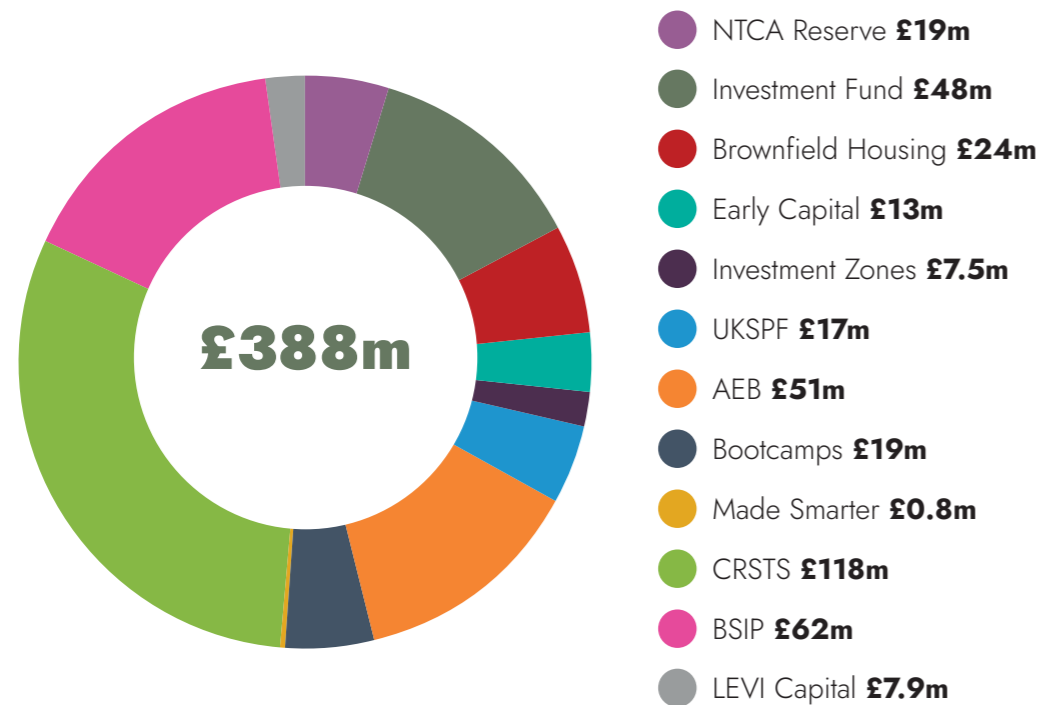
In preparing a draft budget, investment plans are designed for delivery of the portfolio activity that has been set out in this plan.

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

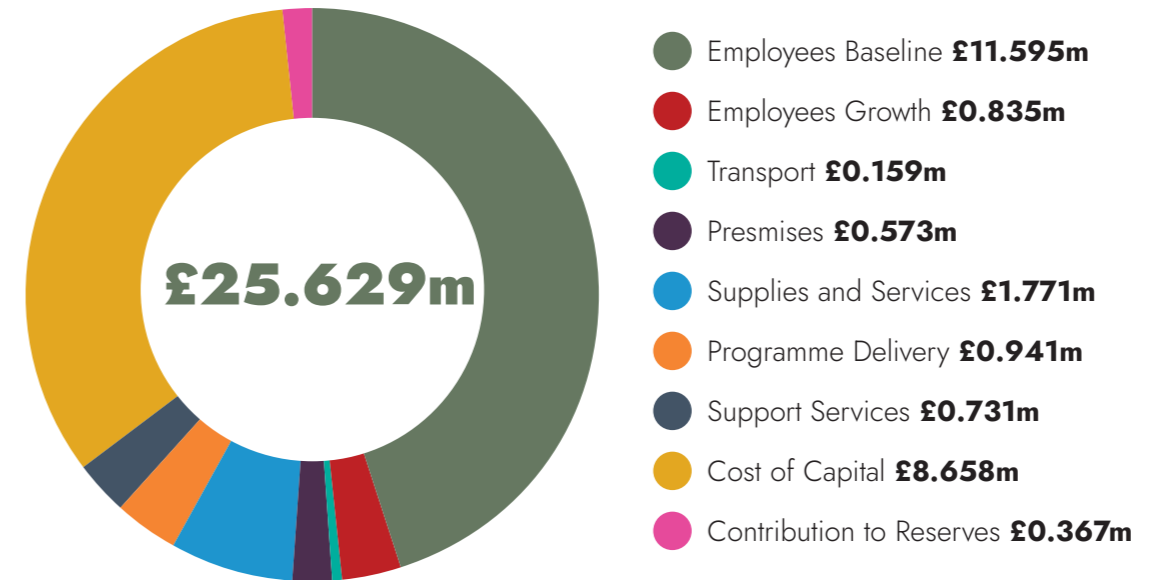
These are:

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

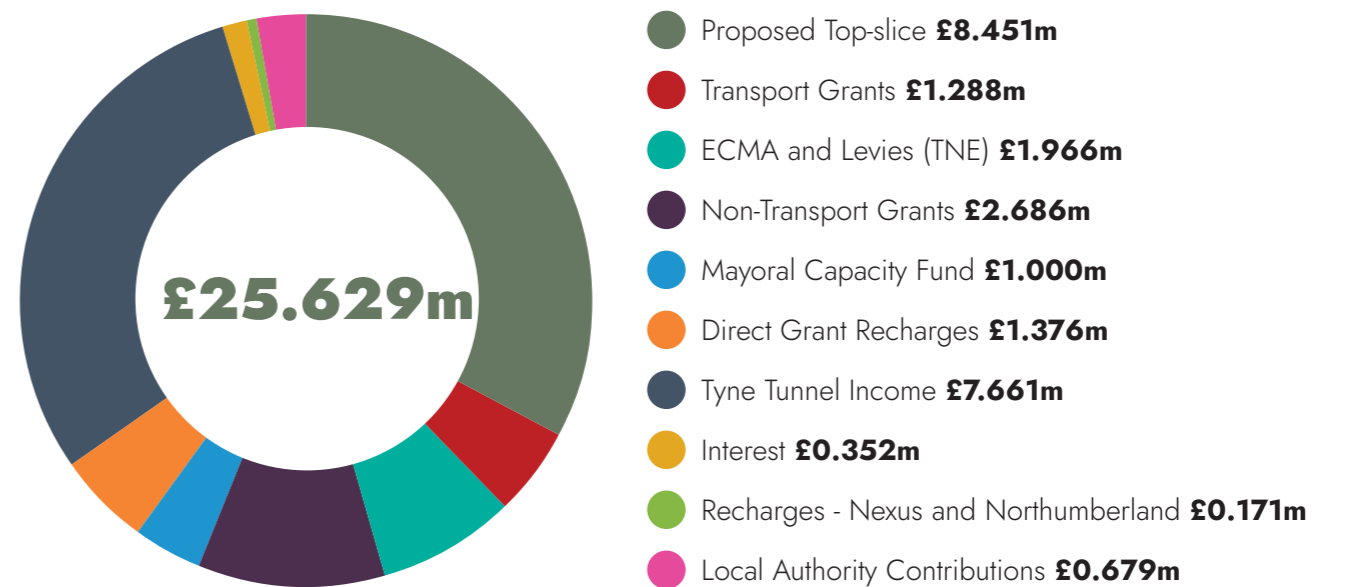
## What the authority will invest



## Corporate Budget



## Funding of the corporate budget



# Organisational design principles

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

LEVEL 1 DESIGN PRINCIPLES – THE ETHOS OF THE NEW MCA	
<b>LEADERSHIP</b>	<ul style="list-style-type: none"> <li>Highly collaborative, inclusive and joined up</li> <li>Delivering shared strategic priorities through strong relationships and high-quality standards</li> <li>Innovative, forward looking and constantly learning</li> </ul>
<b>GOVERNANCE</b>	<ul style="list-style-type: none"> <li>Mayor-and-Cabinet model which maximises collaboration and cross-party, cross-regional working</li> <li>Pulling down – not drawing up – powers from the region and achieving more through collaboration</li> <li>Fit for purpose but not over-bureaucratized</li> </ul>
<b>ORGANISATIONAL DESIGN</b>	<ul style="list-style-type: none"> <li>Driven by policy, purpose and values – with innovation in staffing and delivery models</li> <li>Efficient, effective and agile structures that enable streamlined decision making and delivery</li> <li>A resilient and flexible organisation which attracts top talent through being an exciting and different place to work</li> </ul>
<b>RESOURCES</b>	<ul style="list-style-type: none"> <li>Investment framed by coherent long-term planning – making the biggest possible economic, social and environmental impact</li> <li>Enabling high performance, quality delivery and achieving things that would otherwise be impossible</li> <li>Inclusion, equalities and a strong value-set at the heart of everything we do</li> </ul>
<b>PROCESSES</b>	<ul style="list-style-type: none"> <li>Strong alignment to strategic outcomes and policy intent</li> <li>High levels of collaboration, integration and streamlined, cross-silo working</li> <li>Clear governance, scrutiny and business processes linked to appropriate political oversight</li> </ul>

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

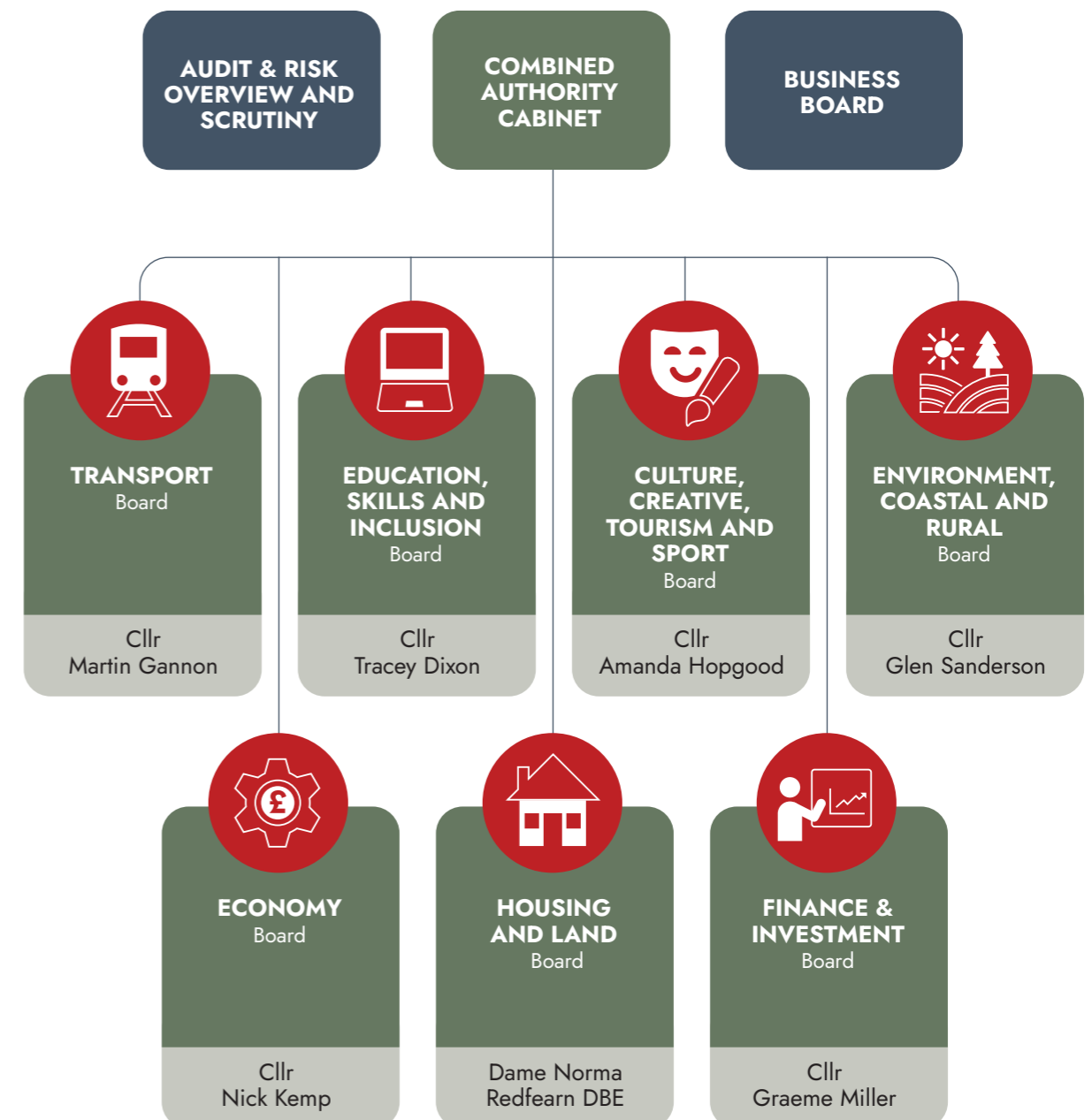
We will deliver through a clear ethos – a balance between ambition, high performance and capability – and the need to demonstrate public value and delivery through collaboration and clear value-add.

# Governance

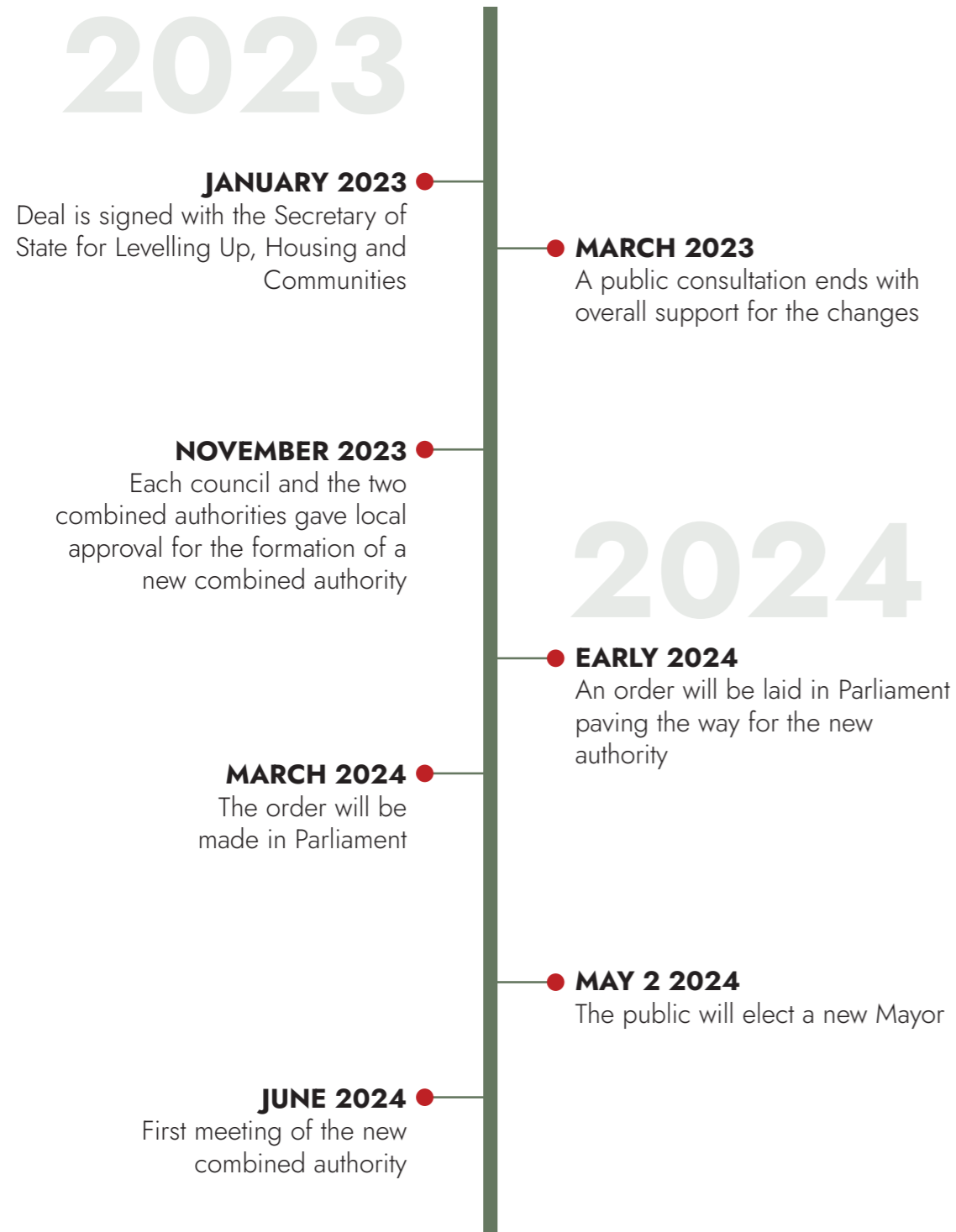
The combined authority Cabinet will comprise of the newly-elected Mayor, seven elected members with one appointed from each constituent council. There will also be the Chair of the Business Board and a representative of the community and voluntary sector. These two members will be non-voting.

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

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



## Timeline





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

## Note 1 cost adjustments

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

Adjust for LEP pension contribution ££395,000

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





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



## Draft North East Mayoral Combined Authority Treasury Management Strategy 2024/25 and Prudential Indicators

### Purpose

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

### Background

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

The 2021 Prudential Code introduced a requirement for the monitoring and reporting of treasury management performance against forward looking indicators at least

quarterly, and this information will be reported as part of the Combined Authority's revenue and capital monitoring.

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

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

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

### **Borrowing Strategy**

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

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

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

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

- 11 The difference between the Authority's borrowing requirement and the actual borrowing undertaken is called under-borrowing. This represents the ability of the Authority to use its balance sheet reserves to delay the date that loans are taken out. The strength of the Authority's balance sheet means it has no immediate need to borrow to fund its capital outlays and this means that using internal balances is the generally most cost-effective option. However, in the medium term the Authority may need to borrow to fund its capital programme.
- 12 No new borrowing has been undertaken during 2023/24 to date and none is anticipated for the remainder of the financial year.
- 13 The following sources of long-term and short-term borrowing have been identified for approval:
- Public Works Loan Board (PWLB);
  - UK local authorities;
  - Any institution approved for investments (see paragraph 36);
  - UK public/private sector pension funds;
  - European Investment Bank; and
  - Local authority special purpose vehicles created to enable local authority bond issues (for example the Municipal Bonds Agency)
- 14 A major source of the Authority's borrowing is the PWLB, which is a lending facility operated by the UK Debt Management Office on behalf of HM Treasury. In order to have access to PWLB loans, the current arrangements require the Authority to confirm that they are not buying investment assets primarily for yield and that they are not borrowing in advance of need, with the aim of making a profit from the sums borrowed.
- 15 The Authority meets the borrowing criteria so taking out PWLB loans is an available option. Loan rates are fluid (PWLB rates change twice daily), and the Authority will continue to work with its Treasury Management advisors, Link Asset Services, to monitor rates and cash flow requirements to determine the timing for taking out further loans.

### **Policy on Borrowing in Advance of Need**

- 16 The Authority will not borrow more than, or in advance of, its needs, purely to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be made within approved Capital Financing Requirement (CFR) estimates and following careful consideration, in order to demonstrate value for money and ensure the security of such funds.
- 17 Any risks associated with activity to borrow in advance will be subject to prior appraisal and will be subsequently accounted for in the Treasury Management report that follows.

### **Debt Rescheduling**

- 18 As short-term borrowing rates will likely be cheaper than longer term fixed interest rates, there may be opportunities to generate savings by switching from long term debt to short term debt. Advantages of debt rescheduling would include:
- generating cash savings and / or discounted cash flow savings;
  - helping to fulfil the treasury strategy;
  - enhancing the balance of the portfolio (amend the maturity profile and / or the balance of volatility).

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

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

### **Other Debt and Long Term Liabilities Plans**

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

### **Cash Investment Strategy**

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

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

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

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

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

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

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

### **Specified Investments**

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

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

### **Non-Specified Investments**

27 These are investments which do not meet the specified criteria as outlined above. The Authority is therefore required to examine non-specified investments in more

detail. As well as any of the above sterling investments that are of more than one-year maturity, non-specified investments include the following sterling investments:

- gilt edged securities with a maturity of greater than one year. These are Government bonds and so provide the highest security of interest and the repayment of principal on maturity;
- deposits with the Authority's own banker if it fails to meet the basic credit criteria. In this instance balances will be minimised as far as is possible;
- loans and shares in local businesses, in order to encourage regeneration and economic development in the area. Any new investments will only be agreed after significant due diligence checks have been carried out;
- Any other funds.

### **Creditworthiness Policy**

- 28 The primary principle governing the Authority's investment criteria is the security of its investments; although the yield or return on the investment is also a key consideration. After this main principle, the Authority will ensure that:
- it maintains a policy covering the categories of investment types it will invest in, the criteria for choosing investment counterparties with adequate security and arrangements for monitoring their security; and
  - it has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Authority's prudential indicators covering the maximum principal sums invested.
- 29 The Chief Finance Officer will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit these to the Leadership Board for approval as necessary. These criteria provides an overall pool of counterparties considered to be high quality which the Authority may use, rather than defining what types of investment instruments are to be used.
- 30 The Combined Authority uses Link Group, Treasury solutions as its external treasury management advisors. The Combined Authority recognises that responsibility for treasury management decisions remains with the organisation and seeks to ensure that undue reliance is not placed upon external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisors. The Combined Authority recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Combined Authority will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed, documented, and subjected to regular review
- 31 Typically the minimum credit ratings criteria used by the Authority will be a short term rating (Fitch or equivalents) of F1 and a Long Term rating of A-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances, consideration will



be given to the whole range of ratings available or other topical market information to support their use.

- 32 All credit ratings will be monitored regularly. The Authority is alerted to changes to ratings of all three agencies (Fitch, Moody's and Standard and Poor's) through its use of Link's creditworthiness service.
- 33 If a downgrade results in the counterparty / investment scheme no longer meeting the Authority's minimum criteria, its further use as a new investment will be withdrawn immediately.
- 34 In addition to the use of credit ratings, the Authority will be advised of information in movements in credit default swap spreads against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in the downgrade of an institution or removal from the Authority's lending list.
- 35 Sole reliance will not be placed on the use of the service provided by Link. The Authority will also use market data and market information, information on sovereign support for banks and the credit ratings of that supporting government. This additional market information, for example credit default swaps and negative rating watches / outlooks, will be applied to compare the relative security of differing investment counterparties. The relative value of investments will be reviewed in relation to the counterparty size to ensure an appropriate ratio.

**Investment Criteria**

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

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

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

	<b>Fitch</b>	<b>Moody's</b>	<b>Standard &amp; Poor's</b>
Short Term	F1	P1	A-1
Long Term	A-	A3	A-

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

- Banks 2 – Part nationalised UK banks - Royal Bank of Scotland. This bank can be included if it continues to be part nationalised or meets the ratings in Banks 1 above;
- Banks 3 – The Authority's own banker for transactional purposes if the bank falls below the above criteria, although in this case, balances will be minimised in both monetary size and time;
- Bank subsidiary and treasury operation. The Authority will use these where the parent bank has provided an appropriate guarantee or has the necessary ratings outlined above;

- UK Government (including gilts and the Debt Management Account Deposit Facility [DMADF]);
- Local authorities, parish councils etc.;
- Building societies. The Authority will use societies which:
  - i. Meet the ratings for banks outlined above; or
  - ii. Have assets in excess of £1 billion;
- Money market funds;
- Ultra-Short Dated Bond Funds;
- Property Funds.

### Time and Monetary Limits applying to Investments

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

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

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

### UK Banks – Ring Fencing

38 An additional factor must be taken into account when making investments with some UK banks from 1 January 2019. From this date the largest UK banks, (those with more than £25bn of retail / Small and Medium-sized Enterprise (SME) deposits), are required, by UK law, to separate core retail banking services from their investment and international banking activities. This is known as “ring-fencing”. Whilst smaller banks with less than £25bn in deposits are exempt, they can choose to opt to be included in the arrangements. Several banks are very close to the threshold already and so may come into scope in the future regardless.

39 Ring-fencing is a regulatory initiative created in response to the global financial crisis. It mandates the separation of retail and SME deposits from investment banking, in order to improve the resilience and resolvability of banks by changing their structure. In general, simpler, activities offered from within a ring-fenced bank, (RFB), will be focused on lower risk, day-to-day core transactions, whilst more complex and “riskier” activities are required to be housed in a separate entity, a non-ring-fenced bank, (NRFB). This is intended to ensure that an entity’s core activities are not adversely affected by the acts or omissions of other members of its group.

40 While the structure of the banks included within this process may have changed, the fundamentals of credit assessment have not. The Authority will continue to assess the new-formed entities in the same way that it does others and those with sufficiently high ratings, (and any other metrics considered), will be considered for investment purposes.

### **Non-Treasury Investments**

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

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

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

### **Treasury Management Indicators**

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

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

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

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

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

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

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

**a) Prudential Indicators**

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

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

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

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

	<b>2023/24 Estimate £m</b>	<b>2024/25 Estimate £m</b>	<b>2025/26 Estimate £m</b>	<b>2026/27 Estimate £m</b>	<b>2027/28 Estimate £m</b>
Transport Capital Financing Requirement	180.693	177.123	173.550	169.970	166.377

New NEMCA Capital Financing Requirement	0.000	50.000	50.000	50.000	50.000
<b>Total CFR</b>	<b>180.693</b>	<b>227.123</b>	<b>223.550</b>	<b>219.970</b>	<b>216.377</b>
<b>Movement in CFR represented by:</b>					
Net borrowing financing need for the year	0.000	50.000	50.000	50.000	0.000
Less MRP/VRP and other financing movements	(3.599)	(3.570)	(3.573)	(3.580)	(3.593)
<b>Movement in CFR</b>	<b>(3.599)</b>	<b>46.430</b>	<b>(3.573)</b>	<b>(3.580)</b>	<b>(3.593)</b>

52 Gross Debt and the Capital Financing Requirement – in order to ensure that debt will only be held for capital purposes, the Authority should ensure that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. This is a key indicator of prudence. The table below shows how the Authority plans to comply with this requirement, which shows gross borrowing continues to be less than the CFR:

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

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

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

	<b>2021/22 Actual £m</b>	<b>2022/23 Estimate £m</b>	<b>2023/24 Estimate £m</b>	<b>2024/25 Estimate £m</b>	<b>2025/26 Estimate £m</b>

Operational Boundary	205.000	255.000	255.000	255.000	255.000
Authorised Limit	210.000	260.000	260.000	260.000	260.000

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

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

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

### MRP Policy Statement

55 The CIPFA Prudential Code for Capital Finance in Local Authorities requires the Leadership Board to agree an annual policy for the Minimum Revenue Provision (MRP).

56 The MRP is the amount that is set aside each year to provide for the repayment of debt. The regulations require the authority to determine an amount of MRP which it considers to be prudent. The broad aim of a prudent provision is to ensure that debt is repaid over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Revenue Support Grant (RSG), reasonably commensurate with the support provided through the RSG. The guidance provides recommended options for the calculation of a prudent provision but local authorities have significant discretion in determining the level of MRP which they consider to be prudent.

57 The Government updated its Statutory Guidance on MRP on 2 February 2018, with some elements of the guidance taking effect from 1 April 2018.

58 The Authority's annual MRP policy has been set in line with the following principles:

- Supported capital borrowing (pre-2008) debt – minimum revenue provision to be made on a 2% straight line basis.
- Supported capital borrowing undertaken on behalf of Nexus, being a 4% minimum revenue provision – this relates to historic debt (prior to 1 April 2008) only.
- For unsupported capital borrowing (Prudential Borrowing) undertaken on behalf of Nexus, making provision for the debt in equal annual instalments over the estimated life of the asset.
- For unsupported capital borrowing for the New Tyne Crossing, making provision for the debt over the life of the asset on an annuity basis. This basis

is suitable for use on this particular project as it is consistent with the financial model which reflects an increase in traffic and tolls over the life of the concession contract. A 50-year asset life is assumed.

- For unsupported capital borrowing (prudential borrowing) in relation to Enterprise Zones, making provision for the repayment of debt over the life of the asset on an annuity basis (maximum of 25 years); or making provision for the repayment of the debt over a shorter period on an annuity basis for a period agreed by the CFO with reference to the estimate of business rates income receivable to repay the debt.
- For new (unsupported) borrowing for the Combined Authority's capital plans, the Combined Authority intends to take a more nuanced, principles-based approach to the calculation of MRP. The approach to the calculation will be guided by whether the borrowing is related to the creation or enhancement of an asset or whether the borrowing is to support the provision of a loan or other form of investment within another organisation.

59 Where the borrowing underpins the acquisition and enhancement of assets funded through borrowing, an Asset Life Method will be used to calculate MRP (Option 3 under the guidance). Under the guidance, there are two approaches that can be applied: Equal Instalments or the Annuity Method. The Authority will make the decision as to the specific approach to be adopted on a case-by-case basis determining what is most appropriate and prudent based on the underlying asset.

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

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

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

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

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

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

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

## **Other Matters**

### **Training**

65 The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny and training will be arranged as required. There is a further requirement that the training needs of treasury management officers are periodically reviewed.

### **Policy on use of external advisers**

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

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

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



## North East Joint Transport Committee

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**Date:** 21 November 2023

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

**Report of:** Chief Finance Officer

### Executive Summary

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

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

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

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

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

A break-even position is forecast on the Tyne Tunnels revenue account, where increased investment income will cover the deficit previously forecast for the year. For

2024/25 a break even budget is also forecast, on the assumption that toll increases in line with RPI are applied when the Tyne and Wear Sub Committee take their decision on tolls in January 2024.

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

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

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

## **Recommendations**

The North East Joint Transport Committee is recommended to:

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

## **1. Background Information**

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

## **2. Proposals**

### **Transport Levies 2023/24 and Indicative Levies 2024/25**

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

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

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

### **Tyne and Wear Levy**

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

### **Nexus Revenue Budget**

#### **Updated Forecast of Outturn 2023/24**

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

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

*Table 2: Nexus forecast of outturn 2023/24*

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

### **Metro**

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

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

### **Concessionary Fares**

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

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

### **Bus Services**

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

### **Other**

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

## **Nexus Revenue Budget 2024/25**

### **Background**

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

### **2023/34 Budget and Forecast Outturn**

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

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

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

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

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

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

### **Understanding Nexus' Structural Deficit**

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



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

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

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

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

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

### **Strategic Approach to Development of the MTFP**

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

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

2.32 Should the financial performance in the year to date be maintained to the year-end (refer to paragraph 2.23), Nexus will have sufficient reserves to underpin its revenue budget across the period of the revised MTFP (to 2026/27), thereby helping to protect fare revenue, operational performance and maintain key transport services. This is shown in the table below, which attempts to forecast the call on reserves across this timeframe<sup>2</sup> :

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

	<b>As at Oct 2023</b>
	<b>£m</b>
Reserves earmarked to support the revenue budget	<b>19.7</b>

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

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

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

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

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

#### **Budget Preparation 2024/25 to 2026/27**

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

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

*Table 6: Initial Nexus Budget 2024/25*

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

		4.8
Use of reserves		(4.8)
<b>Surplus/Deficit</b>		-

2.37 In terms of cost pressures:

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

2.38 In terms of efficiencies/income:

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

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

### **Impact on Tyne and Wear Councils in 2024/25**

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

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

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

Sunderland	16.516	0.609	17.125
<b>Total</b>	<b>67.800</b>	<b>2.500</b>	<b>70.300</b>

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

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

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

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

### **Key Risks**

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

2.45 Other key risks relate to the following:

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

## Durham

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

Table 9: Durham Updated Forecast of Outturn 2023/24

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

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

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

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

### Northumberland

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

*Table 10: Northumberland Updated Forecast of Outturn 2023/24*

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

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

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

## Tyne Tunnels

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

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

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

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

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



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

### Transport North East

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

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

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

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

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

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

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

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

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

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

2.69

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

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

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

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

### Interest on Revenue Balances

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

### 3. Reasons for the Proposals

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

### 4. Alternative Options Available

4.1 The update forecasts and indicative budget proposals presented in this report are intended to inform the JTC of work on the preparation of the 2024/25 Transport budget and begin the formal budget consultation process in line with the requirements set out in the NECA constitution in its role as Accountable Body for Transport.

4.2 Option 1 – the North East Joint Transport Committee may accept the recommendations set out in the report.

4.3 Option 2 – the North East Joint Transport Committee may suggest amendments or alternative proposals to be considered. Option 1 is the recommended option.

### 5. Next Steps and Timetable for Implementation

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

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

## **6. Potential Impact on Objectives**

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

## **7. Financial and Other Resources Implications**

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

## **8. Legal Implications**

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

## **9. Key Risks**

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

## **10. Equality and Diversity**

10.1 There are no equality and diversity implications arising from this report.

## **11. Crime and Disorder**

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

## **12. Consultation/Engagement**

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

## **13. Other Impact of the Proposals**

13.1 There are no other impacts arising from this report.

## **14. Appendices**

14.1 Appendix 1 – Nexus Services and Deliverables

**15. Background Papers**

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

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

**16. Contact Officers**

16.1 Eleanor Goodman, NECA Finance Manager,  
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**17. Sign off**

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

## Appendix 1 – Nexus Services and Deliverables

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

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

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

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

2. **Statutory Concessions** - comprising the net cost of the English National Concessionary Travel Scheme (ENCTS) in Tyne and Wear which is a statutory obligation placed upon Nexus as the Travel Concession Authority (TCA). Expenditure is dependent upon the numbers of passengers using the Scheme, the fare that would have been paid (to the bus operator) if the Scheme did not exist and an estimate of the additional costs of meeting the increased demand caused by the existence of the Scheme. TCA's and bus operators utilise DfT guidance in determining the value of payments due but in essence, Nexus has virtually no control over this sizeable burden on its NECA grant funded expenditure.
3. **Discretionary Concessions** - comprising the discretionary add-ons to the ENCTS (the companion pass, post 2300 hour boardings, and pre 0930 hour



boardings for the purposes of attending medical appointments), the Metro Gold Card Scheme, the Under 16 Scheme and Teen Travel. It might be possible to reduce expenditure on these discretions if the fare that is charged were to be increased, for example the price of the Under 16 All Day Ticket (which currently retails at £1.10 for use on any mode and any operator's services).

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



# Annex F

## North East Mayoral Combined Authority – Initial Draft Budget setting Timetable

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



# Overview and Scrutiny Committee

**Date:** 14 December 2023

**Subject:** Forward Plan and Scrutiny Work Programme Update

**Report of:** Policy and Scrutiny officer

## Executive Summary

This report provides members of the Overview and Scrutiny Committee with an opportunity to consider the items on the Forward Plan for the current 28-day period and discuss items for the Work Programme for 2023/24. The report also presents details of the Scrutiny Protocol for English Institutions with Devolved Powers (“the Scrutiny Protocol”) and to provide members with an opportunity to reflect on how the guidance might be adopted locally through the appointment and development of an Overview and Scrutiny Committee within the proposed North East Mayoral Combined Authority (NEMCA).

## Recommendations

The Overview and Scrutiny Committee is recommended to:

- i. Review the current Forward Plan and consider which items they may wish to examine in more detail;
- ii. Suggest any items for the Work Programme for 2023/24 that Members would wish to explore in more detail, either at the Committee or via a ‘deep dive’ or working group.
- iii. To agree to the establishment of a working group to look into the following issue. Understanding current threats and pressures, and mitigations, to the delivery of strategic objectives relating to health and wellbeing, ability to work and prosper and to deliver on economic development and regeneration ambitions.
- iv. To consider the guidance set out in the Scrutiny Protocol and reflect on how these principles might be adopted locally by the NEMCA Overview and Scrutiny Committee. The views and comments of the Committee will then be taken into account in formulating the NEMCA Constitution.

## Overview and Scrutiny Committee

### 1. Background Information

- 1.1 The Forward Plan is a document which NECA is required to maintain under the Combined Authorities (Overview and Scrutiny, Access to Information and Audit Committees) Order 2017. The Forward Plan is published on NECA's website and lists the decisions that the North East Combined Authority intends to take in the coming months and must include all decisions to be made in the next 28 days.
- 1.2 The Forward Plan template contains specific information relating to each decision, including the date the decision will be made, a brief explanation of the topic, the consultation to be undertaken, and contact details of the author. The Forward Plan template has recently been updated and includes further information including if the decision is a 'Key Decision' and if an item will be discussed in private.
- 1.3 Details of each decision are included on the Forward Plan 28 days before the report is considered and any decision is taken. This supports the transparency of decision making within the Combined Authority and allows members of the public to see the items that will be discussed. There are special procedures for circumstances where publication for the full 28 clear day period is impractical or where there is special urgency. Both of these procedures involve the Chair of the Overview and Scrutiny Committee and would be reported to the Overview and Scrutiny Committee at its next meeting.

### Role of Overview and Scrutiny

- 1.4 The Overview and Scrutiny Committee examine any decisions of the North East Combined Authority – be that by the principal decision-making body or a committee or officer holding delegated authority. This Scrutiny occurs in public and ensures democratic and public accountability.
- 1.5 One of the main functions of the Overview and Scrutiny Committee is the review and scrutiny of 'Key Decisions' made by the NECA Leadership Board and Officers of the Combined Authority. The relevant regulations set out a test for what should be considered a Key Decision – being those which are most significant in financial or other terms. This is explained in the Decision-Making Protocol adopted by the Committee on the 15 March 2018. At the inaugural meeting of the NECA Leadership Board on the 13 November, following the governance changes, it was agreed that the Decision Making Protocol would remain in place:

<https://northeastca.gov.uk/wp-content/uploads/2018/08/NECA-Decision-Making-Protocol.pdf>

## Overview and Scrutiny Committee

1.6 It is NECA's practice to include formal decisions on the Forward Plan to maximise the opportunity for review and scrutiny. In considering items in the Forward Plan, the Overview and Scrutiny Committee should determine which areas scrutiny can add most value to in relation to the decisions being made.

1.7 The Forward Plan at the date this paper was issued is published at:

<https://www.northeastca.gov.uk/committee-meetings/forward-plan>.

### Update on Requests for Special Urgency / General Exception

1.8 In accordance with the Decision Making Protocol, it was agreed by Members that the request of any Short Notice Procedure that involved the Chair of the Overview and Scrutiny Committee would be reported at the next Committee. The table below shows the number of requests made since the last meeting was held:

Type of Short Notice Procedure	Number of Requests since previous Committee
Requests for Special Urgency	0
Request for General Exception	0

1.9 The table above reflects that there have been no requests for general exception and no requests for special urgency since the last Committee.

## 2 Scrutiny Protocol

2.1 The Government believes local scrutiny in combined authorities is critical for increasing the accountability of decision makers. It should drive understanding, enhance the performance of services and the outcomes for those people affected by those decisions. It is crucial that local Overview and Scrutiny Committees in areas with devolution deals set new standards for holding their institutions to account for delivery as well as playing a critical role in policy and strategy development.

## Overview and Scrutiny Committee

### Scrutiny Protocol

2.2 In recognition of this important role, the Government has worked with stakeholders to develop a protocol for all institutions with devolved functions on the relationship between the directly elected mayor, the combined authority and its overview and scrutiny and audit committees. The Scrutiny Protocol was published on 22 November 2023 and is attached as Appendix 1.

2.3 The Protocol is non-statutory guidance but should be seen as supplementary to statutory guidance and relevant legislation. The Protocol seeks to ensure that authorities have a focus on a sustained culture of scrutiny. Membership on committees should be prized and competed for. Retention of members for several years should be common. Members must be able to devote the time to the role. Committees should have the profile and cachet to ensure that their findings are brought to the attention of the public wherever necessary. Successfully implementing this Scrutiny Protocol will be a key factor when determining eligibility for single funding settlements and deeper (Level 4) devolution deals.

### 2.4 North East Mayoral Combined Authority

As members will be aware, the North of Tyne Combined Authority (NTCA), the North East Combined Authority (NECA) and the seven constituent local authorities have now given their consent to the making of a statutory order to establish the North East Mayoral Combined Authority (NEMCA). It is anticipated that the Secretary of State will lay the Order before Parliament early in 2024 so that NEMCA can come into existence on 7 May 2024. The draft Order provides for the appointment of an Overview and Scrutiny Committee, to comprise of an equal number of members from each constituent council and to be chaired by an “appropriate person”, which means an elected member who is from a different political party to that of the Mayor. The Committee may form sub-committees.

2.5 Over the coming months consideration will need to be given to planning and preparation for the appointment of NEMCA’s Overview and Scrutiny Committee. Members of the NTCA and NECA Overview and Scrutiny Committees are due to meet together on 16 January 2024 to consider the



## Overview and Scrutiny Committee

NEMCA budget proposals. It is proposed that during this meeting time will be devoted to allow members to begin to consider the form and operation of the new Committee. These discussions will have to have regard to the Scrutiny Protocol and will inform the drafting of the new Authority's Constitution.

- 2.6 Members are therefore recommended to consider the guidance set out in the Scrutiny Protocol and reflect on how these principles might be adopted locally by the NEMCA Overview and Scrutiny Committee. The views and comments of the Committee will then be taken into account in formulating the NEMCA Constitution.

### 3 Annual Work Programme

- 3.1 The most recent version of the work programme has been compiled to allow the Overview and Scrutiny Committee the opportunity to consider items that they have requested.

- 3.2 The work programme is also designed to give an overview of all performance, decision-taking and developments within the NECA, as well as being focused and flexible to allow for new issues and recognising the capacity of the scrutiny committee to respond in a timely way to emerging developments throughout the year. The Plan allows the Committee to take a longer-term view than the Forward Plan, adding a longer-term perspective to the Committee's work. Advantages of a longer-term perspective is the opportunity to gain a deeper understanding of matters and to allow for more constructive engagement and scrutiny.

- 3.3 Members are also invited to comment and give consideration to any additional items they would wish to consider on their Work Programme or those decisions where they can add value.

- 3.4 The proposed work programme included in appendix 2. It should be noted that the work programme covers items that will be discussed at the meetings. It does not preclude 'deeper dives' providing more focused scrutiny of particular topics by a sub-group of the committee outside of these meeting dates. These topics can be raised with the Chair and Scrutiny Officer at any time.

### 4. Proposals

- 4.1 Committee Members are invited to review the Forward Plan for the current 28-day period – giving consideration to any items they may wish to examine in more detail – and to suggest any items for addition to the Annual Work Programme for 2023/24.

## Overview and Scrutiny Committee

### 5. Reasons for the Proposals

- 5.1 To provide an opportunity for Committee members to input on any additional items as part of continued planning for the Work Programme for 2023/24

### 6. Alternative Options Available

- 6.1 Option 1 – The Overview and Scrutiny Committee may review Forward Plan and suggest additional items for the Work Programme.

Option 2 – The Overview and Scrutiny Committee may choose not to review the Forward Plan or consider any additional items for the Work Programme.

Option 1 is the recommended option.

### 7. Next Steps and Timetable for Implementation

- 7.1 In considering the Forward Plan, Members are asked to consider those issues where the Scrutiny Committee could make a contribution and add value.

- 7.2 If the Overview and Scrutiny Committee determines to review or scrutinise a decision notified in the Forward Plan, a meeting of the Committee will be arranged to allow scrutiny members to carry out their role in a timely manner.

- 7.3 The work programme will be refreshed and updated at each meeting of the Committee throughout the year.

### 8. Potential Impact on Objectives

- 8.1 Development of a work programme and review and scrutiny of decisions in the Forward Plan will contribute towards the development and implementation of the policy framework of the NECA, the Joint Transport Committee and the North East LEP as well as providing appropriate challenge to decisions making.

### 9. Financial and Other Resources Implications

- 9.1 No financial or other resource implications are identified at this stage.

### 10. Legal Implications

- 10.1 There are no specific legal implications arising from these recommendations.

### 11. Key Risks

## Overview and Scrutiny Committee

11.1 There are no key risks associated with the recommendations made in this report.

### 12. Equality and Diversity

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

### 13. Crime and Disorder

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

### 14. Consultation/Engagement

14.1 On-going consultation takes place with Officers and Scrutiny Members across the NECA in regard to the items for the Annual Work Programme as Appendix 2.

### 15. Other Impact of the Proposals

15.1 The proposals consider the wider impact and take into account the Principles of Decision Making as set out in the NECA Constitution. They allow Members consideration of the items on the Forward Plan and allow them the opportunity to have an overview of all performance, decision making and developments across NECA.

### 16. Appendices

16.1 Appendix 1 – Scrutiny Protocol

Appendix 2 – Annual Work Programme Update

### 17. Background Papers

17.1 None.

### 18. Contact Officers

18.1 Gavin Armstrong, Policy and Scrutiny Officer

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18.2 Nicola Robason, Deputy Monitoring Officer

Email: [nicola.robason@southtyneside.gov.uk](mailto:nicola.robason@southtyneside.gov.uk)

Telephone Number: 0191 424 7186

## Overview and Scrutiny Committee

### 19. Sign off

- 19.1
  - Head of Paid Service: ✓
  - Monitoring Officer: ✓
  - Chief Finance Officer: ✓

### 20. Glossary

- 20.1
  - NECA - North East Combined Authority
  - NEMCA – North East Mayoral Combined Authority
  - North East LEP - North East Local Enterprise Partnership

[Home](#) > [Regional and local government](#) > [Devolution](#)  
> [Scrutiny Protocol for English institutions with devolved powers](#)

[Department for  
Levelling Up,  
Housing &  
Communities](#)

Guidance

# Scrutiny Protocol

Published 22 November 2023

## **Applies to England**

Contents

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[Chapter 2: Key principles for good scrutiny](#)

[Chapter 3: Additional scrutiny – mayor or directly elected leader’s Question Time](#)



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# Chapter 1: Introduction

1.1. The Levelling Up White Paper set out a mission that by 2030, every part of England that wants one will have a devolution deal with powers at or approaching the highest level of devolution and a simplified, long-term funding settlement.

1.2. In providing areas with more powers and funding flexibility, these powers need to be used appropriately to support local and national priorities. This means having local leaders and institutions that are transparent and accountable, seek the best value for taxpayer's money and maintain strong ethical standards.

1.3. Strong and accountable local leaders are a fundamental part of thriving local democracies. The English Devolution Accountability Framework (EDAF) sets out how these institutions with devolved powers are accountable to local people and the UK government, and how their decisions will be scrutinised and made transparent for local politicians, business leaders, and local communities of their area. This Scrutiny Protocol is a key part of making sure that institutions' overview and scrutiny arrangements are of the highest possible standards for holding them to account for delivery as well as for playing a critical role in policy and strategy development. This is particularly important when scrutinising devolved powers.

1.4. Effective scrutiny is critical for ensuring there is appropriate accountability for the decisions made by local decision makers. When done well, local scrutiny should drive understanding, enhance the performance of services and improve the outcomes for those people affected by those decisions.

1.5. This Scrutiny Protocol sets out the relationship between mayors and directly elected leaders, and the combined authority, combined county authority, county council or unitary authority they lead. It also sets out how the overview and scrutiny and audit committees hold these institutions with devolved powers and their mayor or directly elected leader to account.

1.6. In adopting the key principles and provisions of this Scrutiny Protocol, each institution will ensure it has a focus on a sustained culture of scrutiny. Membership on committees should be prized and competed for. Retention of members for several years should be common. Members must be able to devote the time to the role. Committees should have the profile and cachet to ensure that their findings are brought to the attention of the public wherever necessary through strong communications.

1.7. The government considers the Scrutiny Protocol a key factor in implementing Level 4 and single department-style funding settlements. Institutions with devolved powers should utilise the principles of the Scrutiny Protocol and requirements of the EDAF (including Local Assurance

Frameworks) to ensure transparent and accountable decision-making and delivery of value for money on devolved funds.

1.8. In the future, the government will expect areas to adopt MP sessions to further enhance scrutiny, similar to those arrangements being established in Greater Manchester Combined Authority (GMCA) and West Midlands Combined Authority (WMCA) and any lessons learned from the application there. This will be considered when institutions receive single department-style funding settlements.

## **Who the Scrutiny Protocol is for**

1.9. This Scrutiny Protocol (“the Protocol” applies to the arrangements of overview and scrutiny committees in all English institutions with devolved powers, including combined authorities (mayoral and non-mayoral), combined county authorities (mayoral or non-mayoral) and, with regard to their devolved powers, county councils and unitary authorities that have agreed devolution deals.

1.10. The Protocol provides guidance for Chairs and members of Overview and Scrutiny Committees as well as scrutiny officers to help them carry out their roles effectively. The Protocol also provides guidance for those responsible for making appointments to Overview and Scrutiny Committees.

1.11. Overview and scrutiny committees have statutory powers to scrutinise the decisions of the executive, the combined authority or the combined county authority. Members and officers should recognise that recommendations following scrutiny enable improvements to be made to policies and how they are implemented.

1.12. London has different arrangements. The Greater London Authority Act 1999 (as amended) sets out the arrangements for the Greater London Authority and Assembly. Where applicable, the GLA and Assembly should look to implement the guidance identified in this Protocol.

## **How to use this Protocol**

1.13. This Protocol is non-statutory guidance but should be seen as supplementary to statutory guidance and relevant legislation.

1.14. This Protocol primarily refers to “shoulds” – good practice, and key principles and additional scrutiny that government considers a key factor in implementing Level 4 and single department-style funding settlements.



1.15. This Protocol also refers to requirements arising from legislation and statutory guidance that must be adhered to [Footnote 1](#).

## Chapter 2: Key principles for good scrutiny

2.1. Scrutiny is most effective when it is highly focussed and seeks to achieve a clear outcome. There should be a commitment to focussing scrutiny activity through developing a clear, outcome-driven, and member-led work programme which is delivered through a committee structure that can enhance the delivery of that work programme to best effect. This could be a single committee or multi-committee model.

2.2. In combined authorities and combined county authorities, a single committee model should be considered to provide a shared platform from which all committee members can develop a strategic overview across all portfolio areas and an understanding of the interconnection of key policies to effectively scrutinise cross cutting issues. If another model is used it should be clear how this model is able to meet the key principles identified in this Protocol. These are:

- pool of members
- politically balanced membership
- geographically balanced membership
- appointment of chair
- sustained appointments made on interest and skills
- well-resourced training
- inviting technical expertise
- remuneration and status
- holding the mayor or directly elected leader and the institution to account
- participation in pre-policy and pre-decision scrutiny
- provision to call in
- regular performance monitoring including agreed outcomes
- robust work programming
- focused task and finish exercises
- strong relationships with stakeholders
- regular self-evaluation and reflection
- access to data, research, and analysis
- strong relationship with audit committees

**Case study: Greater Manchester Combined Authority (GMCA)**

GMCA have been successful in implementing a single committee model with 20 members and 20 additional members in a substitute pool. This single committee model has been implemented to provide the flexibility and resilience for scrutiny to work effectively whilst being well-attuned to the cross-cutting nature of Combined Authority business.

2.3. County councils and unitary authorities with devolution deals should look to incorporate the scrutiny of any new activity arising from the devolution deal into their existing scrutiny arrangements. As there could be multiple committees looking at specific service areas, members are encouraged to maintain and develop a strategic overview of the service areas within their remit and work collaboratively with other committees where appropriate if issues involve more than one service area. It may also be worthwhile to undertake a review of current scrutiny arrangements as part of implementing their devolution deal to ensure that they will be suitable for the new activity.

## **Key principle 1 – pool of members**

2.4. Enabling the interconnection of policies across a number of portfolio areas requires members to have an advanced level of knowledge across a range of subjects. To achieve this, all committee members whether appointed to a committee or acting as substitutes should be treated as a single body and have access to the same induction and training opportunities as well as regular subject briefings. In doing so, members will feel suitably well-informed to engage effectively at meetings and take part in task and finish exercises (where required).

2.5. Well informed and active substitute members also provide a greater pool of membership to ensure that meetings are quorate and enable wider engagement of members across the authority area.

## **Key principle 2 – politically balanced membership**

2.6. Membership must be politically balanced in line with the proportionality across the institution as far as reasonably possible.

## **Key principle 3 – geographically balanced membership**

2.7. Due to the increased geographical size of a combined authority or combined county authority committee membership should also be geographically balanced as far as possible to ensure that the committee draws on a whole area perspective at meetings. Nonetheless, institutions with devolved powers are strategic organisations delivering across a functional economic geography and as part of their role members should be able to pivot between their local understanding and the need to take a wider strategic/functional view when considering issues applying to the whole institution and the geography it represents. This will aid effective scrutiny of priorities, performance, and delivery.

## **Key principle 4 – appointment of chair**

2.8. In combined authorities and combined county authorities, the chair of the committee must be seen as an independent voice. They must either be an independent person or an appropriate person (as defined by legislation). This ensures a healthy degree of separation to allow a greater level of objectivity in the committee's scrutiny activity. Such practice should be considered for county councils and unitary authorities for the scrutiny of any new activity arising from the devolution deal that is being brought into their existing scrutiny arrangements.

2.9. It is the responsibility of the chair to be 'apolitical' to ensure the committee remains in line with its terms of reference and is the voice of the committee at combined authority, combined county authority or cabinet meetings.

## **Key principle 5 – sustained appointments made on interest and skills**

2.10. Scrutiny requires a certain set of skills and it is therefore imperative that those who are appointed to the committee are done so based on their experience, interests, and skill set while also considering geographical and political balance. When seeking appointments, a clear role description should be used to inform interested parties of the key skills required as well as the demands of the role (an example of a role description is attached at Annex A).

2.11. Where possible members should also be appointed for more than one year to enable them to provide continuity to the work of the committee and ensure that the shared level of knowledge remains high. Working from the foundation of an informed committee allows members to be more confident in their challenge and ultimately more effective in their scrutiny.

## Key principle 6 – well-resourced training

2.12. All institutions should provide and adequately fund training for all members including knowledge briefings, peer to peer groups, and training on key functions including finance, commercial and data interrogation. This training should include an induction for the chair and members on the institution, its powers, roles, and responsibilities should be required at the beginning of every municipal year.

2.13. All members should be offered additional knowledge briefings outside of the formal meeting structure and ahead of reports being presented, where they can have access to further information to assist them in their scrutiny activity. These briefings should be informal and provide a safe space where members feel able to ask those questions that they may not feel able to in a committee meeting. Further briefings should also be organised at members request on any other subject matter that they feel will strengthen their knowledge base and offered to all members and substitutes.

## Key principle 7 – inviting technical expertise

2.14. Committees should invite technical expertise to meetings to enhance scrutiny of decisions. Technical experts can provide a different perspective on the issues being discussed at meetings and help members with their line of questioning leading to enhanced scrutiny.

2.15. Technical expertise should also be commissioned to provide training and briefings to the chair and members of the committee to support them in their roles and ensure they have access to technical and independent knowledge and information to enhance their scrutiny of the institutions' priorities, performance, and delivery.

### **Case study: West Yorkshire Combined Authority (WYCA)**

WYCA's scrutiny has invited external experts to scrutiny committee meetings (and working groups) and made good use of the professional expertise of existing scrutiny members. A local academic who had independently tested the accuracy of the Real Time Bus Information system managed by WYCA was invited to answer technical questions alongside officers, which resulted in the committee recommending that officers partner with the academic and the university to iron out the technical issues.

Councillors with an expertise and background in psychology have also led presentations and discussions, based on their own research and experience, on the topic of how behaviour change techniques and principles could be employed to encourage people to change how they travel to support decarbonisation goals.

## **Key principle 8 – remuneration and status**

2.16. Combined authorities and combined county authorities should remunerate committee members directly, reflecting the responsibility and status of the role. This must be done transparently through the use of an Independent Remuneration Panel (IRP) who recommend an allowance level for approval by the combined authority or combined county authority (to be provided for in forthcoming secondary legislation, subject to the will of Parliament). Combined authorities and combined county authorities should pay the maximum recommended by the IRP to ensure that members commit the time required to the role. Substitute members should also be remunerated, but their payment should also reflect the number of meetings that they have attended. The chair should receive an additional level of remuneration in recognition of their specific role.

2.17. County councils and unitary authorities can make provision for the payment of special responsibility allowances for those councillors who have either assumed significant responsibilities following agreement of their devolution deal or want to reconsider other policies in light of it.

2.18. Scrutiny should be seen as central to the good governance of the authority. Committees and chairs should receive some dedicated resource with support provided across a range of areas such as research, policy, and administration. Clear processes should be in place for their recommendations to be received and responded to as appropriate and they should have the visible support of senior officers and members of the institution. Committees and chairs should have access to information including matters of commercial sensitivity, matters awaiting government approval and other confidential matters (in line with Access to Information Procedure Rules).

## **Key principle 9 – holding the mayor or directly elected leader and the institution to account**

2.19. One of the key roles of the committee is to hold the mayor or directly elected leader (and where necessary other members and officers of the institution and its partners) to account for their performance.

2.20. The mayor or directly elected leader and institution should commit to engage regularly with the committee both informally and formally and must attend the committee when requested.

2.21. Members who are portfolio-leads (or equivalent) should also commit to engaging regularly with the committee and attend when requested. Even if members of the institution have assigned or delegated areas of responsibility to

others, it should be standard practice for them to attend to present any reports within their portfolio alongside the appropriate officers.

2.22. There should be a standing invitation for the chairs of the committees to attend the combined authority, combined county authority or relevant cabinet meetings to create an opportunity for the committee's comments on particular proposed decisions or issues to be shared directly.

## **Key principle 10 – participation in pre-policy and pre-decision scrutiny**

2.23. The practice of bringing decisions for scrutiny shortly before they are taken should be avoided (whilst recognising the need for urgent exceptions). Instead, members should be engaged early in the development stage of a policy so that they can help shape its design and add real value.

2.24. A Forward Plan of key decisions is essential. Having regular opportunities to consider this also enables the committee to have a breadth of sight across all the work of the institution and determine those areas for further scrutiny. Moreover, institutions should ensure that there is a culture of the Forward Plan being used appropriately with decisions being placed on the plan well in advance of them being taken.

2.25. The committee should also contribute to all policy and strategy development in respect of high-profile complex issues affecting the whole geographical area. As a result, when a report is taken for a decision, the committee's comments and amendments can be highlighted. This may include matters of commercial sensitivity, matters awaiting government approval and other confidential matters (in line with Access to Information Procedure Rules), that need careful handling and might involve the exclusion of the public.

### **Case study: West Midlands Combined Authority (WMCA)**

Ahead of the WMCA submitting its deeper devolution deal offer to DLUHC, its overview and scrutiny committee held a series of workshops that undertook a deep dive into each of the offer's key proposals, testing the scope and ambition of each 'ask', and challenging whether the ambition of these proposals were sufficient to address the region's needs. This work resulted in the strengthening of the deal document ahead of its formal adoption by the Combined Authority and its constituent authorities.

2.26. To inform their scrutiny of policies and decisions, and using all available evidence or assessments, members should consider the viability of funding sources, financial propriety, and the extent to which the policy or decision being scrutinised is likely to provide value for money.

## **Key principle 11 – provision to call in**

2.27. The committee should use their power to ‘call in’ decisions to ensure that any decisions receive further scrutiny where the committee thinks it is necessary. However, good scrutiny should focus on uncovering potential issues with decisions before they need to be called in.

## **Key principle 12 – regular performance monitoring**

2.28. An initial focus on the institutions’ key strategies will enable the committee to understand its priorities, and begin to monitor performance against delivery and ultimately recommend where action is needed, including improvement activity more quickly. This should be supported by regular reports highlighting the evidential challenges and where further scrutiny could support delivery against a target, including any outcomes that may have been agreed as part of devolution deals.

2.29. However, it is important that performance monitoring does not monopolise the work programme of the committee, but that it is used as a tool to highlight those areas where further scrutiny would be most effective.

## **Key principle 13 – robust work planning**

2.30. Areas highlighted through the performance monitoring of the institutions’ key strategies should formulate the skeleton of the committee’s work programme, from which members can then select other areas of interest through a formal report or task and finish exercise where they feel scrutiny could add further value.

2.31. It is important that the work programme remains robust and flexible enough to cope with a dynamic devolution environment where the priorities of the institution change so that scrutiny can be undertaken on policy development as it evolves. A combination of long term pre policy scrutiny interspersed with more immediate performance scrutiny will ensure the work programme remains appropriate and can dovetail with the work of the institution.

2.32. Committees should have a clear process by which it develops its work programme, who it will engage as part of its work programme and prioritises what it should undertake further inquiry on. It is expected that committees will take in a wide range of views from the institution itself (officers, the executive or the combined authority or combined county authority), constituent members, partner organisations and residents.

## **Key principle 14 – focused task and finish exercises**

2.33. The chair and members should consider when it is relevant to focus on an area of the work programme through task and finish activities which can provide the opportunity for the ‘deep dive’ scrutiny that a committee meeting setting often does not allow. This approach is often most valuable when it brings together stakeholders to discuss and debate complex topics but should be member-led and have tangible outcomes that will benefit the work of the institution.

2.34. Determining the scope of the task and finish exercise, alongside an agreed timeframe, is imperative as the realm of the topics can often be immense, but the decision process to influence is fast paced.

2.35. The number of task and finish reviews should be determined by the strategic priorities highlighted by members and the capacity of the scrutiny function. Task and finish review meetings can be held virtually but their work should be transparent and their final reports and recommendations (at least) must be made publicly available.

2.36. The institution should formally receive task and finish reports following endorsement from the committee and must respond to their clear set of recommendations within two months. The committee should be responsible for monitoring the progress against these recommendations at agreed periods.

## **Key principle 15 – strong relationships with stakeholders**

2.37. Committees should use their power to invite stakeholders to meetings. These could include members and officers of constituent local authorities, and, in county council areas, their district councils and other local stakeholders should be invited to the committee meeting where the organisation delivering services and utilities is being scrutinised.

2.38. To allow scrutiny to be effective it is crucial that the public can easily understand the work and performance of committees. With this in mind, local journalism plays an invaluable role in the fabric of our society, in supporting communities and in ensuring the provision of reliable, high-quality information. Local news publishers remain uniquely placed to undertake the investigative journalism and scrutiny of public institutions are a local level that is vital to helping ensure a healthy local democracy. Local press and media must therefore continue to be able to play a key role in facilitating public accountability, with opportunities created for them to engage with the committees, its members, and their work, and findings.



2.39. As well as building relationships with local press and media, institutions should consider how they use their communications function to publicise the committee, and its members, work, and findings while remaining mindful of the recommended code of practice for local authority publicity.

2.40. For combined authorities and combined county authorities, the work of their committees should complement that of the constituent local authority scrutiny committees rather than create duplication. It is likely that one set of scrutiny activities will raise points that equally apply or are relevant to the other. Strong relationships, including with other key local stakeholders, should therefore be formed to enable work programmes to be shared and reports presented to the most appropriate committee. There is also a role for members of the committee in ensuring effective links with constituent local authority scrutiny committees through appropriate information sharing and ensuring the interconnection of work programmes.

## **Key principle 16 – regular self-evaluation and reflection**

2.41. Members should come together regularly to reflect and direct their own work programme. This could take place in public during a meeting or informally following a meeting, however space should be created for members to be open and honest about the direction of the work of the committee and provide an opportunity for regular self-evaluation.

2.42. Reflecting on the work of the committee and the resulting outcomes of scrutiny activity should also be undertaken through other methods, including regular round-up bulletins, annual reports, or other publications.

2.43. An annual report should be published to broadcast the work of the committee demonstrating how the committee's work influences and benefits the outcomes of the institution and its strategic goals and priorities. For combined authorities and combined county authorities, this should be formally considered by its constituent members. For county councils or unitary authorities, this should be considered at cabinet and full council.

2.44. The institution should welcome the continual self-evaluation of the committee but also commit to undertaking its own evaluation exercises, as often as required, to ensure the function remains effective, including seeking feedback from key partners.

## **Key principle 17 – access to data, research and analysis**

2.45. Committees should use data to improve their knowledge and understanding of their institution's performance, as well as how other institutions are performing to learn lessons and share best practice.

2.46. The Office for Local Government (Oflog) will support the improvement of local government performance by fostering accountability through increased transparency. It will provide authoritative and accessible data and analysis about the performance of local government and will publish key data for institutions with devolved powers. This should be considered as part of committee business.

## **Key principle 18 – strong relationship with audit committees**

2.47. Combined authorities and combined county authorities must have an audit committee. Local authorities with a devolution deal should have an audit committee to ensure they maintain robust financial management and controls for accountability to local stakeholders.

2.48. Overview and scrutiny committees should work in tandem with the Audit Committee and should be agreeing how to manage shared areas of interest and responsibility. The Audit Committee having responsibility to support and monitor governance, risk management, external and internal audit, financial reporting, control and assurance arrangements. The overview and scrutiny committee having responsibility for scrutinising decisions the executive, the combined authority or the combined county authority is planning and how they will be implemented.

2.49. Although the focus of the overview and scrutiny committee, is different from the audit committee, there are opportunities for the committees to work collaboratively. Work programmes of each committee should be informed by each other's work and recommendations shared where appropriate. Regular meetings should be organised between the chair of Audit and the chair of Scrutiny to support a better understanding of the committees' outputs, helping to avoid duplication and ensure important areas are not missed.

2.50. Audit committees should receive dedicated resource and there should be clear processes in place for their recommendations to be received and responded to as appropriate.

2.51. Audit committees should also publish an annual report to broadcast the work of the committee and how its work influences and benefits the outcomes of the institution and its strategic goals and priorities. For combined authorities and combined county authorities, this should be formally considered by its

constituent members. For county councils or unitary authorities, this should be considered at cabinet and full council.

2.52. The institution should welcome the continual self-evaluation of the Audit Committee but also commit to undertaking its own evaluation exercises, as often as required, to ensure the function remains effective.

## **Chapter 3: Additional scrutiny – mayor or directly elected leader’s Question Time**

3.1. Mayors and directly elected leaders provide greater democratic accountability by having a single visible leader directly accountable to the public at the ballot box for their performance and the decisions they make.

3.2. Mayor’s or directly elected leaders’ question time should also be organised where the Mayor or directly elected leader takes questions from the public, chaired by an independent person – a local journalist or businessperson for example. These should be held at least every 3 months.

### **Footnote 1**

- Schedule 5A to the Local Democracy, Economic Development and Construction Act 2009
- The Combined Authorities (Overview and Scrutiny Committees, Access to Information and Audit Committees) Order 2017
- Schedule 1 to the The Levelling Up and Regeneration Act 2023 (the 2023 Act) and regulations made under the 2023 Act.
- The Overview and Scrutiny: statutory guidance for councils and combined authorities (which will be updated to include CCAs once the necessary secondary legislation is made, subject to the will of Parliament).
- Sections 9F-9FI of the Local Government Act 2000.
- Combined Authorities must also have regard to any such provision in its statutory constitutional provisions.

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### Overview and Scrutiny Committee

#### Overview and Scrutiny Work Programme 2023/24

##### Standing Items for each Committee Meeting:

- Declaration of Interest
- Minutes of Previous Meeting
- NECA Forward Plan and Work Programme Report

##### Source of work programme and items of importance:

The Overview and Scrutiny Committee obtains work programme items from the following sources:

- a) Items submitted by Members of the Committee (and including items referred by other members of the Combined Authority);
- b) Suggestions from NECA Chief Officers; Patrick Melia – Head of Paid Service, Nicola Robason – Deputy Monitoring Officer and Paul Darby – Chief Finance Officer
- c) The Budget and Policy Framework; Transport Plan and Strategic Economic Plan
- d) The Forward Plan;
- e) The Thematic Leads;
- f) Evidence for any policy review work of relevance to NECA

##### Items for future consideration (2023-2024)

Meeting Date	Subject
March 2023	<ul style="list-style-type: none"><li>• Report back from Working Group</li></ul>

It should be noted that the work programme above covers items that will be discussed at the meetings. It does not preclude 'deeper dives' providing more focused scrutiny of particular topics by a sub-group of the committee outside of these meeting dates.