

Leadership Board

Tuesday, 19th January 2016 at 2.00 pm

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

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AGENDA

	Page No
1. Apologies for Absence	
2. Declarations of Interest	
Please remember to declare any personal interest where appropriate both verbally and by recording it on the relevant form (to be handed to the Democratic Services Officer). Please also remember to leave the meeting where any personal interest requires this.	
3. Minutes of the Previous Meeting	1 - 8
4. Updates from Thematic Leads	
(a) Economic Development and Regeneration	9 - 16
(b) Employability and Inclusion	17 - 24
(c) Transport	25 - 38
5. 2016/17 Revenue Budget and Transport Levies	39 - 90
6. Capital Programme 2016/17 and Treasury Management Policy and Strategy 2016/17	91 - 124

7. **Project Approvals**

Members are requested to note the intention to circulate the above report on a supplemental agenda in accordance with the provisions of the Local Government (Access to Information) Act 1985

8. **Devolution Update**

Members are requested to note the intention to circulate the above report on a supplemental agenda in accordance with the provisions of the Local Government (Access to Information) Act 1985

9. **North East Rail Management Unit and Rail North Members Agreement** 125 - 142

10. **Date and Time of Next Meeting**

Tuesday, 19 April 2016 at 2pm at Sunderland Civic Centre.

Contact Officer: Tel: 0191 211 5118 E-mail: victoria.miller@northeastca.gov.uk

To All Members

North East Combined Authority

Leadership Board

17 November 2015

(2.00 - 3.30 pm)

Meeting held Gateshead Civic Centre, Regent Road, Gateshead, NE8 1HH

Present:

Councillor S Henig (Chair)
Councillors G Davey, N Forbes, M Henry, I Malcolm and P Watson and Mayor N Redfearn

24 APOLOGIES FOR ABSENCE

An apology for absence was received from Mr P Woolston.

25 DECLARATIONS OF INTEREST

Councillor N Forbes declared an interest in agenda item 10 (Project Approvals) in relation to the River Tyne Economic Development Project but explained that although he could not vote on the item, he had been granted dispensation by the Governance Committee for this interest and could remain at the meeting for the duration of the consideration of this item.

Elected Mayor N Redfearn declared an interest in agenda item 10 (Project Approvals) in relation to the Weetslade Roundabout and Corridor Improvements and indicated that she had been granted dispensation by the Governance Committee for this interest.

26 MINUTES OF THE PREVIOUS MEETING

The minutes of the previous meeting held on 15 September 2015 were approved as a correct record and signed by the Chair.

27 UPDATES FROM THEMATIC LEADS

(a) Economic Development and Regeneration

Submitted: An update report of the Thematic Lead for Economic Development and Regeneration (previously circulated and copy attached to Official Minutes).

Members considered the report which provided an update on the key developments within the Economic Development and Regeneration thematic area. The report was introduced by the Thematic Lead who drew Members' attention to the key achievements.

RESOLVED – That the report be noted.

(b) Employability and Inclusion

Submitted: An update report of the Thematic Lead for Employability and Inclusion (previously circulated and copy attached to Official Minutes).

Members considered the report which provided an update on the key developments within the Employability and Inclusion thematic area. The report was introduced by the Thematic Lead who drew Members' attention to the key achievements and issues.

During the ensuing discussion, it was noted that further discussions would be required with the North East Local Enterprise Partnership on the Enterprise Advisor Programme.

Also, a request was made that South Tyneside Council and Sunderland City Council should be included in the Generation North East programme.

RESOLVED – That the report be noted.

(c) Transport

Submitted: An update report of the Thematic Lead for Transport (previously circulated and copy attached to Official Minutes).

Members considered the report which provided an update on the key developments within the Transport thematic area. The report was introduced by the Thematic Lead for who highlighted the main areas of work.

During the ensuing discussion a comment was made about the difficult position with regard to future arrangements for the Metro concession in the light of the performance of Metro. A comment was also made about the need for a briefing session on the transport vision for the North East.

RESOLVED – That:

- i. the report be noted; and
- ii. a briefing session be organised for Members on the transport vision for the North East.

28 DEVOLUTION UPDATE

Submitted: An update report of the Head of Paid Service (previously circulated and copy attached to Official Minutes).

Members considered the report which provided an update on the progress to date in relation to the work on the devolution deal for the region.

The report was introduced by the Chair who commended the amount of work undertaken to date, the consultation events that had been hosted by the constituent local authorities and the levels of engagement in the consultation events and their positive outcomes. The Chair thanked officers and members in the constituent local authorities for their contribution.

Members also received an update from the Head of Paid Service who highlighted the key matters arising, including in relation to the timescales, capacity and resources and the significant amount of work that was still required.

The ensuing discussion focused on the following matters:

- the importance of continuing to follow correct processes;
- the significance of open, public discussions;
- the importance of consultation, including further consultation, and the importance of feedback;
- the importance of timely and comprehensive information sharing with the Leaders in relation to the outcomes of consultations and any related developments;
- the complex position in relation to the budget setting processes and timetables for the next financial year within the context of the alignment of timescales of consultations on individual budgets of the constituent local authorities and the emerging budgetary requirements in relation to devolution;
- the likelihood that additional meetings of the Leadership Board would be required;
- the importance of fiscal devolution which was included in the asks that the region had presented to the government;
- the importance of understanding the individual budgets of the constituent local authorities; and
- the significance of the detail within the forthcoming Spending Review;

RESOLVED – That the report be noted.

29 **QUALITY CONTRACTS SCHEME UPDATE**

Submitted: A joint report of the Chief Executive Officer for Transport and Managing Director (Transport Operations) (previously circulated and copy attached to Official Minutes).

Members considered the report which provided an overview of the opinion of the Quality Contract Scheme Board (QCS Board). Members expressed their disappointment with the opinion of the QCS Board and commented on the importance of communicating Members' concerns to the government.

RESOLVED – That:

- i. The opinion of the Quality Contract Scheme Board be received;
- ii. Nexus' initial response to the Quality Contract Scheme Board's opinion be noted;
- iii. The options for next steps be developed further; and

- iv. A further report be received once more detailed analysis of the Quality Contract Scheme Board's opinion had been completed.

30 **TREASURY MANAGEMENT MID-YEAR UPDATE**

Submitted: A report of the Chief Finance Officer (previously circulated and copy attached to Official Minutes).

Members considered the report which provided a summary of the treasury management activity in the first six months of 2015/16. The report also sought Members' agreement to the revised investment criteria and limits and proposed updates to the prudential indicators.

During the ensuing discussion Members received advice from the Chief Finance Officer on the Authority's position with regard to potential options for investment into foreign banks. It was noted that the Authority took a cautious approach and currently did not invest into foreign banks. Clarification was also provided on the current position in relation to investment in companies controlled by the local authorities.

RESOLVED – That:

- i. The revised investment criteria and limits set out in section 2.9 be agreed; and
- ii. The updated 2015/16 prudential indicators set out in section 2.10 be agreed.

31 **DRAFT BUDGET 2016/17 AND TRANSPORT LEVIES**

Submitted: A report of the Chief Finance Officer (previously circulated and copy attached to Official Minutes).

Members considered the report which set out the key budget issues, principles and proposals that were likely to be included in the 2016/17 Budget Report that was scheduled for consideration in January 2016.

This is a summary of the points noted during the ensuing discussion:

- A Member commented on the importance of training for Members on financial matters that affected the Authority. A Member also asked that information for Members should include sufficient detail to ensure a thorough understanding of the figures, including in relation to property, and also the financial methods applied throughout the financial year.
- A comment was made on the important role of the strategic review of the funding for transport in assisting the development of the Transport Manifesto.
- Clarification was offered on the LEP's funding position. It was noted that the LEP's budget would form a part of the NECA budget. Clarification would be provided in due course on the LEP capacity to work jointly with local authorities on schemes and projects.

- A Member suggested that funding arrangements currently in place in relation to the constituent local authorities and LEP should be reviewed.

RESOLVED – That:

- a) the report and comments made be noted;
- b) the budget approach of setting out a detailed budget for 2016/17 as another transitional year, while seeking to develop a medium term financial plan during 2016, which would take into account the outcome of the additional funding secured through the devolution agreement as well as any austerity savings required to be made be agreed;
- c) the following points and proposals would form the basis of consultation about the NECA 2016/17 Budget: -
 1. The Revenue Budget and Capital Investment Programme of the NECA and NELEP would be developed to deliver the Strategic Objectives of NECA and the Objectives set out in the Strategic Economic Plan, as highlighted in Section 3 of the report;
 2. Resources would be identified and secured to support the capacity of the NECA and NELEP to secure the resources and deliver the actions needed to deliver the SEP strategic objectives. Councils' current funding contributions would be maintained at least at their current level, and the intention was that additional capacity that was required both in 2015/16 and future years, would be funded from additional external funding, including additional devolution funding; interest on cash balances; savings on existing budgets; and reserves, where this was possible;
 3. The Transport Budget and Levy for Tyne and Wear was indicatively proposed to be set at £65.12m, which was a reduction of £2.08m (-3.1%) from the 2015/16 levy, achieved by efficiency and other cost savings and use of reserves in 2016/17 and reductions in discretionary transport budgets and services from 2017. This reduction was subject to there being no significant cuts to the Revenue grants received by Nexus from DfT. If the Metro Rail Grant was subject to a reduction in the spending review, the impact of this and any alternative savings options would need to be considered in setting the Budget and Levy in January;
 4. If the Tyne and Wear Levy was reduced by £2.08m, the grant to Nexus funded by the levy was proposed to be £62.5m, a saving of £2.0m (-3.1%) achieved from efficiency savings and use of reserves next year and potentially by cuts in discretionary transport services from 2017, with a saving of £0.080m in the NECA Tyne and Wear transport budget;
 5. The impact of the cuts in Government Funding to Nexus and constituent councils; as well as options for delivering the Bus Strategy would be taken into account in a Strategic Review of all discretionary expenditure during the first half of 2016 to form the basis of a consultation on any proposals for services needed from 2017/18 onwards. This would have regard to the

relative strategic priority of transport services and other services provided by councils;

6. The indicative Transport Budget and Levy for Durham County area was £15.342m, which was a reduction of £0.735m (-4.6%) on the original budget for 2015/16. This reduction was due to anticipated reduced payments to bus companies for Concessionary Fares (£0.166m), planned cost savings primarily on subsidised bus services (£0.441m) and general budget realignment (£0.128m);
7. The indicative Transport Budget and Levy for Northumberland County area was likely to be around £6.159m, which was an increase of £0.258m (4.3%) on the original budget for 2015/16. This was due mainly to increased costs of concessionary travel and the reinstatement of a proposed saving to the Scheme following an audit of the use of disabled passes;
8. Proposals for the uplift in Metro fares to cover inflation cost pressures had been developed to constrain the average increase that does not exceed the July 2015 RPI inflation index. Proposals were being considered by the Tyne and Wear Sub-committee at its November meeting in relation to the price of the Gold Card and children fares. An increase in the Tyne Tunnel Tolls to maintain the level of the tolls in real terms and minimise the annual deficit on the Tunnels account, would be delayed from 1 January to April or June 2016;
9. The detailed budget report in January would include the outcome of consideration of the level of resources needed to provide capacity to deliver the objectives of NECA. At this stage it was envisaged that current contributions from constituent councils (Corporate costs (£300,000), Inward Investment (£140,000) and LEP Match funding (£250,000)) would be maintained at this level; with any additional expenditure in these areas funded by increases in other funding, budget savings and additional interest on revenue balances/cash flow. This additional funding, including the additional funding for Inward Investment Activities would be the subject of the Budget report in March 2016; and
10. NECA would need to set out a balanced budget for 2016/17, maintaining a sufficient but minimal level of reserves to manage risk and would set out a treasury management strategy for borrowing and lending which would comply with the Prudential Code;
 - d) A narrative document be prepared from the content of this report and the comments and decisions of the Leadership Board, which would set out the budget proposals in an appropriate format for consultation; and
 - e) A budget provision of up to £0.5m be established to be available in the current year in order to progress urgent activity related to the Devolution agreement work streams. The funding to be found from temporary use of reserves, interest on cash balances and any savings on budgets in the current year.

32 **NORTH EAST RAIL MANAGEMENT UNIT AND RAIL NORTH MEMBERS AGREEMENT**

Submitted: A report of the Chief Executive Officer for Transport (previously circulated and copy attached to Official Minutes).

Members considered the report which provided an update on the work of Rail North and associated developments and recommended that the Combined Authority should enter into the Rail North Members Agreement for the North East Rail Management Unit (NERMU).

The ensuing discussion included matters such as risks, the structure of and funding for the NERMU, the need for a better understanding of the impacts of the proposals and the need for further discussions.

Following a proposal for an alternative recommendation, which was duly moved and seconded, it was:

RESOLVED – That the report be deferred pending further discussions on the proposals.

33 **PROJECT APPROVALS (AND PROJECT APPROVALS - SUPPLEMENTARY INFORMATION)**

Submitted: A report of the Chief Executive Officer for Transport (previously circulated and copy attached to Official Minutes).

Members considered the report and also the supplemental report (Project Approvals – Supplementary Information) which provided an update on the Local Growth Funding (LGF) programme, provided details on three specific projects namely Weetslade Roundabout and Corridor Improvements, River Tyne Economic Development Project and Lindisfarne Roundabout and sought approval for the release of funding for these projects. The report also sought a general approval for bringing forward spending on the approved projects from 2016/17 into 2015/16 where this was necessary.

As an update, it was noted that concerns in relation to the State Aid had been resolved.

RESOLVED – That:

- I. the main report and the supplemental report be noted;
- II. the latest profile of spending for the Local Growth Fund programme, as set out in section 2 and Appendix A of the main report, be approved;
 - (a) the release of Local Growth Fund grant for the Weetslade and River Tyne projects be agreed subject to the conditions set out in sections 3 and 4 of the main report;

(b) delegate authority be given to the Head of Paid Service in consultation with the Thematic Lead for Transport, Chief Finance Officer and Monitoring Officer to agree the release of the Local Growth Fund grant for the Lindisfarne roundabout project, subject to the conditions set out in section 5 of the main report and receipt of the satisfactory final business case for the project; and

III. The Monitoring Officer of NECA be authorised to enter into relevant Funding Agreements for the Local Growth Fund allocations for the three projects as set out in the supplemental report.

34 **DATE AND TIME OF NEXT MEETING**

Tuesday, 19 January 2016 at 2pm at North Tyneside Council.

35 **EXCLUSION OF PRESS AND PUBLIC**

RESOLVED – That by virtue of Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972 press and public be excluded from the remainder of the meeting for the duration of the consideration of agenda item 13 – Confidential Minutes of the Previous Meeting - because exempt information was likely to be disclosed and the public interest test against the disclosure was satisfied.

36 **CONFIDENTIAL MINUTES OF THE PREVIOUS MEETING**

The confidential minutes of the previous meeting held on 15 September 2015 were approved as a correct record and signed by the Chair.

North East Combined Authority

Leadership Board

DATE: 19 January 2016

SUBJECT: Economic Development and Regeneration Theme Update

REPORT OF: Economic Development and Regeneration Thematic Lead

EXECUTIVE SUMMARY

This report provides an update on activity and progress under the Economic Development and Regeneration theme of the Combined Authority.

RECOMMENDATIONS

The Leadership Board is recommended to receive this report for information.

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1.0 Executive Summary

1.1 This report provides an update on activity and progress under the Economic Development and Regeneration theme of the Combined Authority.

The Leadership Board is recommended to receive the update for information.

2.0 Economic Development and Regeneration Advisory Board (EDRAB)

2.1 The most recent meeting of the EDRAB was held on 18 December 2015 where the Advisory Board considered items on the regional Inward Investment function and activity, and the development of a regional investment plan/project pipeline for the NECA area. Updates on both and the views of EDRAB are provided below. The Advisory Board also received an update on the NECA's Devolution Agreement.

3.0 NECA Inward Investment Function

3.1 Investment Projects

3.2 At the previous meeting of the Leadership Board in November, an initial summary of foreign direct investment and UK owned investment (from outside the region) was provided, for the first two quarters of 2015/16.

3.3 Validated figures and further analysis of the sectors represented as well as types of companies investing, which the EDRAB was keen to understand, are provided below.

3.4 Foreign Investment

The 34 foreign investments reported over the period were from the following broad sectors:

- Digital – 9
- Automotive – 5
- Other High Value Manufacturing – 5
- Life sciences (including pharma) – 6
- Energy – 3
- Other - 6

Companies announcing significant investments included:

- TRW (automotive)
- Thorn (lighting)
- Akzo Nobel (chemicals/paint)
- Logicnow (software)

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- Accenture (ICT)
- HP (ICT)
- Piramal (Life Sciences)
- Nissan (Automotive)
- Amazon (delivery centre)

3.5 UK Owned Investments

In addition to the FDI successes, there were 8 new investments from UK-owned businesses moving into the area, from the following sectors:

- Digital – 1
- Automotive – 1
- Other High Value Manufacturing – 1
- Business, Financial and Professional Services – 3
- Life sciences (including pharma) – 1
- Other – 1

Companies announcing significant investments included:

- Euro Car Parts (car parts distribution)
- Ambassador Theatre group (Ticketing)
- Home Logic (Customer support centre)
- Itison (digital)
- Icarus (Steel Fabrication)
- Urosens (medical testing)

3.6 Economic Development and Regeneration Advisory Board Views

3.7 The Board welcomed the additional detail of the investment success in the NECA area but sought further information on the investment decision process, particularly the factors that lead to businesses deciding not to invest. Such information would allow the NECA and other agencies to address issues which may help increase the level of investment into the area.

3.8 Further work was recognised as a necessity on the development of strong partnerships with business leaders and companies to enable them to undertake an ambassadorial role for the region, to investors and to those involved in encouraging investment in the UK, including UKTI and in terms of the development of the Northern Powerhouse.

3.9 Invest North East England Team

3.10 When the Leadership board last met in November, a recruitment process was underway for two newly established posts to work alongside the Invest NE England Director (Guy Currey). Appointments for both were made, with the Business Support Executive taking up the role on 4 January 2016 and the Inward Investment Project Executive due to start on 1 February.

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4.0 Development of Sector-Based Propositions

4.1 The Leadership Board has previously received updates on the development of sector propositions for the following sectors, where it is perceived the North East has particular strengths:

- Software/IT
- Creative (Gaming and Virtual Reality)
- Space and Satellite Applications
- Financial, Professional and Business Services (specific elements of this broad sector)
- High Value Engineering with specific niches in:
 - Automotive
 - Rail
- Life Sciences
- Oil and Gas
- Offshore Wind

4.2 A consortium made up of two consultancies - fDi Intelligence, Financial Times Ltd, and WAVTEQ was appointed in September 2015 to develop the propositions. As previously described, these will be able to be used both reactively and proactively to promote the North East to investors and to increase the amount of inward investment flowing into the area. They will enable the Investment Team to respond to enquiries and to work proactively, developing client specific, value propositions. The final propositions are due to be received by the end of January 2016.

4.3 Each sector proposition is in the form of a 'toolkit' (a report plus data sets and case studies) with an executive summary drawing attention to key selling messages.

4.4 The toolkits will provide the comprehensive material that will be converted into web content and marketing collateral as part of a communications framework, to market the sectors on both a reactive and proactive basis. An agency was appointed in December to develop the following:

- Branding, design and production
- PR and social media activity
- Website review
- Digital content
- Search engine optimisation.

4.5 Next steps will include the development of a strategy to take the priority sectors to market, including proactive lead generation.

4.6 As previously agreed, the executive summaries of each proposition will be circulated to leaders and officers when received and access to the full propositions will be arranged for the seven local authorities.

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4.7 Economic Development and Regeneration Advisory Board Views

4.8 The Board recognised that securing sector proposition material and insight, together with an agreed marketing strategy would be of great benefit to the NECA in working to deliver the Strategic Economic Plan and devolution plans.

5.0 Development of a Regional Investment Plan

5.1 The Leadership Board has previously agreed the need to develop a pipeline of projects as part of a regional investment plan. This is required to ensure that the NECA is prepared for any future Government funding rounds, and to ensure the effective, strategic allocation of relevant funds devolved to the NECA from central Government.

5.2 A pipeline of both employment sites and housing sites has therefore been developed. Investment in these sites would build upon and strengthen the area's integrated employment locations, recognise the diverse nature of the regional economy and enhance connectivity of 'places'. Both draft schedules have been compiled by the seven local authorities. The sites identified illustrate a brief overview, type of investment, planned output/outcomes, whether or not public investment is required, delivery timescales, planning status and barriers to development.

5.3 It has taken some time to compile these lists and because they include sites in private ownership, they are currently being examined in order to exclude information that may be commercially confidential. The housing sites have been reviewed by the HCA to assess deliverability and funding options. Further work is now planned to undertake a deliverability assessment of the employment sites.

5.4 A draft spatial narrative has also been produced that links employment growth to housing development in a coherent way and one that will help inform future transport developments and strengthen the region's case for coordinated and devolved investment. It sets out the spatial approach to delivering more and better jobs and more and better homes across the NECA area. A strong housing, employment and urban core offer is critical to securing the North East's sustained economic growth and achieving the ambitions as set out within the Strategic Economic Plan.

5.5 In terms of next steps, the lists of sites and accompanying spatial narrative will be circulated to the Leadership Board as soon as the outstanding work is completed. It is intended that they then form a project database which will be kept 'live' and that both it and the spatial narrative will inform the prioritisation of projects, either for future funding calls or the allocation of funds from devolved budgets.

5.6 Economic Development and Regeneration Advisory Board Views

5.7 The Board considered that in addition to establishing a strong urban core, the development of smaller businesses and economies in more rural locations

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also had a key role to play. It was recognised as important to develop a holistic picture of an effectively functioning NECA area with skills development, transport links, housing provision, digital connectivity and all relevant elements taken into account in the development of employment sites and job provision / creation.

6.0 Potential Impact on Objectives

6.1 The report sets out issues that will support the Authority in meeting its objectives.

7.0 Finance and Other Resources

7.1 There are no additional financial implications arising directly from this report.

8.0 Legal

8.1 There are no specific legal implications arising from this report.

9.0 Other Considerations

9.1 Consultation/Community Engagement

There are no issues arising from this report for consultation.

9.2 Human Rights

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

9.3 Equalities and Diversity

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

9.4 Risk Management

It will be important to ensure that the project lists and spatial narrative discussed in section 5 of the report are completed and agreed in the near future, to underpin and inform the development of arrangements for devolved funds to the NECA.

9.5 Crime and Disorder

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

9.6 Environment and Sustainability

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

10 Background Documents

10.1 North East Strategic Economic Plan – More and Better Jobs

11 Links to Plans in the Policy Framework

11.1 This report links to the Strategic Economic Plan and other plans in the Policy Framework.

12 Appendices

12.1 None.

13 Contact Officers

13.1 Beverley Poulter, beverley.poulter@sunderland.gov.uk, 0191 561 1150

14 Sign off

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

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North East Combined Authority

Leadership Board

Date: 19 January 2016

Subject: Employability, Inclusion and Skills Update

Report Of: Thematic Lead for Employability and Inclusion

Executive Summary

This report provides an update as to the latest progress being made in delivering the Employability and Inclusion; and Skills themes of the Strategic Economic Plan (SEP) for the North East.

Recommendations

It is recommended that the Leadership Board note the contents of this report.

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1 Employment Support

Intelligence

- 1.1 The Labour Market Intelligence (LMI) Portal for the North East has been redesigned to include real time access to Office for National Statistics data sets and now incorporates vacancy data available through the Labour Insight Tool. The data is available at NELEP/NECA and Local Authority levels at: <http://www.labourmarketnortheast.co.uk/>. The site has received almost 38,000 views by 9,000 unique users in the last 12 months and has 1,200 subscribers to a weekly e-bulletin.
- 1.2 North Tyneside Council has also developed an LMI Portal for Schools and an LMI E-Bulletin specifically targeted at Teachers, Parents and Pupils. The Portal will include lesson plans to support the curriculum with focused materials on specific sectors prominent in the local economy and is being considered in relation to wider NELEP/NECA programmes engaging businesses in schools.
- 1.3 In October, the Tyne and Wear Research and Information (TWRI) focused its annual conference on the challenges associated with LMI. It covered a range of issues, as seen in official statistics at international, national and local scales; and featured presentations from academics, government departments and agencies, and local authorities. Similar events are now being considered, working with the National Careers Service, for 2016.

Work Programme Localism and DWP Opt-In

- 1.4 The Department for Work and Pensions (DWP) wrote to the Combined Authority on 27 November, the day following the Spending Review, to confirm that proposals have been agreed to work with NECA to co-design future employment support for 'harder to help claimants' (assumed to refer to Employment Support Allowance (ESA) claimants and people unemployed for over two years) from 2017.
- 1.5 The Autumn Statement announced that DWP Work Programme and Work Choice will be replaced with a new 'Work and Health Programme' from 2017 and that the current Mandatory Work Activity and Community Work Placement programmes will not be renewed. A White Paper will be issued in early 2016 on reforms to support people with health conditions into work. It was also announced that in some areas jobcentres will be relocated within local authorities.
- 1.6 The new Work and Health Programme is expected to provide more specialist and intensive support for jobseekers with health conditions or who have been unemployed for over two years. Details are yet to be specified but a communication is expected from DWP before the end of December and discussions with the department will commence once announcements have been made. The principle of a programme which better integrates health and employment support is more in line

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with the findings of NECA commissioned research and the DWP opt-in proposals, and those outlined by the Local Government Association (LGA), than current programmes. However, while DWP has committed to work with NECA to co-design future programmes this does not explicitly refer to co-commissioning or local accountability for performance. When dialogue is entered into with DWP the case for locally co-commissioned provision to meet the particular needs of the area will be made. This will include ensuring provision is contracted to reflect NECA/LEP level governance arrangements (current contract package areas include Tees Valley).

- 1.7 In addition, the Leadership Board has previously received updates of a proposed DWP 'Opt-In' opportunity utilising £6m European Social Fund (ESF) to test a locally designed programme to support long term unemployed residents into work. A letter was received by NELEP on 12 November which included an 'indicative commercial timeline' for procurement in each LEP area. The North East has a timeline of an Invitation to Tender in quarter one of 2016-17 with an anticipated contract start in quarter three of 2016-17.
- 1.8 This is a longer timeline than expected as it was proposed for a commissioned programme to start delivery by April 2016. Representations have been made to DWP to either bring forward the timeline (if other LEP areas do not meet their timescales) or at minimum ensure the proposed timescales do not slip. The Employability, Inclusion and Skills Steering Group will continue to work with DWP through the process to ensure the service specification and resulting provision genuinely meet local need.

Mental Health Trailblazer

- 1.9 The Leadership Board has received updates on the development of a North East Mental Health Trailblazer pilot programme of integrated employment support and psychological therapy to improve job outcome rates for unemployed people with mental health conditions. The programme has been developed in consultation with Clinical Commissioning Groups (CCGs) and Increasing Access to Psychological Therapies (IAPT) providers.
- 1.10 Providers in all seven local authority areas have been engaged with and will support the programme through integration of employment coaches employed by the programme into their clinical delivery teams. Operational performance management groups have been established to ensure delivery will be effective in each area. DWP / Jobcentre Plus have been fully engaged to ensure their support with referrals to the programme. The multi-agency approach will be a key feature of the programme and will test the wider approach to greater public service integration.
- 1.11 An application for 50% European Social Fund (ESF) 50% match was submitted in early September to match the DCLG Transformation Challenge Award (TCA) of £1.1m – to total a £2.2m two year pilot. Appraisal by DWP has been delayed but the proposal was assessed by the local ESIF Sub-Committee on 15 December.

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Approval of the funding will allow a programme launch in early 2016.
Universal Services Delivered Locally

- 1.15 Universal Services Delivered Locally (USDL) was a 12 month pilot programme funded by DWP and managed by Northumberland County Council. It was run in partnership with Northumberland Emergency and Transition Scheme (NETs – the Council’s welfare support fund), and South Tyneside Homes in Jarrow and Hebburn. The purpose of the pilot was to test how best to support our communities to transition as smoothly as possible on to Universal Credit when it is rolled out, and to identify barriers that might prevent people in need from accessing welfare benefits that they are rightfully entitled to.
- 1.16 The Northumberland/South Tyneside pilot was one of 11 pilots nationally to test different approaches to offering support for Universal Credit claimants in the fields of digital inclusion, financial inclusion and emotional resilience.
- 1.17 After a three month extension period the programme has now concluded and local evaluation conducted. A report detailing the local evaluation and a number of detailed case studies are now with DWP and local delivery partners for sign off and will be released publically in the near future. National evaluation of all 11 pilot programmes is ongoing and is expected to conclude in March 2016.

2 Youth employment

Generation NE

- 2.1 Generation NE is now fully operational and the programme is supporting 1462 young people, of which 650 have moved into employment to date, 251 of those have now sustained employment for 6 months or more.
- 2.2 Initial performance within the programme when compared to resource deployed has been strong and a further expansion in capacity has been undertaken; this has doubled the mainstream front line advisor team working with 18-24 year old young people to 11, and will see an externally commissioned Peer Mentoring Service begin to take referrals in January 2016. Generation NE is undertaking a short term extension of support to the 16-18 NEET group to bridge a current provision gap for this cohort.
- 2.3 The recruitment of three ‘Vacancy Coordinator’ Apprentices has supported the business facing team in coordinating Generation NE’s response to employer demand and improvements are being seen in the quality and responsiveness of the service given to employers as a result.
- 2.4 A central In-Work Service has been established to test new models of supporting young people in work through Social Media, its aim is to drive efficient and

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responsive in-work support focussed on progression of young people into better and more secure employment over the medium term.

- 2.5 Work undertaken to increase the rate of referral of young people from Jobcentre Plus has begun to deliver higher and more stable referral numbers, which will continued to be monitored.

Information, Advice and Guidance (IAG)

- 2.6 From June 2015 and in partnership with The Gatsby Foundation, North East LEP has been piloting the Good Career Guidance benchmarks. This provides the opportunity to test the benchmarks in action; lead the development of practice which will have local impact and national profile; and improve the quality of provision and opportunity for young people.
- 2.7 Over two academic years (2015/16 and 2016/17), Gatsby will invest around £500,000 to support up to 16 schools and FE Colleges in the North East Local Enterprise Partnership area (covering Northumberland, Newcastle, Gateshead, North Tyneside, South Tyneside, Sunderland and Durham) to develop careers guidance and education in their setting by meeting the Good Careers Guidance Benchmarks.
- 2.8 The participants have now completed their audit against the benchmarks and have developed their action plans to ensure they achieve and embed the benchmarks. Each benchmark consists of a number of elements and for a benchmark to be achieved all of the elements have to be implemented. The results show that schools / college are presently a long way from fulfilling all of the benchmarks; no school fulfils more than three of the eight, but in many cases the participants partially fulfil them and by doing a little more will achieve them.
- 2.9 The Facilitator will be a key role within the pilot and will support the schools / colleges with their action plans, looking for innovative ways to solve some of the barriers that the participants face. In acknowledgment of this, in addition to a small amount of start-up funding, the participants can also apply for some funding (150K over two years across the participants) for this innovation work. There are currently five bids to the Innovation Fund and these will be assessed during the Project Steering Group meetings.
- 2.10 Part of the contractual agreement for running the pilot was to create an Advisory Group for the pilot. This has now been done and the first meeting will take place in January 2016.
- 2.11 The evaluator for the pilot has been procured by the Gatsby Foundation and is tasked with providing a full report on the pilot, case studies, good practice guides, a lessons-learned toolkit. The North East LEP will be rolling these out via a series of events and activities during the course of the pilot.

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Apprenticeship Growth Partnership

- 2.12 The Apprenticeship Growth Partnership is currently preparing a focused action plan to support growth in Apprenticeships in the area. The plan will include a strategic commentary which will set out Apprenticeship ambitions, data analysis, targets, growth areas etc. The plan will cover the following strands:
- Communication of Apprenticeship Reforms – Dissemination on reforms to business and employer forums, identifying growth for new standards in priority areas etc.
 - Public Sector – Supporting targeted growth in Apprenticeships in public sector organisations.
 - Employer Engagement – Targeted engagement of large employer, support for SME's etc.
 - Increasing Higher & Degree Apprenticeships – Widen knowledge of higher/degree apprenticeships across the network, survey of provider Higher Apprenticeships delivery etc.
 - Routes into Apprenticeship – CEIAG co-ordination, growth in Traineeships etc.
 - Communication & Marketing – Develop a plan to commission an integrated marketing campaign to engage business, increasing their understanding of Apprenticeships; support the North East Skills Show; celebrating success etc.
- 2.13 The plan will be ready for circulation in the New Year but activity has already started all of the strands above.
- 2.14 The North East LEP now has access to Apprenticeships data which will support the planning activity above. The data will be used to produce a regular one page analysis of the data released by the Skills Funding Agency. The first of these is now available on the NELEP website [here](#).

3 Skills

Enterprise Advisor Programme

- 3.1 In June, the Career & Enterprise Company wrote to all Local Enterprise partnerships with an offer to jointly fund the roll out of Enterprise Advisors. This provided an opportunity for North East LEP to be part of a key nationwide initiative rolling out a network of volunteers from the world of work (Enterprise Advisors) who will work directly with schools and college leaders to bridge the gap between the worlds of education and employment.
- 3.2 Enterprise Advisors will be the cornerstone of national programme. They will work with an Enterprise Coordinator to support schools and colleges to navigate the range

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of possible employer interactions and to help them create a whole school strategy for careers, enterprise and employer engagement. Equipped with a toolkit developed by The Careers and Enterprise Company and localised by the North East LEP, Enterprise Advisors will work closely with the leadership team of a specific school or college. The recruitment of the Enterprise Coordinator was successfully completed and the role commenced with intensive training from The Careers & Enterprise Company at the end of November 2015.

4 Potential Impact on Objectives

4.1 The work being taken forward is consistent with the Combined Authority's stated objectives.

5 Finance and Other Resources

5.1 Financial plans will be developed and reported to the Board as appropriate.

6 Legal

6.1 There are no specific legal implications arising from this report.

7 Other Considerations

7.1 Consultation/Community Engagement

No consultation or community engagement has been undertaken at this stage in the work programme.

7.2 Human Rights

There are no specific issues arising from this report.

7.3 Equalities and Diversity

There are no specific issues arising from this report.

7.4 Risk Management

Appropriate risk management arrangements will be put in place as delivery progresses.

7.5 Crime and Disorder

There are no specific issues arising from this report.

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7.6 Environment and Sustainability

There are no specific issues arising from this report.

8 Background Documents

None

9 Links to the plans and policy framework

- Strategic Economic Plan – More and better Jobs
- North East Devolution Agreement

10 Appendices

None

11 Contact Officers

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12 Sign off

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

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Leadership Board

DATE: 19th January 2016

SUBJECT: An Update Report of the Thematic Lead for Transport

REPORT OF: Thematic Lead for Transport

EXECUTIVE SUMMARY

This report outlines details of major transport developments and announcements since the last update report was provided to the Leadership Board on 17th November 2015.

The report also includes an update on digital connectivity, reflecting the inclusion of these issues alongside transport within the Strategic Economic Plan's 'connectivity' priority.

RECOMMENDATIONS

It is recommended that the Leadership Board note the contents of this report.

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1. **Transport developments and announcements since the previous report**

1.1 Since the last full meeting of the Leadership Board, there have been a number of significant transport developments and announcements affecting the North East, and these are detailed below.

2. **Autumn Budget Statement**

2.1 The Chancellor's Autumn Statement on 25th November set out figures for revenue and capital spending on transport. NECA officers are currently seeking more clarity over these various funding streams, eligibility criteria and how much will be received in this region. It is proposed to take a more detailed report to the next meeting of Transport North East Committee on 26th February.

2.2 Although the announcement of continued high levels of spending for transport is to be welcomed, I have commented previously on the fact that this funding is made available through a series of discrete funding opportunities selected by Whitehall, which are often subject to time-consuming bidding procedures. As a number of independent reports have demonstrated, the North East has received an unfairly low level of transport investment compared to regions in the south. What we are seeking through the devolution process, by contrast, is secure long-term funding streams, offering us local freedom and flexibility over how best we spend resources to benefit our residents and businesses.

2.3 One adverse feature of the spending announcement affecting this region is the fact that funding for the development of the Tyne and Wear Metro over the next 5 years is to be reduced from £153m to £120m – a cut of £33m. I have already publicly expressed my disappointment with this cut in investment which means that a number of planned projects will now have to be shelved, including accessibility upgrades to some stations. Again, this highlights the need to secure more control and certainty over our own finances here in the region through devolution, rather than being reliant on decisions made in Whitehall.

2.4 A further concern is that the national Settlement Funding Assessment (SFA) for county level services, which includes transport services and social care, is being cut by £2bn (15%) next year and potentially by £5.1bn (40%) over the next four years, despite considerable cost pressures in these services. This further widens the gap between the costs and funding for statutory concessionary travel. In previous reports to this Committee and in discussions at Transport North East Committee, I have commented on the government's underfunding of concessionary travel and the fact that this means councils are having to find spending cuts in other areas of their Budgets. The latest funding settlement will only worsen this situation.

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3. Transport for the North

3.1 Background

3.1.1 The North East Combined Authority continues to play an active role in the Transport for the North (TfN) partnership, bringing together transport authorities from across the North to promote investment in key inter-city and inter-regional connections across the north of England. It is intended that TfN should become a statutory body and the Cities and Local Government Devolution Bill, currently passing through Parliament, includes amendments to put this into effect.

3.1.2 The Bill will allow sub-regional transport bodies to come into being and NECA will be asked to give its consent to becoming part of Transport for the North as a statutory body. This will be the subject of a forthcoming report to Leadership Board.

3.2 Rail

3.2.1 Work is continuing to examine how the transformational improvements to journey times and service frequencies set out in the Northern Transport Strategy can be achieved.

3.2.2 NECA is working closely alongside Network Rail, HS2 Ltd and TfN partners as options are developed, with the objective of producing an update for the March 2016 Northern Transport Strategy report and, by the autumn, a series of prioritised infrastructure packages.

3.2.3. NECA continues to raise the need for additional capacity between Northallerton and Newcastle, to cater for growing passenger and freight traffic on the East Coast Main Line north of York. The pressure on this two-track section of route will be exacerbated by the doubling of the frequency of TransPennine services to Manchester (commencing in December 2017) announced as part of the recent TransPennine franchise award.

3.3 Road

3..3.1 The strategic study exploring the case for dualling the A69 and/or A66, with the aim of creating a new strategic link across the Pennines in northern England, is well under way. The study will be completed by October 2016 - however, an interim report will be available in March to help inform the updated version of the Northern Transport Strategy. NECA officers attend the Programme Board for the study on behalf of TfN.

3.4 Freight

3.4.1 Work is continuing on the Northern Region Freight and Logistics Strategy with the report due to be published in March 2016. A private sector reference group, including representatives from this region, has been established to ensure that businesses involved in the movement of goods can inform the strategy and a further stakeholder conference was held in Leeds on 17th

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January to inform attendees of the emerging findings of the strategy. The freight sector in this region are being kept informed via the North East Freight Partnership.

3.5 International Connectivity

3.5.1 NECA are leading on this workstream, on behalf of Transport for the North, and are initiating a study to determine where improvements in international connectivity are needed and how these might benefit the Northern economy.

3.6

3.6.1 Smart Ticketing

In the Comprehensive Spending Review, the government committed £150m of funding to deliver smart and integrated ticketing across local transport and rail services in the North TfN and the Department for Transport will work together to produce an implementation plan by Budget 2016 setting out how this goal will be delivered.

3.6.2

Nexus officers continue to be actively involved in this workstream, acting on behalf of the Combined Authority. With the introduction of Smart Ticketing technology now well advanced on the Tyne and Wear Metro and across the NECA area, through the NESTI Programme, the NECA is in a strong position to take a lead role in the early implementation phases of new technologies.

4. **Transport Vision for the North East**

4.1 As described in previous reports, the Combined Authority has agreed to produce a Transport Plan for the North East which will supersede the existing Local Transport Plans for Durham, Northumberland and Tyne and Wear.

4.2 The two-stage process for the production of this Plan will be

1. A Transport Manifesto setting out high level ambitions; followed by
2. The Transport Plan – a comprehensive, statutory document

4.3 The latest version of the Manifesto was taken to Transport North East Committee on 24th November, where further amendments were requested to the content and design, with authority to approve these being delegated to myself, in my capacity of Chair of TNEC. The Committee also expressed the view that the proposed seven weeks' public consultation starting 1st December was too short especially as it ran over Christmas and New Year. Therefore, once these further changes have been approved, an eight week public consultation will be undertaken from this month.

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4.4 Whilst the above process is under way, background work is being undertaken towards the final Transport Plan.

5. Local Growth Fund Transport Schemes

5.1 As previously reported to the Leadership Board, in 2014 it was announced that 15 highway and public transport schemes, plus a Local Sustainable Transport Fund (LSTF) Capital package, due to commence delivery in 2015/16, have been granted funding from the Local Growth Deal. A letter setting out funding allocations for 2016/17 and future years has now been received, which is in line with expected funding levels. With the positive annual conversation that has taken place with DCLG/BIS, this will enable funding certainty to be given to projects commencing this year and next once their final business cases are agreed.

5.2 As business cases for the various schemes are concluded, and subject to their undergoing satisfactory independent assessment, they will be brought forward to this Board or to the Transport North East Committee, depending on earlier prioritisation through the previous Local Transport Body, for final approval to release funding. A separate report on the agenda reports progress on following 7 projects, where the business cases are expected to be agreed over the next few months:

- Sunderland Low Carbon Zone
- South Shields Transport Hub
- Northern Access Corridor (Cowhill to Osborne Road)
- Scotswood Bridgehead Improvements
- Newcastle Central Station to Stephenson Quarter
- A191 Junctions (including Coach Lane and Tyne View Park)
- A19 Employment Corridor Access Improvements

5.3 The complexity of highway schemes means there is some slippage of activity and spending. Actions are proposed in a report on the Capital Programme to maximise spending this year and the need to increase the level of over-programming in the 2016/17 capital programme has been identified. This will be the subject of reports to future NELEP Board and Leadership Board meetings.

6. Rail

6.1 New Franchises

6.1.1 The DfT has announced the award of the Northern franchise to Arriva Rail North Limited, and the TransPennine Express franchise to First Trans Pennine Express Limited. Both will commence in April 2016.

6.1.2 The new franchises will deliver some important improvements, including 2,000 extra services a week across the North of England, significantly more capacity at peak times, extra investment in stations and new 125 mph trains

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on the TransPennine route. The infographic attached at Appendix A contains key highlights offered in the new franchises for the North East, which feature more frequent services on many routes across our area, strengthening connectivity between towns and cities within the North East and to major cities in the North of England and Scotland.

- 6.1.3 Rail users in this region will particularly welcome the commitment to remove the unpopular “Pacer” fleet of trains from the network by 2020, replacing them with higher-quality refurbished vehicles. It is also proposed to introduce an hourly Carlisle – Newcastle – Middlesbrough “Northern Connect” service from 2019, and for the number of TransPennine services to increase to two per hour – one of which will continue to Edinburgh.
- 6.1.4 A number of issues remain unclear and we will be taking these up with the new franchise operators through Rail North and the North East Rail Management Unit. The most important of these is the routing of the new “Northern Connect” service, which we also wish to see using the Durham Coast line to improve connectivity and service frequencies.
- 6.1.5 The new franchises will be jointly managed from Leeds by Rail North and the Department for Transport. Many of the improvements were brought about by the involvement of Rail North which worked with the DfT to design the franchise specification. Rail North represents 29 local authorities across the north including the North East Combined Authority.
- 6.1.6 Through our membership of Rail North and, in particular, through the new North East Rail Management Unit, we will focus on ensuring that the commitments made in the franchise agreements are fully delivered. Discussions may also be needed with Network Rail as additional infrastructure work may be required to accommodate additional services along the latter route.

6.2. **North East Rail Management Arrangements**

- 6.2.1 A separate item on this agenda seeks the Leadership Board’s agreement to enter into the Rail North Members’ Agreement, along with participation in the ‘North East Rail Management Unit’, an agreement to work with Tees Valley authorities, Cumbria and North Yorkshire to oversee and develop the services that affect our region.

7. **Public Transport**

7.1 **Bus Franchising**

- 7.1.1 At its meeting in November, the Leadership Board agreed for officers to develop four options for possible next steps. In summary, these were: (a) progress the QCS despite the QCS Board’s opinion, (b) modify the QCS, (c) develop bus franchising under the devolution agreement, and (d) enter into partnership with the bus operators.

Work on these options is underway, and it is expected that a report will be

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7.1.2 provided to the Leadership Board shortly seeking direction on the preferred way forward.

7.1.3 The Department for Transport is continuing its work on the Buses Bill. This will create legislation to allow local authorities to introduce bus franchising under certain conditions, and will set out some changes to the legislation covering bus partnerships. Draft legislation is expected to be introduced to parliament during the first half of 2016. We expect the legislation to address the major problems which our experience has demonstrated with the current legislation, and should join with other transport authorities to lobby the government to deliver this.

7.2 **Metro**

7.2.1 Following the Spending Review, the DfT has confirmed a firm capital funding commitment through to 2020/21 of £120 million, bringing total government investment in the Metro system over the period 2010/11 to 2020/21 to £317 million.

7.2.2 This is disappointing as it is £33m below the levels of capital grant that were previously anticipated. It is a result of the government's austerity cuts, and has been imposed despite Nexus's good track record of delivering the Asset Renewal Programme. The reduction will mean a slowdown in the delivery of the overall programme, and this is discussed in the separate item on the agenda dealing with the Capital Programme.

7.2.3 In line with the commitment negotiated through the Devolution Agreement, the DfT has acknowledged the need for both the renewal of the Metro fleet, the long-term continuation of essential renewals network wide and the Combined Authority's ambition for the expansion of the system, and future integration of the Metro with the rail network.

7.2.4 New Metro fares were introduced from 2nd January 2016 following approval by the Transport North East (Tyne and Wear) Sub Committee. The weighted average rise of 0.4% is lower than the rate of RPI rate of inflation and also lower than the average rise for regulated fares in the UK rail industry as a whole.

7.2.5 The performance of the train operator DB Regio continues to be a matter of serious concern. Nexus is working closely with DB Regio to add focus to areas requiring improvement, but performance remains below expectation. The Transport North East (Tyne and Wear) Sub Committee is monitoring the situation closely.

7.2.6 Metro's performance was affected in the run-up to Christmas by storm damage which caused two significant closures of the line at Bede and then Brockley Whins in early December, the latter also affecting National Rail

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services whilst it was repaired by Network Rail.

7.3 Smart Travel

7.3.1 There are now more than 119,000 individual smart cards being used on Metro, including Pop cards holding season tickets and student tickets, English National Concessionary Travel Cards bearing Gold Card, and new Pop Pay As You Go Cards. Up to the start of December 2,000 people were using Pop Pay As You Go cards, following launch in November; that number is expected to grow rapidly as the first major marketing campaign is launched in January.

7.3.2 Pop Pay As You Go can also be used within the Combined Authority on all Arriva bus services north of the Tyne, selected Go North East and Stanley Travel routes and the Shields Ferry, funded through the North East Smart Ticketing Initiative (NESTI). Cards are on sale at Nexus Travelshops and some Payzone retail outlets.

7.3.3 Nexus is also playing a key role in a programme led by Transport for the North to develop a smart ticketing solution to help make it simpler to travel across the north.

8. Freight

8.1 The North East Freight Partnership's Fleet Operator Recognition Scheme (FORS) now covers 112 operators within the area, comprising 4,708 vehicles in total. The FORS Practitioner workshops organised by the Partnership aimed at fleet managers are being well-supported and we project that, given current take up rates, approximately 350 places will have been filled by the end of the current year's programme in March 2016. These workshops provide valuable advice on a range of 'Best Practice' topics including fleet management, fuel efficiency and reducing the risk of accidents – contributing to the Partnership's goal of a safe, efficient and sustainable freight sector in the region and thus to the overall objectives of the NECA.

9. Digital Connectivity Update

9.1 Introduction

9.1.1 This report also provides an update on activity across the Combined Authority area in respect of our commitment to enhance digital connectivity for economic growth.

9.2 Background

9.2.1 North East priorities for digital connectivity seek to ensure that the region is competitive, and that our businesses and communities can benefit from economic opportunities. Our approach is based around the following key

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areas:

- Supporting the development of digital skills and facilitating take-up
- Delivering hard infrastructure where it is needed
- Delivering superfast broadband
- Supporting business needs and improving digital inclusion

9.2.2 Businesses and residents have expectations for digital connectivity that are comparable to the most advanced cities in the world. It is vital that we are ambitious in our approaches and meet these expectations now and in the future. Digital is an evolving agenda and we must strive to be at the forefront of this agenda for future economic success.

9.3 **Current Activity**

9.3.1 The Digital Leads group held a workshop in December 2015, to develop detailed proposals to accelerate progress. This included the scale and scope of ambition, along with immediate priorities for action to deliver commitments in a devolution agreement for the North East.

9.3.2 The workshop focused specifically on areas of activity that can set the North East apart, by better understanding and utilising our shared assets. For example, fibre attached to the Metro line, capabilities of data centres such as Cobalt, Smart Specialisation, potential for Transatlantic and European connectivity. The group identified a need to map our existing assets, and the potential these can offer, including those owned by the public and private sectors.

9.3.2 Discussion also focused on how we can co-ordinate an approach across the North East to create a demand for Ultrafast from businesses and residents. This can be used to develop a strong offer to investors for future pilots and to increase roll-out. Our business case should be accompanied by simplified and aligned processes – making the region a first choice for private sector investment in infrastructure.

9.3.4 The Digital Leads group is developing a work programme to accelerate progress. This is focused on:

- Achieving vision and future ambition
- Delivery of infrastructure
- Digital Skills and increasing take-up.

9.3.5 The North East Devolution Deal will enable progress through delivery of the following commitments:

- Government and the Combined Authority will agree a joint programme to create the right environment to drive the commercial rollout of ultrafast broadband following successful testing and to ensure 4G services are available to at least 95% of the North East's population. In addition, the Combined Authority will work with businesses and universities in the North East to develop applications for 5G

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technology.

- Government will support NECA to reinvest funds into creative solutions to supply superfast broadband to remaining premises

9.3.6 Other areas of the work programme are being aligned to existing activity and resource as far as possible. This includes:

- Aiming to establish Code Clubs and / or Maker Spaces in all primary schools
- Enabling businesses to exploit digital technologies, particularly where they are not doing so (working with the Growth Hub)
- Encouraging a business-led approach, engaging with private sector partners through network organisations such as Dynamo
- Supporting 'Digital Champions' to meet the needs of their communities

9.3.7 Work is also taking place to assess the potential scope and capacity requirements for future activity that reflects our high levels of ambition. This includes:

- Providing a co-ordinated package of Business Support
- Increasing Digital Inclusion (including potential to use the existing network to improve connectivity in areas with low levels of access – working with the private sector)
- Joining up regional centres (particularly for major employment sites and universities) and Options for European and Transatlantic connectivity that support exports
- Opening up fibre attached to existing networks
- Supporting Smart Specialisation

10. Next Steps

10.1 The North East Combined Authority will continue to work with funding bodies, transport operators and delivery partners to secure a modern, sustainable and efficient transport network and to progress our digital connectivity objectives. Work will continue on developing the Transport Plan for the North East.

11. Potential Impact on Objectives

11.1 Successful delivery of the various transport and digital connectivity schemes and investment proposals outlined in this document will assist the Combined Authority in delivering its objective to maximise the area's opportunities and potential.

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12. Finance and Other Resources

12.1 In respect of the Local Growth Fund transport programme, the completion of Business Cases will identify any variations in costs and funding which will need to be managed within available resources and may require decisions to be made about compensating savings elsewhere within the programme. These programme management issues will be considered by TNEC, with recommendations made to NELEP and the Leadership Board for decision.

13. Legal

13.1 There are no specific legal implications arising from this report. Where there are references to matters under consideration elsewhere on the Agenda, the legal implications are considered within the report for that Agenda item.

14. Other Considerations

14.1 Consultation/Community Engagement

Many of the transport programmes outlined in this report have been the subject of consultation, at either a regional or national level. Schemes being delivered through the Local Growth Fund programme are the subject of local consultation by the relevant scheme promoters.

14.2 Human Rights

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

14.3 Equalities and Diversity

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

14.4 Risk Management

This report is for information only and there are no specific risk management implications arising from it. Schemes being delivered through the Local Growth Fund programme have their own specific risk management arrangements.

14.5 Crime and Disorder

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

14.6 Environment and Sustainability

Delivery of the various rail, cycling and public transport measures listed in this report should assist in meeting our objectives for a more sustainable transport system and improved air quality.

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15. Background Documents

None.

16. Links to Plans in the Policy Framework

This report has no direct link to plans in the policy framework.

17. Appendices

Appendix A – Infographic depicting key benefits of the new TransPennine and Northern rail franchises.

18. Contact Officers

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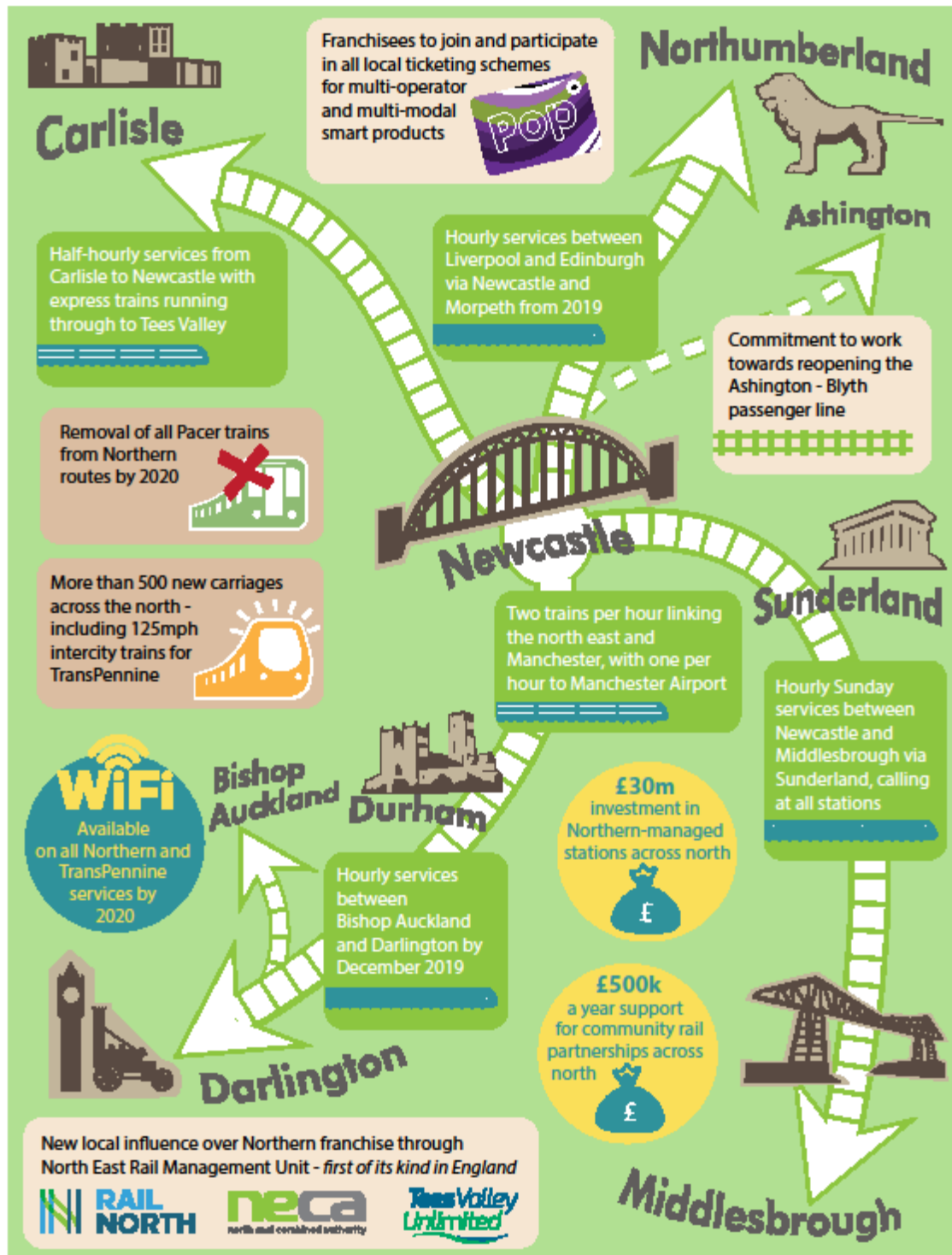
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19. Sign off

Head of Paid Service ✓

Monitoring Officer ✓

Chief Finance Officer ✓



NEW RAIL FRANCHISES FOR NORTHERN ENGLAND

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North East Combined Authority

Leadership Board

DATE: 19 January 2016

SUBJECT: 2016/17 Revenue Budget and Transport Levies

REPORT OF: Head of Paid Service and Chief Finance Officer

1 EXECUTIVE SUMMARY

- 1.1 The purpose of this report is to set out the 2016/17 revenue budget and transport levies for the North East Combined Authority (NECA) for consideration and approval by the Leadership Board. This report takes into account the revenue implications of the capital programme, which is the subject of a separate report on this agenda, and takes into account the views of the Transport North East Committee (TNEC) and comments received during consultation on the proposals that were agreed as a basis for consultation in November.
- 1.2 This is the second formal budget process undertaken since NECA was established in April 2014. It is set in the context of continuing austerity measures and grant cuts, as well as the prospect of additional devolved resources and flexibilities that would be delivered by a devolution agreement, which will not be agreed until March 2016. NECA is required by law to set its revenue budget and transport levies for 2016/17 before 15th February 2016, in order to enable the seven constituent councils to be able to take the levies into account in setting their own budgets.
- 1.3 This report sets out the revenue resources planned to be used in 2016/17 to help deliver the objectives of NECA and the North East Strategic Economic Plan. It is a policy led budget, which has also to be set in the context of the ongoing national policy of austerity, which requires further savings to be achieved in local authority revenue spending; while also making available additional capital funding to help deliver investment in transport and infrastructure and provide incentives to help secure economic growth. It has been agreed that the Leadership Board will set the budget and levies at this meeting, which will allow the information about levies and contributions to be provided in good time for the seven constituent authorities to include it within their own budgets. The budget and capital programme would be enhanced by additional funding when a devolution agreement is formally entered into and in that event there would be further reports on the additional funding, capacity requirements and the implications for the seven constituent authorities to the Leadership Board's future meetings.

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- 1.4 The proposed 2016/17 net revenue budget for NECA amounts to £87.584m, including a transport budget of £86.894m. Total gross revenue expenditure before applying income and funding from external grants is expected to be in excess of £209m.
- 1.5 The NECA initial capital programme for 2016/17 is expected to increase to around £129m, compared with £114m this year, and the latest information on the programme is set out in a separate report on this agenda. Total investment in capital schemes will be higher as a result of match funding from a number of other sources secured by the respective projects.

2 RECOMMENDATIONS

- 2.1 In terms of the NECA Transport Budget and Transport Levies for 2016/17, it is recommended that the Leadership Board receive this report for consideration and taking into account the comments from consultation, the Board is asked to:
- a) agree a transport net revenue budget for 2016/17 of £86,893,972 as set out in section 5 of this report;
 - b) agree the following Transport Levies for 2016/17 : –
 - i. Durham County Council £15,440,043
 - ii. Northumberland County Council £6,333,929
 - iii. Tyne and Wear Councils (detailed in table 7) £65,120,000
 - c) agree a transport revenue grant to Durham County Council for the delivery of transport services of £15,435,104, as outlined in section 5.5.3;
 - d) agree a transport revenue grant to Northumberland County council for the delivery of transport services of £6,328,990, as outlined in section 5.5.8;
 - e) agree a transport revenue grant to Nexus for the delivery of transport services in Tyne and Wear of £62,500,000 as outlined in section 5.5.17; and
 - f) approve the increase in the Tyne Tunnel tolls for cars (class 2 vehicles) from £1.60 to £1.70 and for HGVs (class 3 vehicles) from £3.20 to £3.40 as set out in section 9.5.
- 2.2 In terms of the Non-Transport elements for the NECA budget, the Leadership Board is asked to consider the relevant sections of this report and taking into account consultation comments, and is recommended to: -

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- a) agree to continue an annual contribution to fund the North East LEP core capacity costs of £250,000 as match funding to secure a £250,000 Government grant, paid for by an equal contribution of £35,714.29 from each of the seven councils in the NECA, as set out in section 6.1;
- b) approve the continuation of the budget contribution of £140,000 towards inward investment activity, which is paid for by an equal contribution of £20,000 from each of the seven councils in NECA, as set out in section 6.8, which includes a potential increase in the total funding for this activity to £505,000 in 2016/17 and £575,000 in 2017/18, subject to a satisfactory report on progress later this year;
- c) agree a budget for the corporate costs of the NECA of up to £550,000 in 2016/17, with £300,000, paid for by an equal contribution of £42,857.14 from each of the seven councils in NECA, as set out in section 7;
- d) note that the Treasury Management and Investment Strategy and the statement on minimum revenue provision repayments for borrowed capital expenditure for 2016/17 are set out in the report on the Capital Programme on this agenda; and
- e) agree to hold the level of reserves set out in section 11 and to note that the Chief Finance Officer considers this level of reserve to be satisfactory, given the information currently available about the arrangements for managing financial risks facing the Combined Authority.

3 Background Information – Budget Process

- 3.1 Levying Bodies regulations require Transport Authorities to set their budgets and levies before 15th February each year. This report sets out the transport revenue budget for the NECA area and the levies to be made for the Durham, Northumberland and Tyne and Wear areas. Although NECA is a single transport authority for the whole area, the separate designation of levies for the three areas reflects the legal and financial arrangements put in place when NECA was created, to recognise the very different funding requirements for transport in Tyne & Wear and the two Counties. There are, however, further opportunities for collaboration between the three areas, greater joint working, and integration of cross-boundary services. These are currently being explored by the NECA Transport North East Committee, who will receive a report at its next meeting on 26 February 2016 on how best to secure these opportunities.

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- 3.2 The Budget also includes corporate and non-transport costs including costs relating to the delivery of economic regeneration and skills activity.
- 3.3 As the Accountable Body for the North East Local Enterprise Partnership (NELEP) the Budget includes information about the funds available to finance the joint NECA/NELEP Executive team and the delivery of the NELEP responsibilities for 2016/17, which is subject to the approval of the NELEP.
- 3.4 It is good practice for all organisations to develop a Medium Term Financial Strategy and it is intended that this be developed during 2016 as more information is available about potential external resources, including devolution funding for the North East Investment Fund; spending pressures and capital investment plans and proposals.
- 3.5 The capital investment programme includes schemes that have been approved so far with funding that has been secured. The detailed capital programme is a dynamic document that will be updated on a regular basis as information about projects and funding approvals is received. It will be considered and updated in periodic monitoring reports to the Leadership Board.
- 3.6 Key decisions in the Revenue Budget are the level of the 2016/17 transport levy for Tyne and Wear: Durham; and Northumberland and the level of the contribution from all seven constituent councils for non-transport costs, including the contribution to fund capacity and for corporate costs.
- 3.7 The constitution of the Combined Authority requires an early consultation on budget proposals, which commenced in November. This report takes into account comments received to date, including comments from the Governance and Overview and Scrutiny Committees, the seven constituent councils, and consultation with the North East Chamber of Commerce. Further details of comments received during the consultation are included at Appendix F. The Transport budget was considered by Transport North East Committee at their meeting on 24th November, which endorsed the proposals.

4 Context of Austerity Measures

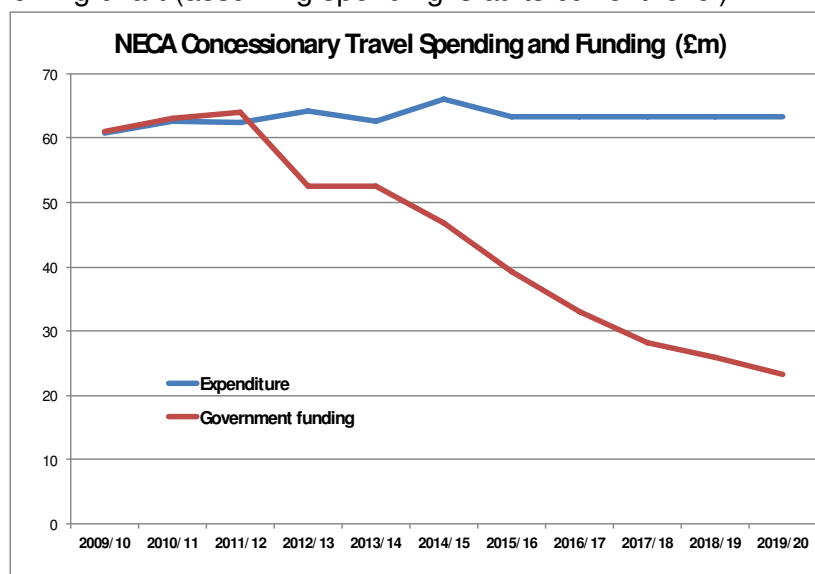
- 4.1 The budget is being developed in the context of significant revenue funding cuts for local government as part of the delivery of the national austerity measures. While final Government Revenue grant levels have not yet been confirmed, the Government's provisional funding allocations for 2016/17 announced on 17th December set out significant further cash cuts in Revenue Support Grant (RSG)

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for the seven councils in the NECA area in 2016/17 of - £104m. The Department for Communities and Local Government (DCLG) published figures for the next four years, which indicate that Revenue Support Grant in the NECA area will be cut by £308m (70% of its current level) by 2019/20. The national cut in grant averages 75%, so the grant cut is below the national average in percentage terms, although figures vary for each council.

- 4.2 DCLG also published estimated spending power figures that also take account of growth in Business Rate income; council tax and other grants including the New Homes Bonus using various assumptions. This indicated that 'spending power' in the NECA area would fall in cash terms next year by £62m (3.8%). This is higher than the national average reduction of 2.8%, due to the relative lower generation of additional council tax income compared to other wealthier parts of the country, which have higher council tax bases.
- 4.3 The national Settlement Funding Assessment (SFA) for county level services, which includes transport services and social care is being cut by £2bn (15%) next year and potentially by £5.1bn (40%) over the next four years, despite considerable cost pressures in these services. This further widens the gap between the costs and funding for statutory concessionary travel, as illustrated in the following chart (assuming spending is at its current level).



- 4.4 As part of the consultation process in relation to the national grant settlement, the NECA will continue to raise concerns about the adequacy and visibility of funding to meet the costs of the national statutory concessionary travel scheme.
- 4.5 The Government has made more capital resources available nationally to help deliver improvements to infrastructure transport and economic development

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through Growth Deal Funding and the bids submitted by NELEP and NECA were particularly successful, with LGF grant amounting to £79m confirmed for 2016/17. A letter has been received from DCLG settling out LGF funding for future years, subject to the outcome of the Annual Conversation, where no significant issues have been identified. As a result, approved projects have had their funding confirmed to enable them to progress with confidence. The section 31 grant is expected to be paid at the beginning of April 2016. A new round of bidding for the balance of the £12bn national LGF grant not yet allocated (likely to be around £4bn) is expect to be announced in the spring. NECA and NELEP were successful in securing another round of Enterprise Zones and details of these will be the subject of a report to a future meeting.

5 Transport Revenue Budget and Levies

- 5.1 This report provides a progress update in relation to the transport related revenue budgets for the delivery agencies for 2015/16 of £89.28m. It also sets out the proposed transport revenue budget and levies for 2016/17 of £86.893m.
- 5.2 In the current year 2015/16, the expenditure of NECA is broadly in line with the original budget of £89.177m. In terms of the use of the grant by Durham, Northumberland and Tyne and Wear, there are savings in Durham and Tyne and Wear and additional pressure on concessionary fare costs in Northumberland. The estimated net increased costs for Northumberland County Council of £0.387m will be met from their reserves at the year end. In Tyne and Wear, the grant to Nexus is fixed for the year so there is no change compared with the original budget. However, there is a significant improvement within the Nexus budget for the year, where the estimated deficit to be funded by use of their reserves has reduced from £3.1m to £0.1m as a result of a reduction in costs and higher income from Metro fares than was included in the budget (see paragraph 16 and 17 of Appendix C for further details).
- 5.3 For 2016/17, Transport net revenue budgets are proposed to slightly reduce in overall terms by £2.28m, with a further reduction in the Tyne and Wear levy of just over £2.08m; a reduction of £0.636m in the budget in Durham County; and an increase of £0.433m in Northumberland County. All areas are facing some inflationary and demand pressures on concessionary travel costs, with savings having to be found in other budget areas. Details of the proposed budgets and levies for each area for 2016/17 are set out in section 5.5 below.

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5.4 Update on Transport Revenue Budgets and Spending for 2015/16

5.4.1 At the Leadership Board's meeting on 20 January 2015, the North East Combined Authority agreed a transport budget and levies for 2015/16 amounting to £89.177m. The Transport levies and grants are fixed for the year with only a small variation in the centrally held transport costs in Tyne and Wear where support has been provided to meet some of the costs of preparing for Devolution. The original and revised estimates for the years are set out in table 1 below.

Table 1: Summary of NECA Transport Levies and Budget for 2015/16

	Original estimate £	Latest estimate £	Change £
<u>Transport Levies</u>			
Durham	16,076,449	16,076,449	0
Northumberland	5,900,879	5,900,879	0
Tyne and Wear	67,200,000	67,200,000	0
<u>Total Levies</u>	89,177,328	89,177,328	0
<u>Transport Budget</u>			
Grant to Durham	16,071,510	16,071,510	0
Grant to Northumberland	5,895,940	5,895,940	0
Grant to Nexus	64,500,000	64,500,000	0
NECA – Tyne and Wear	2,776,450	2,797,000	20,550
NECA - Other	9,878	9,878	0
Total Transport Budget	89,243,900	89,274,328	20,550
Use of Reserves (Tyne and Wear)	(76,450)	(97,000)	(20,550)
Total	89,177,328	89,177,328	0

5.4.2 In terms of the expenditure of the transport operational grants by Durham, Northumberland and Nexus, the latest budget monitoring statements indicate slight pressures on concessionary travel budgets; a reduced pressure on expenditure and use of reserves within the Nexus accounts. The revised estimate for 2015/16 is summarised in Table 2 below.

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Table 2: Summary of Spending of Transport Grants in 2015/16

	Estimated Net Revenue Expenditure	Variance from Original Budget
<u>Transport Spending</u>	£000	£000
Durham	15,131	(945)
Northumberland	6,288	387
Tyne & Wear (Nexus Grant)	64,500	0
Nexus Reserves	99	(3,004)
Total	86,018	(3,562)

5.4.3 While the Grant to Nexus is fixed for the year, actual transport spending is higher than the transport grant, with the difference funded from Nexus reserves. Within the Nexus budget for 2015/16 there is a significant improvement with the planned deficit of £3.1m being reduced to around £0.1m, as previously described in paragraph 5.2.

5.4.4 The position in respect of the Tyne Tunnels' ringfenced account has also improved due to additional income when compared to the original budget for the year. As a result the planned deficit, which is funded by the use of the Tyne Tunnel reserve, has fallen from £1.43m to £0.38m.

5.5 Transport Revenue Budget and Levies 2016/17

5.5.1 The overall total proposed net revenue budget for transport in 2016/17 is £86.894m. This represents a net reduction of £2.283m (-2.6%) on the net revenue budget for 2015/16. Information about the proposed budget and the levy for each of the three areas in NECA are summarised in the table below and set out in more detail in the following sections and in the appendices.

Table 3: Summary of Transport Levies 2016/17

Area	Transport Budget and Levy	Change from 2015/16
	£	£
Durham	15,440,043	(636,406)
Northumberland	6,333,929	433,050
Tyne and Wear	65,120,000	(2,080,000)
Total	86,893,972	(2,283,356)

5.5.2 A summary of the Transport Budget for the Whole NECA Area is set out in table 4 below.

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Table 4: Summary of the Transport Budget across the NECA Area

	Durham	Northumb- erland	Tyne & Wear	Total
	£000	£000	£000	£000
Concessionary Travel - Statutory	11,191	4,591	36,530	52,312
Concessionary Travel - Discretionary	574	242	3,552	4,368
Subsidised Bus Services	2,822	1,303	14,110	18,236
Bus Stations / Infrastructure	129		2,401	2,530
Public Transport Information	88	3	1,649	1,740
Metro (including discretionary travel)			4,221	4,221
Heavy Rail			187	187
Ferry			1,160	1,160
Staffing in Northumberland & Durham	631	190		821
Major Projects in Tyne and Wear			2,349	2,349
Use of Nexus Reserves			(3,659)	(3,659)
Transport Grants	15,435	6,329	62,500	84,264
NECA General Transport Costs	5	5	106	116
NECA Tyne and Wear Costs			2,514	2,514
Transport Levy	15,440	6,334	65,120	86,894

Durham

5.5.3 The budget and levy for public passenger transport activity in County Durham is £15.440m for 2016/17. This compares with an original budget of £16.076m for 2015/16 and a revised forecast for 2015/16 estimated at £15.131m. The budget and levy for 2016/17 is summarised in the table below.

Table 5: Durham Transport Budget and Levy 2016/17

	Gross Expenditure	Gross Income	Net Expenditure
Grant to Durham	£	£	£
Concessionary Fares - Statutory	11,200,098	(9,000)	11,191,098
Concessionary Fares - Discretionary	574,000	0	574,000
Subsidised Bus Services	4,610,862	(1,788,664)	2,822,198
Bus Stations and Shelters	484,298	(355,560)	128,738
PT Information	182,614	(94,568)	88,046
Staffing	631,024	0	631,024
Total Grant	17,682,896	(2,247,792)	15,435,104
Share of NECA Transport Costs	4,939	0	4,939
Transport Levy	17,687,835	(2,247,792)	15,440,043

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- 5.5.4 The overall bus network in County Durham remains fairly stable. There are no significant commercial changes expected in 2016/17 and only a small number of planned contract renewals. However, in contrast to last year's growth we are now seeing a marginal decline in overall patronage figures; we are also anticipating some modest pressure on contract costs due to the introduction of the National Living Wage.
- 5.5.5 The budget for subsidised bus services has been reduced by £400,000 in line with Durham County Council's Medium Term Financial Plan for 2016/17. The budget saving will be realised through a combination of efficiency savings and a reduction in costs following contract retendering. The focus of spend continues to be on maintaining the level of accessibility in rural and semi-rural areas and supplementing the daytime commercial network with early and later journeys.
- 5.5.6 The budget for concessionary travel continues to be subject to pressure from fares increases. However, a combination of the effects of the rise in entitlement age, a stabilisation of concessionary travel journeys and successful negotiations with bus operators in relation to reimbursement costs have led to a modest reduction in this area of the budget for 2016/17.
- 5.5.7 The other main area of work for the transport team in Durham will be to continue to deliver efficiency savings against the home to school transport and adult social care transport budgets. A full review of transport entitlement, commissioning and procurement is ongoing, together with a pilot scheme looking at post 16, health and mainstream transport under the governments Total Transport initiative.

Northumberland

- 5.5.8 The Budget and Levy for public passenger transport activity in Northumberland is £6.334m for 2016/17. This compares with a budget of £5.901m in 2015/16. The budget and levy for 2016/17 is summarised below.

Table 6: Northumberland Transport Budget and Levy 2016/17

	Gross Expenditure	Gross Income	Net Expenditure
	£	£	£
Concessionary Fares	4,845,450	(12,940)	4,832,510
Subsidised Bus Services	1,999,740	(696,340)	1,303,400
PT Information	3,400	0	3,400
Staffing	189,680	0	189,680
Total Grant	7,038,270	(709,280)	6,328,990
Share of NECA Transport Costs	4,939	0	4,939
Transport Levy	7,043,209	(709,280)	6,333,929

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5.5.9 The indicative budget for 2016/17 has increased to reflect inflationary pressures in delivering the Concessionary Travel Scheme and the reinstatement of a proposed saving to the Scheme following an audit of the use of disabled passes. The budget for Bus Services will be protected at its current level in cash terms.

Tyne and Wear

5.5.10 It is proposed that the Transport Budget and Levy for Tyne and Wear be set at £65,120,000. This is a reduction of £2,080,000 (3.1%) on the 2015/16 levy. The reduction will be achieved by efficiency and other cost savings of £0.080m in the former ITA budget; £2.000m in the Nexus Budget, including the use of reserves. This will maintain service outcomes while improving value for money provided to the constituent authorities and help them to meet national funding cuts.

5.5.11 This latest Levy reduction would bring the overall reduction in the annual transport levy since 2010 to £13m, achieved through efficiency savings and use of reserves, whilst protecting service outcomes to date. This level of saving while protecting service outcomes is a significant achievement, particularly in the light of the cost pressures in respect of Concessionary Travel and outcomes in other regions around the country where there have been some significant cuts in services. However in order to set a balanced budget in the medium term, it is clear that cuts in service budgets will need to be implemented from 2017 following a review of funding and services provided by Nexus.

5.5.12 The distribution of the Levy within Tyne and Wear is based upon population and the levy will reflect changes in population as well as the cut in the overall amount. The share of a £65.120m Transport Levy for 2016/17 for each of the Tyne and Wear constituent authorities is shown below.

Table 7: Share of Transport Levy between Tyne and Wear Authorities

Authority	Population (2014 Mid Year Estimates)	2016/17 Levy	Saving compared to 2015/16
	People	£	£
Gateshead	200,505	11,671,345	(397,749)
Newcastle	289,835	16,871,222	(437,299)
North Tyneside	202,744	11,801,677	(397,403)
South Tyneside	148,740	8,658,118	(304,843)
Sunderland	276,889	16,117,638	(542,706)
Total	1,118,713	65,120,000	(2,080,000)

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5.5.13 The levy is used to fund NECA transport costs (formally the Tyne and Wear ITA) as well as providing a grant to Nexus to fund transport services. The allocation of the levy is proposed as follows.

Table 8 : Allocation of Tyne and Wear Levy 2015/16 and 2016/17

	2015/16	2016/17	Change	
	£	£	£	%
NECA Transport Costs	2,700,000	2,620,000	(80,000)	- 3.0%
Grant to Nexus	64,500,000	62,500,000	(2,000,000)	- 3.1%
Total Levy	67,200,000	65,120,000	(2,080,000)	- 3.1%

5.5.14 Savings on the former ITA element of the NECA budget include savings in capital financing costs, a reduction in support costs and some use of reserves. The Nexus reduction will be achieved by efficiency savings and use of reserves and budget cuts, which minimise the impact on service outcomes in 2016/17. The use of one off savings in 2015/16 of up to £1m will help to temporarily fund the cut in the levy in 2016/17.

5.5.15 The Nexus budget is balanced by planned use of reserves pending the delivery of further savings in future years, which will be subject to a review of Nexus' services next year. This will identify the level of the levy that Councils can afford and the cuts in discretionary services that would be needed to set a balanced budget, for consultation next year.

5.5.16 Once the full impact of the 2015 Spending Review and Local Government Settlement is known and the impact on funding for Tyne and Wear councils can be assessed, this information will be considered by NECA and its constituent Councils as part of the review of Nexus' services in the first half of 2016 that will seek to identify:-

1. the estimated level of resource available through the Levy for transport services over the next four years, taking into account competing service priorities;
2. how the money that is available is to be used to best achieve the transport objectives of NECA and in Tyne and Wear; and
3. What changes in transport services are needed and how the impact on service users can be minimised.

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Grant to Nexus to Provide Transport Services

- 5.5.17 A summary of the draft Nexus budget for 2016/17 and the use of the grant from NECA is set out below, with further details given in Appendix C. This provides more information than in previous years, in response to requests for additional information by members.

Table 9: Summary of the Nexus Net Budget

	Gross Expenditure	Grants & Income	Net Expenditure
	£000	£000	£000
ENCTS – Statutory Concessionary Travel	37,687	(1,157)	36,530
Discretionary Concessionary Travel	12,053	(8,501)	3,552
Metro	73,262	(69,041)	4,221
Ferry	1,593	(433)	1,160
Rail	427	(240)	187
Subsidised Bus Services	18,501	(4,391)	14,110
Bus Infrastructure	2,981	(580)	2,401
Public Transport Information	1,714	(65)	1,649
Major Projects	3,237	(888)	2,349
Total Nexus Budget	151,455	(85,296)	66,159
Planned Use of Reserves			3,659
Transport Grant			62,500

- 5.5.18 The operations budgets include capital financing costs, in particular the Metro Budget. After taking into account the reimbursement of revenue forgone from the Concessionary Travel budget for the carriage of Gold Card holders, this would bring the net expenditure on Metro into a small surplus.
- 5.5.19 Without the possibility of generating £5m of annual savings from implementing the Bus Quality Contracts Scheme from 2017/18, and having had its grant from the NECA reduced by £2m in 2016/17, Nexus' budget deficit will grow to an estimated £7m in 2017/18, if action to address the budget imbalance is not taken. Therefore, in order to deliver a balanced budget in the medium term, cuts in services will need to be implemented from 2017. This will be considered as part of a review of Nexus' services in 2016, which will identify options for reductions in service budgets for consultation during 2016 and implementation from 2017 onwards.

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5.5.20 The discretionary spending within the 2016/17 budget that will be part of the review of Nexus' services and may be at risk from 2017 includes: –

	£m
Secured Bus Services	14.1
Bus infrastructure	2.4
Retail, Info & Customer Services	1.6
Shields Ferry	1.1
Discretionary Concessionary Travel	3.6
Major Projects	2.3
Metro	4.2
Heavy Rail	<u>0.2</u>
	<u>29.5</u>

5.5.21 The above table excludes expenditure incurred on the English National Concessionary Travel Scheme (ENCTS), which is a statutory obligation placed on Nexus.

5.5.22 After a planned use of reserves of £3.659m in 2016/17 it is estimated that Nexus' revenue reserves would be £9.7m as at 31 March 2017. Nexus estimates that it needs to retain a core reserve of around £5m to manage uncertainties, cost pressures and other unexpected calls on its revenue budget (refer to paragraphs 20 and 21 of Appendix C for further details). In addition, Nexus holds capital reserves, currently forecast to be circa £22m at 31 March 2016. This reserve has in the past been earmarked and used for investment in Major Projects, for example letting the Metro Concession, Ticketing and Gating, the Bus Strategy Delivery Project and contributions to other transport infrastructure projects and to support the capital programme.

2016/17 Nexus Base Budget

5.5.23 Nexus' budget for 2016/17 was prepared before the outcome of the QCS Board was known and the decision to reduce the levy (and the grant paid by the NECA to Nexus) by £2.0m. The budget was therefore predicated on a 'standstill' basis i.e. service outcomes would be protected whilst growth and other cost pressures were to be contained. In addition, headroom has also been made to reduce the inherent deficit by £1.444m when compared to the base deficit set for the current year, 2015/16. Taking into account the £2.0m reduction in the grant paid by the NECA to Nexus, the budget deficit for 2016/17 is estimated at £3.659m. Nexus' Appendix C (paragraphs 1 to 6) highlight the movement in Nexus' base budget (2015/16 on 2016/17) including narrative explaining budget pressures and savings, including increased Metro fare revenues.

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Impact on Usable Reserves of Nexus

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

	£000
Balance at 31st March 2015	13,507
Forecast Deficit 2015/16	-99
Balance at 31st March 2016	<u>13,408</u>
Forecast Deficit 2016/17	<u>-3,659</u>
Balance at 31st March 2017	9,749

NECA – Centrally Held Tyne and Wear Transport Budget

- 5.5.25 This budget relates to activity inherited from the former Tyne and Wear ITA. The vast majority (89%) relates to financing charges on historic debt. Additionally, there is budget provision to pay for support services/Transport SLAs, other supplies and services, the external audit fee and a repayment to the Tyne Tunnels for use of reserves in 2013/14 to pay off the pension deficit.
- 5.5.26 It is proposed that this Budget for 2016/17 be reduced from £2.700m to £2.620m with a saving of £80,000 (3%). Since 2005/06 this budget has reduced by over 40% from £4.499m to its proposed level. The indicative budget for 2016/17 is summarised in the table below.

Table 10: NECA Centrally Held Tyne and Wear Transport Budget

	2015/16 Revised Estimate	2016/17 Estimate	Change
	£000	£000	£000
Support Service / staffing	250	245	(5)
Administration and Governance	43	43	0
Financing Charges	2,394	2,333	(61)
Contingency / Devolution	110	110	0
Total Spending	2,797	2,731	(66)
Use of Transport Reserve	(97)	(111)	(14)
Contribution From Levy	2,700	2,620	(80)

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5.5.27 The Contingency/devolution budget is a one-off item in the budget funded from savings in 2013/14, which increased the level of the transport reserve transferred to NECA. They are funded from the use of the Transport reserve. The base budget excluding these items is a balanced budget. The Tyne and Wear (former ITA) Transport Revenue reserves are estimated to reduce from £0.590m at the start of 2015/16 to around £0.380m at the end of 2016/17. It is possible that the costs relating to Devolution workstreams may be incurred in the current year rather than next year, which would reduce the reserve earlier. Further details are set out in Appendix D.

Tyne Tunnels

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

5.5.29 The forecast for 2015/16 shows an increase in toll income as traffic has been higher than predicted). This increased income is largely offset by increased payments to the concessionaire, TT2 Ltd., as their payments are calculated based on the traffic figures. However, the forecast deficit position for the year is likely to be significantly improved compared to the original estimate, due to improved income and reductions in financing costs as a result of refinancing activity. The deficit will be met from the Tyne Tunnels reserves, which had been built up from tolls income in the past.

5.5.30 The annual deficit on the account to be met from the Reserves balance is expected to decrease slightly in 2016/17 as the effect of the proposed tolls increase to £1.70 for cars and £3.40 for HGVs from April 2016 (described in section 9.5) comes into effect. Further details are set out in Appendix E.

NECA Highway and Strategic Transport Team and Capacity

5.5.31 The NECA transport agenda needs to sustain sufficient capacity to support its functions, to influence external partnerships and investment decisions by national government, to coordinate funding opportunities and assess projects, to deliver collectively-agreed projects, and to provide policy advice to members of the Leadership Board, LEP and Transport North East Committees. This work is overseen by the NECA Transport Officers Group, which in turn reports to Economic Directors and Chief Executives. A core team of officers, working as part of the NECA, provide support for its transport functions, and resources are also identified to support the development of transport strategies and investments in partnership with the constituent authorities.

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5.5.32 For 2016/17 it is proposed to support this capacity with a budget of around £900k, representing a reduction on the current cost of £990k. This capacity will be continue to be funded through an allocation from the capital programme - as part of the 2.5% topslice of the Local Growth Fund Transport schemes (estimated at up to £400k) - and through a top-slice of resources provided by the DfT through the Local Transport Plan (LTP) arrangements (estimated at £500k). Further details of this funding allocation will be reported to future meetings of TNEC and the Leadership Board.

Economic Development, Skills and / LEP Capacity

- 6.1 The LEP core team is part funded from a Government contribution of £250,000 matched by an equal contribution from the constituent authorities. The Government has announced a continuation of their grant in 2016/17 and match funding is proposed to continue to be provided equally by the seven constituent authorities, with a contribution of £35,714.29 each. It is important that the LEP and the CA has access to the resources that will enable the delivery of the increased activity in 2016/17 onwards and activity be needed to take full advantage of future funding opportunities and achieve the Economic Plan objectives. A dedicated resource is needed to progress a work programme that will include a strategic platform for future funding decisions and the development of competitive funding bids. An issue identified and supported by NECC in their consultation response.
- 6.2 Additional external funding sources are also being identified to cover project and programme related activity that will support the development of the Combined Authority's thematic priorities and in particular the Regional Investment Plan and Inward Investment function. This includes the continuation of the 2.5% topslice of the Local Growth Funding capital programme and the bid for technical assistance funding from the European programme, which is due to be confirmed in the next few months.
- 6.3 The LEP has access to significant loan funds for economic development purposes and access to some grant funds as part of their North East Investment Fund. Information on this is included in the capital programme report. The latest information about the availability of funds this year and next is set out below. This will be updated after the LEP Board meeting.
- 6.4 A summary of the forecast LEP budget for 2015/16 and a draft Budget for 2016/17 is summarised below, which will be developed and set out in more detail to the NELEP Board on 28th January. There is still uncertainty as to whether any of the

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one-off strategic activity funding provided by DCLG in 2015/16 will be provided in 2016/17. A recent letter advised that further information in respect of this grant would be provided early in the New Year. The NELEP Budget is subject to the consideration and the approval of the LEP Board when it meets on 28th January.

Table 11: Summary of NELEP revised Net Revenue Budget 2015/16 and Initial Budget for 2016/17

	2015/16 Budget	2015/16 Revised	2016/17 Budget
<u>Expenditure</u>	£000	£000	£000
Employees	1,400	1,004	1,550
Premises	75	90	95
Communications/ Events/marketing	100	119	295
Transport LGF Monitoring/Evaluation	300	300	400
Other Operational Costs	275	484	615
Inward Investment Contribution (inc £80k one-off contribution spread over 2 years)	220	200	160
Gross Expenditure	2,370	2,197	3,115
Income			
LEP CORE Grant from DCLG	250	250	250
Local Authority Match Funding	250	250	250
LEP Strategy Grant from DCLG	250	250	tbc
Local Growth Fund 2.5% Topslice	1,039	1,086	1,985
European Grants	190	0	tbc
REIP Carry Forward	100	93	0
City Deal Skills Contribution	41	0	0
Enterprise Zone Business Rate Receipts	30	0	0
Interest on LGF balance	220	242	295
Gatsby/Growth Hub/Enterprise funding		121	261
Gross Income	2,370	2,292	3,041
Contribution (to) from LEP Balance	0	(95)	74

- 6.5 European expenditure and funding were not part of the LEP accounts in 2015/16 as initially envisaged. Additional funding and activity relating to the Gatsby Foundation grant; the Growth Hub and Enterprise Adviser activity are included in the LEP account. Total spending in 2015/16 is less than anticipated with a balance of funding being carried over a part of the LEP balance to fund activity in 2016/17 and future years.
- 6.6 The 2016/17 LEP budget reflects the full year cost of posts, as well as additional operational costs and activity funded from additional income, including the additional funding from the LGF topslice, which will help fund the costs of managing and implementing the larger LGF programme next year.

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6.7 Employability and Inclusion

- 6.7.1 Mental Health Trailblazer: NECA is one of four areas chosen by the Government to pilot a two year Mental Health and Employment Integration Trailblazer. The aim is to test how integration of employment support with the Government's Increasing Access to Psychological Therapy (IAPT) programme can support more unemployed people with a mental health condition to find and sustain work, as well as improve their mental health. NECA Economic Directors approved that Northumberland County Council will manage the project on behalf of NECA, including employment of delivery staff. On submission of a credible business case, Department of Communities and Local Government (DCLG) committed £1.1m through the Transformation Challenge Award (TCA), paid in August 2015. The award was made with an expectation of local match. A European Social Fund (ESF) application for £1,138,422 was submitted in early September to make a total project value of £2,168,422. Appraisal by Department for Work and Pensions (DWP), as Managing Authority, was delayed but the proposal was assessed by the local ESIF Sub-Committee on 15 December and a decision is expected in early January. Early approval of the funding will allow a programme launch in the quarter January to March 2016.
- 6.7.2 DWP Opt-In: Leadership Board has received updates of a proposed DWP 'Opt-In' opportunity utilising £6m ESF to test a locally designed programme to support long term unemployed residents into work. DWP will procure and manage the programme with NELEP/NECA involvement. In November 2015, DWP advised the 'indicative commercial timeline' for procurement in each LEP area. The North East Invitation to Tender will be issued in Quarter 1 of 2016/17 with an anticipated contract start in Quarter 3 of 2016/17 for a three year programme. The Employability, Inclusion and Skills group will work with DWP to ensure the service specification and resulting provision meet local need.

6.8 Inward Investment

- 6.8.1 Each local authority in the area is engaged in activities designed to generate and convert inward investment enquiries. These local arrangements have been supplemented by the creation of the Inward Investment Gateway that is able to provide a considered regional response to potential inward opportunities generated by UKTI and other activities. The work is being led by a dedicated resource that acts as the regional contact point for enquiries and coordinates the regional response, which has been enhanced in the current year. This development of the Invest North East England brand has also brought opportunities to introduce regional initiatives that add significant value to local activities.
- 6.8.2 Currently the seven councils are contributing £20,000 each to provide a core budget of £140,000 for co-ordination of inward investment activity, which has been matched by a contribution from the LEP of £140,000. This was agreed on a three

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year basis starting in 2015/16. A one off contribution of £80,000 was also agreed by the LEP for 2015/16 to give a total budget in 2015/16 of £360,000. The two additional posts agreed for the current year are due to be in place in February.

- 6.8.3 Having established the capacity to deliver a reactive service the next logical step is to build on the investment in this and the sector propositions to move to a proactive service including marketing materials, attending important events and leading generation. A proactive approach would help supplement the work of constituent authorities to secure the delivery of occupiers onto sites across the region, including the current and new enterprise zones.
- 6.8.4 There is the potential to build on the current Invest North East England Team of three (all in post by February 2016) and it is proposed to enhance the activity further, subject to a satisfactory report after an assessment and evaluation of progress, later in 2016. This would provide an enhanced level of quality lead generation and marketing resources and capacity to respond to increased levels of enquiries generated through proactive activity. An additional resource would enable attendance by the Gateway Team at an agreed series of events to be funded centrally. Securing additional private sector funding would further enhance this resource. Implementation would occur later in 2016 and would take into account the progress being made in the first half of 2016 with the new staff in post from February.
- 6.8.5 The model would continue to operate as a hub and spoke system with individual local authorities providing support to the regional resource on inward investment projects where necessary. Current account management/aftercare programmes would continue to be led by Local Authorities.
- 6.8.6 Support for an enhanced co-ordination and focussed inward investment activity is set out in the letter from the NECC at Appendix F, and the opportunity to better co-ordinate private and public sector activity will be explored further.
- 6.8.7 The proposal involves an increase in the budget in 2016/17 to £505k and a full year budget of £575k in 2017/18. Given the pressure on councils own budgets, the core budget of £140k would continue as previously agreed, with alternative sources of funding being explored to fund the additional capacity. The funding solutions would depend on whether a devolution agreement was reached. An illustration of how this capacity could be funded with a devolution funding agreement is set out below. Without a devolution agreement funding would be provided from additional interest on cash flow/balances, with a potential contribution from the Enterprise Zone budget. The one off LEP contribution of £80k is phased over two years. It is subject to confirmation from the NELEP of the use of Enterprise Zone business rate income, which was envisaged to be used to support EZ site marketing / activity and was agreed as a potential source of funding inward investment by the LEP Board in May 2015.

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Table 12: Illustrative Funding Scenario with a Devolution Agreement in Place

	2015/16 Budget	2015/16 Revised	2016/17	2017/18
	£000	£000	£000	£000
Core Contribution for Councils	140	140	140	140
Core Match from NELEP (LGF interest)	140	140	140	140
One off NELEP Contribution to Marketing Events/activity	80	60	20	
Contributions from Private sector			10	15
Funding From Additional Interest on revenue balances, Enterprise Zone and Devolution funding	0		72	280
In Year Saving – Contribution to(-) and from Reserves		(80)	123	
Total	360	260	505	575

Note 1 The use of £123k carry over saving from 2014/15 and 2015/16 would leave a contingency of £20k to give some in year flexibility.

Note 2 The allocation of funding between the use of EZ Business Rate income and Interest on revenue balances / Devolution funding is indicative and could be varied.

7 NECA Corporate Costs

7.1 In 2015/16 a relatively small corporate budget of £300k (£42,857.14 from each council) was agreed. During the year NECA has undertaken additional responsibilities in relation to the accountable body role for the LEP which is delivering an increased level of Local Growth Fund Activity. It has also had to resource the preparation of a major Devolution bid, which could significantly increase the capacity needed in 2016/17 and future years. The leadership Board has agreed to use reserves; interest on revenue balances and any underspending on budgets in 2015/16 to fund additional dedicated Head of Paid Service capacity this year and to provide a £500,000 budget for development of devolution workstream activity up to the end of March 2016.

7.2 It is now clear that the budget for corporate costs in 2016/17 needs to be increased to meet to provide the necessary capacity to deliver future increased responsibilities of NECA, even without those that would flow from a Devolution agreement. In the event of a devolution agreement being signed a further report will be made to the Leadership Board in March or April outlining the additional capacity that will be needed to deliver the devolution agreement.

7.3 Options for improving the effectiveness of the capacity to support NECA are being considered. The most likely option to be set out in a future report would involve streamlining the current arrangements and a move towards a joint officer Executive Team arrangement to provide support for both NECA and the LEP next

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year, subject to the approval of the NELEP Board. This is considered to be a more efficient approach that will deliver a value for money solution. It would also assist in a transition towards a mayoral authority. Under this arrangement a base corporate budget for activity NECA is expected to cost up to £550k next year.

- 7.4 This cost would increase in the event of a devolution agreement, where there would also be significant costs relating to the preparation for a mayoral election and in particular there is likely to be significant costs involved in developing the devolution worksteam activity, which would include Integration of Health and Social Care activity; Housing and Skills activity. At this stage the cost under a devolution arrangement appear likely to be in the order of £2m to £3m, which will be funded by devolution funding and interest earned on the additional funding next year. This cost will be assessed in more detail in January and February and will be subject to a future report to the Leadership Board.
- 7.5 Given the pressure on council budgets, it is proposed that the contribution made by councils would stay at the current level of £300k (£42,857.14 from each authority), with or without a devolution agreement. The additional base cost of £250k being met from external funding and interest on balances/cash flow.
- 7.6 The main areas of cost relate to increased and dedicated support from a Chief Executive, Monitoring Officer and legal costs, Chief Finance Officer and Finance costs, HR support, Communications, Co-ordination, Internal and External Audit, administration, IT support and other operating costs. The details of this structure and budget will continue to be developed and will be subject of a future report to the Leadership Board in March as more information is available on capacity requirements. Given the scale of the organisation and its responsibilities, this level of base corporate costs is relatively low.

8 NECA Funding Flexibilities

- 8.1 A number of opportunities have been identified following the creation of NECA to deliver improved funding flexibilities to help achieve economic objectives within the SEP (through revenue/capital funding swaps and cash flow management); to deliver treasury management savings for NECA and its constituent authorities and to boost resources availability to help achieve the SEP objectives.
- 8.2 A report commissioned by NELEP from DTZ about the Enterprise Zones was reported to the LEP Board in November 2014. The flexibilities of treasury management arrangements by NECA should help increase surplus resources which can be used to support economic development initiatives by saving up to £5.6m over the life of the scheme as well as by generating extra interest on revenue balances for NECA and its constituent authorities.
- 8.3 The details of a broader Treasury Management Pool arrangement are being developed by the Treasurers/Finance Directors of NECA and the seven councils. This would enable short term revenue cash investments to be pooled and used in place of external borrowing for Enterprise Zone infrastructure and in place of

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external borrowing to provide other very low risk loan facilities. This pooling arrangement would enable additional interest to be generated on the NECA and constituent authorities' cash flow balances which could form part of the Pool and reduce the interest cost on external borrowing. This would benefit all the authorities involved. This Treasury management pool arrangement could form part of the extended North East Investment Fund, which will be the subject of a future report to the Leadership Board. The additional revenue generated on NECA's own investments would help fund the additional capacity and activity that is envisaged, which helps avoid an increased cost for NECA's seven constituent authorities.

9 Fees and Charges

- 9.1 The main fees and charges that feature as part of the NECA/Nexus Budget relate to Metro Fares, the Gold Card for concessionary Travel on Metro and the Tyne Tunnel Tolls.
- 9.2 In the past, in order to meet budget targets and to align with national rail fare increases, Metro fares have traditionally been reviewed with changes coming into effect from January each year. At its November 2015 meeting Tyne and Wear Sub-Committee agreed to a proposal by Nexus to increase Metro fares from 2nd January 2016 by a weighted average of 0.4%; this figure is slightly below the level of the Retail Price Index at July 2015 (July RPI being the index used annually to consider Metro fares, in line with national rail fare setting processes).
- 9.3 This increase is necessary in order to help meet the financial targets required by the Nexus Medium Term Financial Strategy and will build on the improvements identified as part of the January 2015 fares review.
- 9.4 No increase is planned for the Gold Card or Child concessionary fares in Tyne and Wear next year although both will be considered as part of the review of Nexus' services in 2016.
- 9.5 In terms of the Tyne Tunnel Tolls, the toll for cars of £1.60 was set in January 2013 and the tolls for Heavy Goods Vehicles (HGV) of £3.20 was set in January 2014. The tolls are due to rise to keep pace with inflation as measured by the Retail Price Index (RPI), with increases limited to whole 10p figures and the ratio between HGV and Car tolls being preserved at 2:1. RPI figures for 2015 mean that no increase is needed in January 2016 as previously envisaged. This means that the proposed increase will now take place with effect from Sunday 3 April 2016 instead, when tolls for cars would rise by 10p to £1.70 and tolls for HGVs would rise by 20p to £3.40.
- 9.6 This increase is reflected in the level of toll income shown in the Tyne Tunnels Budget for 2016/17. It helps keep the annual deficit to a relatively low level, estimated at £289k, which is funded from tunnel reserves.

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10 Treasury Management and Investment Strategy

- 10.1 The Authority is required to approve a Treasury Management and Investment Strategy each year, before the beginning of the financial year. This sets out projections for borrowing and investments, and the guidelines under which Treasury Management officers will operate to ensure the security and liquidity of NECA's funds.
- 10.2 A number of Treasury Management Indicators and Prudential Indicators are set out to be agreed to enable monitoring of the delivery of this strategy.
- 10.3 The full Treasury Management and Investment Strategy and Prudential Indicators are set out in the Capital programme report on this agenda, including proposals to generate additional interest to help fund the costs of NECA.

11 Risk Management, Reserves and Contingencies

- 11.1 The General Reserve of NECA was set at £350k for 2014/15. It fell to £269k at the start of the current year and it looks likely that this reserve will be drawn upon to fund corporate and devolution costs in the year. The revised estimate of the likely outturn reserves at the end of 2015/16 is likely to be £175k or less. In view of the arrangements in place to manage financial risk; the transport reserves that exist; and the increased funding being made available to meet corporate costs, it is considered that the reserve should be restored to £350k as a minimum for 2016/17. A higher reserve will need put in place in the event of a devolution agreement and this will be included in future reports.
- 11.2 The Tyne and Wear Transport accounts also include a reserve. It estimated that this will amount to around £380k by the end of 2016/17, which is satisfactory. Other significant reserves are ringfenced for the financing of the Tyne Tunnels, for capital investment or being held on behalf of the region for the North East Smart Ticketing Initiative (NESTI) and it is estimated that this ringfenced reserve will reduce slightly to around £27m by 31st March 2017.
- 11.3 Nexus are planning to use some of their general reserves (as set out in section 5.5.24) to help balance their budget in 2016/17.
- 11.4 The transport levy and transport grant arrangements themselves also provide a mechanism for managing in-year financial pressures and risks. This is because the levies and grant payments are fixed for the year in 2016/17 and any variations would be made to levy and grant levels in 2017/18.
- 11.5 To help manage the cash flow pressure on the NECA corporate reserve it is proposed that contributions from councils are paid in April 2016 if a devolution agreement is not agreed. With a devolution agreement in place, contributions would be phased over the year.

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12 Potential Impact on Objectives

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

13 Finance and Other Resources

- 13.1 The financial and other resource implications are summarised in this report, where they are known. Further detail of the LEP Budget will be reported for information after the NELEP Board meeting in January, which will agree the NELEP budget for 2016/17.

14 Legal

- 14.1 The NECA is required by virtue of the Transport Levying Bodies Regulations 1992 to issue the transport levy before 15 February preceding the commencement of the financial year in respect of which it is issued.
- 14.2 In accordance with the requirements of the Order creating the NECA certain decisions must be taken on a unanimous basis. In accordance with those requirements the decisions to set a transport net revenue budget for 2016/17 and the Transport Levies for 2016/17 as set out in Recommendations 2.1a and 2.1b must be taken on a unanimous basis. In addition Recommendations (2.2a, b and c), which provide the annual budget for corporate and other costs including Economic Development and Regeneration, are also subject to unanimous decision of the Leadership Board. The remaining matters are either operational matters not subject to unanimous decisions or matters for the Leadership Board to note or matters which are subjects to full reports elsewhere on this agenda and are therefore decisions to be taken on a simple majority basis.

15 Other Considerations

Consultation/Community Engagement

- 15.1. The NECA constitution requires that consultation on its budget proposals to be undertaken at least two months prior to the budget being agreed. The 2016/17 Budget Proposals were reported to the Leaders Board on 17 November to start a consultation process, which included consideration by the Overview and Scrutiny Committee, Governance Committee and the North East Chamber of Commerce. This report also reflects comments received from individual constituent councils and the discussions at TNEC and the Tyne and Wear Transport Sub Committee. The comments received have been taken into account and specific comments are set out in Appendix F including a letter from the North East Chamber of Commerce. NELEP will be considering its budget and is due to agree its budget on 28th January 2016.

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15.2 Human Rights

Any human rights issue will be reflected in any future reports on implementation of budget proposals.

15.3 Equalities and Diversity

There are no specific issues arising directly from this report.

15.4 Risk Management

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

15.5 Crime and Disorder

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

15.6 Environment and Sustainability

There are no specific issues arising directly from this report.

16 Background Documents

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

17 Links to Plans in the Policy Framework

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

18 Appendices

18.1 Appendix A – Revenue Budget Summary 2015/16 and 2016/17

Appendix B – Transport Levy Arrangements

Appendix C – Nexus 2016/17 Budget

Appendix D – Former Tyne & Wear ITA Budget Elements 2015/16 forecast and 2016/17 Budget

Appendix E – Tyne Tunnels 2015/16 forecast and 2016/17 Budget

Appendix F – Consultation Comments

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19 Contact Officers

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

20 Sign off

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

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Appendix A – Summary of Revenue Budget Information 2015/16 and 2016/17

	2015/16			2016/17		
	Gross Revenue Budget	External Income / Grants / Reserves	Net Revenue Budget	Gross Revenue Budget	External Income / Grants / Reserves	Net Revenue Budget
	£000	£000	£000	£000		
<u>Transport</u>						
Tyne & Wear (Grant to Nexus)	176,250	(111,750)	64,500	151,455	(88,955)	62,500
Tyne & Wear (non-Nexus)	2,776	(76)	2,700	2,731	(111)	2,620
Tyne Tunnels	28,526	(28,526)	0	29,532	(29,532)	0
Northumberland	6,610	(709)	5,901	7,043	(709)	6,334
Durham	18,378	(2,302)	16,076	17,688	(2,248)	15,440
Transport Sub Total	232,540	(143,363)	89,177	208,449	(121,555)	86,894
<u>NELEP / NECA Team</u>						
LEP Budget	2,150	(1,900)	250	tbc	Tbc	250
NECA Corporate Budget	300	0	300	550	(250)	300
<u>Inward Investment</u>						
Core Team & Admin.	360	(220)	140	505	(365)	140
Total	235,350	(145,483)	89,867	209,504	(122,170)	87,584

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Appendix B – Transport Levy Arrangements – Apportionment on Population Basis in Tyne and Wear and Comparative Cost Analysis of Transport Budgets

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

For the 2016/17 levy, this is the 2014 Mid-Year estimates published by the Office for National Statistics. The population estimate figures for 2013 and 2014 are set out below.

	2013 MYE	2014 MYE	Change	
	No.	No.	No.	%
Gateshead	199,998	200,505	507	0.25%
Newcastle	286,821	289,835	3,014	1.05%
North Tyneside	202,152	202,744	592	0.29%
South Tyneside	148,526	148,740	214	0.14%
Sunderland	276,080	276,889	809	0.29%
Total Tyne & Wear	1,113,577	1,118,713	5,365	0.48%

Apportioning the proposed levy of £65.120m gives the following figures for Tyne and Wear:

Authority	Population (2014 Mid Year Estimates)	2016/17 Levy	Saving compared to 2015/16
	People	£	£
Gateshead	200,505	11,671,345	(397,749)
Newcastle	289,835	16,871,222	(437,299)
North Tyneside	202,744	11,801,677	(397,403)
South Tyneside	148,740	8,658,118	(304,843)
Sunderland	276,889	16,117,638	(542,706)
Total	1,118,713	65,120,000	(2,080,000)

Background to Levy Arrangements

Public Transport has traditionally been seen as a County-wide level service, due to the wider geographic nature of transport services. County-wide precepts for Transport costs were replaced in 1990 with levying arrangements, which reflected Government decisions about how the public transport grant support was to be provided, i.e. within the Revenue Support Grant paid to metropolitan districts as opposed to revenue support grant paid directly to PTAs. The levying arrangements which specified a population apportionment were set out in the Transport Levying Bodies Regulations 1992 (1992 No.2789), now

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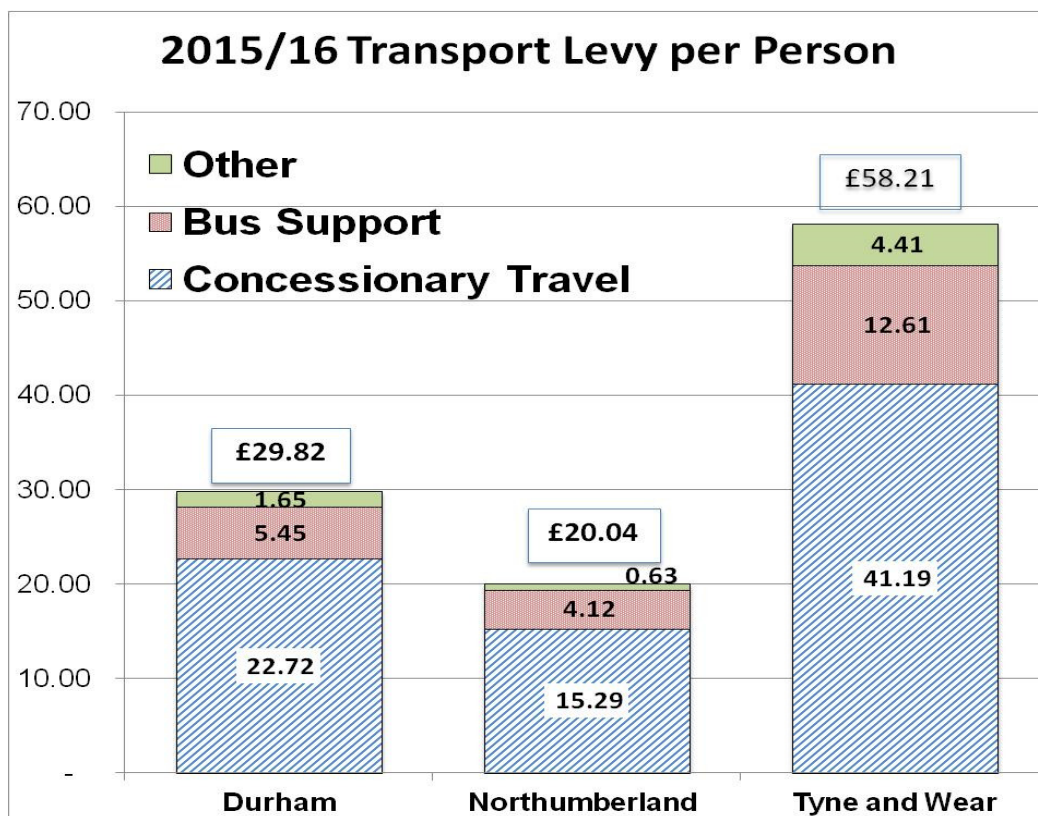
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amended by the Transport Levying Bodies (Amendment) Regulations 2015. The regulations reflected the principle that all residents in a county area should contribute equally to access to transport services. In recent years concessionary travel costs have also been classified by DCLG and DfT as a countywide level service.

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

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

Chart : NECA Transport Levies per Head of Population



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In Northumberland and Durham the vast majority of the Levy relates to grant paid back to the councils as the delivery agents for the operational transport activities in their areas. There is an addition to all three levies for cross cutting transport activities for all parts of the NECA area. The calculation of the proposed charge is proposed to be continued for 2016/17, as set out below.

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

The Tyne and Wear charge reflects the complexity and volume of the Tyne and Wear activity and accounts, including the Tyne Tunnel accounts and the incorporation of the Nexus accounts into the NECA group accounts.

Comparative Cost Analysis – Transport Budgets

The relative levels of the levies are shown in the previous Chart, with very different cost per head of population in Northumberland and Durham compared with Tyne and Wear, mainly due to the very different costs of concessionary travel.

The costs per head of population in Tyne and Wear are higher because they reflect a significantly higher level of concessionary travel activity and the support for secured bus services to provide accessible transport services across Tyne and Wear. 'Other' costs also includes capital financing costs relating to transport schemes which are not included in the levies for Durham or Northumberland.

In recent years the significant saving to authorities in Tyne and Wear from reductions in the levy and retention of concessionary travel grants have resulted in total annual savings of £12.8m (13.5% in cash terms and over 20% in real terms) since 2011, with no material reduction or detrimental impact on service outcomes. At the same time population has risen slightly by 0.6%. A reduction of £12.8m is equivalent to a reduction in the levy per head of population of £11.40 per person, which is a significant improvement.

A comparison of levy per head of population in 2015/16 for the other metropolitan ITA/CAs shows that while Tyne and Wear has the 3rd highest levy per person at £60, this is a direct result of the higher concessionary travel costs. It should be noted that Tyne and Wear has the highest cost per head of population for concessionary travel but the lowest cost per head of population for all other transport costs.

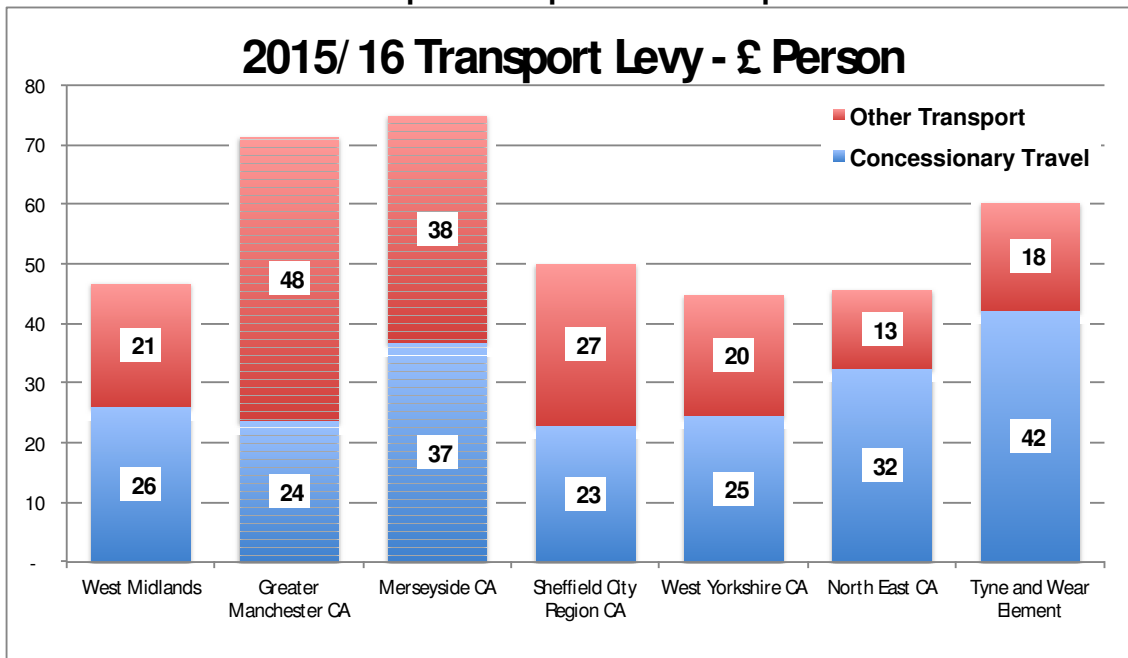
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In summary:

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

Chart : Relative Transport Cost per Head of Population 2015/16



A comparison of average levy per head of population in 2015/16 for the whole NECA area the other metropolitan ITA/CAs shows that NECA has the second lowest levy cost/person; the second highest concessionary travel cost per head of population and the lowest level of other transport costs. It should be noted that some of the other Combined Authorities, in particular Manchester and Merseyside have very significant capital financing costs included with their 'other transport' costs.

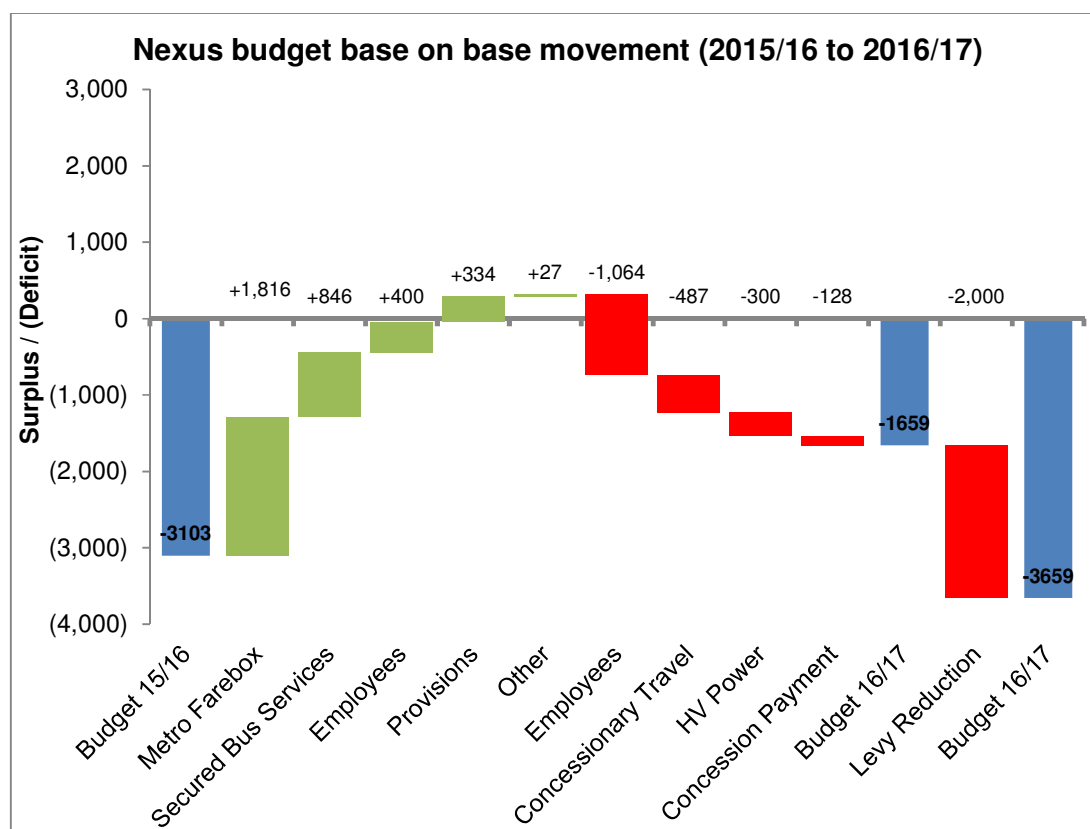
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APPENDIX C

Nexus Revenue Budget 2016/17

1. Nexus' budget for 2016/17 was prepared before the outcome of the QCS Board was known and the decision to reduce the levy (and the grant paid by the NECA to Nexus) by £2.0m.
2. The budget was therefore predicated on a 'standstill' basis i.e. service outcomes would be protected whilst growth and other cost pressures were to be contained. In addition, headroom has also been made to reduce the inherent deficit by £1.444m when compared to the base deficit set for the current year, 2015/16.
3. Taking into account the £2.0m reduction in the grant paid by the NECA to Nexus, the budget deficit for 2016/17 is estimated at £3.659m.
4. The graph below shows the movement 'base on base'.



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5. The areas where Nexus is able to generate additional revenues and/or make savings (at standstill) are shown in green and relate to:-

- Metro Farebox – where 6.2% growth in passenger numbers and 3.2% additional revenues earned in the current year are expected to continue into 2016/17. When considered alongside marketing campaigns and the fares proposal agreed by the Tyne and Wear Sub-Committee in November 2015 for implementation on 2 January 2016, Metro's income is expected to increase by £1.82m when compared to the 2015/16 base estimate.
- Secured Bus Services – where the base estimate for 2016/17 has been adjusted, having taking into account efficiencies made in this area of the budget since 2014/15.
- Employees – the financial impact of Nexus' senior management restructure, implemented between January and April 2015 did not feature in the 2015/16 base budget. The savings generated are a permanent feature of the base and have therefore been accounted for in the 2016/17 budget.
- Provisions – where given the financial constraints faced by Nexus, a re-assessment of what is held centrally for pay increases, claims arising and other risks has been carried out, reducing the base budget requirement by £0.3m

6. The cost pressures, shown in red relate to:-

- Employees – reflecting the impact of recent changes in employer national insurance contributions for employers offering 'contracted out' pension schemes; a 1% provision for pay inflation (as per the Chancellors summer 2015 budget announcement) and pay progression for employees on APT&C grades
- Concessionary Travel – a small uplift in costs is required for ENCTS payments due to bus operators as part of the two year negotiated settlements previously reported to the Tyne and Wear Sub-Committee. It has also been necessary to create a £0.2m provision to take account of potential reductions in the sale of scholars' passes to local authorities. Further, reductions in sales of the Gold Card Metro concessionary pass of £0.2m have also been factored into the budget.

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- High Voltage Power – despite recent reductions in energy consumption, the cost of High Voltage Power continues to increase, leading to an estimated cost pressure of £0.3m on the 2016/17 budget
 - Concession Payment – this budgetary pressure reflects the contractual obligation Nexus has to increase the payment to DBTW under the terms of the Metro Operating Concession. In addition, the Department for Transport (DfT) have confirmed that Metro Rail Grant (revenue) will be in line with previous projections based on the long term funding agreement with the Department dated 2 February 2010.
7. Paragraph 5.5.19 of the covering report indicates that without the possibility of generating £5.0m of savings from implementing the Bus Quality Contracts Scheme in 2017/18, and having had its grant from the NECA reduced by £2.0m in 2016/17, Nexus' budget deficit will grow to an estimated £7.0m in 2017/18, if action to address the budget imbalance is not taken. Therefore, in order to deliver a balanced budget in the medium term, cuts in services will need to be implemented from 2017. This will be considered as part of a review of Nexus' services in 2016, which will identify options for reductions in service budgets for consultation during 2016 and implementation from 2017 onwards.
 8. As highlighted in the table at paragraph 5.5.20 of the covering report, included within the 2016/17 Nexus budget are a range of service areas, the majority (but not all) of which the NECA has some discretion in directing Nexus to provide.
 9. Annex 1 of this appendix provides a breakdown of the amount of funding each of these service areas will place reliance on in respect of the NECA grant in 2016/17, having taken into account internal recharges for indirect activities and overheads, commercial revenue generated in the delivery of the service, government grant and releases from the capital grants deferred account. In regards this latter point, an unusable reserve is established when a fixed asset funded by government grant is acquired, so that in future years, the reserve is released from the balance sheet to match (offset) the depreciation charged to the revenue account reflecting the use of the asset in the provision of services. The majority (but not all) of nexus' depreciation is offset in this way, reflecting the reliance upon government grant as a means of investing in its asset base, in particular the Tyne and Wear Metro system.
 10. Whilst Annex 1 illustrates how each service area is to be funded from the NECA grant in 2016/17, it does not breakdown the Nexus budget in its entirety. This is provided in more detail at Annexes 2, 3 and 4 which illustrates:-

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- The full range of cost centres where income and expenditure is recorded in pursuit of Nexus' business plan objectives (refer to Annex 2)
 - The net cost of Nexus' support services and other indirect activities for example, Legal Services, Health and Safety, Retail Sales etc which are fully allocated across the service areas included in Annex 1 (refer to Annex 3)
 - A 'subjective analysis' of Nexus' gross income and expenditure, for example, Employee costs, Premises costs, Transport related expenditure etc (refer to Annex 4)
11. In the context of up to £7.0m of budget cuts needing to be found by 2017, it should be recognised that this represents around a quarter of Nexus' current levels of discretionary, NECA grant funded expenditure.
12. Despite Nexus maintaining service outcomes since it embarked on its pursuit of the Bus Quality Contracts Scheme in 2011, the Leadership Board will also be aware that a £7.0m (or 24%) cut in the level of discretionary, NECA grant funded expenditure will be additional to a range of efficiency savings already achieved by Nexus. Broadly speaking, the level of savings delivered since 2011/12 amount to a net £8.0m during which time, public transport services provided by Nexus have been fully protected.
13. Examples of efficiency savings already achieved include Nexus cutting its staffing establishment by over 20% since 2011; reviewing service areas in order to identify and remove inefficiencies; the delivery of procurement efficiencies in some of its contract terms and the consolidation of a range of budgets with investment in new technologies and the upgrade of Nexus' asset base also driving additional efficiencies.
14. Further narrative in relation to NECA grant funded expenditure is detailed below:-
- **ENCTS** - £36.530m, 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

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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.

- **Discretionary CT** - £3.552m, 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). This is therefore a potential consideration for the review of Nexus' services during 2016.
- **Metro** - £4.221m, comprising the contribution that the NECA grant makes to the cost of Metro operations. Given that the level of NECA grant funded expenditure is currently assessed as being lower than the £6.4m estimated value of 'revenue forgone' in the carriage of Gold Card concessionary pass holders, it is theoretically possible to make savings against the NECA grant if the Gold Card Scheme was withdrawn and customers paid a commercial fare instead. However, previous analysis has shown that if this were to be implemented in the context of the ENCTS remaining in place, it is probable that Nexus would incur additional expenditure given customers' are likely to switch mode, especially where competition exists on corridors served by both Metro and commercial bus operations.
- **Ferry** - £1.160m, comprising staffing, fuel, maintenance, cleaning and security.
- **Local Rail** - £0.187m, comprising the cost of Nexus' involvement in the franchise management arrangements of Northern Rail and Trans Pennine Express. This includes servicing the North East Rail Management Unit on behalf of the NECA.
- **Bus Services** - £14.110m, mainly comprising secured bus services which necessarily involves the following types of service provision:-
 - All day services
 - Scholars services
 - Works / Early Morning services
 - Evenings and weekend extensions

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- Route diversions
 - Taxibus and Community Transport
-
- **Bus Infrastructure** - £2.401m, comprising staffing, cleaning, maintenance and security of bus interchanges, stations and shelters.
 - **Public Transport Information** - £1.649m, 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.
 - **Major Projects** - £2.349m, comprising the costs of developing the next Metro concession including business cases to meet the NECA's aspirations under its Devolution Deal for the renewal of the Metro fleet, the long-term continuation of essential renewals network wide and expansion of the system, and future integration of the Metro with the local rail network. There are also match funding contributions for investment in smart ticketing and projects such as South Shields Interchange and other Metro Enhancements included within this budget. During the current financial year, this budget has been used to fund a contribution towards the cost of developing Sunderland station (above ground).
15. In agreeing Nexus' revenue budget for 2016/17, particularly bearing in mind that a deficit of £3.659m will need to be financed, NECA has to have due regard to Nexus' reserves and its overall financial standing.
16. The latest revenue outturn forecast for 2015/16, which covers the period ending 7 November 2015 and which was reported to Nexus' Corporate Management Team on 1 December 2015 shows an improvement of £1.18m against the position previously reported to the Transport North East Committee and the Tyne and Wear Sub-Committee at their November meetings.
17. This is due principally to increased Metro revenue (£0.700m), claw back of 2014/15 concessionary travel payments to operators (£0.250m) where boardings targets were not achieved, additional performance penalties incurred by DB Regio, the Metro operator (£0.150m) and a reduction in net depreciation (£0.106m). The deficit forecasted to the year end is now estimated at £0.100m which clearly improves Nexus' forecast reserves position.
18. In this regard, Nexus has usable reserves which are classified as revenue and capital.

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19. Revenue reserves have in the past been used, and will be used again in 2016/17 to balance the revenue budget. The balance on this reserve as at 31 March 2016 is forecast to be £13.4m, reducing to £9.7m following the use of £3.7m to fund the 2016/17 budget deficit.
20. At this stage, it is assumed that revenue reserves will not be used in order to balance the revenue budget in 2017/18. However, the size and adequacy of Nexus' revenue reserves will need to be considered as part of the review of Nexus' services in 2016. The review will need to consider that Nexus is required to operate with a contingency that is sufficient to cushion the impact of unexpected events or emergencies such as:-
- If the Concessionary fares reimbursement increased above the budgeted amount;
 - If any uninsurable risks arise during the course of the year;
 - If Metro commercial revenues fall short of the budgeted amount; and
 - If the price of High Voltage Power for the Metro increased significantly
21. In reaching a view on the adequacy of Nexus' revenue reserves, a possible consideration is whether it might be possible to cushion the impact of service reductions in 2017/18.
22. In addition to its revenue reserves, Nexus also has a separate capital reserve. Capital reserves have in the past been earmarked and used for investment in Major Projects, for example letting the Metro Concession, Ticketing and Gating, the Bus Strategy Delivery Project and contributions to other transport infrastructure projects. The balance on this reserve as at 31 March 2016 is forecast to be £22.2m. The capital reserve therefore provides headroom in Nexus' delivery of Major Projects on behalf of the NECA.
23. Annex 5 provides the Leadership Board with details of how Nexus commits expenditure in the context of managing its budgets (both revenue and capital), including tendering arrangements and letting contracts for the supply of goods and services.

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Revenue Budget 2016-17 FINANCIAL SUMMARY

Annex 1

	<u>Direct</u>		<u>Net Direct</u>	<u>Indirect</u>		<u>Loan</u>	<u>Capital</u>	<u>2016/17</u>
	<u>Costs</u>	<u>Income</u>	<u>Costs</u>	<u>Costs</u>	<u>Grants</u>	<u>Interest</u>	<u>Adjust</u>	<u>Net</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>
ENCTS	36.942	(1.157)	35.784	0.745	0.000	0.000	0.000	36.530
Discretionary CT	11.815	(8.501)	3.314	0.238	0.000	0.000	0.000	3.552
Metro	81.216	(44.347)	36.869	12.284	(24.694)	1.500	(21.738)	4.221
Ferry	1.205	(0.433)	0.773	0.577	0.000	0.020	(0.209)	1.160
Heavy Rail	0.156	0.000	0.156	0.271	(0.240)	0.000	0.000	0.187
Bus Services	16.930	(4.391)	12.539	1.560	0.000	0.016	(0.005)	14.110
Bus Infrastructure	2.438	(0.580)	1.857	0.671	0.000	0.322	(0.450)	2.401
Public Transport Information	0.804	(0.065)	0.740	1.166	0.000	0.000	(0.256)	1.649
Major Projects	3.237	0.000	3.237	0.000	(0.888)	0.000	0.000	2.349
TOTAL NEXUS REQUIREMENT	154.743	(59.475)	95.269	17.513	(25.822)	1.858	(22.658)	66.160
NECA GRANT (LEVY)								(62.500)
DEFICIT								3.659

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Revenue Budget 2016-17
(£m)

Annex 2

Service Area	Costs	Capital Recharges	External Income	Grants	Loan Interest	Capital Adjustments	Net
ENCTS - Bus	36.942		(1.157)				35.784
ENCTS	36.942	0.000	(1.157)	0.000	0.000	0.000	35.784
Discretionary CT - Bus	5.339		(1.060)				4.279
Discretionary CT - Ferry	0.120		(0.120)				0.000
Discretionary CT - Metro	6.356		(7.321)				(0.965)
DISCRETIONARY CT	11.815	0.000	(8.501)	0.000	0.000	0.000	3.314
Metro Concession	37.428						37.428
Rail Infrastructure - Rates	1.531						1.531
Rail Infrastructure - Insurance	1.327						1.327
Rail Infrastructure - Risk Contingency	0.416						0.416
Rail Infrastructure - High Voltage Power	6.935						6.935
Rail Infrastructure - Depreciation	22.726						22.726
Stores	0.140						0.140
Planning & Performance	1.836	(0.683)					1.153
Engineering	0.824	(0.637)					0.187
Capital Delivery	3.578	(3.578)					0.000
Metro Farebox	0.754		(43.985)				(43.231)
Car Parks	0.015		(0.184)				(0.169)
Ticketing & Gating System	1.580						1.580
Capital Maintenance	0.241	(0.241)					0.000
Civil Engineering	3.240		(0.002)				3.238
Ticketing & Gating Maintenance	0.732		(0.006)				0.726
Rail Management & Administration	0.099						0.099
Permanent Way	1.370		(0.136)				1.234
Power Supplies	0.564		(0.033)				0.531
Signalling	1.012						1.012
Renewals	1.682	(1.678)					0.005
Metro Rail Grant				(24.694)			(24.694)
METRO	88.032	(6.816)	(44.347)	(24.694)	0.000	0.000	12.175
Ferry	1.205		(0.433)				0.773
FERRY	1.205	0.000	(0.433)	0.000	0.000	0.000	0.773
Local Rail	0.156						0.156
Local Rail Grant				(0.240)			(0.240)
LOCAL RAIL	0.156	0.000	0.000	(0.240)	0.000	0.000	(0.084)

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Service Area	Costs	Capital Recharges	External Income	Grants	Loan Interest	Capital Adjustments	Net
Bus Contract Management	0.218						0.218
Bus Network Management	0.307						0.307
TaxiCard	0.403		(0.050)				0.353
Secured Bus Services	16.003		(4.341)				11.661
BUS SERVICES	16.930	0.000	(4.391)	0.000	0.000	0.000	12.539
Bus Interchanges & Stations	2.013		(0.580)				1.383
Bus Shelters	0.425						0.425
BUS INFRASTRUCTURE	2.438	0.000	(0.580)	0.000	0.000	0.000	1.857
Provision of Information	0.804		(0.065)				0.740
PUBLIC TRANSPORT INFORMATION	0.804	0.000	(0.065)	0.000	0.000	0.000	0.740
Investment Income			(0.330)				(0.330)
Pension Deficit / Pay & NIC Provision	6.690						6.690
Print Unit	0.035		(0.006)				0.029
Marketing	0.400		(0.005)				0.395
One Stop Shop	0.905		(0.037)				0.868
Retail Sales	0.577		(0.440)				0.137
Corporate Planning & CMS	1.525		(0.232)				1.294
Office Accommodation & Estate Mgmt	1.126		(0.174)				0.952
Democratic Services & Executive	0.635						0.635
Media & Communications	0.529		(0.097)				0.433
Administration & Secretarial	0.146						0.146
Health & Safety	1.318		(0.026)				1.291
Legal Services	0.342		(0.021)				0.321
Financial Mgmt / Payroll / Internal Audit	1.067	(0.033)	(0.072)				0.962
Procurement	0.184	(0.028)					0.156
Programme Assurance Office	0.647	(0.647)					0.000
Human Resources	0.259						0.259
Corporate ICT	2.523		(0.032)				2.491
ICT Projects	0.736	(0.520)					0.216
Metro Communications	0.570						0.570
INDIRECT COSTS	20.213	(1.228)	(1.472)	0.000	0.000	0.000	17.513
Loan Interest - Other					0.427		0.427
Loan Interest - Metro					1.430		1.430
LOAN INTEREST	0.000	0.000	0.000	0.000	1.858	0.000	1.858

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Service Area	Costs	Capital Recharges	External Income	Grants	Loan Interest	Capital Adjustments	Net
Release from Unusable Capital Reserve						(2.172)	(2.172)
Deferred Capital Grant release						(20.486)	(20.486)
CAPITAL ADJUSTMENTS	0.000	0.000	0.000	0.000	0.000	(22.658)	(22.658)
NESTI	0.888			(0.888)			0.000
South Shields Interchange	0.550						0.550
Training Centre	0.552						0.552
Metro Concession Development	1.000						1.000
NTL Smart Ticketing	0.247						0.247
MAJOR PROJECTS	3.237	0.000	0.000	(0.888)	0.000	0.000	2.349
NECA Grant (Levy)				(62.500)			(62.500)
NECA GRANT (LEVY)	0.000	0.000	0.000	(62.500)	0.000	0.000	(62.500)
TOTAL	181.772	(8.044)	(60.946)	(88.322)	1.858	(22.658)	3.659

Annex 3

Revenue Budget 2016-17

Allocation of Indirect Costs

Indirect Cost Centre	£m	Service Area	£m
Investment Income	(0.330)	ENCTS	0.745
Pension Deficit / Pay & NIC Provision	6.690	Discretionary CT	0.238
Print Unit	0.029	Metro	12.284
Marketing	0.395	Ferry	0.577
One Stop Shop	0.868	Local Rail	0.271
Retail Sales	0.137	Bus Services	1.560
Corporate Planning & CMS	1.294	Bus Infrastructure	0.671
Office Accommodation & Estate Management	0.952	Public Transport Information	1.166
Democratic Services & Executive	0.635		
Media & Communications	0.433		
Administration & Secretarial	0.146		
Health & Safety	1.291		
Legal Services	0.321		
Financial Management/ Payroll / Internal Audit	0.962		
Procurement	0.156		
Programme Assurance Office	0.000		
Human Resources	0.259		
Corporate ICT	2.489		
ICT Projects	0.216		
Metro Communications	0.570		
Total Indirect Costs	17.513	Total Indirect Costs	17.513

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Revenue Budget 2016/17

Annex 4

Subjective Analysis

Expenditure	<u>£m</u>	<u>£m</u>
Staff & Pensions	29.862	
Premises	4.220	
Metro Concession	37.428	
Concessionary Travel	48.757	
Bus Services	16.401	
Services & Supplies	8.841	
High Voltage Power	6.935	
Insurance	1.408	
Major Projects	2.349	
Asset costs	24.683	
Loan Interest	1.858	
	<hr/>	182.741
Income		
External Income	(60.946)	
Capital recharges	(8.044)	
Grants	(87.434)	
Asset costs	(22.658)	
	<hr/>	(179.082)
Deficit		<hr/> 3.659

Nexus Tendering Arrangements

1. Nexus governance arrangements are documented within its Standing Orders which include as appendices the Corporate Procurement Manual and Financial Regulations.
2. The Corporate Procurement Manual details the tendering process from inception to post award and is a step by step guide for staff to ensure all tender activity undertaken by Nexus is open, fair, and transparent.
3. In order to ensure Value for Money all tender exercises where the total value of the tender exceeds £25,000 are processed by Nexus' Corporate Procurement Section and require a minimum of three written tenders. Where the value exceeds £50,000 a minimum of five written tenders are required. Where the value is under £25,000 the following requirements apply.
 - Up to £1,000 - 1 verbal quotation
 - Between £1,000 and £5,000 - 2 written quotations
 - Between £5,000 and £25,000 - 3 written quotations
4. Notwithstanding the above requirements, in addition approval of Nexus' Corporate Management Team is required in relation to any contract award over £150,000 (capital) and £25,000 (revenue).
5. All tender approvals and contract awards in relation to capital expenditure between £25,000 and £150,000 dealt with in accordance with Standing Orders also require completion of a Capital Approval Form which must be signed off by relevant Departmental Heads including both the Head of Finance and also the Director of Rail and Infrastructure.
6. Any waiver from this process requires Nexus' Corporate Management Team approval. A waiver has to be properly justified and can only be approved if specific circumstances pertain, as outlined in Nexus' Standing Orders.
7. In addition to its own internal requirements, Nexus are also bound by statutory tendering requirements contained in the 'The Utilities Contracts Regulations 2006' (SI 2006/6), being a named body in Schedule 1. This Regulation covers tenders applicable over a certain value, currently £347,868 in relation to supplies and services and £4,348,350 in relation to Works.
8. The largest contract that Nexus has is with DB Regio (Tyne and Wear) Ltd for the provision of train operating services. This is a £37m per annum contract and was competitively tendered under the aforesaid Utility regulations between 2009 and 2010; the concession agreement commenced on 1st April 2010 and is for an initial period of seven years. Within the payment Nexus makes to DB Regio, the contractor is responsible for procuring its own employees (who initially TUPE

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transferred from Nexus in 2010) and its own goods and services (some contracts were novated at the time, others have been established and/or renewed by DB Regio over time. Some activities are sub-contracted by DB Regio– for example the cleaning of trains and stations or marketing the Metro under an arrangement that Nexus oversees via its approval of DB Regio’s annual marketing plan.

9. The tendering of Secured Bus Services is also undertaken following this process, save for what is known as ‘De Minimis’ services whereby in accordance with the Service Subsidy Agreements (Tendering) Regulations 2004, a Local Transport Authority is exempted from the tendering process to a maximum value of 25% of its annual Secured Bus Service budget. Currently Nexus spends around 16.5% of its annual secured service budget on ‘De Minimis’ services¹.
10. Concessionary fares reimbursement is not subject to competitive tendering arrangements which given the scale of this financial commitment appears at first glance to be odd. However, as with all Travel Concession Authorities (which would include County Durham and Northumberland), Nexus is compelled statutorily under the Concessionary Bus Travel Act 2007 to reimburse bus operators for the carriage of elderly and disabled passengers and has regard to DfT guidance and formulae in order to inform these payments. The Tyne and Wear sub-committee were apprised of the arrangements that are in place for 2015/16 and 2016/17 financial years at its September 2015 meeting.

¹ The reason for this are consistent with being able to provide an efficient secured bus network where often elements of commercial services are de-registered and instead funded up by the LTA. It is not unusual for a commercial bus operator to ‘cherry pick’ parts of a route or service and/or the times at which it operates leaving the LTA with an inability to tender the ‘socially necessary’ elements of the route or service in a meaningful way because of the clear financial advantage that the incumbent operator has. This feature of the de-regulated bus environment leads to ‘De Minimis’ arrangements being put in place in certain circumstances

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Appendix D – NECA Tyne & Wear Budget Elements

	2015/16 Original Budget	2015/16 Revised Estimate	2016/17 Proposed Budget
Service Level Agreement	250,000	250,000	245,000
External Audit Fee	15,000	13,000	13,000
Members Allowances and Expenses	5,000	5,000	5,000
Conferences, Travel and Subsistence	3,000	3,000	3,000
IT Development / Website costs	10,000	10,000	10,000
Supplies and Services	10,000	12,000	12,000
Repayment to Tyne Tunnels (for Pension Deficit payment)	240,000	240,000	240,000
Financing Charges - Interest and DME	1,155,030	1,077,959	1,060,000
Financing Charges – Principal	1,081,420	1,081,420	1,038,200
Interest Income	-3,000	-5,000	-3,000
Contingency / Devolution costs	10,000	110,000	110,000
Net Expenditure	2,776,450	2,797,379	2,731,200
TRANSPORT LEVY	-67,200,000	-67,200,000	-65,120,000
Grant to Nexus	64,500,000	64,500,000	62,500,000
Contribution to (-) or from Reserves	76,450	97,379	111,200
	2015/16 Original Budget	2015/16 Revised Estimate	2016/17 Proposed Budget
TYNE AND WEAR TRANSPORT RESERVE			
Reserves brought forward	-590,254	-590,254	-492,875
Reserves contribution in year	76,450	97,379	111,200
Reserves carried forward	-513,804	-492,875	-381,675

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Appendix E – Tyne Tunnels Account Estimates

	2015/16 Original Budget £000	2015/16 Revised Estimate £000	2016/17 Original Budget £000
Tolls Income	-27,100	-27,457	-29,243
Contract Payments to TT2	21,907	21,658	22,277
Employees	36	36	37
Pensions	50	56	58
Support Services	120	100	90
Supplies & Services	50	35	35
NTC Community Fund	10	10	10
Financing Charges	6,793	6,419	7,465
Interest/Other Income	-200	-234	-200
Repayment from ITA for use of reserves	-240	-240	-240
Annual Deficit on Tyne Tunnels Account met from reserves	1,426	383	289
Tyne Tunnels Reserves b/f	-27,749	-27,749	-27,366
Tyne Tunnels Reserves c/f	-26,323	-27,366	-27,077

Note that the Tunnel Reserves figures shown above exclude the contribution to fund the Pedestrian and Cycle Tunnel works at this time.

The Budget for 2016/17 assumed a toll increase in April 2016.

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Appendix F – Consultation Comments

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

North East Chamber of Commerce

Following a meeting with the Chair on 23rd December 2015 the attached letter was received from the Chamber. The opportunity of a further meeting has also been offered prior to future meetings of the Leadership Board to discuss Budget enhancements.

Comment	Response
Businesses are supportive of measures to join up policy and investment decisions across the broader combined authority area, and we also hope to see this develop further.	The Development of the North East Investment Fund in 2016/17 will help with the co-ordination on investment decisions
We welcome the positive response we have received so far to our calls to enhance capacity within both the Combined Authority and Local Enterprise Partnership. We are heartened by proposals to continue to expand the team and hope to see increased coordination between the two bodies to deliver the Strategic Economic Plan for the area.	The budget sets out further proposal to enhance and join up capacity, which are subject to approval of the Leadership Board and the NELEP.
We welcome the extra resources that have been committed to inward investment recently. We hope these can be enhanced further in order to enable an increasingly proactive approach on this issue	The report includes proposals to enhance this activity, subject to a satisfactory report on progress later this year.
The local transport network fulfils a vital role in enabling staff and customers to get to the businesses in the North East Combined Authority area. We will therefore aim to make a full contribution to the future consultation on options to address this issue.	Tbc
Education and skills remains an area of significant concern to NECC members. We welcome the development of the Career Benchmarks Pilot and will continue to play a part in this. This remains, however, a long way short of	The NELEP has two strong live projects that contribute to the delivery of the Education Challenge - particularly focused on increasing the number of young people progressing onto higher

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<p>the concept of a 'Schools Challenge' as initially proposed, and of which NECC was very supportive. We hope to see increased ambition over what could be delivered for the area under this theme. We also expect to see a robust approach taken to forthcoming area-based reviews of post-16 education and training, ensuring businesses in the area have access to the best possible skills base and training provision relevant to the jobs required in the North East economy.</p>	<p>education, apprenticeships and employment.</p> <p>The first includes the pilot of the Good Career Guidance benchmarks</p> <p>We are also part of the first waves of LEPs working in partnership with The Career & Enterprise Company, rolling out a network of Enterprise Advisors; volunteers from the world of work who will work directly with schools and college leaders to bridge the gap between the worlds of education and employment.</p> <p>Next steps.</p> <p>Our next steps are to maximise the potential and impact of all of the projects that are currently live and we will ensure that funding spent on linking education with the local economy supports our aim to get better outcomes for young people leaving school.</p>
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The Governance Committee met on 11th December 2015 and issues raised at the meeting are outlined below.

Comment	Response
<p>The Committee sought assurances from the Chief Finance Officer that the level of reserves held by the authority was considered to be adequate.</p>	<p>The Chief Finance Officer's assessment of the level of reserves is set out in section 11 of the main report.</p>
<p>The Committee was concerned that the Authority did not have sufficient capacity particularly in areas such as Finance to operate effectively.</p>	<p>A draft structure for the NECA / NELEP Executive team is being developed which, subject to the necessary approvals, would meet the requirements of NECA including proposals for the team required should the proposed Devolution agreement be confirmed.</p>

The Overview and Scrutiny Committee met on 1st December 2015 and issues raised at the meeting are outlined below.

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Comment	Response
Clarification of the costing of the Swans Wet Berth infilling Local Growth fund project was requested.	The latest figures involving an £8m LGF contribution have been checked and included in the capital programme report.
A member raised the issue of the potential financial implications associated with the Quality Contract outcome.	The Quality Contract scheme aimed to help address an underlying £5m funding gap. This would need to be addressed in other ways which could involve reductions in services in future years. The solutions to addressing the funding gap would be consulted upon as part of a review of services in Tyne and Wear in the first half of 2016, with options being consulted upon later in 2016 for implementation in future years.

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North East Combined Authority

North East Leadership Board

Date: 19 January 2016

Subject: Capital Programme 2016/17 and Treasury Management Policy and Strategy 2016/17

Report of: Head of Paid Service and Chief Finance Officer

Executive Summary

The purpose of this report is to update members on the forecast capital outturn position for 2015/16 and to present the initial 2016/17 capital programme and forward commitments (where known) for approval by the Leadership Board. The report also sets out the Treasury Management Policy and Strategy for 2016/17 (including both borrowing and investment strategies) and to set the Prudential Indicators for 2016/17.

Recommendations

Leadership Board is requested to:

- (i) Note the latest position in respect of the 2015/16 capital programme;
- (ii) Agree the proposed approach to maximising LGF capital spending in 2015/16, set out in section 2.4 of this report, which will be subject to NELEP approval and DCLG/BIS approval, where this is necessary;
- (iii) Approve the proposed initial Capital Programme for 2016/17 amounting to £129.3m as set out in this report;
- (iv) Approve the Treasury Management Policy and Strategy for 2016/17 (including the Borrowing and Investment Strategies) and the Prudential Indicators as set out in Appendix C; and
- (v) Approve the Minimum Revenue Provision Statement for 2016/17 as set out in Appendix D.

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1 Background Information

This report outlines the capital programme proposals for 2016/17 and the funding sources identified to deliver the programme, which covers a wide range of transport improvements and economic and regeneration initiatives. This represents the latest information about the capital programme, which will be updated as new information becomes available and will be subject to regular monitoring reports during the year.

2 Update on the 2015/16 Capital Programme

- 2.1 The latest estimate for capital spending in 2015/16 is £106.9m, which is summarised in Table 2 below. This is £7.8m less than the approved budget for the year. The reduction is due to a range of factors, including the delay in receiving confirmation from Government of funding for future years, until after the spending review; the complexity of projects, in particular highway projects, which has resulted in some delay in finalising business cases to enable schemes to proceed; and a revision to the Metro Assets renewal programme.

Table 2: Forecast Outturn for 2015/16

	Approved Budget 2015/16	Forecast Outturn 2015/16
	£m	£m
Local Growth Deal Schemes	53.910	50.170
Metro Asset Renewal Programme	45.271	41.502
Nexus Non-Metro *	1.153	0.503
Tyne Tunnels Capital Programme	3.100	2.675
LTP Integrated Transport Block Grant	11.309	12.083
	114.743	106.933

* Less grant funding shown in other programme lines.

- 2.2 The forecast spend on Metro will achieve the minimum target spend set by DfT. An element of underspending on the LGF programme was expected given the complexity of projects; the delay in securing funding approvals and the fact that there was no overprogramming included in the programme. While unspent grant can be carried forward, the Government have given significant funding flexibility to enable maximum use of the LGF grant for capital purposes in the current year and there is advantage in demonstrating maximum use of the grant in the current year.

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- 2.3 Projects are progressing as quickly as they can and some activity has been brought forward and reflected in the programme, however slippage of spending is possible due to the complexity of the capital schemes being delivered. Normally a new capital programme would be set at a level that is between 20% and 25% higher than the level of resource that is planned to be spent in the year. This is called 'over-programming' and reflects the fact that the complexity of schemes and a range of external factors can result of slippage of activity and spending to a future year. Due to the uncertainty about LGF grant funding for future years, and with no alternative funding options to support additional schemes, it was not possible to introduce any over-programming into the initial 2015/16 programme.
- 2.4 A number of options have been investigated to maximise use of the LGF grant this year and these are set out in summary below, with more detail to be provided to the NELEP to consider and agree: -
- a) It is proposed that LGF grant be used this year to fund the capital expenditure on two Enterprise Zone infrastructure schemes that have already been approved by the NELEP and the Leadership Board and are currently underway in Newcastle at the Enterprise Zone on the North Bank of the Tyne and at the Enterprise Zone in Sunderland. This spending would otherwise have been funded from borrowing by the two authorities, with borrowing costs paid from business rates income, which NECA holds on behalf of NELEP. Using the LGF Grant will save the interest costs on this borrowing. Estimated spending this year on both these schemes is expected to be around £4.6m. NECA would refinance this spending next year by use of internal funds, with the financing costs paid for using the enterprise zone business rates that NECA holds. It would then make funding available to finance an equivalent amount (£4.6m) of expenditure on LGF schemes that had slipped over into 2016/17 or 2017/18;
 - b) Where full business case approval cannot yet be given for projects, it is proposed to give approval to design fees and advance works that can be carried out and funded this year. Proposals to do this for two projects so far are set out in the separate report on project approvals on this agenda; and
 - c) Capital spending on other phases of projects that have been approved could be funded by LGF grant this year, with the funding that is being released being used in place of LGF grant used next year. The specific cases are set out in the separate report on project approvals on this agenda.

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2.5 By using these funding options we expect to report a high level of use of LGF grant in year. Nationally the level of total actual capital expenditure for local authorities compared to the initial capital programme estimate is normally around 80% to 85%. We are aiming to utilise well over 90% of our grant in year and as close to 100% as can be achieved. This helps demonstrate good financial delivery and performance.

3 Initial Programme for 2016/17

3.1 This report sets out an initial capital programme of £129.3m for 2016/17, which includes overprogramming of £6m in respect of the Metro Asset Renewal programme. This is summarised below and set out in more detail in the report. The programme does not yet include spending in relation to additional Devolution grant next year; spending on the Tyne Tunnels; spending on the successful Enterprise Zones bids; over-programming on the LGF programme of £20m that should be included in the programme; or any new grant funding that NECA or the NELEP may secure. This will be included in future update reports to the Leadership Board in March or April and future meetings.

3.2 In order to achieve spending in line with resources it will be necessary to increase the level of over-programming, particularly in relation to the LGF programme, where a recommended level of over-programming would justify an increase in the LGF programme next year by around £23m to give an overall initial LGF programme of £100m. This is considered in more detail in section 4.3 below.

Table 2: High-Level Summary of the NECA initial Capital Programme 2016/17

	2016/17 Programme
	£m
Local Growth Fund Programme	76.830
Metro Asset Renewal Programme	41.192
LTP Integrated Transport Block (less Metro ARP local contribution included above)	11.309
Tyne Tunnels Capital Programme	Tbc
Total	129.331

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4 Local Growth Fund Capital Programme

- 4.1 In July 2014, £289.4m was awarded to the North East through the North East Growth Deal, as well as an additional £40.6m in January 2015, for delivery of the region's Strategic Economic Plan. The first tranche of the LGF grant funding of £53.91m was paid to the North East Combined Authority, as Accountable Body for the North East LEP, in April 2015. At this time the programmed spending in 2015/16 is £50.2m. As mentioned in section 2.3 and 2.4, there may be further slippage by the year end and actions are being taken to maximise the use of the LGF grant in 2015/16. This will be considered further in a separate report on this agenda dealing with LGF Project Approvals. The balance of any unspent grant in 2015/16 will be carried over to be spent in 2016/17.
- 4.2 The Spending Review on 24 November confirmed that allocations would be agreed for future years, and formal written confirmation of the grant allocation for 2016/17 of £79.4m has been received (a copy of this letter is attached to the Project Approvals report on this agenda), subject to the outcome of the annual conversation – which is not expected to change the figures. Taking account of the potential carry over of funding from 2015/16 of £3.7m, this would give a total amount of LGF grant to be spent in 2016/17 of £83.1m. Currently the programme for 2016/17 only amounts to £79.4m.
- 4.3 In order to fully utilise the LGF grant funding of £83m next year it is considered appropriate to include an over-programming level of up to 20%, which will help manage slippage later in the year. The current programme amounts to £79.4m, which is broadly in line with the new available grant, and £3.7m less than the total grant available including carry over from 2015/16. It is therefore proposed to seek to include an over-programming level of 20% in order to increase the initial programme for 2016/17 by around £21m to £100m next year, with further details being brought to the NELEP Board and the Leadership Board to future meetings. The first priority will be to accelerate spending on approved projects, and it will also be important to exploring the opportunity to fund new projects and will also be considered by the NELEP Board and this will be the subject of reports to future meetings of the Leadership Board.
- 4.4 The following schemes which are all part of the current LGF programme are proposed to continue or commence in 2016/17 (subject to detailed business case approval), with the anticipated LGF spending in 2016/17 set out below and set out in the schedule at Appendix A.

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4.5 Economic Assets

- Infrastructure for Merchant Park (£2.058m) – to support inward investment and supply chain development adjacent to the future home of Hitachi Rail Europe.
- North East Rural Growth Network (£2.14m) – a programme to provide rural strategic economic infrastructure support and small business growth grants.
- Swans Wet Berth Infilling (£6.00m) – to create development land with quay frontage within the Swans site of the North East Enterprise Zone, thereby increasing availability of commercial land available for priority sectors.
- River Tyne Economic Development (£2.47m) – a number of preventative projects that collectively aim to safeguard the future of the River Tyne as a vital economic transport corridor.
- Sunderland Central Business District (£tbc) - an office scheme as part of a mixed use regeneration scheme for the former Vaux Brewery Site is part of the overall approved programme, with spending currently programmed into future years. The level of spending that can be brought forward into 2016/17 is currently being assessed.

4.6 Innovation

- Centre for Innovation in Formulation (£4.65m) – providing facilities and expertise to help companies to develop, prove, prototype and scale up new formulated products.
- Newcastle Laboratory and Life Science Incubation Hub (£4.4m) – To be based at Newcastle University, the Hub will include lab and office space to support businesses in life sciences and related sectors.
- Sunderland Enterprise and Innovation Hub (£2.9m) – Enterprise and Innovation Hub, comprising the first ‘Fab Lab’ in the North East, incubation spaces and workshop, office and laboratory space for manufacturing, creative and science-based businesses.
- Low Carbon Energy Centre and Heat Network Newcastle Science Central (£2.36m) – providing low carbon, low cost energy and electricity for tenants of the site.
- Netpark Infrastructure Phase 3 (£2.11m) – to open up a further 30 hectares of development land at the highly successful Innovation Park.
- National Centre for Healthcare Photonics (£1m) – Creation of a facility for a national centre to develop and commercialise photonics based therapies.

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4.7 Skills

- Rural Skills Development (East Durham College, £0.680m) – refurbishment of East Durham College Houghall campus to extend support to Land-Based, Animal Care and Rural Sectors.
- Development of a STEM Specialist Skills Centre (Northumberland College, £2.097m) – Development of a Science, Technology, Engineering and Mathematics facility that will enable the college to provide for emerging skills needs in industries vital to the economic well-being of the region.

4.8 Transport

- Lindisfarne Roundabout (South Tyneside Council, £4.38m) – Improving traffic movements at this important roundabout to enhance access to the Port of Tyne and South Shields town centre.
- Northern Access Corridor Phase 3 – Osborne Road to Haddrick’s Mill (Newcastle City Council, £3.78m) – Addressing the current ‘pinch point’ at Haddricks Mill roundabout, to improve accessibility and safety for all users
- Local Sustainable Transport Fund Package (£3.8m) – Comprehensive upgrade to Durham and Tyne and Wear Urban Traffic Management and Control systems, with linked functionality in order to provide improved journey time reliability for public transport and to reduce instances of congestion. ‘Gateway Improvements’ to four major heavy rail station and improved linkages between Newcastle International Airport and the Tyne and Wear Metro, Strategic Cycle package linking to key public transport gateways.
- A19 Employment Corridor Access Improvements (North Tyneside Council, £1.4m) – Facilitates economic development in the A19 corridor including the occupation of the remaining units at Cobalt Business Park, whilst also addressing capacity issues on the A191/Silverlink North roundabout.
- A191 Junctions including Coach Lane and Tyne View Park (North Tyneside Council, £0.88m) – Improved access to Tyne View Park employment site and improved flows in A191 corridor through relief of capacity at Tyne View Park junction.
- Newcastle Central Station to Stephenson Quarter (Newcastle City Council, £3m) – Direct link from Newcastle Central Station to the Stephenson Quarter regeneration site. This proposal addresses a major physical barrier that currently reduces accessibility from the main rail station in the North East LEP area to a major

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regeneration site. The scheme is designed to accelerate development in Newcastle's historic Stephenson Quarter.

- A1056-A189 Weetslade Roundabout Improvements and A1-A19 link (A1056) (North Tyneside Council, £3.31m) – A scheme to help reduce congestion, unlock major employment and residential development sites, and reduce severance to people on foot and bicycle.
- Scotswood Bridgehead (Newcastle City Council, £3.2m) – Improved access at this important Tyne crossing to support the development of Metro Green in Gateshead (850 new homes and 15,000sqm of office accommodation) and the Scotswood Masterplan site (1300 new homes), as well as anticipated housing developments in Western Newcastle.
- South Shields Transport Hub (South Tyneside Council, £4.83m) – The scheme will consolidate Metro and bus terminals in the heart of South Shields, as part of South Tyneside Council's broader vision for the regeneration of South Shields town centre.
- Sunderland Low Carbon Zone (Sunderland City Council, £3.35m) – Improvements in transport infrastructure to the Low Carbon Zone, including the Enterprise Zone site. The scheme aims to enhance the capacity of the network to accommodate projected employment growth of the entire zone bounded by the A1231, A19, A1290 and Leamside Line, including Nissan, North East Enterprise Zone and other proposed developments.
- A1058 Coast Road (North Tyneside Council, £3.6m) – the Coast Road scheme is planned to deliver a wide range of multi-modal benefits, including journey time and reliability improvements for bus and car users, as well as accessibility and safety enhancements for pedestrians and cyclists.
- A167 Park and Ride Corridor (Gateshead Council, £0.3m) – the park and ride scheme at Eighton lodge is aimed at reducing traffic congestion on the A1 /A167 coming into the central Gateshead and Newcastle areas. The latest information about the timetable for the acquisition of the land needed for the scheme means that the scheme is now expected to start early in 2017/18, which has reduced the level of planned spending in 2016/17 and resulted in the revised funding profile set out in this report.
- Northern Access Corridor Phase 2(Cowgate to Osborne Road) (Newcastle City Council, £1.09m) – The scheme provides improvements at two junctions that are linked in traffic flow. The scheme will signalise the roundabouts and upgrade the junctions to reduce levels of congestion for all road users and address issues of severance for non-motorised modes.

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- Horden Rail Station (Durham County Council, £3.34m) – The Scheme proposes the construction of a new two platform station at Horden Sea View on the Durham Coast Line. It will create an economically and environmentally sustainable solution to some of the access constraints of East Durham.
- Traffic Movements along A185/A194/A19 (The Arches) (South Tyneside Council, £0.72m) – Delivering a programme of local authority investment in local connections to the strategic trunk road network, enabling the region to take best advantage of the planned Highways Agency improvements to the A19 and A1 in the area.
- Metro Enhancements - the development of a Metro Maintenance and Renewals Skills Centre to the east of South Shields Station, which will provide classroom based and practical training as well as the ability to undertake light maintenance and cleaning together with the out stabling Metro Cars. The spending profile for this project now starts in 2017/18 as opposed to 2016/17 as originally envisaged.
- A1/A19 Junctions Improvement Programme (£1.15m) – A programme of improvements on the local authority road network including improvements to the southern portal of the Tyne Tunnel, A19/A189 Seaham/Murton Interchange and, A1/A690 Junction Improvements). Both the A1 and A19 corridors have been identified within the Strategic Economic Plan as important arteries for the growth of the area.

5 Metro Asset Renewal Programme (ARP)

- 5.1 Nexus is now over half way through its current eleven year renewal programme to upgrade and replace many of the assets across the Tyne and Wear Metro system. ARP Capital Grant is provided in four key tranches through to 2021; Years 1 to 3, Years 4 to 6 and Years 7 to 9, followed by a final two years (years 10 and 11).
- 5.2 The funding offer is dependent upon Nexus' delivery performance, the reliability of the Nexus network and affordability in the context of the DfT's overall budget. Grant funding was originally set out in February 2010 and requires a 10% local contribution, meaning that the full funding on offer was £389m.
- 5.3 In addition to the first three years of the programme where full funding was already committed, Nexus also secured full funding for years 4 to 6 (2013/14-2015/16) following DfT's review of Nexus' delivery of the programme in autumn 2012. Following a further performance review in October 2014, DfT confirmed that full funding was available for Year 7 (2016/17) and also increased it's committed funding from 50% to 75% for years 8 and 9 (2017/18 and 2018/19). This has allowed Nexus to maintain the delivery of the programme, such that it is able to progress a range of projects that

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straddle this year and next, including the first work-package awarded under the new Permanent Way framework contract.

- 5.4 As part of the recent proposed Devolution agreement with NECA, Government set out that it would consider establishing and devolving a long-term funding programme to support investment in Metro. This is in two parts. The first will consider, through the Spending Review, Government setting a multi-year funding allocation for Metro Reinvigoration Phase 2, committed up to 2020-21. In addition, the Government will also consider the submission of a business case from the Combined Authority for investment in the Metro network to 2030, including the upgrade of the Metro fleet, potential expansion, and future integration of the Metro with the rail network.
- 5.5 Following the Spending Review, DfT have confirmed in a letter to the Managing Director, Transport Operations the following funding, as a firm commitment through to 2020/21:

Table 3: Summary of Metro ARP Grant Funding

Year	2016/17	2017/18	2018/19	2019/20	2020/21	TOTAL
Initial maximum budget provision	£31m	£31m	£31m	£30m	£30m	£153m
Previously committed funding (Oct 2014)	£31m	£23m	£23m	£15m	£15m	£107m
SR 2015 committed funding	£31m	£30m	£23m	£18m	£18m	£120m

- 5.6 Funding for works for next year has been confirmed in full. Funding in future year is greater than the previously committed funding, but is less than the initial maximum budget provision. DfT have confirmed that Nexus has ensured the efficient delivery of the Asset Renewal Programme to date and the reduction in grant funding is in no way a reflection of Nexus' capability as a delivery organisation. A further performance review is expected in 2017 and in the meantime, DfT continues to acknowledge the need for it to support the Tyne and Wear Metro system beyond 2020/21 in capital funding terms and 2019 in regards the need for it to support the delivery of train operations. Further, DfT has also acknowledged the need for both the renewal of the Metro fleet, the long-term continuation of essential renewals network wide and the Combined Authority's ambition for the expansion of the system, and future integration of the Metro with the rail network.
- 5.7 Given that the level of DfT grant through to 2020/21 is less than previously anticipated, it is proposed at this stage to outline a proposed programme for 2016/17 only, with a further report to be considered by the Leadership Board in March 2016 when the impact that the reduction in capital grant from the DfT will have on the programme in 2017/18 and 2018/19 is better understood. This will take into account discussions

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with the DfT on the revenue and capital funding for metro in future years as part of the devolved funding agreement.

- 5.8 Given the recognition from government that there is a need to fund investment in the Metro system beyond the time horizon of the current investment programme, the impact of the reduction in grant funding from that previously anticipated is expected to represent a re phasing of investment in Metro, as opposed to it being postponed indefinitely.
- 5.9 This is an important consideration in the context of the work-bank, i.e. the amount of investment needed across the network through to 2021 being in excess of available resource (£413m versus funding now confirmed as £352.2m, including £35.2m local funding). As such, developing the business case for an investment plan covering the period up to 2030 is now a priority for Nexus.
- 5.10 Although the grant funding profile is as set out in the table above, the DfT has indicated that it is prepared to consider re-phasing to align with investment and/or contractual arrangements that Nexus may wish to enter into during the 5 year period. The phasing over the next two years 2016/17 and 2017/18 is almost unchanged.
- 5.11 The maximum ARP funding available in 2016/17 totals £37.9m and around £31.4m of this is already committed in order to complete projects that carry forward from the current year. The balance of funding including over programming of 19.6% equates to £41.2m and is earmarked in order to carry out a number of major Metro system engineering requirements with the emphasis on progressing design work to ensure effective prioritisation and efficient delivery in future years.
- 5.12 The proposed programme for 2016/17 is summarised in the table below and detailed at Appendix B.

Table 4: Metro Capital Programme 2016/17

Capital Scheme	Indicative Programme 2016/17 £m
Civils (Tunnels and Bridges)	1.715
Permanent Way (Track Renewal)	19.095
Overhead Line	3.650
Stations	3.607
Communications (mainly Radio systems)	3.650
Signalling (mainly Rail Traffic Management System)	6.685
Mechanical and Electrical	0.255
Capital Maintenance	1.960
Miscellaneous	0.575

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Total Metro Programme	41.192
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This includes a number of significant projects which are worthy of particular mention and these are detailed below.

5.13 Civils

Work to ensure the integrity of the central area tunnels will continue. The remaining work will focus on bridges with the Howdon viaduct walkways and development of the Killingworth Road Bridge scheme (for which Nexus is also drawing down external funding from the Highways Challenge Fund) for delivery in 2017/18. Bridge structural assessments and designs will be progressed for prioritisation and delivery in later years.

5.14 Permanent Way

Major track works (including earthworks, drainage and Switches and Crossings works) are proposed from Tynemouth to Northumberland Park, which will include the completion of the Easter 2016 blockade and a further 15 day blockade currently scheduled to commence in July 2016. In addition, track work is planned from Chillingham Road to St. James and from Jesmond to Gateshead Stadium.

5.15 Overhead Line

Works to replace the overhead line will mobilise in 2016/17 following delivery of the specialist vehicles procured in 2015/16. This will be carried out by the internal Capital Delivery Team and is expected to take around four years to complete. This is an example of works that can commence now that surety of funding from DfT is firmly committed through to 2021.

5.16 Stations

The refurbishment of Central Station will be completed and Nexus will continue working with South Tyneside Council and their development partner on a new Bus/Metro interchange at South Shields. Design work will be progressed for a number of interchange, city centre and halt stations for prioritisation and delivery in future years. Nexus is also working with Sunderland City Council and Network Rail to progress the redevelopment of the above ground part of Sunderland Station.

5.17 Communications

During 2016/17 the project to install a new radio system across the network will continue and is due to be completed. This is a safety critical system and whilst not obvious to the travelling public is a fundamental part of Metro operations. The project involves fitting equipment to the metro cars as well as installing new transmission masts and antennae around the system and also new equipment at the Metro control

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centre in South Gosforth as well as Network Rail's Tyneside Integrated Electronic Control Centre in Gateshead.

5.18 Signalling

Another essential system, which is not obvious to the passenger, is the Rail Traffic Management System (RTMS). This system uses a variety of technologies to route trains around the system, automatically set signals and measure train performance. A project to replace the current obsolete system is underway and will continue through the next two years with completion anticipated in 2017. In addition, there will be further risk assessments and possible upgrades to level crossings, depending upon the outcome of the risk assessments.

- 5.19 In summary, the 2016/17 Programme is focused primarily on delivering critical projects on the basis of asset condition (Permanent Way, Overhead Line, Radio and RTMS). Additionally, the programme will allow progression of the assessment, scoping and design of bridge and station refurbishments with the aim of ensuring that the limited available funding is prioritised in the most effective way possible and based on robust asset knowledge and reliable costing information.

6 LTP Integrated Transport Block

- 6.1 Core Local Transport Plan (LTP) funding is made available by the Department for Transport (DfT). Changes were made to the funding formula for the Integrated Transport block for the 2015/16 to 2020/21 period (with a "break point" after three years at 2017/18, where the formula will be recalculated across the authorities using updated data).
- 6.2 The Maintenance Block will continue to be allocated by the DfT. The DfT sent out settlement letters to local authorities, notifying them of individual allocations for 2015/16 and beyond.
- 6.3 The Integrated Transport Block grant has been awarded by DfT to the whole NECA area, with the total confirmed allocation as follows.

Table 5: LTP IT Block Allocations 2015/16-2017/18

	2015/16	2016/17	2017/18
	£m	£m	£m
Total	13.949	13.949	13.949

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- 6.4 This block is allocated between the constituent authorities within the NECA area on an agreed basis, with an allocation to Nexus (which is mainly used to provide the match funding needed for the Metro ARP capital programme). The LTP block allocation is also used to partly fund the Regional Transport Team, which supports the delivery of the capital programme. In 2015/16 the recharge for the cost of the team amounted to £690k. The intention is that the recharge is reduced to around £500k for 2016/17 and a report on the proposed allocation of this funding will be considered by the Transport North East Committee in February and the recommendations will be included in the report to the next Leadership Board meeting.

7 Tyne Tunnels Capital Programme

- 7.1 The Tyne Tunnels Capital Programme is now focused on the delivery of the Tyne Pedestrian and Cyclist Tunnels refurbishment. The Tyne Pedestrian Tunnel Works have suffered delays since the contractor responsible for the works went into administration. The works are now being managed directly by engineers from Newcastle, acting on behalf of the NECA. Officers are currently assessing the works remaining, which includes asbestos removal. It is clear that there will be a significant increase in costs to allow the work to be completed and a detailed assessment of the revised costs is currently being undertaken and will be reported to Tyne and Wear Transport Sub Committee and to a future meeting of the Leadership Board for inclusion in the capital programme.

8 Funding the Capital Programme

- 8.1 The proposed financing of the 2016/17 programme is summarised in the table below. This shows that the majority of the programme is to be funded from external grants.

Financing	2016/17 Total (£m)
Grants from Central Government	122.491
Reserves	0.804
Over-programming*	6.036
Total	129.331

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

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9 Treasury Management

- 9.1 The Authority is required to approve a Treasury Management and Investment Strategy each year, before the beginning of the financial year. The full Strategy is set out in Appendix C. This sets out projections for borrowing and investments, and the guidelines under which Treasury Management officers will operate to ensure the security and liquidity of NECA's funds and minimise risks associated with Treasury Management activity.
- 9.2 The proposals set out in Appendix C represent a base position. As details of the proposed Devolution Agreement are firmed up, certain aspects such as the authorised limit on borrowing may need to be updated. Further reports will be brought to the Leadership Board if required.

NECA Treasury Management Pool

- 9.3 A report commissioned by NELEP from DTZ about the Enterprise Zones was reported to the LEP Board in November 2014. The flexibilities of treasury management arrangements by NECA were identified as a way of reducing external borrowing costs to fund Enterprise Zone Infrastructure costs. This was identified as a way of increasing surplus resources which can be used to support economic development initiatives by saving up to £5m over the life of the current EZ scheme as well as by generating extra interest on revenue balances for NECA and its constituent authorities. The new enterprise zones will extend this opportunity, with infrastructure of up to £89m to be funded.
- 9.4 The details of a broader Treasury Management Pool arrangement are being developed by the Treasurers/Finance Directors of NECA and the seven councils. This would enable short term revenue cash investments to be pooled and used in place of external borrowing for Enterprise Zone infrastructure and in place of external borrowing to provide other very low risk loan facilities. This pooling arrangement would enable additional interest to be generated on the NECA and constituent authority cash flow balances and reduce the interest cost on external borrowing. This Treasury management pool arrangement could form part of the extended North East Investment Fund and will be the subject of a separate report to the Leadership Board. The additional revenue generated on NECA's own investments would help fund additional activity, which helps avoid an increased cost for the seven district councils.

10 Minimum Revenue Provision

- 10.1 The proposed method for calculation of the Minimum Revenue Provision for 2016/17 is set out in Appendix D. If agreed, this would result in a MRP charge relating to borrowing taken out in previous years of £3.89m which has been included within the

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revenue budget proposals for 2016/17. All borrowings relate to Tyne and Wear Transport and are met from the Tyne and Wear levy and the Tyne Tunnels revenue account.

11 Next Steps

- 11.1 Progress against the 2016/17 capital programme will be reported regularly throughout the year and monitored carefully by officers at the various delivery bodies.

12 Potential Impact on Objectives

- 12.1 The capital programme and proposed financing set out above will enable the North East Combined Authority to make a positive impact on its objectives.

13 Finance and Other Resources

- 13.1 The Financial and other Resource implications of proposals are set out in the body of the report.

14 Legal

- 14.1 The Authority has a statutory obligation to present a Treasury Management and Investment Strategy and Minimum Revenue Provision Statement.
- 14.2 The approval of the matters set out in (i) and, (ii) in the Recommendations section on page 1 of the Report can be agreed by a simple majority of the Leadership Board in accordance with the provisions of Paragraph 3(1) of Schedule 1 of the Durham, Gateshead, Newcastle Upon Tyne, North Tyneside, Northumberland, South Tyneside and Sunderland Combined Authority Order 2014 (the Order) which established NECA.
- 14.3 There are certain matters however that require a unanimous vote in favour to be carried and such matters are set out in Paragraph 3(6) of the Order. In particular, Paragraph 3(6)(g) requires unanimity in relation to the approval of borrowing limits, treasury management strategy including reserves, investment strategy and capital budget of the Authority. Therefore the approval of the matter set out at (iii), (iv) and (v) of the Recommendations section of the Report - the approval of the capital programme and the Treasury Management Policy and Strategy for 2016/17 (including Borrowing and Investment Strategies) and the Prudential Indicators - requires the unanimous agreement of the Leadership Board before approval.

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15 Other Considerations

15.1 Consultation/Community Engagement

Projects are being implemented by the Constituent authorities or in constituent authority areas are subject to local consultation, planning approvals etc

15.2 Human Rights

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

15.3 Equalities and Diversity

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

15.4 Risk Management

Methods for the successful identification, monitoring and control of risks associated with treasury management activity are set out in detail in Appendix C.

15.5 Crime and Disorder

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

15.6 Environment and Sustainability

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

16 Background Documents

- 16.1 Capital Programme 2015/16 – Leadership Board 20 January 2015
- CIPFA Treasury Management in the Public Services: Code of Practice
- North East Strategic Economic Plan

17 Links to the Local Transport Plans

- 17.1 Transport schemes within the 2016/17 capital programme will assist with the delivery of the objectives of the Local Transport Plans of the NECA area.

18 Appendices

- 18.1 Appendix A – Local Growth Fund Capital Programme 2016/17
- Appendix B – Metro ARP Capital Programme 2016/17
- Appendix C – Treasury Management Strategy and Policy 2016/17 and Prudential Indicators
- Appendix D – Minimum Revenue Provision Statement 2016/17

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19 Contact Officers

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Eleanor Goodman, Principal Accountant – NECA,
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20 Sign off

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

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APPENDIX A – Local Growth Fund Capital Programme

SEP Theme	Project Title	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	Total
Economic Assets	Infrastructure for Merchant Park	8,358	2,058	2,584	-	-	-	13,000
Economic Assets	North East Rural Growth Network**	1,750	2,140	1,330	780	-	-	6,000
Economic Assets	Swans Wet Berth Infilling	300	6,000	1,700	-	-	-	8,000
Economic Assets	Sunderland Central Business District	-	-	-	-	5,000	5,800	10,800
Economic Assets	River Tyne Economic Development	1,360	2,470	1,085	1,085	-	-	6,000
Innovation	Centre for Innovation in Formation	820	4,650	1,930	-	-	-	7,400
Innovation	Newcastle Laboratory and Life Science Incubation Hub	445	4,400	3,755	-	-	-	8,600
Innovation	Sunderland Enterprise & Innovation Hub	2,000	2,900	-	-	-	-	4,900
Innovation	Low Carbon Energy Centre and Heat Network Newcastle Science Centre	440	2,360	-	-	-	-	2,800
Innovation	Netpark Infrastructure Phase 3	310	2,110	4,410	-	-	-	6,830
Innovation	National Centre for Healthcare Photonics	-	1,000	2,500	2,000	3,000	1,500	10,000
Skills	STEM and Innovation Centre (Tyne Met College)	1,000	-	-	-	-	-	1,000

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Skills	Facilities for Marine and Offshore Engineering	1,100	-	-	-	-	-	1,100
Skills	Rural Skills Development (East College Durham)	9,320	680	-	-	-	-	10,000
Skills	Offshore and Wind Energy Training Facility (BEACH)	400	-	-	-	-	-	400
Skills	Development of a STEM Specialist Skills Centre (Northumberland College)	111	2,097	42	-	-	-	2,250
Transport	Lindisfarne Roundabout	720	4,380	-	-	-	-	5,100
Transport	Central Metro Refurbishment	2,510	-	-	-	-	-	2,510
Transport	Northern Access Corridor - Osborne Road to Haddrick's Mill	650	3,780	-	-	-	-	4,430
Transport	Local Sustainable Transport Fund Package**	3,800	3,700	-	-	-	-	7,500
Transport	A19 employment corridor access improvements (North Tyne)	530	1,400	2,770	-	-	-	4,700
Transport	A191 junctions including Coach Lane and Tyne View Park	620	880	-	-	-	-	1,500
Transport	Newcastle Central Station to Stephenson Quarter	850	3,000	2,150	-	-	-	6,000
Transport	A1056-A189 Weetslade roundabout improvements and A1-A19 link (A1056)	1,020	3,310	0	-	-	-	4,330
Transport	Scotswood Bridgehead	500	3,200	-	-	-	-	3,700

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Transport	Six Majors - South Shields Transport Hub	1,600	4,830	470	-	-	-	6,900
Transport	Six Majors - Sunderland Low Carbon Zone	2,650	3,300	-	-	-	-	5,950
Transport	Six Majors - A1058 Coast Road	2,920	3,600	-	-	-	-	6,520
Transport	Six Majors - A167 Park and Ride corridor	-	300	3790	900	-	-	4,990
Transport	Six Majors - Northern Access Corridor (Cowgate to Osborne Rd)	3,000	1,090	-	-	-	-	4,090
Transport	Six Majors - Horden Rail Station	-	3,340	-	-	-	-	3,340
Transport	Traffic movements along A185/A194/A19 (The Arches)	-	720	4,490	-	-	-	5,210
Transport	Western Relief Road, Durham City	-	-	0	3,000	3,300	-	6,300
Transport	Metro Enhancements	-	0	3,500	3,500	-	-	7,000
Transport	A1/A19 junctions improvement programme	-	1,150	3,250	5,230	4,630	3,700	17,960
Prog Mgnt	Programme Management	1,086	1,985	1,000	400	200	154	4,825
	** Mini Programme with projects contained within Total included in NECA Capital Programme	50,170	76,830	40,756	16,895	16,130	11,154	211,935

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APPENDIX B – Metro Asset Renewal Programme

Capital Scheme	2016/17 (Year 7) £000
Civils	
Central area tunnels – lining	310
Bridges	
Killingworth Road Underbridge	480
Byker viaduct (Assessment)	250
Howdon viaduct – Walkway works (safety related work)	200
1142 Burnside Road Underbridge (Design)	50
1148 Beach Road Underbridge (Design)	50
Tanners Bank Underbridge (Feasibility Study required)	50
1215 Stoddart Street Overbridge (Design)	50
1183 Stephenson’s’ Underbridge (Design)	50
1044 Pelaw Interchange (Sunderland Line) Underbridge – Assessment	50
1045 Pelaw Interchange (Leamside Line) Underbridge – Assessment	50
1010 Crossgate viaduct (Design)	50
1031 Albert Road Underbridge (Design)	50
1041 Reyrolle Underbridge (Feasibility Study/Design)	25
Total Civils	1,715
Permanent Way	
Track, earthworks, drainage, S&C (Tynemouth to N’land Park)	13,935
Track, earthworks, drainage, S&C – N’land Park to South Gosforth (Design)	135
Track and Switches & Crossings – Gateshead Stadium to South Shields (Design)	75
Plain Line – Jesmond to QEII Bridge	935
Plain Line Chillingham Rd to St. James	4,015
Total Permanent Way	19,095
Overhead Line	
OLE – System Development	3,000
Multi-Functional Relays	650
Total Overhead Line	3,650
Stations	
Central Station (Construction completion)	1,730
South Shields Interchange (local contribution)	550
Stadium of Light (refurbishment)	150

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Training Centre (local contribution)	552
Various Stations (design works)	625
Stations Total	3,607
Communications	
Radio system replacement	3,050
CCTV / PA Access	250
PA on stations (scheme completion)	350
Total Communications	3,650
Signalling	
Signalling – Rail Traffic Management System	5,475
Reed track circuits	100
Location case rewire	300
Pedestrian Crossing Upgrades	210
Depot crossings (protection)	50
Scada	50
Signalling – Replacement point motors (critical locations)	500
Total Signalling	6,685
Mechanical and Electrical	
Escalator – Four Lane Ends (Scheme completion)	5
Escalator – St James (Scheme completion)	5
Escalator – Manors (Scheme completion)	5
DC Feeder Cable	240
Total Mechanical and Electrical	255
Capital Maintenance	
Vehicle Replacement Programme	140
Lifts Refurbishment / major items	40
Plain Line Renewal	375
Capital Maintenance Concession – Part A	955
Capital Maintenance Concession – Part B	410
Station Refurbishments – Escalator Improvements / major items	40
Total Capital Maintenance	1,960
Miscellaneous	
Asset Knowledge	50
Metro Service	500
Nexus Rail HQ Improvements	25
Total Miscellaneous	575

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Total ARP Programme	41,192
Funding	
DfT Grant	31,000
10% Nexus Contribution	3,444
Over-programming	6,036
Total ARP Funding	40,480
Overprogramming (%)	19.6%
Minimum/Maximum Spend (assuming no b/f or c/f)	
Minimum Spend	31,000
Maximum Spend	37,889
Target Spend	34,444

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APPENDIX C – Treasury Management Policy and Strategy

Introduction

The Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code) requires the Authority to approve a treasury management strategy before the start of each financial year. In addition, the Department of Communities and Local Government's (DCLG) Guidance on Local Authority Investments requires the Authority to approve an investment strategy before the start of each financial year. This report fulfils the Authority's legal obligation under the Local Government Act 2003 to have regard to both the CIPFA Code and the DCLG Guidance. The Authority has borrowed and invested sums of money and is therefore exposed to financial risks, including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Authority's treasury management strategy.

Current and Expected Treasury Portfolios

The Authority's treasury portfolio at 31 December 2015 was as follows:

	Actual Borrowing	Authorised Borrowing Limit
	£m	£m
Level of external loans at April 2015	196.967	240.000
New loans taken out in first 9 months of year	-	n/a
Loans repaid in first 9 months of year	(25.634)	n/a
Level of external loans as at 31 December 2015	171.333	n/a
Net increase / (decrease) in external loans	(1.333)	n/a
Forecast level of external loans at 31 March 2016	170.000	240.000

The Authority currently holds £170m of long-term loans. The balance at 31 March 2016 is forecast to be £170m after principal repayments on loans. The level of external borrowing is lower than previously forecast as the decision was taken during 2015/16 to repay existing borrowings early where this led to a lower cost overall.

The budget for debt interest in 2016/17 is £8.195m based on an average interest rate of 4.28%. This includes borrowing undertaken on behalf of Nexus, borrowing charged to the Tyne Tunnels revenue account and interest on the Authority's historic capital financing

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debt. All historic borrowing relates to Tyne and Wear only. Any historic borrowing for transport purposes in Durham and Northumberland remains the responsibility of those authorities and was not transferred to NECA.

Borrowing Strategy 2016/17

The Authority's capital financing requirement (CFR, or underlying need to borrow to finance capital expenditure) as at 31 March 2016 is expected to be £202.380m, and is currently forecast to decrease to £198.492m by March 2017 as funds are set aside to meet principal repayments and grants and internal resources are used to fund capital investment. This borrowing requirement will be further reviewed in the light of work on the proposed Devolution Agreement and the new Enterprise Zones infrastructure requirement and reports brought back to the Leadership Board should a change be required. These could significantly increase the capital expenditure of NECA and its borrowing requirement in future years.

Sources of borrowing

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

- Public Works Loan Board (PWLB)
- UK Local Authorities
- Any institution approved for investments (see below)
- Any other bank or building society authorised by the Prudential Regulation Authority to operate in the UK
- Pension funds and other corporate investors
- Special purpose companies created to enable joint Local Authority bond issues

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

The Authority has previously raised a significant proportion of its long-term borrowing from the Public Works Loans Board but other sources of finance, such as bond issues and bank loans, may be considered.

Debt Rescheduling

The PWLB allows local authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Some bank

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lenders may also negotiate premature redemption terms. The Authority may take advantage of this opportunity where this is expected to lead to an overall saving or a reduction in risk. Early repayments of some PWLB debt took place in 2015/16, leading to a reduced overall external borrowing position. Should further opportunities present themselves during 2016/17, they will be considered by the Chief Finance Officer.

Investment / Lending Strategy

The primary objective of the Authority's investment strategy is to ensure the security of the funds invested, and to achieve a reasonable rate of return commensurate with the level of security required.

Since rates of interest return remain historically low, the Authority will seek to minimise the levels of investments with third parties by using internal balances to fund capital expenditure. However, due to the timing of money coming in from the government (e.g. Local Growth Deal monies) the Authority has surplus funds that it needs to invest.

The following table shows the different organisations the Authority will lend its surplus funds to and the appropriate financial and time limits. There is no change currently proposed to the existing limits:

Type of institution	Financial Limit	Time Limit
UK central government (Debt Management Office)	Unlimited	Unlimited
UK banks with AAA, AA+, AA, AA-, A+, A credit ratings	£15m each	1 year
UK banks with A- credit ratings	£10m each	1 year
UK Local authorities	£10m each	3 years
UK building societies whose lowest published long-term credit rating is BB and societies without credit ratings with assets greater than £250m	£5m each	1 year
UK money market funds and similar pooled vehicles whose lowest published credit rating is AAA	£5m each	1 year
Local Authority controlled companies in the NECA area	£10m each	20 years
NECA Current Account (Lloyds Bank).	See Note 1 below	1 year

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Treasury Management Pool

Options for increasing the interest earned on the cash balance of NECA and its constituent authorities have been investigated and a proposal is being developed by the Chief Finance Officer with the Treasurers and Directors of Finance of the constituent authorities for the establishment of a treasury management pool. This will be the subject of a more detailed report to a future meeting but the principle is relatively simple. It involves the use of short term cash balances in place of more expensive borrowing to finance capital expenditure, achieving a net saving in financing costs to NECA and the constituent authorities. The technical details of the proposal are being considered in ore detail with external advice and the views of external auditors being sought.

In terms of NECA's own cash balances it is proposed to use more of our internal funds to finance capital expenditure, for example on enterprise zones schemes, in place of external borrowing in the next few years. This has the double benefit of reducing the cost of external borrowing and increasing the interest earned on elements of NECA's revenue cash balances.

Current Account

During the year, the Authority's current account has transferred from the Co-operative Bank to Lloyds Bank.

Money Market Funds

Money market funds are pooled investment vehicles consisting of money market deposits and similar instruments. They have the advantage of providing wide diversification of investment risk, coupled with the services of a professional fund manager. Fees of between 0.1% and 0.2% per annum are deducted from the interest payable to the Authority. The Authority uses funds that offer same-day liquidity as an alternative to instant access bank accounts.

Credit Ratings

The Authority uses long-term credit ratings from the three main rating agencies (i.e. Fitch, Moody's and Standard and Poor) to assess the counterparty risk. The lowest available counterparty credit rating will be used to determine credit quality, unless an investment-specific rating is available. Credit ratings are obtained and monitored by treasury management advisors to Newcastle City Council (who provide treasury management services to NECA), who notify officers of any changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

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- no new investments will be made
- any existing investments that can be recalled or sold at no cost will be
- full consideration will be given to the recall of all other existing investments with the affected counterparty.

Where a credit rating agency announces that a rating is on review for possible downgrade (also known as 'rating watch negative' or 'credit watch negative') so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

The Authority understands that credit ratings are a good, but not perfect, predictor of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support and reports in the quality financial press. No investments will be made with an organisation if there are any doubts about its credit quality, even though it may meet the credit rating criteria. In these circumstances, the Authority will restrict its investments to those organisations of higher credit quality, and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that an insufficient number of high quality credit organisations are available, then the surplus will be deposited with the UK government, via the Debt Management Office, or with other local authorities. This will cause a reduction in the level of investment income earned, but will protect the principal sum invested.

Specified / Non-Specified Investments

The DCLG Guidance on Local Authority Investments defines specified investments as those denominated in pounds sterling, due to be repaid within 12 months of arrangement, not defined as capital expenditure by legislation, and invested with either the UK government, a UK local authority, parish council or community council, or a body or investment scheme of 'high-credit quality' (for example minimum credit rating of A-).

Any investment not meeting the definition of a specified investment is therefore classed as non-specified. The Authority will limit itself to the following categories of non-specified investments during the year:

- Loans to other local authorities greater than one year - £50 million.
- UK building societies without credit ratings with assets greater than £250 million - £50 million.

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Liquidity Management

Officers providing Treasury Management services to the authority use purpose-built cash flow forecasting software to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the Authority being forced to borrow on unfavourable terms to meet its financial commitments.

Other Matters:

Policy on Use of Financial Derivatives

Local authorities generally have made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (for example interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (for example LOBO loans and callable deposits). The general power of competence in Section 1 of the Localism Act 2011 removes much of the uncertainty over local authorities' powers to use standalone financial derivatives such as swaps, forwards, futures and options. However the Authority's policy is not currently to use these instruments.

Treasury Management Advisers

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

The services received include:

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

Training

Newcastle City Council currently provides Treasury Management services to NECA. The needs of Treasury Management staff for training in investment management are assessed

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every year as part of the staff appraisal process, and additionally when the responsibilities of individual members of staff change.

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

The training needs of members are determined by self-assessment and training will be provided where a training need is indicated.

Investment of money borrowed in advance of need

The Authority may, from time to time, borrow in advance of spending need, where this is expected to provide the best long-term value for money. Since amounts borrowed will be invested until spent, the Authority is aware that it will be exposed to the risk of loss of the borrowed sums, and the risk that investment and borrowing interest rates may change in the intervening period. There are no current plans to do this in 2016/17. These risks will be managed as part of the Authority's overall management of its treasury risks.

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

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Prudential Indicators

The treasury management strategy includes a range of indicators to ensure the prudent use of the Authority's borrowing powers set out in the Local Government Act 2003. The Authority's borrowing powers extend to Transport related activity and, as a result, the prudential indicators are currently focused on that area of NECA activity.

	2015/16 estimate	2016/17 estimate	2017/18 estimate	2018/19 estimate
	£m	£m	£m	£m
Capital expenditure (Transport capital programme)	88.194	136.354	90.000	90.000
Financing costs to Net Revenue Stream				
Tyne & Wear Transport levy	67.200	66.120	66.120	66.120
Tyne & Wear Transport financing costs	2.169	2.099	2.033	1.969
%	3.2%	3.2%	3.1%	3.0%
Nexus levy plus direct grants	92.931	92.500	92.500	92.500
Nexus financing costs	3.717	3.572	3.432	3.415
%	4.0%	3.9%	3.7%	3.7%
Tunnels tolls income	27.457	29.527	30.245	31.555
Tunnels financing costs	6.419	6.486	6.565	6.566
%	23.3%	22.0%	21.7%	20.8%
CFR at end of year				
Tyne Tunnels and Tyne & Wear Transport	158.978	156.854	154.744	152.641
Nexus	43.403	41.637	39.938	38.301
Total	202.380	198.492	194.682	190.942
Incremental impact of CF decisions (impact on Transport levy)	(0.101)	(0.070)	(0.066)	(0.064)
Operational Boundary for External Debt	235	235	235	235
Authorised Limit for External Debt	240	240	240	240
Actual External Borrowing	170	168	168	167

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APPENDIX D – Minimum Revenue Provision Statement 2016/17

Background

The Authority is required to produce a statement, which sets out how it will provide for the repayment of debt each year through a revenue charge known as the Minimum Revenue Provision (MRP). The Department for Communities and Local Government (DCLG) has provided statutory guidance on the methodology to use in calculating the appropriate MRP charge, which authorities must 'have regard to'. The guidance recommends that authorities must submit to their highest decision making level (in NECA's case the Leadership Board) an annual statement of its policy on making MRP in respect of the following financial year and highlight which of the various options set out in their guidance will be followed. The principle which local authorities must follow is to calculate an amount of MRP *that they consider to be prudent*.

Options available

The four options for calculating MRP which were set out in the guidance can be summarised as follows:

- Option 1 – Regulatory Method: applying the statutory formula set out in the 2003 Regulations before it was revoked in 2008. Can only be used in relation to capital expenditure before 1 April 2008 or Supported Capital Expenditure.
- Option 2 – Capital Financing Requirement (CFR) Method: multiplying the CFR at the end of the preceding financial year by 4%. Can only be used in relation to capital expenditure before 1 April 2008 or Supported Capital Expenditure.
- Option 3 – Asset Life Method: amortising expenditure over an estimated useful life for the relevant assets created. An assessment must be made of the asset life at the outset of the capital scheme and MRP is charged to revenue in either equal annual instalments or by an annuity method over the estimated life of the asset. The MRP charge will commence in the financial year following the one in which the asset comes into service.
- Option 4 – Depreciation Method: making charges to revenue in accordance with the standard rules for depreciation accounting for the particular asset being created or enhanced.

2016/17 Recommendation

Having considered the guidance, it is recommended to agree the adoption for MRP arrangements in 2016/17 as follow:

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- Option 1 for supported capital borrowing, being a 4% minimum revenue provision – this relates to historic debt (prior to 1 April 2008) only.
- Option 3 for unsupported capital borrowing (Prudential Borrowing), making provision for the debt in equal annual instalments over the estimated life of the asset.
- Option 3 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.

Provision has been made within the revenue budget for MRP charges. All MRP charges currently relate to Tyne and Wear Transport activity and are therefore met from the Tyne and Wear levy budget and the Tyne Tunnels account as appropriate.

The Authority is able to make voluntary extra provision in any year should it wish to do so. The regulations provide that the MRP Statement can be revised by the Authority at any stage. Should such a revision be required as a result of new budget proposals a revised proposal will be brought to the Leadership Board for agreement.

North East Combined Authority

Leadership Board

Date: 19th January 2016

Subject: North East Rail Management Unit and Rail North Members Agreement

Report of: Chief Executive Officer for Transport

Executive Summary

Following the NECA's entry into Rail North in 2014, the new franchise operators for Northern Rail and First TransPennine have been appointed by DfT.

Rail North's first achievement was been to influence the franchise specification to achieve a number of improvements to the North East area, including better rolling stock and improved frequencies. The winning bids exceeded the specification and further benefits will be introduced between 2016 and 2019, although further work will be needed with the franchise operators to ensure that the NECA's aspirations are met by proposed additional services.

Rail North needs to evolve into a body fit to jointly manage the new franchises in partnership with DfT, and capable of making the case to the Secretary of State for further devolution of franchise management powers where appropriate. In order to achieve this, a Members' Agreement has been developed which will govern its working processes, and the Leadership Board is requested to give its approval for the NECA to enter into this arrangement.

An important part of the Northern Rail specification from the NECA's perspective is that the franchise operator must establish a 'North East Business Unit' so that local accountability can be established for both day-to-day performance and future development of the franchise.

Along with the Tees Valley authorities, Cumbria and North Yorkshire, NECA officers have developed a 'Collaboration Agreement' to take on a client role known as the 'North East Regional Management Unit' ('NERMU') that can interface with the operator on a local basis. Whilst the NERMU would not have the powers to introduce formal changes to the franchise agreement, it would be able to make representations to Rail North to do so. It would also be able to work constructively with the Rail North franchisee to deliver local improvements within the term of the franchise agreement. The Leadership Board is additionally requested to give its approval for the NECA to enter into this arrangement.

Appendix A provides a brief overview of Rail North, what specific arrangements are proposed for the North East, and what benefits the new rail franchises will bring.

This report provides information on how the new arrangements are intended to operate and seeks approval to enter into them.

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Recommendations

The Leadership Board is recommended to:

- a) Authorise the Monitoring Officer, on behalf of the NECA, to enter into the Rail North Members Agreement in consultation with the Head of Paid Service and the Thematic Lead for Transport.
- b) Authorise the Monitoring Officer, on behalf of the NECA, to enter into a Collaboration Agreement with other local transport authorities whose local rail services are covered by the 'North East Rail Management Unit', in consultation with the Head of Paid Service and the Thematic Lead for Transport.
- c) Agree for the Thematic Lead for Transport to represent the NECA on the Board of the 'North East Rail Management Unit'.

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1 Background Information

- 1.1 In September 2014, the Leadership Board gave its agreement in principle that the NECA should become a member of both Rail North Ltd (RNL) and the Association of Rail North Partner Authorities (“The Association”), and authorised the Monitoring Officer to make arrangements to permit the NECA’s membership of both organisations.
- 1.2 Subsequently, RNL and the Association had a major influence on the specification for the two new rail franchises for Northern Rail and TransPennine Express. The DfT has recently announced the award of the Northern franchise to Arriva Rail North Limited, and the TransPennine Express franchise to First Trans Pennine Express Limited. The winning bids offer further benefits beyond those specified, and the new franchises will begin operating in April 2016. A short description of what the new franchises are expected to deliver is attached at Appendix A.
- 1.3 This report seeks agreement in principle for the NECA to enter into two further agreements:
 - i. The Rail North Members’ Agreement, which sets out the principles by which RNL will function in practice.
 - ii. A Collaboration Agreement with local authorities in the Tees Valley, Cumbria and North Yorkshire, which will see the creation of a North East Rail Management Unit to oversee and develop services in the North East of England as part of an arrangement embedded within Rail North.

2. Rail North

- 2.1 The issues faced by local rail services in the North East are symptomatic of a general lack of rail investment across the North of England. The outgoing Northern Rail franchise was let in 2004, based upon an inaccurate assumption that there would be no growth in ridership over the course of the franchise term, an assumption which has led to stagnation of services and quality, as well as overcrowding in many areas.
- 2.2 In response to a 2012 DfT consultation on rail decentralisation, LTAs across the North of England formed the Rail North organisation, and submitted a proposal to the Secretary of State for the full devolution of services operated by the Northern and TransPennine Express franchises commencing from their renewal in 2016.
- 2.3 The proposal reflected Rail North’s overarching objectives for rail services in the North of England which seek to address the issues currently faced:

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- delivering more rail capacity and greater rail connectivity,
 - improving the quality of railways with a better offer to passengers to encourage more growth, and;
 - delivering a more efficient railway to secure greater value for money from the support from the public purse.
- 2.4 To underpin the proposition, Rail North commissioned, for the first time, the development of a Long Term Rail Strategy for the North of England. Whilst devolution primarily focuses on the Northern and TransPennine passenger rail franchises, the long term strategy covers all operators as well as freight services.
- 2.5 The strategy was approved by Rail North's Leaders Committee, on which the NECA is represented by the Thematic Lead for Transport, in 2014 and a copy can be found at www.railnorth.org/strategy. The strategy places economic growth at its heart and has the following priorities for enhancing rail across the north:
- Connectivity
 - Capacity
 - Coherence
 - Cost effectiveness
- 2.6 In his November 2013 response to Rail North's proposition, the Secretary of State stated that, although he supported the principle of devolution, he wished to see a lower risk, more evolutionary approach with the establishment of a partnership structure between DfT and Rail North.
- 2.7 Rail North Leaders endorsed this approach in January 2014, along with the following set of shared objectives that underpin the partnership:
- growing the railway to maximise the benefits of infrastructure investment and linking this to railway efficiencies;
 - having a platform for determining investment priorities within the Partnership;
 - risk and reward sharing between members of the partnership, including the potential for revenue or profit-sharing mechanisms that could allow reinvestment into rail services; and,
 - a partnership structure that allows the balance of risk to change over time.
- 2.8 Since that time, Rail North has worked jointly and collaboratively with DfT during the design and procurement phase of the new franchises, and has entered into a formal Partnership Agreement to underpin a joint approach to franchise management. This Agreement will see the new franchises managed from the North of England for the first time once they commence in April 2016, with Rail North-appointed officers populating the executive structure.

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2.9 In parallel, Rail North has taken steps to evolve from an informal grouping of LTAs to a formalised organisation with a robust governance structure. A local government association, the 'Association of Rail North Partner Authorities', and a company limited by guarantee, 'Rail North Limited', have both been established. In September 2014, the North East Leadership Board authorised the Monitoring Officer to make arrangements to permit the NECA's membership of both organisations, and nominated the Thematic Lead for Transport to represent the NECA on the Leadership Board of the Association and Board of Rail North Ltd.

3 Northern Rail Franchise ITT

3.1 The Invitation to Tender (ITT) for the next Northern franchise (starting April 2016) was published by the DfT in February 2015. Throughout the design phase, Rail North officers, working jointly and collaboratively with DfT, made the case for significant improvements in line with the Long Term Rail Strategy.

3.2 The published ITT reflected these efforts, with a number of improvements being secured within the minimum specification. Included in these improvements were the removal of the outdated 'Pacer' vehicles, the procurement of at least 120 new vehicles, more services to operate on certain routes (including the Tyne Valley line and new Sunday services between Newcastle and Morpeth), and the successful bidder was required have to invest significant sums in station facilities and on-train wifi provision. In practice, the winning bidders, Arriva Rail North Ltd and First TransPennine Express Ltd will deliver significantly more than required by the minimum specification – please see Rail North's website for full details (<http://www.railnorth.org/news/franchise-winners-announced/>).

3.3 In the NECA area there is a requirement for Arriva Rail North Ltd to provide for a North East Business Unit within its structure, focussed solely on routes within this region. Through this the operator will be required to work alongside local authorities to improve passenger information, marketing & branding and service development.

3.4 These requirements will deliver a long-overdue improvement in local rail services in the North East. However, it is important that the service continues to improve and develop over the coming years to underpin economic development and social cohesion across the region, and to provide a viable alternative to road-based transportation.

4 Rail North/DfT Partnership Agreement and Franchise Management

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Structure

- 4.1 As well as working jointly with DfT during the franchise design phase, Rail North has developed a structure which will deliver a joint approach to franchise management.
- 4.2 Currently, the Northern Rail franchise is managed from the DfT's offices in Westminster. The five North of England PTEs, including Nexus, are co-signatories to the Franchise Agreement and undertake some limited franchise management duties within their respective areas. PTEs currently receive funding in the form of a Rail Administration Grant to cover the cost of these activities.
- 4.3 In March 2015, the Rail North Ltd Board agreed that it should enter into a formal Partnership Agreement with DfT (hereafter the 'Partnership'), which defines this joint approach to franchise management. Under the Agreement, the next franchises will be managed from the North of England for the first time. The Partnership's officers will be based in Leeds.
- 4.4 The Partnership will have a joint executive structure, comprising a Strategic Board with an Independent Chair, and a Management Team consisting of the contract and commercial managers responsible for the day-to-day management of the franchises.
- 4.5 These arrangements will ensure that local rail service providers are far more accountable to the communities and economy they serve. They will also provide the North of England with a combined voice when inputting into wider industry processes, such as those determining the scope and scale of future investment.
- 4.6 However, the North East must not lose its ability to speak as a region with a unique set of requirements, which often differ substantially from those of major city regions dominated to a greater extent by urban commuter travel. The Management Team of the Partnership will be required to cover a large geography, and will naturally not be able to focus solely on the needs of any one particular region.
- 4.7 In order to ensure that the interests of this region are fully secured, it is therefore proposed that the NECA enters into the Rail North Members' Agreement, which will define how member authorities, including the NECA, will interact with the new Rail North / DfT Partnership body and furthermore that a North East Rail Management Unit is established. More details of both these proposals are given below.

5. Rail North Members' Agreement

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- 5.1 Rail North Ltd has adopted Articles of Association which establishes its governance arrangements. In September 2014, the North East Leadership Board nominated the Chair of the Thematic Lead for Transport to represent the NECA on the company Board. The Articles provide the NECA with a 6.5% share of the voting rights.
- 5.2 A Members' Agreement has now been drafted to establish how the governance and management process will work in practise. The Agreement was developed by legal officers from the North of England Combined Authority areas, including Nexus acting on behalf of the NECA. A draft version was later circulated to all 29 member authorities and amendments made based on the feedback received. The Rail North Ltd Board approved the draft Agreement at its meeting on 15th September 2015, and it was accepted by the Association meeting on 6th October 2015. Following acceptance, the Agreement will be issued to member authorities, including the NECA, for signature.
- 5.3 The key clauses of the Members' Agreement are summarised below It is proposed that the Monitoring Officer be authorised to enter into this agreement on behalf of the NECA, in consultation with the Head of Paid Service and the Thematic Lead for Transport.

6. Regional Business Units and Consultation Protocols

- 6.1 The Members' Agreement requires any Rail North member authority proposing a 'Regional Business Unit' to undertake consultation with the other Rail North authorities, prior to submitting a fully costed and sufficiently-resourced proposal to the Rail North Ltd Board. If approved by the Board, the proposal will be submitted to the Strategic Board for consideration.
- 6.2 Following successful establishment of a 'Regional Business Unit', it will act as a single member authority within the Rail North structure, and be empowered to exercise rights on behalf of its constituent authorities.
- 6.3 The proposal for the North East Rail Management Unit described in section 10 below is the first example of a 'Regional Business Unit'.

7. Rail North Business Plan, Budget and Funding

- 7.1 The Members' Agreement establishes a protocol for the agreement of the annual Rail North Business Plan and Budget. The process enables member authorities to comment on a draft Business Plan, prior to a vote on its approval to take place no later than two months before the start of the subsequent Financial Year. The approval of the annual Business Plan and Budget is defined as a Reserved Matter, and as such requires parties collectively holding at least 75% of the voting rights to vote in its favour.

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- 7.2 Nexus, alongside the four other former PTEs in the North of England, have provided funding to support Rail North's activities to date. Nexus has funded its contribution through its Rail Administration Grant. Under the terms of the Partnership Agreement, the Secretary of State has guaranteed £500k p.a. to the Combined Authorities (through the former PTEs within their geographies) to fund Rail North's on-going costs for three years commencing from the 2016/17 financial year.
- 7.3 In addition to this funding, it is proposed that the Rail North member authorities contribute a further £36k p.a. (indexed) between them. This cost is proposed to be distributed according to the voting rights within the Articles of Association. Under this proposal, the NECA would be required to contribute £2340 p.a. in addition to the funding Nexus will receive from the Secretary of State. It is proposed that this additional cost is funded from within Nexus's Rail Administration Grant (see section 14 below).
- 7.4 Under the annual Rail North Business Plan development process described above, Rail North can propose to undertake additional activities. This may include developing proposals for the further devolution of powers to the North of England. Where these activities are estimated to require funding above the base £536k p.a. secured by the Partnership and Members' Agreements, Rail North may propose that any or all of the member authorities make additional financial contributions to cover the shortfall.
- 7.5 Any such additional costs, and their proposed sources of funding, must be clearly identified in the draft Budget. An 'Impaired Plan', which sets out what Rail North is able to deliver on the basis of no additional contributions being required, must be presented as an option. Where member authorities are unwilling or unable to commit to additional contributions, a revised Business Plan and Budget would be produced based only on agreed additional contributions. Those authorities who did not agree to additional contributions would be prevented from voting on this revised Plan.

8. Service Quality Programmes & Franchise Output Adjustments

- 8.1 The next Northern Rail Franchise is expected to contain a service quality regime, which would incentivise the Franchisee to deliver against a set of KPIs designed to represent good quality service and presentation. Failure to achieve these KPIs could trigger a financial penalty being levied against the Franchisee.
- 8.2 Under the Members' Agreement, member authorities and Regional Business Units would have the right to propose a programme of works or services, to be partly or wholly funded by these deductions – a 'Service Quality Programme'. The Strategic Board will determine whether a Service Quality Programme is acceptable and notify the proposing party of its decision.

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8.3 In addition, member authorities and Regional Business Units may propose a change to the Franchise Agreement, to deliver amended outputs. This mechanism could be used, for example, to increase the frequency of train service on a specific route or routes or introduce a new passenger service altogether. Any such proposal must contain details of the costs, as well as how those costs would be funded. Following a consultation process with the other member authorities, the Rail North Ltd Board will consider the proposal by way of a majority vote. If approved, the proposal will be considered by the Strategic Board.

9. Termination and Withdrawal

9.1 Any Rail North member authority is entitled to give notice of its voluntary withdrawal from Rail North membership. Such notice can be provided at least 12 months prior to the end of the next Franchise Agreement, or 18 months prior to the start of any Financial Year.

9.2 Where such notice is served, the withdrawing authority would be required to meet its financial contributions pro rata until its exit from the Members Agreement.

9.3 Should authorities representing a 50% or greater share of the voting rights withdraw from the Agreement, the remaining authorities would be required to agree changes to the Articles and the Members Agreement.

10. North East Rail Management Unit

10.1 Arriva's new North East Business unit, to be created within the next Northern franchise, provides an opportunity to create a complementary regional franchise management body within the wider Rail North structure. This body – the North East Rail Management Unit ('NERMU') - would comprise the NECA, along with the five Tees Valley LTAs, North Yorkshire and Cumbria County Councils – the entire geography of the North East's Northern Rail services.

10.2 To define this unit, a Collaboration Agreement has been drafted which would legally underpin the arrangement. The key clauses of the Collaboration Agreement are summarised below. It is proposed that the Monitoring Officer be authorised to enter into this agreement on behalf of the NECA, in consultation with the Head of Paid Service and the Thematic Lead for Transport.

10.3 It is proposed that the NERMU would have two principal objectives:

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- To deliver local influence over the delivery of rail services in North East England.
 - To develop rail services to facilitate and stimulate economic growth and support the social cohesion of the North East, delivering high quality, integrated local services in line with the vision established by the Rail North Long Term Rail Strategy and the North East Rail Statement.
- 10.4 The NERMU would progress these objectives through an annual Business Plan, supported by a Budget. A fundamental requirement of each Business Plan will be securing the delegation and retention of franchise management duties from the Partnership Management Team. Once the NERMU has been established, an early task will be to submit a proposal to the Partnership Strategic Board to secure these powers. Such a proposal would require the support of the Rail North Ltd Board.
- 10.5 A new NERMU Board would be created to oversee the delivery of the Business Plan. It is proposed that the NECA, Tees Valley, North Yorkshire and Cumbria are all represented on the NERMU Board, with NECA retaining 49% of the voting share. The remaining 51% share would be divided amongst the other parties.
- 10.6 It is proposed that the Thematic Lead for Transport is nominated to represent the NECA on the NERMU Board, sitting alongside one representative from each of the Tees Valley, North Yorkshire and Cumbria. This nomination would provide a strong link between the local NERMU arrangements and the wider Rail North organisation given that the Thematic Lead for Transport also sits on the Rail North Ltd Board.
- 10.7 Beneath the NERMU Board, a Steering Group of officers drawn from across the North East geography will provide regular progress updates to the Board and provide local advice to inform the execution of the Business Plan. It is proposed that the Steering Group is drawn from the existing Rail Officers Working Group arrangements.
- 10.8 It is proposed that Nexus utilises its Rail Administration Grant on behalf of the NECA, to fund the resource required to deliver the Business Plan. It is assumed that one full time officer will be required, although this assumption will be tested prior to the establishment of the NERMU. Any officers appointed would become employees of Nexus but with responsibility to act on behalf of the NERMU parties.
- 10.9 Should any reduction in Nexus's Rail Administration Grant funding impinge upon its ability to fund the NERMU resource requirements, Parties to the NERMU, including the NECA, may wish to provide a contribution towards

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this shortfall, the total value of which is unlikely to be more than £55k p.a.

11. Proposals

- 11.1 It is recommended that the North East Leadership Board agree to take the steps set out in the Recommendations paragraph of this Report.

12. Next Steps

- 12.1 If the North East Leadership Board decides that the NECA should become party to the NERMU Collaboration Agreement then appropriate steps will be taken to ensure this happens as soon as possible. In parallel, a proposition will be drafted with the intention of tabling it at the Rail North Ltd Board meeting in due course.

- 12.2 If the North East Leadership Board determines that the NECA should become party to the Rail North Members Agreement then appropriate steps will be taken to ensure this happens as soon as possible.

13. Potential Impact on Objectives

- 13.1 Securing greater influence over the delivery of rail services in the NECA area will assist the Combined Authority in delivering its objective to maximise the area's opportunities and potential.

14. Finance and Other Resources

- 14.1 Nexus has recently received confirmation from DfT that, following the Spending Review, Nexus's Rail Administration Grant will be payable for the year 2016/17 at circa £262k. This funding has previously been used to fund Nexus's role in managing the Northern rail franchise that ends on 31st March 2016, and will be redirected to cover the costs of the NECA's participation in Rail North and the costs of establishing and managing the NERMU.

- 14.2 It should however be noted that payment of Nexus's Rail Administration Grant is only confirmed on an annual basis. Therefore the use of this funding to support NECA's participation in Rail North and the costs of managing the NERMU will be subject to ongoing review.

15. Legal

- 15.1 This report provides authority for the Monitoring Officer to enter into the Rail North Members Agreement and the Collaboration Agreement. The Members Agreement sets out how the governance and management

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processes of Rail North Limited will work in practice. The Collaboration Agreement sets out the NERMU governance and operational structure. The main terms of both these agreements are set out in this report.

16. Other Considerations

16.1 Consultation/Community Engagement

Not applicable.

16.2 Human Rights

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

16.3 Equalities and Diversity

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

16.4 Risk Management

As described in paragraph 14.2 above, it is proposed that Nexus utilises its Rail Administration Grant to fund the resource required to deliver the Business Plan. It is, however, expected that this Grant will be considered as part of the on-going Spending Review, underway within central Government departments. There is therefore a risk that Nexus may see this Grant funding reduced in future years.

16.5 Crime and Disorder

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

16.6 Environment and Sustainability

Delivery of an improved rail service within the NECA area should assist in generating more rail traffic and thus contribute to our objectives for a more sustainable transport system and improved air quality.

17. Background Documents

17.1 Rail North Members' Agreement – available upon request

17.2 North East Rail Management Unit Collaboration Agreement - available upon request

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18. Links to Plans in the Policy Framework

This report has no direct link to plans in the policy framework.

19. Appendices

Appendix A – Summary of the new franchises

20. Contact Officers

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Sign off

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

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Appendix A: Rail North Briefing for NECA

The two rail franchises covering regional and local services in the North of England have been re-let by the Department for Transport, with input from Rail North. This briefing note updates one sent to you on 1 December, and contains further details on what the new franchises will offer, the role of Rail North and the next steps from here.

Rail North

Northern Rail and TransPennine Express provide local rail services across the North under franchise agreements let and managed by the Department for Transport (DfT). These services provide vital intra-regional connectivity, serving many towns and cities within the North East.

TransPennine Express provides long-distance inter-city links to Leeds, Manchester and Liverpool, while Northern Rail's services in the North East are geographically distinct from the remainder of the franchise. Operating from a single depot, Northern Rail services cover the entire NECA and Tees Valley geographies with limited extensions into Cumbria via the Tyne Valley line, and North Yorkshire via the Esk Valley line.

Despite their important role providing access to employment, education, healthcare and leisure facilities throughout the north, Northern Rail services are currently characterised by poor quality rolling stock, low frequencies, inconsistent station facilities and slow journey times. Although punctuality and reliability is consistently strong, passenger satisfaction with the service remains below the national average.

With new franchises to begin from 1 April 2016, 29 northern local authorities have taken a positive role in shaping the future of local rail services by coming together to form Rail North to provide a single body to work with DfT. Through this arrangement, **investment has been secured** so that the next franchise period (2016-2024) will achieve a transformational improvement, **through a specification that includes new trains and extra services**.

The new franchisees are Arriva UK Rail for Northern, and First group (who have retained the franchise) for Trans Pennine Express. Both companies have gone further than the minimum level of improvement required in the specification – offering more new services and greater investment in trains. Some of the most positive elements are displayed in the attached infographic, and listed below – though there are a **number of issues where the region needs to influence the details through Rail North**, most notably around services through Sunderland and along the Durham Coast line.

We are for the first time in a position to do this, because Rail North and DfT have agreed to **manage the new franchises as an equal partnership**. The partnership will have a shared responsibility in holding the franchise operators to account for their

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performance, agreeing changes to services and fares, and deciding where further investment is made if funding is available.

Although the contract will initially be let by DfT, the partnership's terms contain the **provision for decision-making, along with the associated financial risk and benefits, to be progressively devolved from DfT to the partnership**. This can only happen by mutual agreement but is intended to be the start of a process that could potentially see full devolution to Rail North when the next franchise is let.

The Leadership Board is now being asked to approve NECA's formal entry to **the Rail North Members Agreement**. This sets out the way in which Rail North will govern itself, and the rights of member authorities. Members will have the right to propose changes to the franchise such as timetables and fares structure, and gain access to detailed performance information. However members cannot simply impose their will on the others; no member's voting share exceeds 22.3%, and the two largest members (Greater Manchester and West Yorkshire) together represent only 43.2% of the voting share.

*Note: A more controversial aspect of the specification is '**Driver Controlled Operation**', where a train guard is not required to safely dispatch a train, is to be introduced on 50% of services from 2020. This method of operation is widespread in the UK passenger rail industry – and has been used on the Tyne and Wear Metro since it opened in 1980.

Specific arrangements for the North East

From the outset of discussions to establish Rail North, it was recognised that the local authorities in the North East wished to have a locally-focused way of engaging with the Northern Rail franchise. This led to a requirement in the specification for bidders to create and fund a **North East Business Unit ('NEBU')** within their organisational structure.

To work alongside the NEBU it is proposed that the North East local authorities come together to create **a local client body that is embedded within Rail North**. This is to be **called the North East Rail Management Unit ('NERMU')**, and will comprise the NECA along with the five Tees Valley LAs, North Yorkshire and Cumbria County Councils.

It is proposed that the NERMU will have two principal objectives:

- To exert local influence over the delivery of rail services in North East England.
- To develop rail services to facilitate and stimulate economic growth and support the social cohesion of the North East, delivering high quality, integrated local services in line with the vision established by the Rail North Long Term Rail Strategy and the North East Rail Statement.

The NERMU will progress these objectives through an annual Business Plan. A NERMU political board would be created to oversee the delivery of the Business Plan

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on which there would be a NECA representative sitting alongside representatives from each of the Tees Valley, North Yorkshire and Cumbria.

Members of the NERMU will all be members of the Rail North Members Agreement. The North East will therefore be able to make proposals to Rail North as a regional group, should this be desirable.

Nexus currently receives Rail Administration Grant to fund its oversight of the Northern franchise within Tyne and Wear. This grant can only be used for administrative purposes, and is not used to fund services. It is proposed that Nexus utilises this grant funding to provide a dedicated resource to operate the NEMRU, working alongside the new franchisee on behalf of all the NERMU parties.

New Franchise details – more services

- **A new high-quality 'Northern Connect' express service** will operate at least 10 times per day between Middlesbrough, Newcastle and Carlisle. The route for these trains is not confirmed but **through Rail North we will ask Arriva to operate via Hartlepool, Sunderland and Newcastle**, in order to provide the greatest benefit to the local economy. This would mean a train every 30 minutes between Teesside, Wearside and Tyneside.
- **Sunderland and Seaham to benefit from additional early morning service** to Middlesbrough, later train back from Middlesbrough and Newcastle.
- Increase from 1 train per hour to **2 trains per hour between Newcastle, Metrocentre, Hexham and Carlisle**, of which at least 10 of which per day will be high-quality 'Northern Connect' services. MetroCentre will benefit from at least 12 trains per day to and from Sunderland, 42 trains per day to and from Newcastle, 30 trains per day to and from Hexham and 28 trains per day to and from Carlisle (all Northern).
- **Service frequency between Bishop Auckland and Darlington increased to hourly** including Sundays. In the week and on Saturdays all but two of these will be through services to and from Middlesbrough.
- **TransPennine Express service frequency will increase to two trains per hour to York, Leeds and Manchester**, with one train per hour continuing on to Liverpool and one to Manchester Airport.
- **New TransPennine Express service to Edinburgh via Morpeth** (1 train per hour) on new-build trains. We will be seeking further stops through Northumberland, with the aim of a regular stopping pattern at key stations.
- Full participation by the new Northern franchisee in developing the **proposal to reopen the Ashington to Newcastle** line.

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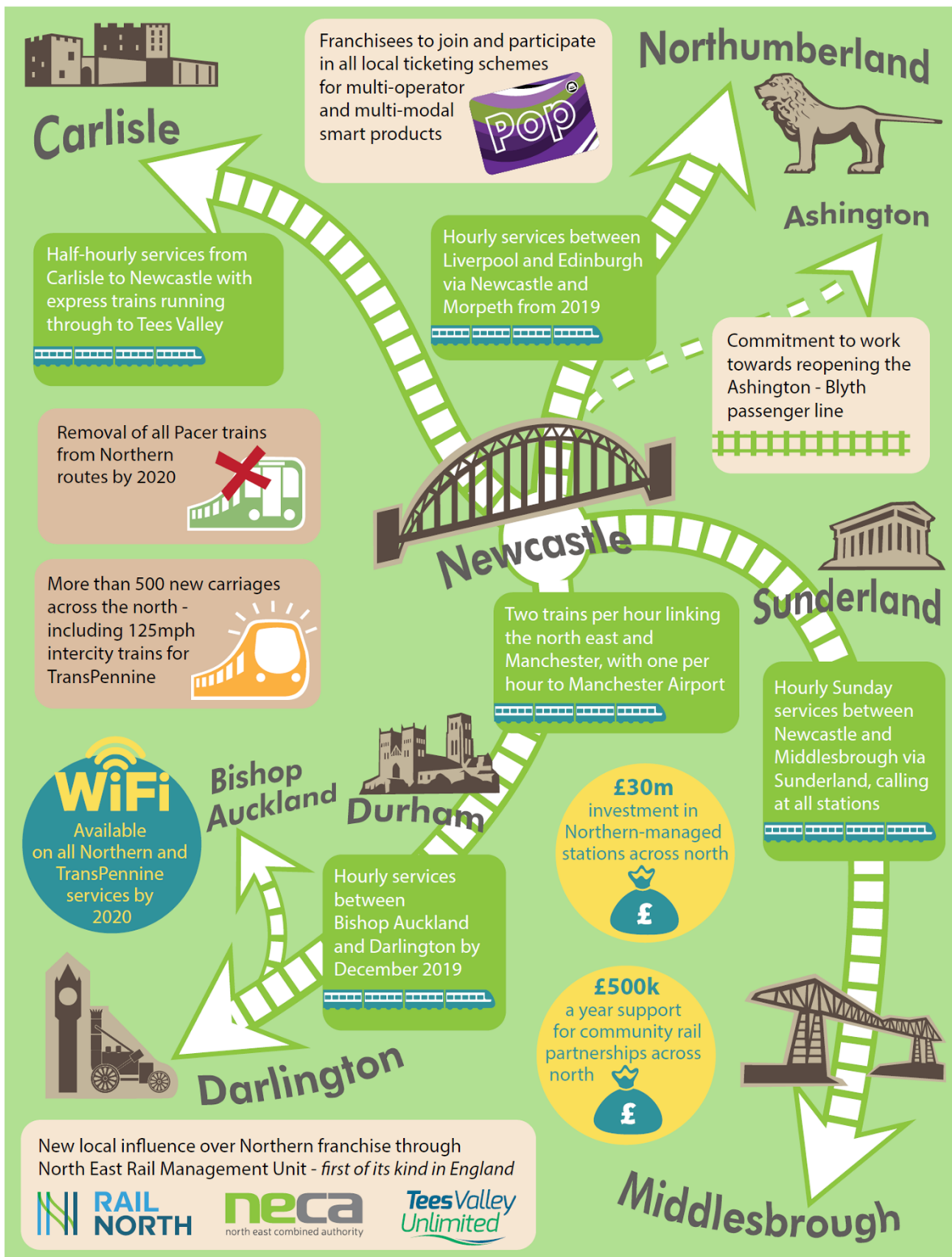
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New Franchise details – new trains for the North East

- **Pacer units will be withdrawn by 2020**, as part of an investment by both operators to deliver more than 500 new-build carriages across the north of England.
- Brand new **TransPennine Express trains of ‘intercity’ quality** and 125mph maximum speed with more seats and faster journeys – up to four times as many seats in the afternoon peak through Newcastle and Durham.
- Free wi-fi, media servers with on-demand entertainment and real-time passenger information screens will be introduced on all trains by 2020.

New franchise details – investment in stations, staff and smart tickets

- Hexham and MetroCentre to become **Northern Connect stations, staffed 0600 to 2200 daily, with a catering outlet and free Wi-Fi**, plus extra car park spaces at Hexham. We will also seek Wi-Fi provision at Sunderland.
- New team of dedicated **Travel Safety Officers for the North East** will be set up.
- The new operators will cooperate with the NESTI smart ticketing project to **introduce Pop cards to train services**, simplify fares, and improve the door-to-door journey experience.
- North East stations will be included in a £30m investment programme, including ticket vending machines.
- Automatic compensation for delays for registered season and advance purchase ticket holders.
- Improved customer service and challenging targets for customer satisfaction.
- There will be increased support and funding for Community Rail.



NEW RAIL FRANCHISES FOR NORTHERN ENGLAND