Tyne and Wear Integrated Transport Authority

Meeting to be held: Committee Room, Civic Centre, Newcastle upon Tyne, NE99 2BN on Thursday 26 January 2012 at 10.00 am

(Labour Group pre-meeting at 9:00am) (Opposition Group pre-meeting at 9:30am)

Membership: Blackburn, Burdis, Emerson, Green, Hall, Hanson, Hodson, Keating, Lott, Maughan, McElroy, McMillan, Murison, Stokel-Walker, D Wood and P Wood

Contact Officer: Victoria Miller (0191) 211 5118 victoria.miller@newcastle.gov.uk

ITA papers are available at www.twita.gov.uk

		Page
1.	**Apologies for absence**	
2.	**Declarations of Interest of Members or Officers in any matter to be discussed at the meeting**	

(If any Member has a personal/prejudicial interest please complete the appropriate form and hand this to the Democratic Services Officer before leaving the meeting. A blank form can be obtained from the DSO at the meeting).

Members are reminded to verbally declare their interest and the nature of it and, if prejudicial, leave where appropriate at the point of the meeting when the item is to be discussed.

3.	**Minutes of the Previous Meeting**	1 - 14
4.	**ITA Budget 2012/13 and Medium Term Financial Strategy**	15 - 32
5.	**Further Revision to Metro Fares**	33 - 42
6.	**2011/12 Metro Asset Renewal Programme (ARP) and Major Project Capital Programme - Third Quarterly Review**	43 - 52
7.	**2011/12 Non-Metro Capital Programme - Third Quarter Monitoring Update**	53 - 60
8.	**Metro Capital Programme 2012/13**	61 - 70
9.	**2012/13 Non-Metro Capital Programme**	71 - 76

10. Treasury Management Strategy 2012/13 **77 - 94**

11. Competition Commission Final Report into Bus Industry **95 - 102**

12. Allocation of Additional Local Transport Plan (LTP) Integrated Transport Block Resources, 2011/12 **103 - 106**

13. Date and Time of the Next Meeting

Thursday, 22 March 2012 at 10am

14. Exclusion of Press and Public

15. North East Smart Ticketing Infrastructure (NESTI) Update Report to the Association of North East Councils (ANEC) **107 - 112**

16. New Tyne Crossing - Proposed Variation to the Project Agreement

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.

NOTE: Under the Local Government (Access to Information) Act 1985 members of the public have a right to inspect any non-confidential background papers used in the production of a non-confidential report to the Authority. Requests for information should be made to the Department originating the report.

Tyne and Wear Integrated Transport Authority

24 November 2011
(10.00 am - 12.05 pm)

Present:

Councillor: D Wood (Chair)

Councillors: Burdis, Emerson, Green, Hall, Hanson, Hodson, Keating, Lott, Maughan, McElroy, McMillan, Stokel-Walker and P Wood

In attendance:

Newcastle City Council:
B Rowland - Clerk (ITA)
P Woods - Deputy Clerk and Treasurer (ITA)
S Ovens - Legal Advisor and Monitoring Officer (ITA)
R Gill - Transport Policy Manager (ITA)
P Fenwick - New Tyne Crossing Project Director (ITA)
E Goodman - Senior Accountant (ITA)
G Grant - Senior Transport Policy Officer (ITA)
N Whitefield - Press Officer (ITA)
G MacDonald - Transport Policy Manager
V Miller - Democratic Services

Nexus:
B Garner - Director General
J Fenwick - Director of Finance and Resources
K Mackay - Director of Rail and Infrastructure
T Hughes - Director of Customer Services
L Robinson - Public Affairs Manager
C Massarella - Network Planning
N Cheetham - Fares and Revenue Manager

Also:
D Laux - Sunderland City Council

70. **APOLOGIES FOR ABSENCE**

Councillors Blackburn and Murison.

71. **DECLARATIONS OF INTEREST OF MEMBERS OR OFFICERS IN ANY MATTER TO BE DISCUSSED AT THE MEETING**

Councillors Green, Hanson, Hodson, Emerson, D Wood, P Wood, Lott, McMillan and Hall declared a personal interest in any potential discussion on concessionary travel as the holders of a concessionary travel pass.

72. CHAIRMAN'S OPENING REMARKS

R Gill was soon to leave the Authority. The Chairman thanked him for his work on behalf of the Authority over the years.

73. MINUTES OF THE PREVIOUS MEETING

The minutes of the previous meeting were approved as a correct record and signed by the Chair.

Matters Arising:

(a) Metro Reinvigoration Phase 3

(Minute 59 refers)

In response to a member's question about whether there was any progress made in identifying additional routes for Metro, B Garner explained that this work would commence as soon as some preliminary information was gathered. Members would be provided with an update. Additionally, a report on this matter would be provided in January 2012.

(b) Metal Theft on Tyne and Wear Metro Network

(Minute 61 refers)

Officers from Nexus provided an update on their work to tackle metal theft on the Metro network, including lobbying the Government for a change in legislation and running a local campaign to demonstrate the danger associated with stealing metal. During the ensuing discussion, the Chairman spoke about his work to help to tackle the issue.

74. ITA SUCCESS AT NATIONAL TRANSPORT AWARDS

Submitted: A joint report by the Clerk of the Authority and Director General of Nexus (previously circulated and copy attached to Official Minutes).

B Garner presented the report and congratulated the Authority on winning the "ITA of the Year" award which was displayed at the meeting.

The Chairman and Vice-Chairmen commented on the importance of this recognition and also on the work of the five Districts to contribute to the success.

Additionally, the operator of Metro, Deutsche Bahn Tyne and Wear Ltd. (DBTW) was congratulated on being named "the Operator of the Year" at the UK Light Rail Awards.

RESOLVED – That the report be noted.

75. **NEW TYNE CROSSING - PROPOSED RIVER TYNE (TUNNELS)(MODIFICATION) ORDER**

Submitted: A joint report by the New Tyne Crossing Project Director and Legal Advisor to the Authority (previously circulated and copy attached to Official Minutes).

S Ovens presented the report and asked the Authority to formally confirm its wish to proceed with the making of the River Tyne (Tunnels) (Modification) Order to modify the River Tyne (Tunnels) Order 2005 to extend the date by which the Concession Toll must be set from 25 August 2012 to 25 August 2013. It was noted that no objections to this proposal had been received by either the Secretary of State or the ITA.

RESOLVED – That:

(i) the Authority confirm its wish to proceed with the making of the River Tyne (Tunnels) (Modification) Order to modify the River Tyne (Tunnels) Order 2005 to extend the date by which the Concession Toll must be set from 25 August 2012 to 25 August 2013 and

(ii) officers be authorised to take all necessary further steps to secure the making of the said Order.

76. **NEW TYNE CROSSING - CONSTRUCTION PROGRESS REPORT**

Submitted:

(i) A report by the New Tyne Crossing Project Director (previously circulated and copy attached to Official Minutes);

(ii) The New Tyne Crossing November 2011 brochure (with the permission from the Chairman, due to timetables involved circulated at the meeting and copy attached to Official Minute Book).

P Fenwick presented the report which updated members on the progress made on the delivery of the New Tyne Crossing project. The project involved the construction of the new vehicle Tyne tunnel, refurbishment of the existing vehicle tunnel and carrying out associated landscaping and traffic management works to the surrounding areas. P Fenwick was pleased to announce that both vehicle tunnels were now fully operational.

Members and officers congratulated P Fenwick, his team and the contractors on the successful delivery of the project which had increased the capacity of the river crossing, reduced traffic congestion, improved the environment and provided support to the region’s economy. Members particularly complemented the successful communication strategies.

RESOLVED – That:

(i) the progress made on the delivery of the New Tyne Crossing project be noted;

(ii) the New Tyne Crossing Project Director, his team and the contractors TT2 and Bouygues Travaux Publics be congratulated on the successful delivery of the New Tyne Crossing project.

77. **ITA METRO SUB-COMMITTEE - SUBSTITUTE MEMBERS**

Submitted: A report by the Clerk (previously circulated and copy attached to Official Minutes).

The report invited the Authority to formally agree the priority order in relation to the substitute members of the ITA Metro Sub-Committee from the Labour Group.

RESOLVED – That the following priority order in relation to the substitute members of the ITA Metro Sub-Committee from the Labour Group be agreed:

Priority 1: Cllr Emerson,
Priority 2: Cllr McMillan,
Priority 3: Cllr Green,
Priority 4: Cllr Murison,
Priority 5: Cllr Hall.

78. **ANNUAL AUDIT LETTER 2010/11**

Submitted: A report by the Deputy Clerk and Treasurer (previously circulated and copy attached to Official Minutes).

Due to the external auditors not being able to attend, P Woods presented the report and introduced the Annual Audit and Inspection Letter on 2010/11 Audit.

RESOLVED – That the report and the Annual Audit and Inspection Letter on the 2010/11 Audit be received and noted.

79. **REVENUE BUDGET MONITORING REPORT TO OCTOBER 2011**

Submitted: A report by the Deputy Clerk and Treasurer (previously circulated and copy attached to Official Minutes).

The report provided members with the revenue budget monitoring information for the period 1 April to 31 October 2011.

RESOLVED – That the report be noted.

80. **LOCAL SUSTAINABLE TRANSPORT FUND - KEY COMPONENT BID**

Submitted: A report by the Joint Transport Steering Group (previously circulated and copy attached to Official Minutes).

R Gill introduced the report which provided an update on the progress made towards the delivery of the Tyne and Wear ITA Local Sustainable Transport Fund (LSTF) Key Component Bid.

It was noted that the consideration of the Public Health Research programme, as in section 4.11 of the report, had been deferred for a period of approximately four months.

RESOLVED – That the report be noted.

81. LOCAL SUSTAINABLE TRANSPORT FUND PROGRESS WITH MAIN BID

Submitted:

(i) A report by the Joint Transport Steering Group (previously circulated and copy attached to Official Minutes);

(ii) LSTF package update 24 November 2011 (with the permission from the Chairman, due to timetables involved circulated at the meeting and copy attached to Official Minute Book).

R Gill introduced the report which provided an update on the progress made on the development of the business case for the Local Sustainable Transport Fund (LSTF), which was due for submission by 20 December 2011.

It was noted that the proposals were being developed in consultation with a range of partners and in close cooperation with the Department for Transport (DfT). Because the original application for £19m had had to be scaled back, the objectives had been re-focused. The revised proposals focused on one clear theme – access to employment and were now in the region of £16m.

RESOLVED – That:

(i) the report be noted;

(ii) if there were no significant issues emerging, the Delegated Committee be authorised to sign off the bid;

(iii) if there were significant issues emerging, the Chair be contacted and a special meeting of the Authority would take place in advance of the signing off.

82. COMPETITION COMMISSION INVESTIGATION UPDATE

Submitted: A report by the Director General of Nexus (previously circulated and copy attached to Official Minutes).

T Hughes presented the report which advised members of the developments in the Competition Commission's investigation into the UK local bus market, and also of Nexus' response on behalf of the ITA to the proposed remedies.

Questions/Comments

- A member expressed concern about the actual extent of the competitive behaviour of some local bus operators.

- In response to a member's question, officers confirmed that there was no evidence of such behaviour from other large local bus operators apart from those identified in the report.

- A member also expressed concern about the Competition Commission's draft recommendation that franchising was not an appropriate remedy. Officers shared the concern, especially in the light of the lack of detailed explanation as to the reasoning behind this recommendation.

- A member commented that Tyne and Wear experienced a high level of competition rather that little or no competition as found by the Commission in many other areas. He also commented on the competition observed between private providers and publicly subsidised services.

- A member queried the reasons behind officers' recommendation in another paper on the agenda in support of quality contracts instead of quality partnerships.

RESOLVED – That the report be noted.

83. **CHRISTMAS AND NEW YEAR SERVICES 2011/2012**

Submitted:

(i) a report by the Director General of Nexus (previously circulated and copy attached to Official Minutes);

(ii) Christmas and New Year Services 2011/2012 (with the permission from the Chairman, due to timetables involved circulated at the meeting and copy attached to Official Minutes).

T Hughes presented the report on the timetables of services proposed for Metro, Ferry, Bus and Northern Rail during the Christmas and New Year period.

Officers were pleased to report examples of partnership working to secure better services during the festive period. For example, Metro Centre would make a contribution to support transport services to cover the extended opening hours.

In response to a member's question, officers confirmed that there had been no commercial services suggested by Stagecoach other than those secured under the contract with Nexus.

In response to a member's question, officers confirmed that there was little demand for public transport on Christmas Day.

RESOLVED – That the report be noted.

84. **DELIVERING THE BUS STRATEGY**

Submitted: A report by the Clerk to the Authority and the Director General of Nexus (previously circulated and copy attached to Official Minutes).

B Garner presented the report which updated members on the developments relating to the Bus Strategy, in particular on the proposals to prioritise delivery of better bus services through either a Quality Contract Scheme (QCS) or partnership arrangements.

During the ensuing discussion, members expressed a range of views:

- A member welcomed the proposals and indicated that a similar system in London demonstrated notable advantages for passengers, including better integration and an understandable fares structure. A member supported the option of considering partnership arrangements first if there was evidence that they could deliver the same outcomes as a QCS. If not, the QCS route should be taken.

- On the whole, members agreed that improvements to bus services were needed. A number of members suggested that the initial priority should be given to partnership arrangements.

- A member commented on voluntary partnership agreements, agreeing that they could be difficult to achieve but queried whether a QCS was the right intervention. A member indicated that the proposals would demand large infrastructure which required substantial resources and these were not available. A member also asked whether there was sufficient capacity for the operation and management of a system of this scale.

- Some members commented that the QCS option was not the easiest for a number of reasons, including its affordability. A comment was also made that a QCS might not address all key issues. A member also indicated that the successful London model had enjoyed the benefit of substantial investment over a number of years. B Garner explained that a significant proportion of the investment into the London model had been more about the new vehicles and technology rather than day-to-day operation. Importantly, whilst other areas saw a decline, London was now enjoying growing patronage, illustrating that a regulated bus system could work well. B Garner agreed that a QCS was not necessarily the easiest option, but confirmed that it was the best one available based on today's position. A member suggested that, given a smaller scale of bus operation in Tyne and Wear when compared to London, the area had even more opportunities to achieve an improved value for money.

- With regard to the possible risk of legal challenges, a member commented that the Government's position on this should be clarified. A member suggested that, as the Government were currently reviewing the Competition Commission's report on the investigation into the UK local bus market, the Authority should wait for the outcome of this review.

- A member suggested that all options available for the improvement and integration of bus services should be considered, including the role of taxis.

- In response to a member's question about the quality of the operational data available to Nexus and the evaluation of this data for the purpose of the proposals, officers explained that operators were under a legal obligation to disclose a limited set of operational data. Nexus would work closely with the Department for Transport on this matter.

- A member commented that whilst it was important to be cautious, in the light of the level of public subsidy allocated to support the operation of bus services, the proposals were the right way forward.

- A member commented on the importance of bus services for local communities, which outweighed the risks associated with the proposals.

- The Chairman commented that the interventions would result in an improvement to services for passengers, which should in turn result in an increased patronage. He agreed with a previous comment that due to the level of public subsidy for buses, it should be used to deliver greater benefits to the public. The Authority should work with the bus operators in a partnership way to meet aspirations under a QCS. The existing legislative provision would be used for this purpose.

B Rowland spoke in support of the proposals, highlighting and confirming the following points:

- It would be an essential part of the preparatory work to establish a comprehensive set of conditions and quality standards.

- The option of partnerships had not been ruled out and if they were evident to address the specified conditions, they would be considered.

- The Authority had sound experience in working with commercial risks.

- In the light of the scale of the potential benefits of a QCS for the passenger, this option was the right thing to do.

- A QCS would also help to stabilise the financial position of both the ITA and its constituent Local Authorities.

RESOLVED – That:

(i) the report be noted;

(ii) the interim wording amendment to the Bus Strategy as set out in section 8.1 be approved;

(iii) Nexus would prepare a draft Quality Contract Scheme for Tyne and Wear, including informal public and stakeholder consultation, under the guidance of the ITA Bus Strategy Working Group;

(iv) Nexus would explore with bus operators and District Councils the scope for developing meaningful quality bus partnerships as a possible delivery route for better buses if the outcomes achieved can be shown as comparable with or exceeding those anticipated from a Quality Contract.

85. **PETITIONS: SERVICE TB12**

Submitted: A report by the Director General of Nexus (previously circulated and copy attached to Official Minutes).

The report informed members of a petition received by Nexus regarding the taxi bus service TB12 in Gateshead and the recommended response from Nexus.

RESOLVED – That the report be noted.

86. **PETITION FOR THE REINSTATEMENT OF SERVICES 37 AND 38 TO SERVE BLACK ROAD IN RYHOPE**

Submitted: A report by the Director General of Nexus (previously circulated and copy attached to Official Minutes).

The report informed members of a petition received by Nexus in relation to the bus services 37 and 38. The report also advised members on the proposed response from Nexus.

A member commented on the benefits of a QCS which could have been helpful in addressing this situation.

RESOLVED – That the response to the petition be agreed as set out in paragraph 6.1 of the report.

87. **NON-METRO CAPITAL PROGRAMME 2011/12 - QUARTER 2 MONITORING REPORT**

Submitted: A joint report by the Deputy Clerk and Treasurer of the ITA and the Director of Finance and Resources of Nexus (previously circulated and copy attached to Official Minutes).

J Fenwick and P Woods spoke to the report which updated members on the progress of the 2011/12 Non-Metro capital programme for the period up to the end of the second quarter.

RESOLVED – That:

(i) the progress be noted;

(ii) the scheme changes as detailed in Appendix B be approved.

88. **METRO ASSET RENEWAL PROGRAMME (ARP) AND MAJOR PROJECT CAPITAL PROGRAMME 2011/12 - QUARTER 2 MONITORING REPORT**

Submitted: A joint report by the Deputy Clerk and Treasurer of the ITA and the Director of Finance and Resources of Nexus (previously circulated and copy attached to Official Minutes).

The report advised members of the overall performance of 2011/12 Metro and Major Projects capital programme and its delivery up to the end of the second quarter (ending 17 September 2011). Further updates would be submitted to the January meeting and also reported to the Metro Sub-Committee.

Officers clarified the figures in section 4.2 of the report as follows: £44.558m represented the resources available in 2011/12 and £49.646m represented the programme that was required to deliver that £44.558m. The difference of £5.088m represented over-programming.

RESOLVED – That:

(i) the budget changes identified during Quarter 2 as detailed in Appendix A be approved;

(ii) the position with regard to the 2011/12 capital programme at the end of Quarter 2 as per Appendix B be noted.

89. **REVISION TO METRO AND FERRY FARES 2012**

Submitted: A report by the Director General of Nexus (previously circulated and copy attached to Official Minutes).

B Garner presented the report which recommended fare changes for Metro and Ferry to become effective from 1 January 2012 to meet the increased costs.

In response to a member's question, officers confirmed that some reduction in the consumption of power on Metro had been achieved through changes to the way of driving following the implementation of the "FASSI" system by DB Regio.

A member recommended that the availability of a day saver for Ferry should be promoted.

Some members expressed concern in relation to:

- The Authority being asked to approve changes to fares without sufficient information to illustrate the necessity for the proposed changes, in particular a detailed account of cost pressures.

- The lack of information on the changes in wages and salaries.

- The risk of losing passengers due to the changes to fares.

- The lack of information on the comparison with the national rail industry.

- The lack of substantiated arguments for the Ferry fares proposals.

- The lack of information on the resources collected by the Government for capital spending.

Councillor Keating moved a motion, seconded by Councillor P Wood, in accordance with Standing Order B.26 (ii), as follows:

"The Authority does not at this stage approve the recommendation, but requires a further meeting within 14 days, at which Nexus firstly should fully explain and substantiate the nature and extent of the net "increased costs associated with running the Metro system" and the relevance of the comparison made with the national rail industry.

Finally, Nexus should provide substantiated arguments for the proposal for ferry fares."

Upon a vote, the motion was lost with 4 votes in favour, 8 against and 2 abstentions.

RESOLVED – That the proposals in relation to fares for both Metro and Ferry be approved as presented in the report.

90. **MOBILITY SCOOTERS**

Submitted: A report by the Director General of Nexus (previously circulated and copy attached to Official Minutes).

K Mackay presented the report which advised members on the work carried out to seek to reduce the risks associated with allowing mobility scooters on Metro and the reasons for the decision taken by Nexus to continue the current ban.

Members were generally in support of the proposals. However, a member indicated that Metro was a valuable mode of travel and the design of carriages should be reviewed during the refurbishment programme to enable mobility scooter users to travel by Metro. Officers explained that this option would be considered when Nexus would be looking to purchase the new generation trains during the next phase of the reinvigoration project.

During the discussion, a member explained that many mobility scooter users did not register themselves as disabled for the fear of stigma attached to this status.

A member suggested that a training resource available in North Tyneside could be useful to share.

RESOLVED – That:

(i) the actions taken to seek to reduce the risks associated with the carriage of mobility scooters on Metro to a tolerable level be noted;

(ii) the decision of Nexus to continue the current total ban on mobility scooters (other than lightweight folding models carried as luggage) from the Metro vehicles and infrastructure for the foreseeable future be noted;

(iii) members note that the interim taxi replacement arrangement introduced shortly after the commencement of the ban would be gradually integrated with the range of specialist accessibility services provided by Nexus. These include low floor easy access buses, Group Travel, Companion Cards and Taxicard.

91. **ITA MEMBERS' ANNUAL INSPECTION TOUR**

Submitted: A report by the Director General of Nexus (previously circulated and copy attached to Official Minutes).

B Garner presented the report on the members' visit in October 2011 to see transport developments promoted by Transport in London (TfL) and Docklands Light Railway (DLR).

A member commented on the advantage of Tyne and Wear having uniform levels of platforms. This was an issue in London.

RESOLVED – That the report be noted.

92. **DISPOSAL OF LAND AT PIPEWELLGATE, GATESHEAD**

Submitted: A report by the Director General of Nexus (previously circulated and copy attached to Official Minutes).

K Mackay presented the report which sought members' approval for the disposal of the land owned by Nexus at Pipewellgate, Gateshead. The location of the land on the map was clarified as the land framed in red on the Gateshead side of the river.

RESOLVED – That approval be given to the transfer of the specified land at Pipewellgate to Gateshead MBC.

93. **ALLOCATION OF THE LOCAL TRANSPORT PLAN (LTP) PUBLIC TRANSPORT BLOCK**

Submitted: A report by the Director General of Nexus (previously circulated and copy attached to Official Minutes).

J Fenwick introduced the report which provided information on the alternative allocations of the LTP Public Transport Block.

RESOLVED – That:

(i) the report be noted;

(ii) no change to the method of allocation and distribution of the LTP Public Transport Block be proposed at this stage.

94. **ANNUAL REPORT FOR DISTRICT LEADERS 2010/11 - EXPENDITURE AND ACTIVITY ANALYSIS**

Submitted: A report by the Director General of Nexus (previously circulated and copy attached to Official Minutes).

J Fenwick introduced the report which provided members with financial and statistical information on the performance of Nexus in 2010/11.

In response to a member's question concerning Metro Rail Grant (capital), J Fenwick explained that this related to a release of capital grant which offset depreciation on those Metro assets that had been funded by capital grant.

In response to a member's question about the use of the TaxiCard services, officers would clarify the reasons behind the seemingly low figure for Newcastle, especially when compared to Sunderland.

RESOLVED – That the report be noted.

95. **DATE AND TIME OF THE NEXT MEETING**

Thursday, 26 January 2012 at 10am.

96. **EXCLUSION OF PRESS AND PUBLIC**

RESOLVED – That the press and public be excluded from the consideration of the confidential minutes of the previous meeting held on 22 September 2011 in accordance with Paragraph 3 of Part 1 of Schedule 12A to the Local Government Act 1972.

97. **CONFIDENTIAL MINUTES OF THE PREVIOUS MEETING**

The confidential minutes of the previous meeting held on 22 September 2011 were approved as a correct record and signed by the Chairman.

This page is intentionally left blank

Tyne and Wear Integrated Transport Authority

Date:	**26 January 2012**
TITLE:	**ITA Budget 2012/13 and Medium Term Financial Strategy**
REPORT OF	**Deputy Clerk and Treasurer, ITA and** **Director of Finance and Resources, Nexus**
	District Implications: All Districts

1 Summary/Purpose of Report

1.1 This report sets out the Budget and Levy requirements for the ITA in 2012/13 and indicative funding requirements for 2013/14.

1.2 The Authority is asked to consider the draft Budget for 2012/13 and to set its levy for 2012/13 at £70,207,132. This represents a reduction of £3,585,285 from 2011/12, and a total reduction of £7,170,570 (10%) compared with 2010/11. The Authority is also asked to agree a Revenue Grant of £66,921,500 to Nexus for 2012/13.

2 Recommendations

2.1 The Authority is recommended to:

a) Approve the ITA and Nexus Revenue Budgets for 2012/13;

b) Approve a levy of £70,207,132 for 2012/13:

i) The levy to be apportioned between the five District Councils in accordance with The Transport Levying Bodies Regulations 1992 made under the Local Government Act 1988, which uses the 2010 mid-year population estimates as the basis of the levy allocation, as set out in section 4;

ii) The Districts to pay in twelve equal instalments, each instalment to be received by the Treasurer to the ITA on or before the last working day of each month;

c) Approve the amount of Revenue Grant to Nexus of £66,921,599 from the levy for 2012/13;

d) Approve the minimum revenue provision repayments for borrowed capital expenditure for 2012/13 (attached at Appendix C);

e) Approve a price freeze in relation to the Metro concessionary Gold Card (to remain at £25.00) and the withdrawal of the seasonal product introduced in April 2011, together with the need to ensure that the Gold Card becomes a true annual ticket, eligible for 365 days only, from the day of purchase;

f) Approve a price freeze in relation of the price of the child concessionary ticket (to remain at £1.00 for the All Day Ticket and 50p for the Single Ticket);

g) Note that for future financing purposes, the ITA agrees to withhold up to £1.720m of revenue support to Nexus in 2011/12 in order to part-fund this year's non-metro capital programme; and

h) Note that the 2013/14 Budget will be developed on the basis of a cash freeze in the Levy in line with the third year of the current medium term plan strategy.

3 Background

3.1 When the Districts and the ITA approved its Medium Term Financial Strategy (MTFS) for 2011/12 to 2013/14, it was agreed to deliver a 10% reduction in the levy of £7.171m (£3.585m each year) by April 2013, with a cash freeze for 2013/14. This was to be delivered through a range of efficiency savings, and use of reserves in order to protect services, prior to a full package of more sustainable savings being delivered from 2013/14 onwards. The package of more sustainable savings in relation to the cost of bus services would mainly be delivered by the introduction of a Quality Contract Scheme (QCS) for Tyne and Wear.

3.2 In 2011/12 the levy was also adjusted by £5.672m to allow the Concessionary Travel grant (previously paid directly to the ITA/Nexus but paid to directly to Districts from 2011/12 as part of their Formula Grant) to be passed back to the ITA. The Districts actually received additional grant of £7.107m, with the surplus being retained by Districts as an additional saving of £1.435m as well as the 5% levy reduction of £3.585m.

3.3 The agreed strategy recognised that the majority of costs facing the ITA and Nexus were related to statutory concessionary fares scheme, with the prospect of future cost pressures for concessionary fares and bus services. It also recognised that delivering a QCS is a core component of the MTFS and following consultation with District Leaders, the ITA agreed at its November 2011 meeting to instruct Nexus to prepare a draft QCS as well as exploring with Bus Operators and District Councils the scope for preparing meaningful Quality Bus Partnerships if the outcomes achieved can be shown as being comparable with or exceeding those of a QCS.

4 ITA Levy

4.1 Under the Transport Levying Bodies regulations 1992, the ITA is required to issue a levy proportioned by reference to the total resident population at the relevant date of the area of each District concerned (the relevant date being 30 June in the financial year which commenced two year previous to the levying year).

4.2 Table 1 below sets out the proposed levy for 2012/13 which delivers the agreed saving of £3.585m, with savings for individual Districts of between 3.4% and 5.5%. The variation reflects the impact of changes in the 2010 population estimates.

District	2011/12 Levy	2010 Mid-Year Population Estimates	Restated Levy for 2011/12	5% reduction on 2010/11 base	2012/13 Proposed Levy
Gateshead	12,725,590	191,700	12,634,875	-613,879	12,020,996
Newcastle	18,961,663	292,200	19,258,792	-935,709	18,323,083
North Tyneside	13,152,444	198,500	13,083,061	-635,655	12,447,406
South Tyneside	10,164,465	153,700	10,130,309	-492,192	9,638,117
Sunderland	18,788,254	283,500	18,685,379	-907,850	17,777,529
Total	**73,792,417**	**1,119,600**	**73,792,416**	**-3,585,285**	**70,207,131**

4.3 The ITA has been asked by one of the Tyne and Wear Districts to examine an alternative apportionment basis of the levy for future years, linked more directly to the services provided to each District, rather than the current population split required by regulation.

4.4 This issue will be considered further for future years and any alternative approach would need to be based on sound principles, using robust data and should be a demonstrably better option that the population basis set out in the current regulation. The risk of a legal challenge would also need to be mitigated, which could include a request for a variation to the regulations to give more flexibility to ITAs to determine an alternative approach. Consideration should also be given to the allocation of grant funding by Government which uses population as a basis for allocating most funding between Districts.

4.5 It is intended to complete an examination of this issue in the spring and if there was a majority of authorities in support of examining an alternative approach, the ITA could explore requesting a change to the levying regulations so that it has the power to issue a levy distributed on an alternative basis in future years.

5 The ITA Budget

5.1 Around 86% of the ITA's budget is historic capital financing and pension costs, which are largely fixed, whereas the controllable running costs amount to only around £0.500m – approximately 14% of the ITA's budget and less than 1% of the levy.

Despite this, as part of the 2011/12-2013/14 financial strategy, a full review of all areas of ITA spend was undertaken, in order to identify savings. In setting the original budget for

2011/12, an overall reduction of 7% was achieved. Further savings have been delivered during 2011/12, and the revised budget indicates that an overall reduction in ITA spend of 9% as compared with 2010/11 will be possible.

Further savings are proposed for 2012/13, mainly in the SLA with the Lead Authority and Financing Charges, which will mean a reduction in ITA spend of 12% over 2 years.

Details are included in Appendix A.

5.2 ITA Support Costs

Newcastle City Council provides support to the ITA through Service Level Agreements (SLAs), which include Management Support, Legal Advice, Financial Services, Audit and Risk, Administration of the Democratic Process, Scrutiny Support and Policy Advice. In the preparation of the 2011/12 budget, all SLAs were reviewed to achieve efficiency savings and ensure they provide even better value for money. A reduction of in excess of 10% was included within the budget proposals for 2011/12, with a further 5% reduction included for 2012/13.

5.3 Pension Costs

The ITA currently makes payments to reduce the pension deficit in respect of pensions for former Busways' employees, with no current employees. Results of the 2010 triennial actuarial review were received in March 2011. A reduction in the payments (around £80k for the ITA budget) was possible through extending the repayment period to 16 years with the agreement of the Tyne and Wear Pension Fund. These payments are set to increase by 5.3% for each year of the triennial review period (i.e. 2012/13 and 2013/14), representing the annual salary increase assumption included in the valuation.

5.4 Capital Financing Costs

The majority (around 75%) of the ITA's budget is used to meet Financing Charges. In 2011/12 this is forecast to £2.681m. This is made up of historic debt and transport supported borrowing granted by Government in previous years.

While the ITA holds the debt, borrowed to fund capital transport schemes, the Districts receive the Government grant to support the costs of this borrowing, as part of their Revenue Formula grant. This element of the levy is fully funded by Government Grant.

Borrowing and debt relating to the New Tyne Crossing are held within the Tyne Tunnels trading account, which is self-financing from toll income, and does not impact on the levy.

As debt is paid off and through careful treasury management, Financing Charges are budgeted to reduce in 2012/13 to around £2.562m.

5.5 **Tyne Tunnels Operating Costs**

The Tyne Tunnels trading account reflects the costs of operating the tunnels with the concessionaire. All costs are be funded from toll income and existing reserves, and there is no impact on the ITA levy. There is a possibility that toll income in 2011/12 will be lower than the original estimates, however this means that the usage payment to the concessionaire is also reduced so the position in year remains in surplus. Surpluses are required in order to meet future financing costs associated with the New Tyne Crossing project.

The original Tyne Tunnels budget for 2011/12 included an accounting adjustment that was required under the move to International Financial Reporting Standards (IFRS), which involved changes to the treatment of the usage payment. Although there was no change in cash terms, this adjustment did affect the presentation of the Tyne Tunnel reserves.

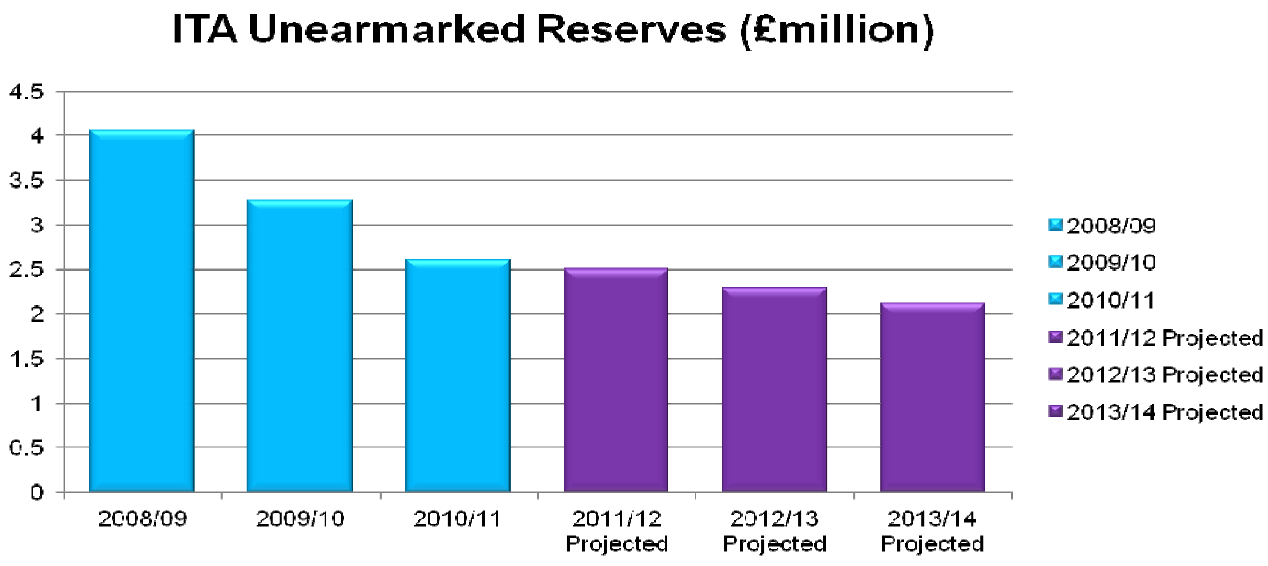
During the last year, the financial model for the New Tyne Crossing project was reviewed and an alternative accounting treatment agreed as part of the 2010/11 closure of accounts.

As a result the adjustments were no longer required, meaning that the 2011/12 forecast position and forecast opening and closing reserves for the Tyne Tunnels look significantly different from the original budgeted position.

5.6 **ITA Reserves**

In setting the budget for 2011/12, £0.180m of ITA reserves were allocated in order to allow an immediate reduction in the levy and bridge the gap while longer-term savings proposals were developed and implemented. Additional efficiencies made in year mean that the likely use of reserves forecast for 2011/12 is now below £0.100m. £0.190m use of reserves is proposed for 2012/13.

As set out in the chart below, the effect of this use of reserves will be to reduce ITA unearmarked reserves to approximately £2.5m at the end of 2011/12, and £2.3m at the end of 2012/13, retaining a minimum working level of £2m by 2013/14. This is considered to be a prudent balance of unearmarked reserves to hold, taking into account the nature and extent of risks faced by the Authority. Separate earmarked reserves are held in relation to the Tyne Tunnels and Metro reinvigoration.



6 The Nexus Budget

6.1 At its October 2011 and December 2011 meetings, the Nexus Executive considered the Nexus budget strategy for 2012/13 to 2013/14 and provided guidance.

6.2 The Nexus budget proposals have therefore been predicated on the following basis:-

- Continuation of the budget strategy previously agreed whereby a cumulative 10% reduction in the levy with effect from 1 April 2012 will be met from a combination of efficiency savings and use of reserves in order to protect services in the medium term, subject to the delivery of a more sustainable package of savings linked to the delivery of the bus strategy

- The budget strategy aims to retain the current operating deficit at around £5m per annum in each of the two financial years 2012/13 and 2013/14

- Budget managers were instructed to deliver 5% savings on 2012/13 'controllable budgets' as previously determined by the Director of Finance and Resources

- Inflationary pressures are also to be contained with the exception of contractual obligations in relation to Pension payments to STMBC, employee PRSP, the Metro Annual Concession Payment to DBTW, bus infrastructure costs and bus secured services contracts

- Retention, albeit at a reduced overall level, of central contingencies to accommodate various budget risks in areas such as Metro High Voltage Power, Concessionary Travel and shortfalls in fare box revenue

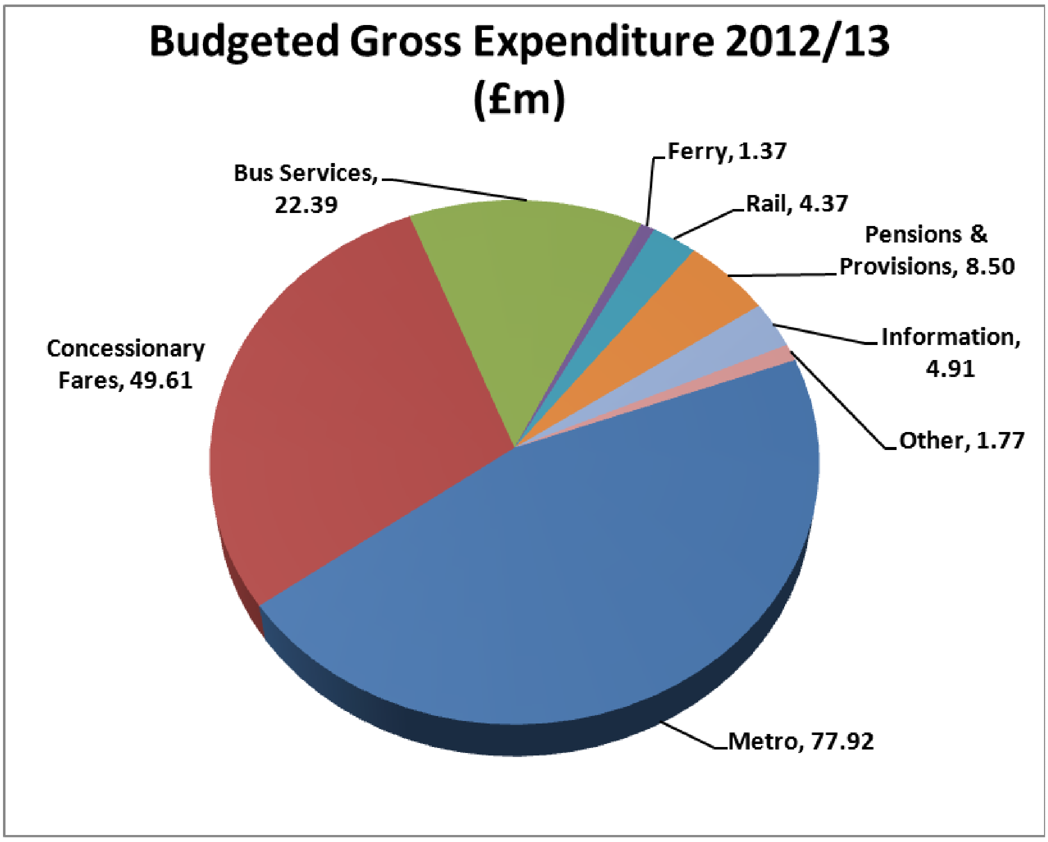
- Metro fares increase linked to RPI +2% (as subsequently adjusted by additional one-off grant funding from DfT)

- Metro concessionary Gold Card price to be frozen with subsequent withdrawal of the seasonal product

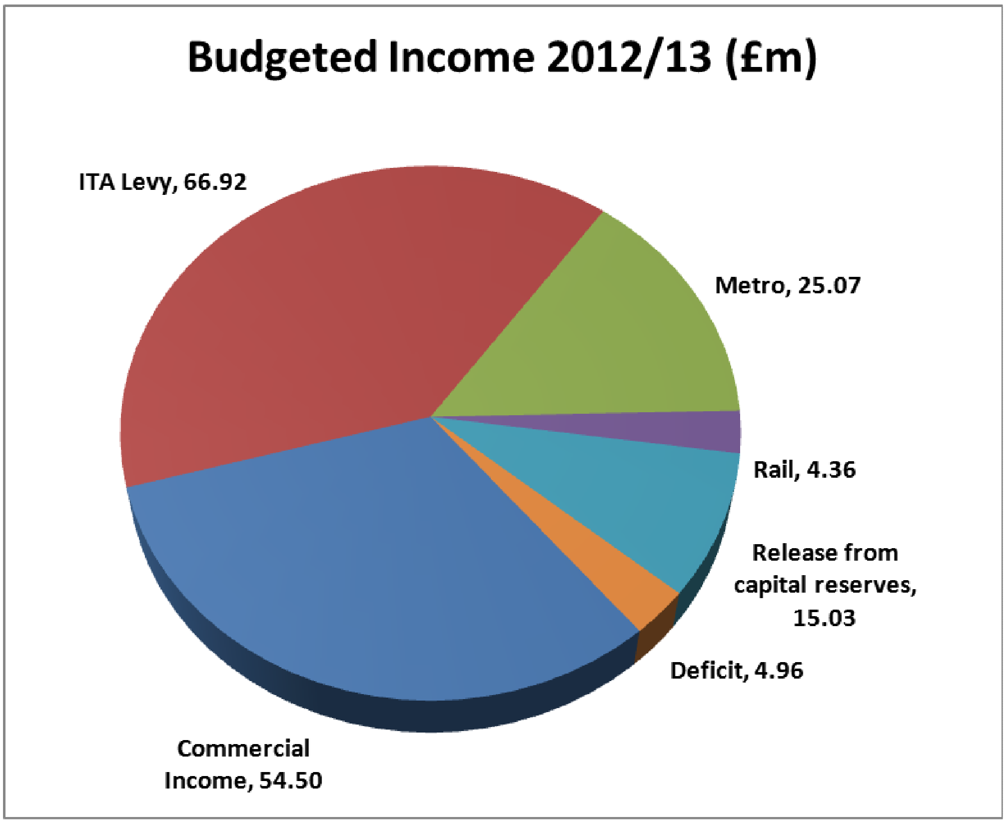
- Child concessionary ticket price to be frozen.

6.3 In line with the reduction in the levy, the ITA reduced its revenue support to Nexus in 2011/12 by 5% to £70.323m; to be followed by a proposed further reduction in 2012/13 to £66.922m, with a cash freeze being delivered in 2013/14.

6.4 Nexus currently has a gross revenue expenditure requirement of £171m, which is funded from a combination of traded income from fare box revenues, Direct Government Grants (including the metro rail grant) and the Levy. An illustration based on the proposed 2012/13 budget of services provided by Nexus is given in the chart below. This shows that the largest areas of gross expenditure are in relation to Metro and Bus services (where a significant element of expenditure is for the reimbursement of concessionary travel):-



6.5 These services are funded as follows:-



6.6 The levy on the district councils is minimised through commercial income and other direct grants, particularly in relation to Metro and the Northern Rail franchise. The release from capital reserves offsets depreciation on those fixed assets previously funded from government grant and Metro is where the majority of these costs are attributable.

6.7 Services which are most impacted by the volatility in the ITA levy payment are therefore Concessionary Travel, which is a largely statutory service relating to bus and secured bus services.

6.8 The sustainability of the reduction in the levy is therefore heavily dependent on being able to deliver long term savings in the cost of the bus network for which a strategy was agreed at the November 2011 meeting of the ITA.

6.9 This strategy has been in development since the ITA approved its medium term financial strategy in January 2011, when reserve funding was earmarked to meet the forecast budget shortfalls in both 2011/12 and 2012/13. However, due to additional cost and efficiency savings that have been made, Nexus has a higher level of reserves which it can draw on to continue the current strategy into 2014/15.

6.10 The original and revised reserves position is set out below:-

Forecast @ January 2011	**£000**	**Forecast @ January 2012**	**£000**
Usable reserves March 2011	12,895	Usable reserves March 2011	15,417
Deficit contribution 2011/12	(1,365)	Surplus 2011/12	1,574
Deficit contribution 2012/13	(5,030)	Deficit contribution 2012/13	(4,955)
Other Earmarked Reserves	(1,500)	Other Earmarked Reserves	(1,500)
Usable reserves March 2013	**5,000**	Usable reserves March 2013	**10,536**
		Deficit contribution 2013/14	**(5,385)**
		Usable reserves March 2014	**5,151**

6.11 Nexus delivered additional cost and efficiency savings in 2010/11 largely due to a moratorium on the filling of vacancies prior to a restructuring of the Nexus business which also had a knock on effect in terms of lower than expected redundancy costs towards the end of the financial year.

6.12 In addition, Nexus has also made further savings in 2011/12 (some of which e.g. the saving in the Metro insurance premium, carry forward as part of the base). The following table illustrates this (NB – figures shown are prior to the allocation of corporate support services overheads):-

	£000	£000
Budgeted Deficit 2011/12		1,365
Metro		
Nexus Rail	(547)	
Operating Concession	(911)	
Ticketing and Gating	(200)	
Insurances	(300)	(1,958)
Bus		
Secured Services	830	
Concessionary Travel	(330)	
Infrastructure	104	604
Corporate & Other		
2010 Pensions Valuation	(738)	
Unutilised Provisions	(600)	
Staffing & Other	(247)	(1,585)
Forecast Surplus 2011/12		**(1,574)**

6.13 This £2.9m movement will result in a surplus of around £1.6m in 2011/12 and for this reason, it is recommended that the ITA withholds up to £1.720m of revenue support in 2011/12 in order to fund part of this year's non-metro capital programme.

6.14 Moving forward however, when comparing the 2011/12 base budget requirement with that of the 2012/13 base requirement, it is evident that significant funding pressures remain, particularly in relation to those services that are totally reliant upon levy funding.

6.15 This is illustrated in the following table – again, using figures prior to the allocation of corporate support services overheads, where savings in the cost of operating Metro, required as part of the funding arrangements brokered with DfT are more than offset by sizeable cost pressures in the bus budget, particularly in the provision of Secured Services where the budget requirement has increased by over 17% since the beginning of 2011/12; something that is clearly unsustainable even in the short term, for which a different approach to the delivery of the bus strategy is being explored:-

	£000	£000
Budgeted Deficit 2011/12		1,365
Metro		
Fare Revenue	(906)	
HV Power	650	
Nexus Rail	(323)	
Operating Concession	(756)	
Insurances	(300)	(1,635)

Bus		
Secured Services	1,598	
Concessionary Travel	363	
Infrastructure	256	2,217
Corporate & Other		
2010 Pensions Valuation	(500)	
Staffing & Other	106	(394)
Levy Reduction 2012/13		3,403
Budgeted Deficit 2012/13		**4,956**

6.16 This leads to a budget position, year on year as summarised in the following table and detailed in the attached Appendix B:-

	2011/12 Forecast	**2012/13 Base**	**2013/14 Base**
	£000	**£000**	**£000**
Total Base Requirement	98,072	101,312	101,693
Funding:-			
Levy	(70,323)	(66,922)	(66,922)
Metro - MRG	(24,734)	(25,074)	(25,025)
Rail - Northern Franchise	(4,589)	(4,361)	(4,361)
Transfer (to)/from Reserves	**(1,574)**	**4,955**	**5,385**

6.17 With usable reserves at March 2012 estimated to be £16.9m, Nexus will be able to release £5.0m in both 2012/13 and 2013/14 as a medium term measure that accommodates the cumulative 10% reduction in the Levy whilst still maintaining current levels of service, in advance of delivering more sustainable savings from 2014/15. In the meantime, Nexus will also examine additional ways to find further savings to help offset inflationary and other cost pressures.

6.18 The importance of delivering further efficiency savings is well understood, and a cash freeze for 2013/14 is a minimum requirement. A sustainable saving can only realistically be achieved if the levy isn't reduced any further beyond the agreed 10% reduction which will have been implemented from April 2012. The £5.0m budget imbalance will need to be eradicated from the base by 2014/15 and delivering the bus strategy is a core component of a budget strategy that seeks to maintain and/or improve bus services by securing better value for money for public expenditure.

7 Risks Contained within the Budget

7.1 There are some medium-term risks within the Financial Plan, which will be monitored and managed by the ITA and Nexus. These include:

- Inflationary pressures currently in excess of the future expected increase in resource levels;
- The impact of changes in interest rates on investment income and financing costs;
- The need for continued capital investment and the means by which this can be funded;
- The use of unearmarked reserves to bridge the budget gap in the short term.

8 Background Papers

8.1 ITA and Nexus budget working papers.

9 Contact Officer(s)

9.1 Eleanor Goodman, Senior Accountant (ITA), tel (0191) 277 7518 or

John Fenwick, Director of Finance & Resources (Nexus), tel (0191) 203 3248

APPENDIX A

Integrated Transport Authority Revenue Estimates 2011/12 and 2012/13			
2011/12			2012/13
Original Estimate	Forecast Outturn	Description	Original Estimate
£000s	£000s		£000s
		Integrated Transport Authority/Nexus	
3,649	3,568	ITA Budget	3,477
70,323	70,323	Revenue Support Grant to Nexus	66,922
73,792	**73,891**		**70,399**
(73,793)	**(73,793)**	Levy on Tyne & Wear District Councils	**(70,207)**
180	**98**	Change in ITA Unearmarked Reserves	**192**
		Tyne Tunnels	
13,769	(3,603)	(Surplus) / Deficit on Tyne Tunnels	(2,853)
13,769	**(3,603)**	**Change in Tunnel Reserves**	**(2,853)**

ITA/Tyne Tunnel/Nexus Revenue Balances			
2011/12			2012/13
Original Estimate £000s	Forecast Outturn £000s	Description	Original Estimate £000s
		Opening Balance at 1st April	
(2,590)	(2,600)	Integrated Transport Authority	(2,502)
(11,442)	(12,438)	Metro Re-invigoration Reserve	(12,562)
(21,904)	(40,722)	Tyne Tunnel Reserves	(44,325)
(15,134)	(15,417)	Nexus	(16,991)
(51,070)	**(71,177)**		**(76,380)**
		Movement in Balances during year	
180	98	Integrated Transport Authority	192
1,999	(124)	Metro Re-invigoration Reserve	2,024
13,769	(3,603)	Tyne Tunnel Reserves	(2,853)
1,365	(1,574)	Nexus	6,455
17,313	**(5,203)**		**5,818**
(33,757)		**Closing Balance at 31st March**	
		being	
(2,410)	(2,502)	Integrated Transport Authority	(2,310)
(9,443)	(12,562)	Metro Re-invigoration Reserve	(10,538)
(8,136)	(44,325)	Tyne Tunnel Reserves	(47,178)
(13,769)	(16,991)	Nexus	(10,536)
(33,757)	**(76,380)**		**(70,562)**

Integrated Transport Authority

1 ITA Budget

Net Expenditure

Item No.	Description	2011/2012 Original Estimate	2011/2012 Forecast	2012/2013 Original Estimate
		£	£	£
	ITA Administration			
1.1	Staffing and charge for servicing officers	301,500	289,980	285,720
		301,500	289,980	285,720
1.2	Audit Fees	32,600	30,000	29,340
1.3	Members allowances and expenses	86,300	86,300	86,300
1.4	Accommodation charges	6,090	6,120	6,120
1.5	Subscriptions	33,000	31,450	29,740
1.6	Conferences	1,000	1,000	1,000
1.7	Travel expenses and subsistence	3,000	3,000	3,000
1.8	IT development	22,000	22,000	22,000
1.9	Printing and postage costs and professional services	15,200	15,200	15,200
1.10	Advertising	2,050	5,000	2,000
1.11	Scrutiny Committee	4,700	4,700	4,700
		205,940	204,770	199,400
	Total	507,440	494,750	485,120
1.12	Pensions			
	Pension deficiency payments	510,000	432,180	455,090
1.13	Financing Charges			
	Financing Charges	2,662,360	2,681,090	2,561,720
		3,679,800	3,608,020	3,501,930
1.14	Income			
	Interest on Revenue Balances	(31,000)	(40,000)	(25,000)
	Net Expenditure on ITA Budget	3,648,800	3,568,020	3,476,930

Integrated Transport Authority

2 Tyne Tunnel and New Tyne Crossing

Net Expenditure

Description	2011/2012 Original Estimate	2011/2012 Forecast	2012/2013 Original Estimate
	£	£	£
Tyne Tunnel Ongoing Costs			
TT2 Contract			
Toll Income	(15,000,000)	(13,980,000)	(19,400,000)
Usage Payments *	6,336,800	4,646,000	9,400,000
	(8,663,200)	(9,334,000)	(10,000,000)
<u>Other</u>			
Employees	32,810	32,810	32,810
Pensions	588,410	499,030	525,480
Other Expenses	55,390	55,390	55,390
New Tyne Crossing Support Services	145,000	145,000	145,000
NTC Community Fund	10,000	10,000	10,000
Financing Charges	5,832,900	5,389,100	6,700,460
Interest on Finance lease *	16,106,000	-	-
Interest on Tunnel Balances	(338,000)	(400,000)	(322,000)
Total Expenditure	22,432,510	5,731,330	7,147,140
(Surplus)/Deficit on existing Tyne Tunnels	13,769,310	(3,602,670)	(2,852,860)

* The original Tyne Tunnels budget for 2011/12 included an accounting adjustment that was required under the move to International Financial Reporting Standards (IFRS), which involved changes to the treatment of the usage payment. Although there was no change in cash terms, this adjustment did affect the presentation of the Tyne Tunnel reserves. During the last year, the financial model for the New Tyne Crossing project was reviewed and an alternative accounting treatment agreed as part of the 2010/11 closure of accounts.

As a result the adjustments were no longer required, meaning that the 2011/12 forecast position and forecast opening and closing reserves for the Tyne Tunnels look significantly different from the original budgeted position.

APPENDIX B

Nexus - Revenue Budget 2011/12 to 2013/14

2011/12 Budget £000	2011/12 Forecast £000		2012/13 Budget £000	2013/14 Forecast £000
46,808	46,477	Concessionary Travel	47,196	46,905
32,617	30,178	Metro	34,080	34,192
873	864	Ferry	848	848
4,371	4,570	Rail	4,370	4,370
11,012	11,639	Bus Service Delivery	12,709	13,000
2,859	2,947	Bus Infrastructure	3,146	3,146
2,640	2,848	Information and Promotion	2,749	2,749
1,135	1,013	Business Development	1,190	1,190
102,315	**100,536**	**Total Operations**	**106,288**	**106,400**
47	47	Deregulation Liabilities & Add. Costs	47	47
6,490	5,602	Pensions & Provisions	5,849	6,119
1,908	1,904	Corporate & Democratic	1,855	1,855
110,760	**98,072**	**Total Costs**	**114,039**	**114,421**
(300)	(340)	Investment Income	(300)	(300)
(9,677)	(9,677)	Net Movement in Capital Reserve	(12,428)	(12,428)
100,783	**98,072**	**Total Nexus Requirement**	**101,311**	**101,693**
(99,418)	(99,646)	**Grants**	(96,355)	(96,306)
1,365	(1,574)	**Net (Surplus)/Deficit**	4,956	5,387
(1,365)	1,574	**Transfer to/(from) Reserves**	(4,956)	(5,387)
0	**0**		**0**	**0**

APPENDIX C

TYNE & WEAR INTEGRATED TRANSPORT AUTHORITY ANNUAL MINIMUM REVENUE PROVISION (MRP) STATEMENT FOR 2011/12 UNDER THE CAPITAL FINANCE AND ACCOUNTING AMENDMENT REGULATIONS 2008.

Summary

The Authority is required to produce a Minimum Revenue Provision (MRP) Statement which sets out how it will provide for the repayment of any debt. This is the fifth such statement we have had to produce which recommends which Option will be used to calculate the MRP. The regulations provide four options (detailed below)

Recommendation

The MRP guidance offers four options on how to calculate the MRP. MRP is the repayment of any debt. Having considered the options it is recommended to agree the adoption for MRP arrangements in 2012/13 of:

- Option 1 for supported capital borrowing, which is a continuation of the current practice of a 4% minimum revenue provision;
- Option 3 on unsupported capital borrowing (known as Prudential Borrowing) which will be repaying the debt in equal annual instalments over the estimated life of the asset; and
- Option 3 on unsupported capital borrowing (known as Prudential Borrowing) for the New Tyne Crossing which will be repaying the debt over the life of the asset on an annuity basis. This basis is beneficial for use in the New Tyne Crossing project as the back-loading of the MRP using the annuity method is consistent with the principal repayment of debt included in the New Tyne Crossing model which will be repaid at the end of a 30 year period. The New Tyne Crossing model reflects an increase in traffic and tolls over the 30 year life which is consistent with back loading the principal repayments.

The ITA has no supported capital expenditure which requires borrowing in 2011/12 and 2012/13, as from 1 April 2008 the Integrated Transport allocation has been provided in the form of capital grant.

More details on the regulations are given below.

Background

Under regulation 27 of the 2003 Regulations, local authorities are required to charge to their revenue account for each financial year MRP to account for the cost of their debt in that financial year. Prior to its amendment by the 2008 regulations, regulation 28 set out the method authorities are required to follow in calculating MRP. For the financial year 2007/08 and subsequent financial years, the detailed calculation has been replaced with a requirement that local authorities calculate an amount of MRP *which they consider to be prudent*. This guidance is issued under section 21(1A) of the 2003 Act (as inserted by section 238(2) of the Local Government and Public Involvement in Health Act 2007) and addresses this new requirement in regulation 28. In accordance with section 21(1B) of the 2003 Act, local authorities must have regard to this guidance.

Previous Practice

Prior to 2007/08, the calculation of the MRP was done via the Regulatory Method under regulation 28; i.e. MRP is equal to 4% of the Capital Financing Requirement (CFR) at the end of the preceding financial year.

Options for calculation of Minimum Revenue Provision

The Revised MRP Guidance offers four options for Prudent Provision. These four options are:

1. **Option 1: Regulatory Method**

   For debt which is supported by Revenue Support Grant (RSG), authorities will be able to continue to use the formulae in the current regulations 28 and 29 of the 2003 Regulations, since the RSG is calculated on that basis. This option will be available for all capital expenditure prior to 1 April 2008.

2. **Option 2:CFR Method**

   This can be used on supported debt and is similar to Option 1. While still based on the concept of the CFR, which is easily derived from the balance sheet, it avoids the complexities of the formulae in Regulation 28. This option will be available for all capital expenditure prior to 1 April 2008.

3. **Option 3: Asset Life Method**

   For new borrowing under the Prudential system for which no government support is given and therefore self-financed, there will be two options. Option 3 is to make MRP provision in either

   - **Equal annual instalments over the estimated life of the asset** for which the borrowing is undertaken. The original estimate of the life is determined at the outset and should not be changed in later years, even if in reality the condition of the asset has changed significantly; or
   - **Annuity Method -** this method has the advantage of linking the MRP to the flow of benefits from an asset where the benefits are expected to increase in later years.

   The formula allows an Authority to make voluntary extra provision in any year. Freehold land cannot have a life attributed to it so it should be treated as a maximum of 50 years.

   MRP is calculated following the year in which the expenditure is incurred. However, paragraph 13 of the guidance highlights an important exception to this rule. In the case of the construction of a new building or infrastructure, MRP would not have to be charged until the new asset came into service. This ‘MRP holiday’ until the asset was complete and earning income to service the debt is sensible and should make major projects (such as the New Tyne Crossing) more affordable.

4. **Option 4: Depreciation Method**

   MRP is to be equal to the provision required in accordance with depreciation accounting in respect of the asset on which expenditure has been financed by borrowing or credit arrangements.

   For this purpose standard depreciation accounting procedures should be followed, except in the following respects:

(a) MRP should continue to be made annually until the cumulative amount of the provision is equal to the expenditure originally financed by borrowing or credit arrangements. After that, the Authority may cease to make MRP;

(b) On disposal of the asset, the amount of the capital receipt can not be taken to the revenue account and the Authority must comply with the normal requirements of the 2003 Act on the use of capital receipts, i.e. receipts go to the balance sheet;

(c) Where the percentage of the expenditure on the asset financed by borrowing or credit arrangements is less than 100%, MRP should be equal to the same percentage of the provision required under depreciation accounting.

Conditions

Options 1 and 2 can only be used in relation to:

(a) Capital expenditure before 1 April 2008, and

(b) Capital expenditure incurred on or after that date which the Authority is satisfied forms part of its Supported Capital Expenditure.

Options 3 and 4 should be used on all capital expenditure incurred on or after 1 April 2008 which is financed by borrowing or credit arrangements and which does not form part of the Authority's Supported Capital Expenditure, i.e. Prudential Borrowing.

Option 3 can be used for all capital expenditure.

CFR adjustment

Where an Authority has used Option 3 or 4, the CFR for the purpose of Options 1 and 2 should be treated as not being increased by the amount of the expenditure on the asset to prevent double counting. In addition, the CFR should not be treated as being decreased by the amount of MRP made under Options 3 and 4.

Tyne and Wear Integrated Transport Authority

Date: 26 January 2012

TITLE: FURTHER REVISION TO METRO FARES

REPORT OF THE CLERK OF THE AUTHORITY / DIRECTOR GENERAL OF NEXUS

Not confidential

District Implications: All

---

1. **Summary / Purpose of Report**

1.1 To retrospectively report a reduction in Metro fares from those agreed by the Authority at its November 2011 meeting which were implemented on 1 January 2012.

2. **Recommendations**

2.1 The ITA is recommended to note and formally endorse revisions to Metro fares previously agreed at its November 2011 meeting.

3. **Introduction / Background**

3.1 Additional one-off grant funding has been made available by DfT in order to limit the previously agreed RPI+2% fares increase on Metro.

3.2 The covering report was presented to and agreed by the Nexus Executive Board on 15 December 2011 (report attached as Appendix A).

3.3 Discussions over the weekend of 16 – 18 December 2011 involving the Nexus Director General, Chair and Vice Chair of the ITA and Leader of the Opposition subsequently endorsed the recommendation to limit the January 2012 Metro fares increase. A presentation was also provided to the ITA at its Policy Seminar on 22 December 2011 as background information.

3.4 As outlined in the Nexus Executive Board report, because the previously agreed change was scheduled to take effect from 1 January 2012, time was of the essence in order to make necessary changes to ticket machine fare tariffs (old and new machines), publicity material and in notifying Northern Rail. In addition, at the time of the Nexus Executive Board meeting, DfT had still to confirm their offer of one-off grant funding so some uncertainty remained even at that late stage.

4. **Next Steps**

4.1 The revised fares came into effect on 1 January 2012.

5. **Further comments by the:**

- **Clerk** (if any);
- **Treasurer** (if any);
- **Legal Advisor (**if any**);**
- **Director General** (if any**).**

6. Background Papers

6.1 Report to 15 December 2011 meeting of Nexus Executive Board.

7. Contact Officer (s)

7.1 John Fenwick, Director of Finance and Resources, Nexus (Tel: 0191 203 3248)

APPENDIX A

MEETING: **Executive**

DATE: **15 December 2011**

Subject:	Further Revision to Metro Fares 2012	**Author:**	John Fenwick
Executive Sponsor:	Director of Finance and Resources	**Contact:**	John Fenwick
		Report for:	Decision

Summary of report: To advise the Executive of an offer of one-off additional grant funding from DfT which if confirmed, will be used to limit the January 2012 Metro fares increase to RPI+1% as opposed to the RPI+2% increase previously endorsed by the Executive and agreed by the ITA at its November 2011 meeting.

Recommendations:

Subject to final confirmation being received, the Executive is recommended to:-

(i). Give authority to the Director General to implement the change, subject to discussion with the chair of the ITA and retrospective reporting to ITA members at the Policy seminar scheduled for 22 December 2011

(ii). Give authority to the Director of Finance and Resources to accept £400,000 additional grant funding from DfT.

IS THE REPORT CONFIDENTIAL? **No**

BACKGROUND

1. At its November 2011 meeting the ITA approved a Metro fares increase of RPI+2% across the basket of fares, to be effective from January 2012.

2. The Autumn Statement, announced on 29 November 2011 provided additional funding for both TfL and railway operators in order to limit fares increases effective from 1 January 2012 to RPI+1%; they had previously been increased by RPI+3%.

3. The Director of Finance and Resources questioned the equity of this decision, in the context of customers using the Tyne and Wear Metro system facing an increase of RPI+2%, effective from 1 January 2012.

4. DfT have responded by offering additional support amounting to £400,000 which Nexus have estimated as being required in order to limit the fares increase to RPI+1%.

5. There are, however, three important caveats:-

   - The grant will be paid in 2011/12;
   - The grant will be paid as capital grant;
   - The grant is one-off funding and will not be base-lined.

6. The first two caveats can be dealt with through financing adjustments and it is the view of the Director of Finance and Resources that there is no risk to Nexus as a result.

7. The third caveat is more fundamental and means that Nexus will be reviewing its fares in the Autumn of 2012, having not adjusted its January 2012 fares base in order to generate the revenues it requires in 2012/13. This could adversely impact any fares proposal required to be adopted one year from now. That said, it would be extremely difficult to effectively refuse the offer of £400,000 external support in order to limit the January 2012 fares increase and it is the view of the Director of Finance and Resources that the offer from DfT should be accepted, hence the recommendation contained in this report.

8. Because the previously agreed change is scheduled to take effect from 1 January 2012, time is of the essence in order to make necessary changes to ticket machine fare tariffs (old and new machines), publicity material and notification to Northern Rail.

IMPACT ON PREVIOUSLY AGREED FARES INCREASE

9. The RPI+2% proposition previously adopted by the ITA is outlined in the Appendices to this report together with the impact on fares of the RPI +1%

proposition (blue shading denotes where the fare will change as a result).

- Appendix A – Ticket Machine Products;
- Appendix B – MetroSavers and Corporate MetroSavers;
- Appendix C – Student and 16-18 Metro Student Cards;
- Appendix D – Miscellaneous Products.

When looking at the basket of fares, it became apparent that an increase of RPI +1% (if August 2011 RPI of 5.2% is still our reference point) was not practical to implement. This is because of:-

- Our inability to increase ticket machine (Single and DaySaver) products by less than multiples of 10p;
- The relationship between the price of Single and DaySaver products and discounted season tickets;
- The interdependency between MetroSaver products and their corporate equivalents;
- Discounts offered on student products which effectively track the price of all other 'full fare' equivalent products;
- Sales volumes of particular products e.g. ticket machine single tickets are by far our most popular selling products.

Therefore, the changes to the fares outlined in the appendices as a result of this additional funding are actually nearer to an average of 5.8% or RPI +0.6% (if the August 2011 RPI of 5.2% is still our reference point).

The main headlines are as follows:-

- 2 zone Single – increase limited to 10p; new fare proposed is £2.40;
- 3 zone Single – increase limited to 10p; new fare proposed is £3.00;
- Child DaySaver – fare frozen instead of 10p increase;
- All increases on Metro season tickets reduced to an average 4.8%;
- All increases on Student tickets reduced to an average of 2.5% with Teen tickets reduced further;
- Corporate MetroSaver – fares frozen

IMPACT ASSESSMENT

10. The proposals will have a positive impact on business efficiency. The

proposals do not have a disproportionate impact on any group with protected characteristics

FINANCIAL IMPLICATIONS

11. Limiting the fares increase from January 2012 to an average RPI+0.6% will cost around £400,000; some of which falls due this financial year because of the January 2012 implementation date. This will be funded by the receipt of additional grant funding provided by DfT.

12. The longer term implication of this funding not being base lined does present a potential risk for when fares are next reviewed in the Autumn of 2012. However, it is considered that limiting the increase on those products identified in paragraph 8 above is justified at this time and to effectively refuse additional external government support cannot be reasonably justified.

BACKGROUND PAPERS

(i). Fare proposals working papers kept by the Fares and Revenue Manager

CONSULTATION			
Consultation With		**Agreed (Y/N)**	**Date**
Head of Legal Services			
Human Resources Director			
Head of Health, Safety, Environment and Quality			
Head of Information Technology			
Head of Communications			
Head of Business Development			
Other Stakeholders:	Nic Cheetham	Y	15/12/11

APPENDIX A

Ticket Machine Products			
Product	2011 price	RPI+1 price	RPI+2 price
1 Z Single	£1.50	£1.60	£1.60
2 Z Single	£2.30	£2.40	£2.50
3 Z Single	£3.00	£3.10	£3.20
1 Z off-Pk DaySaver	£2.10	£2.30	£2.30
2 Z off-Pk DaySaver	£3.10	£3.30	£3.30
3 Z off-Pk DaySaver	£4.00	£4.20	£4.20
1 Z Pk DaySaver	£2.50	£2.70	£2.70
2 Z Pk DaySaver	£3.70	£3.90	£3.90
3 Z Pk DaySaver	£4.80	£5.00	£5.00
Transfare 1 Zone	£2.30	£2.50	£2.50
Transfare 2 Zone	£3.10	£3.30	£3.30
Transfare 3 Zone	£3.80	£4.00	£4.00
Child Transfare	£0.70	£0.80	£0.80
Child Full Fare Single	£0.60	£0.70	£0.70
Child Day Saver	£1.10	£1.10	£1.20

APPENDIX B

MetroSavers			
Product	2011 price	RPI+1 price	RPI+1 price
Weekly 1 Zone	£9.00	£9.40	£9.50
Weekly 2 Zone	£13.00	£13.80	£14.00
Weekly 3 Zone	£18.00	£19.00	£19.50
4 Weekly 1 Zone	£33.00	£34.50	£35.00
4 Weekly 1 Zone online	£30.50	£31.05	£31.50
4 Weekly 2 Zone	£46.50	£48.50	£50.00
4 Weekly 2 Zone online	£44.00	£43.65	£45.00
4 Weekly 3 Zone	£61.00	£64.00	£65.00
4 Weekly 3 Zone online	£58.00	£57.60	£58.50
Annual All zone	£475.00	£500.00	£510.00
Annual All zone online	£450.00	£450.00	£459.00

Corporate MetroSavers			
Product	2011 price	RPI+1 price	RPI+2 price
10-19 tickets	£450.00	£450.00	£459.00
20-39 tickets	£445.00	£445.00	£454.00
40+ tickets	£440.00	£440.00	£449.00

APPENDIX C

Student and 16-18 Metro Student Card			
Product	2011 price	RPI+1 price	RPI+2 price
Student Annual all zone	£410.00	£425.00	£433.50
Student Annual all zone online	£386.00	£382.50	£390.15
Student Annual Inner Ncle	£290.00	£306.00	£315.00
Student Annual Inner Ncle online	£275.00	£275.40	£283.50
Student Annual Inner Sunderland	£290.00	£306.00	£315.00
Student Annual Inner Sunderland online	£275.00	£275.40	£283.50
Student 4 weekly all zone	£48.50	£51.20	£52.00
Student 4 weekly all zone online	£46.20	£46.05	£46.80
Student 4 weekly Inner Ncle	£31.00	£31.05	£31.50
Student 4 weekly Inner Ncle online	£30.00	£27.95	£28.35
Student 4 weekly Inner Sunderland	£31.00	£31.05	£31.50
Student 4 weekly Inner Sunderland online	£30.00	£27.95	£28.35
16-18 Student 4 weekly all zone	£34.50	£32.00	£32.50
16-18 Student 4 weekly all zone online	£32.50	£28.80	£29.25
16-18 Student weekly all zone	£9.50	£9.50	£9.75

APPENDIX D

Miscellaneous Ticket Products			
Product	2011 price	RPI+1 price	RPI+2 price
University of Sunderland Metro Card	£40.00	£42.50	£45.00
Business Pass	£135.00	£144.00	£145.00
Conference Pass	£2.10	£2.20	£2.30
Class Pass - 1 Pass 1 Day	£26.50	£28.00	£28.00
Class Pass - 2 Passes 1 Day	£42.00	£44.50	£44.50
Class Pass - 1 Pass 1 Term	£80.00	£85.00	£85.50
Class Pass - 2 Passes 1 Term	£132.00	£140.00	£141.00
Class Pass - 1 Pass Annual	£206.00	£219.00	£220.00
Class Pass - 2 Passes Annual	£365.00	£388.00	£390.00
Great North Run Adult Weekend	£7.40	£8.00	£8.00
Great North Run Child Weekend	£2.10	£2.20	£2.20
Single Inner Zone Rail Add On	£1.20	£1.30	£1.30
Peak Return Inner Zone Rail Add On	£2.30	£2.40	£2.50
Off Peak Return Inner Zone Rail Add On	£1.80	£1.90	£1.90
7 Day Inner Zone Rail Add On	£7.40	£7.90	£7.90
Single Outer Zone Rail Add On	£2.20	£2.30	£2.30
Peak Return Outer Zone Rail Add On	£4.40	£4.60	£4.70
Off Peak Return Outer Zone Rail Add On	£3.50	£3.70	£3.70
7 Day Outer Zone Rail Add On	£13.70	£14.50	£14.60

Tyne and Wear Integrated Transport Authority

DATE:	**26TH January 2012**
TITLE:	**2011/12 METRO ASSET RENEWAL PROGRAMME (ARP) AND MAJOR PROJECT CAPITAL PROGRAMME – THIRD QUARTERLY REVIEW**
REPORT OF	**DIRECTOR OF FINANCE AND RESOURCES, NEXUS**
	Reasons for confidentiality (if confidential)
	District Implications

1. **Summary / Purpose of Report**

1.1 The purpose of this report is to advise members of the overall performance of the 2011/12 Metro and Major Projects Capital Programme including delivery to the end of the third quarter (ending 10th December 2011). This report includes Metro ARP and major schemes but does not include Nexus Non-Metro schemes, which will be reported separately.

2. **Recommendations**

2.1 The ITA is recommended to;

- Approve the budget changes identified during quarter 3, as detailed in Appendix A.
- Note that the Director of Finance and Resources, Nexus has discussed with DfT an option whereby DfT will accelerate its funding contribution in 2011/12 as set out in paragraph 3.3 below.
- Note the position with regard to the 2011/12 capital Programme at the end of the third quarter, as per Appendix B.

3. **Introduction / Background**

3.1 Following review of the second quarterly monitoring report, the ITA approved a Metro Asset Renewal Programme for 2011/12 in November 2011 totalling £49,646K (including major projects of £8,965k). Delivery of the Metro ARP is reviewed on a 4 weekly cycle by the Nexus Executive. At the end of the third quarter of 2011/12, the Metro and major projects capital programme has been revised to a new level of £46,799k for which ITA approval is sought.

3.2 As at the end of the third quarter actual spend is £20,301k (43.4%) for Metro ARP and major projects. This, together with estimated commitments, brings the total to £27,293k (58.3%).

3.3 Nexus is currently forecasting expenditure to the end of 2011/12 of £40,127k. Whilst this forecast is below the programme for which approval is being sought, the forecast remains within funding tolerances as approved by DfT who have raised with Nexus the possibility of accelerating its funding contribution such that it funds 100% of the ARP investment programme in 2011/12 and 80% in 2012/13 with no overall impact on the balance between central and local funding but short term funding advantages to both DfT and Nexus.

4. **Information**

4.1 The capital programme budgets approved at the ITA in November 2011 were £49,646k (for Metro ARP and major projects).

4.2 Budget reductions totalling £2,847k have been identified during quarter 3 and an analysis of these variations is included at Appendix A. Whilst a number of these are relatively minor in nature, the main variations concern the following projects:-

- **Earthworks : North Shields to Howdon +£2.121m** where a package of Civils works have been identified to be carried out this financial year involving extensive ballast retention works. The costs of this project have exceeded initial programme estimates submitted to DfT, due to more extensive works being required and as a result of compensation events arising from the blockade in March 2011. However, compensating reductions have been made to other Civils projects wherever possible to address this issue.

- **Fire alarm system -£0.479m** where the project will now be delivered in 2012/13 as a result of a revised design, necessary in order to contain the cost of the project within the original budget.

- **Network Stray Currents -£0.679m** where the project has been re-profiled and reassessed, now to be delivered in 2012/13 following a disappointing tender exercise which resulted in a very limited response and excessive costs unless an alternative solution can be accommodated.

- **Monkseaton Ramp -£0.200m** where delays have resulted in compensation works and the completion of bridge works being rescheduled into 2012/13.

- **Lifts at FLE and Heworth +£0.414m** where it is proposed to bring forward the project from 2012/13 in order to meet DfT spending targets.
- **Ticketing and Gating -£3.811m** where approval has been obtained to carry forward DfT section 31 grant funding in response to delays encountered in the installation of new ticket machines at stations.

4.3 The following table explains how the programme for which approval is being sought is to be funded. Given the current forecast, it is now unlikely that funding identified as 'over-programming' will be required. To the extent that slippage on projects previously earmarked for delivery in 2011/12 will impact on the programme next year, this has been taken into account when establishing the investment plans for 2012/13, which is considered further in a separate report elsewhere on today's agenda:-

	£000	£000
Metro Rail Grant[1]		
- 2011/12 Allocation	35,000	
- Vired to 2010/11	(1,352)	33,648
LTP Minor Schemes		2,710
Section 31 Grant		3,237
Other Grant		0
Prudential Borrowing		80
Earmarked Reserves		1,115
		40,790
Over-programming		
- MRG virement from 2012/13	3,500	
- Nexus reserves	2,509	6,009
		46,799

5. Next Steps

[1] At this point in time, the funding table depicts previously assumed levels of Metro Rail Grant but could change when the programme is financed at the year end, as detailed in paragraph 3.3 of this report

6. **Further comments by the:**

- **Clerk** (if any);
- **Treasurer** (if any);
- **Legal Advisor (**if any**);**
- **Director General** (if any**).**

7 Background Papers

8 Contact Officer (s)

8.1 Linden Watson, Capital Accountant (0191) 2033410

Keith Nisbet, Head of Finance (0191) 2033264

NOTE: Under the Local Government (Access to Information) Act 1985 members of the public have a right to inspect any non-confidential background papers used in the production of a non-confidential report to the Authority. Requests for information should be made to the Department originating the report.

APPENDIX A

Approvals Required (Quarter 3 of 2011/12)

Capital Scheme	Budget Variation £	Reason for Variation
BC231 Plain Line – Tynemouth to Chillingham Road	115,000	Approval was given at Management Committee on 12 October 2011 to bring forward £115,000 budget from 2012/13 to allow for the additional lease costs arising from the use of Shields Road Depot in 2011/12.
BB003 Maintenance Management System	8,578	Approval was given at Management Committee on 9 November 2011 for a budget increase of £8,573 for Project Closure activities.
BC201 Earthworks – North Shields to Howdon	2,120,714	Approval was given at Management Committee on 9 November 2011 for a package of Civils works to be implemented in 2011/12 to assist in reaching funding targets. The major element of this package was a budget increase of £2,120,714 for ballast retention.
BC202 Earthworks – Howdon to Wallsend	-8,852	Approval was given at Management Committee on 9 November 2011 for a package of Civils works to be implemented in 2011/12 to assist in reaching funding targets. One element of this package was a budget reduction of £8,852 for this project.
BC208 Bridges – Meadow Well to Walkergate	114,209	Approval was given at Management Committee on 9 November 2011 for a package of Civils works to be implemented in 2011/12 to assist in reaching funding targets. One element of this package was a budget increase of £114,209 for this project.
BC209 Bridges – Tynemouth to Meadow Well	-227,161	Approval was given at Management Committee on 9 November 2011 for a package of Civils works to be implemented in 2011/12 to assist in reaching funding targets. One element of this package was a budget reduction of £227,161 for this project.

NOTE: Under the Local Government (Access to Information) Act 1985 members of the public have a right to inspect any non-confidential background papers used in the production of a non-confidential report to the Authority. Requests for information should be made to the Department originating the report.

Approvals Required (Quarter 3 of 2011/12)

Capital Scheme	Budget Variation £	Reason for Variation
BC245 Station – Walkergate and Chillingham Road	-96,564	Approval was given at Management Committee on 9 November 2011 for a budget reduction in 2011/12 and the payment of agreed compensation events to be paid to the contractor.
BC251 Fibre Cable Replacement – south Gosforth to Jesmond	30,000	Approval was given at Management Committee on 9 November 2011 to hand works over to maintenance.
BC252 Fibre Cable Replacement – Jesmond to Gateshead Stadium and Manors	20,000	Approval was given at Management Committee on 9 November 2011 for a budget increase of £20,000 to progress fibre and procurement strategy.
BC260 Signalling – Bankfoot Interlocking Area	20,000	Approval was given at Management Committee on 9 November 2011 to bring forward budget from 2012/13 for development works and procurement strategy.
BC267 Signalling – Manors Interlocking Area	20,000	Approval was given at Management Committee on 9 November 2011 to bring forward budget from 2012/13 for development works and procurement strategy.
BC286 Fire Alarm	-479,334	Approval was given at Management Committee on 9 November 2011 to budget slippage in 2011/12.

NOTE: Under the Local Government (Access to Information) Act 1985 members of the public have a right to inspect any non-confidential background papers used in the production of a non-confidential report to the Authority. Requests for information should be made to the Department originating the report.

Approvals Required (Quarter 3 of 2011/12)

Capital Scheme	Budget Variation £	Reason for Variation
BC287 Network Stray Currents	-678,953	Approval was given at Management Committee on 9 November 2011 to budget slippage in 2011/12.
BC543 QE11Bridge Refurbishment	20,000	Approval was given at Management Committee on 9 November 2011 for a budget increase of £20,000 for Project Closure activities.
BC799 Monkseaton Station Ramp	-200,808	Approval was given at Management Committee on 9 November 2011 to budget slippage in 2011/12 and to approve payment of Compensation Events to the contractor.
BC849 Digitising and Approving Engineering Drawings	11,115	Approval was given at Management Committee on 9 November 2011 for a budget increase of £11,115 for Project Closure activities.
BC914 Benton Lane Bridge	2,000	Approval was given at Management Committee on 9 November 2011 for a budget increase of £2,000 for Project Closure activities to complete and close out scheme.

NOTE: Under the Local Government (Access to Information) Act 1985 members of the public have a right to inspect any non-confidential background papers used in the production of a non-confidential report to the Authority. Requests for information should be made to the Department originating the report.

Approvals Required (Quarter 3 of 2011/12)

Capital Scheme	Budget Variation £	Reason for Variation
BC965 Regent Centre Asbestos Removal	43,200	Approval has been given to these works to be funded from the Nexus Rail contingency.
BC213 Retaining Walls	18,000	Approval was given at Management Committee on 7 December 2011 to bring forward budget from 2012/13.
BC284 Lift - Four Lane Ends	207,300	Approval was given at Management Committee on 22 November 2011 to bring forward budget from 2012/13 to progress this project in 2011/12.
BC285 Lift - Heworth	207,200	Approval was given at Management Committee on 22 November 2011 to bring forward budget from 2012/13 to progress this project in 2011/12.
BC855 MOG Remodelling	3,049	Approval was given at Management Committee on 7 December 2011 for a budget increase of £3,049 for Project Closure activities.
BC874 On train PA	36,592	Approval was given at Management Committee on 7 December 2011 for a budget increase of £36,592 for Project Closure activities.
BC887 Earsdon Rd Bridge	6,250	Approval was given at Management Committee on 7 December 2011 for a budget increase of £6,250 for Project Closure activities.
BB006 Ticketing and Gating	-3,810,976	Approval was given at the Project Board on 11 October 2011 for a budget reduction following DfT agreement to slippage.
Total	**-2,499,441**	

NOTE: Under the Local Government (Access to Information) Act 1985 members of the public have a right to inspect any non-confidential background papers used in the production of a non-confidential report to the Authority. Requests for information should be made to the Department originating the report.

APPENDIX B

Asset Category	Original Approved 2011/12 Budget £	Latest Budget £	Actual Expenditure at end of Period 9 £	PMO Period 9 Forecast £	Variance between Forecast and Latest Budget £	Reason for Variation
Civils	7,976,819	11,140,121	5,628,371	10,125,999	-1,014,122	Slippage resulting from prolonged scope definition and to minimise delivery risk.
Communications	3,241,712	3,291,712	207,528	1,347,930	-1,943,782	Project slippage to ensure fibre strategy agreed in Partnership with IT to ensure links with IP project clarified. Options to bring forward IP project expenditure will be pursued once this strategy has been finalised.
Depot Equipment	1,612,836	1,777,951	945,925	1,616,331	-161,620	
Level Crossings	153,808	153,808	87,168	123,116	-30,692	
Mechanical and Electrical	2,419,684	1,705,208	481,592	1,787,095	81,887	
Metro Cars	3,732,891	3,769,483	2,038,961	3,769,486	3	Discussions with DBTW are continuing to explore opportunities to accelerate delivery of the refurbished metrocars.
Miscellaneous	990,166	1,118,059	350,377	941,579	-176,480	
Overhead Line	14,000	14,000	14,671	67,238	53,238	
Permanent Way	2,982,156	2,874,694	1,742,668	2,654,727	-219,967	Slippage as a consequence of blockade strategy being moved to 2012/13 and material lead times.
Plant	340,944	384,944	211,283	386,483	1,539	
Power	1,167,323	488,371	174,645	278,959	-209,412	
Signalling	2,763,670	3,084,118	1,201,844	2,415,221	-668,897	Slippage due to need to align with other projects and clarify scope to maximise efficiency.
Stations	11,746,863	11,842,306	6,271,599	9,458,784	-2,383,522	Project slippage into 2012/13 in order to gather additional survey data which is aimed at minimising the risk of cost increases once works commence.
Total Approved 2011/12 Capital Programme	**39,142,872**	**41,644,775**	**19,356,630**	**34,972,947**	**-6,671,828**	
Major Projects	14,101,805	5,154,243	944,515	5,154,243	0	
Total	**53,244,677**	**46,799,018**	**20,301,145**	**40,127,190**	**-6,671,828**	

NOTE: Under the Local Government (Access to Information) Act 1985 members of the public have a right to inspect any non-confidential background papers used in the production of a non-confidential report to the Authority. Requests for information should be made to the Department originating the report.

NOTE: Under the Local Government (Access to Information) Act 1985 members of the public have a right to inspect any non-confidential background papers used in the production of a non-confidential report to the Authority. Requests for information should be made to the Department originating the report.

Tyne and Wear Integrated Transport Authority

Date: **26th January 2012**

TITLE: **2011/12 NON-METRO CAPITAL PROGRAMME – THIRD QUARTER MONITORING UPDATE**

REPORT OF **THE CLERK OF THE AUTHORITY / DIRECTOR GENERAL OF NEXUS**

Reasons for confidentiality (if confidential)

District Implications : ALL

1. **Summary / Purpose of Report**

1.1 The purpose of this report is to update the ITA on progress in respect of the Non-Metro capital programme.

2. **Recommendations**

2.1 The ITA is recommended to :

i. Note the progress being made in respect of the approved non-Metro capital programme;

ii. Approve the scheme changes as detailed in Appendix B.

3. **Introduction / Background**

3.1 At its meeting on 24th November 2011 the ITA approved the revised 2011/12 Non Metro Capital Programme totalling £55,001k. A review of the programme has been undertaken at the end of the third quarter, resulting in a revised programme of £54,992k.

4. **Information**

4.1 The information contained in this report is based on information received from Project Managers responsible for the schemes, and the Tyne Tunnel Project Director.

4.2 **Variations to Programme**

It has been possible for the BIDS (Bus Information Display) business case to be delivered for significantly less than had originally been budgeted, this has resulted in a reduction in the costs of this project of £140k. In light of the timescales involved in delivering an expanded BIDS solution, it is proposed that this funding be instead reallocated to other schemes for delivery during Quarter

4.

The customer service improvements budget has been reduced by £26k and this underspend has been reallocated to bring forward works on the upgrade of the Employment Services (joint payroll and HR) system which had effectively been deferred this financial year pending a strategic review of need.

The outcomes for the IPS/IDS project has been delivered through another mechanism resulting in the modest sum previously allocated being no longer required.

4.3 **Progress to Date**

All projects continue to be monitored on a period basis and are progressing within tolerances. Currently all projects are on target to be delivered by the end of the financial year.

During Period 3 the Nexus Mobile website was launched, this allows users with smart phones to access a cut down version of the Nexus website, specifically designed to be viewed on smart phones with an emphasis on travel information and journey planning.

The Customer Relationship Management system has been delivered and training for staff who will be using it has commenced. The first elements of the Business Intelligence Tool have been delivered which provides easy to use and detailed management information in respect of various elements of the Nexus business e.g. metro ticket sales and fare revenue information. The software licence project has also been completed during the quarter.

Planning permission has been granted for the Environment Improvements at the Ferry Landing and work will be completed by the end of the financial year. The Pride of the Tyne is currently undergoing refurbishment and inspection in line with the programme.

Tenders have been issued for the Bus Shelter lighting work and the first installation will commence in Period 10/Quarter 4.

4.4 The revised ITA Non Metro Capital Programme for 2011/12 is summarised below and detailed in Appendices A and B.

	Revised Programme Q2 2011/2012	Revised Programme 2011/2012	Change During Quarter 3
	£'000	**£'000**	**£'000**
Business Improvements	1,381	1,232	(149)
Ferry	136	136	0
Passenger Improvements	80	80	0
Corporate	275	275	0
Nexus Capital Programme	**1,872**	**1723**	**(149)**
New Tyne Crossing	**53,129**	**53,129**	**0**
To be re-allocated		**140**	**140**
Total Capital Programme	**55,001**	**54,992**	**(9)**

4.5 The revised Non Metro Capital Programme is funded from a number of different sources as detailed in the table below.

	2011/12 Approved Funding	2011/12 Revised Funding	Variance
	£'000	**£'000**	**£'000**
LTP Minor Schemes	247	247	0
Over-programming	0	0	0
Grants and Contributions	0	0	0
Prudential Borrowing	0	0	0
Invest to Save	275	275	0
RCCO	1350	1,341	(9)
Total Nexus Funding	**1,872**	**1,863**	**(9)**
New Tyne Crossing	53,129	53,129	0
Total Capital Funding	**55,001**	**54,992**	**(9)**

5. Next Steps

5.1 An update report to the end of Q4 will be presented to the ITA at its meeting in May 2012.

NOTE: Under the Local Government (Access to Information) Act 1985 members of the public have a right to inspect any non-confidential background papers used in the production of a non-confidential report to the Authority. Requests for information should be made to the Department originating the report.

6. **Further comments by the:**

- **Clerk**(if any);
- **Treasurer**(if any);
- **Legal Advisor (**if any**);**
- **Director General**(if any**).**

7 Background Papers

7.1 N/A

8 Contact Officer (s)

8.1 Keith Nisbet, Head of Finance, Nexus;

Helen Mathews, Head of Business Development, Nexus

NOTE: Under the Local Government (Access to Information) Act 1985 members of the public have a right to inspect any non-confidential background papers used in the production of a non-confidential report to the Authority. Requests for information should be made to the Department originating the report.

APPENDIX A - NON METRO CAPITAL PROGRAMME AS AT 10th December 2011

Scheme Title	Budget as at Period 6 £k	Actual as at Period 9 £k	Forecast as at Period 9 £k	Committed at Period 9 £k	Uncommitted at Period 9 £k
Passenger Information					
I-Technology for Bus Information	80	48	80	32	0
	80	**48**	**80**	**80**	**0**
Business Improvements					
Transport Management System	335	93	335	58	184
IT Hardware Replacement	150	64	151	15	72
Business Intelligence	85	8	85	77	0
Customer Services Improvements	150	7	124	13	104
Employment Services/Finance Upgrade	20	8	46	0	38
Customer Relationship Management	95	52	97	43	2
BIDS Interface Replacement	200	0	60	0	60
E-Procurement	79	3	79	51	25
IT Software Licences	26	29	29	0	0
Sharepoint Upgrade to 2010 and Programme	91	36	91	11	44
Automatic Software Deployment Automatic Patch Management	55	0	55	0	55
IDS/IPS	15				
Lighting Power Supply	80	0	80	0	80
	1381	**300**	**1232**	**268**	**664**
Ferry					
Refurb of Pride of the Tyne	58	0	58	58	0
Ferry Landings Environmental Improvements	78	8	78	61	17
	136	**8**	**136**	**111**	**17**
Corporate					
Nexus House Refurbishment	275	0	275	275	0

\\Dfsccs001v\dfsroot\Chief Execs\Democratic Services\DSM\WP Unit\TEMPLATES/PTA report revised template

	275	**0**	**275**	**275**	**0**
Total Nexus Non-Metro Capital Programme	**1,872**	**356**	**1,723**	**686**	**681**
New Tyne Crossing	53,129	8,011	53,129	0	45,118
BIDS surplus for re-allocation			140		
Total Capital Programme	**55,001**	**8,367**	**54,992**	**656**	**45,939**

NOTE: Under the Local Government (Access to Information) Act 1985 members of the public have a right to inspect any non-confidential background papers used in the production of a non-confidential report to the Authority. Requests for information should be made to the Department originating the report.

Appendix B - Variations

	2011/12
	£'000
Capital Programme Agreed by ITA July 2011	**55,001**
New Schemes Identified	
None	
Schemes Removed	(15)
IDS/IPS	
Variations to Other Schemes	
BIDS	(140)
Finance and HR System	26
Customer Service Improvements	(26)
BIDS to be re-allocated	140
Minor amendments	6
TOTAL CHANGE TO PROGRAMME	**6**
REVISED CAPITAL PROGRAMME	**54,992**

This page is intentionally left blank

Tyne and Wear Integrated Transport Authority

DATE: 26th January 2012

TITLE: METRO CAPITAL PROGRAMME 2012/13

REPORT OF DIRECTOR OF FINANCE AND RESOURCES AND DIRECTOR OF RAIL AND INFRASTRUCTURE, NEXUS

Reasons for confidentiality (if confidential)

District Implications

1. **Summary / Purpose of Report**

1.1 The purpose of this report is to seek approval of the Metro Capital Programme for 2012/13.

2. **Recommendations**

2.1 The Authority is recommended to:-

- Approve the Metro capital programme for 2012/13 as detailed in Appendix A, totalling £46.0m.
- Note that this draft programme was discussed at a special meeting of the ITA Metro Sub Committee and has been forwarded to DfT as part of the ARP Programme Initiation Document, under the terms of the grant offer letter dated February 2010.
- Agree to receive a further report following the outcome of the 2011/12 programme, ensuring that levels of over-programming are brought in line with what has been historically generally accepted.
- Note that DfT will be considering this programme, together with the proposed programme for 2013/14 to 2015/16, and that this will also be subject of a further report later in the year.

3. **Introduction / Background**

3.1 Since April 2010 Nexus has been delivering the first two years of its initial three year investment programme as part of the eleven year Asset Renewal Plan.

3.2 As part of the terms of the funding agreement with DfT, Nexus is required to submit a detailed work plan for each financial year no later than 28 February in the preceding year. As a result, the Project Initiation Document submitted to DfT in December 2011 included not only the 2013/14 to 2015/16 period but also a detailed work plan for 2012/13.

4. **Information**

4.1 The current prediction of £36.8m capital expenditure in 2011/12, as at Period 9, is based upon the master programme which is managed by the Nexus Programme Management Office. It is currently estimated that over £7m will be spent in Period 13 which brings additional risks in delivering the programme to the satisfaction of DfT.

4.2 The outturn for 2011/12 will influence the resources available in 2012/13 and whilst every effort is being made to outturn at the target figure for 2011/12, it should be recognised that delivery of a capital programme of this nature is subject to a degree of risk. However unlike 2010/11 when the year-end major spend was primarily delivered via the 23 day blockade, expenditure in Period 13 of 2011/12 will be delivered by a number of projects that are largely independent of each other thereby mitigating the risk of under delivery.

4.3 It is proposed that a further report be presented to the Authority later in the year to:

- Update the programme to reflect the final 2011/12 outturn;
- Update the Authority with progress with DfT regarding the programme for 2012/13 and the future three year programme;
- Outline the progress in reducing over programming levels to a more acceptable level.

4.4 The general approach towards Year 3 of the Metro All Change Asset Renewal Plan is as follows:-

- Consolidate the processes and procedures that have been successfully introduced during Years 1 and 2;
- Maintain delivery of the Asset Renewal Plan within funding limits;
- Bring projects that are currently underway to a successful conclusion;
- Continue to identify projects required over the eleven year period resulting from increased asset knowledge and prioritise accordingly to

maximise value for money for the programme;

- Flatten the spend profile throughout the year;
- Give consideration to projects with long lead items e.g. new radio system.

4.5 In this regard, the major elements of the investment programme for 2012/13 are as follows:

- **Civils: Budget £5.351m**
  Including Earth work and Bridge works of £0.972m and Duct Route repairs and renewals of £3.833m, As detailed in section 4.7 the duct route budgets and profiles are subject to re-profiling.

- **Communications: Budget £3.885m**
  Including fibre installation and replacement of £2.385m and continuing work on Station Network Connections of £1.3m to replace the open transmission network (OTN) with an internet protocol (IP) network. In addition feasibility and development works on the new radio system will continue.

- **Mechanical and Electrical: Budget of £2.06m**

  This is primarily the continuation of Lift and Escalator replacement including all six Monument escalators at £1.37m.

- **Metro Cars ¾ Life Refurbishment: Budget of £4.653m**

  Continuation of the refurbishment programme that commenced in 2010/11.

- **Permanent Way: Budget of £12.243m**

  Including further Plan Line Renewal between Tynemouth and Chillingham Road at £8.5m which will consist of 6,440m of plain line renewal, 3,000m of new ballast, tamping and stressing, renewal of Switches and Crossing units at North Shields and at South Gosforth totalling £3.200m.

- **Signalling: Budget of £4.906m**

  Continued programme of cable testing and replacement together with further development of the PTI replacement at £0.5m.

- **Stations: Budget of £4.159m**

  Completion of on-going Station refurbishment together with commencement of works at Walkergate, South Gosforth, West Jesmond and Percy main totalling £2.509m.

4.6 The proposed draft programme submitted to DfT detailed at Appendix A totals £46.0m. At this level, the programme is 18% over programmed which is in excess of what has historically been generally accepted. However, when the programme was compiled there were two significant areas where further detailed programming discussions were still required.

4.7 The main areas currently under consideration to reduce the level of over programming relate to:

- **Cable ducting** – where the initial submission to DfT anticipated the installation of a completely new cable route. Experience to date has demonstrated that this is significantly more expensive than originally envisaged and as a consequence the whole strategy for renewing and/or enhancing ducting across the entire network is under review. This is more than likely to have a consequential impact on the 2012/13 programme and it is therefore envisaged that some works will need to be re-programmed into future years. The extent to which this will happen has still to be determined and will be formalised at the same time that the 2100/12 outturn report is submitted for approval in May 2012.
- **Permanent Way** – where the programme of works proposed is dependent upon the contractor's programme being able to accommodate the works during the available blockade period.

4.8 The DfT approved Metro Rail Grant funding of £104m in February 2010 for the first three years of the ARP programme. The funding available, including the local contribution is set out below (NB – over programming in this respect is a management tool used to ensure that delivery against the funding target actually happens):-

	2010/11 Actual	2011/12 Budget	2012/13 Budget	Total
	£000	**£000**	**£000**	**£000**
Metro Rail Grant	34,000	35,000	35,000	104,000
Virement between years	1,352	(1,352)	0	0
Local contribution (10%)	3,928	3,739	3,889	11,556
Total ARP Funding	**39,280**	**37,387**	**38,889**	**115,556**
Other Resources	0	87	0	87
Total Available funding	**39,280**	**37,474**	**38,889**	**115,643**
Over-programming	0	6,009[1]	7,118	13,127
Over-programming (%)	**0**	**16.1%**	**18.3%**	**11.3%**
TOTAL	**39,280**	**43,483**	**46,007**	**128,770**

5. **Further comments by the:**

- **Clerk** (if any);
- **Treasurer** (if any);
- **Legal Advisor (**if any**);**
- **Director General** (if any**).**

6 **Background Papers**

7 **Contact Officer (s)**

7.1 Brian Wilson, Head of Engineering 0191 203 3114
David Shields, Head of Programme Management Office 0191 203 3683
Linden Watson, Nexus Capital Accountant on 0191 203 3410

[1] To the extent that slippage on projects previously earmarked for delivery in 2011/12 will impact on the 2012/13 programme, this has been taken into account when establishing the investment plans for 2012/13

APPENDIX A

Capital code	Capital Scheme	2012/13 Budget Requirement £000
Civils		
BB001	Central Area Tunnel Refurbishment	2
BC201	Earthworks - North Shields to Howdon	357
BC204	Earthworks - South Gosforth to Jesmond	50
BC206	Bridges - Percy Main to Wallsend (1185 1186 1179)	100
BC207	Bridges - Howdon to Percy Main (1181 1183 1196 1202)	100
BC209	Bridges - Tynemouth to Meadow Well (1157 1156 1168 1171)	140
BC211	Bridges - Hadrian Road to Walkergate (1197 1198 1200)	50
BC212	Bridges - Wallsend to Walkergate (1201 1203 1204 1206)	50
BC214	Bridges - Monkseaton, Cullercoats (1124 1137 1144)	125
BC219	Drainage - South Gosforth to Jesmond	42
BC222	Duct Route - Wallsend to Manors	258
BC224	Duct Route - North Shields to Howdon	205
BC225	Duct Route - Tynemouth to North Shields	445
BC226	Duct Route - South Gosforth to Jesmond	175
BC227	Duct Route - South Gosforth to Airport	400
BC228	Duct Route - Jesmond to Gateshead Stadium and Manors to	400
BC229	Duct Route - Gateshead Stadium to South Shields	450
BC230	Duct Route - South Gosforth to Tynemouth	1,500
BC799	Monkseaton Station Ramp	500
BC891	Control Room	2
	Total Civils	**5,351**
Communications		
BC250	Cable Pulling - Tynemouth to Manors	460
BC252	Cable Pulling - South Gosforth to Airport	400
BC253	Cable Pulling - Jesmond to Gateshead Stadium and Manors	260
BC254	Cable Pulling - Gateshead Stadium to South Shields	605
BC255	Cable Pulling - South Gosforth Junction to Tynemouth	660
BC256	Radio	200
BC259	Station Network Connections	1,300
	Total Communications	**3,885**

Capital code	Capital Scheme	2012/13 Budget Requirement £000
Depot Equipment		
BC278	Train Wash	2
BC279	Wheel Lathe	3
	Total Depot Equipment	**5**
Level Crossings		
BC275	Barriers - Kingston Park	35
BC276	Barriers - Fawdon	35
BC955	Level Crossing Deck Replacement	50
	Total Level Crossings	**120**
Mechanical and Electrical		
BC281	Escalator - Central	300
BC282	Escalator - Monument	1,370
BC284	Lift - Four Lane Ends	145
BC285	Lift - Heworth	145
BC286	Fire Alarm	100
	Total Mechanical and Electrical	**2,060**
Metro Cars		
BC288	3/4 Life Refurbishment	4,653
	Total Metro Cars	**4,653**
Capital Maintenance		
BC550	Rail Grinding	100
BC558	Security Fencing	100
BC587	Vehicle Replacement Programme	100
BC617	Lifts Refurbishment/Major Items	64
BC703	Plain Line Renewal	1,000
BC929	OHL Network	400
BC954	Capital Maintenance Concession	683
BC532	Stations Refurb - Esc Imps/Major Items	60
BC964	S&C Steelwork Renewal	100
	Total Capital Maintenance	**2,607**

Capital code	Capital Scheme	2012/13 Budget Requirement
		£000
Miscellaneous		
BC894	Security Review	240
BC960	Asset Knowledge	100
	Asset Knowledge Development	1,000
	Bus Costs	1,400
	Dayworks	600
	Blockade Resources	200
	Total Miscellaneous	**3,540**
Project Management Costs		
	Project Management Costs	2,198
	Total Project Management Costs	**2,198**
Overhead Line		
BC240	OLE - System Development	260
	Total Overhead Line	**260**
Permanent Way		
BC231	Plain Line - Tynemouth to Chillingham Road	8,500
BC232	Plain Line - South Gosforth to Jesmond	150
BC235	Switches & Crossings - North Shields	1,450
BC236	Switches & Crossings - South Gosforth	1,750
BC237	Switches & Crossings – Benton	93
BC238	Switches & Crossings - St James	100
BC239	Switches & Crossings - Prudhoe Street	100
BC558	Security Fencing	100
	Total Permanent Way	**12,243**
Power		
BC287	Power - Depot Stray Currents	20
	Total Power	**20**

Capital code	Capital Scheme	2012/13 Budget Requirement £000
Signalling		
BC260	Signalling - Bankfoot Interlocking Area	705
BC261	Signalling - South Gosforth Interlocking Area	351
BC262	Signalling - Benton Interlocking Area	630
BC264	Signalling - North Shields Interlocking Area	398
BC265	Signalling - Wallsend Interlocking Area	65
BC266	Signalling - Jesmond Interlocking Area	662
BC267	Signalling - Manors Interlocking Area	332
BC268	Signalling - Heworth Interlocking Area	630
BC269	Signalling - Pelaw Interlocking Area	633
BC273	Signalling – PTI	500
	Total Signalling	**4,906**
Stations		
BC242	Station - North Shields	1,500
BC243	Station - Meadow Well, Percy Main and Howdon	220
BC244	Station - Hadrian Road and Wallsend	100
BC245	Station - Walkergate and Chillingham Road	720
BC246	Station - South Gosforth	835
BC247	Station - Ilford Road	50
BC248	Station - West Jesmond	734
	Total Stations	**4,159**
		46,007

This page is intentionally left blank

Tyne and Wear Integrated Transport Authority

Date: **26th January 2012**

TITLE: **2012/13 Non-Metro Capital Programme**

REPORT OF **DIRECTOR GENERAL OF NEXUS and DEPUTY CLERK AND TREASURER, ITA**

Reasons for confidentiality (if confidential)

District Implications: All

1. Summary / Purpose of Report

1.1 The purpose of this report is to seek approval for the Nexus (non-metro), New Tyne Crossing and LTP Capital Programme for 2012/13 in light of the expected funding available and to note the indicative scheme allocations for 2013/14 and 2014/15.

1.2 This report excludes Metro schemes which is considered elsewhere on this agenda.

2. Recommendations

2.1 The Authority is recommended to:

- approve the Nexus (non-Metro), New Tyne Crossing, Local Sustainable Transport Fund and NESTI schemes for 2012/13 as detailed in Appendix A

3. Introduction / Background

3.1 The report outlines to the ITA the proposals for the Non-metro Capital programme during 2012/13 and the funding sources identified to deliver the programme. The programme covers a range of public transport improvements and ensures match funding for cycling projects that were submitted as part of the LSTF bid.

3.2 Funding shown as available for the three year capital programme is based on reasonable assumptions and existing approvals. However, these assumptions are subject to risk and therefore the programme will continue to be subject to continuous review to ensure commitments do not exceed available resources.

4. Information

4.1 Nexus

The programme is a range of projects that cover:

Improvements to information provision:

- TMS phase 3, an on-going project upgrading timetable, stops and display information.
- My Journey Developments, providing door to door journey information online and on smart phones
- Replacement bus stop flags, updating and simplifying information and future proofing.
- Information Hardware, improving provision of information

Customer services

- Further development of the CRM system to better serve our customers
- Development of the Business Intelligence tool to provide management information to design services.

Infrastructure

- Programme of works at interchanges and other bus infrastructure to improve the passenger experience.

4.2 Local Transport Plan

Available LTP funding for Public Transport schemes is as follows:

	2012/13	**2013/14 (Indicative)**	**2014/15 (Indicative)**	**Total**
	£000	**£000**	**£000**	**£000**
Block Allocation	3,883	3,883	5,460	13,226
Less Core Team (TBC)	186	186	262	634
Available for schemes	**3,697**	**3,697**	**5,198**	**12,592**
Allocated to				
Metro ARP local contribution	2,640	2,640	3,712	8,992
Nexus Non-Metro PT allocation	340	340	465	1,145
District Council's PT allocation	717	717	1,021	2,455
	3,697	**3,697**	**5,198**	**12,592**

Integrated Transport block funding is no longer ring fenced for use on transport initiatives. A progress report will be brought to the ITA at some future point in order to inform the Authority how the district councils are utilising their share of the public transport element of the Integrated transport block funding.

4.3 **New Tyne Crossing**

Construction on the New Tyne Tunnel project began in April 2008. The project was completed ahead of schedule, with both vehicle tunnels becoming operational in December 2011. Capital construction payments on the New Tyne Crossing were funded by prudential borrowing and were within budget.

Tyne Tunnel earmarked cash reserves have been built up from tolls income as part of the medium term to provide for statutory accounting requirements (under capital finance regulations) during the coming years, so there is no impact on the levy.

Given that the main construction work is now complete, the majority of the capital programme for 2012/13 and future years relates to refurbishment and restoration work on the Tyne Pedestrian and Cycle Tunnel.

The capital programme for 2012/13 also includes some remaining environmental works and professional fees, required to reach final completion on the project.

4.4 **North East Smart Ticketing Initiative**

The objective of the NESTI project is to establish a smart ticketing infrastructure across the North East. In its role as Lead Authority, the ITA holds the £10m budget for the project, which includes both capital and revenue works. All works are funded from contributions from the twelve North East local authorities and Nexus.

4.5 **Local Sustainable Transport Fund**

The Local Sustainable Transport Fund is a new grant from the DfT in 2011/12. The ITA was successful in bidding for funding for a ‘key components' programme of walking, cycling, road safety and public transport initiatives, providing schoolchildren and their parents with safe and attractive alternatives to car use, benefiting the economy, the environment and health.

The programme includes a mixture of capital and revenue works which run from 2011/12 to 2014/15 and are funded from DfT capital and revenue grant and local contributions.

The ITA is the responsible body for this grant, with works being carried out by the Tyne and Wear local authorities, Nexus and other delivery partners. A bid has been submitted to DfT for a further £16m of LSTF funding for a main programme of works designed to address (by reducing or where possible eliminating) the barriers that transport creates to economic growth and accessing employment.

4.6 **Funding**

The capital programme in 2012/13 will be funded from the following sources:

Source	**£000**
LTP Public Transport – Nexus	340
LTP Public Transport - Districts	717
Nexus Internal Resources	845
Prudential Borrowing	5,654
Local Sustainable Transport Fund – DfT Grant	440
NESTI Contributions	1,385
Total	**9,381**

5. Next Steps

5.1 The progress of the Non-Metro Capital programme will be reported to the ITA on a quarterly basis.

6. **Further comments by the:**

- **Clerk**(if any);
- **Treasurer**(if any);
- **Legal Advisor (**if any**);**
- **Director General**(if any**).**

7. Contact Officer (s)

7.1 John Fenwick, Director of Finance and Resources, Nexus

Paul Woods, Deputy Clerk and Treasurer, ITA

NOTE: Under the Local Government (Access to Information) Act 1985 members of the public have a right to inspect any non-confidential background papers used in the production of a non-confidential report to the Authority. Requests for information should be made to the Department originating the report.

Appendix A

The recommended Non-Metro Capital programme for 2012/13 is:

Project	£000
Prior Year Commitments	
Ticketing & Gating CMS Upgrade	300
Finance/HR System	150
	450
LSTF Commitments	
Match Funding for Cycle Parking at PT Stations	55
	55
Integrated Transport Initiatives	
TMS phase 3	60
My journey developments	105
Development of Pop retailing	45
CRM enhancements	45
Bus Infrastructure Improvements	245
Replacement Bus Stop Flags	80
Business Intelligence tool	75
Information hardware improvements	25
	680
Total Nexus Requirement	**1,185**
New Tyne Crossing	**5,654**
LTP Districts	**717**
Local Sustainable Transport Initiatives	**440**
NESTI	**1,385**
GRAND TOTAL	**9,381**

This page is intentionally left blank

Tyne and Wear Integrated Transport Authority

Date:	**26 January 2012**
TITLE:	**Treasury Management Strategy 2012/13**
REPORT OF	**Deputy Clerk and Treasurer**
	Reasons for confidentiality (if confidential) – Not confidential
	District Implications – All

1. Summary / Purpose of Report

1.1 The purpose of this report is for the Authority to approve the Treasury Management Strategy and Indicators for 2012/13 and the revised Treasury Management Code of Practice.

The report also contains background information about the required legislation and guidance, and economic context and the Authority's current and expected Treasury portfolio.

2. Recommendations

2.1 The Authority is recommended to:

- Adopt the 2011 version of the Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management Code of Practice
- Adopt the revised Treasury Management Policy Statement
- Approve the Treasury Management Strategy for 2012/13
- Approve the Treasury Management Indicators for 2012/13, including the Operational Boundary and Authorised Limit for borrowing
- Approve the Prudential Indicators for 2012/13 included at Appendix 1

3. Introduction

3.1 In March 2010 the Authority adopted the Chartered Institute and Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice Fully Revised Second Edition 2009* (the CIPFA Code) which requires the Authority to approve a treasury management strategy before the start of each financial year.

3.2 The Institute published a revised version of the CIPFA Code in November 2011 in light of the additional financial freedoms available to local authorities in the Localism Act 2011. The Authority is therefore asked to formally adopt the *Treasury Management in the Public Services: Code of Practice 2011 Edition.* The new Code of Practice requires some amendments to the Authority's Treasury Management Policy Statement, and the Authority is asked to formally adopt the new policy statement at Section 12.

3.3 In addition, the Department for Communities and Local Government (CLG) issued revised guidance on Local Authority investments in March 2010 that requires the Authority to approve an investment strategy before the start of each financial year.

3.4 This report fulfils the Authority's legal obligation under the *Local Government Act 2003* to have regard to both the CIPFA Code and the CLG Guidance.

4. Economic Context

4.1 The UK economy is continuing its weak recovery from the 2008/09 recession, with GDP growth forecast to be just 0.9% in 2011 and 0.7% in 2012 according to the Office of Budget Responsibility. Government spending cuts, rising unemployment and uncertain export markets are conspiring to keep demand low and a "double dip" recession cannot be ruled out. Consumer price inflation, which peaked at 5.2% in September, is beginning to fall and this is expected to continue into 2012/13 as one-off factors like the 2010 VAT increase and fuel price rises fall out of the annual comparison.

In these circumstances, the Bank of England is unlikely to raise the Bank Rate until the final quarter of 2012 and additional quantitative easing is seen by many as being more likely than rate increases in the near future. However, once a more robust recovery appears to be taking root, the Bank is likely to prefer to gradually raise interest rates earlier, rather than waiting too late and needing to make a sharp correction.

4.2 The Eurozone sovereign debt crisis remains a major driver of market sentiment and with the UK seen as a something of a safe haven, gilt yields and hence PWLB rates have fallen markedly this year. Assuming that there is some resolution to the crisis, long-term rates are likely to climb back to more normal levels in 2012/13.

A second UK recession or a European sovereign default would see short and long term interest rates remaining lower for longer, while a faster economic recovery and a bold solution to the Eurozone crisis would likely see rates rise more quickly.

5. Interest rate forecasts

5.1 *Sterling Consultancy Services central interest rate forecast – November 2011*

	Bank Rate	1 month LIBOR	3 month LIBOR	12 month LIBOR	25 year PWLB
Current	0.50	0.73	1.01	1.79	4.06
Q1 2012	0.50	0.70	1.00	1.75	4.20
Q2 2012	0.50	0.70	1.00	1.70	4.40
Q3 2012	0.50	0.75	1.00	1.80	4.50
Q4 2012	0.75	0.85	1.05	1.90	4.50
H1 2013	1.00	1.10	1.25	2.00	4.60
H2 2013	1.50	1.60	1.75	2.50	4.70
H1 2014	2.00	2.10	2.25	3.00	4.80
H2 2014	2.50	2.60	2.75	3.50	4.90

HM Treasury Survey of Forecasts – November 2011

	Average annual Bank Rate %			
	2012	2013	2014	2015
Highest	1.1	2.6	3.0	3.7
Average	0.6	0.9	1.7	2.7
Lowest	0.5	0.5	0.9	1.4

For the purpose of setting the budget, it has been assumed that any new investments will be made at an average rate of 0.50%, and that new long-term loans will be borrowed at an average rate of 4.50%.

6. Current and Expected Treasury Portfolios

Current portfolio

6.1 The Authority's treasury portfolio as at 31 December 2011 was as follows:

	Principal Amount £m	Interest Rate %
Short-term loans	0	0
Long-term PWLB loans	135.56	4.18
Long-term market loans (excl. LOBOs)	0	0
Long-term market loans (LOBOs)	89.00	4.39
Total Borrowing	**224.56**	**4.26**

Budget implications

6.2 The budget for debt interest paid in 2012/13 is £9.1m, based on an average debt portfolio of £215m at an average interest rate of 4.23%. If actual levels of borrowing and investments, and actual interest rates differ from those forecast, performance against budget will be correspondingly different.

7. Investment Strategy

7.1 The Authority may at times hold surplus funds representing income received in advance of expenditure plus balances and reserves held. Both the CIPFA Code and the CLG Guidance require the Authority to invest its funds prudently, and to have regard to the **security** and **liquidity** of its investments before seeking the highest rate of return, or **yield**.

7.2 Investment criteria and limits

<table>
<tr><th></th><th></th><th>Cash limit</th><th>Time limit</th></tr>
<tr><td rowspan="7">Banks and other organisations whose lowest published long-term credit rating from Fitch, Moody’s and Standard & Poor’s is:</td><td>AAA</td><td rowspan="5">£50m each

(highest limit)

of which no more than £25m over 1 year</td><td>10 years</td></tr>
<tr><td>AA+</td><td>5 years</td></tr>
<tr><td>AA</td><td>4 years</td></tr>
<tr><td>AA-</td><td>3 years</td></tr>
<tr><td>A+</td><td>2 years</td></tr>
<tr><td>A</td><td rowspan="2">£30m each

(lower limit)</td><td>1 year</td></tr>
<tr><td>A-</td><td>6 months</td></tr>
</table>

UK building societies whose lowest published long-term credit rating is A+	*£30m* each	3 months
Money market funds[1] and similar pooled vehicles whose lowest published credit rating is AAA	*£20m* each *(highest limit)*	1 year
UK Central Government (irrespective of credit rating)	unlimited	10 years
UK Local Authorities[2] without credit ratings	*£30m* each *(highest limit)*	5 years

[1] as defined in the Local Authorities (Capital Finance and Accounting) Regulations 2003

[2] as defined in the Local Government Act 2003, and similar authorities in Scotland

There is no intention to restrict investments to banks and building society deposits, and investments may be made with any public or private sector organisation providing that it meets the credit rating criteria above. This reflects a lower likelihood that central government will support failing banks following the Independent Commission on banking report, as well as the removal of restrictions on local authority purchases of corporate bonds.

In order that no more than 10% of any available reserves will be put at risk in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government) will be £50m. A group of banks under the same ownership will be treated as a single organisation for limit purposes.

<u>Building societies</u>

No investments will be made with building societies that hold a long-term credit rating lower than A+ or equivalent, due to the increased likelihood of default implied by this rating.

<u>Money market funds</u>

Money market funds are pooled investment vehicles consisting of instruments similar to those used by the Authority. They have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager. Fees of between 0.10% and 0.20% per annum are deducted from the interest paid to the Authority.

Funds that offer same-day liquidity and a constant net asset value will be used as an alternative to instant access call accounts, while funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.

Foreign countries

No investments in foreign countries will be made. Organisations with substantial ties to more than one country (e.g. banking subsidiaries that are domiciled in one country but are owned in another) will be judged on the lower of the ratings held in the countries involved.

Risk assessment and credit ratings

The Authority uses long-term credit ratings from the three main rating agencies Fitch Ratings Ltd., Moody's Investors Service Inc. and Standard & Poor's Financial Services LLC to assess the risk of investment default. The lowest available credit rating will be used to determine credit quality.

Long-term ratings are expressed on a scale from AAA (the highest quality) through to D (indicating default). Ratings of BBB- and above are described as investment grade, while ratings of BB+ and below are described as speculative grade. The Authority's credit rating criteria are set to ensure that it is unlikely that the Authority will hold speculative grade investments, despite the possibility of repeated downgrades.

Credit ratings are obtained and monitored by the Authority's treasury advisers, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- No new investments will be made
- Any existing investments that can be recalled or sold at no cost will be
- Full consideration will be given to the recall or sale of all other existing investments with the affected counterparty

Where a credit rating agency announces that a rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") so that it is likely to fall below the above criteria, then no further investments will be made in that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks.

Other information on the security of investments

The Authority understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will 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 and reports in the quality financial press. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the above criteria.

When deteriorating financial market conditions affect the creditworthiness of all organisations, as in 2008 and 2011, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Authority will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions.

If these restrictions mean that insufficient commercial organisations of “high credit quality” are available to invest the Authority’s cash balances, then the surplus will be deposited with the UK Government, via the Debt Management Office for example, or with other local authorities. This will cause a reduction in the level of investment income earned, but will protect the principal sum invested.

<u>Non-specified investments</u>

The CLG Guidance defines specified investments as those:

- Denominated in pound sterling
- Due to be repaid within 12 months of arrangement
- Not defined as capital expenditure by legislation
- Invested with one of
    - The UK Government
    - A UK Local Authority, Parish Authority or Community Authority
    - A body or investment scheme of “high credit quality”

Any investment not meeting the definition of a specified investment is classed as non-specified. The Authority does not intend to make any investments denominated in foreign currencies, nor any with low credit quality bodies, nor any that are defined as capital expenditure by legislation, such as company shares. Non-specified investments will therefore be limited to long-term investments, i.e. those that are due to mature 12 months or longer from the date of arrangement.

The total limit on long-term investments and the total limit on non-specified investments is £50m.

7.4 **Liquidity management**

The Authority uses purpose-built cash flow forecasting software to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a pessimistic basis, with receipts under-estimated and payments over-estimated to minimise the risk of the Authority being forced to borrow on unfavourable terms to meet its financial commitments.

Limits on long-term investments are set by reference to the Authority's medium term financial plan and cash flow forecast.

7.5 **Investment strategy for 2012/13**

Surplus funds cover three categories:

- Short-term – cash required to meet known cash outflows in the next month, plus a contingency to cover unexpected cash flows over the same period.

- Medium-term – cash required to manage the annual seasonal cash flow cycle, including amounts to cover forecast shortages, planned use of reserves, and a longer-term contingency.

- Long-term – cash not required to meet cash flows, and used primarily to generate investment income.

Short-term funds are required to meet cash flows occurring in the next month or so, and the preservation of capital and liquidity is therefore of paramount importance. Generating investment returns is of limited concern here, although it should not be ignored. Instant access AAA-rated money market funds and bank deposit accounts will be the main methods used to manage short-term cash.

Medium-term funds which may be required in the next one to twelve months will be managed concentrating on security, with less importance attached to liquidity but a slightly higher emphasis on yield. The majority of investments in this period will be in the form of fixed term deposits with banks and building societies. A wide spread of counterparties and maturity dates will be maintained to maximise the diversification of credit and interest rate risks; this may be achieved by the use of suitable medium-term money market funds. Deposits with lower credit quality names will be made for shorter periods only, while deposits with higher quality names can be made for longer durations.

Cash that is not required to meet any liquidity need can be invested for the longer term with a greater emphasis on achieving returns that will support spending on Local Authority services. Security remains important, as any losses from defaults will impact on the total return, but this can be managed over the long term within a diversified portfolio. Liquidity is of lesser concern, although it should still be possible to sell investments, with due notice, if large spending commitments arise unexpectedly. A wider range of instruments, including structured deposits, certificates of deposit, gilts and corporate bonds may be used to diversify the portfolio. The Authority may consider employing external fund managers that have the skills and resources to manage the risks inherent in a portfolio of long-term investments.

With short-term interest rates currently much lower than long-term rates, due consideration will also be given to using surplus funds to make early repayments of long-term borrowing. In addition to the savings on the interest rate differential, this strategy will also reduce the Authority's exposure to credit risk and interest rate risk.

8. Borrowing Strategy

8.1 The Authority currently holds £224.56m of long-term loans. The balance at 31 March 2012 is forecast to be £215m after new borrowing and maturing loans. The Authority's capital financing requirement (CFR, or underlying need to borrow to finance capital expenditure) as at 31 March 2012 is expected to be £215m, and is forecast to increase to £216m by March 2013. The level of external borrowing is forecast to reflect that position. The following table shows the potential movements in external debt from 2011/12 to 2014/15:

Capital Borrowing	2011/12 £m	2012/13 £m	2013/14 £m	2014/15 £m
Opening Balance	156	215	216	212
New Loans	95	4	0	2
Repaid Loans	36	3	4	6
Closing Balance	215	216	212	208

8.2 **Sources of borrowing**

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

- Public Works Loan Board
- Any institution approved for investments above
- Any other bank or building society approved by the Financial Services Authority
- Capital market bond investors
- Pension funds and other corporate investors
- Special purpose companies created to enable joint Local Authority bond issues

8.3 **Planned borrowing strategy for 2012/13**

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 Loan Board but other sources of finance, such as bond issues and bank loans, may be considered.

Loans that present additional risk to the Authority, such as lender's option borrower's option (LOBO) loans will be considered but the risk associated with such instruments will be fully assessed before any decision to borrow is made. Variable rate loans will be subject to the limit on the net exposure to variable interest rates in the treasury management indicators below.

The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. The Authority may take advantage of this and replace some higher rate loans with new loans at lower interest rates, or repay loans without replacement, where this is expected to lead to an overall saving or reduction in risk.

8.4 Policy on Use of Financial Derivatives

Local Authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans).

The Localism Bill 2011 includes a general power competence that removes the uncertain legal position over Local Authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment). The latest CIPFA Code requires authorities to clearly detail their policy on the use of derivatives in the annual strategy.

The Authority will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Authority is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

Derivative counterparties

Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit.

9. Treasury Management Indicators

The Authority measures and manages its exposures to treasury management risks using the following indicators. The Authority is asked to approve the following indicators:

9.1 Security: average credit rating

The Authority has adopted a voluntary measure of its exposure to credit risk by monitoring the weighted average credit rating of its investment portfolio.

	Target
Portfolio average credit rating	A-

For the purpose of this indicator, unrated local authorities are assumed to hold an AA+ rating.

9.2 Liquidity: cash available within three months

The Authority has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three month period.

	Target (£m)
Total potential cash available without borrowing	50
Total potential cash available including borrowing	50

9.3 Interest rate exposures

This indicator is set to control the Authority's exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as an amount of net principal borrowed will be:

	2012/13	2013/14	2014/15
Upper limit on fixed interest rate exposures	100%	100%	100%
Upper limit on variable interest rate exposures	100%	100%	100%

Fixed rate investments and borrowings are those where the rate of interest is fixed for the whole financial year. Instruments that mature during the financial year are classed as variable rate.

9.4 Maturity structure of borrowing

This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing will be:

	Upper	Lower
Under 12 months	25%	0%
12 months and within 24 months	50%	0%
24 months and within five years	100%	0%
Five years and within 10 years	100%	0%
10 years and above	100%	0%

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

9.5 Principal sums invested for periods longer than 364 days

The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the total principal sum invested to final maturities beyond the period will be:

	2012/13	2013/14	2014/15
Limit on principal invested beyond year end	£50m	£50m	£50m

9.6 Gross and net debt

The upper limit on net debt indicator was introduced in 2011 and is intended to highlight where the Authority is borrowing in advance of need. Since net debt does not change when loans are borrowed and the proceeds re-invested, it is not yet clear how this indicator will work. CIPFA has not yet produced guidance on its use, and so the Authority is being asked to set a deliberately high limit this year.

	2012/13	2013/14	2014/15
Upper limit on net debt	100%	100%	100%

9.7 Borrowing limits

The Authority is asked to approve the following borrowing limits:

	2012/13	2013/14	2014/15
Operational boundary – borrowing	£235m	£235m	£235m
Operational boundary – other long-term liabilities	£0	£0	£0
Operational boundary – TOTAL	**£235m**	**£235m**	**£235m**
Authorised limit – borrowing	£240m	£240m	£240m
Authorised limit – other long-term liabilities	£0	£0	£0
Authorised limit - TOTAL	**£240m**	**£240m**	**£240m**

10. Other Matters

The CLG Investment Guidance requires the Authority to note the following three matters each year as part of the investment strategy:

Treasury management advisers

The Authority contracts with Sterling Consultancy Services to provide advice and information relating to its investment and borrowing activities. 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
- Forecasts of interest rates
- Training courses

10.1 Investment training

The needs of the Authority's treasury management staff for training in investment management are assessed every year as part of the staff appraisal process, and additionally when the responsibilities of individual members of staff change.

Staff regularly attend training courses, seminars and conferences provided by Sterling Consultancy Services and CIPFA. Relevant staff are also encouraged to study professional qualifications from CIPFA, the Association of Corporate Treasurers and other appropriate organisations.

10.2 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. 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.

11. Other Options Considered

11.1 The CLG Investment Guidance and the CIPFA Code of Practice do not prescribe any particular treasury management strategy for local authorities to adopt. The Deputy Clerk and Treasurer believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

Alternative	**Impact on income and expenditure**	**Impact on risk management**
Adopt a narrower definition of "high credit quality" and/or shorter time limits	Interest income will be lower	Reduced risk of losses from credit related defaults
Adopt a wider definition of "high credit quality" and/or longer time limits	Interest income will be higher	Increased risk of losses from credit related defaults
Borrow additional sums at long-term fixed	Debt interest costs will rise; this is unlikely to be	Higher investment balance leading to a

NOTE: Under the Local Government (Access to Information) Act 1985 members of the public have a right to inspect any non-confidential background papers used in the production of a non-confidential report to the Authority. Requests for information should be made to the Department originating the report.

interest rates	offset by higher investment income	higher impact in the event of a default; however long-term interest costs will be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long term costs will be less certain
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs will be less certain

12. Treasury Management Policy Statement

12.1 The Authority's financial regulations require it to create and maintain a treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury activities, as a cornerstone for effective treasury management.

Definition

The Authority defines its treasury management activities as: the management of the Authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.

Value for Money

The Authority acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

Borrowing policy

The Authority greatly values revenue budget stability and will therefore borrow the majority of its long-term funding needs at long-term fixed rates of interest. Short-term and variable rate loans will only be borrowed to the extent that they either offset short-term and variable rate investments or can be shown to produce revenue savings.

The Authority will set an affordable borrowing limit each year in compliance with the *Local Government Act 2003*, and will have regard to the *CIPFA Prudential Code for Capital Finance in Local Authorities* when setting that limit. It will also set limits on its exposure to changes in interest rates and limits on the maturity structure of its borrowing in the treasury management strategy report each year.

Investment Policy

The Authority's primary objectives for the investment of its surplus funds are to protect the principal sums invested from loss, and to ensure adequate liquidity so that funds are available for expenditure when needed. The generation of investment income to support the provision of local authority services is an important, but secondary, objective.

The Authority will have regard to the Communities and Local Government Guidance on Local Government Investments and will approve an investment strategy each year as part of the treasury management strategy. The strategy will set criteria to determine suitable organisations with which cash may be invested, limits on the maximum duration of such investments and limits on the amount of cash that may be invested with any one organisation.

13. Background Papers

13.1 Held by Capital Investment and Projects Team

14. Contact Officers

14.1 Ian Richardson, Treasury Management Officer, Capital Investment and Projects Team, ext. 26524. Email i.richardson@newcastle.gov.uk

Iain Duncan, Senior Accountant, Capital Investment and Projects Team, ext. 26684. Email iain.duncan@newcastle.gov.uk

NOTE: Under the Local Government (Access to Information) Act 1985 members of the public have a right to inspect any non-confidential background papers used in the production of a non-confidential report to the Authority. Requests for information should be made to the Department originating the report.

APPENDIX 1

Prudential Indicators

The Authority is required to agree a set of prudential indicators each financial year. These are set out in the following table:

	2010/11 Actual	2011/12 Estimate	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate
Capital Expenditure (£000)					
New Tyne Crossing	40,535	48,626	5,654	785	0
Nexus: Non-Metro	2,222	1,723	1,435	300	300
Nexus: Metro	46,539	40,127	46,007	35,805	40,384
LTP Grants to Districts	961	921	1,243	1,243	2,820
TOTAL	**90,257**	**91,397**	**54,339**	**38,133**	**43,504**
Ratio of Financing Costs to Net Revenue Stream (%)					
ITA	4.2%	3.7%	3.6%	3.5%	3.3%
Nexus	6.7%	6.2%	6.1%	5.9%	5.6%
Total from levy	10.9%	9.9%	9.7%	9.4%	8.9%
Tunnels from Tolls	17.9%	39.3%	28.9%	24.3%	24.2%
Net Borrowing Requirement (£000)					
Start of Year	146,000	156,000	215,000	216,000	212,000
Change	10,000	59,000	1,000	-4,000	-4,000
End of Year	**156,000**	**215,000**	**216,000**	**212,000**	**208,000**
Capital Financing Requirement as at 31 March (£000)					
ITA and New Tyne Crossing	78,196	162,999	166,773	165,278	163,028
Nexus	53,316	51,005	48,787	46,657	44,613

NOTE: Under the Local Government (Access to Information) Act 1985 members of the public have a right to inspect any non-confidential background papers used in the production of a non-confidential report to the Authority. Requests for information should be made to the Department originating the report.

Total	**170,150**	**214,404**	**215,560**	**211,935**	**207,641**
Incremental Impact of Capital Investment Decisions (£000)					
Impact on ITA Levy	-154	-147	-172	-105	-101

Tyne and Wear Integrated Transport Authority

DATE:	**26th January 2012**
TITLE:	**Competition Commission Final Report into Bus Industry**
REPORT OF:	**DIRECTOR GENERAL, NEXUS**
	Not confidential
	District Implications: All Districts

1. **Purpose of Report**

1.1 To update ITA Members on the main aspects of the Competition Commission's findings in its investigation of the local bus market.

2. **Recommendations**

2.1 Members are asked to note this report.

3. **Introduction**

3.1 The Competition Commission (CC) has been investigating the UK local bus market (outside London) since January 2010, after a referral by the OFT. It published its provisional findings in May 2011, and noted that in many local areas the largest bus operator faced little or no competition. On 6th October 2011 and as a result of these discussions, the Competition Commission published the Provisional Decision on Remedies, which was reported to ITA Members in November 2011.

3.2 On 20th December 2011, the CC published its final report. The final report amounts to over 500 pages, with various appendices and case studies adding another 1000 pages to the array of documents.

4. Information

4.1 The CC has found that despite there being about 1,245 bus companies in England, Scotland and Wales carrying 2.9 billion passengers a year, the five largest operators (Arriva, FirstGroup, Go-Ahead, National Express and Stagecoach) carried 70 per cent of those passengers. The CC also found that head-to-head competition between operators is uncommon and that - on average - the largest operator in an urban area runs 69 per cent of local bus services. Attached at **Appendix A** is the press release provided by the CC.

4.2 Shortly before publication of its final report, the CC published an erratum regarding its provisional decision on remedies. An error in the formula that had previously been used to calculate the value of customer detriment, had led to a significant understatement of the figures. The range of customer detriment that the CC now estimates occurs as a result of the Adverse Effect on Competition that they have identified is now between £110m and £295m annually across the UK.

4.3 Nevertheless the CC has confirmed its belief that encouraging greater competition in the market is the best way to rectify the problems that have been identified. The CC advocate that providing more effective multi-operator ticketing schemes, ensuring fair access to bus stations, measures addressing operator behaviour, strengthening the tendering process, close scrutiny of bus mergers, and encouraging 'competition-friendly' partnerships between local transport authorities (LTAs) and bus operators will all help achieve this.

4.4 The remedies set out by the CC are as follows:

- Increasing the number of effective multi-operator ticketing schemes, by giving LTAs additional powers to introduce and reform schemes on terms that make them effective and attractive to passengers. The CC is recommending changes to the Ticketing Block Exemption to assist this process.
- Introducing restrictions on bus operators making changes to service frequency—to discourage 'over-bussing' and other short-term actions to destabilize competitors. Recommending that Traffic Commissioners introduce and enforce a Code of Conduct to prevent unacceptable behaviour. The CC has also recommended that Traffic Commissioners be given powers to introduce temporary restrictions on service changes when municipal operators are subject to a sales process to preserve future opportunities for competition.
- Ensuring that new entrants and competing operators can get access to bus stations managed by other operators on fair, reasonable and non-discriminatory terms.
- Recommending that the Department for Transport (DfT) update its best practice guidance for LTAs on tendering for supported services and that the Scottish and Welsh Governments develop suitably tailored guidance to enable LTAs to maximize the value for money obtained through the tendering process. LTAs to be given power to obtain information about services being deregistered and the right to disclose information in such detail as they consider appropriate, having regard to its nature, to potential bidders for subsequent tenders.
- Recommending that the Office of Fair Trading (OFT) applies a high priority to identifying bus mergers between competing operators, takes a cautious approach in exercising its discretion not to refer small mergers and updates its competition guidance for the industry. The CC also expects that local bus operators will review their competition compliance training, making use of the guidance available to them, and impress upon their employees that real competition compliance is an important part of

the culture of their organization.

- Recommending that LTAs consider the potential for tailoring partnerships between LTAs and operators as a means of increasing competition within their local areas. The OFT to establish a regular forum with LTAs and other stakeholders to ensure that such partnerships are subject to effective competition scrutiny.
- Recommending that the DfT, as part of its review of the Bus Service Operators Grant in England, looks at ways to incentivise operators to participate in the above measures.

4.5 The CC has clarified its position on franchising and Quality Contracts Schemes by stating *"We are not opposing franchising if others such as LTAs decide to introduce it for their own good reasons. However, we are not recommending franchising in response to the problems we have found. We think greater competition is the key to improved services. LTAs have a vital role to play—and we haven't sought to tell them how to meet their other responsibilities".*

5. Next Steps

5.1 Nexus will analyse the CC's report in detail, and consider its implications for the ITA, Nexus and the local bus market in Tyne and Wear. A further report to the ITA will follow in due course.

6. **Further comments by the:**

- **Clerk**(if any);
- **Treasurer**(if any);
- **Legal Advisor (**if any**);**
- **Director General**(if any**).**

7 Background Papers

7.1 ITA Papers from November 2011
http://www.twita.gov.uk/sites/default/files/agenda_document/Agenda%2024-11-11%20Package_0.pdf

8 Contact Officer (s)

8.1 Roger Gill, Network Development Manager, Nexus.

NOTE: Under the Local Government (Access to Information) Act 1985 members of the public have a right to inspect any non-confidential background papers used in the production of a non-confidential report to the Authority. Requests for information should be made to the Department originating the report.

Appendix A

News Release

66/11 20 December 2011

CC SETS OUT FUTURE DESTINATION FOR BUS MARKET

The Competition Commission (CC) has today published its final report into the local bus industry setting out comprehensive measures which will ensure that passengers benefit from greater competition.

Twenty-five years after bus services were deregulated in the UK (excluding London and Northern Ireland), the CC's proposals to open up the market will represent the biggest change in the industry since that time. In its final report, the CC has confirmed that in many areas bus operators face little or no competition, leading to passengers facing less frequent services and, in some cases, higher fares than where there is some form of rivalry. The CC also states that the way some local authorities tender for supported services—necessary bus services which would not be provided without public support—can also restrict competition.

The CC has found that despite there being about 1,245 bus companies in England, Scotland and Wales carrying 2.9 billion passengers a year, the five largest operators (Arriva, FirstGroup, Go-Ahead, National Express and Stagecoach) carried 70 per cent of those passengers. The CC also found that head-to-head competition between operators is uncommon and that—on average—the largest operator in an urban area runs 69 per cent of local bus services.

The CC has identified a number of factors that restrict entry and expansion into local areas by rivals and otherwise stifle competition. Today it outlines a package of measures to tackle these factors and open markets up in future.

Jeremy Peat, Chairman of the local bus market investigation Group, said:

Competition and potential competition can drive standards up for passengers —that was the intention behind deregulation. We have seen evidence how competition can, for example, increase service frequencies but the reality is that in too many areas of the country, competition has stagnated and the incumbent providers know that they face little in the way of serious challenge.

As such, the incentive to increase services, innovate and even lower fares is absent. On the occasions when there are outbreaks of rivalry, they don't tend to last and passengers are quickly returned to something like the status quo without any enduring improvement in services.

We have also seen direct evidence in one case of operators in the North-East of England seeking to avoid competition with each other in order to protect their own 'territories'.

What we want to do is open these markets up to sustained competition and remove the factors that prevent and inhibit companies—large and small—taking on the existing provider. In turn, the local operators will know they have to up their game in the face of a realistic challenge. The potential for new approaches and innovation will bring to passengers the benefits resulting from competition between operators

We believe that encouraging greater competition in the market is the best way to rectify the problems we have identified. Providing more effective multi-operator ticketing schemes, ensuring fair access to bus stations, measures addressing operator behaviour, strengthening the tendering process, close scrutiny of bus mergers, and encouraging 'competition-friendly' partnerships between local transport authorities (LTAs) and bus operators will all help achieve this.

We understand that this is a complex and varied market and so we aren't advocating a single 'one size fits all' solution. We have designed remedies that work together to address the problems we have found and can be applied by those on the ground. There is no reason for this industry to be exempt from competitive forces that benefit customers in other markets—it is perfectly feasible for competition to exist within the regulatory framework as it does elsewhere.

Our measures now need to be backed up by the competition authorities keeping a close eye on the sector so that, for example, what are seen to be small local acquisitions or mergers do not undermine our attempts to create greater competition. We expect that, following publication of this report, local bus operators will ensure that their employees understand the importance of rigorous competition compliance.

We are not opposing franchising if others such as LTAs decide to introduce it for their own good reasons. However, we are not recommending franchising in response to the problems we have found. We think greater competition is the key to improved services. LTAs have a vital role to play—and we haven't sought to tell them how to meet their other responsibilities. What we've set out is to do is outline the most positive ways in which they can help improve the end product for the passenger through competition.

The CC's remedies include:

• Increasing the number of effective multi-operator ticketing schemes, by giving LTAs additional powers to introduce and reform schemes on terms that make them effective and attractive to passengers. We are recommending changes to the Ticketing Block Exemption to assist this process.

• Introducing restrictions on bus operators making changes to service frequency—to discourage 'over-bussing' and other short-term actions to destabilize competitors. Recommending that Traffic Commissioners introduce and enforce a Code of Conduct to prevent unacceptable behaviour. We have also recommended that Traffic Commissioners be given powers to introduce temporary restrictions on service changes when municipal operators are subject to a sales process to preserve future opportunities for competition.

• Ensuring that new entrants and competing operators can get access to bus stations managed by other operators on fair, reasonable and non-discriminatory terms.

• Recommending that the Department for Transport (DfT) update its best practice guidance for LTAs on tendering for supported services and that the Scottish and Welsh Governments develop suitably tailored guidance to enable LTAs to maximize the value for money obtained through the tendering process. LTAs to be given power to obtain information about services being deregistered and the right to disclose information in such detail as they consider appropriate, having regard to its nature, to potential bidders for subsequent tenders.

• Recommending that the Office of Fair Trading (OFT) applies a high priority to identifying bus mergers between competing operators, takes a cautious approach in exercising its discretion not to refer small mergers and updates its competition guidance for the industry. We also expect, following publication of this report, that local bus operators will review their competition compliance training, making use of the guidance available to them, and impress upon their employees that real competition compliance is an important part of the culture of their organization.

• Recommending that LTAs consider the potential for tailoring partnerships between LTAs and operators as a means of increasing competition within their local areas. The OFT to establish a regular forum with LTAs and other stakeholders to ensure that such partner-ships are subject to effective competition scrutiny.

• Recommending that the DfT, as part of its review of the Bus Service Operators Grant in England, looks at ways to incentivize operators to participate in the above measures. This recommendation may also be of interest to the Scottish and Welsh Governments should they decide to undertake a similar review.

The CC will now take the formal steps to introduce an Order ensuring equal access to bus stations and looks to the DfT, Scottish and Welsh Governments and the OFT to take forward its other recommendations.

The CC published its provisional findings in this investigation in May this year followed by provisional findings on tacit coordination in August. In October, the CC published its provisional decision on remedies and the following month, published an addendum to the provisional findings on geographic market segregation and operator conduct, particularly in relation to the North-East of England.

The CC has been discussing these measures in detail with bus operators, passenger groups, LTAs, Traffic Commissioners, the DfT, the Scottish and Welsh Governments and the OFT.

Notes for editors

1. The OFT referred the local bus market to the CC in January 2010, following its initial study into the sector and public consultation. The CC has carried out its own comprehensive investigation to see if any features of this market prevent, restrict or distort competition and, if so, what action might be taken to remedy the resulting adverse effects on competition.

2. Since starting the investigation, the CC has carried out an extensive investigation of an industry that carries 2.9 billion passenger journeys a year and has 1,245 different operators. The investigation has held hearings and received submissions from a wide variety of parties in England, Wales and Scotland (which each have transport policies and funding set by their respective governments) including bus operators, trade associations, passenger groups, LTAs, national and local government and regulators. It has also carried out detailed passenger surveys, and various economic and accounting analyses, as well as case studies on local bus markets.

3. The CC is an independent public body, which carries out investigations into mergers, markets and the regulated industries.

4. Under the Enterprise Act 2002, the OFT can make a market investigation reference to the CC if it has reasonable grounds for suspecting that competition is not working effectively in that market.

5. The members of the local bus market investigation Group are Jeremy Peat (Chairman), Ivar Grey, Thomas Hoehn, Katherine Holmes and Michael Waterson. Jeremy Peat took over

as Group Chairman from previous Chairman, Diana Guy, when her term as a CC member and as CC Deputy Chairman ended on 30 November 2010.

6. In its investigation, the CC is required to decide whether ‘any feature, or combination of features, of each relevant market prevents, restricts or distorts competition in connection with the supply or acquisition of any goods or services in the United Kingdom or a part of the United Kingdom’. If so, then there is an adverse effect on competition and the CC considers whether this is resulting in a detrimental effect on customers such as higher prices, lower quality or less choice of goods or services. The CC then decides whether the CC should introduce remedies to tackle the adverse effect on competition and/or detrimental effect on customers and/or whether the CC should recommend that action be taken by other bodies to remedy the adverse effects on competition and, if so, what actions or remedies. If the CC finds that there is no adverse effect on competition, the question of remedies does not arise.

7. Enquiries should be directed to Rory Taylor or Siobhan Allen or by ringing 020 7271 0242.

This page is intentionally left blank

Tyne and Wear Integrated Transport Authority

Date:	**26th January 2012**
TITLE:	**Allocation of Additional Local Transport Plan (LTP) Integrated Transport Block Resources, 2011/12**
REPORT OF	**Chair of Joint Transport Steering Group**
	Reasons for confidentiality (if confidential)
	District Implications All

1. **Summary / Purpose of Report**

1.1 The Department for Transport have written to the Clerk to the ITA advising of the release of additional funding for the 2011-12 LTP Integrated Transport Block Allocation. It is proposed to allocate the funding, which equates to an additional £1.9m, on the basis of previously agreed allocations. The Nexus Public Transport allocation amounts to £607k and it is proposed that this is also reallocated on the same basis as that previously applied, the principle of which was recently confirmed by the ITA at its November 2011 meeting.

2. **Recommendations**

2.1 The ITA is asked to:-

Agree the allocation of the £1.9m funding on the basis of the percentage splits applied to the Integrated Transport Block, outlined in 4.3

Agree the allocation of the IT Block Top up, Public Transport element in line with the principle confirmed at the ITA meeting held in November 2011 outlined in 4.3 And;

2.2 Agree to receive a further report in March 2012 outlining the subsequent revisions to the 2012/13 Non-Metro capital programme.

3. **Introduction / Background**

3.1 In December 2011 the DfT wrote to the Clerk to the ITA advising that an additional £50m was to be allocated nationally to the LTP IT Block; this equates to an additional £1.936m for Tyne and Wear.

4. **Information**

4.1 The top-up funding is proposed to be allocated between the LTP delivery partners on the same basis as the IT Block is allocated.

4.2 In line with the decision reached by the ITA in November 2011 which confirmed the methodology for distributing the public transport element of the IT block, it is proposed that this funding (allocated to Nexus) will be distributed within Tyne and Wear in accordance with that previously agreed methodology. This means that an element of this funding is top sliced for investment in Metro, with the remainder allocated on the basis of the agreed percentages.

4.3 This would mean that the £1.936m resource will be allocated as follows:

Partner	**IT block allocation £000**	**PT Block redistribution £000**	**Total £000**
Gateshead	277.0	27.9	304.9
Newcastle	333.0	33.5	366.5
North Tyneside	214.0	21.6	235.6
South Tyneside	170.0	17.2	187.2
Sunderland	335.0	33.7	368.7
Nexus (PT Block)		473.1	473.0
TOTAL	**1,329.0**	**607.0**	**1,936.0**

4.4 Given the need to ensure this funding is used before 31 March 2012, Nexus will apply its additional allocation in the current financial year, allowing a degree of flexibility with already earmarked internal resources which will ultimately be used to finance a range of bus based improvements.

4.5 A further report detailing this, as part of the Non-Metro capital programme for 2012-13 will be presented to the ITA in March 2012.

5. **Further comments by the:**

- **Clerk**(if any);

- **Treasurer**(if any);
- **Legal Advisor (**if any**);**
- **Director General**(if any**).**

6 Background Papers

6.1 ITA Meeting November 2012: Public Transport Block Allocations.

7 Contact Officer (s)

7.1 Nick Clennett, Chair of Joint Transport Steering Group

NOTE: Under the Local Government (Access to Information) Act 1985 members of the public have a right to inspect any non-confidential background papers used in the production of a non-confidential report to the Authority. Requests for information should be made to the Department originating the report.

This page is intentionally left blank

Document is Restricted

This page is intentionally left blank