Tyne and Wear Integrated Transport Authority

Meeting to be held: Committee Room, Civic Centre, Newcastle upon Tyne, NE99 2BN on Thursday 27 January 2011 at 10.00 am

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

Membership: D Wood, Keating, Stone, Taylor, Blackburn, Green, Hanson, Hodson, Lott, Maughan, McElroy, McMillan, Scott, Hall and Ord

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The agenda, minutes and reports are also available on the ITA website at www.twita.gov.uk

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		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 - 10**
4.	**Financial Strategy 2011/12 - 2013/14**	**11 - 38**
5.	**General Transport Update**	**39 - 42**
6.	**LTP3 Development Update**	**43 - 48**
7.	**Local Transport Settlement 2011/12 - 2012/13**	**49 - 52**
8.	**Nexus (Non-Metro), New Tyne Crossing and Local Transport Plan Capital Programme 2011/12 to 2013/14**	**53 - 80**
9.	**Gold Card Proposal**	**81 - 84**

Thursday, 24 March 2011 at 10am

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

25 November 2010
10am - 11am
Meeting held in a Committee Room, Civic Centre, Newcastle upon Tyne, NE99 2BN

Present:

Councillor:	D Wood (Chair)
Councillors:	Blackburn, Hall, Hanson, Hodson, Keating, Lott, Maughan, McElroy, McMillan, Ord, Scott and P Wood

In Attendance:

P Woods	Deputy Clerk and Treasurer, Newcastle City Council
H Emms	Director of Transportation, Newcastle City Council
R Gill	ITA Policy Team, Newcastle City Council
M France	Finance and Resources, Newcastle City Council
E Goodman	Finance and Resources, Newcastle City Council
J Anderson	Local Transport Plan Team, Newcastle City Council
P Fenwick	New Tyne Crossing Project Director, Newcastle City Council
P Staines	Scrutiny Team, Newcastle City Council
P Goodwin	Press Office, Newcastle City Council
V Miller	Democratic Services, Newcastle City Council

Nexus:

B Garner	Director General
J Fenwick	Director of Finance and Resources
K Mackay	Director of Rail and Infrastructure
T Hughes	Director of Strategy
L Robinson	Public Affairs Manager

74. **APOLOGIES FOR ABSENCE**

Apologies for absence were received from Councillors Green and Stone.

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

Councillors Blackburn, Hanson, Hodson, D Wood, P Wood, Green, Scott and Lott declared a personal interest in any potential discussions about concessionary travel, as holders of a concessionary travel pass.

76. MINUTES OF THE PREVIOUS MEETING HELD ON 23 SEPTEMBER 2010

The minutes of the previous meeting were approved as a correct record subject to the inclusion of Councillors P Wood, Hall and Ord in the list of Members Present at the Meeting and signed by the Chair.

Matters Arising:

(a) Minutes of the Previous Meeting held on 22 July 2010
Local Government Association

(Minute 52(a) refers)

The Chair confirmed that information on the Local Government Association had been requested and a response was awaited.

(b) Dinnington Bus Services Petition

(Minute 62 refers)

B Garner updated members that the petition had been referred to the Commercial Manager of Arriva North East, who had confirmed that the company was unable to change its decision about the changes to bus services.

B Garner reminded members that the initial consideration of the petition by Nexus had indicated that there were only seven or eight passengers affected by the withdrawal of bus service No.45.

It was also explained that Nexus had considered the only alternative option of securing the service through the secure services contract; however this option was excessively expensive and could not be upheld. Nexus confirmed that all options had been explored but there was little that could be done in the circumstances.

The Chair sympathised with the passengers but explained that the ITA did not have powers to change a decision of a commercial operator.

(c) High Speed Rail

(Minute 63 refers)

B Garner referred to the Government's statement in relation to High Speed Rail and informed members that he will raise the issue of the much needed expansion of the Rail to the North East at a forthcoming briefing with the Members of Parliament.

The Chair reiterated that the initial announcement was disappointing as it did not include the North East, and indicated that it was important for the North East to be considered and included. A member suggested that there was some progress as there were current discussions about a potential expansion to Manchester and Leeds, which gave some hope for further development.

(d) Priority Lanes in Tyne and Wear

(Minute 68 refers)

H Emms and R Gill reported that the work on priority lanes continued and an update would be brought to the Authority in January 2011.

77. **TREASURY MANAGEMENT AND INVESTMENT STRATEGIES UPDATE**

Submitted:

(i) A report by the Deputy Clerk and Treasurer (previously circulated and copy attached to Official Minutes);

(ii) Tyne and Wear ITA Approved Institutions For External Investments (with the permission of the Chair due to the timetables involved circulated at the meeting and copy attached to Official Minutes).

P Woods introduced the report which provided members with information on the Treasury Management operations, particularly on the ITA borrowing and lending, and the anticipated changes.

The list of the Tyne and Wear ITA approved institutions for external investments provided an update on the ITA investment in particular institutions. It was explained that the ITA was taking a cautious approach and investing only in some of the institutions, as indicated on the list.

It was further noted that a previous report to the Authority (March 2010) had provided an explanation about the individual, short-term and long-term rating that applied to the approved institutions for external investments.

In response to a member's question, P Woods explained that U.K. Local Authorities were not normally rated and therefore there was no comparative position. It was also confirmed that only a short-term borrowing applied to this institution.

RESOLVED – That:

(i) the report be noted;

(ii) the revised Authorised Limit and Operational Boundary be noted;

(iii) the changes to the Authority's external investments be noted.

78. **REVENUE BUDGET MONITORING REPORT (APRIL 2010 - OCTOBER 2010)**

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

P Woods introduced the report which provided information about the ITA and Tyne Tunnels budget for the period April – October 2010.

RESOLVED – That the report and financial position as at 31 October 2010 be noted.

79. **ANNUAL AUDIT AND INSPECTION LETTER 2009/10**

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

P Woods and a representative from the Audit Commission introduced the covering report and the Annual Audit Letter which informed members about the positive outcomes of the Audit Commission's assessment of the Authority, referring to the 23 September 2010 unqualified audit opinion on the financial statements and value for money and also to the suggested recommendations.

The Chair on behalf of the ITA thanked the Audit Commission for their work.

RESOLVED – That the report be noted.

80. **GENERAL TRANSPORT POLICY UPDATE**

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

R Gill presented the report which updated members about the position of the following elements of the transport policy which faced changes as a result of the recent announcements of the Government:

- The Major Scheme Funding
- Green Bus Fund
- High Speed Rai
- East Coast Mail Line Timetable Changes and Capacity Review
- Northern Route Utilisation Strategy
- Strategic National Corridor Consultation
- LTP 3 Update
- Tyne and Wear City Region Transport Update

In relation to the public consultation on LTP 3, a member commented that the response to date from North Tyneside was poor and asked about the response levels from other areas. R Gill explained that the consultation was ongoing and the responses were still being collected, and the details would be reported to the Authority in January 2011. The report would include a comparison with the level of response received on the previous consultation on LTP2. He also explained that the consultation was promoted via a range of methods, reassuring members that the public was encouraged to participate.

RESOLVED – That the report be noted.

81. **REVISION TO FARES 2011**

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

B Garner presented the report which requested members to approve the proposed changes to the Metro fares with effect from 2 January 2011.

Amongst the points noted during the discussion were the following:

- Nexus worked on encouraging the use of a specific local travel scheme for students and staff of the University of Sunderland which had been introduced a couple of years ago. The cost of the scheme was shared between the users and the University.

- It was explained that the changes to Evening DaySaver were part of the simplification and streamlining of the product range.

- Metro off-peak travel starts at 9.30am.

- The price of the Metro season ticket would remain unchanged in 2011 if renewed on-line.

- The price of the child pass would remain unchanged in 2011 if renewed or bought on-line.

- In response to a member's comment about the importance of communicating the changes to the users, B Garner confirmed that Nexus were planning a comprehensive communication campaign.

RESOLVED – That:

(i) the report and members' comments be noted;

(ii) approval be given to the proposals in relation to the Metro fares 2011.

82. **CHRISTMAS AND NEW YEAR SERVICES 2010/2011**

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

B Garner introduced the report which informed members about the scheduled services by Metro, Ferry, Secured Bus and Northern Rail for the forthcoming Christmas and New Year period.

It was noted that some operators would run bus services on Boxing Day on a commercial basis, and Nexus were encouraging the expansion of this practice.

A member commended the transport arrangements at the Stadium of Light in relation to a recent football match and asked whether information could be provided on the number of additional services provided to cover football matches. K MacKay would check this.

RESOLVED – That the public transport arrangements for the Christmas and New Year period be noted.

83. NON-METRO CAPITAL PROGRAMME - SECOND QUARTERLY REVIEW

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

J Fenwick introduced the report which advised members about the overall performance of the 2010/11 Non-Metro Capital Programme.

J Fenwick provided an indication of the financial implications of the Government's spending review and confirmed that a revised programme, consistent with a reduced level of resource, would be submitted to the Authority for approval in January 2011.

RESOLVED – That:

(i) the position with regard to the 2010/11 Capital Programme outlined in Appendix A of the report be noted;

(ii) approval be given to the scheme changes detailed in Appendix B.;

(iii) the Authority noted that all of the uncommitted Nexus' Capital Programme for 2011/12 - 2012/13 had been suspended pending the announcement by the Government to confirm the funding of the future years.

84. TYNE AND WEAR LOCAL TRANSPORT PLAN - NON METRO PUBLIC TRANSPORT CAPITAL PROGRAMME 2010/11

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

J Fenwick introduced the report which detailed how each of the five Districts had accommodated the in-year reduction in the LTP Integrated Transport Block funding and sought approval of a revised Local Transport Plan (LTP) Public Transport Capital Programme for 2010/11.

RESOLVED – That the revised LTP Public Transport Capital Programme for 2010/11 detailed in Appendix A of the report be approved.

85. TRANSPORT STRATEGIES UPDATE

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

T Hughes presented the report which outlined Nexus' strategies on:

- Ferry
- Park and Ride
- Safety and Security.

The strategies would help to deliver the ITA's policies. It was noted that the full documents were available on Nexus' website.

Comments/Questions

It was noted that the reality of the economic climate was that without subsidies many services would not be able to operate on the same levels.

Ferry
A member commented that it was sad that the ferry was not a more economically efficient mode of public transport but agreed with the direction of the strategy. It was confirmed that Nexus was exploring options to ensure that the ferry continued to provide services in the future. It was also explained that Nexus was working with the trade unions to ensure that the crew understood the current position and helped to develop future options.

Safety and Security
With regard to safety and security, a member emphasised the importance of gathering customers' views, so that a service could be better shaped and delivered.

With regard to the percentage of passengers actually reporting witnessing an act of anti-social behaviour, a member suggested that it could be that 1% was the accurate figure. T Hughes explained that whilst this was possible, it was felt that levels of reporting were low. Nexus would work to improve the monitoring and reviewing process.

A member commented that the situation with anti-social behaviour on Metro had improved significantly and queried whether this was due to the fact that a large proportion of the users were older people.

A member commented that the situation with anti-social behaviour on Metro was different in different areas. When travelling to the coast, it seemed that the situation was significantly better on the North Eastern route than on the Eastern one.

Park and Ride
T Hughes clarified that, at present, the strategy did not pinpoint any specific Park and Ride locations.

A member commented on the multi-storey car park at Northumberland Park, indicating that it was unsightly, and queried whether there were any plans to improve it. It was explained that Nexus did not own the car park but leased it. It was also noted that the structure complied with the planning regulations.

RESOLVED – That the key principles and recommendations of Ferry, Park and Ride and Safety and Security strategies outlined in the report be noted.

86. **MAJOR SCHEME FUNDING 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 about the current funding status of the local major public transport schemes in line with the latest guidance received from the Government.

T Hughes delivered the following updates:

In relation to the plans to start delivering the regional smart ticketing programme, it was noted that the preliminary works on installation of equipment had commenced. The scheme would start in Byker and be rolled out across all areas in the next few months. The work on smart cards continued.

Officers at Nexus were working with partners to revise the Phase 1 Bus Corridor Improvements bid as there were certain conditions that needed to be addressed prior to its re-submission to the Department for Transport for consideration. The revised proposals would be brought to a future meeting of the ITA.

RESOLVED – That the report be noted.

87. **NEW TYNE CROSSING - PROGRESS REPORT**

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

P Fenwick presented the report which advised members about the progress made on the construction of the New Tyne Crossing.

The Chair welcomed the update, indicating that it was important to keep members informed about progress.

RESOLVED – That the report be noted.

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

The next ordinary meeting would be held on Thursday, 27 January 2011 at 10am.

If relevant information and guidance was received, a special meeting on the Main Revenue Support Grant and its impact on the ITA would be held on Wednesday, 8 December 2010 at 2pm.

89. **EXCLUSION OF PRESS AND PUBLIC**

RESOLVED – That press and public be excluded from consideration of agenda item 16 on the following grounds:

Business	**Reason**
Confidential Minutes of the previous meeting held on 23 September 2010	Paragraphs 2,3 and 4 of Part 1 of Schedule 12A to the Local Government Act 1972

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Tyne and Wear Integrated Transport Authority

Date:	**27 January 2011**
TITLE:	**FINANCIAL STRATEGY 2011/12 – 2013/14**
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 2011/12 and indicative funding requirements for 2012/13 and 2013/14.

1.2 The Authority is asked to consider the draft Budget for 2011/12; to set its levy for 2011/12 at £71,130,056. This represents a reduction of 5% from 2010/11, with an upward adjustment of £5,671,999 for the transfer back of Concessionary Fares grant now paid directly to the Districts through formula grant. It also includes a potential further reduction of £2,662,360 in respect of capital financing charges relating to a transfer of debt responsibility to the Districts (who do in fact currently receive the Government grant to finance the debt), which will be achieved by way of a capital contribution from the Districts in lieu of a transfer of actual debt. This puts the responsibility for funding debt in the right place with those receiving the grant for it; reduces the ITA's budget and results in some financial saving for the districts in 2011/12. This levy reduction is however subject to confirmation of the capital contribution from all five districts and if the capital adjustment is not agreed, the levy will be £73,792,416. The Authority is also asked to agree a Revenue Grant of £70,323,250 to Nexus for 2011/12.

2 Recommendations

2.1 The Authority is recommended to:

(a) Approve the ITA and Nexus Revenue Budgets for 2011/12 (Appendix A and B refers);

(b) Approve a levy of £71,130,056 for 2011/12, provided that confirmation of the capital contribution to enable the debt adjustment is received, or £73,792,416 in the event that the debt financing adjustment is not agreed by all 5 districts;

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 2009 mid-year population estimates as the basis of the levy allocation, as set out in section 5.2; and

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;

iii) The lower levy of £71,130,056 to be contingent on the ITA receiving capital contributions from the five Tyne and Wear Districts equivalent to the value of debt held by the ITA, for which the districts receive grant support directly from the Government. If this confirmation is not received in writing by all 5 districts by 7th February 2011, the Levy will be set at the higher level of £73,792,416 and notified to the Districts;

(c) Approve the amount of Revenue Grant to Nexus of £70,323,250 from the levy for 2011/12; and

(d) Approve the minimum revenue provision repayments for borrowed capital expenditure for 2011/12 (attached at Appendix C).

3 Background

3.1 When the 2010/11 ITA levy was agreed, the ITA limited the increase to 1.5% and the medium term plan sought to achieve a cash limited levy for future years. In view of the cuts in council funding announced in the 2010 Spending Review and the proposed 2011/12 to 2012/13 Revenue grant Settlement, the 2011/12 Budget is being prepared on the basis of absorbing cost pressures and achieving a levy reduction of 5% in 2011/12; a further 5% reduction in 2012/13, with a cash freeze in the levy in 2013/14. The reduction in levy income is to be split equally between Nexus and the ITA, i.e. both the Nexus grant and the ITA budget contribution from the levy will be reduced by 5%.

3.2 Two additional adjustments have been made to the levy in 2011/12 which are different to previous years:

- Concessionary Travel grant which was previously paid direct to the ITA will from 2011/12 be included in the Formula Grant paid to Tyne and Wear district councils. This amount has been included in the levy so that it continues to be received by the ITA and Nexus to fund concessionary travel costs (see section 8 for more details); and

- A further reduction has been made in the levy (over and above the 5% cut) to take into account a capital contribution made to the ITA by the Districts in lieu of a transfer of supported borrowing debt. This proposal is explained further at section 6.5.

3.3 This report sets out details about the first two years of the three year budget strategy.

3.4 The Comprehensive Spending Review (CSR) announced on 20 October 2010 gave national headline resource totals for the four years from 2011/12 to 2014/15, with a significant frontloading of funding cuts in 2011/12. On 13 December, the Department for Communities and Local Government (DCLG) issued detailed grant figures for local authorities for the first two years of this period 2011/12 to 2012/13. The figures are published for consultation with a response date of 17 January. A note on the settlement is attached at Appendix D.

3.5 The overall settlement is complex because of the removal, transfer and simplification of many grants including the concessionary fare grant of £5.7m that the ITA and Nexus currently receive. The key issues for the ITA were the grant implications for the 5 district councils and more specifically the impact of the significant changes that the Government was making to the funding for concessionary fares. The outcome of the concessionary fare formula changes is a positive, with the Government choosing to create a separate sub block and a basis of distribution that the ITA lobbied for. The outcome will enable the district councils to pass back the funding of £5.7m to the ITA through an addition to the levy for 2011/12 to compensate for the transfer of the funding of the concessionary responsibilities to the district councils. However, the pressure on individual districts is considerable with funding reductions averaging -11.4% in 2011/12 and -7.9% in 2012/13.

3.6 Given the very tight financial settlement the level of the reduction in the levy for the ITA reflects the high priority being given to transport services by the district councils in Tyne and Wear.

4 Financial Position in the Current Year 2010/11

4.1 Forecast expenditure, revenue and grant levels in 2010/11 indicate that the latest anticipated net spending of the ITA itself will be £0.104m less than the original level of the budgeted resources available for the year. This is due to savings in the capital financing charges for 2010/11 of £0.065m, additional income on revenue balances of £0.025m and savings in other areas of £0.014m. These savings have reduced the amount of reserves required to support the levy in 2010/11 from an original estimate of £0.781m to £0.678m.

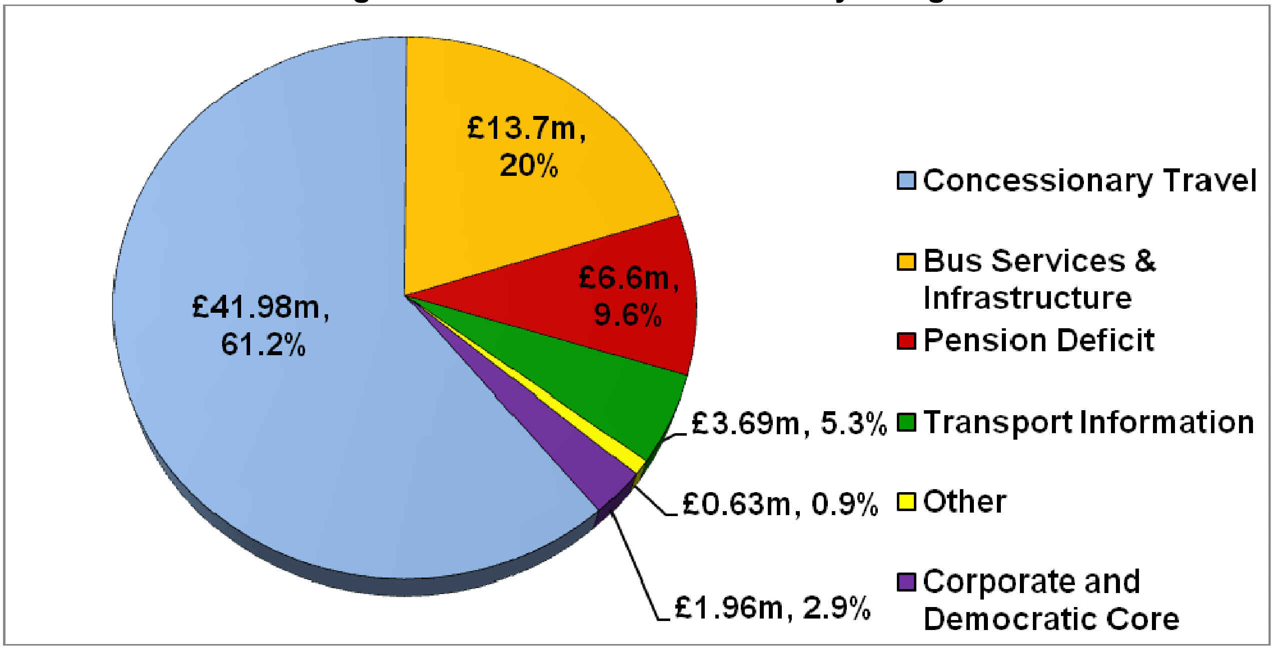
4.2 The grant provided to Nexus by the ITA in 2010/11 amounts to £68.555m, made up of the Levy contribution of £68.055m and a £0.500m contribution from ITA reserves and will be unchanged from the agreed grant at the start of the year.

Nexus' (original) gross expenditure requirement for 2010/11 was £159.95m. External income (mainly commercial fares in relation to Metro and Secured bus services) equates to £55.76m, which together with grant income (mainly in relation to Metro and Concessionary Travel) mean that the demand on the ITA (the levy) equates to £68.56m in 2010/11. The following Table 1 identifies the services that Nexus provides and how they are currently funded – showing Gross Cost, Gross Income, Grant Income and the ITA Grant. Chart 1 shows the relative share of costs.

Table 1: How the Nexus budget is constructed and financed

	Gross Costs £m	Gross Income £m	Grant Income £m	ITA Grant £m
Metro (excl share of pensions deficit & CDC)	67.68	-41.90	-25.11	0.67
Concessionary Travel	49.45	-1.80	-5.67	41.98
Bus Services and Infrastructure	20.36	-6.17	-0.49	13.70
Pensions Deficit	6.60	0.00	0.00	6.60
Transport Information	5.29	-1.60	0.00	3.69
Northern Rail	4.36	0.00	-4.36	0.00
Ferry	1.42	-0.46	0.00	0.96
Revenue Contribution to Capital	2.83	0.00	0.00	2.83
Corporate & Democratic Core Costs	1.96	0.00	0.00	1.96
	159.95	**-51.93**	**-35.63**	**72.39**
Financing Income	0.00	-3.83	0.00	-3.83
	159.95	**-55.76**	**-35.63**	**68.56**

Chart 1: Nexus net budget 2010/11 funded from ITA levy and grant



4.3 In terms of the services that Nexus provides, the primary recipient of the ITA levy is Concessionary Travel which, at £41.98m in 2010/11, requires over 61% of the levy in order to sustain the reimbursement of operators under the scheme. Although Metro is the single biggest service that Nexus provides (in terms of gross expenditure) and it benefits all of the districts within Tyne and Wear, it receives a fairly small proportion of its annual funding from the levy. While the direct contribution is only £0.67m, once an allocation of the pension deficit payment and corporate and democratic core costs are factored in, Metro receives around £5m of funding from the levy which equates to around 7% of the levy.

4.4 In terms of the Nexus estimate, the outturn forecast for 2010/11 indicates that there will be a surplus of £0.969m, due to a combination of efficiency savings and additional income being generated in year and this will be used in 2011/12 to help accommodate the reduction in the levy next year.

5 The ITA Levy

5.1 Each year the ITA receives income from a transport levy on each of the five District Councils in Tyne and Wear. In previous years the levy has been increased each year by an agreed uplift to help fund the cost of providing transport services and for additional grant that that District Councils receive to help fund new burdens and responsibilities that the ITA/Nexus have to meet.

5.2 The following table shows the current levy for 2010/11, the restated base levy applying the 2009 ONS Population estimates for 2009 and the proposed levy for 2011/12, after applying a 5% reduction, an upward adjustment for Concessionary Travel grant now paid directly to the districts detailed in section 8, and a further reduction for the debt transfer proposal detailed in section 6.5.

Table 2: ITA Levy 2010/11 and 2011/12

	2010/11 Levy £	**Restated Levy for 2010/11* £**	**5% reduction £**	**Adjustment for Concessionary fare grant**	**Adjustment for debt transfer proposal**	**Total for 2011/12**
Gateshead	12,499,640	12,365,734	(618,287)	978,143	(459,127)	12,266,463
Newcastle	17,942,821	18,425,462	(921,273)	1,457,474	(684,119)	18,277,544
North Tyneside	12,939,030	12,780,517	(639,026)	1,010,953	(474,528)	12,677,917
South Tyneside	9,942,001	9,877,033	(493,852)	781,284	(366,724)	9,797,741
Sunderland	18,382,210	18,256,956	(912,848)	1,444,145	(677,862)	18,110,391
Total	**71,705,702**	**71,705,702**	**(3,585,285)**	**5,671,999**	**(2,662,360)**	**71,130,056**

* The distribution of the levy between the Tyne and Wear Districts is based on population

estimates and there were changes between the population estimate for 2008 used to calculate the 2010/11 levy and the 2009 population estimates used to calculate the 2011/12 levy. The 'Restated levy for 2010/11' in the above table reflects the 2009 ONS population estimates. This increase in the population in Newcastle means that it funds a larger share of the levy and receives a lower % reduction in 2011/12 when compared with the 2010/11 levy. The percentage reduction for the other districts is more than 5% as a result.

6 ITA Budget Proposal for 2011/12

The ITA's Own Retained Budget

6.1 The ITA's costs for 2011/12 will potentially reduce from £3.932m to £0.987m, a total reduction of £2.945m, made up of the debt charge reduction of £2.662m plus other savings of £0.283m. This has been achieved through a thorough review of ITA costs over the four main spend areas:

- ITA support costs
- ITA members and governance
- Pension costs
- Financing costs

Details are included in Appendix A.

<u>ITA Support Costs</u>

6.2 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. All of the current SLAs have been reviewed to achieve efficiency savings and ensure they provide even better value for money. Savings of 12% or £0.042m have been included in the budget for 2011/12, with more details provided in Appendix A.

In the longer term, work is under way to determine the best future operating model for the way support is provided to both the ITA and Nexus. The model of provision will be reviewed by considering examples from other regions and best practice models, and this may enable some further savings to be made in future years.

<u>ITA Members and Governance</u>

6.3 All areas of spend on items such as printing, publishing notices, the number of meetings of the ITA and its various working groups and LGA subscription payments have been considered. Initial savings of £0.020m have been identified. Specifically, these savings have been made on the external audit fee (£0.014m), the website charges payable to Nexus (£0.012m); with additional savings on the budget for scrutiny committee and reductions in the budget for printing and accommodation, as working groups will be held less frequently where appropriate.

Work will continue in 2011/12 on reviewing areas such as the LGA subscription payments and members' allowances, where it is hoped that savings can be achieved in future years.

Pension Costs

6.4 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 triennial actuarial review for the ITA have not yet been released and so the budget proposals have had to assume that the current level of deficit payments will continue. However, it is thought likely that if the deficit has not substantially increase it will be possible, with the agreement of the Tyne and Wear Pension Fund, to extend the repayment period. This could achieve a saving which would reduce the reliance on reserves to bridge the funding gap. We are expecting to hear about the pension contribution shortly and I will update members on the position at the meeting.

Capital Financing Costs

6.5 Capital financing costs make up a significant proportion of the ITA revenue budget. Some savings on financing charges have been achieved in 2010/11 and 2011/12, which are reflected in savings of £0.208m in the (pre adjusted) budget for 2011/12 of £2.662m.

6.6 There is an option for a substantial reduction in the ITA levy if districts agree to a transfer of equivalent debt, which could produce a real net revenue saving for districts in 2011/12 and further revenue savings of 4% or more each year in future years. The reduction in the Levy for the ITA would mainly be presentational, with the reduction in levy matched by a reduction in capital financing costs, with an overall reduction in the debt managed by the ITA in future years. While the ITA holds supported debt and capital financing charges at a county-wide level, the Revenue Formula Grant received to fund the debt is paid directly to each of the districts. The formula grant calculation is currently based upon an interest rate of 5.4% (which will reduce in 2011/12 to 5.1%), whereas the ITA pool rate of interest is 4.2%.

6.7 The opening debt at 1 April 2011 would be £31.908m. The levy could be reduced by £2.662m if the districts received a transfer of the Capital Financing Requirement from the ITA and there was the equivalent of a debt transfer. Because the ITA has a new borrowing requirement for works to the New Tyne Crossing in excess of £31.9m, no existing debt transfer to the districts need take place, which would if required be a complicated exercise to carry out. Instead, a capital contribution could be made by each district in the first week of April 2011, which could be financed as districts determine, either from revenue reserves, from capital receipts or from borrowing at a lower interest rate if districts choose to do so, achieving some interest saving. In addition, there would be no Minimum Revenue Payment (repayment of principal) to be made in 2011/12. In future years Districts would automatically receive the benefit from the 4% annual reduction in capital financing costs as debt is reduced over time, without the uncertainty of whether it would be reflected in the levy reduction or not. The reduction in the levy by the ITA for this debt would be permanent.

6.8 The capital contribution required from each District and the saving in Levy for each District is summarised below:

	Levy Reduction	Capital Contribution
	£	£
Gateshead	459,127	5,502,621
Newcastle	684,119	8,199,136
North Tyneside	474,528	5,687,196
South Tyneside	366,724	4,395,176
Sunderland	677,862	8,124,153
	2,662,360	31,908,282

6.9 The ITA will effectively use the capital contribution to fund capital expenditure on the New Tyne Crossing instead of borrowing new debt, and existing debt of £31.908m will be assigned to the tunnel and funded by toll income. This will give the tunnel certainty over the level of borrowing charges, which will be less than the interest rates assumed in the financial model for the New Tyne Crossing.

6.10 The equivalent debt transfer and levy reduction can only be carried out if all five districts agree in writing to the capital contribution before the levy notification has to be sent to each district. It is proposed that a deadline of 7 February be set for confirmation of the contributions to the ITA.

Tyne Tunnel Operating Costs

6.11 The Tyne Tunnel trading account reflects the costs of operating the tunnel with the concessionaire. All the costs will be funded from toll income and existing reserves. Toll income in 2010/11 is forecast to be slightly higher than budgeted, and in 2011/12 is projected to increase in line with the New Tyne Crossing model.

6.12 Capital expenditure on the New Tyne Crossing will continue in 2011/12, with construction contributions being made to the concessionaire. The capital costs will be met from prudential borrowing and potentially capital contributions from the Districts as discussed in section 6.5 above.

6.13 The revised budget for 2010/11 and the budget for 2011/12 include an accounting adjustment that is required under the move to International Financial Reporting Standards (IFRS). Under IFRS, any PFI or similar arrangements have to be accounted for under

International Financial Reporting Interpretation Committee 12 (IFRIC 12). The New Tyne Crossing partnership is considered to be such an arrangement, and this has resulted in changes to the treatment of interest on finance lease and the usage payment. There is no change in cash terms, although this does affect Tyne Tunnel reserves.

ITA Reserves

6.14 In setting the budget for 2010-11, £0.781m of ITA reserves were used in order to restrict the levy increase to 1.5% and to provide an additional contribution of £0.5m to Nexus. This additional contribution ceases from 2011/12, however the budget proposals put forward in this report also recommend temporary use of reserves in order to bridge the gap while longer-term savings proposals are developed and implemented. Use of reserves in 2011/12 included in these budget proposals is £0.180m, which is less than in 2010/11 due to the efficiency savings that have been achieved. The effect of this will be to reduce ITA unearmarked reserves to £2.4m at the end of 2011/12. The Deputy Clerk and Treasurer considers a prudent working level of reserves to be £1m.

7 Nexus Budget Proposal for 2011/12

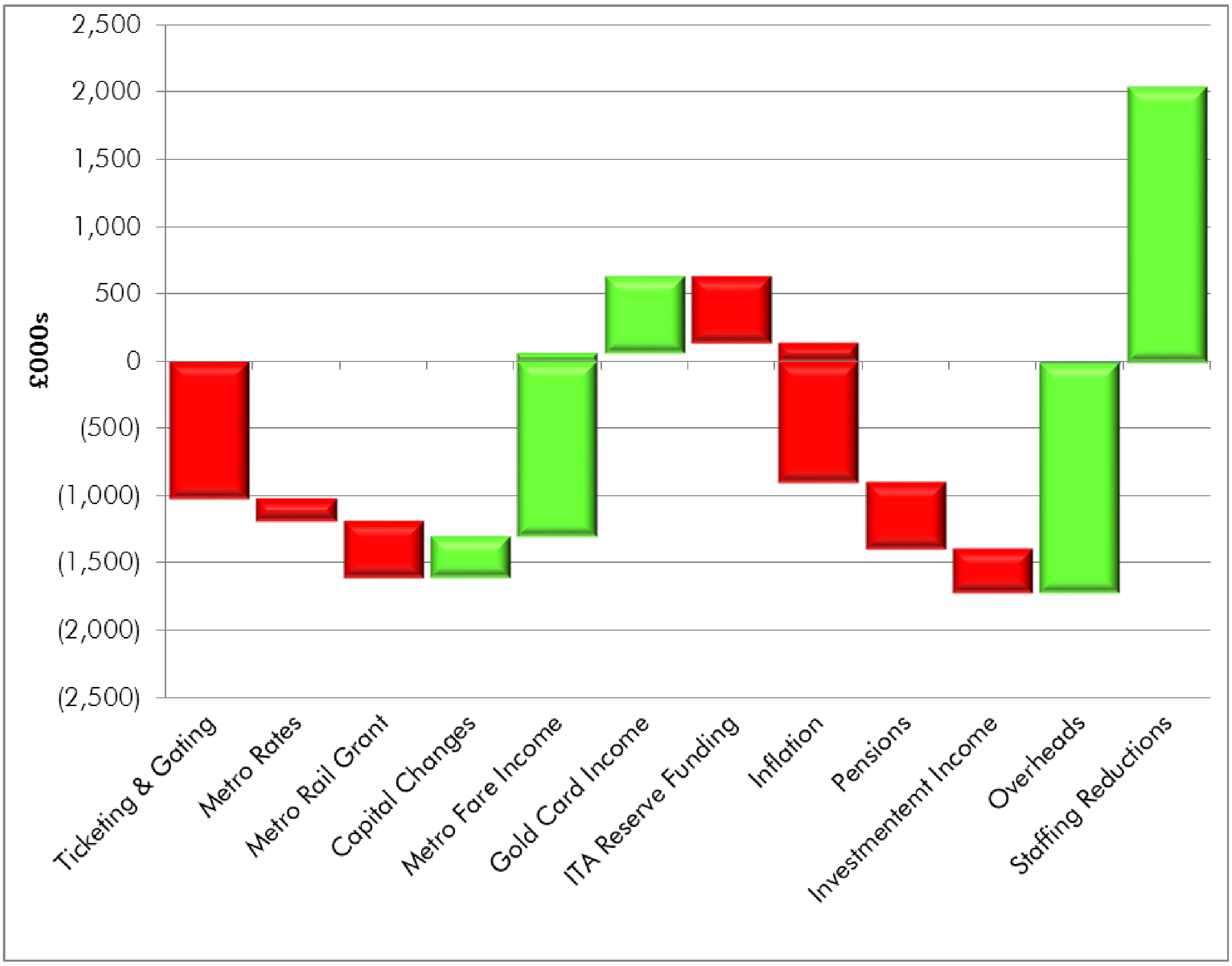
A summary of the budget is shown in the attached Appendix B.

7.1 Notwithstanding the reduction in the levy, Nexus is also facing a reduction in its resource base in 2011/12 in relation to Metro Rail Grant payable by DfT, the withdrawal of ITA support of £0.500m that was provided in 2009/10 and 2010/11 in order to maintain the price of the Metro Gold Card at £12, as well as the need to re-base its forecast of investment income in response to the continued and unprecedented low level of interest being earned on its cash deposits.

7.2 Nexus also has a number of committed cost pressure and increases that need to be accommodated within its budget for 2011/12. These relate to the potential impact of the 2010 pensions valuation, contractual staff increments, general price inflation on contracts, an increase in the rateable value of the Metro network and increased costs associated with the introduction of new ticket machines and barriers at stations across the Metro network.

7.3 Recognising these pressures and the pressure on the levy, Nexus will seek to increase its income base in relation to the Metro (through the January 2011 fare increase which was approved by the ITA in November 2010) and will also realise sizeable efficiencies through the implementation of a revised organisational structure in April 2011 which reduces the staffing establishment by 10%, as well as significantly reducing its overheads. In terms of efficiency savings, to the extent that some of these savings relate to Metro (necessary because of the reduction in Metro Rail Grant) and because very little administrative overhead is incurred in the management of Concessionary Travel, when measured against the £24.2m of discretionary expenditure, Nexus is setting out to achieve a 13% saving in its overheads.

7.4 These cost pressures and efficiency measures for 2011/12 designed to cover cost pressures and contribute to a reduction in the levy are highlighted in the chart below:-



Cost pressures and loss of external grant relating to Metro are largely offset by a saving on capital charges and the agreed increases in fares from January 2011, as anticipated in the January 2010 reference case submission to DfT for Metro Reinvigoration Phase II. A proposed Gold card price increase (to be considered elsewhere on this agenda) will offset the loss of ITA reserve funding made available in both 2009/10 and 2010/11 which enabled the price to be frozen. Other cost pressures are offset by gross efficiency savings amounting to some £3.7m from savings in overheads and staffing reductions. This gives a net saving of almost £2.0m in 2011/12.

7.5 In summary, given the implementation of these efficiency measures, it should be possible for Nexus to withstand a reduction in the levy contribution of broadly 3% (in cash terms) without any reduction in service delivery in 2011/12.

The gap between the expenditure requirement in 2011/12 and resource availability is set out below:-

£000		**£000**
Total Nexus Requirement		100,933
Non-Levy Grant Income		
Light Rail (Metro)	(24,884)	
Heavy Rail (Northern Rail)	(4,361)	
		(29,245)
		70,688
Levy Contribution (including Concessionary Travel grant adjustment)		(70,323)
Net Deficit		1,365

7.6 **The Funding Gap 2011/12 to 2012/13**

Over the period 2011/12 to 2012/13, the gap in funding will amount to £6.395m as outlined in the table below:-

	2011/12	**2012/13**	**Total**
	£000	**£000**	**£000**
Total Nexus Requirement	100,933	101,261	201,194
Non-Levy Grant Income			
Light Rail (Metro)	(24,884)	(24,948)	(49,832)
Heavy Rail (Northern Rail)	(4,631)	(4,631)	(8,722)
	71,688	71,952	143,640
Levy Funding (including Concessionary Travel grant adjustment)	(70,323)	(66,922)	(137,245)
Net Deficit	1,365	5,030	6,395

7.7 Given the extremely challenging funding settlement, it is Nexus' view that a two year plan which seeks to reduce the levy by up to 5% in each of the financial years 2011/12 and 2012/13 can be achieved if Nexus' balances are used to maintain service provision in the short term (including the implementation of the accessible bus network). During the two years that this financial plan relates to, proposals that create additional, more sustainable efficiency savings will be prepared for consideration by the ITA.

Nexus Reserves

7.8 Nexus revenue reserves amounted to £14.2m at 31 March 2010. The intention is to maintain a level of reserves at or around £5.0m by 2013/14, a level at which the Director of Finance and Resources considers prudent as a working balance.

To protect services in the short term will require around £9.0m of reserves to be released by March 2013, being used to:-

- Cover the short term funding gap in 2011/12 and 2012/13 of around £6.395m cumulative;

- Fund the cost of redundancies relating to the headcount reduction of 10% by April 2011; and

- Provide a contingency sum to allow the development of more sustainable efficiency savings for presentation to the ITA over the next two years.

This strategy will therefore leave around £5m in reserves as at March 2013.

8 Transfer of Concessionary Travel Grant

8.1 A letter from the Secretary of State for Communities and Local Government to Leaders of Local Authorities in England confirmed that from 2011/12 Concessionary Travel Grant will be rolled into the Formula Grant. The national figures for the level of grant that will be transferred into the Formula Grant are as follows. Tyne and Wear's share of the national £223m currently being received in 2010/11 is £5.67m.

8.2 Changes have been made to the Formula Grant Distribution method, the result of which is that the base grant adjustment given to District councils in Tyne and Wear is £7.107m, compared with £5.67m that the ITA and Nexus will no longer receive directly as specific grant. This surplus will be retained by the District councils to help manage general cost pressures, in addition to the 5% reduction in the levy and the additional one off saving from capital financing adjustment.

Table 3 – Transfer of Specific Grant for Concessionary Travel – Levy Adjustment for 2011/12 and Grant Transfer to Tyne and Wear District Councils

	Levy Adjustment	Grant Transfer	Difference
	£m	**£m**	**£m**
Gateshead	0.978	1.239	0.261
Newcastle	1.457	1.863	0.406
North Tyneside	1.011	1.175	0.164
South Tyneside	0.781	1.014	0.233
Sunderland	1.444	1.817	0.373
TYNE & WEAR	**5.671**	**7.107**	**1.436**

8.3 A second smaller grant, the 'Rural Bus Subsidy' grant has also been transferred from Nexus into formula grant to be paid to the districts. In 2010/11 this grant was £0.150m. For 2011/12, this grant was reduced to £0.089m before being transferred into the base grant for the five District Councils. This grant was part of the base grant that was then cut by an average of 11.4%, so the final grant has been reduced to £0.079m. Unlike concessionary fares, there was no specific allocation identified for 2011/12. It is not proposed to adjust the levy for this grant, so this additional funding will also be retained by the districts. Nexus will need to determine whether any elements of those services currently funded from rural bus subsidy grant can be retained through a further review.

8.4 Further details of the Formula Grant Settlement Announcement and the transfer of Concessionary Travel Grant are included in Appendix D to this report.

9 Risks Contained within the Budget

9.1 There are some medium-term risks within the Financial Plan and these will be managed by Nexus and the ITA, with monitoring reports made to the ITA on a regular basis. 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.

9.2 **In addition to the monitoring reports outlined above there will be a full review**

when the detailed budget for 2012/13 is set next year.

10 Background Papers

10.1 ITA and Nexus budget working papers.

11 Contact Officer(s)

11.1 Paul Woods, Deputy Clerk and Treasurer to the ITA, tel (0191) 232 8520 or

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

Integrated Transport Authority Revenue Estimates 2010/11				
2010/11				**2011/12**
Original Estimate £000s		**Forecast Outturn £000s**	**Description**	**Original Estimate £000s**
			Integrated Transport Authority/Nexus	
3,932		3,829	ITA Budget	3,649
-		-	less Debt Transfer proposal	(2,662)
101,583		101,583	Nexus	97,680
105,515		**105,412**		**101,329**
(71,706)		(71,706)	Levy on Tyne & Wear District Councils	(73,793)
(33,028)		(33,028)	Government Grants to Nexus	(33,028)
(104,734)		**(104,734)**		**(101,149)**
781		**678**	Change in Reserves	**180**
			Tyne Tunnel/New Tyne Crossing	
(6,231)		(825)	Tyne Tunnel	13,769
(6,231)		**(825)**	Change in Tunnel Reserves	**13,769**

ITA/Tyne Tunnel/Nexus Revenue Balances				
2010/11				**2011/12**
Original Estimate £000s		**Forecast Outturn £000s**	**Description**	**Original Estimate £000s**
			Opening Balance at 1st April	
(3,176)		(3,268)	Integrated Transport Authority	(2,590)
(12,875)		(13,441)	Metro Re-invigoration Reserve	(11,442)
(33,781)		(21,079)	Tyne Tunnel Reserves	(21,904)
(14,068)		(14,165)	Nexus	(15,134)
(63,900)		**(51,953)**		**(51,070)**
			Movement in Balances during year	
781		678	Integrated Transport Authority	180
1,999		1,999	Metro Re-invigoration Reserve	1,999
(6,231)		(825)	Tyne Tunnel Reserves	13,769
-		(969)	Nexus	1,365
(3,451)		**883**		**17,313**
(67,351)		**(51,070)**	**Closing Balance at 31st March**	**(33,757)**
			being	
(2,395)		(2,590)	Integrated Transport Authority	(2,410)
(10,876)		(11,442)	Metro Re-invigoration Reserve	(9,443)
(40,012)		(21,904)	Tyne Tunnel Reserves	(8,136)
(14,068)		(15,134)	Nexus	(13,769)
(67,351)		**(51,070)**		**(33,757)**

Integrated Transport Authority

1 ITA Budget

Net Expenditure

Item No.	Description	2010-2011 Original Estimate	2010-2011 Forecast	2011/2012 Original Estimate
		£	£	£
	ITA Administration			
1.1	Staffing and charge for servicing officers *	343,300	343,300	301,507
		343,300	343,300	301,507
1.2	Audit Fees	47,070	37,470	32,599
1.3	Members allowances and expenses	86,300	86,300	86,300
1.4	Accommodation charges	6,120	6,120	6,090
1.5	Subscriptions	36,040	36,040	33,000
1.6	Conferences	1,500	1,400	1,000
1.7	Travel expenses and subsistence	4,000	3,000	3,000
1.8	IT development	34,000	34,000	22,000
1.9	Printing costs	16,000	15,200	15,200
1.10	Advertising	2,050	2,050	2,050
1.11	Scrutiny Committee	6,700	4,700	4,700
		239,780	226,280	205,939
	Total	583,080	569,580	507,446
1.12	Pensions			
	Pension deficiency payments	510,000	510,000	510,000
1.13	Financing Charges			
	Financing Charges	2,874,370	2,809,140	2,662,360
	less Debt Transfer - contributions from Districts			(2,662,360)
		3,967,450	3,888,720	1,017,446
1.14	Income			
	Interest on Revenue Balances	(35,000)	(60,000)	(31,000)
	Net Expenditure on ITA Budget	3,932,450	3,828,720	986,446

* See note 1

Integrated Transport Authority

2 Tyne Tunnel and New Tyne Crossing

Net Expenditure

Description	2010-2011 Original Estimate	2010-2011 Forecast	2011-2012 Original Estimate
	£	£	£
Tyne Tunnel Ongoing Costs			
TT2 Contract			
Toll Income	(13,150,000)	(13,260,000)	(15,000,000)
Usage Payments *	2,962,000	6,002,600	6,336,800
	(10,188,000)	(7,257,400)	(8,663,200)
Other			
Employees	33,310	32,810	32,810
Pensions	588,410	588,410	588,410
Other Expenses	27,630	58,590	55,390
New Tyne Crossing Support Services	165,456	172,520	145,000
NTC Community Fund	10,000	10,000	10,000
Financing Charges	3,594,520	3,444,300	5,832,900
Interest on Finance lease *	-	2,630,857	16,106,000
Interest on Tunnel Balances	(483,000)	(505,000)	(338,000)
Total Expenditure	3,936,326	6,432,487	22,432,510
Surplus/Deficit on existing Tyne Tunnels	(6,251,674)	(824,913)	13,769,310

* The revised budget for 2010/11 and the budget for 2011/12 include an accounting adjustment that is required under the move to International Financial Reporting Standards (IFRS). Under IFRS, any PFI or similar arrangements have to be accounted for under International Financial Reporting Interpretation Committee 12 (IFRIC 12). The New Tyne Crossing partnership is considered to be such an arrangement, and this has resulted in changes to the treatment of interest on finance lease and the usage payment. There is no change in cash terms, although this does affect Tyne Tunnel reserves.

SLA supporting the ITA, Tyne Tunnel and Capital Programme included in Budget		
	SLA Value	SLA Value
	2010/11	**2011/12**
	£	**£**
Management Support (*includes Communications)*	77,630	74,340
Legal Advice	64,020	47,480
Accountancy and Financial Advice (*includes Insurance*)	146,870	127,270
Internal Audit and Risk*	9,230	19,490
Administration of the Democratic Process	82,200	73,980
Scrutiny	12,000	12,000
OD & Personnel Services	5,050	5,050
Policy Advice	105,270	127,040
New Tyne Crossing (*excludes Monitoring Officer employed by TWITA*)	254,690	252,950
	756,960	**739,600**
Included in Estimates		
ITA	343,300	301,510
Tyne Tunnel	166,510	145,000

* From 2011/12, SLA for Internal Audit includes Risk

Nexus - Revenue Budget 2011/12 to 2012/13

2010/11			2011/12	2012/13
Budget	**Forecast**		**Budget**	**Forecast**
£000	**£000**		**£000**	**£000**
47,655	47,463	Concessionary Travel	47,020	47,049
25,731	25,160	Metro	23,734	23,459
961	975	Ferry	909	914
4,355	4,357	Rail	4,366	4,368
10,823	11,052	Bus Service Delivery	10,590	11,134
3,229	3,042	Bus Infrastructure	2,791	2,829
2,287	2,594	Information and Promotion	2,428	2,484
1,084	1,086	Planning	1,030	1,044
96,125	**95,729**	**Total Operations**	**92,868**	**93,281**
47	47	Deregulation Liabilities & Add. Costs	47	47
6,300	5,883	Pensions & Provisions	6,743	6,761
305	305	Redundancy Fund	305	305
1,921	1,943	Corporate & Democratic	1,860	1,879
104,698	**103,907**	**Total Costs**	**101,823**	**102,273**
(625)	(609)	Investment Income	(300)	(300)
(377)	(377)	Net Movement in Capital Reserve	(590)	(712)
103,696	**102,921**	**Total Nexus Requirement**	**100,933**	**101,261**
(103,696)	(103,890)	**Grants**	(99,568)	(96,231)
0	(969)	**Net (Surplus)/Deficit**	1,365	5,030
0	969	**Transfer to/(from) Reserves**	(1,365)	(5,030)
0	**0**		**0**	**0**

APPENDIX C

TYNE & WEAR INTEGRATED TRANSPORT AUTHORITY ANNUAL MINIMUM REVENUE PROVISION (MRP) STATEMENT FOR 2010/11 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 fourth 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 revised MRP guidance has been offered, giving 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 2011/12 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.

The ITA has no supported capital expenditure which requires borrowing in 2010/11 and 2011/12, as from 1 April 2008 the Integrated Transport allocation is 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 in 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 & Wear Passenger Integrated Authority Policy on making MRP

The revised regulations came into force on 31 March 2010.

A financial analysis has been done for a new capital project that uses Prudential Borrowing comparing the current MRP practice to the new Option 3 (see below) -

Financial Analysis

In this example, work on a new project started in 2006/07 and is going to cost £100m over the three years it takes to construct (£25m 2006/07, £50m in 2007/08 and £25m in 2008/09).

Current Practice – MRP would be charged at 4% per year, starting in 2007/08.

Option 3 –The life of the asset is 50 years and therefore the MRP will be charged over 50 years with the asset operational in 2010/11.

MRP calculation on £100m project over the initial 6 year of the project -

	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Current Practice	£3.000m	£3.880m	£3.725m	£3.575m	£3.433m	£3.295m
Option 3 - Equal Annual Instalments	0	£2.000m	£2.000m	£2,000m	£2.000m	£2.000m
Option 3 - Annuity	0	£0.270m	£0.290m	£0.310m	£0.330m	£0.350m

If Option 3 - Equal annual instalments is used, it would allow projects to be completed and receiving revenue income before MRP payments are required and the borrowing could be taken out over a longer period. However, it should also be noted that there would be a knock-on consequence to the project from higher interest charges on a larger outstanding debt over the life of the borrowing. The external interest on all the authority's borrowing is recharged to projects on the basis of outstanding debt. Under Option 3 the outstanding debt for the £100m project would incur greater interest charges.

If Option 3 - Annuity basis is used the principal repayments increase over the period of repayment, reflecting the benefits from the capital project over the life of the project and it has the benefit that it can be revisited and varied to reflect changing revenue forecasts. However, as discussed above, the knock-on consequence would be increased interest payments in the earlier years of a project.

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.

It is proposed that the ITA will adopt the following arrangements for MRP in 2011/12 (based on 2010/11 capital expenditure): using option 1 on Supported Capital Expenditure; Option 3 on unsupported capital expenditure funded by Prudential Borrowing - based on equal instalments; and for the New Tyne Crossing project Option 3 – using the annuity basis.

The ITA will also continue to make voluntary repayments if appropriate.

APPENDIX D

Formula Grant Settlement Announcement

1 Summary

1.1 The Comprehensive Spending Review (CSR) announced on 20 October 2010 gave national headline resource totals for the four years from 2011/12 to 2014/15. On 13 December, the Department for Communities and Local Government (DCLG) issued detailed grant figures for local authorities for the first two years of this period 2011/12 to 2012/13.

1.2 The overall settlement is complex because of the removal, transfer and simplification of many grants including the concessionary fare grant of £5.71m that the ITA and Nexus currently receive. The key issues for the ITA were the grant implications for the five district councils and more specifically the impact of the significant changes that the Government was making to the funding for concessionary fares. The outcome of the changes is a positive one with the Government choosing to create a separate sub block and a basis of distribution that the ITA lobbied for. The outcome will enable the district councils to pass back the funding of £5.71m to the ITA through an addition to the levy for 2011/12 to compensate for the transfer of the funding of the concessionary responsibilities to the district councils.

1.3 This appendix summarises the impact of the settlement announcement and the key points reflected in the response to the consultation paper.

2 Formula Grant Announcement

2.1 On 13 December DCLG announced grant figures for 2011/12 and 2012/13 for consultation.

2.2 In overall terms the Tyne and Wear Districts received significant reductions in their formula grant funding as part of the national frontloading of funding reductions. The grant reductions for each of the five districts are outlined below, including reductions averaging -11.4% in 2011/12 and -7.9% in 2012/13.

FORMULA GRANT FIGURES FOR TYNE AND WEAR DISTRICTS 2010/11 TO 2012/13

	2010/11		2011/12			2012/13		
	Original Formula Grant	Adjusted Formula Grant	Formula Grant	Grant Change		Formula Grant	Grant Change	
	£m	£m	£m	£m	%	£m	£m	%
Gateshead	105.814	119.629	105.905	-13.724	-11.5%	97.419	-8.486	-8.0%
Newcastle	166.957	193.214	171.381	-21.833	-11.3%	158.119	-13.262	-7.7%
North Tyneside	87.909	103.271	90.568	-12.702	-12.3%	82.544	-8.024	-8.9%
South Tyneside	90.285	101.062	90.058	-11.004	-10.9%	83.192	-6.866	-7.6%
Sunderland	157.462	178.278	158.132	-20.145	-11.3%	145.837	-12.295	-7.8%
TOTAL	608.427	695.454	616.045	-79.409	-11.4%	567.111	-48.934	-7.9%
England Average					-9.9%			-7.3%

2.3 The increase in the base adjusted grant for 2010/11 includes a number of grant transfers from specific grants to the main formula grant. In particular the figures include the following grant transfer in respect of concessionary travel grant and rural bus support from the ITA/Nexus to the original districts.

2.4 DCLG used a new broader analysis of change, which showed the impact of grant changes on ‘Revenue Spending Power’, which reflected the loss of other specific grants and Councils’ access to funding from Council Tax and some new HNS funding. Transitional grant was allocated to cap the maximum reduction in spending power to -8/9%. The change in spending power for Tyne and Wear Districts on this broader measure is shown below and averages 7.7% after the application of transitional grant for South Tyneside. The above average reductions for four of the five Tyne and Wear Districts mainly reflects the loss of specific grants such as the Working Neighbourhood Fund. North Tyneside had already suffered the loss of its WNF grant in previous years.

Change in ‘Revenue Spending Power’ in 2011/12

	2011-12 Revenue Spending Power	Change in estimated 'revenue spending power' 2011-12 £m		Transition Grant	Damped Change in Revenue Spending Power in 2011/12	
	£m	£m	(%)	£m	£m	(%)
Gateshead	217.085	-18.602	-7.9%	0.000	-18.602	-7.9%
Newcastle	311.475	-26.486	-7.8%	0.000	-26.486	-7.8%
North Tyneside	197.574	-9.045	-4.4%	0.000	-9.045	-4.4%
South Tyneside	168.906	-19.804	-10.5%	3.009	-16.795	-8.9%
Sunderland	290.400	-28.310	-8.9%	0.000	-28.310	-8.9%
TOTAL	1,185.439	-102.247	-7.9%	3.009	-99.238	-7.7%
England Average			-4.7%			-4.5%

Transfer of Concessionary Travel Grant

2.5 A letter from the Secretary of State for Communities and Local Government to Leaders of Local Authorities in England confirmed that from 2011/12 Concessionary Travel Grant will be rolled into the Formula Grant. The national figures for the level of grant that will be transferred into the Formula Grant are as follows. Tyne and Wear’s share of the national £223m currently being received in 2010/11 is £5.671m.

(£m)	**Baseline**	**2011/12**	**2012/13**	**2013/14**	**2014/15**
Concessionary Travel Special Grant	223.00	224.00	204.00	208.00	212.00

2.6 The protection of the funding for concessionary travel at a high level for 2011/12 onwards is welcomed as there were indications in the national March 2010 Budget that the assumption of significant efficiency savings could have cut this grant significantly.

2.7 A major consultation exercise over the summer about Formula Grant Distribution options considered over 40 options, some of which resulted in potential net gains (surplus) for Tyne and Wear Authorities. Section 26 and 27 of the consultation letter set out what the Government has done, as shown below.

"26. Concessionary travel would be removed from the lower tier by reverting to the 2005/06 weightings in the district-level EPCS formula and notionally adjusting each authority's prior year formula grant base position based on estimated 2010/11 net revenue expenditure (CONCF3). Concessionary travel would be added to the county level ECPS formula using the second formula based on regression against past expenditure, adjusting the base position for the transfer of the Department for Transport special grant pro rata to the new concessionary travel formula (CONCF8).

27. Concessionary travel would have its own sub block within the EPCS RNF."

2.8 The formula changes made by the Government are in line with the ITA's response to the options consulted upon in the late summer. The ITA had recommended either of options CONCF3 or CONCF4 combined with CONCF8 and the use of the separate Relative Needs Formula (RNF) sub block to give greater visibility of changes in the future. These have all been agreed and as a result the base grant adjustment given to the District councils in Tyne and Wear is £7.107m, which is £1.436m higher than the £5.671m of grant that the ITA and Nexus will no longer receive directly as specific grant. As the budget strategy involves the guaranteed levy adjustment in line with the £5.671m loss of grant, there will be a surplus for the district councils to help manage general cost pressures.

Transfer of Specific Grant for Concessionary Travel – Levy Adjustment for 2011/12 and Grant Transfer to Tyne and Wear District Councils

	Levy Adjustment	Grant Transfer	Difference
	£m	£m	£m
Gateshead	0.978	1.239	0.261
Newcastle	1.457	1.863	0.406
North Tyneside	1.011	1.175	0.164
South Tyneside	0.781	1.014	0.233
Sunderland	1.444	1.817	0.373
TYNE & WEAR	5.671	7.107	1.436

Separate Concessionary Travel RNF Sub Block

2.9 The establishment of a separate RNF sub block gives more visibility of changes to concessionary fare funding. The RNFs are not expressed in cash terms but as proportions which are applied to distribute resources between authorities, expressed to 15 decimal places. The RNF totals for 2011/12 and 2012/13 are shown below for England and Tyne and Wear. Tyne and Wear's share of the national total is 3.19%. The

Minister's letter made it clear that the national control total of the specific grant to be transferred into Formula Grant was to reduce from £224m to £204m, an 8.9% reduction. However, a comparison of the RNF totals for 2011/12 and 2012/13 shows a significantly larger national reduction of -18.7%, which implies a much bigger reduction in funding support for Concessionary Travel. The average reduction in total RNF for England between the two years is -8.2%, so the national reduction appears to be more than twice the national average. This is an issue that has been highlighted in the response to the consultation.

	2011/12 RNF		2012/13 RNF		Change
England	0.01282939498307	100%	0.01043291908773	100%	-18.7%
Gateshead	0.00007127574136	0.56%	0.00005769507158	0.55%	-19.1%
Newcastle	0.00010717827938	0.84%	0.00008713997602	0.84%	-18.7%
North Tyneside	0.00006758592514	0.53%	0.00005493898734	0.53%	-18.7%
South Tyneside	0.00005832316324	0.45%	0.00004723627148	0.45%	-19.0%
Sunderland	0.00010450593285	0.81%	0.00008445637654	0.81%	-19.2%
Tyne and Wear	0.00040886904196	3.19%	0.00033146668295	3.18%	-18.9%

Rural Bus Subsidy Grant Transfer into Formula Grant

2.10 A second smaller grant, the 'Rural Bus Subsidy' grant has also been transferred from Nexus into formula grant to be paid to the districts. In 2010/11 the base grant was £0.150m.

For 2011/12, this grant was reduced to £0.089m before being transferred into the base grant for the five districts as shown below. This grant was part of the base grant that was then cut by an average of 11.4%, so the final grant has been reduced to £0.079m. Unlike concessionary gares there was no specific allocation identified for 2011/12. It is not proposed to adjust the levy for this grant.

Transfer of Rural Bus Subsidy Grant – Levy Adjustment for 2011/12 and Grant Transfer to Tyne and Wear District Councils

	Transferred to base grant	Adjustment For Formula Grant	Amount following reduction
	£m		£m
Gateshead	0.015	-11.5%	0.014
Newcastle	0.023	-11.3%	0.020
North Tyneside	0.016	-12.3%	0.014
South Tyneside	0.012	-10.9%	0.011
Sunderland	0.023	-11.3%	0.020
TYNE & WEAR	0.089	0.079	0.079

Capital Financing Charges

2.11 The RNF that the District Councils receive in respect of capital financing charges is made up of an allocation for debt repayment and an allocation for interest. The calculation of interest is based on a national interest rate that has been reduced from 5.4% in 2010/11 to 5.1% in 2011/12 and 2012/13. The new rate of 5.1% does not take into account the recent decision of the Treasury to increase prudential borrowing interest rates and should possibly be increased to a higher rate. This interest rate is still higher than the actual interest rate of around 4.2% that the ITA is paying on its historic debt.

3 Response to the Revenue Grant Settlement

3.1 A response to the settlement has been prepared by the Deputy Clerk and Treasurer. In the response to the settlement, support was given to the protection of the overall level of the grant transferred into formula grant in 2011/12, and the options chosen to make the transfer (CONCF3 and CONCF8) welcomed.

3.2 The establishment of the separate sub block for concessionary travel was also welcomed. However, the significant reduction in the RNF sub block in 2012/13 of -18/7% is a cause for concern and has been raised in the consultation response.

3.3 The reduction in the interest rate to 5.1% has been raised, with a request that account should properly be taken of the Treasury action to increase the PWLB interest rates for new borrowing.

Tyne and Wear Integrated Transport Authority

Date: 27 January 2011

TITLE: **GENERAL TRANSPORT UPDATE**

REPORT OF **CLERK TO THE ITA**

Reasons for confidentiality: Not confidential

District Implications: All

1. Summary / Purpose of Report

1.1 To set out an update to Members on recent developments regarding Transport Policy.

2. Recommendation

2.1 ITA Members are asked to note the report.

3. Background

3.1 ITA received a report at its last meeting on 25 November 2010, providing a general transport policy update. This report provides a further update on some of those items.

3.2 **Localism Bill** – This was published on the 13 December 2010. There are many different elements to the Bill and it is complex. Alongside the publication of the Bill, the Government has produced a contextual policy paper called ‘Decentralisation and the Localism Bill: an essential guide’. It sets out 6 essential actions for localism and decentralisation:

- Lift the burden of bureaucracy
- Empower communities to do things their way
- Increase local control of public finance
- Diversify the supply of public services
- Open up Government to public scrutiny
- Strengthen accountability to local people

Although the Bill does not appear to directly impact on ITAs, there is one change for Local Authorities which removes well-being powers, replaced by a General Power of

Competence. ITAs appear to have kept the well-being power. Indirect consequences of the Bill may become clearer as more detail emerges. It is envisaged that the Bill will gain Royal Assent in Autumn 2011.

3.3 **Local Sustainable Transport Fund** - The LSTF is a ring-fenced fund intended to support local authorities in delivering a broad range of sustainable transport measures that strengthen the local economy and reduce carbon emissions. Emphasis is placed on reducing congestion, enhancing access to employment, changing patterns of travel behaviour, taking an integrated approach to meeting local challenges and delivering additional wider social, environmental, health and safety benefits.

3.4 The total fund is £560m over 4 years, from 2011 to 2015 and is a mix of revenue and capital funding. ITA's are expected to submit the bids in metropolitan areas. At the time of writing, formal guidance is still awaited, however we anticipate that bids could contain a package of measures aimed at:

- Promotion of walking and cycling
- Better traffic management
- Encouraging modal shift
- Improving access and mobility
- Managing network demand
- Reducing need to travel

3.5 It is anticipated that proposals for LSTF funding should:

- Be shown to strengthen the local economy (e.g. by reducing congestion)
- Reduce carbon emissions
- Offer good value for money and can be sustained financially after LSTF funding finishes
- Include a local funding contribution
- Be deliverable and have senior political support

3.6 Officers across Tyne and Wear have already met to discuss the scope and nature of a Tyne and Wear ITA bid. They are liaising with stakeholder groups (such as the health sector and cycling and walking organisations) to seek their views, as well as drawing on evidence from Tyne and Wear's 2009 Sustainable Travel City submission (this was shortlisted for funding by the DfT before the funding available was withdrawn).

3.7 **Local Enterprise Partnership Submission –** A proposal to establish a North Eastern LEP was submitted to Government on 23 December 2010. The LEP area covers Durham, Northumberland and the Tyne and Wear Authorities. The proposal was developed in collaboration with businesses, representatives from the voluntary sector and the public sector. The LEP submission highlights a vision to deliver smart, enterprising leadership between the private sector, local government, Higher Education and Further Education to rebalance the economy, and create Europe's premier location for low carbon, sustainable, knowledge-based private sector-led growth and jobs.

3.8 The LEP will operate on the basis of four core principles. The LEP will: be an advocate and champion for business and community interests; provide strategic economic leadership and local accountability; demonstrate added value and efficiency; and be committed to working across local boundaries.

3.9 To achieve its vision, the LEP will focus on delivering actions against four strategic economic priorities:

- *Supporting Enterprise and Private Sector Business Growth*
- *Building on Key Economic Strengths*
- *Improving Skills and Performance*
- *Strengthening Transport, Connectivity and Infrastructure*

The LEP proposal was approved by Ministers on January 13th.

3.10 The Government is to launch a £4 million fund aimed at boosting the capacity of the new public-private local enterprise partnerships. The fund would not fund LEPs' day-to-day administrative costs but would provide small amounts of money to help LEP chairs pay for analytical work to assess the economic circumstances of the local area,

4. Background Papers

4.1 The Localism Bill is available at http://services.parliament.uk/bills/2010-11/localism.html

5. Contact Officer (s)

5.1 Roger Gill, ITA Policy Manager 0191 211 4805

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Tyne and Wear Integrated Transport Authority

Date: 27 January 2011

TITLE:	**LTP3 DEVELOPMENT UPDATE**
REPORT OF	**JOINT TRANSPORT STEERING GROUP**

Reasons for confidentiality: Not confidential

District Implications: All

1. Summary / purpose of report

1.1 This report summarises progress and achievements that have been made since our last report in September 2010 and identifies progress and achievements planned for the next period (January - March 2011).

2. Recommendations

2.1 ITA Members are recommended to note the report.

3. Timescales

3.1 The draft LTP3 was published on 18 October 2010. Formal public consultation ended on Friday 10 December 2010 but due to the adverse weather responses to the website were accepted until the end of 2010. Further responses from stakeholders are expected before the end of January 2011.

3.2 Changes to LTP3 will be made during February with a final version being taken to ITA in March 2011.

3.3 Final approval is required before the end of March 2011.

4. Consultation Draft LTP3

4.1 The consultation draft LTP3 published on 18 October comprised three separate documents:

- Strategy 2011-2021

- Delivery Plan 2011-2014
- Consultation Summary & Questions

4.2 Limehouse software (now Objective Online) was used to develop LTP3 and manage the consultation process.

5. Consultation Activities

5.1 Admiral PR were appointed to assist the plan partners in the public consultation process for LTP3. They are currently working on the Be Air Aware campaign and are also part of the team with WSP and JMP to develop the T&W City Region Transport Strategy.

5.2 Articles were placed in council magazines to advertise the process and material provided in hard copy upon request. News items were placed on each partner website and display screens in council offices.

5.3 Stakeholders were advised of the process by distribution of a covering letter and consultation summary. Individual meetings with key stakeholders were offered upon request. A reminder was sent by email on 29 November.

5.4 12 page A4 consultation summary (including questions) of the LTP for stakeholders and hard copies of the full document were placed in council offices and libraries.

5.5 A new LTP website was set up with links to the official 'Limehouse' consultation site.

5.6 Admiral hosted a presence on social networking sites such as Facebook and Twitter, directing users to the LTP website to make formal comment.

5.7 An editorial campaign was run in partnership with local press. In the later stages of the consultation period plans to generate content (e.g. school assemblies) were hampered by the bad weather.

5.8 In addition, Nexus Market Research team carried out face to face interviews in all five districts (target 80 surveys in each) using the same questions as the consultation summary document.

6. Response to Consultation

6.1 Over a thousand individuals responded to the questionnaire. In addition over 60 organisations have responded to the questionnaire and /or the draft documents.

6.2 A presentation was given to ITA LTP Working Group on 13 January highlighting interim findings from the consultation process.

6.3 A verbal update will be given of final response and results.

7. Next Steps for LTP3

7.1 It is proposed to draft a separate Executive Summary (25pp) to accompany the final LTP3.

7.2 A report will be prepared on recommended changes to LTP3 as a result of the consultation and other factors e.g. CSR, local government financial settlement and review of national indicators. Draft proposals are:

Strategy – review policies, update road safety, update major schemes

Delivery – update resources, review indicators, set targets

8. Background Papers

8.1 Guidance on Local Transport Plans, DfT, July 2009. Available from http://www.dft.gov.uk/pgr/regional/ltp/guidance/localtransportsplans

9. Contact Officer (s)

9.1 Gary MacDonald, Chair of the Joint Transport Working Group, 0191 277 8971

Jessica Anderson, LTP Core Team Leader, 0191 211 6139

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Tyne and Wear Integrated Transport Authority

27th January, 2011

TITLE: LOCAL TRANSPORT PLAN 3 DEVELOPMENT UPDATE

REPORT OF: ITA SCRUTINY COMMITTEE

1. Summary / purpose of report

1.1 To consider representations from the ITA Scrutiny Committee on LTP3 consultation.

2. Recommendations

2.1 The ITA is asked to consider Scrutiny Committee comment.

3. Scrutiny Committee Consideration

3.1 The ITA Scrutiny Committee has considered the development of LTP3 with particular interest in the engagement of local people. Given the importance of LTP3 to the strategic direction of the ITA - and to the balancing of significant (and reducing) resources - the committee wanted to assure itself LTP proposals, set out in the consultation draft, chimed with a fair cross-section of the community.

3.2 Following discussion at the meeting on 16th September, 2010 officers agreed to a suggestion from the Scrutiny Committee that a number of face to face interviews should take place to supplement activity agreed with the ITA's consultation expert (Admiral PR). At the consultation mid point, only 240 individual responses had been received from a Tyne and Wear population of 1.1million and a wider travel population (North East) of 2.6million.

3.3 A report to the 20th January, 2011 meeting reported on the outcome of consultation to date, noting that the opportunity to make representations had been extended to the end of January, 2011.

4. Scrutiny Committee Comment

4.1 The Scrutiny Committee would like the ITA to consider the following issues as part of learning lessons for future engagement:

- Only 1,089 individual replies were received; not even 1% of the Tyne and Wear population. The committee considers a sample size should have been be set at the beginning of the process to ensure messages drawn out can safely be said to represent local views

- It was reassuring to note that, despite the small sample size, 95% of all feedback was supportive of proposals outlined. There was also a fair demographic balance in terms of people involved
- There appeared to be a mismatch between the number of 'hits' on promotional websites and actual forms returned. Follow-up emails could have been pursued
- Social media channels, suggested by Admiral PR (Facebook and Twitter), appeared to be of little effect with an average of only 8 tweets a week during the consultation period. Traditional forms of communication, such as the letter from the Chair of the ITA, appeared to have been more successful. The ITA should trust its own judgment rather than pay fees to PR agencies
- 37% of all responses had come from the face to face targeted interviews across the five Districts in a two week period. If interview had not been suggested by the committee the LTP Team's sample size would be significantly smaller. There was also benefit in ensuring a more unbiased sample of face to face interviews. E-consultation was more open to 'hijacking' by interested parties (see level of response from Newcastle on the importance of cycling)
- Those undertaking face to face interviews should be congratulated by the ITA as staff undertaking street-based surveys during two of the coldest weeks in the past 100 years
- South Tyneside and Newcastle City Councils had not responded formally to consultations. Arrangements should be established to ensure there was a clear message as to whether all ITA stakeholder Districts needed to reply. The option of responding should be a Councillor decision
- Further opportunities should be explored to fill any gaps in the list of key LTP stakeholders - particular reference was made to a lack of response from the bus industry
- Cluttered advertising in Nexus Travel Shops had meant posters promoting the opportunity to comment had not always been visible. Councillor feedback was also that not all of the local councils had displayed posters in public buildings. A list of agreed notice boards, etc should be drawn up to aid future marketing
- The new Nexus Customer Relations Management System, part of smart ticketing, should be used as a future tool for engaging with public transport users. Opportunities had not been taken to promote LTP3 consultation say as part of Gold Card and bus pass reminders

5. Background Papers

5.1 Scrutiny Committee agenda and minutes 3rd June, 15th July, 16th September, 2010 and 20th January, 2011

6. Contact Officers

6.1 **Paul Staines 0191 277 7524 paul.staines@newcastle.gov.uk**

Jessica Anderson 0191 211 6139 jessica.anderson@newcastle.gov.uk

Tyne and Wear Integrated Transport Authority

Date: 27 January 2011

TITLE:	**LOCAL TRANSPORT SETTLEMENT 2011/12 – 2012/13**
REPORT OF	**JOINT TRANSPORT STEERING GROUP**

Reasons for confidentiality: Not confidential

District Implications: All

1. Summary / purpose of report

1.1 This report summarises the recent announcement on local transport funding for Tyne and Wear.

2. Recommendations

2.1 Members are recommended to

1. approve the distribution of Highways maintenance block funding for 2011/12 from the ITA to LTP partners (refer to section 4 of this report, table 1), and;

2. approve the allocation of integrated transport block to LTP partners based on the existing percentage split (section 5).

3. note the intention to bring back a further report to ITA Members regarding the Public Transport block in March, in light of the significant reductions in funding.

3. Introduction

3.1 Following the Spending Review on 20 October 2010 (which included the national totals for future transport grants) on 13 December 2010 Ministers announced the final local transport capital block settlement for 2011/12 to 2012/13, and indicative allocations for 2013/14 to 2014/15.

3.2 As part of the Spending Review, the Department announced a radical simplification of local transport funding, moving from 26 separate grant streams to just four.

- I. a local sustainable transport fund (capital and resource);
- II. major schemes (capital)
- III. block funding for highways maintenance (capital); and
- IV. block funding for small transport improvement schemes (capital).

4. Highways Maintenance

4.1 With limited resources available, the Department believes that it is essential highways maintenance continues to be prioritised, reflecting the economic and social importance to local communities, the need to safeguard the largest single local public asset, and the liabilities for future years that can be created from short-term cuts in maintenance. From 2011/12, DfT is making this funding available to the ITA although it is proposed that each district be allocated its share of funding as identified in table 1 below.

4.2 Local authority highways maintenance block allocations are calculated through a needs-based formula. The formula has four elements (detrunked roads, roads, bridges, street lighting).

4.3 The notional formulaic allocation for the Tyne and Wear districts in 2011/12 and 2012/13 is shown in Table 1. The data for 2010/11 is shown for comparison. The overall cut in funding for Tyne and Wear from 2010/11 to 2011/12 is 20.7%, but this varies by district. For some authorities (Gateshead, North Tyneside) 2011/12 is actually an increase from 2010/11. Sunderland's maintenance settlement was historically high due to an anomaly in the DfT formula, and so the large decrease is not unexpected.

Table 1 Highways Capital Maintenance Allocation for 2011/12 and 2012/13 (based on notional formulaic allocation)

4.4

Partner	£ ('000) 2010/11	£ ('000) 2011/12 (% change from 2010/11)	£ ('000) 2012/13
Gateshead	2,169	2,239 (increase of 3.2%)	2,326
Newcastle	2,754	2,290 (decrease of 16.8%)	2,440
North Tyneside	1,836	1,847 (increase of 0.6%)	1,753
South Tyneside	1,700	1,276 (decrease of 24.9%)	1,267
Sunderland	4,729	2,804 (decrease of 40.7%)	2,919
Nexus	0	0 (no change)	0
Tyne and Wear	**13,188**	**10,456 (decrease of 20.7%)**	**10,705**

4.5 Table 2 shows the provisional figures for 2013/14 and 2014/15.

Table 2 Provisional Highways Capital Maintenance Allocation for 2013/14 and 2014/15

4.6

	£ ('000) provisional 2013/14	**£ ('000) provisional 2014/15**
Tyne and Wear	10,475	9,988

4.7 Members are asked to approve the distribution of the Highways maintenance allocation in 2011/12 direct to districts from the ITA in line with the allocations outlined in Table 1 above.

5. Integrated Transport Block

5.1 Integrated transport block funding is crucial to help local authorities improve road safety, stimulate local economies by reducing congestion, and deliver social justice to their local communities. In addition measures are designed to tackle climate change, improve air quality and health. Research has shown that investment in such measures can provide very high value for money.

5.2 Local authority integrated transport block allocations are calculated through a needs-based formula. The formula has six elements (objective one areas, road safety, public transport, congestion, tackling pollution, accessibility).

5.3 The allocation for Tyne and Wear in 2011/12 and 2012/13 is shown in Table 3. The data for 2010/11 is shown for comparison. The cut in funding from 2010/11 to 2011/12 is 24.5% (on top of the 25% cut already announced in June 2010). Table 3 also shows the provisional figures for 2013/14 and 2014/15.

Table 3 Integrated Transport Block Allocation for 2011/12, 2012/13, 2013/14, 2014/15

5.4

Year	**£ ('000)**
2010/11	15,382
2011/12	**11,617**
2012/13	**12,392**
2013/14 (provisional)	12,392
2014/15 (provisional)	17,426

5.5 For LTP2 the distribution of integrated transport block amongst the partners (based on a percentage split) is shown in Table 4 overleaf.

Table 4 Distribution of Integrated Transport Block for 2006-11

5.6

Partner	Percentage 2006-11
Gateshead	14.3
Newcastle	17.2
North Tyneside	11.1
South Tyneside	8.8
Sunderland	17.3
Nexus	31.3
Tyne and Wear	**100.0**

5.7 As outlined in a separate report elsewhere on this agenda, a review of the funding available for public transport schemes is currently being undertaken by Tyne and Wear partners and a recommended approach will be reported to the ITA at the meeting in March.

6. Background Papers

6.1 Funding allocations and supporting information for the Local Transport Capital Block Settlement. All funding is in capital grant, not supported borrowing.

http://www.dft.gov.uk/localtransportfunding

7. Contact Officer(s)

7.1 Nick Clennett, Chair of Joint Transport Steering Group, 0191 433 2526

Tyne and Wear Integrated Transport Authority

TITLE:	**Date: 27th January 2011**
	NEXUS (NON-METRO), NEW TYNE CROSSING AND LOCAL TRANSPORT PLAN CAPITAL PROGRAMME 2011/12 TO 2013/14
REPORT OF	**THE CLERK OF THE AUTHORITY / DIRECTOR GENERAL OF NEXUS**
	Reasons for confidentiality (if confidential)
	District Implications

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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 2011/12 in light of the expected funding available and to note the indicative scheme allocations for 2012/13 and 2013/14.

1.2 This report excludes Metro schemes which will be subject to a separate report to the ITA Metro Sub-Committee on 17 February covering the implementation of the Nexus metro asset renewal plan.

2. **Recommendations**

2.1 The Authority is recommended to:-

- approve the Nexus (non-Metro), New Tyne Crossing and LTP Capital Schemes for 2011/12 to 2013/14 as detailed in Appendix A; and
- approve the prudential code indicators and treasury management statement set out within Appendix B.

3. **Introduction / Background**

3.1 In light of substantial capital funding reductions and continued uncertainty surrounding the future availability of Nexus' own internal resources, the ITA agreed at its November 2010 meeting to effectively suspend the previously agreed Nexus non-Metro capital programme for 2011/12 and 2012/13, pending a review of existing schemes against resource availability. Consequently, a revised process for identifying, prioritising and monitoring the Nexus non-Metro capital programme has been implemented by the Nexus Management

Committee.

3.2 On 13 December 2010, government guidance was issued confirming a 44% cut in the original 2010/11 LTP base funding level in 2011-12, with a 6.6% increase on this level in 2012-13 and frozen at the 2012-13 level in 2013-14.A review of the funding available is currently being undertaken by the Tyne and Wear Partners and a recommended approach will be reported to the ITA at its next meeting.

3.3 Funding, 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 Outline capital business plans were submitted for review and prioritised by the Nexus Capital Evaluation Group. Those considered highest priority are listed in full in Appendix A and summarised in the table below.

	2011/12	**2012/13**	**2013/14**	**Total**
	£000	**£000**	**£000**	**£000**
Bus Infrastructure	605	910	571	2,086
Business Improvements	1,340	391	301	2,032
Ferry	98	0	0	98
Miscellaneous	150	395	444	989
Nexus Total	**2,193**	**1,696**	**1,316**	**5,205**
New Tyne Crossing	**53,129**	**1,205**	**0**	**54,334**
Total Capital Schemes	**55,322**	**2,901**	**1,316**	**59,539**

4.2 **New Tyne Crossing**

Construction on the New Tyne Tunnel project began in April 2008. The project is progressing well, and the new tunnel is due to open in February 2011, when the old tunnel will close for refurbishment. Both vehicle tunnels are due to be operational from December 2011. Capital construction payments on the New Tyne Crossing are funded by prudential borrowing and are 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, and there is no impact on the levy.

4.3 Available LTP funding for public transport schemes is as follows:

	2011/12	2012/13	2013/14	Total
	£000	**£000**	**£000**	**£000**
Block Allocation	3,640	3,883	3,883	11,406
Less Core Team (TBC)	175	186	186	547
Available for schemes	**3,465**	**3,697**	**3,697**	**10,859**
Allocated to				
Metro ARP local contribution	2,705	2,640	2,640	7,985
Balance	760	1,057	1,057	2,874
	3,465	**3,697**	**3,697**	**10,859**

4.4 The value of Nexus prioritised schemes is clearly in excess of available LTP public transport funding. Funding the difference between prioritised schemes and available resources will be subject to discussions between the LTP partners as highlighted in paragraph 3.2.

5. **Next Steps**

Agree the allocation of the LTP block

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 John D Fenwick, Director of Finance and Resources, Nexus 0191 203 3248

Marilyn France, ITA Accountant on 0191 211 6670

APPENDIX A

PROPOSED NEXUS CAPITAL PROGRAMME	2011/12	2012/13	2013/14	TOTAL
SCHEMES	**£000**	**£000**	**£000**	**£000**
Bus Infrastructure				
GATESHEAD INTERCHANGE REFURBISHMENT	0	220	0	220
BUS SHELTER REFURBISHMENT	0	300	300	600
LIGHTING SUPPLY IN SHELTERS	0	150	150	300
WAY FINDING SIGNING	65	20	20	105
CYCLE PARKING AT BUS INTERCHANGES	0	0	11	11
HAYMARKET BUS STATION REFURBISHMENT	280	0	0	280
KEPPEL STREET REFURBISHMENT	180	0	0	180
JARROW BUS STATION REBURSHMENT	0	0	80	80
I-TECHNOLOGY FOR BUS INFORMATION	80	0	0	80
SCHEME IN SUNDERLAND	0	200	0	200
TAXI FACILITIES AT BUS INTERCHANGES	0	20	10	30
	605	**910**	**571**	**2,086**
Business Improvements				
AUTOMATIC SOFTWARE DEPLOYMENT	45	40	0	85
AUTOMATIC SYSTEM PATCH MANAGEMENT	10	0	0	10
BIDS INTERFACE REPLACEMENT	200	0	0	200
BUSINESS INTELLIGENCE	100	50	0	150
CORPORATE GIS WEB TOOL	10	0	0	10
EMPLOYMENT SERVICES UPGRADE	69	0	0	69
FINANCIAL SOFTWARE UPGRADE	50	0	0	50
BUSINESS EFFICIENCIES	150	150	150	450
IDS/IPS	15	0	0	15
IT HARDWARE REPLACEMENT	151	151	151	453
IT SOFTWARE LICENCES	66	0	0	66
SHAREPOINT UPGRADE TO 2010	33	0	0	33

SHAREPOINT PROGRAMME 2011/12	57	0	0	57
TRANSPORT MANAGEMENT SYSTEM	384	0	0	384
	1,340	**391**	**301**	**2,032**
Ferry				
FERRY ENVIRONMENTAL IMPROVEMENTS	40	0	0	40
REFURB OF THE PRIDE OF THE TYNE	58	0	0	58
	98	**0**	**0**	**98**
Miscellaneous				
CUSTOMER SERVICES IMPROVEMENTS	150	395	444	989
NEXUS SCHEMES FOR APPROVAL TOTAL	**2,193**	**1,696**	**1,316**	**5,205**
NEW TYNE CROSSING	**53,129**	**1,205**	**0**	**54,334**
TOTAL SCHEMES FOR APPROVAL	**55,322**	**2,901**	**1,316**	**59,539**

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Appendix B

The Prudential Indicators and Treasury Management Strategy (2011/12 – 2013/14)

Deputy Clerk and Treasurer, ITA

1 The Prudential Code

This report sets out the expected treasury operations for this period. It fulfils four key legislative requirements:

- The treasury management strategy statement which sets out how the Authority's treasury service will support the capital decisions taken above, the day to day treasury management and the limitations on activity through treasury prudential indicators. The key indicator is the Authorised Limit, the maximum amount of debt the Authority could afford in the short term, but which would not be sustainable in the longer term. This is the Affordable Borrowing Limit required by section 3 of the Local Government Act 2003. This is in accordance with the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management and the CIPFA Prudential Code and shown at Section 4.3;
- The investment strategy which sets out the Authority's criteria for choosing investment counterparties and limiting exposure to the risk of loss. This strategy is in accordance with the Department for Communities and Local Government (CLG) Investment Guidance and is also shown in Section 5.
- The CIPFA Prudential Code and CIPFA Treasury Management Code of Practice have been incorporated within these reports.
- The requirements of the Code increase Members' responsibility in this area. This requires greater Member scrutiny of the treasury policies, increased Member training and awareness and greater frequency of information.
- The above policies and parameters provide an approved framework within which the officers undertake the day to day capital and treasury activities.

2 Recommendations

The Authority is recommended to approve each of the key elements of these reports as listed below:

1. The Treasury Management Strategy 2011/12 to 2013/14 in Section 4;
2. Approve the prudential indicators for 2011/12 and the prudential borrowing in Section 4;
3. The Investment Strategy and detailed investment criteria 2011/12 contained in Section 5;
4. The Treasury Policy Statement in Section 8;
5. Security, Liquidity and Yield Benchmarking in Section 9;
6. Approved Institutions in Section 10;
7. The Authority's Financial Regulations at Section 11.

3 Capital Expenditure Plans

3.1 The actual expenditure that was incurred in 2009/10 and the estimates of capital expenditure to be incurred for the current and future years that are recommended for approval are:

Capital Expenditure					
	Actual	Estimate			
	2009/10 £000	2010/11 £000	2011/12 £000	2012/13 £000	2013/14 £000
New Tyne Crossing	33,054	40,535	53,129	1,205	
Nexus	28,347	68,565	51,343	41,062	36,618
LTP Grants to Districts	2,510	1,434	-	-	-
Total	**63,911**	**110,534**	**104,472**	**42,267**	**36,818**

The Tyne Tunnels transferred over to a private sector concessionaire, TT2 Ltd., from 1 February 2008. The Tunnels' capital programme includes capital payments to be made to TT2 throughout the construction period (2008/09 to 2011/12). The ITA will also retain some liabilities relating to land, environmental monitoring and professional fees for the New Tyne Crossing project in the future, which were capitalised during the construction period. There are also liabilities relating to major refurbishment of the pedestrian and cycle tunnel which is included in the capital programme for 2010 – 2013.

3.2 Ratio of financing costs to net revenue stream

Estimates of the ratio of financing costs to net revenue stream for the current and future years and the actual figures for 2009/10 are shown below. For the purpose of calculating the indicators, the ITA levy on the five Tyne and Wear districts is assumed to be the net revenue stream.

Ratio of financing costs to net revenue stream					
	2009/10 Actual	**2010/11 Forecast**	**2011/12 Estimate**	**2012/13 Estimate**	**2013/14 Estimate**
ITA	4.2%	3.9%	3.9%	3.9%	3.8%
Nexus	6.7%	6.2%	6.5%	6.6%	6.3%
Total from levy	10.9%	10.1%	10.4%	10.5%	10.1
Tunnels from Tolls	17.9%	18.9	38.9%	30.2%	18.1%

The Tunnels financing costs are shown above as a proportion of the tolls income; figures are shown above to reflect a complete picture on financing costs. The impact of the prudential borrowing proposals in 2007/08 onwards for the New Tyne

Crossing is included.

3.3 **Capital Financing Requirement**

Estimated of the end of year capital financing requirement for the ITA for the current and future years and the actual capital financing requirement at 31 March 2010 are shown below. The position at Grand Total 1, is shown without taking into account any debt transfer/ capital contribution (as referred to in the ITA Financial Strategy report earlier on this agenda). The position at Grand Total 2 would reflect the adjustment.

Capital financing requirement					
	31/03/10	**31/03/11**	**31/03/12**	**31/03/13**	**31/03/14**
	Actual	**Estimates**			
	£000	**£000**	**£000**	**£000**	**£000**
ITA and New Tyne Crossing	78,196	117,000	164,015	166,306	163,798
Nexus	53,985	51,825	49,633	47,529	45,510
Total	**132,181**	**168,825**	**213,648**	**213,835**	**209,308**
NTC 'Finance Lease' *	-	212,547	222,777	234,685 -	234,685
Grand Total 1	**132,181**	**381,732**	**436,425**	**448,520**	**443,993**
Potential Debt Transfer Adjustment			**-31,908**	**-30,632**	**-29,406**
Grand Total 2	**132,181**	**381,732**	**404,517**	**417,888**	**414,587**

* A 'finance lease' has been established to indicate the element on the balance sheet of the New Tyne Crossing assets in 2010/11 financed by TT2. During construction, these do not form part of the capital financing requirement (although the prudential borrowing has been carried out, and appears in the ITA's capital expenditure above) as per statutory guidance. However, once the asset is operational, it is transferred to the balance sheet at full value, with the TT2-financed element treated as a finance lease to reduce this to the net value of the ITA-financed element.

The capital financing requirement measures the Authority's underlying need to borrow for capital purposes. In accordance with best professional practice, the ITA does not associate borrowing with particular items or types of expenditure. The Authority has an integrated treasury management strategy and has adopted the CIPFA Code of Practice for Treasury Management in the Public Services, this has been revised and the ITA will consider its Treasury Management strategy for 2010/11 at its March meeting.

The ITA has, at any point in time, a number of cash-flows both positive and negative, and manages its treasury position in terms of its borrowing and investments in accordance with its approved treasury management strategy and practices. In day to day cash management, no distinction can be made between revenue cash and capital cash. External borrowing arises as a consequence of all the financial transactions of the authority and not simply those arising from capital spending. In contrast, the capital financing requirement reflects the Authority's underlying need to borrow for a capital purpose.

CIPFA's Prudential Code for Capital Finance in Local Authorities included the following as a key indicator of prudence:

"In order to ensure that over the medium term net borrowing will only be for a capital purpose, the local authority should ensure that net external borrowing does not, except in the short term, exceed the total capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years."

The Deputy Clerk and Treasurer to the ITA reports that the Authority had not difficulty in meeting this requirement in 2009/10, nor is any difficulties envisaged for the current or future years.

3.4 **Affordability**

The estimate of the incremental impact of capital decisions proposed in this budget report, over and above capital investment decisions that have been previously taken by the Authority are shown below.

For local authorities the impact is expressed in terms of change in Band D council tax. The ITA has no direct billing relationship with the council taxpayer – instead the Authority agrees a levy on the five Tyne and Wear authorities. The estimated impact of new decisions on the levy is shown below.

	2010/11 £000	**2011/12 £000**	**2012/13 £000**
Impact on ITA Levy	-154	-147	-109

From 2008/09, the annual transport allocation from central government was paid as direct grant. Previously, this was given as borrowing approval (although 25% was provided as grant in 2007/08). This gives a reduction in financing charges in future years.

4 Treasury Management Strategy 2011/12 – 2013/14

4.1 Introduction and background

The treasury management service is an important part of the overall financial management of the Authority's affairs. The prudential indicators consider the affordability and impact of capital expenditure decisions, and set out the Authority's overall capital framework. The treasury service considers the effective funding of these decisions. Together they form part of the process which ensures the Authority meets its balanced budget requirement under the Local Government Finance Act 1992.

The Authority's treasury activities are strictly regulated by statutory requirements and a professional code of practice (the CIPFA Code of Practice on Treasury Management – revised November 2009). This Authority adopted the Code of Practice on Treasury Management in September 2002, and has adopted the Code.

As a result of adopting the Code the Authority also adopted a Treasury Management Policy Statement. This adoption is the requirement of one of the prudential indicators. CIPFA recommends that all public service organisations adopt, as part of their financial regulations, five clauses pertaining to effective treasury management, as detailed in Section 11. These clauses have been included in Financial Regulations.

An annual strategy is reported to the Authority outlining the expected treasury activity for the forthcoming 3 years. A key requirement of this report is to explain both the risks, and the management of the risks, associated with the treasury service. A further treasury report is produced after the year-end to report on actual activity for the year, and a requirement of the Code of Practice is that there is a mid-year monitoring report, to be presented to the Authority in November 2011.

This strategy covers:

- The Authority's debt and investment projections;
- The Authority's estimates and limits on future debt levels;
- The expected movement in interest rates;
- The Authority's borrowing and investment strategies;
- Treasury performance indicators;
- Specific limits on treasury activities.

4.2 **Debt and Investment Projections 2011/12 – 2013/14**

The borrowing requirement comprises the expected movement in the Capital Financing Requirement and any maturing debt which will need to be re-financed. The table below shows this effect on the treasury position over the next three years. The expected maximum debt position during each year represents the Operational Boundary prudential indicator, and so may be different from the year end position. The table also highlights the expected change in investment balances.

£000	2010/11 Revised	2011/12 Estimated	2012/13 Estimated	2013/14 Estimated
External Debt				
Debt at 1 April	145,560	170,560	218,560	215,560
Expected change in debt	25,000	48,000	3,000-	6,000-
Debt at 31 March	170,560	218,560	215,560	209,560
Operational Boundary for External Debt				
Borrowing	226,000	238,000	233,000	233,000
Other long term liabilities	213,000	223,000	235,000	235,000
	439,000	**461,000**	**468,000**	**468,000**
Investments				
Total Investments at 31 March	-	-	-	-
Investment change	-	-	-	-

The related impact of the above movements on the revenue budget are:

£000	2010/11 Revised	2011/12 Estimated	2012/13 Estimated	2013/14 Estimated
Revenue Budget				
Interest on Borrowing	6,471	8,107	8,251	8,182
Investment income	-	-	-	-

4.3 **Limits to Borrowing Activity**

Within the prudential indicators there are a number of key indicators to ensure the Authority operates its activities within well defined limits.

For the first of these the Authority needs to ensure that its total borrowing net of any investments does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2011/12 and the following two financial years (the relevant comparative figures are highlighted). This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.

£m	2010/11 Revised	2011/12 Estimate	2012/13 Estimate	2013/14 Estimate
Gross Borrowing	170,560	218,560	218,560	215,560
Investments	-	-	-	-
Net Borrowing	170,560	218,560	215,560	209,560
CFR	170,291	218,651	215,187	209,308

The Deputy Clerk and Treasurer reports that the Authority complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans and the proposals in this budget report.

The Authorised Limit for External Debt – A further key prudential indicator represents a control on the overall level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by full Authority. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all Authorities' plans or those of a specific Authority, although no control has yet been exercised.

The Authority is asked to approve the following Authorised Limits:

Authorised limit £m	2010/11 Revised	2011/12 Estimate	2012/13 Estimate	2013/14 Estimate
Borrowing	231,000	243,000	238,000	238,000
Other long term liabilities	213,000	223,000	235,000	235,000
Authorised Limit	**444,000**	**466,000**	**473,000**	**473,000**

Borrowing in Advance of need – The Authority has some flexibility to borrow funds this year for use in future years. The Deputy Clerk and Treasurer may do this under delegated power where, for instance, a sharp rise in interest rates is expected and so borrowing early at fixed interest rates will be economically beneficial or meet budgetary constraints. Whilst the Deputy Clerk and Treasurer will adopt a cautious approach to any such borrowing, where there is a clear business case for doing so, borrowing may be undertaken to fund the approved capital programme or to fund future debt maturities. Borrowing in advance will be made within the constraints that:

- It will be limited to no more than 100% of the expected increase in borrowing need (CFR) over the three year planning period; and

- Would not be more than 12 months in advance of need.

Risks associated with any advance borrowing activity will be subject to appraisal in advance and subsequent reporting through the mid-year or annual reporting mechanism.

4.4 Expected Movement in Interest Rates

Medium-term rate estimates (averages)

Annual Average % (Source Sector Treasury Services 21/12/2010)	Bank Rate	Investment Rates		PWLB Rates*		
		3 month	1 year	5 year	25 year	50 year
2010/11	0.5	0.7	1.5	2.6	4.6	4.7
2011/12	0.7	1.0	1.8	3.3	5.3	5.4
2012/13	1.7	2.0	2.8	4.2	5.5	5.6
2013/14	3.1	3.2	3.7	4.8	5.6	5.7
2014/15	4.0	4.2	4.5	5.6	5.6	5.8
2015/16	4.0	4.2	4.2	5.3	5.5	5.5

Borrowing Rates

Short-term rates are expected to remain on hold for a considerable time. The recovery in the economy has commenced and recent growth data has come in at the high side of expectations. Nevertheless, this higher rate is unlikely to be sustained, with growth expected to revert back to more insipid levels. The danger of a double-dip recession is fading but the crisis in the Eurozone, the prospects of tight economic policies at home and tenuous consumer confidence means the threat has still not evaporated completely.

The Office for Budget Responsibility has presented a realistically downbeat view of the economy's recovery prospects over the short and medium term, projecting that growth will struggle to exceed its trend rate in the current parliament. The Government's determination to cut the size of the public sector deficit considerably more quickly than its predecessor will be a drag upon activity in the medium term. The void left by significant cuts in public spending will have to be filled by a number of alternatives – corporate investment, rising exports and consumer expenditure. In terms of sheer magnitude, the latter is the most important and a strong recovery in this areas is by no means certain. The combination of the desire to reduce the level of personal debt and continued job uncertainty is likely to weigh heavily upon spending. This will be amplified by fiscal policy tightening, outlined in the Budget and expanded upon in the 20 October Comprehensive Spending Review. Without a rebound in personal spending, any recovery in the economy is set to be weak and protracted.

The Bank of England admits that inflation will remain above target until 2012.

Inflation performance remains a key risk to the future course of interest rates. Nevertheless, the perceived need to counter the fiscal squeeze via accommodative monetary policy suggests that barring a deterioration from the current situation, the MPC will be prepared to hold rates at very low levels until the latter stages of 2011. The outlook for long-term interest rates is favourable in the near term but is set to deteriorate in the latter part of 2011. Yields will be suppressed by continued investor demand for safe haven instruments following the uncertainties and unfolding tensions within the entire Eurozone. In addition to this, the market has been underpinned by evidence of decelerating activity in major economies and the coalition government's apparent determination to deal with the parlous state of public sector finances. These two factors will restrict any deterioration in gilt market performance in the near term.

However, while the UK's fiscal burden will almost certainly ease, it will be a lengthy process and deficits over the next two to three financial years will still require a very heavy programme of gilt issuance. The latest Bank Inflation Report suggests the market will not be able to rely upon Quantitative Easing indefinitely to alleviate this enormous burden.

Eventually, the absence of the Bank of England as the largest buyer of gilts will shift the balance between supply and demand in the gilt-edged market. Other investors will almost certainly require some incentive to continue buying government paper. This incentive will take the form of higher yields. The longer end of the curve will suffer from the lack of support from the major savings institutions – pension funds and insurance companies – who will continue to favour other investment instruments as a source of value and performance.

Although the FSA has recently delayed implementation of their liquidity requirements, the regulator will still look to ensure banks have necessary available liquidity. The front end of the curve will benefit from this and will ensure the steeply-positive incline of the yield curve remains intact.

4.5 Borrowing Strategy 2011/12 – 2013/14

The uncertainty over future interest rates increases the risks associated with treasury activity. As a result the Authority will take a cautious approach to its treasury strategy.

Long-term fixed interest rates are at risk of being higher over the medium term, and short term rates are expected to rise, although more modestly. The Deputy Clerk and Treasurer, under delegated powers, will take the most appropriate form of borrowing depending on the prevailing interest rates at the time, taking into account the risks shown in the forecast above. It is likely that shorter term fixed rates may provide lower cost opportunities in the short/medium term. With the likelihood of long term rates increasing, debt restructuring is likely to focus on switching from longer term fixed rates to cheaper short term debt, although the Deputy Clerk and Treasurer and treasury consultants will monitor prevailing rates for any opportunities during the year.

Following the Comprehensive Spending Review the Public Works Loan Board (PWLB) increased borrowing interest rates by approximately 1%, without changing debt redemption interest rates. This will make PWLB debt rescheduling more problematic in the future.

5 Investment Strategy 2011/12 – 2013/14

5.1 Key Objectives

The Authority's investment strategy primary objectives are safeguarding the repayment of the principal and interest of its investments on time first and ensuring liquidity second – the investment return being a third objective. Following the economic background above, the overriding risk consideration of the current investment climate is counterparty security risk. As a result of these underlying concerns officers are implementing an operational investment strategy which tightens the controls already in place in the approved investment strategy.

5.2 Risk Benchmarking

A development in the revised Codes and the Communities and Local Government Committee consultation paper is the consideration and approval of security and liquidity benchmarks. Yield benchmarks are currently widely used to assess investment performance. Discrete security and liquidity benchmarks are new requirements to the Member reporting, although the application of these is more subjective in nature. Additional background in the approach taken is attached at Section 9.

These benchmarks are simple targets (not limits) and so may be breached from time to time, depending on movements in interest rates and counterparty criteria. The purpose of the benchmark is that officers will monitor the current and trend position and amend the operational strategy depending on any changes. Any breach of the benchmarks will be reported, with supporting reasons in the Mid-Year or Annual Report.

Security – The Authority's security risk is monitored continuously. Three ratings agencies provide detail relating to the financial strength of the institutions in which the Authority invests surpluses. This information is provided with regular updates by the Authority's treasury advisors. The section below on Investment Counterparty Selection Criteria outlines the principles of security monitoring.

Liquidity – In respect of this area the Authority seeks to maintain:

- Liquid short term deposits of at least £1 million available with a week's notice;
- Weighted Average Life benchmark is expected to be 0.30 years, with a maximum of 3 years.

Yield – Local measures of yield benchmarks are:

- Investments – Internal returns above the 7 day LIBID rate

5.3 Investment Counterparty Selection Criteria

The primary principle governing the Authority's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle the Authority will ensure:

- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the Specified and

Non-specified investment sections below.

- It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Authority's prudential indicators covering the maximum principal sums invested.

The Deputy Clerk and Treasurer will maintain a counterparty list in compliance with the following criteria and will revise the criteria and report them to the Authority as necessary. The current List of Approved Institutions is shown in Section 10. These criteria are separate to those which choose Specified and Non-specified investments as they provide an overall pool of counterparties considered high enough quality which the Authority may use rather than defining what its investments are.

The rating criteria use the lowest common denominator method of selecting the counterparties and applying limits. This means that the application of the Authority's minimum criteria will apply to the lowest available rating for any institution. For instance if an institution is rated by two agencies, where one rating meets the Authority's criteria and the other does not, the institution may fall outside the lending criteria. The Deputy Clerk and Treasurer will assess risk factors pertaining to institutions and this may result in an institution being included which does not meet the ratings requirements described above. This is in compliance with the CIPFA Treasury Management Code of Practice.

Credit rating information is obtained from ratings agencies on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria may be omitted form the counterparty (dealing) list. Any rating changed, rating watches (notification of a likely change), rating outlooks (notification of a possible longer term change) are obtained by officers almost immediately after they occur and this information is considered before dealing. For instance a negative rating watch applying to a counterparty at the minimum Authority criteria may result in suspension from use, with all others being reviewed in light of market conditions.

The ratings used to monitor financial strength of institutions are taken from three agencies, namely Fitch, Standard & Poors and Moody's. For the purposes of this report Fitch ratings are shown although equivalent ratings of the other agencies form part of the daily monitoring procedure. The criteria for providing a pool of high quality investment counterparties (both Specified and Non-specified investments) is:

- Banks 1 – Good Credit Quality **– the Authority will only use banks which**:

  i. **Are UK banks; and/or**

  ii. **Are non-UK and domiciled in a country which has a minimum Sovereign long term rating of AAA**

And have, as a minimum, the following Fitch, Moody's and Standard and Poors credit ratings (where rated):

  i. Short Term – **F1**

  ii. Long Term – **A-**

  iii. Individual / Financial Strength – **C**

iv. Support – **3**

v. Banks 2 – Guaranteed Banks with suitable Sovereign Support

In addition, the Authority will use banks whose ratings fall below the criteria specified above if all of the following conditions are met:

a) wholesale deposits in the bank are covered by a government guarantee;

b) the government providing the guarantee is rated "AAA" by all three major rating agencies (Fitch, Moody's and Standard & Poors); and

c) the Authority's investments with the bank are limited to amounts and maturities within the terms of the stipulated guarantee.

- Banks 3 – Eligible Institutions – **the organisation is an Eligible Institution for the HM Treasury Credit Guarantee Scheme initially announced on 13 October 2008, with the necessary short and long term ratings required in Banks 1 above. These institutions have been subject to suitability checks before inclusion, and have access to HM Treasury liquidity if needed.**

- Banks 4 – **The Authority's own banker, the Co-operative Bank plc., currently hold a rating of F2. This rating is currently below the Authority's minimum requirements. As such, the entity will only be used for transactional purposes.**

- Bank Subsidiary and Treasury Operations – **the Authority will use these where the parent bank has the necessary ratings outlined above.**

    - Building Societies – **There is no record of a building society not meeting its obligations, either directly or by being taken over by another society. However, for the sake of prudence the list is limited to societies with minimum ratings as outlined for banks above. The Authority will also used Societies which meet the requirements in Banks 3 – Eligible Institutions.**

- Money Market Funds – AAA

- UK Government **(including gilts and the DMADF)**

- Local Authorities, Parish Authorities

- Supranational Institutions

A limit of 30% will be applied to the use of Non-specified investments.

Country and sector considerations – Due care will be taken to consider the country, group and sector exposure of the Authority's investments. In part the country selection will be chosen by the credit rating of the Sovereign state in Banks 1 above. In addition:

- No more than 20% will be placed with any non-UK country at any time;

- Limits in place above will apply to Group companies;

- Sector limits will be monitored regularly for appropriateness.

Use of additional information other than credit ratings – Additional requirements under the Code of Practice now require the Authority to supplement credit rating information. Whilst the above criteria relies primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional operational market information will be applied before making any specific investment decision from the agreed pool of counterparties. This additional market information (for example Credit Default Swaps, and equity prices) will be considered when comparing the relative security of differing investment counterparties.

5.4 **Time and Monetary Limits applying to Investments**

The time and monetary limits for institutions on the Authority's Counterparty List are as follows (these will cover both Specified and Non-specified Investments):

	Fitch (or equivalent)	**Money Limit**	**Time Limit**
Limit 1 Category	**AAA**	**£30m**	**3 years**
Limit 2 Category	**AA**	**£30m**	**1 year**
Limit 3 Category	**A**	**£25m**	**3 months**
Local Authority Limits	**Not rated**	**£25m**	**6 months**
United Kingdom Debt Management Office	**Not rated**	**£50m**	**6 months**
Money Market Funds	**AAA**	**£30m**	**n/a**

The proposed criteria for Specified and Non-specified investments are shown in Section 6 for approval.

In the normal course of the Authority's cash flow operations it is expected that both Specified and Non-specified investments will be utilised for the control of liquidity as both categories allow for short term investments.

The use of longer term instruments (greater than one year from inception to repayment) will fall in the Non-specified investment category. These instruments will only be used where the Authority's liquidity requirements are safeguarded. This will also be limited by the longer term investment limits.

5.5 **Economic Investment Considerations**

Expectations on shorter-term interest rates, on which investment decisions are based, show likelihood of the current 0.5% Bank Rate remaining flat but with the possibility of a rise in mid to late 2011. The Authority's investment decisions are based on comparisons between the rises priced into market rates against the Authority's and advisers own forecasts.

The criteria for choosing counterparties set out above provide a sound approach to investment in "normal" market circumstances. Whilst Members are asked to approve this base criteria above, under the exceptional current market conditions the Deputy Clerk and Treasurer may temporarily restrict further investment activity to those counterparties considered of higher credit quality than the minimum criteria set out for approval. These restrictions will remain in place until the banking system returns to "normal" conditions. Similarly the time periods for investments will be restricted.

Examples of these restrictions would be the greater use of the Debt Management Deposit Account Facility (DMADF), a Government body which accepts local authority deposits, Money Market Funds, guaranteed deposit facilities and strongly rated institutions offered support by the UK Government. The credit criteria have been amended to reflect these facilities.

5.6 **Sensitivity to Interest Rate Movements**

Future Authority accounts will be required to disclose the impact of risks on the Authority's treasury management activity. Whilst most of the risks facing the treasury management service are addressed elsewhere in this report (credit risk, liquidity risk, market risk, maturity profile risk), the impact of interest rate risk is discussed but not quantified. The table below highlights the estimated impact of a 1% increase/decrease in all interest rates to the estimated treasury management costs/income for next year. That element of debt and investment portfolios which are of a longer term, fixed interest rate nature will not be affected by interest rate changes.

	2011/12 Estimated Interest Change ± 1%
Revenue Budgets	£m
Interest on Borrowing	0.56
Investment income	-

5.7 **Treasury Management Limits on Activity**

There are four further treasury activity limits, which were previously prudential indicators. The purpose of these are to contain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of an adverse movement in interest rates. However if these are set to be too restrictive they will impair the opportunities to reduce costs/improve performance. The indicators are:

- Upper limits on variable interest rate exposure – This identifies a maximum limit for variable interest rates based upon the debt position net of investments.
- Upper limits on fixed interest rate exposure – Similar to the previous indicator this covers a maximum limit on fixed interest rates.

- Maturity structures of borrowing – These gross limits are set to reduce the Authority's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.
- Total principal funds invested for greater than 364 days – These limits are set with regard to the Authority's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

5.8 The Authority is asked to approve the limits:

Interest rate Exposures			
	Upper	**Upper**	**Upper**
Limits on fixed interest rates based on net debt	184%	184%	184%
Limits on variable interest rates based on net debt	75%	138%	138%
Limits on fixed interest rates:			
• **Debt only**	100%	100%	100%
• **Investments only**	100%	100%	100%
Limits on variable interest rates			
• **Debt only**	100%	100%	100%
• **Investments only**	100%	100%	100%
Maturity Structure of fixed interest rate borrowing 2011/12			
		Lower	**Upper**
Under 12 months		0%	100%
12 months to 2 years		0%	100%
2 years to 5 years		0%	100%
5 years to 10 years		0%	100%
10 years to 20 years		0%	100%
20 years to 30 years		0%	100%
30 years to 40 years		0%	100%
40 years to 50 years		0%	100%
50 years to 60 years		0%	100%
60 years to 70 years		0%	100%
Maximum principal sums invested > 364 days	£100m	£100m	£100m

5.9 **Performance Indicators**

The Code of Practice on Treasury Management requires the Authority to set performance indicators to assess the adequacy of the treasury function over the year. These are distinct historic indicators, as opposed to the prudential indicators, which are predominantly forward looking. Examples of performance indicators often used for the treasury function are:

- Debt – Average rate movement year on year
- Investments – Internal returns above the 7 day LIBID rate

The results of these indicators will be reported in the Outturn Report.

5.10 **Treasury Management Advisers**

The Authority uses Sector as its treasury management advisors. The company provides a range of services which include:

- Technical support on treasury matters, capital finance issues and the drafting of Member reports;
- Economic and interest rate analysis;
- Debt services which includes advice on the timing of borrowing;
- Debt rescheduling advice surrounding the existing portfolio;
- Generic investment advice on interest rates, timing and investment instruments;
- Credit ratings from the three main rating agencies and market information on potential investment counterparties.

Whilst the advisors provide support to the internal treasury function, under current market rules and the CIPFA Code of Practice, the final decision on treasury matters remains with the Authority. This service is subject to regular review.

5.11 **Member and Officer Training**

The increased Member consideration of treasury management matters and the nee to ensure officers dealing with treasury management are trained and kept up to date requires a suitable training process for Members and Officers. The Authority has addressed this important issue by providing members with treasury management training through our treasury advisors and treasury management officers. This facility is ongoing so that new and current members have access to training when required.

6 Treasury Management Practice (TMP) 1 – Credit and Counterparty Risk Management

6.1 The Communities and Local Government Committee issued Investment Guidance in 2010 and this forms the structure of the Authority's policy below.

The key intention of the Guidance is to maintain the current requirement for Authorities to invest prudently, and that priority is given to security and liquidity before yield. In order to facilitate this objective the guidance requires this Authority to have regard to the Chartered Institute of Public Finance and Accountancy publication Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. This Authority adopted the Code in September 2002 and will apply its principles to all investment activity. In accordance with the Code, the Deputy Clerk and Treasurer has produced its treasury management practices (TMPs). This part, TMP 1(5), covering investment counterparty policy requires approval each year.

7 Annual Investment Strategy

7.1 The key requirements of both the Code and the investment guidance are to set an annual investment strategy, as part of its annual treasury strategy for the following year, covering the identification and approval of following:

- The strategy guidelines for choosing and placing investments, particularly non-specified investments;
- The principles to be used to determine the maximum periods for which funds can be committed;
- Specified investments the Authority will use. These are high security (i.e. high credit rating, although this is defined by the Authority and no guidelines are given), and high liquidity investments in sterling and with a maturity of no more than a year;
- Non-specified investments, clarifying the greater risk implications, identifying the general types of investment that may be used and a limit to the overall amount of various categories that can be held at any time.

The investment policy proposed for the Authority is:

Strategy Guidelines – The main strategy guidelines are contained in the body of the treasury strategy statement.

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

1. The UK Government (such as the Debt Management Account deposit facility, UK Treasury Bills or Gilt with less than one year to maturity);
2. Supranational bonds of less than one year's duration;
3. A local authority, parish authority or community authority;
4. Pooled investment vehicles (such as money market funds) that have been awarded a high credit rating by a credit rating agency. For category 4 this covers pooled investment vehicles, such as money market funds, rated AAA by Standard and Poors, Moody's or Fitch rating agencies;
5. A body that is considered of a high credit quality (such as a bank or building society. For category 5 this covers bodies with a minimum short term rating of F1 (or the equivalent) as rated by Standard and Poors, Moody's or Fitch rating agencies.

7.2 **Non-specified Investments** – Non-specified investments are any other type of investment (i.e. not defined as Specified above). The identification and rationale supporting the selection of these other investments and the maximum limits to be applied are set out below. Non-specified investments would include any sterling investments with:

	Non Specified Investment Category	Limit
a.	**Supranational Bonds greater than 1 year to maturity** **(a) Multilateral development bank bonds** - These are bonds defined as an international financial institution having as one of its objects economic development, either generally or in any region of the world (e.g. European Investment Bank etc.). **(b) A financial institution that is guaranteed by the United Kingdom Government** (e.g. The Guaranteed Export Finance Company {GEFCO}) The security of interest and principal on maturity is on a par with the Government and so very secure, and these bonds usually provide returns above equivalent gilt edged securities. However the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.	AAA long term ratings 10% 10%
b.	**Gilt edged securities** with a maturity of greater than one year. These are Government bonds and so provide the highest security of interest and the repayment of principal on maturity. Similar to category (a) above, the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.	10%
c.	**Eligible Institutions** - the organisation (including both banks and building societies) is an Eligible Institution for the HM Treasury Credit Guarantee Scheme initially announced on 13 October 2008, with the necessary short and long term ratings required in Banks 1 above. These institutions have been subject to suitability checks before inclusion, and have access to HM Treasury liquidity if needed.	100%
d.	The Authority's own banker if it fails to meet the basic credit criteria. In this instance balances will be minimised as far as is possible.	50%
e.	Any **bank or building society** that has a minimum long term credit rating of AAA [this ties in with limits outlined elsewhere in the document], for deposits with a maturity of greater than one year (including forward deals in excess of one year from inception to repayment).	100%

7.3 **The Monitoring of Investment Counterparties –** The credit rating of counterparties will be monitored regularly. The Authority obtains credit rating information (changes, rating watches and rating outlooks) from ratings agencies and Sector, the Authority's treasury advisors as and when ratings change, and counterparties are checked promptly. On occasion ratings may be downgraded when an investment has already been made. The criteria used are such that a minor downgrading should not affect the full receipt of the principal and interest. Any counterparty failing to meet the criteria may be removed from the list immediately by the Deputy Clerk and Treasurer, and if required new counterparties which meet the criteria will be added to the list.

8 Tyne and Wear Integrated Transport Authority

Treasury Management Policy Statement

The Authority defines the policies and objectives of its treasury management activities as follows:

"The management of the authority's 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.

The Authority regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation. 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 performance measurement techniques, within the context of effective risk management."

9 Security, Liquidity and Yield Benchmarking

Benchmarking and Monitoring Security, Liquidity and Yield in the Investment Service – A development for Member reporting is the consideration and approval of security and liquidity benchmarks. These benchmarks are targets and so may be breached from time to time. Any breach will be reported, with supporting reasons in the Annual Treasury Report.

Yield – These benchmarks are currently widely used to assess investment performance. Local measures of yield benchmarks are –

- Investments – Internal returns above the 7 day LIBID rate.

Security and liquidity benchmarks are already intrinsic to the approved treasury strategy through the counterparty selection criteria and some of the prudential indicators. However they have not previously been separately and explicitly set out for Member consideration. Proposed benchmarks for the cash type investments are below and these will form the basis of future reporting in this area. In other investment categories appropriate benchmarks will be used where available.

Liquidity – This is defined as "having adequate, though not excessive cash resources, borrowing arrangements, overdrafts or standby facilities to enable it at all times to have the level of funds available to it which are necessary for the achievement of its business/service objectives" (CIPFA Treasury Management Code of Practice). In respect of this area the Authority seeks to maintain:

- Liquid short term deposits of at least £1 million available with a week's notice.

The availability of liquidity and the term risk in the portfolio can be benchmarked by the monitoring of the Weighted Average Life (WAL) of the portfolio – shorter WAL would generally embody less risk. In this respect the proposed benchmark is to be used:

- **WAL benchmark is expected to be no higher than 1 year. The benchmark for the annual weighted average life of the portfolio is 3 months. The maximum period is 1 year.**

Security – In the context of benchmarking, assessing security is a much more subjective area to assess. Security is currently evidenced by the application of minimum credit quality criteria to investment counterparties, primarily through the use of credit ratings supplied by the three main credit rating agencies (Fitch, Moody's and Standard and Poors). Whilst this approach embodies security considerations, benchmarking levels of risk is more problematic. One method to benchmark security risk is to assess the historic level of default against the minimum criteria used in the Authority's investment strategy. The table below shows average defaults for differing periods of investment grade products for each Fitch long term rating category over the period 1990 to 2009:

Long term rating	**1 year**	**2 years**	**3 years**	**4 years**	**5 years**
AAA	0.00%	0.01%	0.05%	0.10%	0.17%
AA	0.03%	0.06%	0.08%	0.14%	0.20%
A	0.08%	0.22%	0.37%	0.52%	0.70%
BBB	0.24%	0.68%	1.19%	1.79%	2.42%
BB	1.22%	3.24%	5.34%	7.31%	9.14%
B	4.06%	8.82%	12.72%	16.25%	19.16%
CCC	24.03%	31.91%	37.73%	41.54%	45.22%

The Authority's minimum long term rating criteria is currently "A" , meaning the average expectation of default for a one year investment in a counterparty with a "A" long term rating would be 0.08% of the total investment (e.g. for a £1m investment the average loss would be £800). This is only an average - any specific counterparty loss is likely to be higher - but these figures do act as a proxy benchmark for risk across the portfolio.

These benchmarks are embodied in the criteria for selecting cash investment counterparties and these will be monitored and reported to Members in the Investment Annual Report. As this data is collated, trends and analysis will be collected and reported. Where a counterparty is not credit rated a proxy rating will be applied.

10 Tyne and Wear Integrated Transport Authority Treasury Management Approved Institutions for External Investments

Limits of Investments per Institution:

Institution	Investment Limit	Support Rating	Maximum Period	Individual Rating	Short-term Rating	Long-term Rating
Co-operative Bank	£30m	3	365 days	B/C	F2	A-
United Kingdom Debt Management Office (Maximum Period)	£50m	See note	6 months - DMO limit	Note: This is a United Kingdom government facility and an executive agency of the Treasury. Deposits placed with it are guaranteed by the government and have the equivalent of a sovereign triple-A credit rating.		
Barclays Bank	£30m	1	364 days	B	F1+	AA-
HSBC Bank	£30m	1	364 days	A/B	F1+	AA
Lloyds Banking Group (LBG) - see below	£50m group total includes Lloyds TSB and Bank of Scotland	1		C	F1+	AA-
LBG (a) - Lloyds TSB Bank	See above	1	364 days	C	F1+	AA-
LBG (b) - Bank of Scotland	See above	1	364 days	C	F1+	AA-
Nationwide Building Society	£30m	1	364 days	B	F1+	AA-
Royal Bank of Scotland	£30m	1	3 months	C/D	F1+	AA-
U.K. Local Authorities	£10m per authority	-	3 months			

11 Treasury Management Clauses to form part of Financial Regulations

The following four clauses have been adopted by the Authority in accordance with recommendations by the Chartered Institute of Public Finance and Accountancy in the Treasury Management in the Public Services (CIPFA) – Code of Practice and Cross-Sectoral Guidance Notes – Fully Revised Second Edition 2009.

1. The Authority will create and maintain, as the cornerstones for effective treasury management:

    a. a treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities

b. suitable treasury management practices (TMPs), setting out the manner in which the organisation will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

2. The content of the policy and the TMPs will follow the recommendations contained in Section 6 and 7 of the Code, subject only to amendment where necessary to reflect the particular circumstances of this organisation. Such amendments will not result in the organisation materially deviating from the Code's key principles.

3. Full Authority will receive reports on treasury management policies, practices and activities, including, as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close, in the form prescribed in its TMPs.

4. The Authority delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to the Audit Committee, and for the execution and administration of treasury management decisions to the Treasurer & Deputy Clerk, who will act in accordance with the Authority's policy statement and TMPs and if that officer is a CIPFA member, CIPFA's Standard of Professional Practice on Treasury Management.

The Authority is responsible for ensuring effective scrutiny of the treasury management strategy and policies.

12 Corporate Implications

12.1 Financial

The financial implications for the programme are set out in the earlier sections of this report.

12.2 Legal

There are no legal or human rights implications.

12.3 Environmental and Sustainability

There are no environmental or sustainability implications.

12.4 Risk

Debt and investment management involves the risk of interest rate volatility and security of cash investments. The revised Treasury Management in the Public Services: Code of Practice and Guidance Notes for Local Authorities recognises the priority to manage and control risk effectively. Treasury Management staff will manage these risks in accordance with it.

12.5 Equalities

There are no specific issues arising directly from this report.

12.6 Scrutiny

The Authority is responsible for scrutiny.

12.7 **Partnership**

The report has no community safety implications.

13 What happens next

An ongoing process of member training is available if required.

14 Background Papers

Held by Capital Investments and Projects Team, Chief Executive's Directorate

15 Contact Officers

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

Tyne and Wear Integrated Transport Authority

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27 January 2011

TITLE: **GOLD CARD PROPOSAL**

REPORT OF **DIRECTOR GENERAL OF NEXUS**

Not confidential

District Implications: All Districts

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1. **Summary / Purpose of Report**

1.1 To obtain the approval of the ITA to a number of revisions to the non-statutory elements of the Tyne and Wear Concessionary Travel Scheme.

2. **Recommendations**

2.1 The Integrated Transport Authority are asked to approve:-

(a) The following revisions to the price of Gold Cards to be effective from 1 February 2011:-

Cards issued with a validity:

February to September 2011	£15.00	(valid up to 8 months)
April to September 2011	£15.00	(valid up to 6 months)
June to September 2011	£10.00	(valid up to 4 months)
August to September 2011	£5.00	(valid up to 2 months)
October to March 2012	£10.00	(valid up to 6 months)
Annual pass to March 2012	£25.00	(valid up to 12 months)

Cards for non-residents will be at a £10.00 premium over the year (£5.00 for each of the two seasonal products).

(b) That Gold Cards become valid for free travel on the Ferry with effect from 28 February 2011.

3. **Background**

3.1 Gold Cards were introduced in April 2006 at a price of £8.00 which increased to £12.00 in April 2007. The price of the Gold Card has therefore been frozen for the past four years. Consideration was given to increasing the price in 2009 but at that time the ITA agreed to a contribution of £0.5m from its reserves in order to maintain the price at £12.00 in each of the years 2009/10 and 2010/11. The withdrawal of this support together with the reduction in the levy, necessary as a result of the recently announced Local Government Funding settlement, requires at least £0.5m additional revenue to be raised from the sale of Gold Card as part of the wider Nexus budget proposal which is being considered in a separate report on this agenda.

3.2 The proposal will ensure that all Gold Cards will expire on 31 March 2012. This will provide the option for Nexus/ITA to introduce a revised method of charging for concessionary travel on Metro in 2012/13 when new Smart technology is embedded.

3.3 Although the price of Gold Card valid for up to a year would increase to £25.00, irregular users who may only travel during the summer have the option of purchasing the facility over the summer period only/to the end of September if they wish.

3.4 Those who purchase Gold Card for all year travel will inevitably pay more per trip but given the average cost paid for a concessionary trip is 17p as compared to an average fare of £1.93 on Metro, the proposed increase still represents excellent value.

3.5 An added benefit for all Gold Card holders is the extension of its eligibility to the cross-Tyne Ferry.

4. **Information**

4.1 There is no statutory requirement to provide concessionary travel on any form of public transport other than bus; however, Nexus and the Integrated Transport Authority are committed to the continuation of Gold Card.

4.2 The Metro is part of an integrated network and although there are alternative bus services these tend to be less frequent in areas where Metro operates and it is considered important to provide benefits to concessionary pass holders across the entire public transport network in Tyne and Wear.

4.3 Approximately 6 million journeys per annum are currently being made by 85,000 Gold Card users paying £12.00 (one in three national card holders in Tyne and Wear). On average the journeys are being paid at 17p per journey compared with an average fare of £1.93.

4.4 Based on some recent survey work, it is estimated that 25% of pass holders may be making 94% of all of these trips. Some of those sampled indicated they were making 1,000 journeys per annum at a cost of circa 1p per trip. The survey also highlighted that the majority of Gold Card holders interviewed were prepared to pay more and commented that as a product it represented good value for money.

4.5 A more equitable pricing solution for Gold Cards linked to the usage of the facility by the card holder will become possible with the introduction of potentially a carnet product loaded onto the national card. This will be possible from April 2012.

5. Next Steps

5.1 Marketing/publicity campaign

Nexus is developing a marketing plan to publicise these changes. The majority of Gold Cards are renewed in April and Nexus will be writing to all pass-holders to explain the new pricing.

5.2 Development of a Smart solution for consideration by the ITA

As outlined in paragraph 3.2, the advent of Smart technology on Metro will allow for an alternative approach to Gold Card pricing during 2012/13. A specific proposal will be developed during 2011/12 and brought back to the ITA for consideration.

6. Further comments by the:

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

7 Background Papers

7.1

8 Contact Officer (s)

8.1 John Fenwick, Director of Finance and Resources, Nexus Tel: 0191 203 3248

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.

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Tyne and Wear Integrated Transport Authority

TITLE:	**Date: 27th January 2011**
	REVISION TO FERRY FARES 2011/12
REPORT OF	**THE DIRECTOR GENERAL OF NEXUS**
	Not confidential
	District Implications: North Tyneside, South Tyneside

1. **Purpose of Report**

1.1 To set out a recommendation for changes to fares on the Tyne Ferry.

2. **Recommendations**

2.1 The ITA is recommended to approve the proposals outlined in this report with regard to Ferry fares to become effective from 28th February 2011.

3. **Recommendation**

3.1 In order to help achieve a reduction in the operating subsidy of the Tyne Ferry whilst maintaining service levels, an increase to fares is recommended to take effect from 28th February 2011. The last revision to Ferry fares was in January 2009.

3.2 The recommended new fare structure is shown in Table 1 overleaf and amounts to an average increase across all fare types of 14.93%.

3.3 The price for a child single ticket is recommended to remain unchanged at £0.50.

3.4 The price for a Concessionary single ticket (available to Tyne and Wear CT pass holders) is recommended to increase to £0.60, an increase of £0.10. However proposed changes to the Gold Card set out elsewhere on this agenda make travel on the Ferry free for Gold Card holders.

3.5 The Adult Return ticket is recommended to be replaced by a new ticket called the Ferry DaySaver, allowing unlimited trips on the day of purchase. The price for this is recommended to be £2.30, an increase of £0.30 over the old adult return ticket.

3.6 Table 1: Recommended Ferry Prices

Product	Current Price	Revised Price	Amount of Increase	% Increase
Adult Single	£1.10	**£1.25**	£0.15	13.64%
Adult Return	£2.00	**[Deleted]**		
Adult Ferry DaySaver	[New]	**£2.30**	0.30*	15.00%*
Concessionary Single	£0.50	**£0.60**	£0.10	20.00%
7 Day Pass	£8.00	**£9.50**	£1.50	18.75%
Child single	£0.50	**£0.50**	£0.00	0.00%
Carnet	£9.00	**£11.00**	£2.00	22.22%

* Compares new Adult Ferry Daysaver to old Adult Return price

3.7 As now, all MetroSaver products (including day tickets), Network One travel tickets and Under 16 Child Allday Travel tickets (CAT) are valid for travel on the Ferry.

4 Information

4.1 The Tyne Ferry operates between North Shields and South Shields Ferry landings using two vessels, seven days a week with a half hourly frequency. Additional services are provided to support the Great North Run and other events, and during the summer months there is a programme of river cruises and private hire trips.

Levels of punctuality are very high (routinely above 99%), as are customer satisfaction scores with punctuality and reliability (above 90%).

Patronage for the year 2009/10 was 476,395, an increase of 1.3% over the previous year. According to recent surveys, about 29% of passengers use the service to get to work and 27% to access shops.

In 2009/10 the Tyne Ferry budget received a subsidy of £1.083m, amounting to a subsidy per passenger trip of £2.27.

4.2 The recommended fare increases are part of a package of measures to reduce the net subsidy in line with the Ferry Strategy. Other measures being taken are: an increased focus on marketing the Ferry, significant targeted growth in private hire revenue, and general efficiency savings.

4.3 The recommended fare increases are expected to generate approximately 12% additional fare income while maintaining the current timetable unchanged.

5. **Further comments by the:**

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

6. **Contact Officer (s)**

6.1 Tobyn Hughes, Director of Customer Services, Nexus Tel: 0191 2033246

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Tyne and Wear Integrated Transport Authority

DATE: **27th January 2011**

TITLE: **SUMMARY OF NEXUS RESPONSE TO LTP3 CONSULTATIONS IN TYNE AND WEAR, DURHAM AND NORTHUMBERLAND**

REPORT OF: **DIRECTOR GENERAL, NEXUS**

Not confidential

District Implications: All

1. **Summary / Purpose of Report**

1.1 To advise Members of Nexus' response to the recent LTP3 consultations in Tyne and Wear, County Durham and Northumberland.

2. **Recommendations**

2.1 Members are asked to note the contents of the report.

3. **Introduction / Background**

3.1 The draft LTP3 strategies for the Region have been out for formal consultation, including Tyne and Wear (closed on 10th December), County Durham (closed on 31st December) and Northumberland (closes on 21st January). The strategies set out the 10 year plan for transport in each authority and are accompanied by 3 year delivery plans; they are expected to come into effect in April 2011.

3.2 Nexus has provided input from a public transport perspective, and its formal responses have concentrated on:

- Joint working with neighbouring authorities
- Smart Ticketing
- Metro Reinvigoration
- Rail issues including Leamside Line, Ashington Blyth and Tyne Line, and ECML and HLOS
-

- The Bus Strategy.

4. **Nexus response to LTP3 consultations**

4.1 Nexus has submitted a written response to the consultation on the draft LTP3 Strategy for each of Tyne and Wear, County Durham and Northumberland.

4.2 The importance of cross boundaries journeys for work and leisure between Tyne and Wear and both Northumberland and County Durham means there is much to be gained from closer working to ensure that with reduced funding, opportunities can be taken to deliver more value for less where our vision for transport in our regions overlaps.

4.3 The North East Smart Ticketing project (NESTI) demonstrates what can be achieved when partners work together to achieve common objectives, focusing on the needs of the public. The project can form the basis for supporting many projects, not just in the public transport arena and each Strategy needs to reflect ongoing support for this work.

4.4 In a region with lower than average car ownership public transport is exceptionally important to the economy of Tyne and Wear. Nexus has secured £580m of funding for the operation and reinvigoration of the Tyne and Wear Metro, much of which will be invested over the period intended to be covered by the LTP3 Strategy. Investment in Metro is estimated to generate £9 worth of benefit for every £1 invested; therefore the impact of this funding cannot be underestimated in terms of its impact on the economy of Tyne and Wear and the wider region. Throughout the plan period it is therefore critical that the local contribution to Metro Reinvigoration, prioritised through LTP3, is maintained to ensure that Nexus can continue to make this investment in the system.

4.5 Nexus is broadly supportive of the approaches to ensuring better use and redevelopment of railway assets including the potential re-opening of the Leamside line and the proposed re-establishment of passenger services over the Ashington Blyth & Tyne railway. Nexus sees potential for the Leamside line to play a part in relieving trunk road congestion along the adjacent A1 and A19 corridors through mode shift from road to rail, as well as providing capacity relief for freight traffic currently using the busy East Coast Main Line and the Durham Coast route. Equally, the Ashington Blyth & Tyne railway could be a means of helping to reduce traffic levels along the A189 corridor and providing sustainable transport opportunities for local residents. This is an area of transport policy which benefits from a more regional look at the strategic issues and whilst given the current economic climate these lines cannot be a short term aspiration, there are opportunities to work together and with other regional bodies, such as LEPs, to plan for the longer term development of railways across the North East

4.6 Nexus acknowledges that a significant proportion of trips in County Durham and Northumberland have origins and destinations in the Tyne and Wear area, and is committed to identifying and implementing complementary solutions which recognise patterns of movement of passengers and freight. Such solutions could include reducing the actual need to travel, improved parking and interchange facilities at transport hubs, and more robust parking management measures at key destinations. In particular, Nexus welcomes the continued focus by Northumberland upon infrastructure development along the South East Northumberland Growth Point corridor as a means of improving transport links within a single travel to work area where people's trip patterns are not governed by administrative boundaries.

4.7 Bus journeys account for 75% of all public transport journeys in Tyne and Wear; The ITA and Nexus set out in the 'Bus Strategy: Charter for Growth', objectives for bus service for the region, which were consulted upon and support by LTP partners, stakeholders and the public. In recent times Nexus has worked with Local Authorities and Bus Operators to establish a number of Quality Bus Partnerships within Tyne and Wear to deliver the Bus Strategy. These Partnerships have seen some improvements to vehicles, infrastructure and information, and have led to a better dialogue between the parties involved in delivering bus services. However the key area of network stability has yet to be achieved, and Nexus customer satisfaction surveys still show partnership areas lagging behind non-partnership areas. In the Bus Strategy Nexus committed to evaluating Quality Contract Schemes for effectiveness and affordability; if in the future the ITA determines that it wishes to pursue a Quality Contract Scheme its implementation is likely to fall within the period covered by the LTP3 Strategy. It would be helpful to know if Northumberland and/or County Durham have any ambitions to pursue similar objectives.

4.8 Additionally the various Strategies should reflect the potential LEP through a greater recognition of a need to work with and plan public transport with regional neighbours including County Durham and Northumberland. This structure will also help the region to leverage funding and to deliver greater benefits through joint planning and works.

5. **Next Steps**

6. **Further comments by the:**

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

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7. **Background Papers**

7.1 LTP3 Draft Strategy – Tyne and Wear

7.2 LTP3 Draft Strategy – County Durham

7.3 LTP3 Draft Strategy – Northumberland

8. **Contact Officer(s)**

8.1 Helen Mathews, Head of Strategic Planning, Nexus

9 **Appendices**

None

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Tyne and Wear Integrated Transport Authority

Date: 27th January 2011

TITLE: **Rail Update**

REPORT OF **The Clerk Of The Authority / Director General Of Nexus**

Not Confidential

District Implications: All Districts

1. **Purpose of Report**

1.1 To inform the ITA of recent developments in the rail industry relevant to the Tyne and Wear area.

2. **Recommendations**

2.1 Members are recommended to note the report, which is for information only.

3. **Summary of Key Issues**

3.1 Network Rail has published a review of line capacity along the East Coast route between London and Edinburgh, with recommendations for targeted investment to improve congested areas.

3.2 The interim report of the Rail Value for Money Study has been published.

4. **Information**

4.1 East Coast Main Line 2016 Capacity Review

Over the past year, Network Rail has undertaken additional work to update the 2008 East Coast Main Line Route Utilisation Strategy in the light of continuing calls from train operating companies for capacity improvements to help them to run more frequent and more reliable services. This latest publication focuses on the capacity of the route in 2016 and the demands that are likely to be made on that capacity. The review was undertaken with inputs from existing passenger and freight operators, taking account of their longer-term service aspirations.

4.2 The key conclusion drawn by the review is that a difference in the speeds of services using the route is the key constraint to how available capacity can be best used. Sections of the route most constrained by limited capacity are located in outer London, between Huntingdon and Doncaster, and between Northallerton and Newcastle.

4.3 The capacity of each of these sections affects the ability of the rail industry to provide services between the Tyne and Wear area and London; however the status of the route between Northallerton and Newcastle will also have an impact upon local and intra-regional services across the north of England. In each case, recommendations for providing additional capacity are put forward.

4.4 The review notes that the potential medium level of demand for passenger and freight services on the two-track section south of Newcastle can best be accommodated if fast trains are 'flighted' and leave at closely spaced intervals. Whilst making best use of available capacity, this frustrates the operation of passenger trains running at regular, even intervals. Other options highlighted in the review include the greater use of alternative freight routes in the Tees Valley area, and, should future demand be at the high end of expectations, the re-opening of the Leamside route for some freight traffic between Ferryhill and Gateshead. Although re-opening of the Leamside route is described in the review as 'the best solution to provide additional capacity' this does not commit Network Rail to finance the proposal. However, the review takes cognisance of the aspirations of regional stakeholders to introduce local passenger services, should the line be re-opened to traffic.

4.5 The review describes various proposals by franchised passenger operators and open access passenger and freight operators for additional services which, if introduced, would result in substantially increased demand for restricted capacity. The recommendations of the review will inform the high level specification for the rail network over the next nine years, and the development of the next East Coast franchise. The limited capacity of the East Coast Main Line south of Newcastle gives cause for concern in the long-term, given the intention for a High Speed Line to only be built as far north as Yorkshire.

4.6 McNulty Review – Interim Findings

The previous government commissioned Sir Roy McNulty to investigate ways of increasing value for money across the rail industry. His interim findings were published in December, and suggest that savings of up to £1 billion per year can be achieved without service cuts, mainly by closer working between train operators and Network Rail, and through the letting of longer franchises than have historically been awarded. This could lead over time to the creation of regional alliances, focussed on bringing track and train together to serve customers. However, the Government's response to the interim findings suggests that there are some network-wide planning and technical functions which in practice can only be discharged by a single national body, as custodian of the network. The report emphasises the need for a much stronger focus by the industry at all levels on costs and cost reduction, and on the investment needed to reduce future costs. Sir Roy's final report is expected to have a major influence upon future government policy for the rail industry.

4.7 Reforming Rail Franchises

Earlier last year, the Department for Transport conducted a consultation into potential changes to the existing system of rail franchising. To date this has been characterised by franchises of seven to 12 years' duration, with historically low levels of investment demanded of the successful franchisee. One of the options for change upon which comments were sought was the possibility of longer franchises of 15 years or more, in return for increased levels of franchisee investment. Although the government has yet to announce what changes it proposes to make to the system, the endorsement of longer franchise terms by the McNulty review may prove influential in determining policy in this area. Any proposals to increase the duration of franchises should be accompanied by robust measures to ensure continued performance, with enforceable break clauses for sustained periods of under-performance.

5 **Further comments by the:**

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

6 Background Papers

6.1 East Coast Main Line 2016 Capacity Review, Network Rail. *(Accessible at networkrail.co.uk)*

Rail Value for Money Subsidy – Interim Report, Sir Roy McNulty

http://www.dft.gov.uk/pgr/rail/strategyfinance/vfminterimreport/pdf

7 Contact Officer(s)

7.1 Gordon Harrison, Strategic Planning Manager, Nexus, 0191 203 3662

Roger Gill, ITA Policy Manager 0191 211 4805

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Tyne and Wear Integrated Transport Authority

27 January 2011

Title: **New Tyne Crossing - Construction Progress Report**

Not confidential

REPORT OF: **NTC PROJECT DIRECTOR**

1. Synopsis

1.1 This report provides an overview of progress made on the construction and the preparation for certain key events to come since the November 2010 meeting of the Authority. Progress photographs will be available at the meeting.

2. Recommendations

2.1 The Authority is recommended to note progress made.

3. Background

3.1 Construction of the NTC began on 22 April 2008. Key dates as set out in the Project Agreement signed on 23 November 2007 are as follows:-

PTU1	15 December 2010	(Revised to 4 February 2011)
PTU2	3 December 2011	
Completion	3 December 2011	

PTU1 = Permission to use the new tunnel – existing tunnel closes for refurbishment.
PTU2 = Permission to use the refurbished tunnel.

4. Progress – Since November 2010

4.1 **Programme**

The construction programme issued on 2 April 2009, following the special Project Board Meeting on 10 March 2009, was revised to account for significant re-planning and re-programming of the works. This revised the original date for PTU 1 to 4 February 2011. Another revised programme was issued on 13 October 2009 but this did not affect the key dates. Since then work on SCL2 was deferred by the contractor to January 2010 and was completed on 4 May 2010. A further revision to the programme was made to accommodate the cautious progress on SCL2. A revised programme was issued on 9 November 2010. This programme takes into account the actual progress made on the M&E works including testing and commissioning. This programme incorporates a revised date for the full scale emergency exercise of 23 January 2011 but maintains the key dates indicated in para 3.1.

There is a significant amount of work including testing & commissioning yet to complete. However the contractor considers that the target date of 4 February 2011 for PTU1 may still be achievable. It is, of course, essential that the tunnel, its various systems and the operator are all sufficiently ready to satisfy the duty of care that all parties involved in the project will have to the motoring public who will use the tunnel. An Independent Certifier (IC) is in place to assess the state of readiness of the tunnel etc against the various criteria that have been set out in the Project Agreement in this regard. This includes the outcome and recommendations from the emergency exercise. The IC will sign-off the new tunnel for Permission To Use (PTU1) only when he is satisfied that all the necessary criteria are met.

4.2 **North Approach Works**

Works to fitting out the tunnel continues with the installation of the fixed fire suppression system, the fire hydrant main and valve systems, the control and signage systems, the ventilation system, the electrical distribution boards and the lighting. The laying of the base courses for the carriageway, kerb-laying and drainage installation are nearing completion. Emergency escape doors have been delivered to site and their physical installation is complete. Work on the construction of the toll plaza, canopy including the tolling equipment and transactions equipment and Howdon Plaza offices including fit out is complete. Earthworks are complete on the formation of the mound on the North Tyneside Council land immediately to the north of the toll plaza and construction of the swale drainage pond to the south of the portal is also complete. The earthworks to the eastern boundary of the site adjacent to the Howdon By-pass are complete and the grass seeding and planting to the landscape areas is ongoing. The permanent reinstatement of Tyne View Terrace is complete whilst the East Howdon By-pass is complete except for the reinstatement of the wearing course to the west carriageway. Following agreement of a consideration from Bouygues TP this work is to be undertaken by NTMBC. The A19 northbound continues to operate on one lane to allow the completion of the toll plaza, road surfacing, high mast lighting, crossovers and earthworks adjacent to the north portal. Work on the refurbishment of the existing Tyne Tunnel offices is complete with the exception of the installation and commissioning of the new control equipment. This equipment is currently being installed ready for testing and commissioning. The old control room on the 3rd floor is still functioning. The existing workshops refurbishment is ongoing.

The testing and commissioning is currently behind programme.

4.3 **Immersed Tube Works**

The internal concrete works to the immersed tube sections are now substantially complete. However, some concrete remedial works are ongoing. The road-works are well advanced with only the wearing course and road markings to be completed. Fitting out of the M&E services is ongoing. Work on the infilling of Howdon Basin is complete. Emergency escape doors to the escape cell have been fitted and await testing and commissioning. The installation of the mid-River sump equipment is complete.

The testing and commissioning is currently behind programme.

4.5 **South Approach Works**

Internal finishing works to the tunnel are continuing between the south transition structure and High Street. Road-works have been completed except for the final wearing course and road markings. Fitting out of the M&E services is ongoing with the equipment within the service gallery and escape passage, drainage, mist system and fire hydrant pipe-work all nearing completion. Emergency escape doors to the escape cell have been fitted and await testing and commissioning.

Backfilling of the tunnel between Salem Street and Tyne Street is complete, topsoil has been placed and seeding of the landscaped areas is ongoing. Both the construction of the new Friar Way link road and the reinstatement of Stanley Street are complete. The construction of the linear footpath/cycleway is ongoing.

Salem Street remains closed - High Street is open to traffic.

The testing and commissioning is currently behind programme.

4.7 **South Junction Works**

Construction of the new South Extract Building including the service gallery linking to the south portal is substantially complete including the fit out of the M&E systems. Test and commissioning of the M&E systems is ongoing. The installation of lightweight fill within the old roundabout is complete and the formation of the new A19 approach carriageways is ongoing. The construction of the retaining wall between the loop-bridge and Howard Street bridge is complete and construction of the noise barrier is ongoing. Earthworks to the south of the junction for the installation of the drainage pond are ongoing. The construction of the new structures, widening and refurbishment of the existing structures to the east of the roundabout is ongoing. The polystyrene fill has been extended eastwards under the ‘Shell’ bridge following demolition of the existing structure.

The public footpaths linking Straker Street with the River Don footpath and the A19 southbound have been temporarily diverted as agreed with STMBC. Temporary traffic management arrangements – including the diversion of A185 traffic via Church Bank - remain in place. These arrangements continue to perform well and are maintaining hourly traffic throughput at levels comparable to and even slightly better at times to those achieved prior to the start of construction of the new tunnel. The A185 southbound ‘on’ slip road to the A19 was closed on the 6 January 2011 to facilitate the refurbishment works to the structures supporting the A185.

These works are currently behind programme.

4.8 **Existing Tunnel Refurbishment**

Works are being undertaken during the night (9 PM until 5 AM) in connection with the refurbishment and modernisation of the existing tunnel. The current works include the removal of the existing cladding panels to allow detailed inspection of the existing tunnel structure and enable asbestos surveys to take place and the commencement of remedial works beneath the concrete road deck. These works are being undertaken whilst traffic through the tunnel is operating in convoy. The use of over night convoys was well trailed and communicated to the tunnel users and there have been no complaints from the tunnel users in connection with this operation. However, to date we still await the final design details to the civils work from the contractor.

5. Master-planning

5.1 The final landscape master-plan drawings have been approved by North and South Tyneside Councils.

6. Land

6.1 Arrangements relating to hand-back of land continue to be discussed in detail between the relevant parties on the basis of the approved landscape master-plans..

7. Communication

7.1 The web-sites (NTC & TT2) continue to be updated almost daily. Drop-in-sessions continue to be held weekly on both sides of the river and Ward Councillors are given regular ‘activity’ schedules so that they are briefed on forthcoming events/developments. The Helpline is maintained and staffed 24/7.

7.2 There was a comprehensive communication effort associated with the closure of the south bound exit slip road from the A185 – Straker Street – to the A19.

7.3 A Newsletter was issued in December focusing on the new tunnel - copies will be available at the meeting.

7.4 A communications plan for the transfer of traffic to the new tunnel has been developed.

Contact Officer: P Fenwick, phone: (0191) 211 6058

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A of the Local Government Act 1972.

Agenda Item 15

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